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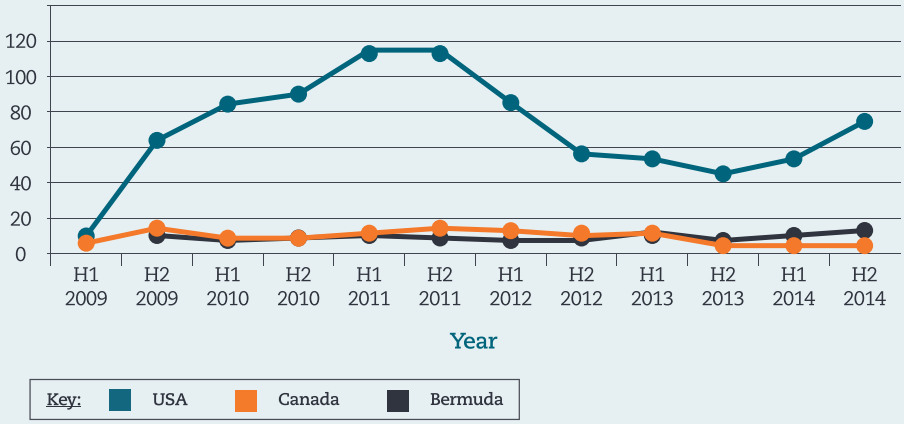
Update

M&A in North America bounces back

Mergers and acquisitions (M&A) activity in the Americas has seen a 19% year-on-year increase with 166 completed transactions in 2014 compared to 139 in the previous year. The second half of 2014 marked the busiest six-month period since 2012 and reaffirmed the rebound from the downward trend that bottomed out at the end of 2013.

Deals by country in North America 2009 - 2014



Much of this uptick in activity has been driven by the US. Although historically it has dominated in terms of overall share of transactions– an entirely natural consequence given the size and maturity of the world's leading re/insurance market – it had briefly relinquished pole position to Europe in terms of deals completed. Contributing factors to this lull included differing buyer/seller perceptions of company value, ongoing regulatory uncertainty, mediocre economic performance, and some companies' preference to reinvest excess capital into the business or to satisfy shareholders with stock buybacks and dividends.

However, the second half of 2014 saw the US take back top spot with 75 completed transactions compared to 55 in Europe. These included a number of sizeable deals, the largest of which was the US$1.5 billion acquisition of The Warranty Group by TPG Capital. The signs are that we should expect more M&A in the US. The economy is looking much stronger and a combination of low interest rates, more readily available finance and a number of companies looking to deploy their surplus cash suggests

that the conditions for deal-making will persist for the short term. The evidence of recent weeks would appear to underline this, with a number of large transactions announced including Progressive Corp's offer of US$875m for a majority stake in the parent of US homeowners' insurer American Strategic Insurance and Assured Guaranty's $810m cash offer for Radian's financial guarantee insurer.

Search for scale

Other markets in North America are also seeing increased M&A activity. Early 2015 has seen a number of key deals in Bermuda, with reinsurers seeking greater scale. Size is becoming increasingly important – while previously the new market norm for reinsurer capitalisation was between $5bn and $10bn, the evolving market environment has led some to adapt this view and move the dial closer to $10bn. If this is the case, then strategic mergers and acquisitions will continue to be driven by the desire to reach optimal scale and relevance.

In the second half of 2014 there were four completed transactions involving Bermuda entities, including the acquisition by the Canada Pension Plan Investment Board of Wilton Re Holdings Ltd. for US$1.8 billion. February saw a continuation of 2015's merger frenzy, with Canadian insurance giant Fairfax unveiling a deal to acquire Lloyd's insurer Brit. Fairfax's purchase follows announcements about XL's deal to acquire Catlin, RenaissanceRe's planned acquisition of Platinum and the "merger of equals" between PartnerRe and Axis Capital.

Meanwhile, in the second half of 2014 there were 12 completed deals involving Canadian targets. The majority of these were domestic transactions valued at under US$ 100 million. Growth and the desire for scale is also a driver here but another factor may be at play. Some commentators have noted that a large number of Canadian transactions involve small and medium sized entities, often in the distribution channel. Many if these – up to around 30% – are thought to be owned by baby boomers looking for an exit strategy. Private sales look to be popular route; if so we should expect more to follow.

Further information

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