Clyde & Co

Insurers search for growth

Navigating challenging and uncertain times

Contents

Introduction

Market conditions for insurance businesses have not improved during the last 12 months – if anything, they may have slightly worsened. Rates remain under pressure. Interest rates haven't moved - although they are expected to trend up in the US following the recent rate rise and the election of Donald Trump. Investment returns are generally low, even if some equities may have performed slightly better than expected. Furthermore, we remain in a period of political and economic uncertainty stemming from Brexit and the new US administration. In this environment it is difficult to tread water and stay afloat, let alone move ahead of the competition by delivering the growth that shareholders expect.

Notwithstanding such uncertain market conditions, a merger or acquisition (M&A) remains, for many insurance businesses, a popular strategy and solution to deliver scale, diversification and access to new markets. A transaction can also provide synergies that offer significant cost savings. In the coming year, we expect to see an increase in M&A, driven by these and a number of other emerging factors.

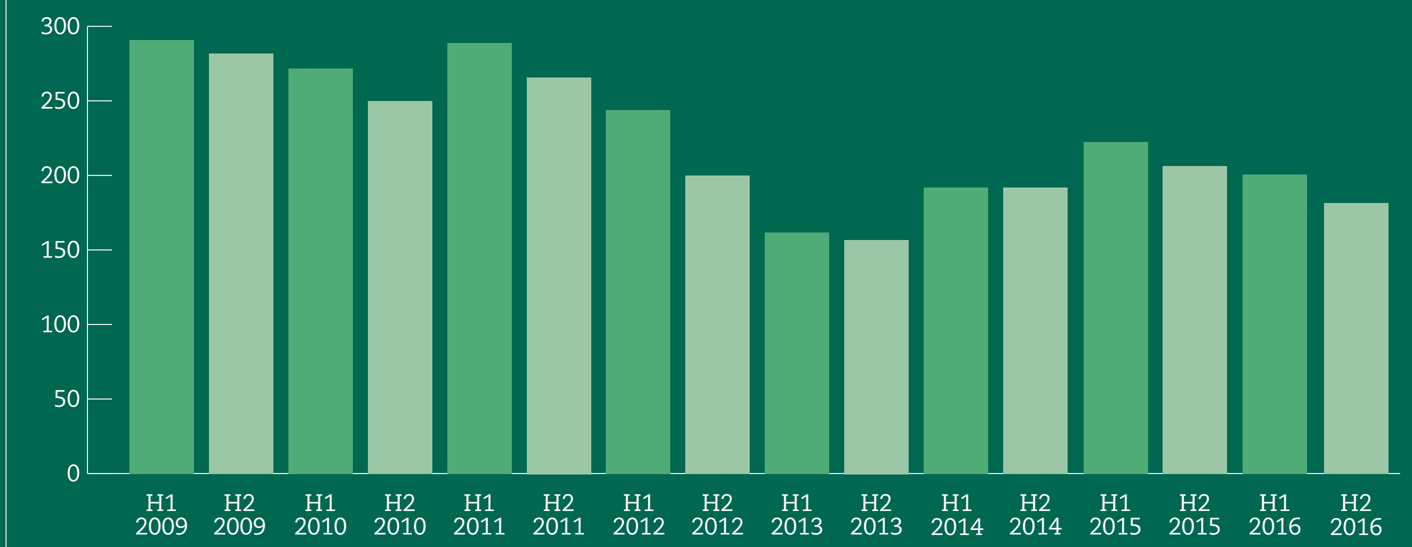
Distress drives disposals

It is inevitable that after five or six years of difficult trading conditions, we will see a higher proportion of distressed businesses being put up for sale.

Brexit encourages action

Another key driver of deal-making is Brexit, which has led to many of the larger insurers headquartered in the UK looking to set up subsidiaries in one or more of the EU27 nations in order to retain passporting around the single market. At the other end of the spectrum, smaller targets may become available if they consider it too difficult or expensive to continue operations post-Brexit.

Volume of insurance deals completed globally 2009-2016



Regulators make their move

Elsewhere in the world, regulatory developments have indicated a move to a more protectionist stance on the direct as well as the reinsurance side, in countries as far apart as South Africa, China and Ecuador. Companies looking to do business in these markets will increasingly have to have a presence on the ground, which they may achieve either by M&A or starting up new operations.

India on the march

Entering into new markets by setting up a branch or subsidiary continues to be another attractive route to growth, especially where barriers to M&A exist. The new rules in India have seen the large global insurers move quickly to set up new offices and position themselves in a market which offers genuinely huge potential. Elsewhere, a number of destinations such as Singapore, Dubai and Miami continue to position themselves as regional hubs where international players can set up operations with the intention of establishing greater access to the wider markets in Southeast Asia, the Middle East and Latin America.

Joint ventures (JV) also remain a tried and trusted route to access local knowledge or technical expertise to build or strengthen a position in new markets. For example, following a change in the law in India, a number of international insurers moved quickly to increase their stakes in local JVs to the new permitted level of 49%, up from the previous limit of 26% via the automatic route i.e. without prior approval of the government. Elsewhere, in Brazil, Swiss Re agreed to form a JV with Bradesco Seguros, and gain access to the company's approximately 40,000 registered insurance brokers and agents.

