

Outlook 2025

Private Equity

Leadership and operational excellence will remain essential as dealmaking rebounds.



What to Expect in 2025

Deal flow should expand in 2025 due to lower interest rates and moderating valuations, and there will be continued strength in the secondaries market. The focus on operational performance and earnings quality will likely persist, and the cost of Representation and Warranties (R&W) and Directors and Officers (D&O) coverages are expected to remain near historical lows. Forward-thinking portfolio managers will embrace risk management and insurance planning as an opportunity to add value.

**\$1.2
trillion**

*The amount of dry powder held by **U.S. private equity firms** at the end of the first half of 2024, the most ever.¹*

**\$2.6
trillion**

*The amount of dry powder held by **private equity firms worldwide** at the end of first half 2024, the most ever.²*

1. Ropes & Gray, "[U.S. Private Equity Market Recap](#)," August 2024.
2. S&P Global, "[Private equity dry powder growth accelerated in H1 2024](#)," July 12, 2024.

Lower interest rates and more realistic valuations point to a rebound in 2025.

Private equity deal volume began to recover in 2024, reaching \$255 billion in the first half, compared with \$217 billion in the first half of 2023.³ While that's a lot less than in the first half of 2022 (\$524 billion), the first two quarters of 2024 marked what appears to be a slow and steady improvement in dealmaking.

Buyers are willing to pay more for quality portfolio companies (portcos) and, to a lesser extent, sellers are reducing their expectations. Such narrowing of the valuation gap may lead to further improvement in dealmaking.

However, until the market loosens, liquidity will remain an enormous issue for many PE firms. Those in need of liquidity continue to access the secondaries market, with an estimated \$71 billion in activity in the first half of 2024 and a predicted \$150 billion for 2024 as a whole.⁴ The secondaries market should continue to thrive in 2025.

As it remains difficult to implement exit strategies at acceptable valuations, PE firms are awash in undeployed capital, with \$2.6 trillion of dry powder held by firms globally. Meanwhile, institutional investors — whose portfolios are 22% invested in private equity⁵ — may be considering a pullback to rebalance their portfolios, further hampering liquidity.

As they hold back new investments to rebalance their portfolios, a growing liquidity issue may continue to hinder the formation of new funds in the coming year. PE firms must find innovative ways to build portco value and position them for success.

Those firms with effective insurance and risk management plans will be in a strong position to profit in 2025, no matter which direction the market heads.



Adapting uncertainty and winning in the marketplace starts with contacting a broker with deep industry expertise who can help a PE firm develop a competitive advantage in generating returns.

3. EY, "[Private Equity Pulse](#)," July 25, 2024.
4. Lazard, "[Lazard Interim Secondary Market Report 2024](#)," September 5, 2024.
5. Moonfare, "[Private equity asset allocation](#)," September 2, 2024.

PE firms of all sizes will have opportunities to recruit and retain top talent.

As they battle for talent to lead their portfolio companies, there's always competition for top talent at PE firms themselves. And whether they're recruiting analysts from elite universities⁶ or poaching directors from rival firms, attracting and retaining the best and brightest will continue to be a challenge, particularly for smaller and less established funds.

Adding to that challenge, more than half of PE firms lack succession plans, and most of the rest report they don't have adequate talent in the pipeline to promote, largely because they haven't developed talent internally.

PE executives realize the importance of hiring and developing talent within their firm. They say quality of leadership and succession are the most important factors in determining their success, three times more important than portfolio rationalization and twice as important as artificial intelligence.⁷ No longer can a PE firm hire a B-level team and get A-level results.

Instead of sitting back, they're seeing an opportunity to recruit top talent from the full spectrum of financial services, often from organizations outside of PE or even finance.

And large, well-heeled PE firms are hiring former CFOs, CMOs and CTOs from other companies, and increasingly, they're hiring former Chief Human Resource Officers (CHROs). PE firms hope that ex-CHROs not only can elevate recruiting and retention, but also implement learning and development programs, as well as create sophisticated, personalized benefits plans. They're also leveraging that expertise within their portfolio companies.

Smaller PE shops usually cannot afford to hire high-level CHROs from top companies, as such positions can command mid-six-figure salaries plus bonuses.

But there are opportunities for them: Such firms can get similar results through a strong benefits partner that can deliver the same type of services as a highly compensated CHRO. Tools such as [Workforce Persona Analysis](#) help deliver personalized benefits that engage employees at all levels of the organization.

6. Peak Frameworks, "[Best Private Equity Placement](#)," accessed September 12, 2024.
7. Alix Partners, [Leadership and the Future of Value Creation: The New PE Imperative](#), March 2024.



Insurance and risk management will no longer mean checking a box.

With deal volume remaining sluggish over the past several years, more carriers are bidding on fewer deals, driving down the cost of R&W coverage even further than the historic lows that it's been at for the past two years.⁸

In fact, some deals have resulted in coverage costing less than 2% of deal value. D&O coverage is also approaching all-time lows. As the cost of coverage has dropped, the amount of time to consummate deals has extended.

Because PE managers cannot afford to miss earnings projections because of a deal gone bad, the time spent on due diligence has increased as much as 50%. Deals tend to be bigger, more complicated and more prone to mistakes.

