

Introducing **buyer protect**

| Innovative M&A insurance for the SMB market

| March 2025



Innovative insurance



CFC is a specialist insurance provider, pioneer in emerging risk and market leader in cyber. Our global insurance platform uses cutting-edge technology and data science to deliver smarter, faster underwriting and protect customers from today's most critical business risks.



**Cyber Insurance
Carrier of the Year**

Intelligent Insurer
Cyber Insurance
Awards Europe 2024



**Cyber Insurer of
the Year**

Zywave Cyber Risk
Awards 2023



**Top 25 Best Large
Companies**

Best Companies
UK 2023



\$1.5b+

Premium



90+

Customer
countries



150k+

Customers



1000+

Employees



1999

Founded



10+

Global
offices

Transaction liability

Market-leading SMB M&A insurance

- **CFC TL Established:** 2016
- **TLPE Product Launch:** 2021
- **TLPE Segment focus:** up to \$/€/£ 20m enterprise value
- **TLPE Sector focus:** all industries
- **TLPE Market focus:** global

Highlights

Specialised claims team with 8+ years TL claims experience

“A” or better capacity providers across all products

Traditional M&A insurance available for \$20m+ EV transactions



TLPE team



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Claims capability

Specialised claims team



Margaret Murphy
Claims Director



JP Royapen
Claims Manager



Helen Cottrell
Senior Adjuster



Sarah Randles
Claims Manager

TL claims highlights

USD 100m+ main-market TL claims paid since 2016

The same, experienced claims team also working on TLPE

“A” or better capacity providers across all products

c.8% Notification rate for TLPE products

Geographic focus

Where we love:

- UK
- Ireland
- Northwestern Europe
- Nordics
- Canada
- Singapore
- US

Rationale:

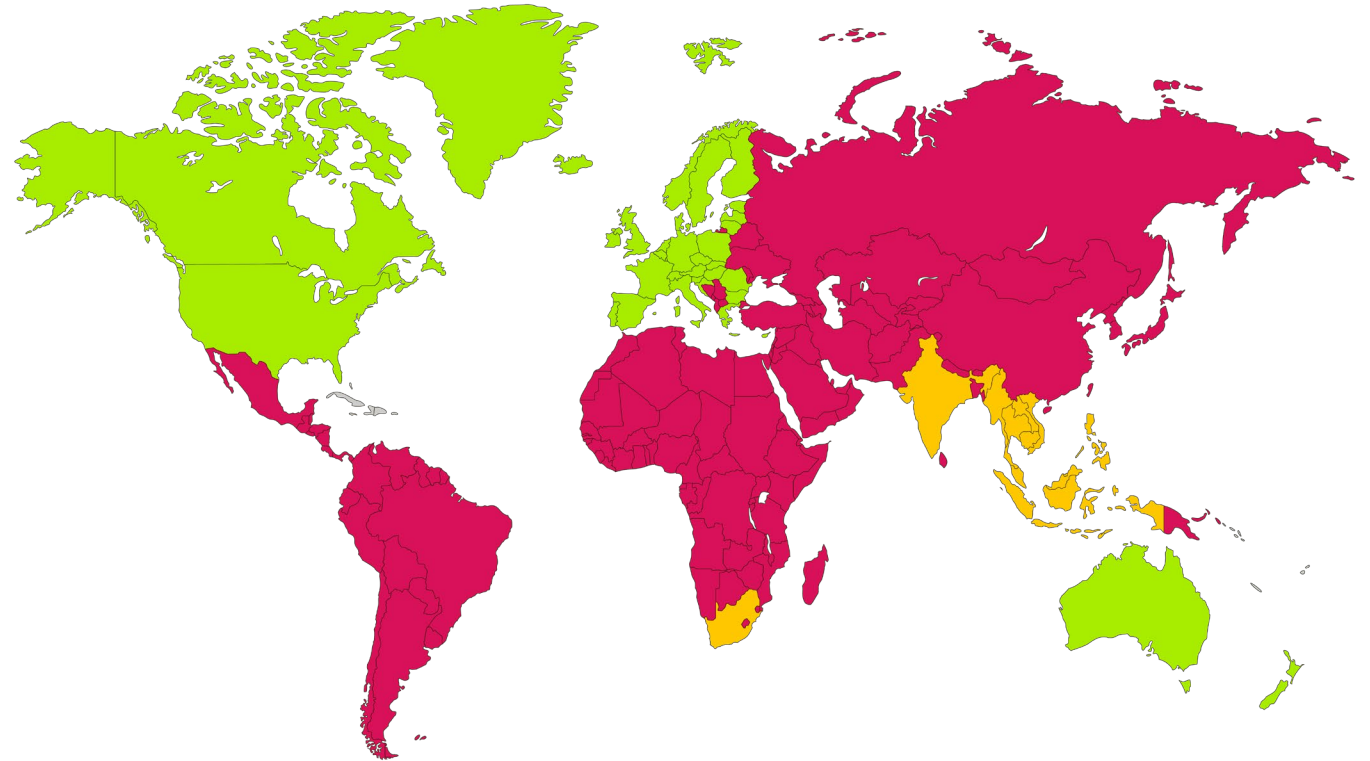
- Low risk jurisdictions
- Well run companies
- Less litigious environments
- Commonly regulated
- Low political risk
- Clear rule of law

