

H·E·L·I·O

CAPTIVE MANAGEMENT • RISK CONSULTING

CAPTIVE MANAGEMENT & RISK CONSULTING FOR **PRIVATE EQUITY FIRMS**

HelioRisk.com

Core Utilization Strategies

Portfolio Risk Aggregation

The foundational PE captive application consolidates multiple classes of commercial insurance across platform companies into a single risk pool. Rather than each portfolio company purchasing independent policies, the captive aggregates exposure data, negotiates any reinsurance needed for excess layers, while retaining core risk bands. Benefits include unified underwriting and loss control across acquisitions, leveraging of scale economies as platforms grow through add-ons, simplified policy administration, and much earlier visibility into emerging loss trends across the portfolio.

Fund and Management Company Risk Transfer

Many PE firms establish parallel D&O, E&O, and fiduciary liability programs at the sponsor or management company level, separate from portfolio company structures. This isolation protects fund management from portfolio-company-derived claims and allows the sponsor to secure coverage terms optimized for institutional investors and GPs.

Deal-Specific and Contingent Risk Retention

Captive programs can be structured to write representations and warranties (R&W) deductibles, cover escrow shortfalls, manage environmental tail exposures, or provide contingent liability layers for acquired businesses. This application is particularly valuable in competitive auction processes where the buyer's ability to absorb first-dollar risk can be a deal-closing lever.

Economic Value Drivers

Cost of Risk Arbitrage

The primary economic thesis rests on underwriting profit capture. Traditional insurance transfers all underwriting profit to third-party carriers, while captive structures retain it for the sponsor. If a portfolio company historically pays \$1 million in annual premiums but experiences \$600,000 in average losses, a captive that retains the \$400,000+ spread generates immediate and cumulative savings. Industry data suggests captive programs can reduce effective insurance costs 25% to 50% relative to traditional market pricing over time.

Investment Income on Float

Captive insurance companies maintain loss reserves, and also maintain the surplus capital that buyers funded through premiums. Premiums are moved to investments immediately after current month claims and expenses are paid. Under conservative investment policies, these funds can deploy into short-term bonds, money market instruments, and other liquid, low-volatility vehicles. Investment policies can be tailored to address a higher appetite for risk in other investments as well. The resulting income accrues to the captive and ultimately benefits the PE sponsor.



Captive Insurance And Private Equity Firms

Captive insurance represents a sophisticated risk management and financial engineering tool increasingly adopted by private equity firms to optimize returns, reduce insurance costs, and enhance portfolio company valuations.

Private equity firms operate within a complex risk landscape encompassing portfolio company operational exposures (workers' compensation, general liability, auto, professional liability, cyber), fund-level risks (directors and officers liability, errors and omissions, fiduciary responsibility), and deal-specific contingencies (representations and warranties, environmental, and escrow mechanics.)

Traditional commercial insurance markets often provide inflexible pricing, limited coverage options, exclusions, or high retentions for these exposures. It also exposes insureds to unexpected denials. In contrast, a captive insurance company, a wholly-owned and licensed subsidiary established to insure the risks of its parent and affiliates, enables PE sponsors to bypass carrier constraints and retain underwriting profit directly.

With decades of expertise across captive management, risk financing, tax strategy, and claims, Helio Risk's expertise enables private equity sponsors and their portfolio companies mitigate risk, reduce premium costs, increase financial stability, and create opportunities for growth through captive investments, transforming a cost center into a source of long-term economic value.



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About Helio Risk

With multiple offices around the country including Oklahoma City, Dallas, Jacksonville, Chicago, and Vermont, Helio Risk is a full-service captive management and risk consulting firm of Account Management Specialists, Captive Managers, Risk Control Specialists, Certified Public Accountants, and other administrative staff available to provide insight and expertise to our clients' most challenging needs.

Working together with brokerage teams, actuaries, and other service providers, Helio Risk identifies strategic areas for captive integration within comprehensive insurance programs.