

M&A Due Diligence for Legacy Exposures

Industries such as manufacturing and real estate are often susceptible to litigation for legacy exposures such as asbestos or environmental contamination. Other industries like retail and those along the supply chain are encountering claims from emerging risks such as talc and opioids.

Corporations, public equity investors and other capitalized firms exploring an acquisition or divestiture benefit from conducting an **insurance asset analysis** to understand the current and legacy insurance assets of a target company. This helps to obtain a clear overview of corporate insurance programs and provides an analysis of projections of past and future liabilities that

could be critical to any financial reporting or public filing requirements.

Taking precautionary steps to ensure insurance coverage is viable to address current and future **mass tort claims** will provide greater transparency in the deal process. Alternatively, divestitures would benefit from conducting similar research in order to offer a narrative describing legacy liabilities.

In addition, **insurance archaeology**, a disciplined process to locate historic insurance assets, can fill gaps in coverage that may be responsive to legacy claims. Arcina has the expertise to deliver results that can help facilitate the successful outcome of a deal.

Insurance Asset Analysis

A comprehensive audit of a company's insurance assets provides a thorough assessment of the policy coverage as well as any gaps, erosion due to claims activity or even insolvency. The audit will:

- Stress test the historical and current insurance
- Locate gaps in coverage
- Identify insolvencies and/or delinquent payments from insurers
- Identify aggregate limits erosion
- Identify available limits
- Determine areas of coverage conflict and related costs
- Review any secondary insurance evidence
- Obtain positions from the insurers on the evidence and whether sufficient to confirm coverage
- Develop a narrative of legacy liabilities

Legacy tort claims for asbestos, environmental, talc or opioids can derail or delay a merger or acquisition.

Upon review a company's insurance program, Arcina can provide a number of recommendations and tools including:

- Assessment of insurance viability based on available information
- Insurance archaeology to locate missing legacy policies
- Board-ready Executive Summary, presentation materials and visuals including updated coverage chart reflecting limits, impairments, and solvency status
- Series of questions/scenarios to assist with further due diligence
- Reaffirm established insurance relationships and protocols at the highest level
- Upon change in ownership, establish cost share agreements with carriers and engage with insurers at the highest level
- Ensure no disruption in legacy insurance placements

Knowing the urgency of these deals, Arcina works quickly to locate and analyze policies so investors are informed and able to negotiate to avoid unexpected liabilities especially with companies facing asbestos, environmental, talc or other complex claims. Following the transaction, Arcina can provide oversight and continued claims management for remaining legacy liabilities.



Arcina advised a large private equity group with its investment in a refractory and industrial services company that had incurred over \$100 million in defense and settlement of legacy claims. Working under a deadline, the team prepared an analysis and detailed report with actionable information to allow the investor to make an informed opinion as to the risk and adequacy of insurance to cover future claims and potential future exposure. Given the size of the investment and potential risk, Arcina's opinion was key in enabling the transaction to successfully move forward.

Learn how Arcina can help companies undergoing an acquisition or divestiture understand their current and legacy insurance assets.

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