Defying uncertainty

AN EXPLORATION OF 2023-2024 M&A TRENDS
IN THE INSURANCE SECTOR

DLA PIPER

Eight M&A trends in the insurance sector

Geopolitical uncertainty is the new normal. Despite this, insurance M&A activity continued to increase in 2023. Let's take a look at eight M&A trends that have informed this activity:

1. Large carriers continue to strategically reposition

In the overall context of a downturn in large-cap M&A transactions, large carriers still have significant M&A war chests and continue to strategically reposition themselves.

The standout transaction of 2023 was Generali's acquisition of Liberty Mutual's Iberian business for EUR2.3 billion which allowed Generali to strengthen its Property & Casualty position in Spain and Portugal and enter Ireland with significant market share. Generali's acquisition of Conning and connected partnership with Cathay Life was also eye-catching as a strategic move to enhance Generali's global asset management business particularly in the US and Asia.

Equally significant was Zurich's strategic partnership with Kotak Mahindra Bank which represents the largest foreign insurer investment in India (valued at USD488 million) since the regulatory changes in 2021 that allowed majority foreign ownership. And Allianz, acquired Tua Assicurazoni S.p.A from Assicurazoni Generali S.p.A for EUR280 million to strengthen their P&C capability in the Italian market.

Meanwhile, AVIVA after years of disposing of non-core assets considerably strengthened their UK core with the acquisition of AIG Life for GBP453 million and an entry into the Lloyd's market through the acquisition of Probitas for GBP288 million.

> *"Insurers have always been well-equipped to deal with uncertainty and this has been borne out in Insurance M&A in 2023-2024 as they have continued to aggregate, reposition, and innovate. Although the current global geopolitical environment is one of increased risk and regulation, insurers have still found eye-catching opportunities to transact."*

Jonathan Clarke
Partner,
UK

In APAC, since 2020, AVIVA has been selling out of the Singapore market. In September 2023, AVIVA sold its remaining stake of 25.9% in Singapore Life (SingLife) to Sumitomo Life Insurance Company (Sumitomo Life). Shortly after, Sumitomo Life acquired an additional 35% shares in SingLife previously held by TPG, a US PE firm, bringing its shareholding to over 80%. Through the acquisition, Sumitomo Life signalled to the market that Singapore is an essential part of its Southeast Asia strategy. This deal simplifies AVIVA's geographic footprint significantly by withdrawing from Asia, thus allowing the company to solely focus its capital and management efforts on core markets like the UK, Ireland and Canada. Interestingly, two weeks after the sale, AVIVA entered into the acquisition of AIG Life in the UK. The two deals happening within two weeks are symptomatic of the global repositioning in Asia and other parts of the world.

2. Challenges for private equity investors

Private equity (PE) investors like the exposure to long-term capital they gain from investing in insurance businesses and the low capital requirements and scalability of insurance intermediary businesses and 2023 saw an increase in PE M&A activity in both – directly and through portfolio companies. However, different stories have played out in the broker and insurer segments of the insurance market (see below).

The Italian life insurance consolidator, Eurovita, backed by a prominent PE fund, collapsing in 2023 has increased regulatory scrutiny of deals in this space. A note of caution resounded in the German regulator's behaviour in the context of the acquisition of a portfolio of some USD20 billion of Zurich Life Legacy insurance policies from Zurich Insurance by Viridium Holding, the insurance asset consolidation vehicle jointly owned by Cinven, Hannover Re and Generali. This highlighted the risk of a misalignment of interests between the long-term nature of insurance business and the shorter timeframe of ownership through a PE fund, rather than balance-sheet investment by a private capital group.

As well as raising a challenge to PE investment in insurance, it also challenges carriers who have been looking to dispose to PE to shore up their balance sheets (a key objective in a world of heightened risk and regulation and capital redeployment). Despite the increased focus by regulators, and potential impact on timeline, we believe regulators will remain open to PE-backed acquirers that demonstrate a long-term commitment to the business and alignment to policyholders' interests.

