

Private Equity

Funding issues and IPO woes threaten profits, but private equity will find a way through strong risk management.





What to Expect in 2024

Tighter credit, inflation and an uncertain economic outlook resulted in tepid private equity buyout activity in 2023. PE firms will remain focused on improving results of their portfolio companies through sound risk management practices and strategic investments in people and processes. A tight labour market will complicate efforts to hire top talent at both the firm and portfolio company level.



Decline in global private equity deal volume in 2022



Decline in global private equity deal count in 2021

1. McKinsey & Co., "McKinsey Global Private Markets Review: Private markets turn down the volume," March 21, 2023.

PE firms will focus on keeping their portfolio companies profitable, with an eye toward exit strategies.

Given the sluggish exit market and still-high interest rates, PE firms will be able to boost margins at both the firm operational level and at their portfolio companies through risk management efforts to cut costs, reduce losses and minimize claims.

In August 2023, the U.S. Securities and Exchange Commission adopted new rules designed to improve transparency and minimize conflicts of interest.² These rules represent an increase in the amount and types of disclosures that must be provided to investors in private funds. For Canadian private equity firms with U.S.-based limited partners, non-compliance with the new rules invites possible financial consequences.

Profit pressures will persist at firms' portfolio companies, due to inflation in key areas of the economy, particularly for food and fuel, and elevated competition for leadership talent and qualified labour.

That means PE firms focused on improving operations — those with best practices in insurance and risk management for portcos, as well as those with thoughtful representations and warranties (R&W) and directors and officers (D&O) insurance strategies for acquisitions — will be best positioned for success.



² Foley & Lardner, "[SEC Adopts New Private Funds Rules: Key Takeaways for Private Fund Advisers and Investors](#)," August 28, 2023.

Finding an edge through personalized benefits.

Like many financial services companies, PE firms are in a battle for talent. What’s more, PE executives cite talent as essential to creating value within their own firms³ and their portfolio companies.⁴

So as PE firms strive to improve long-term operating results, they are considering new strategies to identify, recruit, retain and develop talent. These pressures will be particularly acute in the healthcare and consumer services sectors of the economy, which have become increasingly attractive acquisition targets.

Employers will rely on training and employee wellbeing to improve employee vitality:

68% of employee will focus on **upskilling and training**

67% of employers will focus on **wellbeing**

Meeting these goals will require investments in HR systems, training programs and enhanced benefit packages. The HUB International 2024 Outlook Executive Survey⁵ reflects a strong focus on employee upskilling and training (68% of respondents cite it as driver of employee engagement), and employee wellbeing (67%) to improve employee engagement and recruiting for all enterprises across North America.

The nature of private equity — trying to create employee benefit cost and coverage efficiencies across multiple portfolio companies — can be difficult at best, as conditions in different industries often result in different worker needs and benefits.

Personalized benefits based on data analytics can help PE firms develop a benefits strategy that **creates quality employee experiences (QEX)** to improve employee engagement and engender workforce loyalty.

Case study:

A PE firm’s portfolio company offered a full slate of benefits for its factory workforce, only to find poor uptake and engagement. HUB’s Persona Analysis determined that employees were under financial stress and couldn’t afford most benefits.

As a result, the company made benefits more affordable and the PE firm leveraged the result across several companies with similar profiles to improve benefits uptake and engagement.

3. Hunt Scanlon Media, "[Opportunities and Challenges in Private Equity Recruiting](#)," June 5, 2023.
4. Alix Partners, "[Sprinters Versus Marathoners: Leadership Capabilities for a new era of private equity value creation](#)," January 2023.
5. HUB’s Outlook Executive Survey polled 900 C-Suite and VP-level executives on the issues facing them on profitability, employee vitality and organizational resilience.

Mitigating risk to enhance value.



Mimicking the slow market in transactions, the cost of representations and warranties (R&W) coverage — an essential element in risk management for PE firms — has fallen, with a drop in premiums and lower retention amounts.⁶ Directors and officers (D&O) coverage has followed the same pattern.⁷

If deals rebound in 2024 as expected, the R&W insurance market will inevitably harden, with greater restrictions and retentions. And risk management for PE firms' portfolio companies will not get any easier in 2024. Commercial liability and property insurance premiums are also likely to rise, particularly in areas prone to wildfire and major storms.

