



EUCLID  
TRANSACTIONAL

# Global Representations & Warranties Insurance Claims Study



# Only have a moment? Here are a few key points.

**Severity is a major driver of our Loss Paid:** payments of \$10M or more constitute 64% of our Loss Paid.

**The vast majority of our Loss Paid arises out of claims submitted early in the policy period:** claims noticed within 12 months of closing constitute 71% of Loss Paid.

**Claims can arise regardless of how established the target or sophisticated the buyer:** 90% of our Loss Paid is from claims involving target companies with audited financials and more than 33% of our Loss Paid involved a top 25 private equity firm (ranked by assets under management) on at least one side of the transaction.

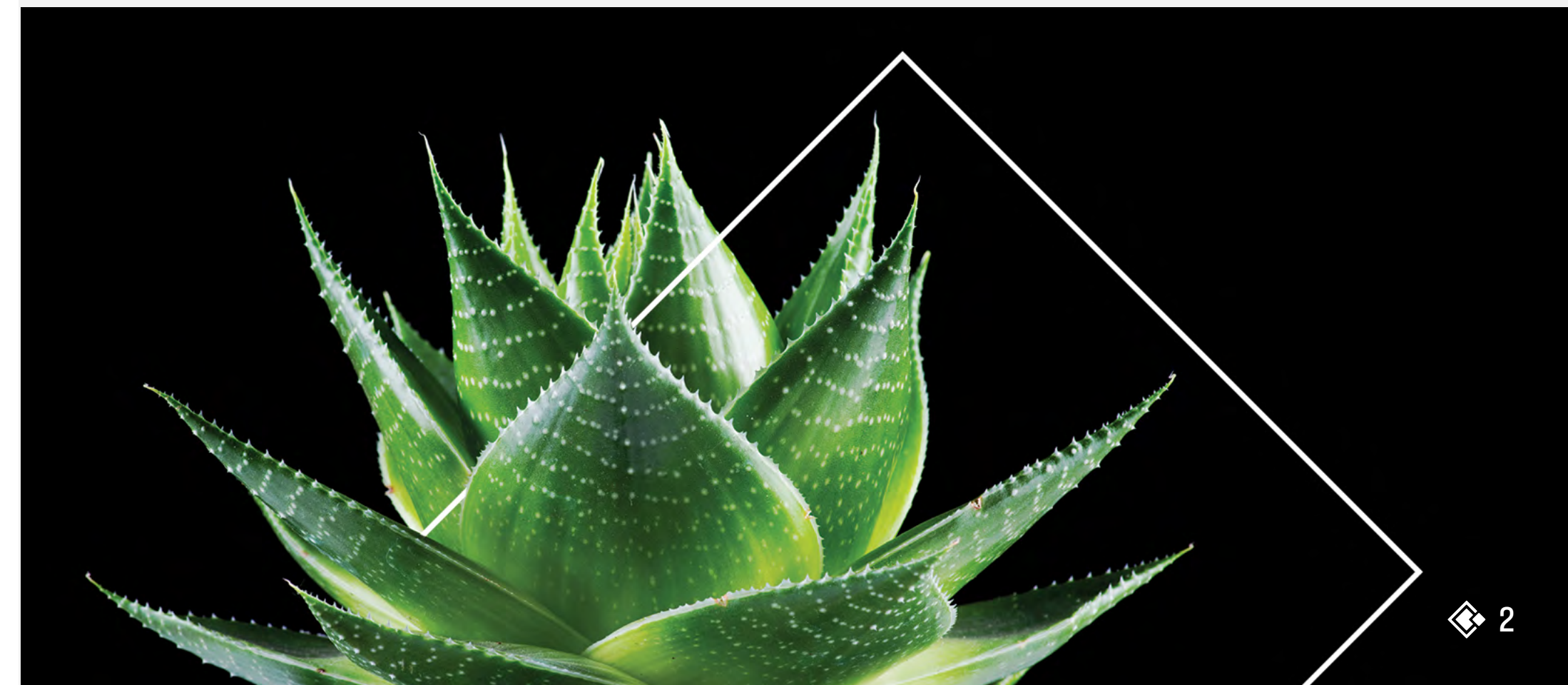
**There are noteworthy differences between claims in North America and EMEA:** for example, claims in North America are 42% more likely to assert a multiple than in EMEA.

**Denials are rare:** out of the 1,040 claims received since 2016, less than 3% have been denied and only 0.5% have resulted in arbitration or litigation.

✉ Questions about this study or a deal?  
Reach out to [ClaimStudy@euclidtransactional.com](mailto:ClaimStudy@euclidtransactional.com)

in Continue the discussion with us on LinkedIn! [Visit us.](#)

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# Introduction

We are pleased to present Euclid Transactional's first Representations and Warranties Insurance (RWI) claims study. Many hours went into the deals, policies, and claims that underlie this data, and we are grateful for the collaborative work by our employees, clients, brokers, lawyers, advisors and insurance carriers that made this study possible.

Euclid Transactional was founded in 2016 with a vision of building an independent managing general agent with the scale required to provide our clients, brokers, and lawyers with the service they demand, while also creating a supportive environment to attract and retain the most talented team in the industry. Today, we believe we are the largest underwriter of transactional insurance in the world, backed by some of the most highly rated global insurance carriers. Euclid Transactional has close to 150 employees across 10 offices, having hired over 60 underwriters and claims handlers with minimal turnover. We hope this continuity gives our clients the comfort of knowing the people they dealt with when they placed the policy, who understand the context of the deal the policy relates to, will likely be around if a claim arises.

Our claims team has also grown to be the largest in the industry, with over 20 professionals dedicated full time to handling claims. Dozens of others at Euclid Transactional, including underwriters and accounting experts, also lend expertise to the claims process where appropriate.

Euclid Transactional strives to deliver thoughtful, efficient, and friendly underwriting and claims handling, and we take great pleasure in trying to exceed our clients' expectations.

The industry is at an interesting time in its business cycle. Although we are receiving claims in record numbers, pricing of RWI is approaching an all-time low.

The surge in claims is expected. During the busy period from the second half of 2020 through the first half of 2022, an estimated \$250 billion of transactional liability limits were placed into the market. The claims from that high-volume period are still making their way to us and we expect the number of claim notices we receive to remain elevated throughout 2024. In fact, we received the most claims we had ever received in a month in July 2023, the month after the data for this study was finalized.

Meanwhile, premiums for RWI have decreased dramatically. Deal volume, particularly with respect to larger deals, has dropped from the peaks of 2021 as rising interest rates led to a challenging lending environment and a mismatch in pricing expectations between buyers and sellers. With less deals to insure, rates in the RWI market have decreased throughout 2023. We are monitoring this trend closely, as adequate rate is required to underwrite profitably.

We are hopeful that the uptick in deal submissions we have seen in recent weeks will be the beginnings of a robust M&A cycle.

Thank you again to each of our employees, clients, brokers, lawyers, advisors, and insurance carriers. We look forward to continued partnership through whatever conditions the market will bring us in 2024 and beyond.

**Sincerely,**

**Euclid Transactional**



# Data Set & Methodology

This study analyzes the policies underwritten and claims received from July 2016 through June 2023. With 5,089 policies placed, 1,040 claims received, and 97 payments made, we believe this is the largest data set used in an RWI claims study produced by an underwriter to date. It is important to note that the underlying claims continue to evolve, and claims data naturally lags behind underwriting data.