Technology dominates boardroom discussions

However, it is technology which has seen the greatest increase in interest in the past 12 months and that is expected to increasingly dominate the boardroom agenda in coming years. Insurance businesses are looking at how they can deploy innovative technological solutions to reduce their cost base. At the same time, technology is rapidly cementing itself as the key to accessing new customers in new markets – the Holy Grail for those looking for growth.

An increasing number of insurers are putting their money where their mouth is – investment into Insurtech start-ups rose 42% in 2016. Regulators in markets including the UK, Singapore and the United Arab Emirates are working together with innovators to help create the right conditions for new products and solutions to emerge and thrive, although others – notably the in the US – have some catching up to do in this regard.

Changing times require a paradigm shift

Looking more broadly to the future drivers of growth, it is our view that the insurance sector is set for a paradigm shift. In an increasingly globalised world, where risk is ever more interconnected and challenges to economic resilience abound, there is an opportunity for the re/insurance industry to reinvent itself as a technology-enabled provider of insight, products and services that strengthen the global economy against the impact of both natural and man-made catastrophes.

Whether the solution lies in a combination of old world solutions like better packaged covers or micro-insurance to help close down protection gaps; or the invention of new covers like parametric cat bonds and integrated cyber and supply chain programmes that respond to highly complex interconnected global risks; the opportunity is now.

With competition to leverage these opportunities showing no sign of diminishing, and tough market conditions expected to continue for the foreseeable future, there is no doubt that insurance businesses around the world will continue to look at all available avenues in the search for growth.

We hope that you find the insights presented here of interest. If you would like to discuss any of the themes or data explored in this report, please contact me or your regular Clyde & Co partner.

Andrew Holderness
Global Head of Corporate Insurance

Growth Report 2017
– top ten facts

186 Number of **completed deals** worldwide in H2 2016, quietest six months for three years

USD 28.5 billion = value of ACE's takeover of Chubb – biggest consolidation play of 2016

60 percent of the top 20 biggest deals in 2016 involved Asian acquirers

Technology, protectionism & disposals will be key drivers of M&A activity in 2017

24 = Number of **deals in 2016** in excess of USD 1 billion

94% = number of insurers who expect digital transformation to have the **greatest impact** on distribution over the next 5 years

49 percent maximum stake now permitted in Indian JVs, up from 26%

Investment in insurtech start-ups rose in 2016 **42%**

Estimated value of ASEAN infrastructure **spending needed by 2030** **= USD 2.0 trillion**

2 weeks = time it took for USD 29.2 million to be paid out on products with parametric triggers **following Hurricane Matthew**

Key findings – the **what**, **where** and **how** of insurance growth 2017

Buying scale and scope: What's driving activity in 2017?

With the underlying factors supporting M&A strong, we anticipate 2017 will see a return to form for insurance transactions.

Low growth encouraging consolidation and diversification
Against a low growth backdrop, achieving scale through acquisition has clear advantages, both in expanding revenues and also offering scope for streamlining costs.

Focus on core activities prompting on-going disposals
The flipside to achieving scale through acquisitions is the disposal of businesses deemed to be non-essential as insurers focus on their core activities and geographies.

Digitisation will spur M&A
Insurers' efforts to remain competitive in a low growth environment are leading to greater investment in digital technology.

Asia leading the way into new markets
In 2016, 60% of the top 20 deals involved an Asian-based acquirer. Although activity looks set to continue, regulatory moves in China may slow M&A in the near term.

Protectionism rising but regulation is driving M&A activity
Tighter rules in some markets are imposing restrictions on off-shore re/insurers. Those looking to start or extend activities may need to restructure operations or establish a presence on the ground.

Run-off moving up the agenda
The run-off market continues to attract significant attention in the Americas and Europe. With plenty of liquidity in the system there is no shortage of buyers in what has become a very competitive market.

Targeting teams – predictable but effective
Given that acquiring or merging with another business can be a lengthy, complicated and expensive process, a consistent trend remains the poaching of whole teams underwriting specific books.

Looking ahead
Although uncertainty characterised 2016, we believe M&A will continue to appeal to those seeking scale, cost efficiencies, or an exit route.

Growing organically: Where are insurers searching for opportunities?

Against a challenging backdrop, insurance businesses are looking at all options in pursuit of growth.

Regulatory changes driving market interest
In a number of key emerging markets – such as India and South Africa – recent and upcoming regulatory changes are having a significant impact on insurers' ambitions.

Pursuing the hub model
Singapore has long positioned itself as the Southeast Asia hub. Others following suit include Dubai for the Middle East, Miami for LatAm and the Caribbean and South Africa for the wider continent.

Entering into a joint venture
JVs may be complex to operate, but they remain popular, particularly in India, China and Brazil.

The lure of Lloyd's
Another perennially attractive route to new markets is via Lloyd's. The ability to write business as a Lloyd's syndicate offers immediate access to around 60 countries, with more markets anticipated.

