Jurimesh

W&I INSURANCE: FROM THE BUY-SIDE

PAPER 4

THE W&I SERIES

By Jurimesh, in conversation with Christopher Tournis Gamble, WAD Capital



WAD
CAPITAL

“Everyone wants to use AI for due diligence. Nobody wants to rely on it first.”

Christopher Tournis Gamble, WAD Capital

Christopher Tournis Gamble is Managing Partner of WAD Capital, an institutional search fund that acquires European SMEs facing a succession challenge. Through a CEO-in-Residence model, it places an experienced operator at the head of each company it acquires. The earlier papers in this series looked at warranty and indemnity (W&I) insurance from the broker's and the underwriter's seat. This one takes the buyer's. WAD operates at the small-cap end of the market, where diligence budgets are tight and sellers are often selling for the first time and without advisers. Therefore it has deliberately pulled much of the diligence process in-house. In this conversation Christopher explains how that process works today, why the W&I insurance provider is the best placed stakeholder to unlock the value of AI-generated due diligence, and what he thinks should never leave human hands.

1 How WAD runs diligence today

Walk me through how a target moves through your process today. Where does the AI's work stop and where do the lawyers take over?

Christopher: The aim is to control what lawyers charge for diligence. The machine reads first, and lawyers come in once our own diligence is done and we are confident the deal is worth pursuing. They always find something else to push back on. But deal after deal, they find fewer issues we had not already flagged ourselves. External diligence now takes two to three weeks, and we start drafting the share purchase agreement (SPA) within that window. The goal is to bring lawyers in for the transaction documents only. We are not there yet.

I expect those two to three weeks to shrink again within six to twelve months, at least for firms like ours that set out from day one to bring the expertise in-house and to use tools like Jurimesh. On some deals the separate legal due diligence (DD) step might disappear altogether. The system produces the report. The lawyers make sure the right warranties and indemnities land in the SPA.

What made you comfortable taking the first legal review away from external counsel?

Christopher: The clue is in the name: large language models. Strip a tool like Jurimesh down to basics and what it does is read, and it reads very well. Paying someone by the hour to read a data room makes little to no sense nowadays, least of all at small-cap deal sizes, where you work through much the same volume of documents as on a larger deal, with a fraction of the budget.

Early in the fund's life we had some horror stories: deals that ran two to three times over budget. At our size you have two options. Either you read every document efficiently, or trust the “luck of the draw” and lean on general indemnities to catch what you might have missed. We have been building an institutional approach to small-cap investing, so the second option was never open to us. The same depth of diligence, at a cost the deal can carry: that was the brief.

2 W&I at the small-cap end of the market

In your model, the seller typically reinvests part of the sale proceeds and often stays involved in the business. If something material surfaces six months after closing, what actually happens? Do you go after them, or is the relationship worth more than the claim?

Christopher: The relationship comes first. We offer a solution to the succession problem. Many of these companies represent a lifetime's work, sometimes two or three generations of it, and our job is to keep them alive and keep building. We do have protection: clawbacks, and the right to set off claims against the seller's reinvestment and the vendor loan. But it is not an easy conversation to have.

That is where W&I earns its place. Our sellers are not necessarily sophisticated. Most have never done a transaction, and their first reaction to a hundred-page SPA is usually panic. W&I coverage moves that risk to an insurer under a single policy. The seller gets comfort, we get cover, and the line is clean: the policy answers for the past, we take responsibility for the future. For us, W&I is the missing piece if we want to scale.

You are building towards a large portfolio of acquisitions. Placing a policy deal by deal does not obviously scale to that. Do you see a version of W&I that works at volume?

Christopher: Yes, but not yet. The insurance industry is harder to steer than a tanker. That W&I is available at all at our end of the market is already real progress. Framework agreements, or one policy covering every deal in a fund, are a few years away. Some brokers are doing very good work in that direction, but an insurer still has to underwrite each risk it takes. For a fund of our size, covering the entire portfolio under one policy would be fantastic.

3 Unlocking AI diligence’s value

You have argued that the principal obstacle to AI-generated due diligence is trust, not capability, and that every party is waiting for someone else to move first. Take me through that in your own words.

