



# Global Representations & Warranties Insurance Claims Study 2024



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

**We've paid dozens of claims since last year's Study:** From June 2023 to June 2024—the additional period included in this Study from last year's—our carriers have made 38 Claim Payments for more than \$268M in loss, bringing our total Loss Paid to over \$828M.

**Severity is increasing:** A third of the claims resolved in 2023 resulted in payments of more than \$10M: more than a threefold increase from 2020.

**Recent market pricing in North America is unsustainable:** If each of the primary RWI policies we underwrote from 2016 to 2021 was priced at 2.25%, our carriers would have lost hundreds of millions of dollars.

**We strive for efficiency:** Nearly 75% of claims received are processed and resolved within one year, and nearly all within two years.

**In EMEA and APAC, tax claims are far more common:** Claims relating to tax representations are 38% of the claims received in EMEA, compared to 18% in North America, and are a quarter of our Claim Payments outside of North America.

**Euclid Transactional continues to expand its global footprint:** We have recently made what are, to our knowledge, the biggest ever RWI payments in France, Slovenia, and Canada.

✉ Questions about this Study or a deal?

Reach out to [ClaimStudy@euclidtransactional.com](mailto:ClaimStudy@euclidtransactional.com)

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Dear Reader,

Thank you for picking up our second annual Global Representations & Warranty Insurance (“RWI”) Claims Study. The reception to last year’s Study was fantastic and we are thrilled to provide additional data and information this year to spur further discussion.

As discussed in the pages to come, rates for RWI have dropped to historical lows in 2024. With pricing so low across the board, we believe it is an excellent time for clients to take a hard look at the relative value they are able to receive from various RWI competitors, particularly when it comes to an RWI underwriter’s claims experience.

Material claims, when they do occur, can be devastating to an acquisition if not handled fairly and efficiently. As noted in this Study, severe claims are on the rise and, as a result, we believe claims experience should—and will—be an increasingly important part of the decision when purchasing RWI.

When choosing an RWI carrier, why not look at the resources they put into claims? For example, Euclid Transactional’s claims team has 13 claims handlers and 8 support members. We have paid over \$825M in claims; we have reserved another \$365M for claims that we expect to pay in the future. And we feel strongly enough about the fairness of those payments—and the process which led to them—that we release this annual Claims Study discussing these claims and highlighting the details. We believe that an RWI underwriter should be able to stand behind its claims process and be comfortable discussing data about it.

More broadly, Euclid Transactional was founded to provide premium underwriting and claims service on every policy that we bind. With this blueprint, we have built a team of almost 150 people in 10 offices globally, including the industry’s largest claims team, and insured deals valued at over \$5.5 trillion. Many clients and their trusted advisors have told us that the hard work we put into being commercial, timely, and making the RWI underwriting process as seamless as possible on the claims underlying this Study made it worth the extra cost for a Euclid Transactional policy. We hope to work with you on your next deal.

Sincerely,

Euclid Transactional



## A quick check-in on some of the trends we highlighted last year:

**Most of our Loss continues to arise out of claims submitted early in the policy period:** Claims noticed within 12 months of closing constitute 71% of Loss Paid.

**There are *still* no “risk-free deals”:** 66.1% of our Loss Paid arises out of claims involving target companies with audited financials.

In a similar vein, **of the 27 Claim Payments made in 2023, nine involved a top 25 private equity firm (ranked by assets under management)**, further demonstrating that deals involving even the most sophisticated parties can result in claims.

**Denials remain rare:** Less than 3% of claims are denied.



# Data Set & Methodology

This Study analyzes the policies underwritten and claims received from July 2016 through June 2024: 6,244 policies placed, 1,373 claims received, and 135 payments made, **which incorporates an additional 1,155 policies, 333 claims, and 38 payments since our last Study.** As noted last year, the underlying claims continue to evolve, and claims data naturally lags behind underwriting data.

Since last year's Study, we have paid more than **\$268M** in Loss. **Nine of the payments we made were over \$10M.** When considering amounts reserved for claims that we anticipate paying in the future, we have added an additional **\$425M** in Incurred Loss since our last Study.

## 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.

Total Loss Paid	\$828,882,950
Total Incurred Loss	\$1,193,934,280
Number of Claims Paid	135
Average Claim Payment	\$6,139,874
Largest Claim Paid	\$36,000,000
Payments \$10,000,000 or More	28
Average Payment as a Percentage of Limit	34%





# Severity of Claims is Increasing

A third of the claims resolved in 2023 resulted in payments of \$10M or more, constituting 82.9% of 2023's Loss Paid.

**Though globally claim frequency<sup>1</sup> has remained somewhat steady at approximately 21%, the severity of claims has ticked up.**

As can be seen in Figure 1, the percentage of our Claim Payments of \$10M or more has trended up year-over-year, to where approximately a third of our Claim Payments made within 2023 fell into this category.

Taking a look at our statistics more broadly, 21% of our all-time Claim Payments are \$10M or more. We do not believe there is one particular reason that severity is increasing but note that the proportion of policies we underwrote in 2021 that relate to large deals was higher than any previous year, and many of the claims we paid in 2023 related to 2021 acquisitions.

<sup>1</sup> We determine frequency of claims by dividing the number of claims received on policies underwritten within a particular time period by the number of issued policies bound in that same period.

## Claim Spotlight

This claim, arising out of the purchase of a company in the food industry, was submitted because the company's factory was not in good operating condition sufficient to conduct the business in the same manner as pre-Closing. The claim was resolved for CAD 13M, approximately 90% of the policy's limit of liability.