> "In France, as in other markets, M&A activity has slowed against a backdrop of economic and political uncertainty. At the same time, an increasing number of insurers – with the support of some of the big commercial banks – are turning to innovation to deliver their longer-term growth ambitions through investment in start-ups. Insurtech is rapidly moving up the agenda and will very quickly shift from becoming a new way of providing insurance to the only way.
>
> **Yannis Samothrakis, Paris**

From new markets to new products and new models: How are insurers building a resilient global market?

As well as moving into new markets, insurers with growth ambitions are looking at the opportunities to generate new products and services and to trial new processes and business models.

Growth through technology
Technology is rapidly cementing itself as the key to accessing new customers in new markets – the Holy Grail for those looking for growth.

Search is on for better people, better data and better insight
Most insurance businesses are still grappling with how best to make the most of the data they hold. Many require considerable investment in talent, systems, analytics and processes to move forward.

Insurtech generating significant interest
As Insurtech generates huge interest among insurers around the world, so insurers are looking to develop process and cost efficiencies.

Micro-insurance still work in progress
Micro-insurance is another product which offers significant growth potential. South Africa, Thailand, China, India and Nigeria are among the markets offering immense growth opportunities.

Takaful resurgent?
Takaful has long been touted as a potentially huge growth market. Interesting moves by sizeable players this year may indicate reignited interest in this sector.

Drones and driverless cars
The increasingly widespread use of drones is creating opportunities for insurers while the industry is moving quickly to respond to the arrival of autonomous vehicles.

Parametrics offer potential but more effort needed
Parametric insurance has the potential to transform the way disasters are managed as governments and aid agencies re-set expectations about how fast aid can be delivered.

Traditional products in new markets
Traditional products often generate fresh interest in new markets. Health and life insurance is a good example of this trend in 2017.

Buying scale and scope

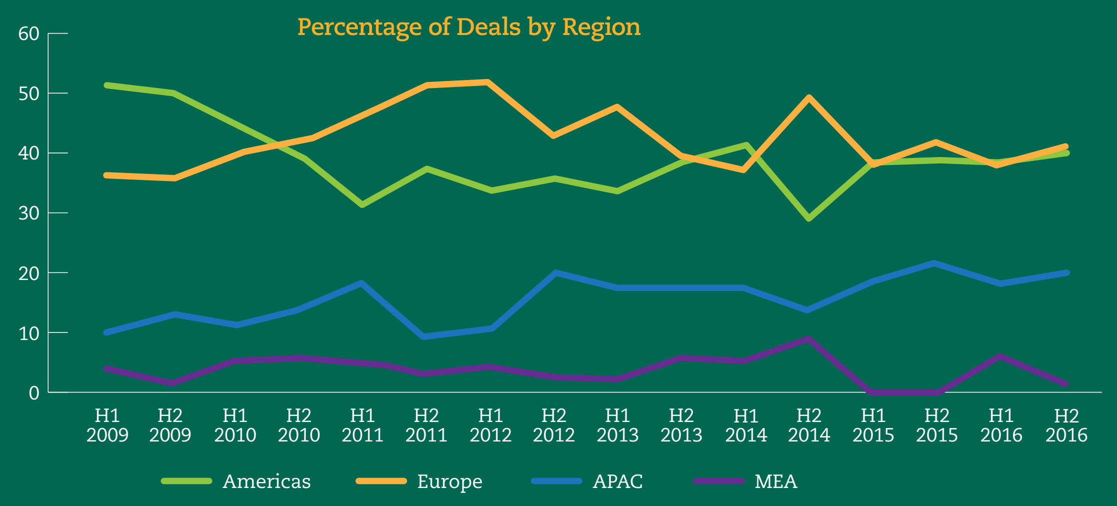
After 2015's bumper year for transactions, which brought the return of megadeals and a number of transformational acquisitions, both the volume of deals and their total value declined in 2016. The lower level of deal activity reflected both high levels of political uncertainty, as the US election and the Brexit vote prompted caution among dealmakers, as well as a pause in the pace of transactions as the market absorbed the previous year's big-ticket transactions.

But the underlying factors supporting M&A remain strong. The fundamental drivers pushing insurers to focus on how to generate growth have not changed, and if anything they have become more pressing. Premium rates are under pressure and the underwriting environment is challenging. Interest rates remain at very low levels and investment returns are weak, while the ability of insurers to draw on past reserves to support performance is diminishing. These drivers will continue to underpin the industry's appetite for M&A and the pick-up in activity in the last quarter of 2016 points to an active year ahead in 2017.

> "In the current market environment, the question is how to maintain margins. Companies can't control pricing and broker costs, so they are looking at the only line on the balance sheet they can control: expense ratios. Merging businesses can deliver millions of dollars in savings while underwriting the same volume of business, which means the combined bottom line should improve.
>
> **Andrew Holderness, London**

Low growth drives consolidation and diversification

Strategic re-positioning has been an important investment theme in M&A activity during 2016. Against a low growth backdrop, achieving scale through acquisition has clear advantages, both in expanding revenues and in offering scope for streamlining costs. The year's largest deal between two insurers – the USD 28.5 billion acquisition of Chubb by ACE, which was announced in 2015 and completed in early 2016 – is a clear illustration of this consolidation rationale. The merger creates the world's largest publicly traded property and casualty insurance company, increases the combined group's diversification and offers the potential for significant cost reduction.



