



Hidden Risks Reshaping Energy M&A Outcomes

What You're Not Seeing: The Hidden Risks Reshaping Energy M&A Outcomes

Mergers and acquisitions in the energy sector are often framed around valuation, growth, and strategic fit. Yet the deals that ultimately underperform rarely fail because of what leaders anticipated. They fail because of what was overlooked.

Hidden risks, buried across insurance structures, operational integration, and contractual frameworks, can materially alter deal value, delay execution, and create liabilities that persist long after close. The challenge is not simply identifying these risks. It is recognizing where traditional diligence, and conventional thinking, falls short.

Leading organizations are responding with a fundamental shift: moving risk identification earlier in the deal lifecycle and using those insights to shape strategy, not just manage outcomes.

The Illusion of Transferred Risk

One of the most persistent misconceptions in energy M&A is that risk transfers cleanly with assets. In practice, it rarely does.

Liability often follows financial strength, not contractual intent. Sellers may divest obligations on paper, but if a buyer lacks the balance sheet to absorb them, that exposure can reemerge. Similarly, assets contributed in joint ventures may carry liabilities that outweigh their value, quietly eroding projected returns.

Even seemingly straightforward inputs, like insured values, can introduce risk. Buyers who inherit these assumptions without reassessment may find themselves underinsured or misaligned with their own risk tolerance. When assets transition from large, sophisticated programs into smaller or newly structured ones, cost and coverage gaps can expand rapidly.

Risk does not transfer, it transforms. Organizations that treat it as static often absorb more than they expect.



The Cost of Incomplete Visibility

The most consequential risks are often the least visible. They emerge in complex, technical areas that are difficult to fully evaluate under compressed timelines:

- + Environmental liabilities tied to aging infrastructure
- + Reclamation and bonding obligations driven by regulation
- + Minimum volume commitments requiring financial guarantees
- + Legacy claims without clear ownership

These exposures can introduce immediate, material cost, shifting deal economics after signing rather than before.

Compounding the issue, insurers evaluate not only the asset itself, but the buyer's ability to manage it. Historical losses, unclear mitigation strategies, or operational uncertainty can drive pricing volatility or limit available coverage.

What is not modeled pre-close becomes what is paid post-close.



Integration: Where Risk Accelerates

While diligence often focuses on financial and legal considerations, the most acute risk typically emerges during integration.

M&A accelerates operational complexity faster than organizations can stabilize it. Even when assets appear similar on paper, differences in procedures, safety standards, and execution create friction, particularly in high-risk environments such as drilling, midstream operations, or pipeline construction.

Human factors amplify this risk. Periods of change introduce turnover, disengagement, and inconsistent execution, precisely when discipline is most critical. At the same time, organizations often inherit policies and procedures without ensuring they are consistently followed in practice.

This gap, between documented standards and real-world execution, has been a driver of significant claims and litigation exposure.

*Integration risk is not a downstream issue,
it begins the moment the deal is signed.*



Contractual Risk: Small Details, Large Consequences

Contracts are often the most underestimated source of risk in energy transactions.

Misalignment across agreements, whether in indemnity clauses, group definitions, or insurance requirements, can disrupt intended risk transfer. Even minor inconsistencies can prevent liabilities from flowing as expected.

At the same time, leases, right-of-way agreements, and equipment contracts may contain requirements that are:

- + Inconsistently applied
- + Unsupported by current insurance programs
- + Triggered under specific conditions

These exposures are rarely uncovered unless explicitly prioritized during diligence.

Risk allocation is only as strong as the weakest contract in the portfolio.

Diligence as a Strategic Lever

Traditionally, diligence has functioned as validation, a process to confirm assumptions already embedded in a deal. Leading organizations are reframing it as a strategic lever.

When executed early and thoroughly, diligence can:

- + Influence valuation through identified liabilities
- + Strengthen negotiating positions
- + Inform integration strategy before close
- + Improve underwriting outcomes and reduce total cost of risk

Timing is critical. Early engagement creates the ability to “see around corners,” identifying exposures before they become embedded in transaction terms.

Equally important is understanding how assets, insurance programs, and operating models combine, or fail to. Decisions about integration vs. separation should be intentional, not reactive.

*The value of diligence is not in what it confirms, but in **what it changes.***

Insurance as Deal Architecture

Insurance is no longer just a backstop for risk, it is increasingly a tool for structuring deals.

Transactional insurance solutions, such as representations and warranties (R&W), allow buyers and sellers to transfer unknown risks to the insurance market. This reduces reliance on indemnities and enables cleaner exits.

Additional tools, environmental coverage, tax insurance, and specialty liability protections, can address specific exposures and improve deal certainty.

*Insurance is not just protection,
it is part of the strategy.*

From Reactive Risk to Strategic Advantage

Organizations that outperform in energy M&A are not those that eliminate risk altogether. They are those that identify, quantify, and manage it earlier, and more intentionally, than their peers.

This requires three core capabilities:

- + Discipline: Structured, cross-functional diligence early in the process
- + Visibility: Clear identification of hidden costs and exposures
- + Consistency: Alignment between policy, process, and execution

Together, these capabilities transform risk from a late-stage surprise into a strategic advantage.



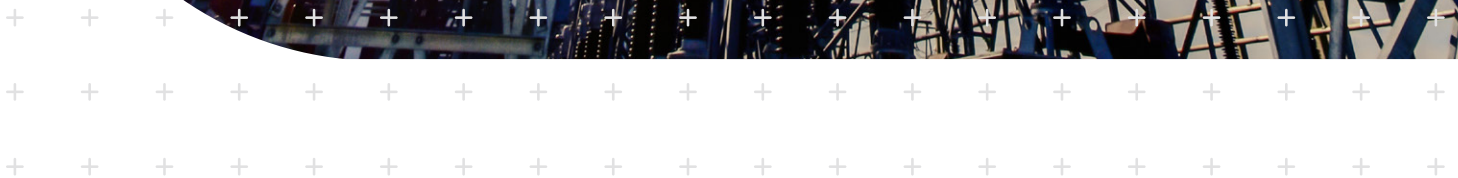


Final Takeaway

Energy M&A will always carry complexity. But complexity is not what undermines deals—assumptions do.

The most successful organizations challenge what they think they know, investigate what they cannot see, and act early enough to change outcomes.

Because in today's market, the greatest risks are not the ones that are known and managed—they are the ones that remain hidden until it is too late.



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NPN 1316541 | IMA, Inc dba IMA Insurance Services
California Lic #0H64724 | CT-TL-IMA-E-062326

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