FIGURE 1: PERCENTAGE OF CLAIM PAYMENTS \$10M+

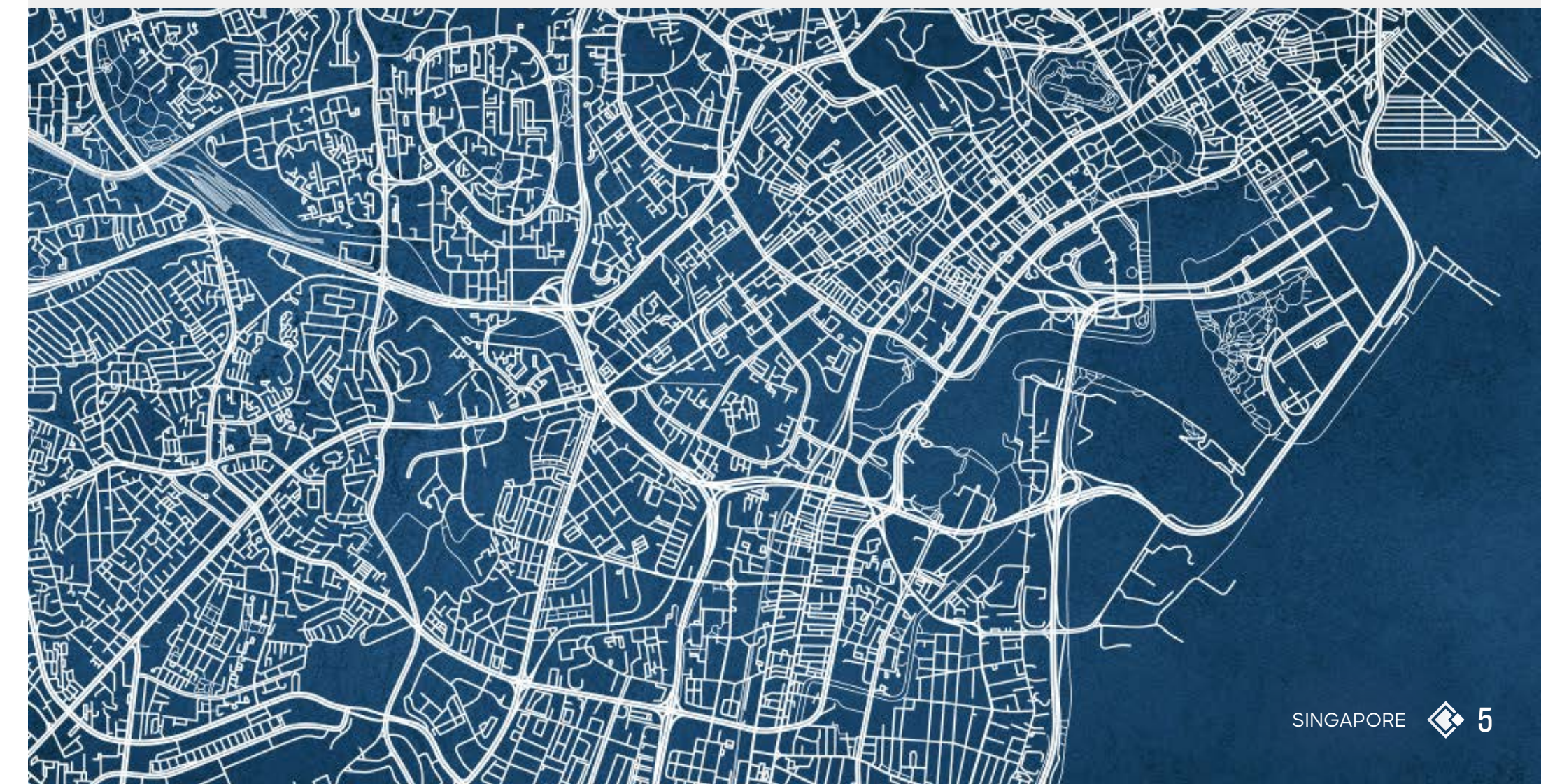