**AS USED IN THIS STUDY:**

“**Claim Payment**” refers to a claim that resulted in a payment.

“**Incurred Loss**” refers to Loss Paid, plus the amount of reserves we have posted on claims that we expect to be paid.

“**Loss Paid**” refers to amounts paid by our carriers to our clients.

“**Loss Validated**” is the total loss recognized under our policy, including Loss Paid, erosion of retention, and any loss recognized on underlying policies.

Deal Value Insured	\$3.2T
Total Loss Paid	\$561,019,573
Total Incurred Loss	\$768,753,704
Number of Claims Paid	97
Average Claim Payment	\$5,783,707
Largest Claim Paid	\$36,000,000
Payments Over \$10,000,000	19
Average Payment as a Percentage of Limit	33.92%
	

# Severity Over Frequency

Although large claims<sup>1</sup> are relatively infrequent, they constitute 64% of all Loss Paid.

Over the years, the frequency of claims (determined by dividing the number of claims received by the number of issued policies) has held relatively steady at around 20%. While most claims are ultimately resolved within the retention, the potential for severe losses exists.

Claims resulting in payment are often high-value: nineteen of the claims we have paid resulted in payments of \$10M or more. While these claims constitute only 20% of Claim Payments, they amount to 64% of Loss Paid.

<sup>1</sup> “Large claims” refers to Claim Payments \$10M or above.

## Claim Spotlight

The client asserted loss of the entire transaction value as a result of fraudulent statements made about customers.

Euclid worked efficiently, streamlining its investigation and resolving the claim for the full policy limit within four months.

According to the Claims Broker, the Insured was “ecstatic” with the result.

FIGURE 1: BREAKDOWN OF CLAIM PAYMENTS AND LOSS PAID

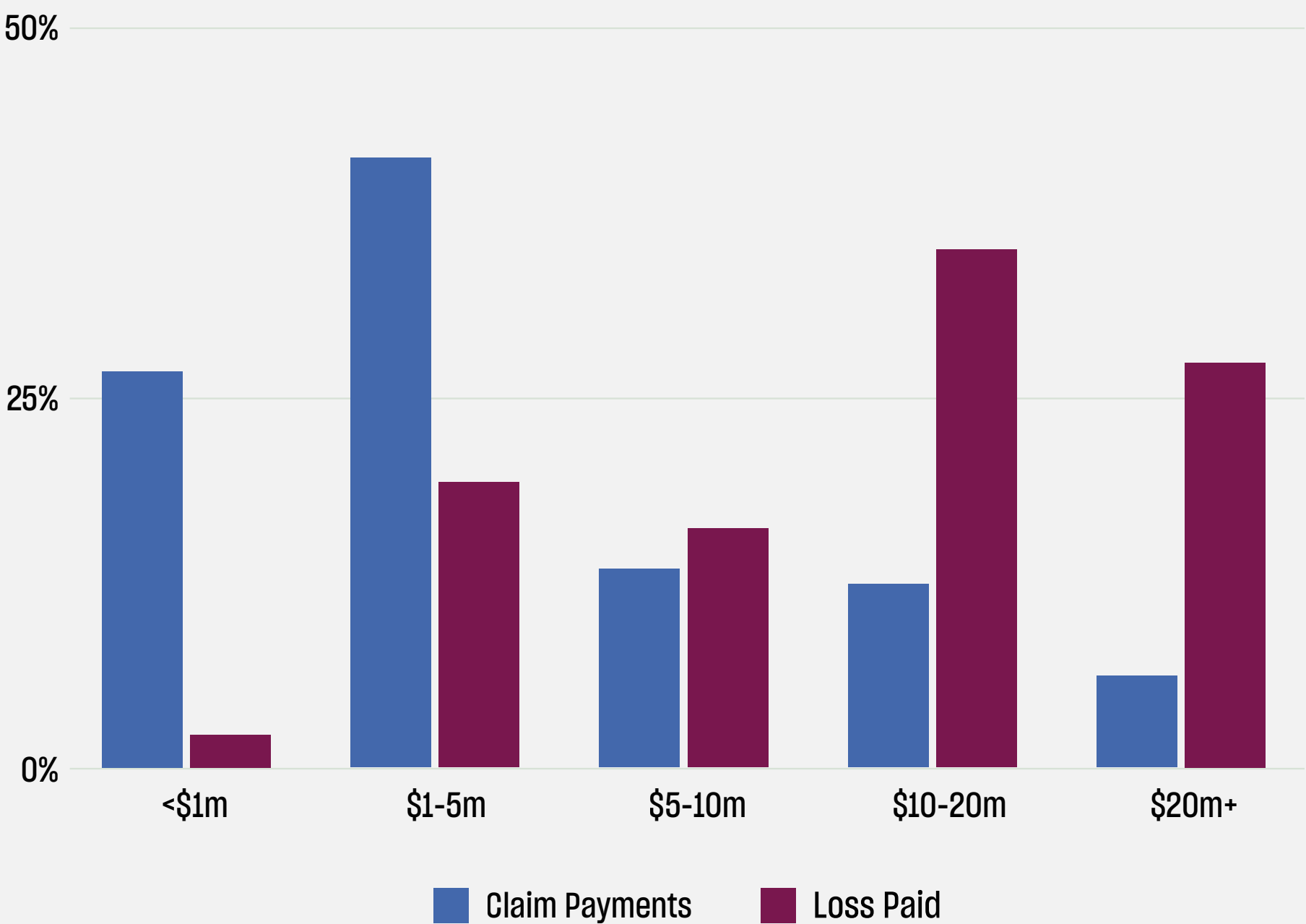
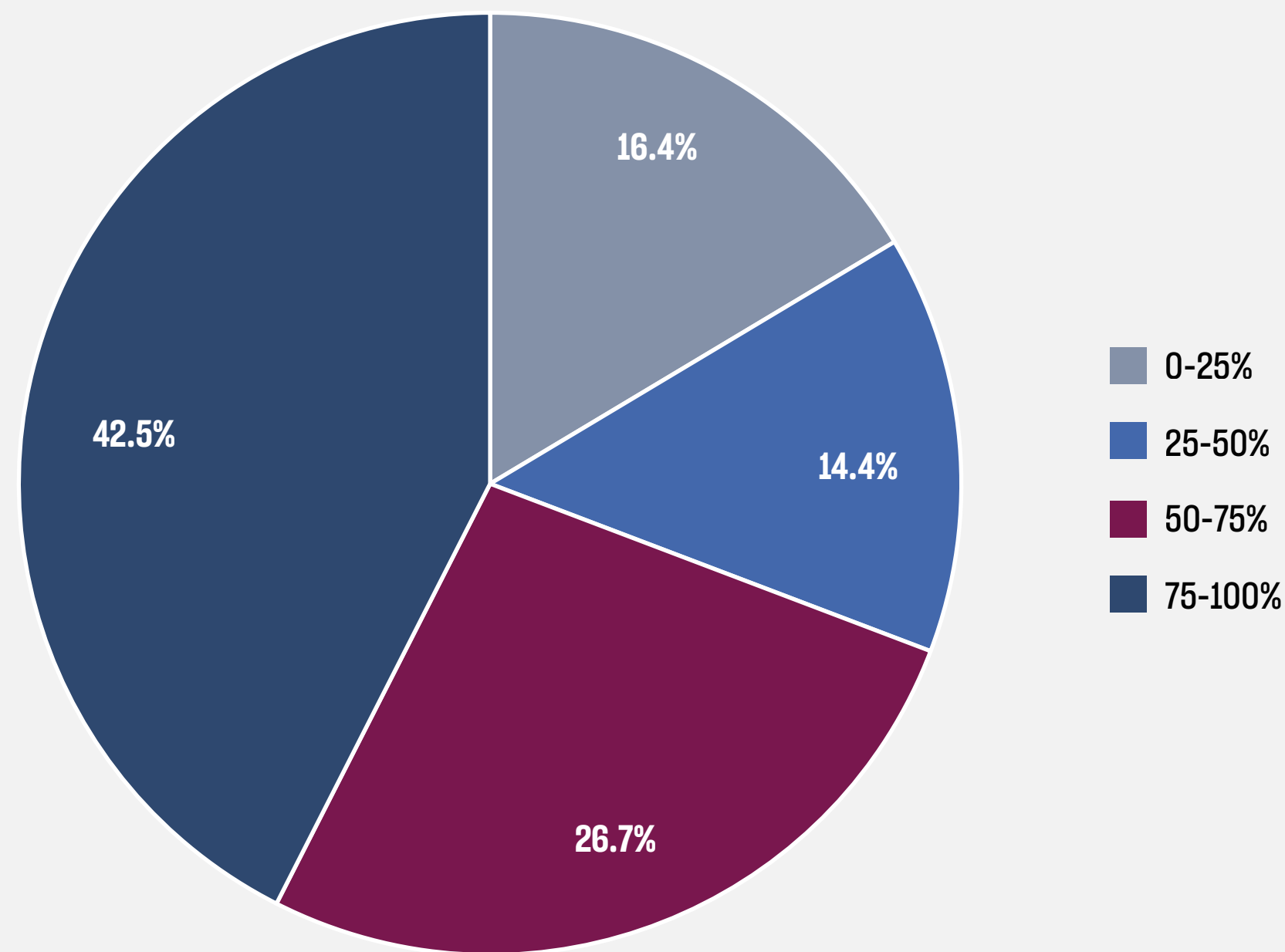