Proper due diligence involves both property-casualty insurance and employee benefits issues. Among many elements of diligence, buyers must analyze target company contractual obligations, international exposures, large claims, the overall adequacy of the benefits program and benefits compliance issues before the deal is finalized.

Dealmakers and portfolio company managers have often considered proper insurance and risk management as a “check the box” exercise needed to complete a deal, with risk management strategies limited to finding the cheapest insurance.

Exit timelines have extended, however, with some investment pools lasting years after their target dissolution. As a result, risk management and insurance programs have become far more important for PE firms' portcos. Yet fully one-third of financial institutions responding to HUB International's Outlook Executive Survey⁹ reported they do not have a formal enterprise risk management assessment process. This could lead to suboptimal risk management, inadequate insurance and — ultimately — inferior results.



More portfolio companies will use analytics to assess the quality and suitability of coverages, especially for cybersecurity, business continuity, weather-related risks and catastrophes. All of the above risks have increased across all businesses.

PE firms are also facing increased regulatory and legislative scrutiny: The U.S. Department of Justice, the SEC and the European Union have issued new directives and mandated disclosures in the past year that will directly or indirectly affect PE operations.¹⁰ Firms must double their attention in meeting regulations and managing such risk throughout 2025.

8. Woodruff Sawyer, "[Reps & Warranties Insurance: Our 2024 Guide](#)," August 20, 2024.
9. 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.
10. BCG, "[The Regulatory Climate Is Getting Hotter for Private Equity](#)," July 17, 2024.

Management at portcos will remain essential to sustain returns.

In a slow market with extended exit cycles, PE firms are holding on to assets much longer than in previous years. Not only does that affect insurance and risk management needs at portcos but means that leadership and top management to run portfolio companies could be the difference between top-quartile performance and disappointing results.

In this spirit, the race to recruit top executives to manage portfolio companies is only increasing.¹¹ That's also exemplified by the increased concern from PE managers: More than half say that executive retention risk for their portfolio companies has increased in the last year.¹²

The search for leadership at the approximately 23,000 companies that private equity owns has become so intense that some are hiring first-time CEOs to lead their portcos.¹³ Some are embracing a "CEO-first" approach to investing, in which PE firms recruit rising stars from management at successful companies, then partner with those hires to identify and acquire a company to lead.

Overall, a broader view of talent development and employee retention means PE firms will need to invest more robustly in programs to recruit, train and retain rising talent at their portcos.

In addition, the human resources capabilities of their portfolios may need to be supplemented or replaced with outsourced solutions that are better equipped in these areas.

PE management can also look to improved compensation and incentive benefits strategies to keep lower-level employees engaged at their portfolio companies. For instance, according to the HUB survey, companies

nationwide are implementing auto/home and personal insurance solutions (48% of respondents), enhancing retirement plans (43%) and improving compensation (41%) as ways to improve their employees' financial wellbeing.

11. Business Insider, "[Move over dealmakers, portfolio-company operators are the rising stars of private equity.](#)" August 14, 2024.
12. Alix Partners, "[Leadership and the Future of Value Creation: The New PE Imperative.](#)" March 2024.
13. Hunt Scanlon Media, "[The Rise of First-Time CEOs in Private Equity Portfolio Companies.](#)" June 21, 2024.

Navigating Your Next Steps

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 2025. Here are some initial considerations:

1

Don't shy away from risk.

Erratic 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.

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.

2

A (good) loss trend is your friend.

3

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.

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.

4

Be transparent with your broker.

Private Equity Rate Guide — U.S.

HUB International's rate guidance comprises an analysis of proprietary national survey data and interviews with HUB commercial insurance brokers and risk services consultants who specialize in the Financial Institutions industry.

On average, we are experiencing rate cuts to moderate increases as insurance market conditions generally improve. Below are projections of rate increases that we anticipate in 2025. It's important to discuss your business' exposure with your insurance broker and understand what to expect well in advance of your next renewal.

Coverage	2025 Private Equity Rate Guide	Insights
D&O Private	-10% to +5%	Capacity between carriers for private D&O placements remains strong. Underwriters are aggressively cutting premiums, giving automatic renewals and awarding two-year policies to maintain business.
D&O Public	-10% to +5%	D&O insurance for public companies remains highly competitive. There is plenty of capacity and underwriters remain aggressive. Terms and conditions remain favorable for insureds.
Cyber	-10% to Flat	Premiums for cyber liability insurance are expected to continue to fall. Breaches and outages of significant service providers (i.e., breaches at Change Healthcare and CrowdStrike) haven't led to rate hikes yet but may point to harder market conditions in the first half of 2025.
General Partner Liability	-10% to +10%	Claims on larger private equity firms are likely to drive higher rates and reduce capacity in the near term. 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.
Representation and Warranty	Flat to +5%	Additional capacity has stabilized rates; however, expect rates and retentions to rise should the volume of M&A transactions increase in Q4 of 2024 and into 2025.
Professional Liability: E&O for Asset Managers, Hedge Funds, Broker Dealers	-5% to +5%	As profitability has attracted competition in the market, expect additional capacity for Professional Liability coverage.

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

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