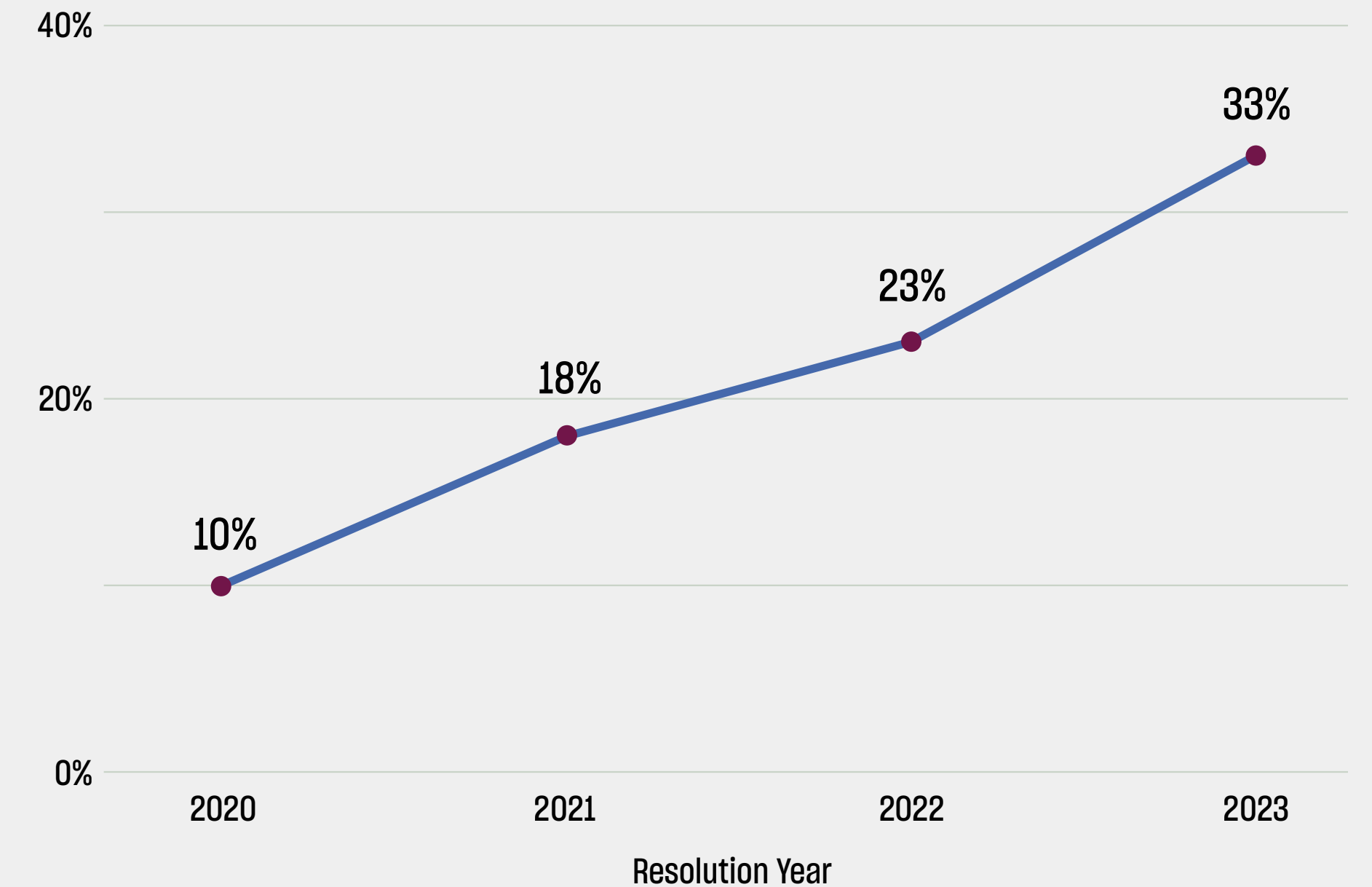
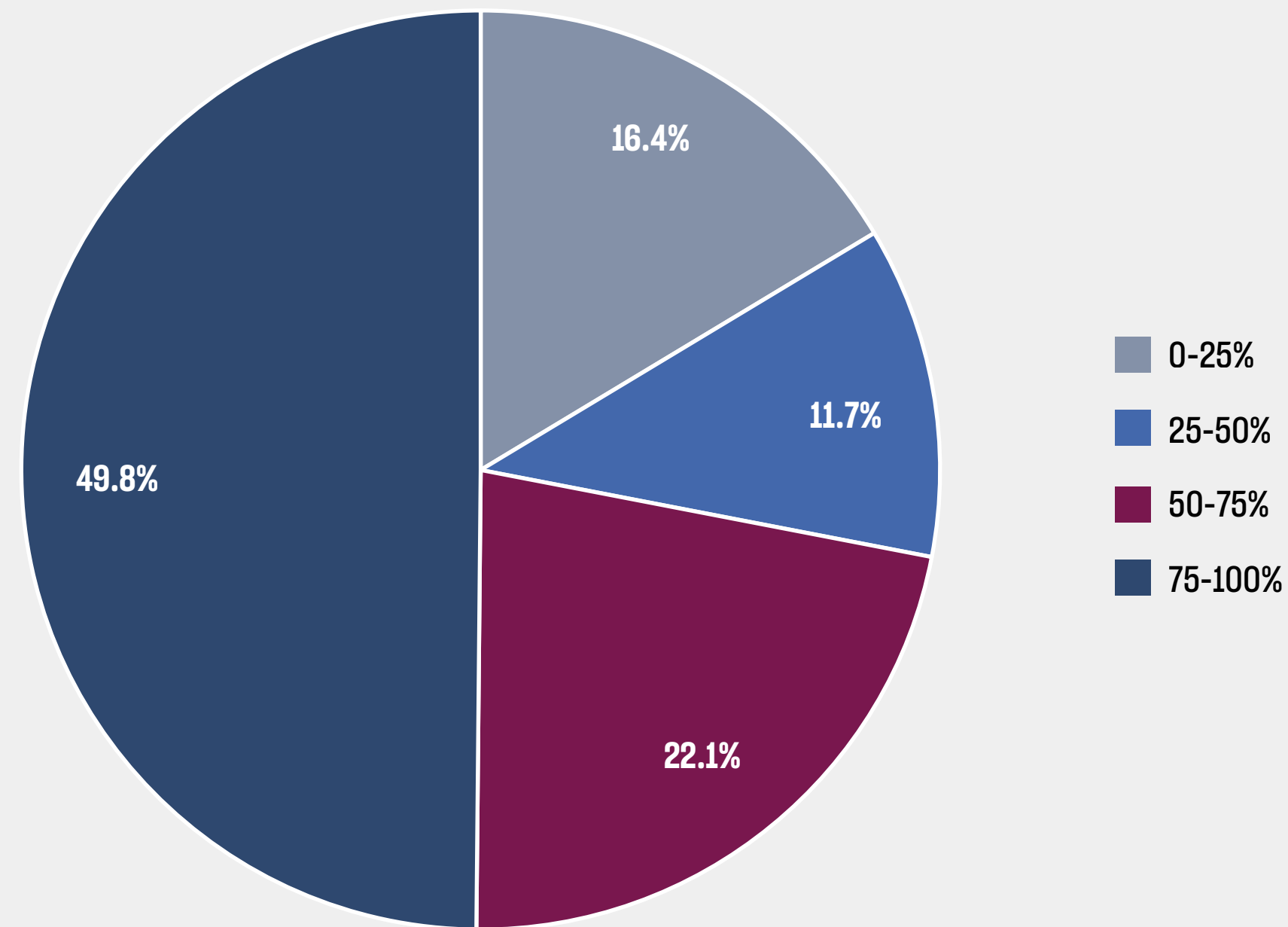




