

PLRisk

Reps & Warranties Insurance

A Quick Reference



At PLRisk Specialty Insurance Agency LLC, we guide you through the complex Reps and Warranties insuring process, because gaining M&A coverage doesn't have to be painful.

Representations and Warranties (R&W) Insurance has grown in popularity as the mergers and acquisitions (M&A) market continues to expand. Understanding exactly what Reps and Warranties insurance covers and how it benefits either party in the M&A transaction can be complicated.

Our transactional specialists break down Reps and Warranties policy components and help your insureds nail down a safer, faster transaction—with experience they can trust.

What Is Reps and Warranties Insurance?

R&W insurance is a type of insurance used in Merger and Acquisition transactions that protects companies from risks associated with misrepresentations by a seller. While R&W insurance is available to either the buyer or the seller, the majority of these policies are purchased by the buyer to ensure added fraud protection beyond what was negotiated. The seller, on the other hand, enjoys reduced or removed indemnity and a cleaner exit when the deal is said and done. In a Buy-Side R&W policy, the minimum Enterprise Value (EV) is generally \$25 million.

Who Should You Consider a Reps and Warranties Policy?



Private Equity Firms



Corporate Buyers



Public Companies

Benefits of Using Reps and Warranties Insurance

- » Reduced or eliminated escrow
- » Expedited transactions
- » Provides a solution for gaps in negotiations
- » Assists buyers in winning the deal, competing in the auction process
- » Protects subsequent alliance between new owners and sellers
- » Impartial, expert policy proposals
- » Extends the shelf life of representations and warranties with average policy term of 3-6 years

How to Determine the Cost

Premiums are based on several variables, with enterprise value being the largest factor. In general, premiums currently run anywhere between 2.75 - 4% of the limits purchased depending on the specifics of the deal.

Retentions typically were 1% of enterprise value but are now starting at .75% and generally dropping to .5% after 12 months.

Claims

Claims frequency in R&W insurance is increasing with 1 in 5 policies being noticed for a claim.¹ The most common types of claims are completeness/accuracy of financial statements, compliance with laws, disclosure of material contracts, customer/supplier breaches, and employee-related breaches. Due to increased severity and complexity, the claims process can easily surpass 12 months with many exceeding 15-18 months.



Assessing Reps and Warranties Opportunity

Determine Limit Structure

10-15% of the transaction value are typical, sometimes higher, but what's right depends on EV, nature of the deal, comfort of outcome, and due diligence.

Obtaining Nonbinding Indications

To do so requires draft purchase agreements, target co's financials, management presentation. To move forward with desired indication, buyer would need to pay a non refundable underwriting fee of \$35-\$55k to set up underwriting call.

Map Out A Timeline

Allow 1-3 days for indication and 1-2 weeks for term sheet outline—approximately 2-3 weeks from start to finish.

Overview of Policy Process

- » Broker will obtain an indication of interest
- » Pricing, limits, and retention specifics will be determined
- » Underwriter will be paid a due diligence fee
- » Deal team conference call
- » Negotiate policy terms and conditions
- » Deal is closed, coverage is bound and policy is issued

Policies You Can Believe In

At PLRisk, we offer our clients a consultative experience based on trust. If your insureds are considering obtaining Reps and Warranties insurance for their business acquisition, our team of Professionals specializing in Reps and Warranties insurance can guide them through the process. With a combined 75 years of professional liability experience and wide access to major markets, we provide accessible policies designed to simplify and protect the M&A process.

Our professionals have the expertise to help you navigate the entire process.

We have access to all the major carriers to help your insureds obtain the right coverage.

[Request More Information](#)

¹AIG. (n.d.) M&A: Elevated claim levels put focus on due diligence.