

 **Outlook.**

Private Equity

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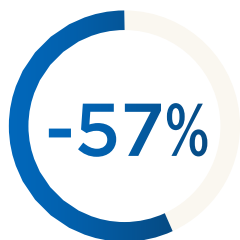


What to Expect in 2024

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.

New SEC transparency rules will increase administrative burdens, while a tight labor market will complicate efforts to hire top talent at both the firm and portfolio company level.



The decline in PE-related deal volume from the first half of 2022 to the first half of 2023.¹

1. PwC, "[Private equity: US Deals 2023 midyear outlook](#)," accessed September 12, 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 SEC adopted new rules designed to improve transparency and minimize conflicts of interest.² These rules represent an increase in the amount and types of disclosure that must be provided to investors in private funds. 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 labor.

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 employees 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 a 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.

We expect the trend toward larger and more widespread insurable losses to continue in 2024. Through mid-August 2023, the U.S. experienced 13 separate weather-related losses of more than \$1 billion, the most on record.⁸ 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 rising⁹ with global losses amounting to trillions of dollars.¹⁰

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.

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. National Oceanic and Atmospheric Administration, "[Billion-Dollar Weather and Climate Disasters](#)," accessed September 11, 2023.
9. FBI, "[Internet Crime Report 2022](#)," accessed September 11, 2023.
10. 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 2022.¹¹ But secondary year-over-year market volume dropped 25% in the first half of 2023,¹² 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.¹³ An increased appetite for IPOs would provide PE funds with a much-needed exit strategy for their portcos.

11. Jeffries, *Global Secondary Market Review*, January 2023.

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

13. 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 hiring and retaining a strong base of employees requires 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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Private Equity Industry Rate Guide – U.S.

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 Report to know what to expect in advance of your next renewal.

Coverage	2024 Financial Institutions Rate Outlook	Insights
D&O: Private	+10%	After years of difficult market conditions, D&O insurance for private companies will continue to improve, with better pricing and retentions. In part, this is due to additional competition for D&O business, as carriers have lessened restrictive classes and, in some cases, offering higher limits than previously.
D&O: Public	-20% to +5%	The D&O market for public companies continues to improve, with ample capacity from underwriters. Most insureds with no major issues will see favorable renewal terms. Insureds with difficult risk profiles will see pricing on the higher end of the range, but overall, competition will mute rate increases.
Cyber	Flat to +10%	Generally, carriers are reporting increased cybercrime. However, while claims activity is up, strong competition for business has muted rate increases. Continued increases in claims activity could change the landscape in 2024, though not to the extent as in previous years.
General Partner Liability	+5% to 10% (2023) -10% to +5% (Proposed 2024)	The GPL market has experienced rate increases the past three years. Rates are expected to increase for private equity portfolio companies. Pricing for minority growth equity, which is expected to drive rate increases, has not been determined. Best-in-class risks can expect favorable pricing. Underwriting considerations include the number of funds and assets under management; investment strategy; management pedigree; portfolio company board exposure; and investor base or investment structure. Large operations with larger strategies might see rate increases of 15% or more in 2024.
Representation and Warranty	Flat to +5%	Pricing decreased by as much as 50% over the last two years. However, if the volume of M&A transactions increases in 2024, expect premiums and retentions to increase accordingly.
Professional Liability: D&O / E&O for Asset Managers, Hedge Funds, Broker Dealers	-10% to -15%	Additional capacity, lower claims ratios and increased competition are expected to lower rates.

NOTE: Rate is typically defined as the amount of money necessary to cover losses and expenses, and to 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 HUB, you're at the center of a vast network of experts who will help you improve your profitability, enhance the vitality of your workforce and remain resilient into the future. For more information on how to manage your insurance costs, reduce your risk and take care of your employees, talk to a HUB financial institutions advisor. We're here to help.

\$750M

in commercial insurance premium brokered by HUB

7,800

financial institution clients

25,000

insurance policies managed

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