FIGURE 2: LOSS PAID AS PERCENTAGE OF POLICY LIMIT



Nearly 50% of our Loss Paid arises out of Claim Payments of 75% or more of the policy's limit of liability.

Although claims resulting in payments above \$10M are undoubtedly severe, Claim Payments consisting of large portions of the relevant policy's limit also reflect issues which can significantly undermine a target's value. These also make up a large portion of our Loss Paid.

In fact, 71.9% of our total Loss Paid arises out of Claim Payments that are for 50% or more of the policy's limit of liability, whether that limit is \$10M or \$25M.

**Additionally, though only 11.1% of our Claim Payments are for 90% or more of the policy limit, they total \$309M in Loss Paid—over a third of all our Loss Paid.**

As discussed in more detail later, it is not unusual for us to receive claims alleging loss for well above the policy limit.

## Claim Spotlight

After closing, our client was sued by a plaintiff asserting patent infringement relating to data storage software. The claim resolved for approximately \$18.5M, which constituted 92.5% of the policy's limit of liability and completely covered both the defense costs and the settlement of the underlying case.

# The Market Needs Sufficient Rate to Thrive

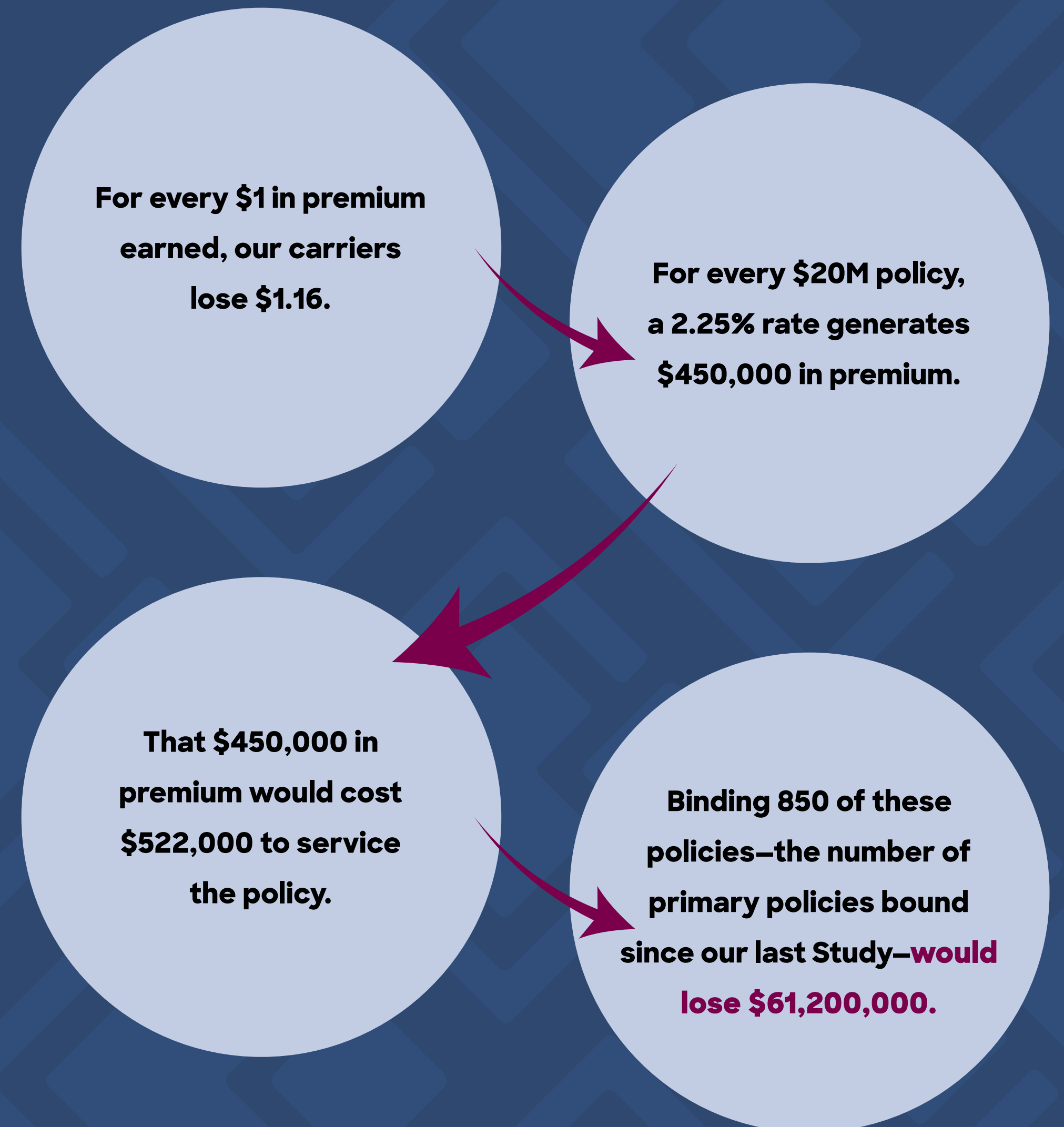
As of June 30, many markets offering primary RWI policies in North America were pricing policies between a 2% and 2.5% rate.

**In our opinion, this is unsustainably low.**

If each of our primary RWI policies underwritten from 2016-2021 were priced at 2.25%, we would have had an incurred loss ratio of 86% on those policies. Given that the average expense ratio for a property-and-casualty insurer (i.e., the percentage of premium that goes towards brokerage costs, underwriting and servicing policies, among other things) is between 26% to 30% according to industry data (and higher for labor-intensive lines like transactional liability), our carriers would have lost money throughout that entire period, as it would have cost them approximately \$1.16 to service the business for every \$1 in premium received.

**We believe rates will need to improve in the near-term if the industry hopes to continue to service our clients in the ways they have come to expect.**

Assuming a 2.25% rate and a 30% expense ratio...





# Financial Statements Claims Continue to Drive Severe Losses

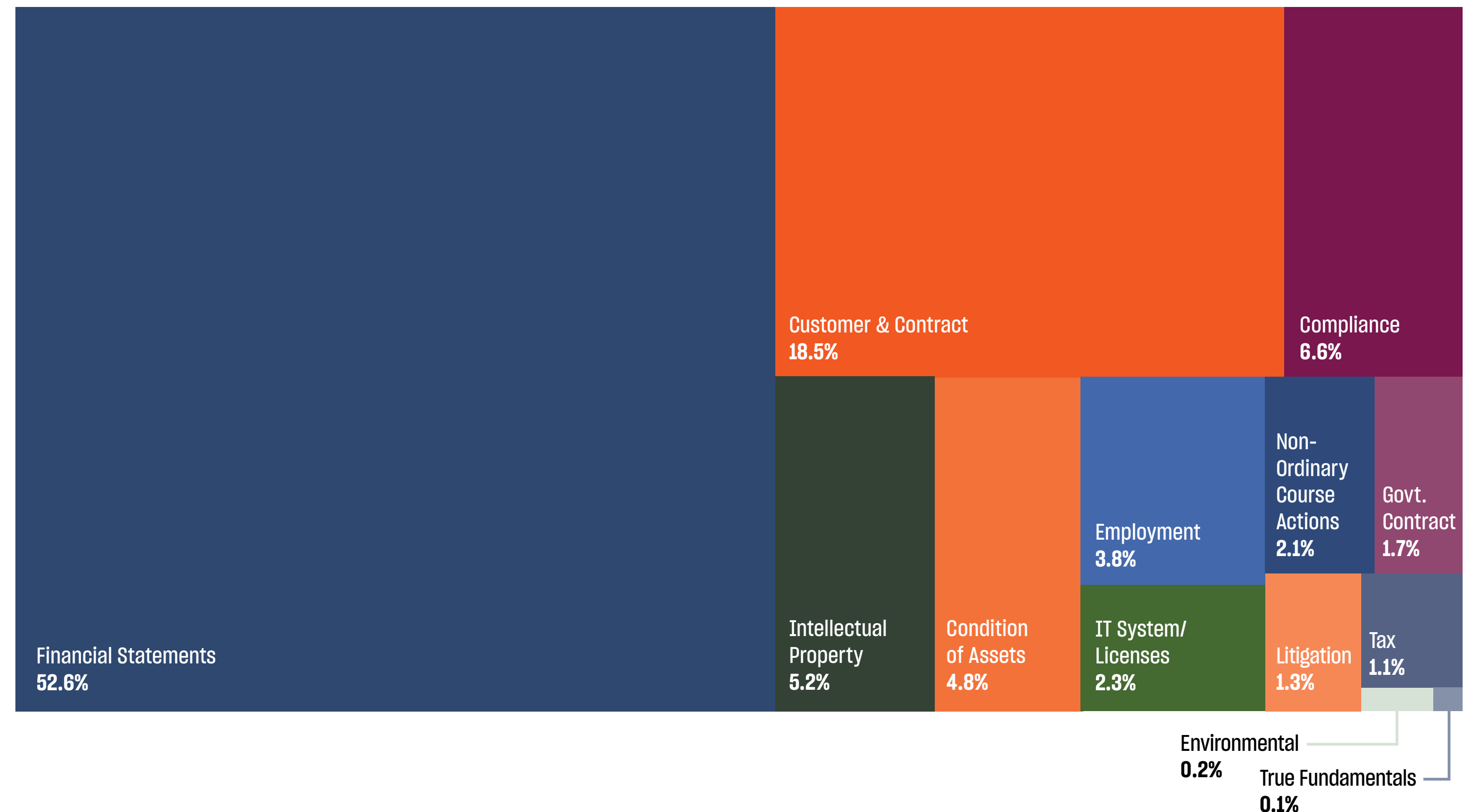
We have paid 55 claims asserting breaches of financial statement representations, resulting in over half of our Loss Paid.