In APAC, there is an increase in PE funds backed deals. Also, private equity funds are now often seen in the bidding processes of insurance businesses being auctioned and are actively looking for opportunities to invest in APAC. For example, Warburg Pincus, a leading global growth investor, supported a Singapore-based start-up digital general insurance platform, Oona Insurance since October 2022. Oona Insurance had completed its acquisitions of two insurance businesses in the Philippines and Indonesia shortly after. In Fosun International's second attempt to sell Hong Kong-based Peak Reinsurance in 2024, the prospective bidders are believed to include mainly private equity firms as well as some other financial investors.

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Heng Loong Cheong
Partner,
Hong Kong

Several PE-backed reinsurers tapped into Asia's life insurance market, such as the JPY574 billion reinsurance transaction between Global Atlantic backed by KKR and Manulife Japan involving the transfer of life blocks and reserves. We also understand that there are more structured reinsurance deals in the Japan and Korea markets, for instance RGA (with Blackrock and Vanguard as its two largest shareholders) has reached an agreement with Tongyang Life Insurance Company for an RGA subsidiary to reinsure a USD144 million in-force block of life policies through coinsurance, marking the first cross-jurisdictional coinsurance transaction in South Korea.

3. Broker, MGA and MGU M&A continues to be hot

Broker consolidation and M&A involving capital-light entities such as Managing General Agents (MGAs) and Managing General Underwriters (MGUs) continue to reshape the insurance landscape.

PE investors continued to invest in broker consolidators. The most eye-catching transaction in this area was Permira's acquisition of GGW Group (a European broker consolidator) at an enterprise value of approximately EUR2 billion. And PE-owned international broker platforms such as Ardonagh (HPS and Madison Dearborn), Howden (owned by HG) and PIB (owned by Apax) all were active in M&A in 2023–2024. Most recently in 2024 Ardonagh agreed to acquire PSC an Australian headquartered international broker for AUD2.3 billion and fighting off competition from major brokers such as Marsh. And broker consolidation transactions continued further into 2024 with Aon acquiring NFP for USD13 billion.

MGAs, MGUs, and capital-light insurance distribution platforms are still hubs for talent and innovation. Examples of transactions in 2023 included the acquisition of Australian-based Envest by Ardonagh and Brown & Brown's strategic acquisition of Kentro Capital, the parent company of MGA Nexus Underwriting. Additionally, DOXA, an independent diversified MGA platform, received backing from Goldman Sachs Asset Management.

Broker, MGA and MGU M&A activity remained strong in APAC. A significant cross-border transaction saw Australia and New Zealand focused insurance broker Honan Insurance Group acquired by global insurance broker Marsh. Honan, which was previously owned by private equity firm TA Associates, expanded Marsh's presence and capabilities across the Australia and New Zealand commercial insurance market. PSC was also a bidder for this asset and they launched their own process right after this (with a deal signed with the Ardonagh Group at the end), advised also by Goldman Sachs on the sell side. Broker M&A deals continued apace as mid-sized firms sought new ownership and consolidation, such that they could better serve large multinational clients.

4. Run-off and legacy come of age

Run-off and legacy transactions (both life and non-life) are now becoming a key part of capital management strategies for global insurers. And these transactions increased in number in 2023 and sophistication with loss portfolio transfer (LPT) and adverse development cover reinsurance being used in conjunction with share sale transactions.

PE backed Compre continued their expansion into North America by an LPT with Siriuspoint covering approximately USD1.3 billion of reserves. Marco Capital (also PE backed) continued to innovate with a broad variety of transactions in 2023 such as the acquisition of a portfolio of liabilities from Allianz, the acquisition of Navigators from The Hartford and a LPT transaction with Markel for a portfolio of UK motor liabilities. In the life space, life legacy consolidator Athora continued its expansion into Europe and Monument RE acquired a run-off block of Belgian retail liabilities.

Whilst the number of M&A transactions in the run-off and legacy space did not increase as much as, for example, broker M&A there is an increasing sophistication and discipline in this area combined with the transaction structural innovation mentioned above. All of this means that run-off and legacy solutions are very much here to stay as a means of capital release and management.