FIGURE 2: PAID LOSS AS PERCENTAGE OF POLICY LIMIT



Another way of analyzing severity is by comparing the relative size of Claim Payments to the policy limits:

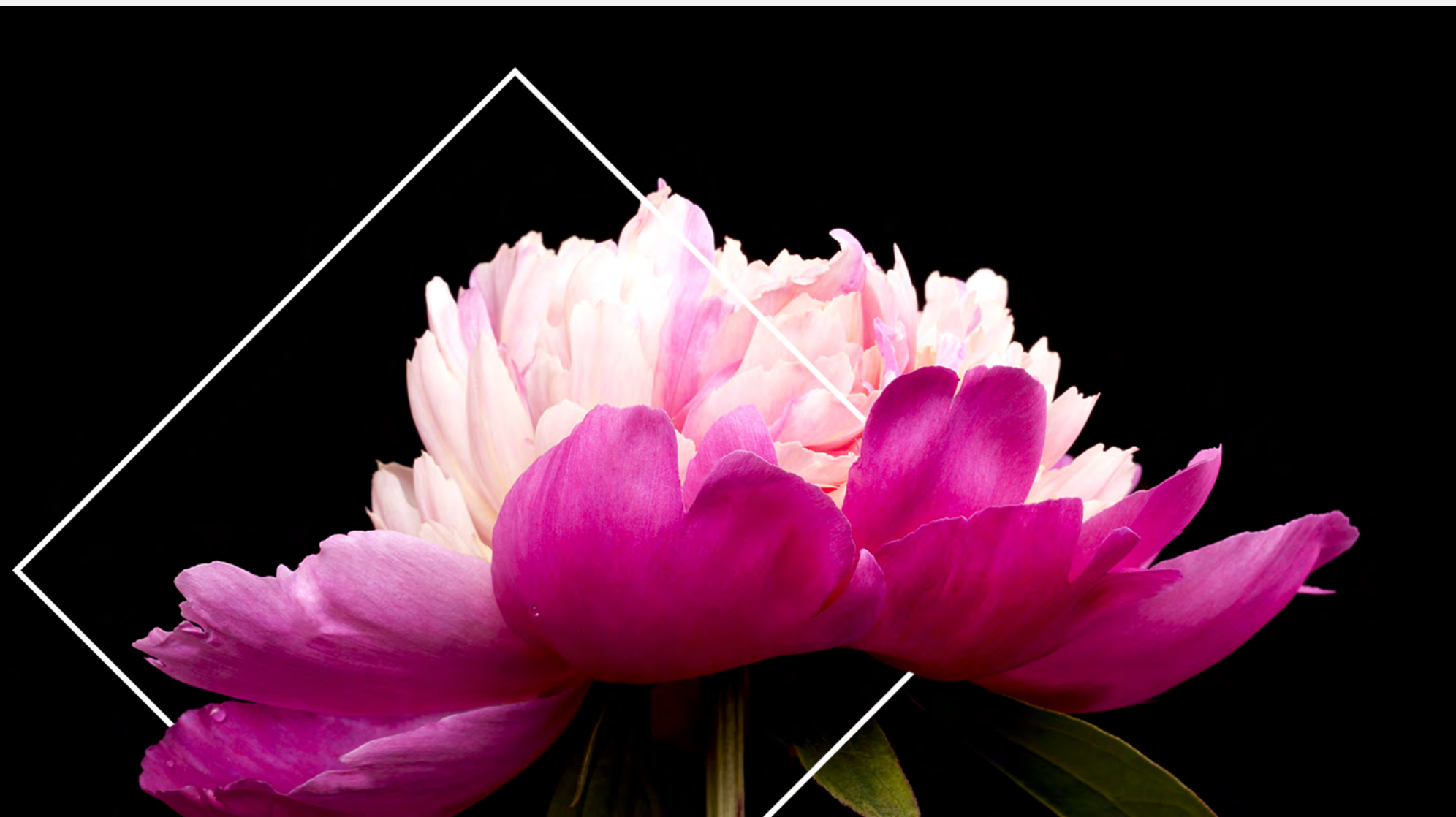
- 69.2% of our Loss Paid arose from Claim Payments that were 50% or more of the policy limit;
- 42.5% of our Loss Paid arose from Claim Payments that were 75% or more of the policy limit.

### Claim Spotlight

This claim, arising out of a healthcare target, asserted over \$300M in loss, nearly half the enterprise value.

Sitting as the primary insurer for a tower, we worked quickly to resolve the claim in less than eight months, analyzing six sub-issues (including errors in revenue forecasting and other issues with the target’s financial statements).

**Loss Paid: USD 30M (with excess carriers paying additional loss)**



# The Anatomy of a Payment

A majority of Loss Paid arises out of Financial Statements and Customer/Contract claims.

Breaches of representations related to Financial Statements and Customers & Contracts (mostly relating to the loss of a customer or the failure to deliver what was contractually promised) are our two most severe categories of Claim Payments, and together represent 65.7% of our Loss Paid. The next largest category relates to breaches of representations regarding Compliance with Laws, which represent 9.5% of Loss Paid.<sup>2</sup>

<sup>2</sup> The information on this page was collected by identifying which representation most drives each Claim Payment.