Source: Thomson Reuters/Alacra

The role of insurance within an overall portfolio was a theme underpinning two of the top three completed deals in 2016. Diversification was the rationale behind the USD 6.9 billion purchase of Bermuda-based PartnerRe by Italy's Exor, the investment company controlled by the Agnelli family, which completed in March 2016. During 2015, Exor won a three-way battle for the reinsurer, seeing off a proposed merger with Bermuda rival Axis Capital Holdings. Exor is seeking to diversify its investments, which include carmaker Fiat, away from the industrial sector.

Focus on core activities prompting on-going disposals

The flipside to achieving scale through acquisitions is the disposal of businesses deemed to be non-essential as insurers focus on their core activities and geographies. On the last day of the year, American International Group (AIG) completed the USD 3.4 billion sale of United Guaranty Corp., its mortgage guaranty unit, to Arch Capital Group, in what was a major move into a growth area for the acquirer. AIG described the deal as "another step in simplifying our organization to become a leaner, more focused insurance company". During the year, AIG also sold Ascot Underwriting, a Lloyd's of London platform, to the Canada Pension Plan Investment Board for around USD 1.1 billion.

Following a similar rationale, AXA sold operations in the UK and Hungary, while making an acquisition in the Philippines, and Zurich Insurance continued its sell-off strategy with the sale of its South African and Botswanan operations to Fairfax Financial Holdings. RSA completed the GBP 403 milion disposal of its operations in Brazil to Suramericana SA, the insurance subsidiary of Grupo de Inversiones Suramericana, and is in the process of disposing of its remaining Latin American operations in Chile, Argentina, Mexico, Colombia and Uruguay.

Looking ahead, on a similar theme, in the fourth quarter of 2016, Generali announced its intention to raise at least EUR 1 billion by 2018 from disposals of operations in less profitable and sub-scale markets, while making targeted investments in growth markets. The process is already underway with the disposal of businesses in Liechtenstein and Guatemala.

49%
of insurers expect to make an acquisition over the next three years to acquire digital technologies

Digitalisation will spur M&A

Generali also provided a further example of insurers' efforts to remain competitive in a low growth environment through investment in digital technology. The company is aiming to reduce its combined ratio in non-life business through digital initiatives including data analytics and automated profiling in motor.

Insurers have lagged behind other areas of the financial services sector in adopting digital technology, but a survey in January 2017 by Willis Towers Watson in conjunction with Mergermarket found that an increasing number of insurers now regard investment in digitalisation a priority. Nearly all survey respondents (94%) expect digital transformation to have the greatest impact in distribution over the next five years, but as the scope of digitalisation broadens, insurers are expected to buy-in external innovation through acquisitions, leading to a wave of new M&A activity. Almost half the respondents to the survey (49%) expect to make an acquisition over the next three years directly driven by the desire to acquire digital technologies.

Bermuda in focus

Exor's success in the battle for PartnerRe brought the future of Bermuda's other insurers into the limelight. Low growth, deteriorating margins and cost pressures underpinned expectations of further M&A activity, which culminated in two further deal announcements in the fourth quarter of 2016.

In October, Sompo Holdings agreed to pay USD 6.3 billion for Endurance Specialty Holdings, a value equivalent to close to 1.4 times trailing book value and in December Fairfax Financial paid USD 4.9 billion for Allied World, equivalent to 1.3 times book value.

> M&A involving smaller to mid-sized Bermuda-based insurers and groups has been expected for years, and now those expectations have been translating into deal activity. Many Bermuda-based companies remain targets for deals and will have to diversify in order to grow and compete. Bermuda-based companies are of interest to global players, but many Bermuda insurers focus their business on the US so a tie-up with US parties can provide a natural synergy.
>
> **Vikram Sidhu, New York**