Breaches of representations relating to financial statements continue to drive a significant portion of our Loss Paid. The issues giving rise to these claims often subvert buyers' original understanding of the financial condition of the target. Our clients are highly sophisticated. Of the deals we insured in 2023, over 70% of the buyers commissioned financial due diligence reports from a major firm. Those that didn't typically were strategics that have internal due diligence teams that are intimately familiar with the acquired business.

But financial statements claims can arise from a diverse set of operational issues—failures to record expenses and overstatement of revenue being among the most common—which can be difficult to detect prior to fully taking control of the business.

It is crucial to work with a claims team that has experience handling these highly technical claims. **We have thus far paid 55 claims of this type, resulting in \$436.2M in Loss Paid.**

FIGURE 3: LOSS PAID BY CLAIM TYPE





# Claims are Processed Quickly

Almost 75% of claims received are processed and resolved within 12 months of receipt.

**Nearly three-quarters of claims are resolved within 12 months of receipt of a claim notice.<sup>2</sup>** And over 90% of claims are resolved within two years of receipt. Though certain of these claims do not result in payment, Euclid Transactional still dedicates resources to analyze the claim and quickly provide a preliminary coverage position to our clients. Additionally, **nearly half of paid claims—46.2%—are resolved within a year.**

It is true that certain claims take longer than others. For example, claims arising out of third-party litigation against the target often cannot be resolved before the underlying lawsuit runs its course. Our goal is to make the claims process as efficient as possible in all cases so our clients can move forward with operating their businesses.

<sup>2</sup> These statistics analyze claims which have been closed, i.e., excluding claims which are currently being processed.