FIGURE 3: PERCENTAGE OF LOSS PAID BY CLAIM TYPE



## And what about the multiple?

Our policies pay covered loss incurred as a result of a breach. Sometimes, this amount is simply arrived at by reimbursing clients for unexpected out-of-pocket costs. The calculation can be more complicated when the impact of the breach is greater than the direct cost of the loss because the buyer would have paid less for the target had they known about the breach. For example, if a customer terminates a relationship when such customer was reasonably expected to generate revenue for a durationally significant period, our policies may allow the buyer to recover the amount of the lost earnings over the course of the relationship based on the metric used to value the target company, such as an EBITDA multiple. We have paid 38 claims where a multiple or other diminution in value metric was applied for a total Loss Paid of approximately \$330.9M. Additionally, we have reserved \$120.9M for open claims in which we expect to pay loss based on a multiple.





# Claims Tend to Come Early

Claims noticed within 12 months of Closing have resulted in 71% of Loss Paid.

The sooner a claim is reported, the more likely it is to result in a material payment. This makes sense: the breaches that tend to result in severe losses (for instance, loss of a material customer or misstatements in financial statements) are typically discovered shortly after closing. However, large claims can and do arise later in the policy period. Two of our top 20 largest claims were noticed more than 2.5 years after closing.

## Claim Spotlight

A Claim came in 11 months after Closing, asserting losses substantially consisting of diminution in value.

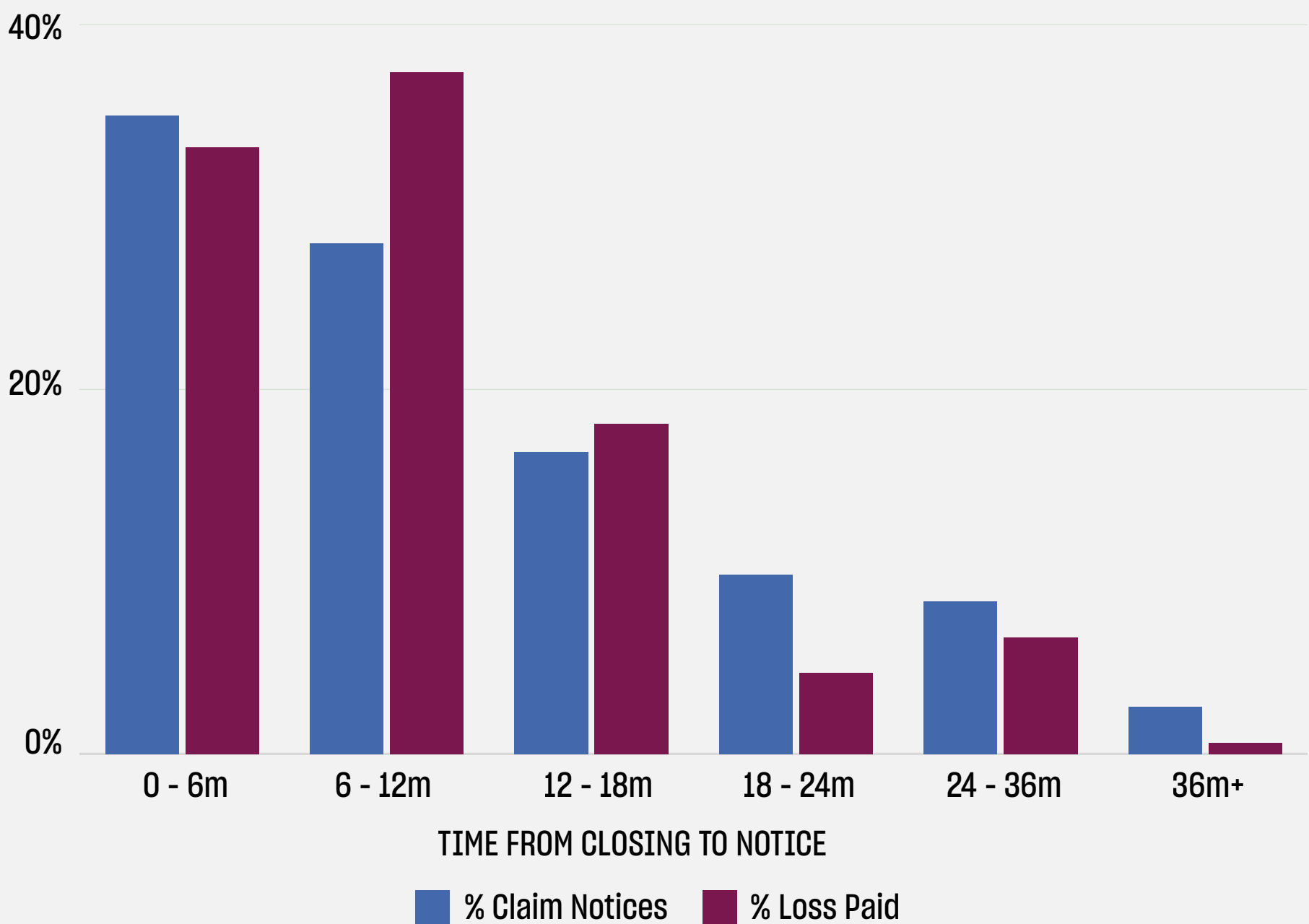
The client had yet to make expected out-of-pocket payments, but Euclid Transactional worked to resolve the claim in just 62 days.

Loss Validated: USD 21.3M

THE CLIENT’S BROKER

“Thanks again to you and the Euclid team for all your help with this claim and moving so quickly. I know the Insured is pleased with the outcome.”

