

HUB 2023

Outlook.

Private Equity



**Seeking profitability
more than ever.**



Risk & Insurance | Benefits & Retirement | Private Client

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HUB Private Equity

Setting the Scene

Focusing on management — and risk management

Private equity will put more focus on long-term management of portfolio companies. With difficult credit markets and heightened competition, the emphasis is on greater professionalism and best-in-class management. Private equity is investing in its businesses and the people who run them.

US \$1.7T

Global private equity deal value for the 18 months ending in June 2022.¹

1. Bain & Company, "[Shifting Gears: Private Equity Report Midyear 2022](#)," July 18, 2022.

What to Expect in 2023

PE firms and their holdings will face higher costs in 2023 for raw materials, staff and insurance premiums. Rising interest rates will hamper firms' ability to purchase companies on the front end and pressure exit prices on the back end. As a result, PE firms will focus on improving their portfolio companies' management to generate superior returns and keep their funding pipelines open.



Firms will focus on their portfolio companies' bottom lines.

Several factors will weigh down PE profits in 2023: tighter credit, higher insurance premiums, surging interest rates, rising raw materials costs and the labour shortage.

With credit tight, primary market deals may decline in 2023. However, the secondary market grew exponentially in recent years. Assets under management quadrupled over the past decade and the compound annual growth rate has risen 20.2% since 2000, far surpassing that of the overall private equity market (12.9%) over the same period.²

Because higher interest rates could hamper deal-making, PE firms will generate more profit from their portfolio companies by managing costs and maximizing efficiencies. In the long run, investments in



people and processes will pay off through improved valuations and attractiveness to prospective buyers when it's time to sell.

PE firms will need to pay more attention to insurance costs, risk exposures, and coverage. Insurance rates rose across the board in 2022, and are expected to rise in 2023, especially for certain lines, including catastrophe, general liability, umbrella and property.

We see opportunities to boost margins through leveraged insurance purchasing programs among portfolio companies, which not only can cut costs but can reduce losses and claims.

2. CAIS Group, "[The Evolution of the Private Equity Secondary Market](#)," September 7, 2022.



Turning ‘benefits strategy’ into a reality for PE firms.

In 2023, private equity executives will examine an area they’ve put on the back burner: benefits strategies at their portfolio companies. To meet growth targets, private equity execs need to invest in HR systems, processes and technology at the companies they acquire.³

For private equity firms and their portfolio companies that are experiencing worker shortages, professionalizing HR operations and rethinking benefits can increase profits and simply help companies stay fully staffed.

The biggest challenge for PE portfolios is the variety of industries, each with different benefits needs. Offering childcare and eldercare benefits are highly desired in healthcare and hospitality, but less so in construction and transportation.

A personalized benefits strategy can address this dilemma. By using data analytics and on-the-ground HR expertise at individual operations, companies can tailor benefits to meet individual employee needs without increasing their benefits spend. Personalized benefits results in positive employee experiences, increasing loyalty and engagement.



3. Hunt Scanlon Media, “[The Evolving Role of HR in Private Equity](#),” March 23, 2022.



Viability will mean more than obtaining R&W coverage.

The cost and availability of representations and warranties (R&W) insurance remains a major hurdle in PE firms' viability. But they'll also face ongoing threats to their resiliency, such as rising interest rates, weather-related catastrophes and cybercrime.

In addition, supply-chain disruptions and staff shortages will also challenge PE executives and their portfolio companies

Insurable events, like catastrophes, have become more frequent and damaging. Global catastrophe losses in 2021 totaled US\$105 billion with estimated insured losses reaching US\$35 billion in the first half of 2022.⁴ That doesn't include losses from hurricane season, including Hurricane Ian, which alone could total US\$65 billion in damages,⁵ or Hurricane Fiona, the costliest hurricane to hit Atlantic Canada, with approximately \$660 million in damages.⁶

\$105B

global catastrophe losses in 2021

\$65B

estimated damages from Hurricane Ian in September 2022

Cyber insurance has been particularly fraught, with premium expected to increase as much as 40% in 2023, following similar hikes the last two years. Carriers will expect portfolio companies to conduct security audits, have two-factor verification, endpoint detection and response, and continuing cybersecurity training before being considered for cyber coverage.

Forward-thinking managers will leverage advanced data analytics to improve their risk management, ascertain acquisition viability and decide the correct amount of insurance coverages for portfolio companies.

4. [Swiss Re Institute, "Floods and storms drive global insured catastrophe losses of USD 38 billion in first half of 2022," Swiss Re Institute estimates,](#) August 2, 2022.
5. [ABC News, "Hurricane Ian could cause \\$65 billion in damage,"](#) September 30, 2022.
6. [Insurance Journal, "Hurricane Fiona Breaks New Records in Atlantic Canada With Insured Damage of C\\$660M,"](#) October 19, 2022.



Non-traditional strategies will be rewarded over time.

If PE firms need to hold portfolio companies for longer periods than in the past, they must use that time to implement best-in-class management practices to build value.