Cybersecurity risk is also getting harder: Reported cybercrime losses keep rising with global losses amounting to trillions of dollars.⁸

Yet cyber insurance premiums are expected to rise only slightly or remain flat due to increased competition. There's also expected continued relief for premiums on executive lines coverages for private equity firms and their portfolio companies. Premiums have fallen throughout 2023 as much as 10%, and the market is expected to stay soft through 2024.

Perhaps more important to resiliency is that Canadian operations in general have not emphasized business continuity planning. Only 14% of Canadian respondents to HUB's survey have developed a comprehensive business continuity plan, and just 34% align risk mitigation strategies with organizational goals.

Those are missed opportunities for private equity to improve resiliency at the corporate level and for their portcos. Aligning risk mitigation with goals and developing strong business continuity plans not only will help lower insurance premiums, but ensure organizations thrive in the long-term.

6. BKS Partners, "[2023 Representations and Warranties State of the Market Report](#)," July 13, 2023.
7. Insurance Business, "[Are D&O insurance rates 'bottoming out' this year?](#)" June 7, 2023.
8. Cybercrime Magazine, "[Cybercrime To Cost The World \\$10.5 Trillion Annually By 2025](#)," November 13, 2020.

Finding ways to raise funds and determine exit strategies in a challenging environment.

Rising interest rates, a stagnant IPO market and expanded reporting requirements could prove challenging for PE firms in 2024. Fundraising will likely remain difficult, as limited partners (LPs) hesitate to commit more investment capital and demand greater liquidity.

Deal activity has increased in the secondary and continuation market, with more than half of all PE deals closing in the secondary market during 2022.⁹ But secondary year-over-year market volume dropped 25% in the first half of 2023,¹⁰ possibly due to lower investments from both general partners (GPs) and LPs.

PE firms that have focused on long-term performance planning will be rewarded when the IPO market rebounds.

New technologies, strategies and favorable market developments offer the potential to limit cost increases and enhance performance. PE firms are increasingly employing predictive analytics to source new deal flow in non-traditional areas.

As PE firms weather an especially challenging time for the industry, those that excel at long-term operating performance planning will be best positioned for a possible IPO market rebound in 2024.

And the prospect of a revived IPO market looms large.¹¹ An increased appetite for IPOs would provide PE funds with a much-needed exit strategy for their portcos.

9. Jeffries, [Global Secondary Market Review](#), January 2023.

10. WSJ.com, "[Secondaries Deal Volume Drops 25% From First-Half Record Last Year](#)," July 21, 2023.

11. Bloomberg, "[Goldman Says IPO Bust Looks Like It's Ready to Boom Once Again](#)," June 20, 2023.



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 2024. Here are some initial considerations:



Don't shy away from risk.

Falling deal volume has made private equity firms more mindful of their bottom line. Taking a higher deductible on any number of coverages can reduce premiums and improve experience rating. 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.

PE firms and their portfolio companies are struggling to attract and retain top talent. But getting the best employee base means supporting employees' health, safety and wellbeing. Give them the ability to personalize their benefits without increasing costs. **HUB's QEX approach** will give you a competitive advantage.



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.

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Canada Commercial Rate Outlook

HUB International interviews brokers and risk services consultants and analyzes survey data to bring you our proprietary rate report each quarter. Read the HUB 2024 Commercial Lines Rate Outlook to know what to expect in advance of your next renewal.