## Claim Spotlight

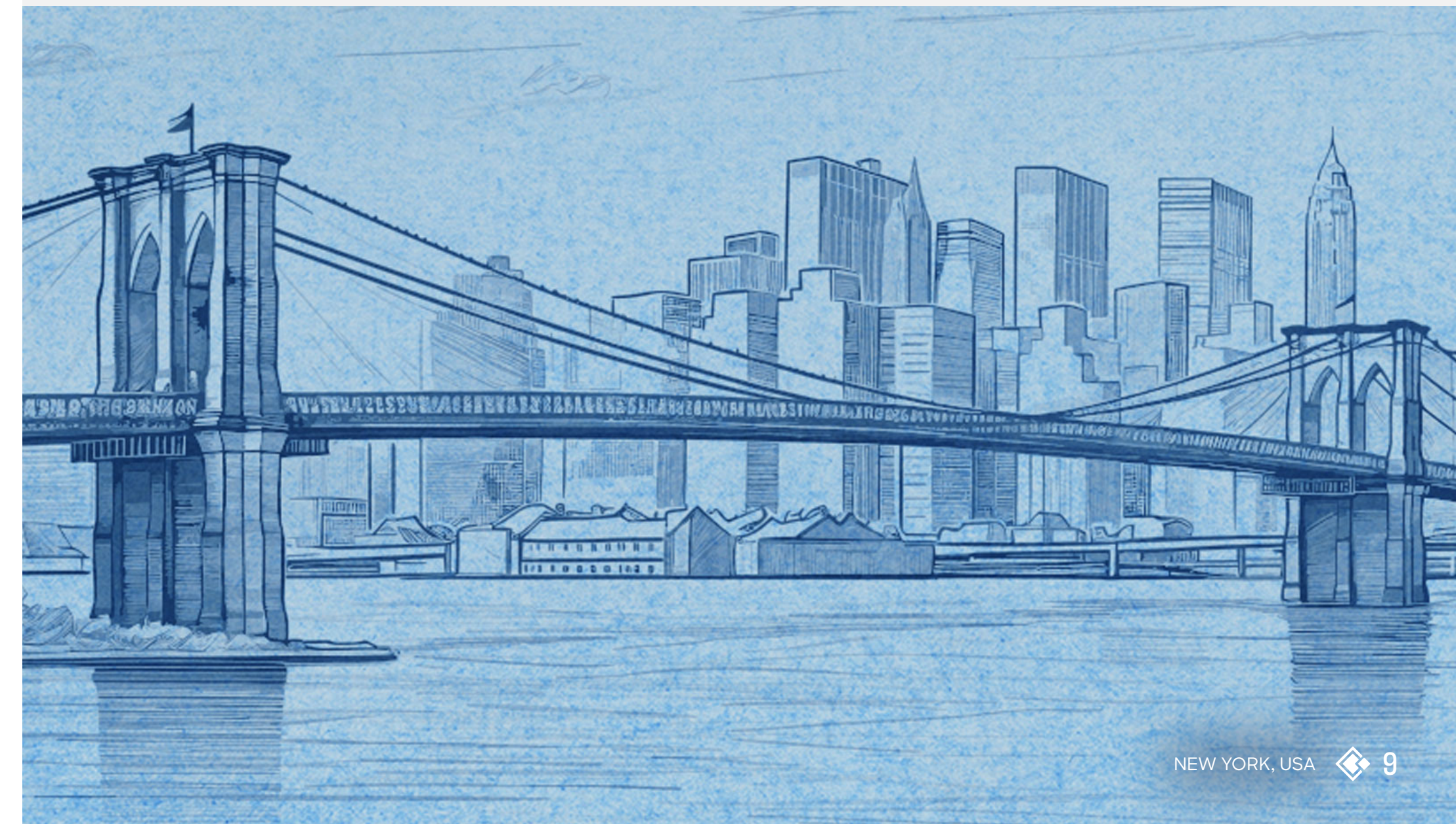
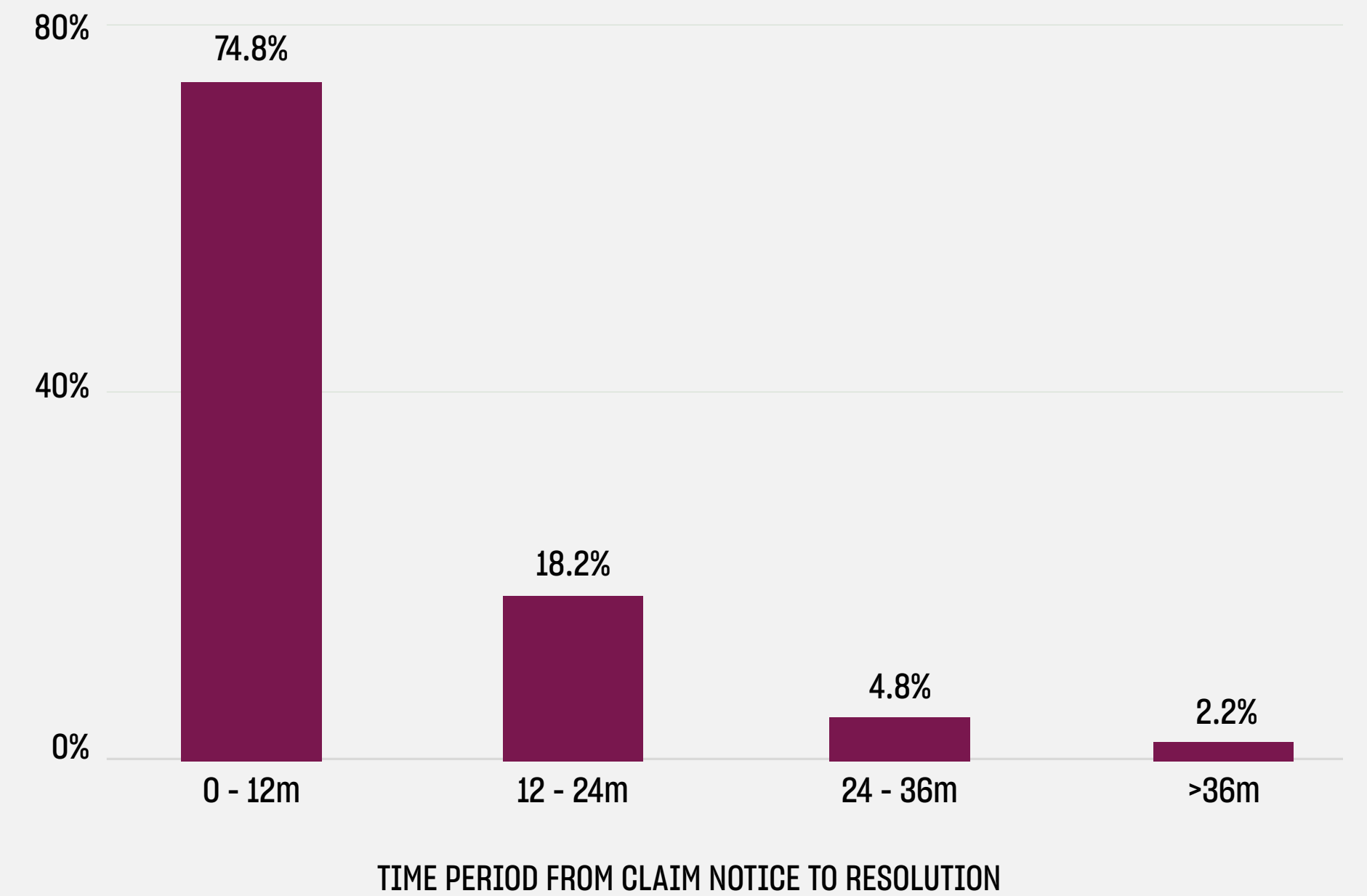
We received a claim at 2pm on a Monday arising out of a breach of a Material Contract, spoke with our client by 9am on Tuesday, and confirmed coverage a week later.

**Loss Validated: \$653,961**

### THE CLIENT'S BROKER

**“We are extremely impressed with the responsiveness and proactivity of your team on this claim.”**

FIGURE 4: RESOLUTION TIMING FOR CLAIMS (EXCLUDES OPEN CLAIMS)





# Comparing Deal Sizes: Up to \$150M and Over \$750M

The value of RWI can shift based on the size of the deal in question, but there is always value.