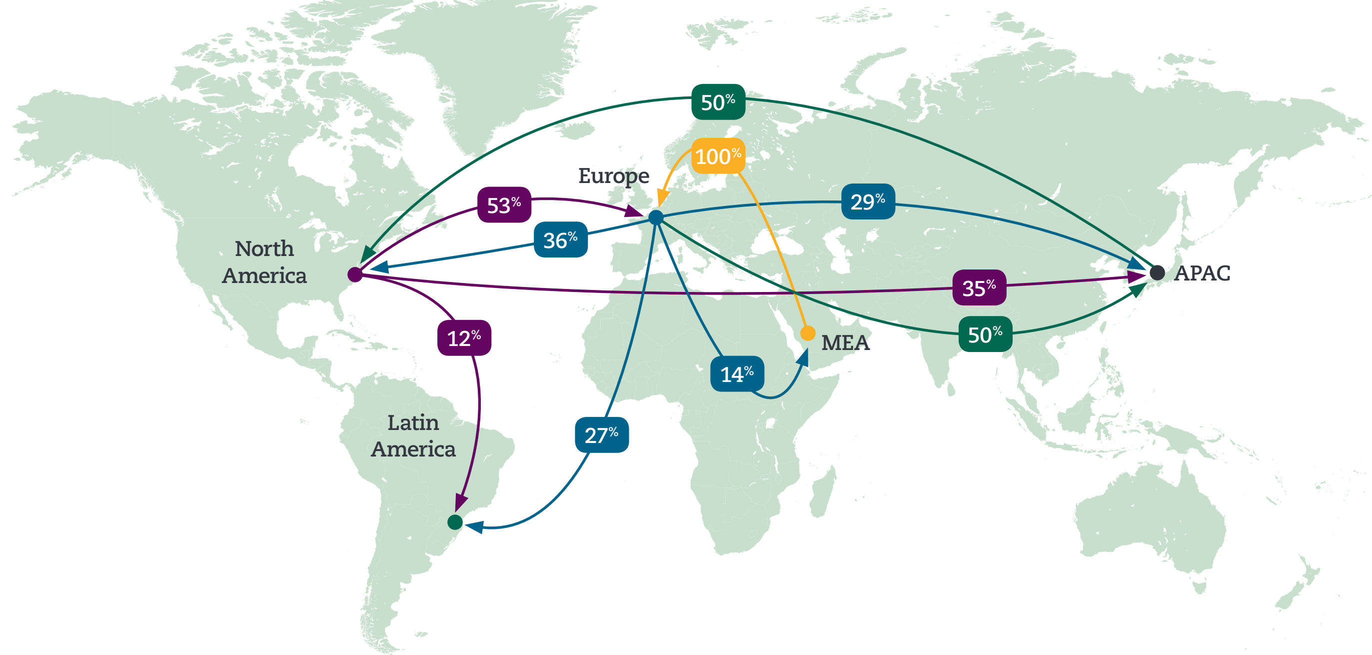
Looking ahead, Bermuda-based insurers could face further competitive pressures if potential corporate tax cuts by US President Trump become a reality, undermining their tax advantage. In addition, the US administration may again consider essentially penalising premiums paid for affiliate reinsurance obtained from Bermuda reinsurers.

Entering new markets

Sompo's move on Endurance, which comes on the back of a record 10 trillion yen of outbound deals by Japanese companies in 2015, shows that Japanese insurers' appetite to internationalise their portfolios remains strong.

The Japanese insurance industry has been among the first to feel the impact of Japan's adverse demographics – more than a quarter of the population is aged over 65 and the birth rate is among the lowest in the OECD. As a result Japanese insurers have been active purchasers of overseas assets. Whilst, in the short-term, Japan's acquisition spree could slow to allow time to absorb the purchases made over the last two years, further deals are likely. Sompo told investors that prior to deciding to buy Endurance it had considered 45 acquisition targets around the world.

Percentage of outbound M&A deals by region



Outbound deal activity by Japanese insurers continued to be one of 2016's dominant themes, as is the high level of M&A activity generally among Asian insurers. In 2016, 60% of the top 20 completed deals involved an Asian-based acquirer, predominantly from Japan and China.

Last year's Chinese insurance deals include Shenzhen Qianhai Financial Holdings and Shenzhen Investment Holdings' agreement in October to buy Singaporean carrier Asia Capital Re for USD 1 billion, and China Minsheng's USD 2.6 billion purchase of Bermuda-based White Mountains' reinsurance arm Sirius, which closed in April. However, the majority of the China-led deals were domestic transactions and the outlook for further international acquisitions in the near term is currently unclear.

European run-off market expected to reach

EUR 8 billion

in 2017, up from EUR 4.4 billion last year

China applies the brakes

Worried about the depreciation of the yuan and slowing economic growth, the China Insurance Regulatory Commission (CIRC) has imposed stricter controls on insurance investments, including companies' foreign assets, which could make it more difficult for Chinese insurers to gain domestic approval for foreign acquisitions. To help stem currency outflows, the People's Bank of China closed the Renminbi Qualified Domestic Institutional Investor scheme back in 2015, which had allowed domestic investors to buy offshore assets. Transactions that count as overseas direct investments (ODIs) by insurers remain possible, but are likely to be more difficult than in the past.

33%

the biggest stake a single shareholder can take in an insurance firm in China, down from 51%

Regulatory oversight of the activities of Chinese insurers in the domestic market has also recently been tightened. CIRC has introduced new rules aimed at limiting risk, by tightening the shareholding structure at insurance firms and limiting how insurance assets are invested. The biggest stake a single shareholder can take in an insurance firm has been reduced from 51% to 33%. To control their risk exposure, the amount investable by Chinese insurers in a single stock has been capped at no more than 5% of total assets, and an insurer's total equity investment is now limited to no more than 30% of its total assets at the end of the previous quarter.

The changes are the regulator's latest attempt to strengthen supervision of the industry amid concerns over opaque ownership structures and insurers' use of premium capital to speculate in domestic equity markets.

