

# PLRisk

## Sell-Side 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. The high volume of M&A activity for smaller Enterprise Value (EV) transactions created demand for an R&W solution not typically offered by the Buy-Side R&W market.

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 Sell-Side R&W Insurance?

R&W insurance is a type of insurance used in Merger and Acquisition transactions that protects buyers from risks and loss due to unknown and/or unexpected breaches of seller's representations or warranties. The Seller can still enjoy the benefits of reduced or removed indemnity and a cleaner exit. In a Sell Side R&W policy, the minimum deal size is generally **\$500k** to **\$30m** Enterprise Value.

Due to the inherent conflict of interest, Seller's fraud is excluded in the Sell-Side only policy. To solve that problem, this product can be supplemented with a Buy-Side policy that covers seller's fraud only. When the two are combined, you have the making of what operates similarly to a standard Buy-Side R&W policy. The Sell-Side product is purchased by the seller and the buy-side product is purchased by the buyer.

### Who Should Consider Sell-Side Reps and Warranties Policy?

Sellers in a deal where a buy-side policy is not an option or is too expensive. Private Equity, Corporate Buyers or Public Companies when a standard Buy-Side R&W isn't available because the deal is too small or the Buy-Side option is too expensive.

### Benefits of Using a Sell-Side R&W Policy

- » No underwriting fee and no underwriting call
- » Lessens buyers concerns for smaller deals lacking audited financials or other formal due diligence resources
- » Subject to much less underwriting information
- » Premiums are significantly less
- » Preserves relationship between buyer and seller if a R&W breach occurs
- » Extends the shelf life of seller reps and warranties (average policy term of 3-6 years)
- » Buyers named as loss payee and collect directly from the policy

## How Much Coverage is Available and What's the Cost?

Limits are available up to the full EV of the target entity for both the sell-side and the supplemental buy-side product. Premiums for the sell-side product range from .7% to 1.5% of limits provided. The buy side policy is subject to the .3% and .45% amounts for premiums.

## Claims

Claims frequency in R&W insurance is increasing with 1 in 5 policies being noticed for a claim.<sup>1</sup> 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.



## Determine if Reps and Warranties is a Fit

### Determine Limit Structure

Buy-Side policies are traditionally limited to 10-15% of EV value due to cost. Whereas Sell Side policies are available up to the full EV of the deal (\$30m) since its more affordable

### Obtaining Nonbinding Indications

To obtain indications we need only name of seller, nature of operations, location, and Enterprise Value

### Map Out A Timeline

Deals can be completed in as little as 48 hours, longer if Buy side coverage is requested

## Overview of Policy Process

- » Broker will obtain an indication with very limited info
- » Seller and buyer determine what limits they like to purchase respectively
- » Complete application to firm up terms
- » Provide purchase agreement and disclosure schedule
- » Obtain final terms and conditions
- » Deal is signed or closed, coverage is bound and the 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 100 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](#)

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