Where we consider:

- Australia
- New Zealand
- Southeastern Europe
- UAE
- South Africa
- Mauritius

Generally out of appetite:

- Russia
- Africa
- Asia (excl Singapore)
- Central & South America



SME/SMB **transaction**
liability insurance

Poll



What is **transaction liability** insurance?

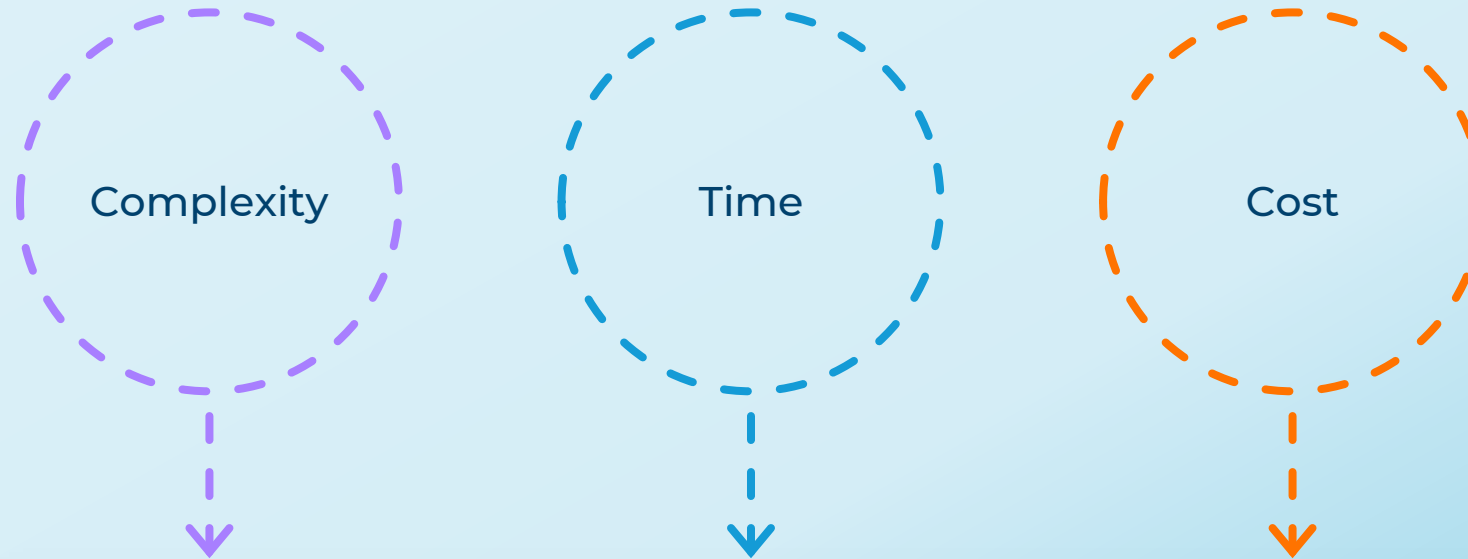
Transaction liability insurance protects a buyer or seller against financial loss suffered due to an inaccuracy in a representation or warranty given by the seller to the buyer in an acquisition agreement.

Examples of **claims**



- 1 Financial statements
- 2 Compliance with laws
- 3 Tax matters
- 4 Material contracts

Why does traditional insurance **not work** on SMB deals?



Traditional insurance provides highly bespoke coverage but is often not suitable for SMB transactions.

Why does **traditional insurance** not work?

Complexity

High burden on
buyers and
sellers time and
capacity

Underwriting
call or in-depth
Q&A process
required

Data Room
access required

Bespoke policy
wording

Why does **traditional insurance** not work?