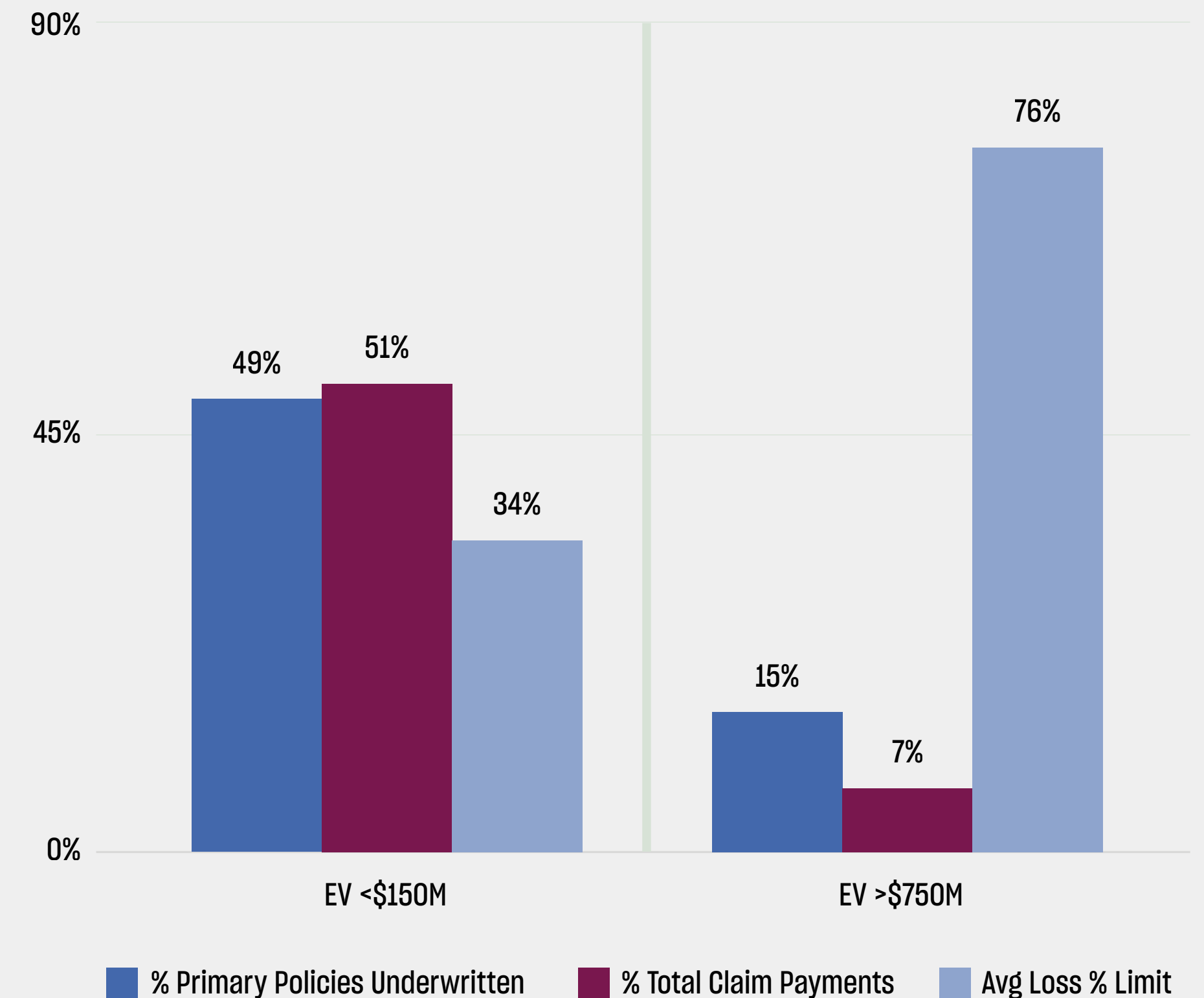
Although there has been a promising uptick in deals concerning target companies with enterprise values (“EV”) over \$750M in Q3 2024, a plurality of our policies written continue to relate to smaller deals with EV under \$150M. Curiously, an examination of these two bands reveals that RWI policies function quite differently for these two types of acquisitions.

**In the sub-\$150M band, there are significantly more Claim Payments, but these payments are for a much lower proportion of the limits of liability: just over a third of the limit, on average.** Thus, these policies appear to frequently be covering less severe issues.

**On the other hand, Claim Payments in the over-\$750M band are less common—only 7% of our Claim Payments—but average three-quarters of the policy’s limit of liability.**

These payments are what we consider “investment-saving,” helping to make clients whole when a severe deficiency is discovered.

FIGURE 5: ENTERPRISE VALUES OF PRIMARY POLICIES





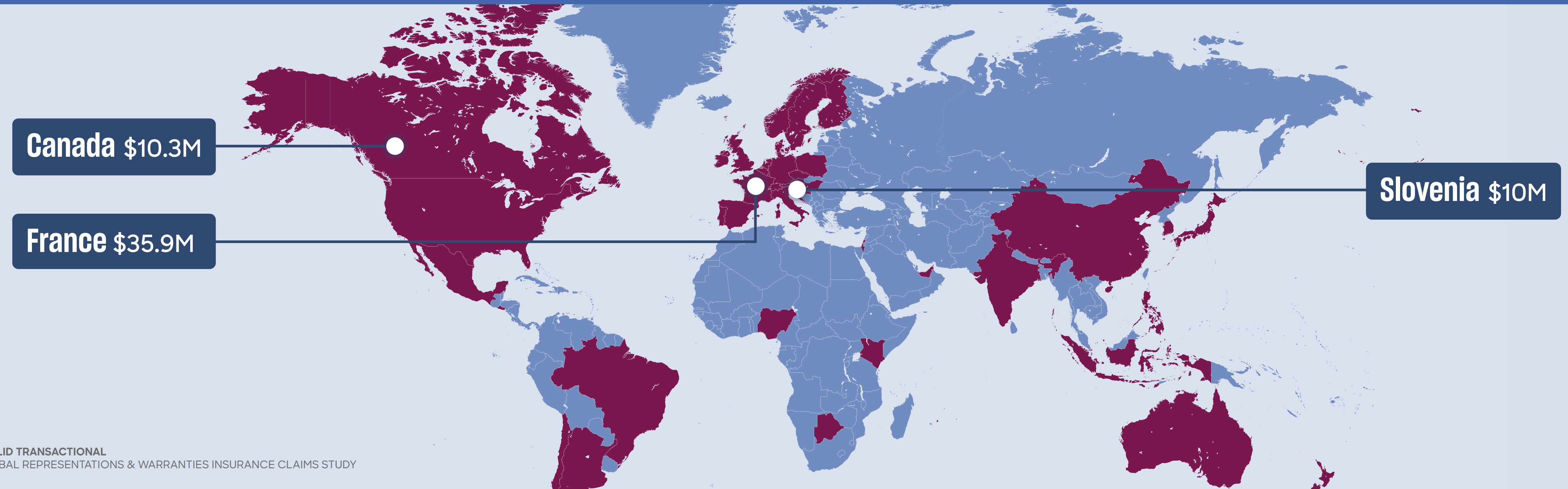
# Global Claims Experience

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. Our team has now handled claims relating to over 25 jurisdictions, including across Europe and the Nordics as well as Abu Dhabi, Australia, Bahrain, Bermuda, Botswana, Brazil, the British Virgin Islands, the Cayman Islands, China, Hong Kong, India, Indonesia, Israel, Japan, Kenya, Mauritius, Mexico, New Zealand, the Philippines, Singapore, and South Korea.

**Continuing our growth globally, we have recently opened an office in Singapore and look forward to working with our broker partners and clients in this region as we build on our existing experience in APAC.**

We have highlighted jurisdictions where we have handled such claims below. We are also proud to note that we have recently made Claim Payments in Canada, France, and Slovenia, which, to our knowledge, were the biggest RWI payments ever made in the relevant jurisdiction. Those are spotlighted below as well.





# A Quick Look at Some EMEA Statistics

Breaches of tax representations continue to be a more significant driver of both claims and Loss Paid in EMEA compared to North America.