FIGURE 4: TIME OF CLAIM NOTICE VS. LOSS PAID





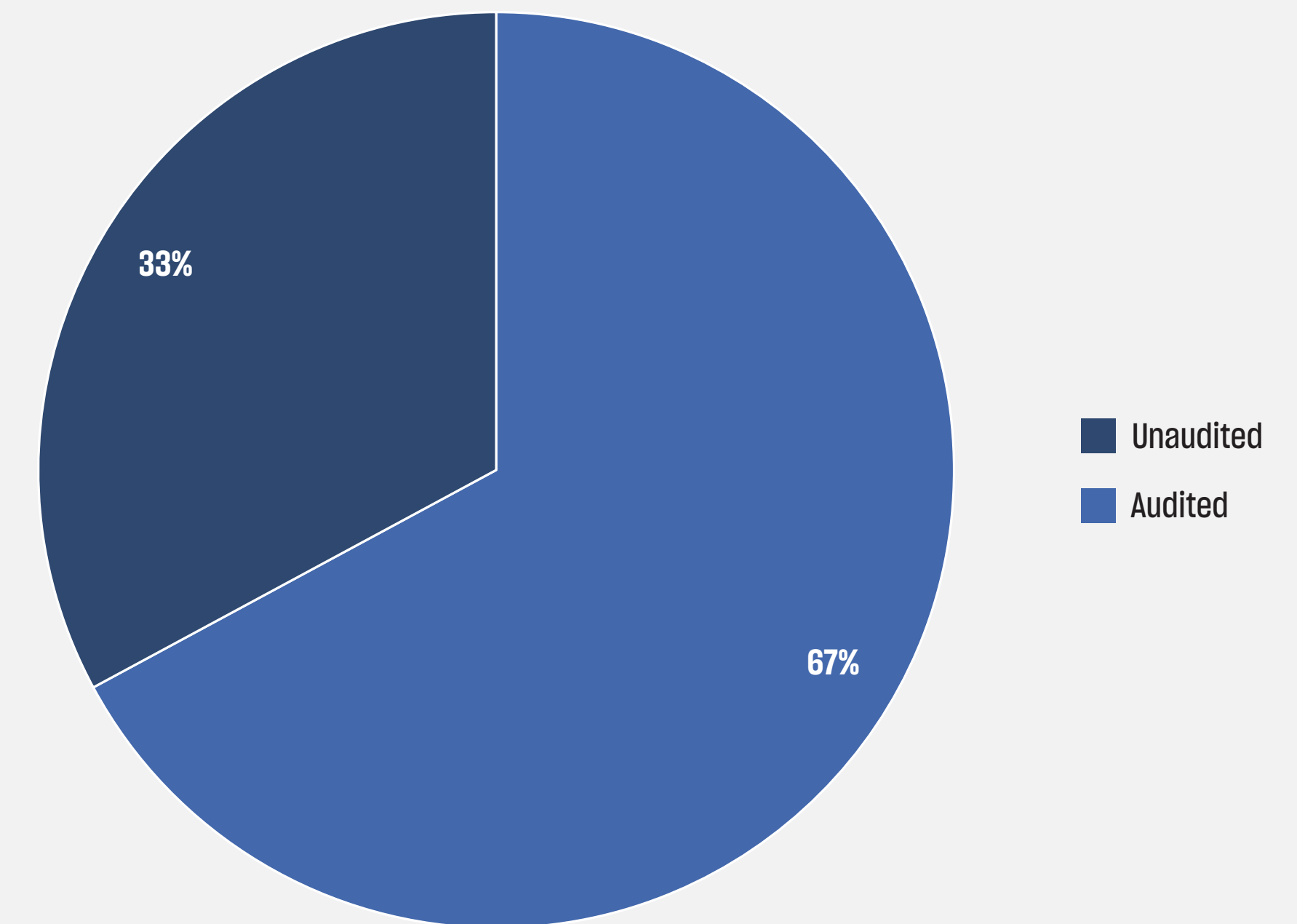
# There are No Risk-Free Deals

Financial Statements claims involving targets with audited financials have resulted in more loss than those involving unaudited targets.

Many buyers assume that risk of a breach is reduced when a transaction involves sophisticated sellers and a mature target company with audited financials. Our data suggests that any deal can lead to a claim.

**In fact, 84% of all claims alleging breaches of Financial Statements representations involved target companies with audited financials.** While more policies are bound for transactions involving audited financials, the correlation is not proportionate. Instead, the percentage of claims alleging Financial Statements breaches arising out of audited financials is 23.5% higher than the percent of bound deals involving such targets, as can be seen in **Figure 5**. Though counterintuitive, we have received Financial Statement claims on audited target companies at a higher rate than unaudited target companies.

FIGURE 5: BOUND POLICIES BY FINANCIAL AUDIT TYPE



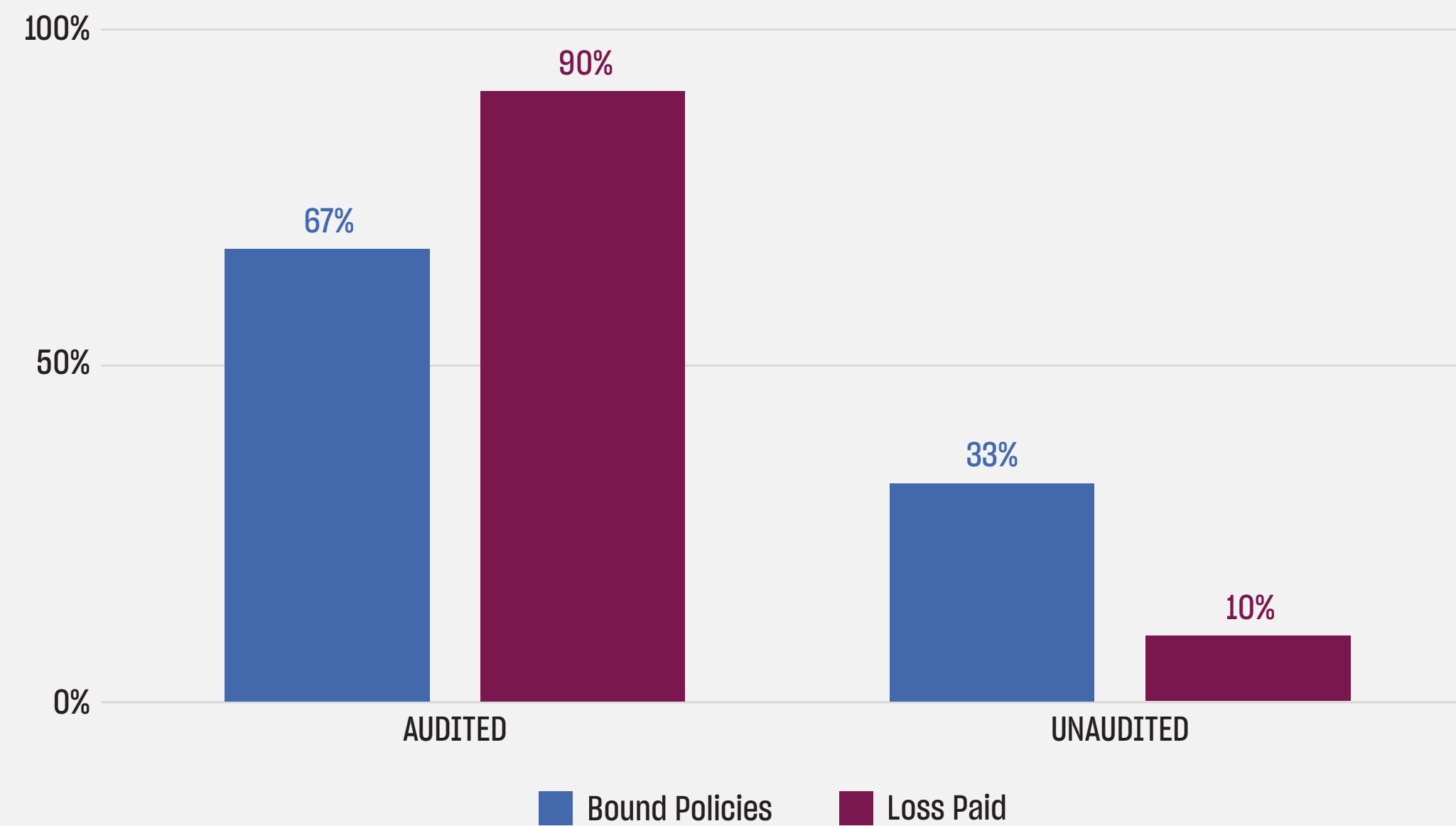
## Claim Spotlight

This claim arose out of a target in the telecommunications industry with audited financials. Even so, the claim notice alleged that the financials were inaccurate because they failed to properly reflect accounts payable, included assets no longer owned by the company, and did not regularly reconcile the company's construction-in-process account.