Time

Underwriters
require time to
review due
diligence

Advisors
require time to
review policy
wordings

Formal due
diligence needs
to be prepared

Negotiation of
policy wording
required

Why does **traditional insurance** not work?

Cost

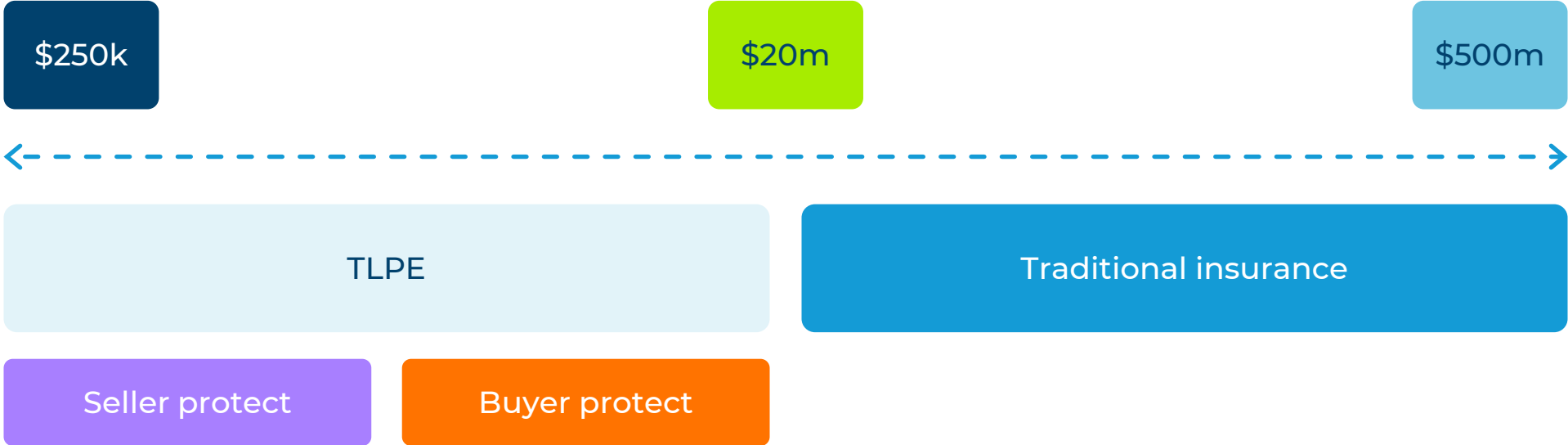
Higher advisor
costs due to
process

High premiums

Significant
underwriting
fee payable
regardless of deal
completion

Mandatory due
diligence costs

Traditional insurance vs. TLPE



TLPE naming conventions

Updated for 2025



Sell-side insurance

- **Insured:** Seller
- **Objective:** Cover seller for loss as a result of an innocent representation or warranty breach
- **Structure:** Coverage up to the breach of contract & liability limitation as defined in the sale agreement
- **Policy of indemnity:** Seller retains liability under sale agreement, remaining liable for any breach not covered by insurance

