

BLOG

From 1986 to 2021: Private Equity Veterans Thrive in Hard Market

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2021 has proven to be a banner year for Mergers and Acquisitions (M&A). Activity is thriving with companies scrambling to cash in on the boom. But buyer beware: we're in a hard insurance market to backstop those deals, ripe with challenges not seen since 1986.

After an abrupt and short lived pause in 2020 due to the pandemic, M&A activity quickly rose to historic levels in Q3 and Q4, with a three-year high in transactional volume ([\\$168 billion](#) to be exact) representing a 90% increase since 2019. This confluence of circumstances shook many underwriters, insurance brokers and private equity specialists' staff to their core. But for the older, more experienced crowd, we're drawing on experience in previous hard markets for deal insurance that shaped our expertise and prepared us to handle the nuances of today's challenges.



1986: The Last True Hard Markets

The years 2000 and 2008 were tough markets for buying, between the dot com boom and the Great Recession. While these times were challenging, private equity veterans know that the last true hard insurance market was back in 1986. Like today deal price tags were soaring, expectations were high, and deals were almost impossible to close given lack of insurance.

Much like today, it was a seller's market with big price tags and big deal volumes. Also, like today, it existed within a tough insurance environment, with much more stringent underwriting requirements. Buyers needed to provide more and more information for carriers to even consider coverage. Buyers either sat on the sidelines to wait for the chaos to end or paid top dollar and battled through the unprecedented number of requirements from underwriters so they could secure coverage and close the deal.

After that hard market, "reps and warranties" coverage was introduced to protect buyers and facilitate difficult transactions and to push deals over the finish line. But at today's volume and price levels, underwriters are increasingly sensitive to potential losses. They're placing the burden on buyers to provide ample due diligence information to prove that that a deal is safe and legitimate before writing coverage.

Underwriters Then and Now: Overwhelmed

With deal volumes at historic highs, underwriting teams are faced with three times the amount of work than they had even a year ago. Their staffing levels not their underwriting capacity, however, have not tripled.

Buyers today, along with their brokers, need to show clear, specific data about organizations involved in M&A deals to get best in class options to the table. This includes tax and revenue information, stakeholder and governance details, organizational structure, proof of compliance, contracts, IP documentation, cyber, employment, tax and more.

Brokers like ourselves, who lived the turmoil of the 80's insurance markets and the hot M&A markets of today, have not only developed close relationships with underwriters, we learned what it takes to survive and represent our clients in these challenging times. Our veteran team knows exactly what due diligence these underwriters need to secure hot deals at a favorable rate. For buyers, speed matters in a seller's market and only experienced teams will get to the finish line.

History Repeats Itself, The Experts Are Prepared

Risk Strategies has been through many "hurricanes" - today's hard insurance market being one of them. As it did in 1986, the impact of today's conditions will linger and continue to pose challenges for several years to come. Hurricane Ida will be the most expensive claim in history and only add to the challenges we must navigate for our clients.

As businesses look for a partner in closing private equity deals, it is essential to identify a firm with history in the market. Risk Strategies' Private Equity team provides an unmatched level of expertise and service during this unique time. Our team averages 27 years of industry experience, an asset that our client's value as we navigate this market together.

Everyone is running lean these days, from buyers and sellers to underwriters and brokers. When searching for your dream team in private equity, choose the veteran industry leaders who have succeeded in every hard market from 1986 to now.

Want to learn more?

Connect with the Risk Strategies Private Equity team at privateequity@risk-strategies.com.

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