> "The regulator wants the insurance market to be more disciplined and, in the short-term, there may be less M&A activity, particularly outbound transactions. But the new regulations won't change the longer-term appetite among Chinese companies for international expansion and ultimately the new rules will help create a healthier market environment.
>
> **Michael Cripps, Shanghai**

Protectionism is on the rise but regulation is driving M&A activity

Restrictions on the investment activities of Chinese insurers are not the only way in which China's government is shaping the insurance industry. At the start of 2016, the new C-ROSS solvency regime came into effect – a regime that CIRC established from conceptual framework to implementation in less than three years. Under the new regime, offshore reinsurers are subject to greater capital requirements than onshore competitors, which is likely to force companies that want to do business in China to establish a presence on the ground.

Germany and South Africa cautious

China is not alone in using regulations to protect its domestic insurance industry. A new German Insurance Supervision Act came into force at the start of 2016, under which third country insurers must obtain a licence and establish a local branch office unless they are domiciled in a country with a Solvency II equivalent regime (the EU, Bermuda, Switzerland and Japan).

Similar changes are occurring in South Africa, with the introduction of the Solvency Assessment and Management (SAM) regime and a new Insurance Bill, likely to come into effect later in 2017. Under the new regulations re/insurance companies will find it difficult to operate in this market without establishing a physical presence in South Africa. The new solvency regime increases capital requirements for insurers, which may be difficult for smaller companies to comply with, leading to an increase in domestic and international M&A activity. While some companies may choose to exit the market – Zurich disposed of its interest in South Africa last year – others will want to establish a presence.

Lloyd's spearheads globalisation

Further internationalisation of the market is underway. Lloyd's, the specialist insurance and reinsurance market, has received final regulatory approval from the Insurance Regulatory Development Authority of India to open a reinsurance branch in the country, in time for the April 2017 major reinsurance renewals. With a population of more than 1.25 billion, a rapidly emerging middle class and comparatively low insurance market penetration India is an attractive region.

In the Indian life insurance market, which remains dominated by the government-owned Life Insurance Corporation, consolidation among the fragmented private players has begun. In 2016, Max Financial Services and HDFC Standard Life Insurance agreed to a merger that will create India's largest private sector insurer, if it can overcome objections from the regulator regarding the deal's structure.

> "The biggest two deals in the last 12 months in Australia have both been driven by the desire to access new distribution channels; to help get closer to customers and propel growth.
>
> **Dean Carrigan, Sydney**

Run-off moves up the agenda

The run-off market is continuing to attract significant attention in the Americas and Europe from both a disposal and acquisition perspective. In the US the main players have been active with the Berkshire Hathaway National Indemnity Company taking a USD 1.5 billion asbestos book from Hartford. The deal came in December 2016, shortly after ratings agency AM Best warned that insurers face an additional USD 15 billion of losses from asbestos in the coming years.

Zurich, QBE, RSA and Allianz – among others – have all been selling books such as catastrophic injury and asbestos and, with plenty of liquidity in the system, there is no shortage of buyers in what has become a very competitive market.

Meanwhile, in the US, Arch unveiled a new USD 500 million+ Bermudian run-off vehicle with majority backing from private equity firm Kelso & Co. The vehicle is expected to target the middle market legacy arena currently dominated by Enstar and Catalina.

Also in the US, following the amendment of run-off regulations in Rhode Island in 2015 to encourage more UK-style transfers of run-off books of business, the market has been waiting for successful transactions to close under the new rules. In 2016 Pro Global Insurance Solutions announced that it has become the first company to file an application to form the first Rhode Island carrier established specifically to accept run-off portfolios, subject to regulatory approval. The new entity will be called ProTucket.

Targeting teams

Given that acquiring or merging with another business can be a lengthy, complicated and expensive process, assuming of course that it is possible to persuade the intended target to sell in the first place, the insurance industry has always been characterised by high degree of workforce mobility. However, over the last decade, a consistent trend has been the poaching of whole teams underwriting specific books of business.

The appeal of this approach is clear. It is possible to acquire teams relatively cheaply and without any of the legacy issues that buying a whole business may bring. This can be a good way of entering into a new part of the market or to strengthen an existing position by attaining business that otherwise would not be for sale at a competitive price. Poaching one team can sometimes be a springboard for more and it's quite often the case that we see teams moving in the aftermath of a merger or acquisition. For example, following the mega Ace-Chubb deal last year, Berkeley in Singapore moved quickly to snap up a number of unsettled teams. Also in Asia, Berkshire Hathaway recruited a team from AIG after it had established its specialty business in Singapore. In the Middle East, this is also a popular tactic that was employed by Zurich when it entered the market and now that it's leaving we are seeing a number of its component parts being snapped up by competitors. In the same region, Qatar Re has bought teams from Bermuda, London and Switzerland.