With the challenges of securing investor funding, middle-market PE firms, in particular, will feel pressure to generate top-quartile profitability in order to raise sufficient capital in the future.

As a result, PE executives will strive to improve management, closely examining everything from accounting to technology operations and secure top talent for the long term.

For many PE firms, this will represent a return to basics. While private equity firms have focused on short-term results to make portfolio companies attractive to sale — often through major cost-cutting measures — trying to “professionalize” operations points to the need for PE firms to play a greater role in managing their assets.

Firms that professionalize operations will be rewarded with higher margins.

To counter the increased rates and threats to long-term viability, private equity managers are embracing risk management strategies that can ease the insurance burden at their portfolio companies. They're examining all opportunities to maximize returns, and part of that will entail a management emphasis on taking a far more sophisticated approach to insurance.

For instance, we've seen forward-looking PE firms find creative ways to manage product liability exposure and cut costs. Other PE firms have explored benefits captives to maximize cost savings and improve benefits overall.



Make a plan

HUB private equity specialists will work with you to develop a tailored strategy that will protect the bottom line, support your workforce, and build resiliency for 2023. Here are some initial considerations:



Don't shy away from risk.

As interest rates climb and deal volume falls, private equity firms need to be more mindful of their bottom line. Taking a higher deductible on any number of coverages can reduce premiums and improve experience rating. And ask your HUB broker about captive solutions, self-insurance and risk retention groups.



A (good) loss trend is your friend.

Understand the root cause of large losses and explain to carriers your plan for preventing future losses. Develop a strategy with HUB to determine the best time and frequency to review alternative markets.



It's all about your people.

As private equity pivots toward portfolio company retention, firms will place a greater emphasis on people management at their portfolio companies. They'll need to support employees' health, safety, and wellbeing. Give them the ability to personalize their benefits without increasing costs.



Be transparent with your broker.

With multiple businesses to manage, you'll have multiple risk issues. Let your broker know what changes you've made so there are no surprises at renewal. Review exposures and insurance needs at least 90 days prior to policy renewal, so your broker can identify the best options.



Be Prepared

HUB International analyzes proprietary national survey data and interviews commercial insurance brokers and risk services consultants to create an annual rate outlook for Canada.

On the next page is our outlook on insurance rates in Canada for 2023. Discuss your business exposures with your HUB insurance broker to understand what to expect in advance of your next renewal.



Rate Outlook — Canada

Coverage	2023 Canadian Rate Outlook	Insights
Automobile	↑ 5%	<p>Automobile rates in Canada will slightly increase. Fleets may expect to see more aggressive pricing by new entrants to the marketplace.</p> <p>Quebec policyholders may see more favourable rates and better terms.</p> <p>Rates for policyholders in provinces with public auto will remain mostly flat.</p>
Liability	↑ 5% to 10%	<p>Policyholders could see increases of up to 10% in general liability depending on class and loss experience. Companies with good loss experience may see rate reductions.</p> <p>An increasingly competitive medical malpractice marketplace has driven down rates. Policyholders are likely to see flat rates or small drops.</p>
STRATA/Condo	↑ 5% to 10%	<p>Property valuations are rising 7% to 10%, and although insurance rates remain relatively flat, the increasing valuations may lead to rate hikes of 5% or more to account for rising claims costs.</p> <p>Capacity has historically been limited, but more competition is entering the marketplace. However, this may be short lived with the market for catastrophe reinsurance hardening.</p> <p>Quebec policyholders will see rate increases of 5% to 10% as capacity remains limited.</p>
Umbrella & Excess Liability	↑ 5% or higher	<p>Rates will increase 5% or more depending on class and loss experience. Best-in-class policyholders will see flat renewals or slight rate upticks based on increased exposure.</p>
Property	↑ 10% or higher	<p>Best-in-class insureds will have more modest increases, with escalating competition for new business commercial property (Class A & B).</p> <p>Quebec insureds will see 5% increases but can expect better terms.</p> <p>Insurers are focused on insurance to value with rising inflation; clients will experience higher premiums due to an increase in building values.</p>
Directors & Officers	↑ 5% to 10%	<p>Rates will depend on the strength of an insured's financials and industry outlook. Clients that restructure placement may be able to secure premium reductions.</p> <p>Quebec insureds will see rates of 15% or higher due to legal defense cost payouts.</p> <p>D&O coverage will be challenging for healthcare and particularly long-term care. Insureds in those sectors can expect rate increases of 10% to 20%.</p>
Cyber Liability	↑ 10% or higher	<p>Rates will increase from 10% to 200% based on cyber controls, loss history and industry.</p> <p>Healthcare will see rate increases for cyber coverage of 200% to 300% as carriers reduce capacity.</p>
Environmental	↑ 5% to 10%	<p>Capacity restrictions for certain risks and increasing claim severity remain a challenge.</p>
Inland Marine	↑ 5% to 10%	<p>Rising accident frequency and severity will prompt continued rate increases in this sector.</p>