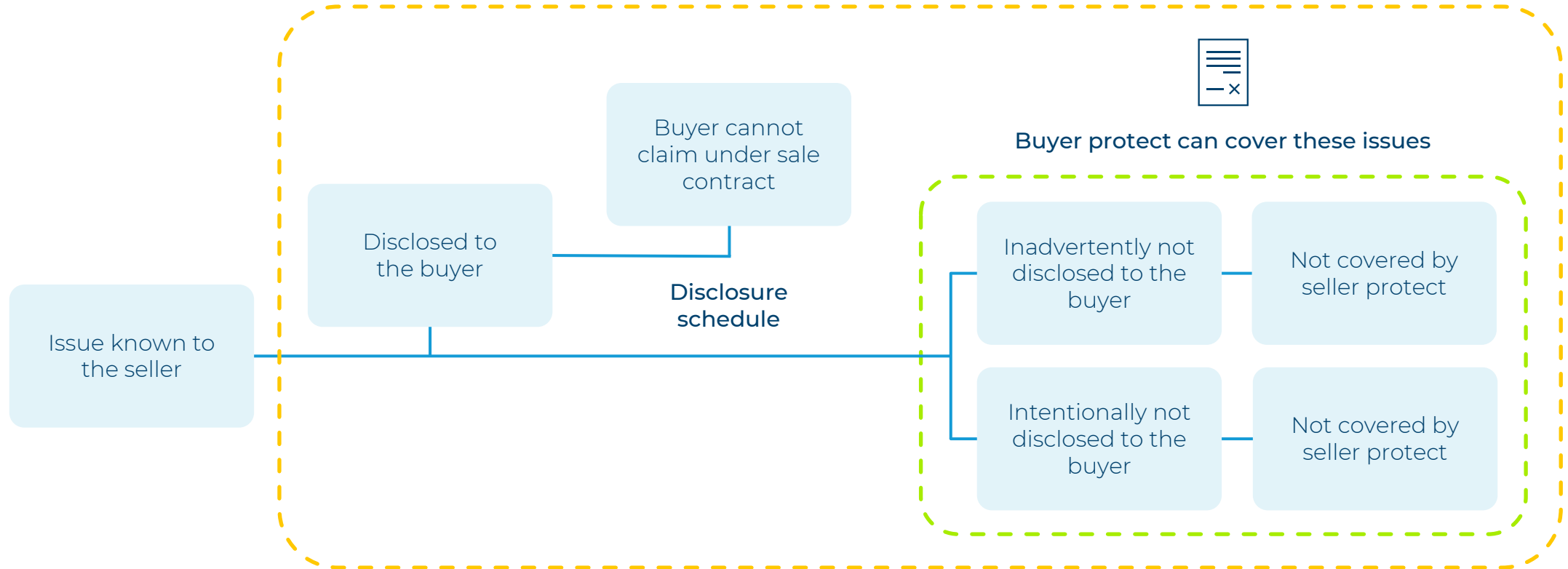
- ! Breach of contract
- 1 Buyer makes a claim against the seller
- 2 Seller claims under insurance policy
- 3 Insurer indemnifies seller for buyer's loss

Sell-side claims trigger



TLPE and **seller knowledge**

Seller should undertake a full and thorough disclosure process



The buyer can purchase a buyer protect policy, protecting them for matters known to the sellers but not disclosed to the buyer.

Full **protection** for the buyer

Seller protect

Buyer protected (as a loss payee) for loss resulting from innocent seller misrepresentation. i.e. where the sellers were unaware of the issue causing loss.

+

Buyer protect

Buyer protected directly for any matters where the sellers were aware of the issue but didn't disclose it to the buyers, whether advertently or inadvertently.

=

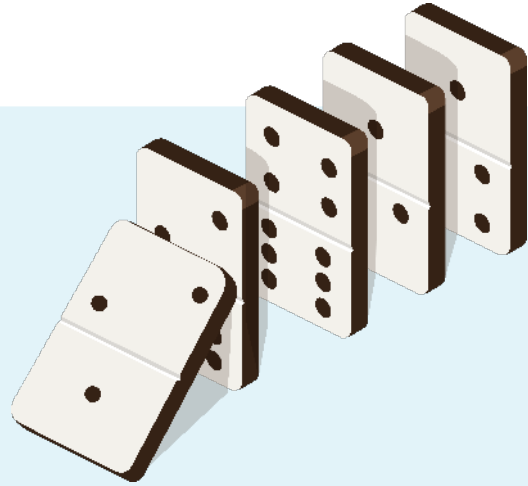
The TLPE M&A solution

Buyer in the same position as they would be taking out traditional insurance:

- Buyer covered for innocent and known nondisclosure of the sellers.
- Significant reduction in costs versus traditional insurance.
- Significantly expedited underwriting process.
- No due diligence required.
- Can be placed within 24 hours.
- Can be placed post-closing.

Buyer **protect**

Buyer protect: Coverage



Trigger

Policy will respond to documentary evidence of seller knowledge, making claims for fraud-like issues easier to bring due to not needing to prove *scienter*.

Policy limit
Up to 100%
of EV

Policy period
Up to 6/7
years

Coverage

For a material misrepresentation of the seller's R&W, supported by documentary evidence of the seller's knowledge of the fact, matter or circumstance causing the breach.



Buyer protect: Key features

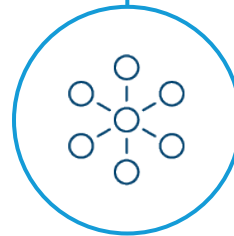
Competitive terms



Nil deductible



Sector agnostic



No seller involvement required



Examples of **documentary evidence**

To trigger the policy, documentary evidence of the seller's knowledge of the fact, matter or circumstance causing the breach is required. Examples of evidence include:

Admission by
the sellers

Paper or
electronic
record

Letters

Reports or
statements

Other
recorded
materials

Claims scenario

The buyer purchases a business and soon after closing discovers emails addressed to the seller, pertaining to a significant upcoming increase in rent for the target's warehouse. The seller made a representation that they had not received any written notice of proposed rent increases. As such, the buyer had not factored these additional cost into their investment thesis. The buyer was able to claim directly against the Buyer Protect policy for the loss suffered.

