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Industry Insights

Private equity portfolio firms: a unique business model, requiring unique cover

Emma Pereira • July 06, 2023

The purchase of Directors & Officers (D&O) insurance has grown exponentially over the last 20 years across all industries, for the simple reason that the risks facing directors and officers have also grown. In many industries, the risks that face directors and officers are aligned, centring as they do on accounting risks, malpractice and legal challenges from staff, investors or even customers.

However, private equity portfolio firms do not fit into that 'average' D&O buying profile. Their task is to source new companies to buy with potential for above average return on investment of some form (new markets, cost reduction or new technology being the classic levers). The transformation or growth of those companies can take years, and, at the other end of the deal pipeline, successfully dispose of companies that they have seen through the 'build and grow' cycle.

A challenging risk landscape

The PE portfolio investment cycle is by definition a challenging process, which can involve multiple conflicts arising from different sources. The PE firms may see claims made by unhappy minority shareholders, who object to a new business strategy being imposed. Employees themselves may also object to changes that impact them, their jobs and their daily lives. Sometimes transformations do not proceed according to plan, which can lead to financial claims or even class actions resulting from bankruptcy.

Private equity portfolio firms and their directors are, to put it simply, involved in a lot more deals than the average executive. As the expert hands behind regular Mergers & Acquisition transactions, private equity firms have a uniquely challenging and exposed role. However, until now, private equity firms have not had access to tailored D&O cover which protects them throughout the full lifecycle, from company purchase through to divestment.

Why our new solution is a must

To fill this gap, we have developed a new PE Portfolio D&O product that provides cover for all eventualities, at every stage, from the first purchase of the asset to the ultimate exit strategy. It delivers full protection for the private equity house team, whether they join the board of the acquired company or not. The cover includes all of the following PE portfolio -related risks:

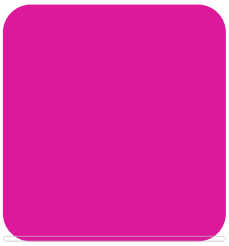
- Disgruntled limited partners, or minority shareholders

- Employment Practices Liability claims if staff changes are implemented
- Financial challenges, including managing debt and raising funds
- Bankruptcy (and subsequently related parties looking to allocate financial responsibility)
- Regulatory issues surrounding any Initial Public Offering
- The provision of due diligence info
- Merger objection claims
- Allegations of mismanagement

Our bold solution for Private equity portfolio firms covers the whole life cycle of an investment portfolio, from purchase to exit and everything in between. In addition to our new solution, our Mergers & Acquisition team offer specialist cover at the buying and selling stages. With transparent pricing, automatic, faster renewals, reduced admin, we offer client certainty for the long term.

Claims Example: our policy in action

A claim was brought by the former CEO of a company acquired by a private equity firm. The former CEO alleged that he lost his job and suffered various other loss by reason of being a whistle-blower. He sued not only the portfolio company but also the private equity company. His claim was for over GBP 200 million, although this was heavily exaggerated.



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Product Leader: International Management Liability

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