Run-off and legacy transactions continued to gain traction across the APAC region. Australian insurer IAG stepped up its strategy to reduce long-tail liabilities by entering into an adverse development cover (ADC) agreement with Enstar for AUD2.5 billion in reserves. The deal will see Enstar provide AUD650 million in excess coverage, allowing IAG to further de-risk its balance sheet. Meanwhile, Bermuda based legacy firm Catalina pulled the planned sale of Asian Capital Re (ACR) after bids failed to meet price expectations. Another example would be the Global Atlantic and Manulife Japan deal mentioned above, where the deal involves four legacy/ low return on equity blocks.

5. Pension risk transfer opportunities

Pension risk transfer solutions in the US, UK, Dutch, Irish and Canadian markets were still in high demand (due to favourable market conditions as a result of higher interest rates). Indeed, there is still strong interest from both PE and strategic buyers in the UK bulk purchase annuity market (either directly or through reinsurance) which completed approximately GBP50 billion of transactions with pension schemes in 2023.

In APAC, RGA also sees growth in pension risk transfer opportunities leading to an uptick in its worldwide life reinsurance business. The CEO noted Asia in particular is presenting increased demand for pension risk solutions.

6. Increased regulation

There is a general global trend to regulation becoming more onerous. This has impacted insurance regulation but also competition and foreign direct investment regulations which have made insurance M&A transactions more costly and time-consuming. These regulatory hurdles remain here to stay as geopolitics trends away from globalisation and move towards regionalisation. This regionalisation does present opportunities though and PwC note in their European Life Insurance Mergers, Acquisition and Restructuring Outlook 2023 that "*regulatory changes across Europe may open up the opportunity for capital optimisation and transaction activity*".

The trend of increased regulation is also evident in the APAC regions. The Hong Kong Insurance Authority (IA) had introduced a risk-based capital (RBC) regime that came into effect from 1 July 2024. It is anticipated that smaller insurers may find it challenging to meet the higher capital requirements under the new regime. As a result, consolidation within local insurance markets through M&A activities is expected to occur, as smaller players seek partners to help strengthen their capital position. This consolidation could help reduce the high number of authorized insurers in Hong Kong, according to the latest IA statistics which reported a total of 157 authorized insurers as of 23 May 2024.

In addition, the Hong Kong broker market is also poised for potential consolidation. There are a total of 804 insurance brokers in Hong Kong as of 31 May 2024. Licensing fees of brokers would be payable to the IA starting from 23 September 2024 under the Insurance (Prescribed Fees) (Amendment) Regulation 2024. This will impact the sustainability of many of the smaller brokers. M&A activity is therefore anticipated as smaller brokers may seek to be acquired by their larger peers to improve economies of scale, diversify distribution channels and absorb the regulatory costs.