Streamlined **process**



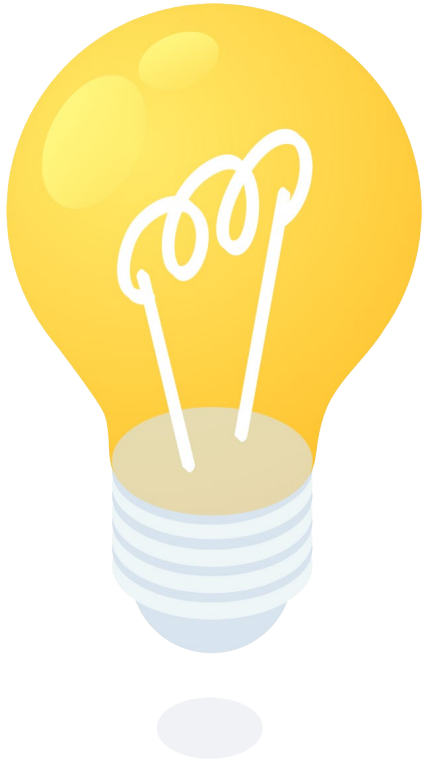
1

Fill in short application form and provide transaction documents

2

Bindable policy issued

Key takeaways



“Closes the loop” on coverage when combined with seller protect

Covers known misrepresentations made by sellers to the buyer

Issued to the buyer directly and does not require seller involvement

Used on deals with an enterprise value up to \$20m

Opportunity:

Target addressable market

Poll

SME M&A **insurance market** by region



Market	SME transactions (< \$10m)	Addressable market (GPI)*
USA	230k	c. \$8b
Canada	18k	c. \$1b
UK	42k	c. \$2b
Ireland	1.5k	c. \$100m
Australia	15k	c. \$1b
New Zealand	1.5k	c. \$80m
Total	c. 300k	c. \$12b

Maximum EV for TLPE is c.\$20m meaning target addressable market is likely much larger



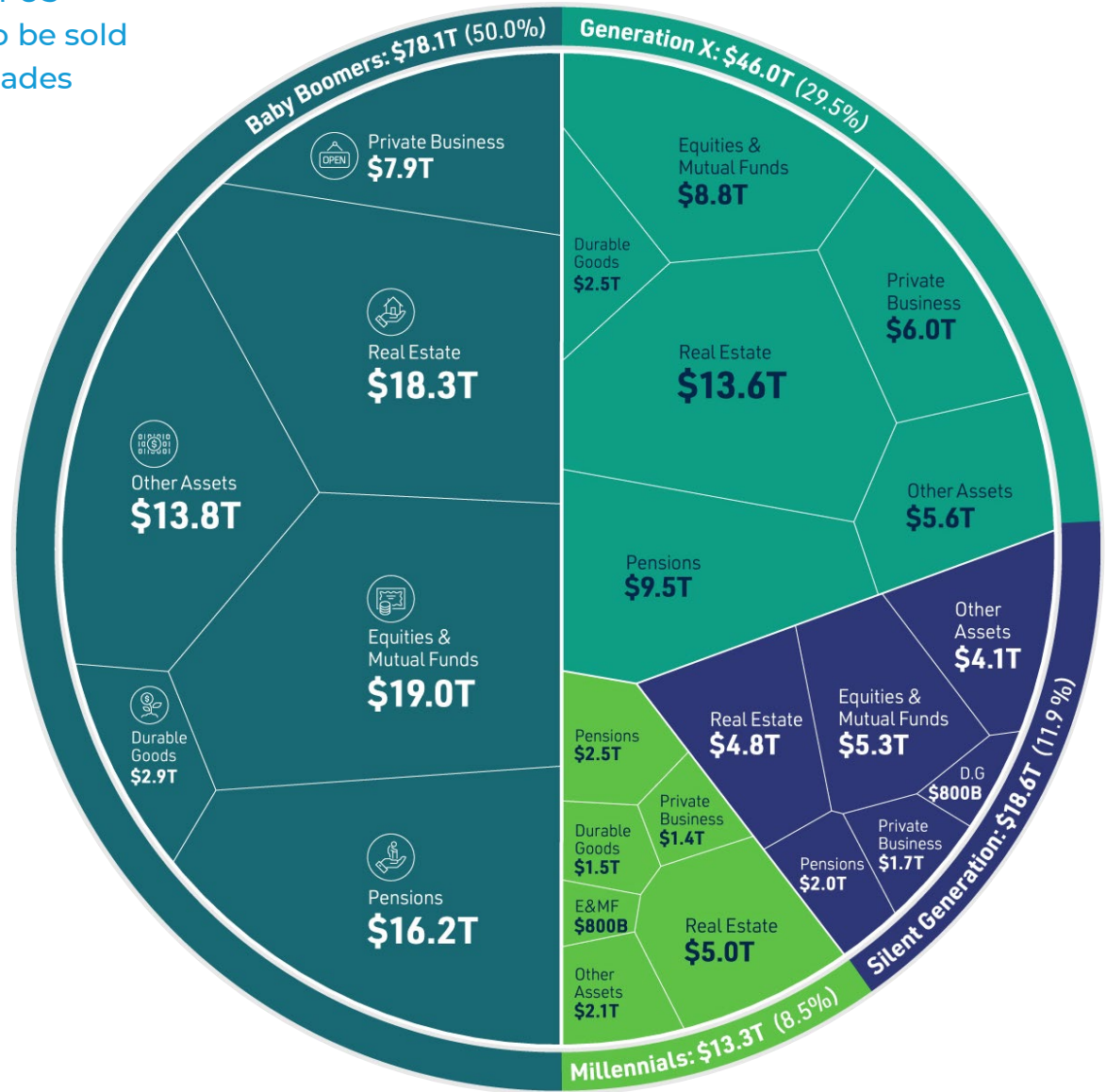
“113,000 directors over the UK retirement age of 66 are still running their businesses, as many fail to sell their businesses before their planned retirement”