> "Targeting teams has been a consistent trend over the last 10 years, although cases tend to go in spikes. While it can be a means to side-step the complexities of acquiring a business, there are legal and financial risks to be navigated, as well as the potential for reputational damage.
>
> **Robert Hill, London**

However, this is not an entirely trouble-free process. There are legal and financial risks, potential damage to a company's reputation, and employers may litigate against exiting employees for breach of contract. Employers who have lost a team may look at how they can claim for damages. One example where this proved to be an expensive process was in the broking space where a recent case saw JLT make a considerable out-of-court settlement, according to media reports, in a dispute relating to the poaching of 32 members of Willis' fine art, jewellery and specie team. In another case, this time in the US, in December 2016 Lockton announced that its Texas division was suing two of its former employees after they allegedly led a team defection to rival broker Marsh. Lockton has asked the court to rule that the departing staff owe a fiduciary duty and loyalty to their former employer.

As the soft market continues and insurance businesses continue to chase market share, they will continue to look at all available options. However, there has certainly been a shift in this area in the last few years with employers drafting tighter contracts and more likely to start legal proceedings against those who break them. Companies that have been burned in the past, or have registered the fallout of the JLT and Lockton cases, may be more cautious in the future.

Looking ahead

Uncertainty characterised 2016 and the full implications of last year's unexpected political decisions have yet to be realised. In the US, uncertainty about the trade policies of the new Trump administration could cool foreign investors' appetite for insurance M&A in the US in the short-term. Hopes remain high for a pro-business agenda and while the devil will be in the detail that is yet to be determined, a positive policy outcome would be encouraging for the economy and the insurance sector.

In Europe, the introduction of Solvency II has been a significant factor for the last few years, and now Brexit and its potential knock-on impact on other European countries brings further potential challenges. Uncertainty remains over how insurers' business would be affected should they lose passporting rights between the UK and Europe as a result of Brexit, which may lead to the postponement of some potential M&A activity. However, the combination of the effect of solvency requirements, tough market conditions and low investment returns added to Brexit uncertainty provide compelling reasons for insurers to continue to take a hard look at rationalising their portfolios and disposing of non-core assets.

For some, the decision may be taken out of their hands by acquirers seeking scale and cost efficiencies. Years of difficult market conditions have drained reserves, leaving some operators vulnerable to takeover. Expectations are for more M&A activity among the Bermuda-based re-insurers, while the near 25% plunge in Novae's share price after it issued a profit warning in December shows that investors are very aware of the challenges insurers face.

Other factors, which supported M&A in 2015 and 2016 are likely to continue to underpin deal activity. Driven by a weak domestic market and a shrinking population, the appetite among Japanese insurers for overseas assets looks set to continue and while regulatory pressure may prompt a pause in overseas expansion by Chinese insurers, the longer-term trend for internationalisation remains intact.

Growing organically

Against a backdrop of a competitive and difficult trading environment, pressure on pricing and thin investment returns resulting from the sustained period of low interest rates, insurance businesses continue to look at all options in the pursuit of growth. Where M&A remains difficult, be it due to a lack of attractive targets, challenges around valuations or regulatory barriers, there are a number of other options to pursuing growth. These include setting up a branch office or subsidiary, entering into a joint venture or accessing new markets via the Lloyd's platform.

Setting up shop – regulatory support is the swing factor

In a number of key emerging markets, recent and upcoming regulatory changes are having a significant impact on those seeking growth.

India on the up

In India, there has been a raft of changes to the legal framework over the last couple of years. Now that the new legislation is bedding in, international players are finally able to start building or strengthening their presence in one of the world's most promising insurance markets.

At the start of 2017 Munich Re, Swiss Re, Hannover Re, Score and RGA have received regulatory approval to open a branch office in India. In a statement Hannover Re spelt out the rationale behind the move: "With a total population of some 1.3 billion, a rapidly growing middle class and a comparatively low insurance density relative to other national economies, India constitutes an attractive market of the future." A number of other international businesses including AXA, Gen Re and XL Catlin are also in the process of application.

> "The Indian insurance market continues to grow and the outlook for 2017 is optimistic. If you look at the last two years, 2015 was about the introduction of new rules and 2016 was about their implementation. Indian businesses are looking for foreign capital to expand and foreign businesses are looking to find partners to help establish a business or create a joint venture. We expect the market to welcome new entrants in 2017.
>
> **Vineet Aneja, Mumbai**

South Africa set for challenges ahead

The situation in South Africa could hardly be more different.

If anything, those looking at South Africa as a venue for expansion may be slowed down by the upcoming Financial Sector Regulation Bill and the Insurance Bill. This will tighten the prohibition of foreign insurers and reinsurers conducting business in the country without a licence. The vast majority of operating models which were utilised by foreign re/insurers, for example the typical 'fly-in fly-out' models, will in most instances no longer be viable.

South Africa accounts for **80%** of all insurance premiums in sub–Saharan Africa

Foreign direct insurers caught by the prohibition will have to consider whether they will seek to amend their model to comply (though this may be more challenging under the new dispensation), incorporate a local insurer in South Africa, operate via a Lloyd's underwriter, or simply abandon their South African business.