Christopher: Everyone wants to use AI for due diligence. Nobody wants to rely on it first. Capability is not the problem: the technology already reads contracts better than a junior associate, as many lawyers who have rolled out legal AI will tell you. Trust is. But the law firm redoes the work anyway, because its name and its professional indemnity insurance sit behind the report. The lender wants a law firm's name on the report. The underwriter wants a recognised name too: a Big Four firm or a large law firm. Banks wait for committees. Committees wait for banks. Meanwhile the buyer pays for the same work three times.

Permission will not come from a regulator. It will come from whoever has the most significant financial incentive, and in a deal that is the W&I underwriter. Judging diligence is its job, and it does so with its own capital. Its market is young in our segment and runs on volume. Show it what the model reads, what it flagged and which warranty each finding is linked to, and it will put a price on it. Nobody is forced to buy that coverage. But once an insurance policy is set up based on a machine-generated report, the discussion about AI diligence’s trustworthiness is over.

One more point on that. An underwriter reads risk differently from a lender. It is the only party that prices the risk and pays out of its own pocket if the report missed something. It reads a report for its gaps, because every gap becomes an exclusion. So it should care less about who wrote the report and far more about whether it is complete. Compare that with billable hours, which reward time spent rather than completeness, and you see the mismatch. A report good enough for an underwriter is good enough for a lender. That is why I expect underwriters to validate AI diligence first. The bank follows.

You put particular weight on the underwriter forming its view on a non-reliance basis (without recourse against the report's author), with its own capital at risk, rather than with a provider's liability behind it. Why does that make its judgement worth more to you than an adviser's sign-off?

Christopher: Most of the debate on trusting AI comes down to audit. Someone checks the controls and signs off on the process. Useful, but an attestation does not tell a buyer or a lender what happens if the answer is wrong. Nor does an adviser's sign-off: it is a hedge against their own liability, often capped so tightly in the engagement letter that it offers the client little real protection.

A premium does. Underwriters read the diligence and stand behind it with their own balance sheet. If the report missed something, the claim lands on them. In a functioning market, price is the verdict. Auditors attest. Underwriters price.

You already use AI-generated output in your own process, including to decide which deals are worth pursuing. Has anything the AI surfaced ever made it into the SPA, as a disclosure or an indemnity, or does counsel re-find everything that matters anyway?

Christopher: Yes. I am certain there are things Jurimesh flagged that ended up in our SPAs. The measure I watch is what counsel finds that had not already been flagged, and that number keeps falling.

Everyone can access AI tools nowadays, including sellers and their advisers. What risk does that create?

Christopher: The biggest risk I see is that AI makes everyone an expert, or makes everyone believe they are one. Sellers and their advisers have the same tools we have. Put an SPA into any general-purpose AI model and it will find a hundred and one things to complain about. You can tell quickly when the person across the table has done no groundwork and is reading out what a model told them. It works like doomscrolling. You paste in a contract, it raises dozens of problems, you keep probing, and seven hours later you are deep in nonsense.

So keep it in proportion. My real fear is negotiating against people who think they know but do not. They dig in on clauses that are market standard. Being too strict does not always help the buyer either: the more you skew a contract to one side, the harder it may be to enforce in court. In our segment, that kills deals by accident: first-time sellers, without advisers, convinced they are experts. M&A is still a people business. You have to talk, and you have to trust the person opposite. If everyone takes advice from whichever model is their best friend that day, deals will suffer. W&I can help here too: it brings in a third party willing to insure the risk, more neutral than any buy-side adviser. An unlikely solution to an unavoidable problem.

Would you put one of your own deals up as the first test case: a willing underwriter, AI-generated DD as the basis, your capital at risk if it goes wrong? And what would you accept as the price of going first: a higher premium, wider exclusions, a lower cap?

Christopher: Yes. We want to start with our add-ons, the smaller acquisitions we bolt on to companies we already own. The targets are smaller, and the sellers are less likely to have advisers and are keen to spend less time negotiating. Getting an add-on process down to two, or at most three, months is what we are after.