Coverage	2024 Canadian Commercial Rate Outlook	Insights
Commercial Automobile (5 or fewer vehicles)	↑ +5% to 10%	Some inflationary claims cost pressures remain. Given the higher frequency of claims and greater repair costs, rate filings are increasing in most provinces.
Commercial Automobile (6 or more vehicles)	↑ +1% to 5%	Underwriting performance remains profitable, but the cost of some claims has risen due to inflation. Supply chain delays have stretched timelines to resolve claims.
Liability	↑ +5% to 10%	Improved performance in general liability has helped insurers offset poor performance on property lines. Carrier appetite has broadened as insurers look to underwrite more liability to diversify their book.
Excess Liability	↑ +5% to 10%	Excess casualty remains fairly stable with some variability depending on exposure and attachment point. Given increases on primary coverage, some excess layers are increasing accordingly. Some classes of business with favorable loss history might see rate reductions.
Commercial Property	↑ +5% to 25% (varies by geography)	Commercial property rates will continue to increase, and in some locales, they could rise substantially as a result of increased reinsurance costs. Capacity will be challenging in CAT-prone zones. Increased claim frequency and severity, supply chain delays and unprecedented catastrophic activity — including wildfires across the country and a 1,000-year flood event in Nova Scotia — will also affect rate. As the cost to rebuild has increased, focus remains on insurance-to-value, which will affect overall premiums.
Residential/Habitational Property	↑ +5% to 10%	Rising reinsurance rates, construction costs, and supply backlogs are pushing up rates and elongating claims timelines. Additional attention on insurance-to-value will also affect overall premiums given the increased reconstruction costs.
Catastrophic Perils	↑ +11% to 20%	Increases will be much higher in CAT-prone areas. Unprecedented wildfires across the country and the catastrophic flood in Nova Scotia were indicative of the increased severity and frequency of perils.

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Environmental	Flat	Rates for Pollution Legal Liability (PLL) and Contractors' Pollution Liability (CPL) coverage are projected to remain flat. However, there is increasingly restrictive coverage for PLL coverage of emerging contaminants. Insureds should carefully review any new restrictions or exclusions in policies before renewals. Pollution policies combined with general liability are likely to see rate increases due to the GL exposure.
Directors & Officers: Private	↓ (-5%) to ↑ +5%	Insureds with no major changes can expect to see no rate increases at renewal or even slight decreases. Those with claims or significant exposure changes will see a modest premium increase. Note that financially challenged accounts will have a difficult time finding D&O insurance.
Directors & Officers: Public	↓ (-15%) to Flat	Capacity has increased for D&O coverage at publicly held companies, leading to rate decreases on both primary and excess layers, with excess layers seeing the greatest reductions. Organizations that trade on U.S. exchanges or have gone public in the past two years will see the greatest reductions.
Cyber Liability	↓ (-10%) to ↑ +10%	The cyber insurance market has shown signs of stabilizing through the third quarter of 2023. Some public sectors such as higher education, healthcare and municipalities still are problematic for underwriters, while some technology companies face additional scrutiny due to recent attacks on software and managed service providers. Insurers are focusing on information security controls when assessing risks and making pricing decisions.
Inland Marine	↑ + 5% to 10%	Frequency and severity of claims remain an issue, while supply chain issues and continued catastrophic events are leading to rate increases, similar to challenges faced for property coverage.
Marine	↑ + 5% to 10%	The commercial marine insurance market is hardening, leading to rate increases. As clients approach fourth-quarter renewals, insureds need to accurately assess risks, understand changing coverage terms, and consider alternative options. Active risk management remains crucial to keeping premium hikes to a minimum.

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Agribusiness	↑ +11% to 20%	Limited capacity will present challenges in agribusiness. Rates will continue to rise for insuring buildings and equipment. In addition, inflation will make it difficult for agribusinesses to secure adequate limits, particularly for enterprises with an adverse claims history.
		<p>Premiums for food and beverage operations continue to rise. Risks remain difficult to place due to the increasing severity of losses worldwide.</p> <p>In farming, claims from forest fires have reduced capacity. However, liability rates remain stable, with underwriters offering ample capacity.</p>
Cannabis	+5% to 10%	Expanding export opportunities and the loosening of global regulations have increased liability insurance options, with more competition entering the market.
		<p>Property remains static with 5% rate increases continuing. However, rising inflation is elevating the reconstruction value of buildings by a minimum of 5%. With many buildings already underinsured, property insurance costs will further rise as building valuations increase. However, new entrants are expected in the property market, increasing capacity.</p> <p>D&O remains stable, but economic strain and highly leveraged balance sheets will prompt underwriters to closely scrutinize accounts.</p>
Construction	↑ +1% to 5%	Rates are holding steady for most of the industry, though best-in-class risks may see slight rate reductions.
		<p>Premiums are growing as a result of valuation adjustments due to inflation and gross receipts changes.</p> <p>Large value course of construction is seeing some upward rate pressure on higher value frame projects due to the number of carriers required to place those risks.</p>