Industry Perspective Rate Outlook — Canada

Industry	2023 Rate Outlook	Insights
Agribusiness	↑ 5% to 10%	Regional mutual insurers are the primary providers in agribusiness. Livestock will see rates rise 10% to 15% at renewal due to decreased capacity and market appetite.
Cannabis	↑ Flat to 5%	<p>For the past four years, rates in this emerging market have been high primarily due to lack of capacity, but in 2023 further rate increases will be minimal.</p> <p>D&O and cyber will remain challenging, with limited capacity due to few carriers writing business in this industry. Although competition in the D&O market is increasing, expect rate increases of 10%, depending on the insured's financial health.</p> <p>Property and liability rates will rise 5% to 10% due to rising construction costs.</p>
Construction	↑ 5% to 10%	<p>Supply chain delays, labour shortages and rising inflation will continue to drive construction costs up for both commercial and residential projects. Rates will rise about 5% depending on risk, largely due to higher property valuations affecting premiums.</p> <p>The lack of skilled workers is likely to result in higher liability rates.</p>
Entertainment	↑ 5%	<p>The industry is facing reduced coverage, increased deductibles and limited coverage options, with rates rising 5% to 10% in 2023. However, rates are beginning to stabilize.</p> <p>In auto (touring), higher levels of claim frequency and severity have resulted in decreased carrier appetite.</p> <p>Larger venues may struggle to find sufficient coverage.</p>
Financial Institutions	↑ 5% to 10%	<p>Rates for general partnership liability coverage will increase 5% to 10%. Portfolio company private D&O renewals will likely have flat to 10% rate increases, although insureds that agree to increase retentions may see rate decreases. Financial institutions with significant long-term debt may see increases at renewals of 20% or higher.</p> <p>Cyber rates will continue their ascent and insureds can expect premium increases of 20% to 40%, although some institutions could see rates rise as much as 300%.</p>
Healthcare	↑ 10% to 20%	<p>Until we see the impact of increasing interest rates, inflation will drive up the cost of premiums. The trend toward adding components of private healthcare will continue to change the healthcare landscape in Ontario, and other provinces may follow.</p> <p>A softening market in senior care will keep property rates flat for that sector. However, inflation will continue to drive up building valuations, increasing costs.</p>
Hospitality	↑ 10% to 20%	<p>Rising building valuations — up 10% compared with the prior year — may continue.</p> <p>Protected property risks will see rates rise 5% while challenged properties can expect rate increases of 10% or greater. The double-digit rate increases in liability in recent years have waned, mostly due to increased risk management protocols by insureds.</p> <p>Capacity for liquor liability continues to be challenging.</p>

Industry Perspective Rate Outlook — Canada

Industry	2023 Rate Outlook	Insights
Nonprofit	↑ 10% to 20%	<p>Supply chain delays, reduced government funding, labour shortages and a potential recession will challenge nonprofit organizations.</p> <p>The availability of liquor liability coverage for hosting private and public events remains limited.</p> <p>Rates for umbrella and cyber coverage are likely to increase in excess of 30%.</p>
	↑ 5% to 10%	<p>All insureds will face increased underwriting scrutiny on insurance to value. Premium costs are increasing due to rising construction costs and supply chain delays. With fewer carriers competing for business, some insureds will need to evaluate their total insurance budget and limits purchased. Best-in-class properties with sound business continuity plans will move to the top of the underwriting pile.</p>
Real Estate	↑ Flat to +10%	<p>Residential and Multifamily: Best-in-class residential realty will find increased capacity in the market and may obtain rate reductions, but underwriters remain disciplined in this industry. Overall premiums are up as insurance to value and reconstruction costs have increased.</p>
	↓ Flat to -5% Best-in-class	<p>Commercial real estate: More insurers have entered this space, and best-in-class-properties can expect rate reductions.</p> <p>Older properties, catastrophe-exposed properties and insureds with poor loss experience can expect high levels of underwriter scrutiny.</p> <p>Deductibles for flood and earthquake exposures will rise to limit carrier exposure.</p> <p>In Manitoba and Saskatchewan, rates for framed realty will rise 10% to 15%, with inflation potentially pushing premiums higher.</p>
Sports	↑ 10% to 20%	<p>Capacity remains limited in the industry. With few new entrants to the marketplace, rates will continue to rise.</p>
Transportation	↑ 5% to 10%	<p>The market is more stable than in the past few years, and best-in-class insureds will see better terms and conditions. However, insurer interest in the trucking segment remains limited across the provinces.</p> <p>Umbrella coverage will remain challenging, particularly for transportation companies with exposure in the U.S.</p> <p>Auto dealerships will continue to struggle for coverage, with rates rising 15% or more in 2023.</p>

NOTE: *Rate* is typically defined as the amount of money necessary to cover losses, expenses and provide an insurance company with a profit for a unit of exposure. *Exposure* refers to a business' or individual's susceptibility to various risks encountered daily. Carriers evaluate the level of risk an insured faces in calculating insurance premiums.

HUB Financial Institutions

When you partner with us, you're at the centre of a vast network of experts who will help you reach your goals. For more information on how to manage your insurance costs, reduce your risk and take care of your employees, talk to a HUB private equity insurance specialist.

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