7. Digital: digital distribution and insurtech continue to grow

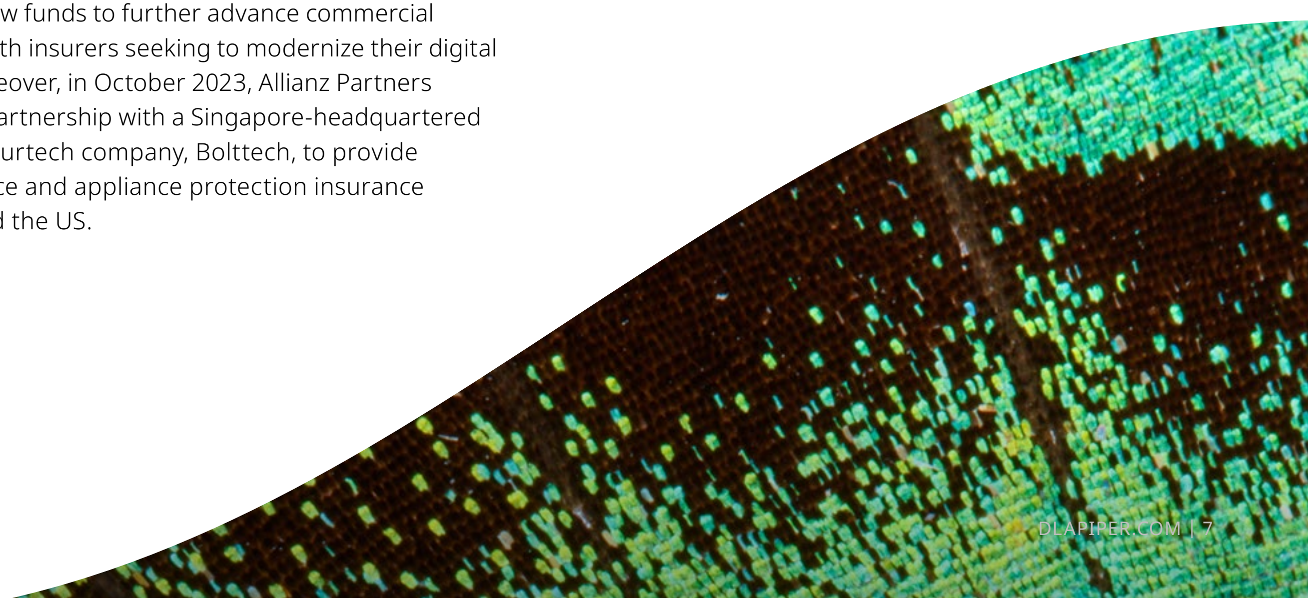
Insurers continue to see the benefit of innovative partnerships with digital distributors. The Digital Transformation in Insurance Conference 2023 featured key players such as AXA and Aspen, suggesting their active participation in digital distribution initiatives. Insurtechs such as Tapoly are actively gaining traction in digital distribution channels and looking at M&A as well a distribution partnerships. Moreover, we have seen partnerships between large carriers and virtual life insurers in the Asian market and we note the partnership between Old Mutual and CoverGo to enhance digital insurance across 13 countries in Africa.

The Insurtech ecosystem also continued to be lively. Whilst VC investment in Insurtech was down in 2023 there was a rally in the last half of the year. USD1.7 billion was raised across 115 deals in the third quarter of the year marking a 53% growth in deal value compared to 2022. And there were some interesting high value insurtech transactions such as Travelers agreeing to acquire Corvus Insurance Holdings for USD435 million in November 2023. Founded in 2017, Corvus is a leading cyber insurance managing general underwriter that uses a proprietary AI-driven cyber risk platform to help customers identify vulnerabilities, thus reducing their exposure to cyber events. And Vista Equity acquired Duck Creek Technologies (an insurance technology provider which has customers such as AIG, Chubb and Berkshire Hathaway) for a USD2.6 billion in January 2023.

In Asia ZA Tech, an insurance core system SaaS provider, had raised a Series A round and rebranded to Peak3 in June 2024 to reflect its next phase of growth and expansion in the insurtech regime. The Series A injection has equipped Peak3 with capital to further develop its core technology platform. On top of working with various leading multinational insurers in Asia such as AIA, Generali, Prudential, and Zurich, Peak3 could use the new funds to further advance commercial opportunities with insurers seeking to modernize their digital operations. Moreover, in October 2023, Allianz Partners announced its partnership with a Singapore-headquartered international insurtech company, Bolttech, to provide embedded device and appliance protection insurance across APAC and the US.

8. Green: ESG increasingly influences M&A

Despite the withdrawal of a number of insurers from the Net Zero Insurance Alliance, insurers continued to look for ways to embed ESG into their M&A processes. Zurich for example have established an ESG legal team to handle non-financial disclosures, ESG governance, and due diligence in third-party transactions. ESG due diligence is becoming a core part of the asset management strategies of insurers and PwC also note in their European Life Insurance Mergers, Acquisition and Restructuring Outlook 2023 that *"a seller's environmental, social and governance (ESG) strategy has become a standard part of an acquirer's due diligence scope"*.



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Global M&A by volume
for the last fourteen years

Mergermarket, 2010–2023

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Europe Financial
Services M&A by volume

**Mergermarket Deal
Drivers EMEA, 2023**

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