

BLOG

3 Questions to Ask Your Insurance Broker Before Completing a Merger or Acquisition

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When a company is acquired, the buyer takes on new risks and exposure. In today's M&A marketplace, EBITDA multiples, or the way a company's value is measured, are at peak levels. With valuations so high, it's more important than ever to manage risks — known and unknown — that could affect ultimate returns.

Here are three key risk management questions you should ask your broker before acquiring a company.



Are there any gaps in my coverage?

The first thing a buyer wants to know is, "How could this deal expose me to potential liability or alter my risk profile?" This list is long: the company that's being acquired could have inadequate coverage and/or limits to respond to a claim; a policy could be inactive; the policy might cover damages, but defense costs may be limited, in which case the buyer is on the hook for unexpected legal fees.

An insurance policy is a contract and you expect it to pay out claims, but it only does so if the language is up-to-date and tailored to your particular circumstances. Existing policies should get a close review in these areas:

- **Errors and Omissions.** Are you covered for claims alleging inadequate service or negligent actions?
- **Product Liability.** If a product is being designed and it injures someone, are you covered?
- **Property.** Is there flood, fire or earthquake coverage and does the language in the policy detail named versus unnamed storms? Are there differences in limits and deductibles?
- **Limits of Insurance.** Limits are not one-size-fits-all. Scrutinize all characteristics of the target company to determine if the proper limits are in place. If it's a distribution company, for example, there may be different exposures and needs, depending on whether the product is made and/or sold in the U.S. or overseas.
- **Third-Party Contracts.** When acquiring a company, if you're extending your insurance policy to include third-party additional insureds, you open yourself up to exposure. Make sure you know the details of specific terms in your leasing contracts, supplier contracts, and customer contracts, etc.

Who will be there to guide me through the claims process?

This question might not be on the top of one's mind during the M&A process, but it should be. The claims process can be long and complicated, especially when you add extenuating factors like interruption in business resulting from property, as well as cyber or workers' comp claims. You should know ahead of time who will handle claims on behalf of the insurers, the broker's level of claims management experience, and whether the broker will interact with lawyers during a claim.

The way that the claims process is handled can dramatically change the outcome of the claim. Don't assume that great customer service is part and parcel of your insurance coverage. Ask your broker how claims are handled. You want to be sure that you'll have someone who will fiercely advocate for you.

Am I paying too much?

Cost is an issue in any transaction and our clients always want to know if they're getting the best valuation for the company they're acquiring. What many don't know is that insurance can influence price. Bring your broker into the conversation early. Let them get to know the business inside and out so that they can deliver information to the insurer that affects premiums and, therefore, expenses.

For example, if a manufacturing company has decided to increase the number of shifts its employees work, that may lead to more injuries, which can lead to an increase in workers' comp losses. With more claims comes potentially higher premiums. The insurer may question, from its loss data, whether the company is following its safety guidelines and feel its risk is increased.

Carrier communication is critical. It might mean changing safety protocol to mitigate future losses and keep premiums down.

Risk comes in many forms, from product liability to third-party contracts, and can affect the buyers and seller's valuation in an M&A. With so much on the line, taking a proactive approach to risk management will prevent headaches down the road.

Want to learn more?

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