**Loss Paid: USD 21.5M**





**FIGURE 6: BOUND POLICIES VS. LOSS PAID BY FINANCIAL STATEMENT TYPE**

Our data also reveals other surprising information about Financial Statements claims: 90% of our Loss Paid for such claims involved audited financials. **Even considering that limits of liability may be smaller for unaudited targets, Claim Payments for Financial Statements claims involving companies with audited financials averaged 41.4% of the policy limit, whereas this figure is only 22.1% for Financial Statement Claim Payments involving companies with unaudited financials.**

This might be because companies that are audited are more likely to be complex businesses with increased opportunities for something to go wrong. In any event, this data underscores the fact that even the most thorough review does not always prevent issues from being discovered post-closing and an RWI policy can be a valuable tool when problems arise.

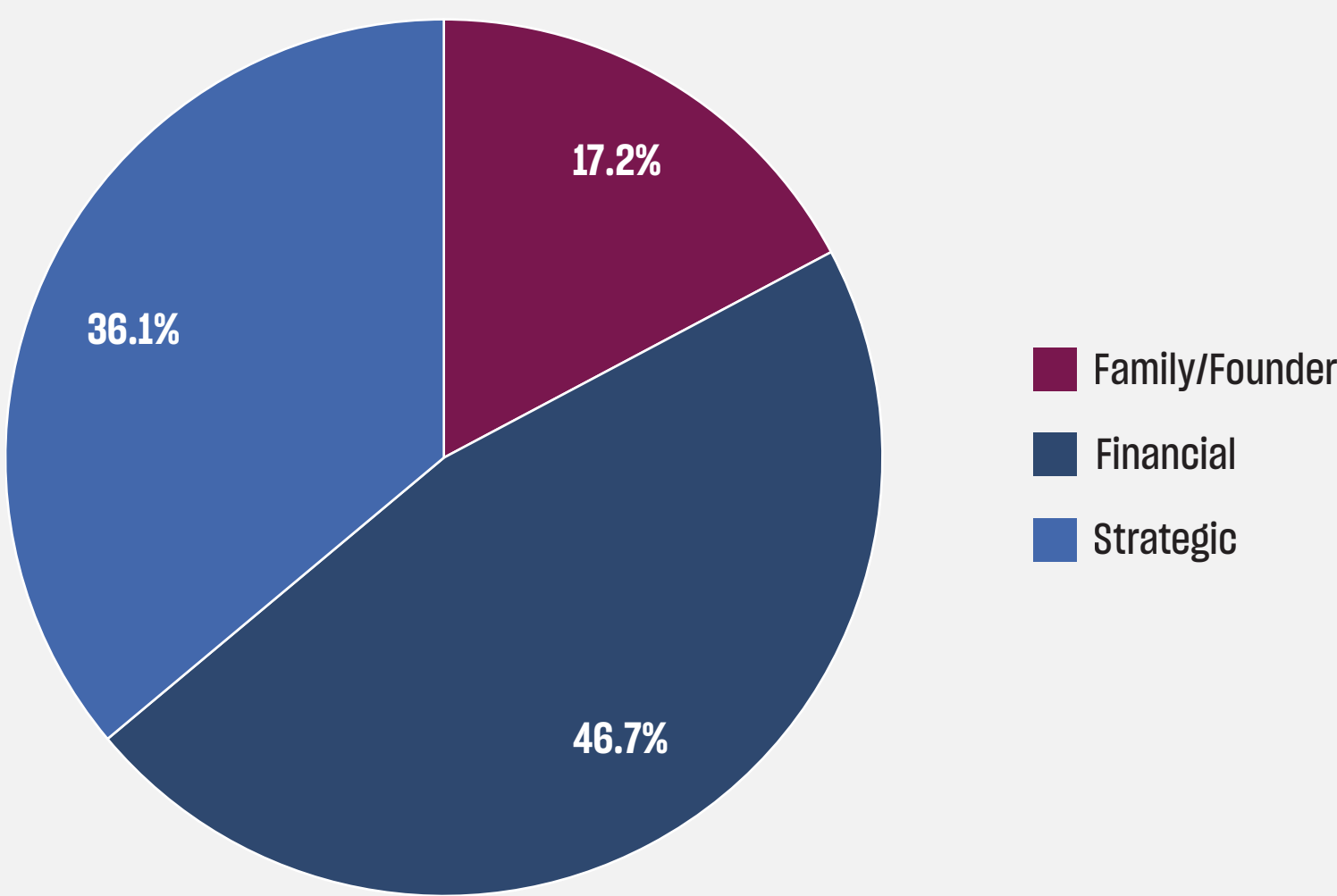


THERE ARE NO RISK-FREE DEALS

It is commonly assumed that acquiring a founder-owned target would present higher risk than buying from a financial or strategic seller. And yet 82.8% of our Loss Paid is attributable to policies bound where the seller was either a corporate parent or financial sponsor, which closely correlates with the 77.8% of our policies bound with such sellers. Even in these deals, risk remains.

Further, when acquiring portfolio companies, large private equity funds typically engage the best advisors and perform some of the most sophisticated due diligence money can buy. Once acquired, rigorous processes are required to satisfy the reporting obligations of funds and lenders. As a result, one might expect fewer claims or lower Loss Paid on deals involving these large private equity funds. **However, 21% of our Claim Payments, resulting in \$188M of Loss Paid (over a third of our total Loss Paid), have been made where one of the top 25 largest private equity funds in the world is on at least one side of the transaction.**

FIGURE 7: PERCENTAGE OF LOSS PAID BY SELLER TYPE





# The Bigger They are, the Harder They Fall

It might go without saying, but bigger deals often result in larger losses.

Although claims arising out of targets with an enterprise value of up to \$150M make up 54% of Claim Payments, the amounts paid on those claims represent only 32% of all Loss Paid. In contrast, despite being less than 10% of Claim Payments, Claim Payments arising out of transactions with targets valued above \$750M make up 26% of all Loss Paid.

## Claim Spotlight

Target Enterprise Value: Over USD 2 billion.

This claim arose from a large customer’s failure to continue purchasing product from the seller in a manner consistent with past practice.

