

# Transactional Risk Products

## Representations and Warranties Insurance

A **Representations and Warranties Insurance Policy (RWI)** is purchased to transfer the risk of financial loss caused by the SELLER's breach of a Representation and is designed to replace or enhance the indemnification given by the SELLER to the BUYER in an M&A deal. The majority of RWI policies in today's market are purchased by the BUYER, with an average limit purchased of 10-15% of the overall transaction size. The premium is a percentage of the limit requested, and a "one time charge" for a set number of years for Fundamental and General Representations. The purchase of a RWI Policy is becoming increasingly common by bidders to remain competitive in an auction process.

### What are the benefits of a Representations and Warranties Insurance Policy?

The vast majority of policies are issued to BUYERS, however both BUYER and SELLER can benefit from a Representations and Warranties Insurance Policy.

Benefits to the BUYER	Benefits to the SELLER	Benefits to both BUYER AND SELLER
<ul style="list-style-type: none"> <li>Protects the BUYER if alleged Representation or Warranty breach.</li> <li>Reduces or eliminates indemnity or escrow.</li> <li>Facilitates smooth negotiation and preserves relationship with SELLER, particularly if retaining management of SELLER.</li> <li>BUYER SIDE policies include Fraud Coverage.</li> <li>Facilitates clean exit and can differentiate BUYER in a competitive bid process.</li> </ul>	<ul style="list-style-type: none"> <li>Protects SELLER from loss from unintentional breach of Representation or Warranty.</li> <li>Expedites sale.</li> <li>Preserves commercial relationships.</li> <li>Facilitates clean exit and availability of funds.</li> </ul>	<ul style="list-style-type: none"> <li>Removes obstacles to close deal amicably.</li> <li>Affirmative coverage for certain known risks.</li> <li>Mitigates difficult negotiations in the event of a breach and transfers risk and claims handling to an insurer.</li> <li>Protects relationship between parties post close.</li> </ul>

### What types of Transactions can benefit from a Representations and Warranties Insurance Policy?



Minority Investment Deals

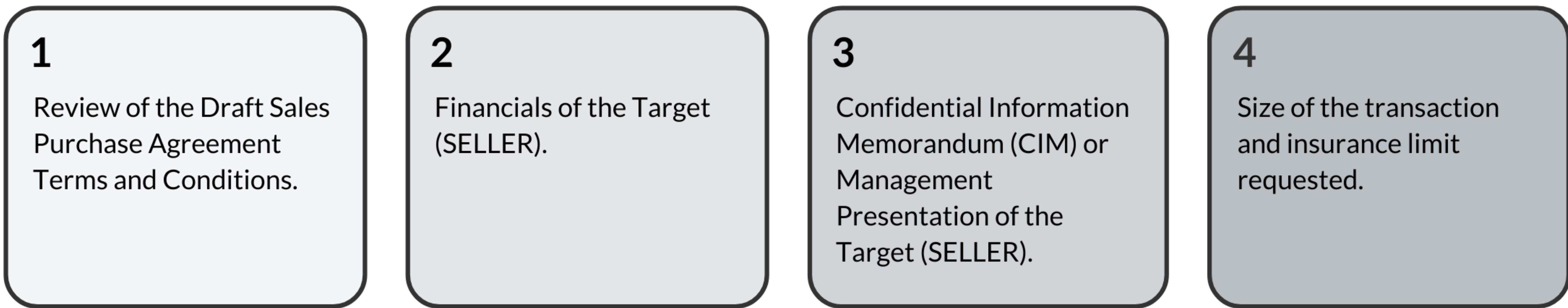


Public Company Deals



Small Deals and Tuck-in Acquisitions

## What is needed to assess the risk and obtain a quote?



## What is the insurance policy placement process and timeline?

New Business Indication 2-4 Days	Underwriting 5-10 Days	Binding Quote 1-2 Days
New Business Indication (NBI) can be provided upon review of DRAFT Sales Purchase Agreement, Financials, and Confidential Information Memorandum.	Lead Insurer selected, Underwriting fee paid, Engagement of Counsel, Due Diligence Reports reviewed, Underwriter call held, Policy negotiated.	Policy will be incepted at signing after confirming exclusions and policy wording.

## What are common Claims/Breaches reported under a Representations and Warranties Policy?

Claims are historically reported within the first year to 18 months of binding coverage and leading insurers have in-house claims teams to ensure a stream-lined process. Examples of a Representation and Warranty Insurance Liability Claim could include;

**Representation Breached: Financial Statements**  
Representation states that financial statements are true and correct and comply with generally accepted accounting principles (GAAP). Soon after a deal closed, the finance department of the acquirer notices miscalculations in the Sellers financials that resulted in an overstatement of revenue, and in turn an overpayment by the Buyer.

**Representation Breached: Compliance with Laws**  
Seller failed to obtain a needed permit before engaging in an activity that required one, such as new construction.

**Representation Breached: Material Contracts**  
Seller had entered into a material contract with a vendor that falls through, however the seller had represented that all contracts were valid.

**Representation Breached: Taxes**  
Undisclosed assessment of taxes related to the pre-closing period.

**Representation Breached: Condition of Assets**  
Following closing of a transaction, the buyer notices assets purchased are in very poor condition requiring repair or replacement.