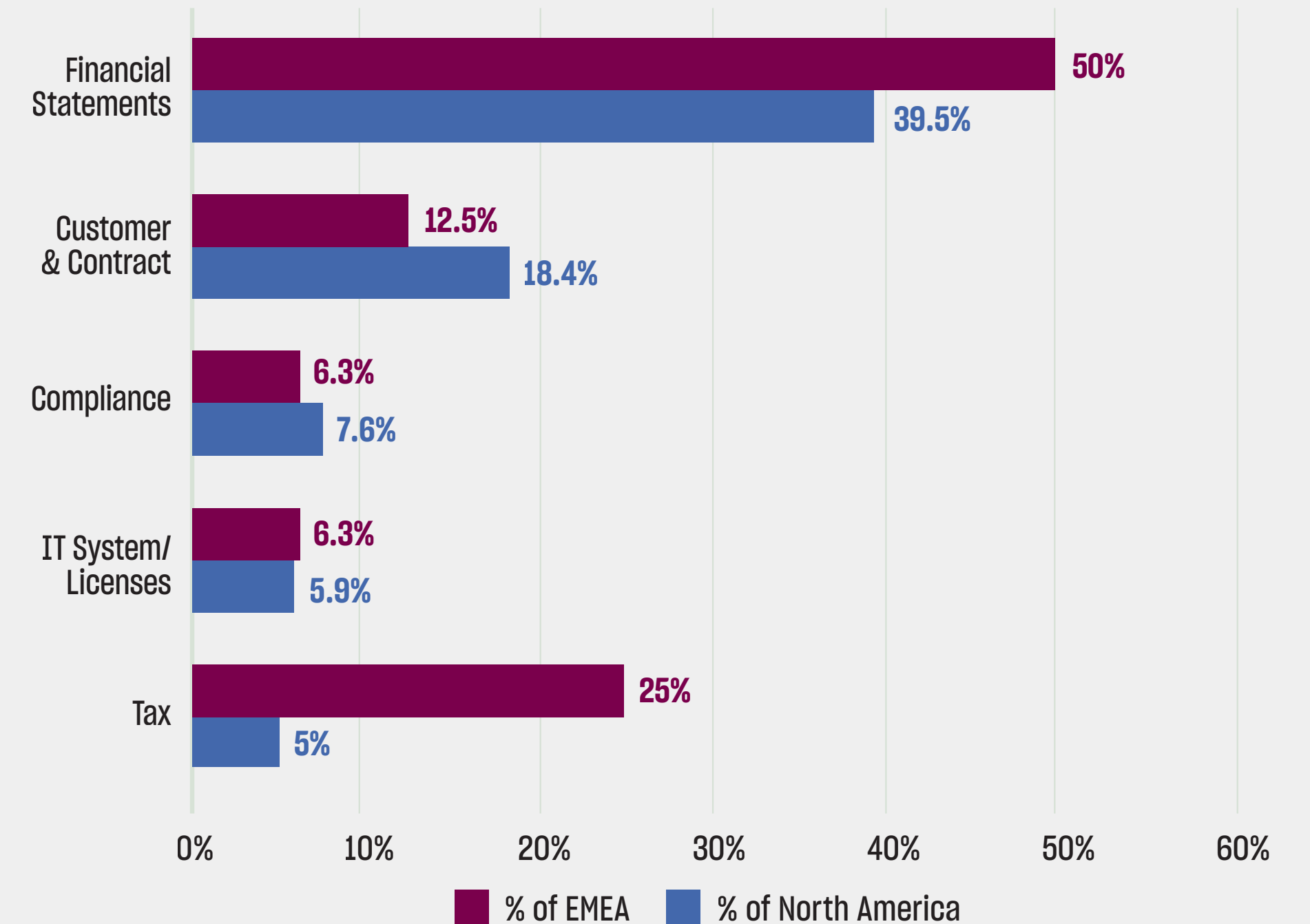
As discussed in last year's Study, claims asserting breaches of tax representations are much more frequent in EMEA, constituting 38% of the claims received compared to 18% in North America.

And although financial statements claims are the most significant driver of Claim Payments in all jurisdictions, breaches of tax representations do result in payments more frequently in EMEA than North America: 25% of EMEA Claim Payments arise out of these claims compared to 5% in North America. **Additionally, the Loss Paid from tax claims is 12 times higher in EMEA than in North America.**

## Claim Spotlight

This claim arose out of the impact of under-stated construction costs, unrecognized penalties, and a failure to accrue for certain invoices on the financial statements of the target company. Our client asserted nearly EUR 75M in loss, and Euclid Transactional paid the entire EUR 30M limit of liability.

FIGURE 6: CLAIM PAYMENTS BY CLAIM TYPE





# The Most Severe Claims: The Limit Losses

Within the last year, Euclid Transactional has paid five claims where the loss validated exceeded the primary policy's limit of liability.

Claims asserting loss in excess of the limit of liability, limits which average \$20.6M, have come in over the years. Indeed, further demonstrating that severity is ticking up, we have paid five claims consisting of the entire limit of liability in the twelve months from July 2023 to July 2024 alone.

Though these claims by definition involve validating substantial loss—loss arising out of circumstances which threaten to devastate an investment—**Euclid resolved them expeditiously, making Claim Payments on each of them within a year of receipt of the Claim Notice.** One of them was paid within four months of receipt.

It is worth highlighting that each of these claims asserted more in loss than the primary policy's limit of liability: while it is generally not prudent to insure an entire acquisition's value, it is important for clients to discuss with their broker the risks and potential value of further coverage when purchasing RWI.

## Claim Spotlight

This claim related to two separate issues: the first involved a failure to properly reflect expenses for healthcare benefits in the target's financial statements; the second involved underpayment of insurance premiums. After receiving responses to its information requests, Euclid Transactional confirmed Loss in 33 days.

**Loss Paid: \$13.3M**

**We thank you for reading our Study and for allowing Euclid Transactional to continue helping you protect your investments for years to come.**

### Claim Spotlight

**Loss Paid: \$25M**

Entire Limit of Liability

**Loss Asserted: \$184M**

**Resolved Within Six Months of Receipt of Further Information**

### Claim Spotlight

**Loss Paid: \$20M**

Entire Limit of Liability

**Loss Asserted: \$45.6M**

**Resolved Within Seven Months of Receipt of Further Information**

### Claim Spotlight

**Loss Paid: \$25M**

Entire Limit of Liability

**Loss Asserted: \$88.5M**

**Resolved Within Five Months of Receipt of Further Information**



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

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