

# Financial Services Group

## Warranty and indemnity

Transaction insurance products are designed to cover the various liabilities incurred in mergers or acquisitions. Warranty and indemnity insurance provides financial protection in the event of a breach of warranty or tax covenant claim under a sale agreement. This is a complex area, but Aon's team of experts help clients grow and divest with confidence

Warranty and indemnity (W&I) insurance can be bought by the buyer or the seller. Sellers use it as a strategic tool to protect their divestments and enhance their rate of return. Increasingly sellers are opting for W&I insurance to enable a clean exit from a position. Buyers use the insurance to increase financial protection, when recoverability from the seller is in doubt, or as a tactic to differentiate their bid in an auction process.

### Timing and coverage

A W&I policy can be put in place at any point in the deal process (including after completion), but is normally placed at the signing of the transaction. If required, the buyer can extend the period of insurance beyond the time limitations in the sale agreement; however it is most common to match the sale agreement liability periods.

Aon always seeks to negotiate cover which matches the warranty liability in the sale agreement as tightly as possible. If a particular warranty is excluded from cover, it is always highlighted at an early stage to allow further negotiation around the subject of that warranty. Cover typically excludes known matters such as those detailed in the disclosure letter and any due diligence reports. Costs incurred in the defence of a warranty claim are also covered.

### Key information

The premium (cost of the policy) can vary, but is typically 1% to 2% of the policy limit. Factors such as the attachment point of the policy, the jurisdiction and the breadth of the warranties in question affect the final premium amount. This is a one-off payment made for the whole period of the insurance.

As a guideline, insurers typically expect not less than 10% of the deal size to be insured. The policy excess (sometimes referred to as the retention) is expected to be around 1%+ of the deal size, and a policy de minimis (or small claims bar) would typically apply of 0.1% of the deal value.

### Next steps

All transactions are different and transaction insurance is always tailored to suit the specific circumstances involved. To discuss how insurance could be used on a specific deal, or for more information, please get in touch with a member of the Aon team.

For more information,  
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