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Education	↑ +10% to 12%	<p>On property coverage, rates are expected to rise 5% with inflationary increases of property values up 7%.</p> <p>Institutions that have not right-sized their property valuations will continue to see double-digit increases in attempts to close the gap on under-valuations.</p> <p>After several years of large rate increases, cyber rates are expected to stabilize, particularly for institutions that have improved their cybersecurity.</p> <p>Commercial general liability rates are expected to rise 5%, except for abuse coverage, which continues to be challenging. Underwriters are linking rates for abuse and molestation coverage to the risk management and mitigation policies, procedures and training protocols of policyholders.</p> <p>D&O rates will rise 5% on average, but institutions facing renewal after a three-year guaranteed rate could see much larger increases.</p>
Entertainment	↑ +5%	<p>Property and liability rates in the event space are expected to increase 5% to 10% in 2024.</p> <p>In film, policyholders with claim-free accounts may see flat renewal rates.</p> <p>D&O in the entertainment sector will likely increase 5% with cyber up about 15% on average.</p> <p>Abuse and molestation insurance remains challenging, with rates rising 25% or more due to reduced capacity.</p>

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Financial Institutions	↓ Flat to rate reductions	<p>For the most part, financial institutions will see an accommodating insurance market. Rates are likely to be flat for private company D&O insurance; for public companies, rates for D&O coverage will be flat in 2024 after premiums declined in 2023.</p> <p>General partnership liability coverage will decrease as much as 10%, as there are only a handful of carriers in this segment in Canada.</p> <p>Cybercrime insurance rates are flat for primary layers, especially for smaller companies. For excess layers, however, rates are falling 20% to 30%, or even more.</p> <p>Premiums for reps and warranties (R&W) insurance will experience no or moderate increases in 2024, due to an expected rebound in M&A. However, rates fell significantly in 2023, as increased competition for a smaller number of deals led to discounting.</p>
Healthcare	↓ Rate reductions	<p>For medical malpractice insurance, there has been an expansion of capacity and significant competition for new business; insurers are agreeing to steep discounts as a result.</p> <p>Those seeking healthcare D&O insurance will also see significant rate reductions, especially in high-risk markets.</p> <p>There are difficulties in property insurance in healthcare. Some underwriters may offer discounts through bundling property and liability coverage.</p>
Hospitality	↑ +5% to 10%	<p>Rates are improving for both property and liability across the country. However, hospitality businesses with property exposures to natural catastrophes such as wildfires may see greater rate increases due to the frequency and severity of these events in many provinces within the past year.</p> <p>Properties in the Maritimes may also see increased rates due to potential hurricane exposure.</p>

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Nonprofit	↑ +7% to 20%	<p>The insurance landscape is becoming more challenging.</p> <p>Small and medium enterprises in the nonprofit sector will see rate increases, particularly in D&O, cyber and abuse and molestation coverage. With limited capacity, insurers are enforcing more stringent underwriting guidelines, extending the time necessary to successfully secure a quote.</p>
Real Estate	↓ (-5%) to ↑ +10%	<p>Real estate insurance will see a mixed rate environment in 2024.</p> <p>Properties in high-catastrophe (CAT) risk zones will see little or no rate relief in 2024 and are likely to experience premium hikes.</p> <p>Rate reductions may be available for best-in-class properties with clean loss histories. However, the higher cost of rebuilding, along with greater property valuations, are likely to offset premium decreases.</p>
Sports	↑ +5%	<p>Depending on the age and construction of buildings, property in the sports industry is expected to rise 5% or more.</p> <p>Abuse and molestation coverage will continue to be challenging. Unlike the days when it was included in general liability pricing, abuse coverage will continue to be underwritten separately; the sports industry can expect to see limits reduced for such coverage in 2024.</p>
Transportation	↓ Rate reductions for fleets +5% to 10% for IRCA	<p>Increased competition in the transportation market has led to market softening across Canada, but poor underwriting results posted by one large insurer in the space could impact rates in the future.</p> <p>Additional capacity through Lloyd's is also making excess liability more available.</p> <p>Fleets: Historically, only best-in-class trucking companies enjoyed better terms and conditions, but the market conditions are now allowing second- and even third-tier companies tap into those benefits.</p> <p>IRCA: Renewals can expect to see 5% to 10% rate increases.</p>

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HUB Financial Institutions

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