Loss Paid: Full primary limit plus a portion of our third excess

FIGURE 8: PERCENTAGE OF CLAIM PAYMENTS VS. LOSS PAID BY DEAL SIZE





# International Claims Experience

**Euclid Transactional provides world-class claims services—all over the world.**

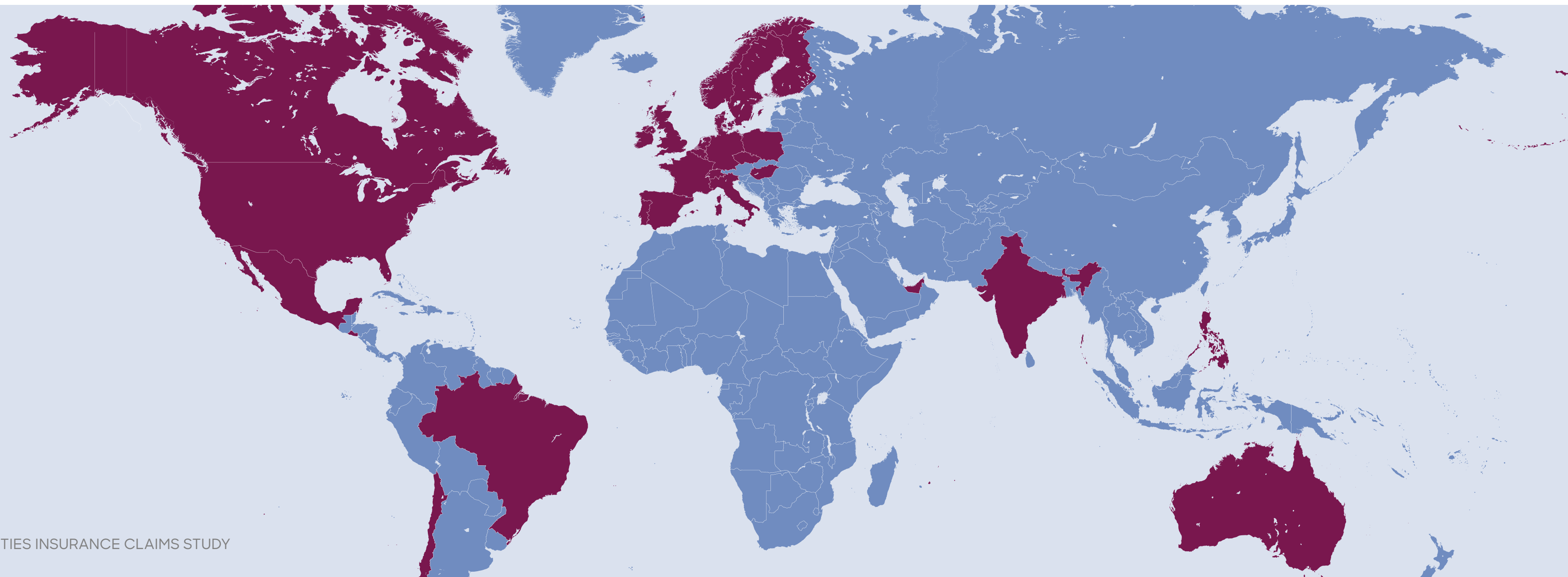
To support our global underwriting program, we have fully dedicated claims handlers based in four offices in three different countries who frequently collaborate on cross-border transactions. This has allowed us to successfully handle claims relating to issues that arose in more than 20 jurisdictions (as highlighted on this map), including France, Spain, Norway, Sweden, Finland, Denmark, Germany, the UAE, and Australia.

## Claim Spotlight

This claim required the interpretation of complex points of English, EU, and Norwegian law on top of analysis of technical accounting issues.

**Euclid spearheaded a multi-national team of advisors, resulting in a payment of USD 1,751,750.**

**Following the successful resolution of the claim the Insured's counsel commented how impressed they had been by the process.**





# Comparing EMEA and North American Claims

EMEA and North America have roughly similar claim subject matters, though Tax claims are far more frequent in EMEA.

Though the statistics discussed in this study have analyzed our global data, there are a few interesting comparisons to draw between EMEA and North America.

- **Clients in North America are 42% more likely to assert that a multiple applies in their loss calculation than in EMEA.**
- When looking at the types of claims we receive across regions, many claim types that arise out of litigation—such as Intellectual Property, Employment, and Compliance with Laws—are more prevalent in North America. However, the biggest difference between North America and EMEA is the amount of Tax claims received, with such claims comprising 39% of all EMEA claims, more than double their proportion in North America.

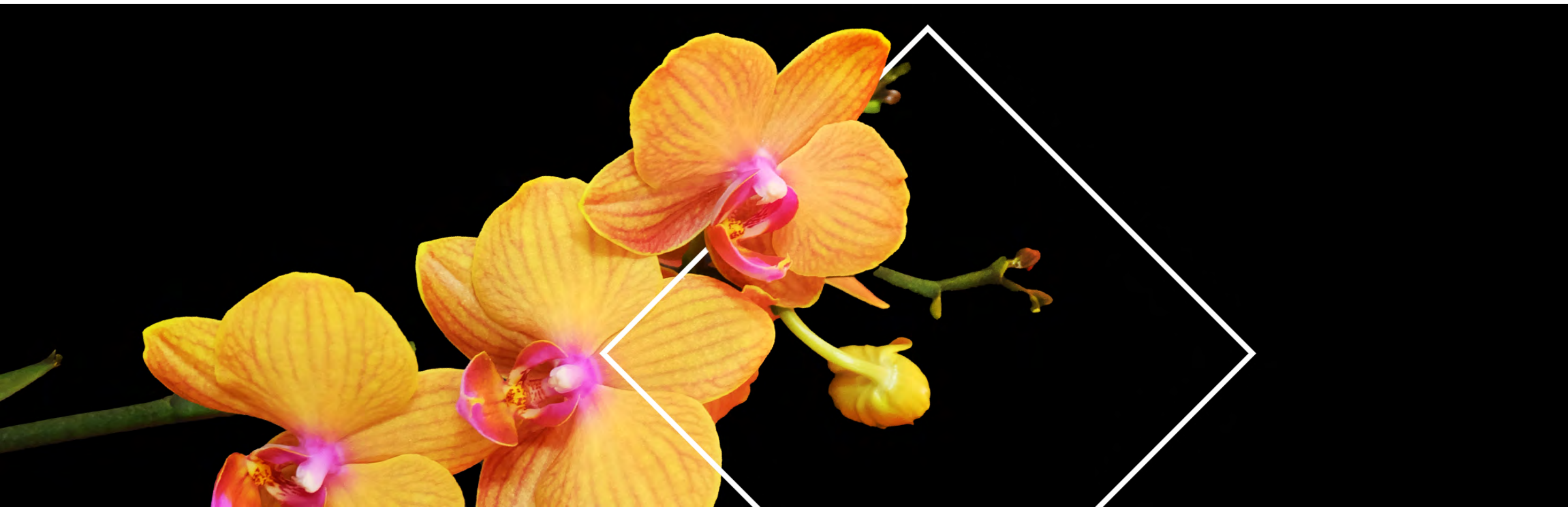
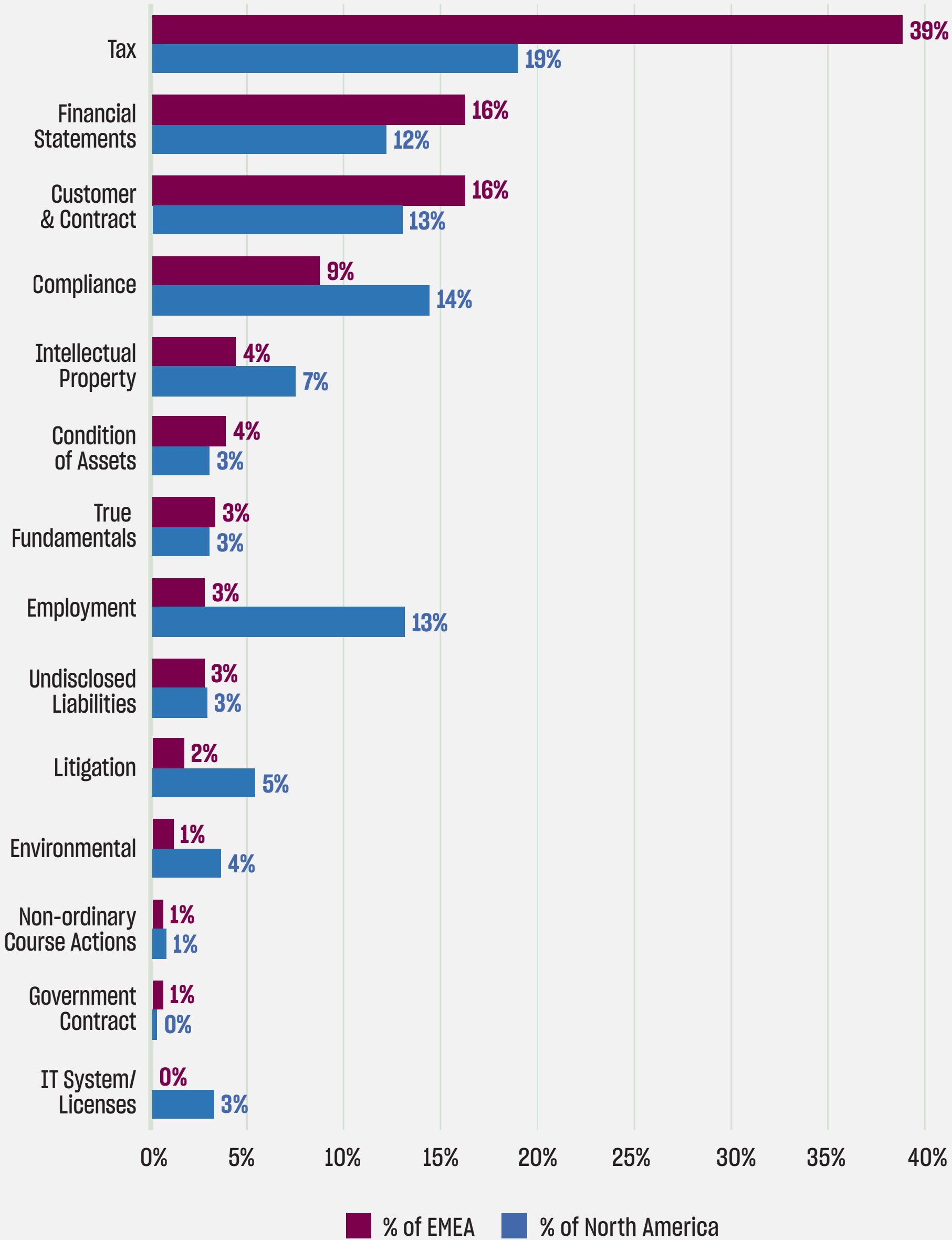