BDO Research

The great wealth transfer

- The Baby Boomers (born from 1946 and 1964) are the most financially successful generation in global history.
- They've amassed \$78.1t in total assets, making up 70% of all US disposable income.
- The Baby Boomers are facing retirement and death but \$7.9t of their wealth is tied up in illiquid business assets.
- Most of these assets need to be sold to third-parties.

\$7.9 trillion of US businesses to be sold over two decades



Source: <https://www.visualcapitalist.com/us-wealth-by-generation/>

Key **selling** points

Why insure an **SMB deal** as a buyer?



First-to-market SMB insurance solution



Enhance warranty protections for buyer without increasing risk for seller



Protect value of the investment from seller breaches



Negotiate a lower price in favour of reduced escrow



Smoother negotiations with the seller

Why insure an **SMB deal** as a seller?



First-to-market SMB insurance solution



Avoid or reduce escrows, holdbacks and deferred consideration



Protect sale proceeds from future liabilities



Enhance attractiveness of business, maximising sale price



Smoother negotiations with the buyer

TLPE versus escrow

- 1 More protection under TLPE
- 2 Longer protection period under TLPE
- 3 Inflation reduces the value of the case held in escrow
- 4 Standard investment returns over an 18-month period

TLPE is more economical than escrow, especially in a high inflation environment

	TLPE	Escrow
EV	\$10m	\$10m
1 Limit	\$5m	\$1m
% of EV insured	50%	10%
2 Period	Up to 6 years	18 months
Premium cost	\$40k	-
Escrow fee	-	\$4k
3 Inflation (5%)	-	\$70k
4 Opportunity cost (3%)	-	\$45k
Interest (2.5%)	-	-\$37k
Total cost	\$40k	\$82k

Using TLPE instead of an escrow is \$40k cheaper, with \$4m more coverage and a significantly longer coverage period

Distribution

When?

Deals that are out of appetite for traditional insurance

Deals that are too small for traditional insurance

Deals that are sell-side

We can quote both TLPE and traditional insurance

Where traditional insurance is too expensive

Where sufficient DD hasn't been conducted

Why?

Higher commission
for TLPE

Broader appetite

Relationship building

Significant buyer
benefits

Negotiable
Endorsement

Streamlined process
vs. traditional
insurance

Deal **facilitation**

Ease negotiations

Sellers and buyers more likely to cede on sticking points with an insurance backstop in place.

Settle clients

Clients feel more comfortable with the M&A process.

Better price

Sellers may be able to achieve a better price with insurance in place.

Better package

Sellers may be able to reduce or avoid escrow; seller might provide enhanced representations.

Questions?

Contacts

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TLPE Inbox

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Securing the future: Insurance solutions for
PE/VC firms and their portfolio companies