For the first deal I would accept a slightly higher premium, or a lower cap. I do not expect wider exclusions: the Jurimesh reports we work with already cover the ground an underwriter looks for.

Producing diligence and reviewing it should not command the same fee. What have your law firms actually said about that shift? Has anyone repriced, or refused?

Christopher: Nobody has published a rate card for reviewing diligence rather than producing it. The firms are still working out their own business models, and they see this as a threat to the billable hour. Understandably. I asked a senior lawyer recently how many clients challenge their fees. All of them, they said: one hundred per cent. Their view is that clients pay for their command of case law and of the market, and that the speed they gain is not a saving they owe the client. I respect the candour. As a client, I would not accept it. On our side it is fixed scopes, fixed prices, fixed caps and weekly budget updates. Our own reports are the leverage: we can show that part of the work is already done.

Imagine it goes wrong. A policy is written on AI-generated diligence, something material surfaces, and the underwriter pays. Does this model only work until the first claim? When one comes, who carries it: you, the adviser, or the underwriter?

Christopher: One claim does not reset the market to zero. Nobody would claim that a human-written DD report behind a W&I policy has never missed anything. A claim is based on claims experience [Ed. an insurer's data on past claims, used to price future risk], and every line of insurance pays claims. What matters is why it happened: whether the AI missed something in the data room, or the problem was never documented in the first place.

These tools outperform humans at pattern recognition: faster, more consistent, deal after deal. The question is when they get good enough to scale almost infinitely. Where they still fall short is assessment: what a given risk actually means for the deal. That is where the human stays in the loop. So, to answer your question: the underwriter carries the loss. The adviser carries it only if the review was negligent, and anyone who has read an engagement letter knows how tightly that liability is capped. As the buyer, we carry the retention (the policy excess) and the reputational cost.

4 Why WAD bought an insurance broker

WAD recently acquired Lardenoit, an insurance broker, with Mathieu Loquet as its CEO. From where you sit, what did you buy: a company in a consolidating sector, or a capability you want inside the house?

Christopher: First, we are not a group. We are a regulated investment fund, and we do not run a “holdco strategy”. But it is a mix of both. Lardenoit is a bet on the same market we already fish in: European SMEs ripe for succession, good businesses whose missing piece is a good operator. It is a bet on the continuity and the diversity of Europe's SME market. Those businesses need insurance. We found a fantastic broker in Lardenoit and a fantastic operator in Mathieu. Its focus is on B2B clients and the owners of those businesses: a niche, and a personal one. Consumer insurance tends to compete on price alone. Broking is fragmented and full of succession cases, and B2B is still about relationships. That is why it interests us. And as with every company we back, the CEO runs the company.

Does owning a broker change how you would approach the W&I market for your own deals?

Christopher: Not really. It is a different business line. Our approach to the W&I market is the same as any other buyer's: the broadest cover for the least money.

5 In closing

If an underwriter were sitting here, curious but not yet willing to write a policy on AI-generated diligence, what would you say to them?

Christopher: Read the report. There are many misconceptions about legal AI and the quality of what it produces. Read it as impartially as any other report, even knowing it was AI-generated. You would be hard pressed today to find a legal DD report, even from a law firm, that has not been at least partly AI-assisted. It may have been cross-checked, and a career's worth of judgement may have gone into it, but it is the same product. So price the gaps, not the author. Start with one deal and a small limit, and look at the file yourself. The market for deals below EUR 10 million in enterprise value is vast and largely untapped. Whoever moves first, with a buyer like us ready to do it at scale, will win that market. The first to write the policy wins.

Last question. What in this process should never come in-house, no matter how good the tooling gets?

Christopher: Independence. When capital is at risk, whether it is our investors' capital buying a company or an insurer's capital writing a policy, the independent check and the risk capital have to stay separate. The lawyer signs. The underwriter pays. The decision to buy stays with people: our CEO-in-Residence, and us as partners. All we are trying to do is make better decisions, with better tools, faster.

This is a conversation in the Jurimesh series on W&I insurance.

Jurimesh builds AI tools to optimise legal due diligence for M&A transactions. WAD Capital is a Jurimesh client.