FIGURE 9: PERCENTAGE OF CLAIM TYPES



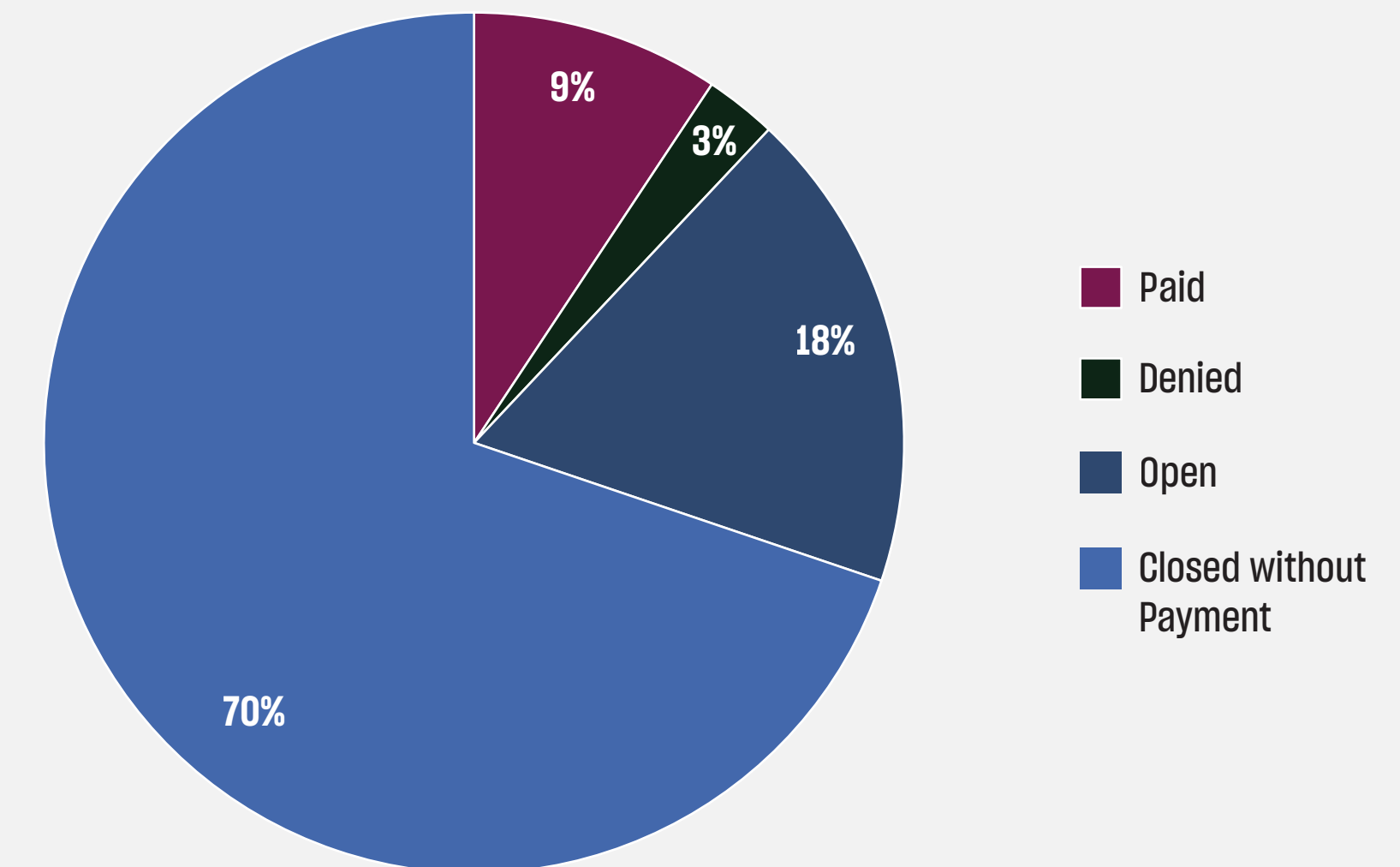


# Denials are Rare; Court Visits are Even Rarer

Out of the 1,040 claims received since 2016,  
**less than 3% have been denied.**

Our experienced team strives to provide industry-leading services. We approach each claim with a focus on fairness and collaboration, a commitment evidenced by the fact that only **0.5% of our claims have resulted in litigation or arbitration.**

FIGURE 10: STATUS DISTRIBUTION OF CLAIMS



Claims that are Closed Without Payment are typically claims that (a) resolve below the retention; (b) are below the attachment point of an excess policy; (c) the client chooses not to pursue; or (d) are withdrawn.

## Claim Spotlight

In underwriting, Euclid Transactional excluded claims arising out of a particular issue identified in due diligence. The client filed a claim for losses arising out of that issue.

Euclid Transactional quickly alerted the client to this fact, but welcomed further conversation and investigation.

The client commenced arbitration and after an almost two-year process, Euclid Transactional prevailed in full.





# Euclid Transactional has the Largest Fully-Dedicated RWI Claims Team

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