

Nearly 14% of Deals Covered by M&A Insurance Resulted in a Claim, According to AIG Study

February 25, 2016 8:04 AM ET

Global Claims Data Study Spans Policies for approximately 1,000 Deals, Worth More than \$200Bn

NEW YORK--(BUSINESS WIRE)--Feb. 25, 2016-- Nearly 14 percent of M&A policies written globally by American International Group, Inc. (NYSE:AIG) resulted in a claim, according to a study of the global insurer's representation and warranties (R&W) insurance claims data between 2011 and 2014. The study suggests a significant number of M&A transactions worldwide may see issues arise from breaches of deal terms discovered after closing.

Financial statement misrepresentations were the leading cause of these M&A insurance claims, accounting for 28% of all claims during the period. Tax errors or misrepresentations were the second most frequent claim type, accounting for 13% of filed claims, followed by 11% of claims filed due to discrepancies that emerge from a company's contracts.

"A deal can come back to haunt," said Mary Duffy, Global Head of M&A Insurance. "From AIG's perspective, transactions pose risks to a significant number of companies, despite the best efforts during due diligence. Even the most sophisticated and largest companies can and do miss critical issues during the deal process."

Buyers in a transaction purchase R&W Insurance to protect against breaches of representations and warranties (whether innocent or otherwise) made by a seller during the deal process. Sellers also purchase the insurance to protect against buyers claiming such breaches.

The study found that companies in deals worth \$1 billion or more were the most likely to claim damages following the close of a transaction, with 19% of policies covering this deal size seeing a claim. Companies involved in transactions under \$100 million were the next likeliest with 15% of policies covering this deal size seeing a claim.

The study also found:

- Buyers in a transaction were most likely to buy an M&A policy, accounting for 75% of policy purchases. Approximately 13% of them reported a claim after a deal closed.
- Sellers accounted for 25% of policy uptake. They were much more likely to report a claim, with nearly 1 in 5 (19%) doing so.
- While buyers were less likely to file a claim, their claims were more severe. The majority of the top 15 largest claims reported to AIG during the study period were from buyer-side policies.

Where and When?

The study revealed global variations in M&A claim frequency and severity, as well as the length of time it typically takes for a claim to be filed after a deal closes. Interestingly, the data showed the tail on this type of M&A policy can extend well more than a year beyond a deal's closing date.

- Clients in the Asia Pacific region were the most likely to file claims. Some 18% of policyholders there reported a claim during the study period.
- EMEA had the lowest rate of claims reported with 11% of policyholders submitting a claim. However, EMEA claims tended to be more severe, accounting for the majority of the largest claims paid out by AIG during the time period.
- While 74% of claims were filed by policyholders within 18 months of the close of transaction, a significant 26% were filed after the 18-month mark.

"More and more, M&A insurance is becoming part of the transaction process worldwide. Companies see it as a better alternative to closing a deal than contentious negotiations to allocate potential risks and unknowns," Ms. Duffy said.

About the study

AIG is one of the largest writers of M&A policies in the world. It has been writing M&A policies covering representation and warranties since the late 1990s. The claims data between 2011 and 2014 cover a significantly larger pool of transactions than in prior periods, reflecting an increase in M&A activity and the growing acceptance and use of R&W policies as part of the deal process. The total number of claims during the study period was 132, which can be considered low volume relative to other insurance lines. However, the claims data spans policies covering approximately 1,000 deals, worth more than \$200 billion, and policies written during the study period still hold the potential for a claim.

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