Given the regulatory and cost burden of establishing a fully incorporated entity, we foresee a substantial up-tick in business by way of Lloyd's underwriters and it is likely that Lloyd's will expand its local capabilities ahead of this. We expect that 2017 will see a flurry of activity as foreign re/insurers scramble to restructure their businesses in line with those provisions envisaged in the new Bills. Although the impact is likely to be broadly positive, the introduction of the Bills will pave the way for some (a minority) to withdraw from underwriting South African risks where their footprint does not justify the higher cost base.

ASEAN rising
Southeast Asia continues to be very much on the agenda for any insurance business with international ambitions. Growth rates are high, especially in comparison to more mature markets in Europe and the US. The region is prone to natural catastrophes, home to a growing middle class and is characterised by a lack of insurance penetration across multiple markets including Indonesia, Vietnam and Thailand.

ASEAN is expected to require more than
USD 2 trillion
USD in infrastructure spending by 2030

The launch of the ASEAN Economic Community (AEC) at the end of 2015 has resulted in considerable optimism in the insurance industry in the region and beyond. While, unlike the EU, ASEAN does not have a single oversight body and it is early days in terms of policies such as tariff reduction, there are signs that the AEC is moving in the right direction, facilitating cross-border business, and thereby promoting new paths to growth. Furthermore, the ASEAN region is expected to require more than USD 2 trillion in infrastructure spending by 2030, according to some estimates which will translate into significant opportunities for the insurance industry.

> “The key question for insurers looking to enter the ASEAN market is whether to buy or build a presence. The answer is different for everyone but the main challenge is finding the right targets – businesses of the right size at the right price unencumbered by the unwanted baggage of legacy issues.
>
> **Ian Stewart, Singapore**

Sophistication of Singapore is a big draw
Singapore remains the most sophisticated market in ASEAN and its regulator – the Monetary Authority of Singapore (MAS) – continues to actively pursue a policy of supportive regulation in order to position itself as a hub for wider access to the region and attract investment from international players. In a recent example, Qatar Re announced in October 2016 that the MAS had granted the company a licence to operate a branch office in Singapore. Acquiring branch status strengthens Qatar Re's presence in Asia's rapidly evolving insurance and reinsurance markets, and at the same time contributes to the expansion of the company's global reinsurance footprint and risk diversification profile, the company said in a statement.

This points to an emerging trend we have seen in the market as insurers look to expand an existing footprint. Businesses already permitted to sell reinsurance are opting to apply for a licence to write direct business as well. One example of this was in May 2016 when W. R. Berkley Corporation announced the formation of Berkley Insurance Asia. This new operating unit has begun offering specialty commercial insurance coverages to clients in North Asia and Southeast Asia through offices in Hong Kong and Singapore, respectively.

Indeed, the attractiveness of Singapore has recently been highlighted by developments in other markets in the region. Obtaining new licences has become increasingly difficult in Malaysia and foreign ownership restrictions make it comparatively difficult to enter the market. Meanwhile, Indonesia is seeing a shift towards a policy of greater protectionism, and there is a suggestion that the regulator is considering a range of measures aimed at further limiting foreign participation in the local market.

Malaysia is making headway
One company that has managed to win a licence to provide reinsurance services in Malaysia is Berkshire Hathaway Specialty Insurance Company (BHSIC). It announced in January 2017 that it had established an office in Kuala Lumpur to provide non-life reinsurance services. This is the latest step in the US conglomerate's strategy to expand its operations in Asia, a process that began in 2014 with the granting of its first licence in the region - in Singapore. BHSIC has since established operations in Hong Kong and Macau.

Myanmar – the final frontier
Elsewhere, we expect to see an increase in investment in Myanmar over the next 12 months. This is one of the region's - and indeed the world's - final insurance frontiers.

Over 20
foreign companies have opened representative offices in **Myanmar**

The first step in the opening up of the country's insurance market was the granting of insurance licences to domestic participants a number of years ago. The regulator then allowed a small number of Japanese insurers into free-trade zones and in 2017, it is expected that the market will be more broadly opened up to allow wider participation by foreign players. However, many of those looking to do business in Myanmar will have set up representative offices some time ago. Those that did not do so and are looking to enter the market will be starting from a position of comparative disadvantage.

Pursuing the hub model

Singapore has long positioned itself as the gateway or hub to other markets in Southeast Asia. There are instances of a similar approach in other regions.

More inbound interest in South Africa
In South Africa, although the new Insurance Bill will require some re/insurers to restructure their operations in the country, it is also expected to pave the way for an increase in inbound investment. The new regulations are a clear statement of intent that South Africa is very much open for business and the bill also serves to strengthen South Africa's position as a hub from which to access the wider African continent.

> “Despite the risks of doing business that have been traditionally associated with Africa, there is still considerable appetite and we continue to see foreign re/insurers expressing interest in entering the South African market. It offers a hub to access the wider continent, with the right legal and payments systems in place. We are confident that we'll see an increase in investment in 2017 with more and more re/insurers looking to establish a presence in the country.
>
> **Ernie van der Vyver, Johannesburg**

Intermediaries targeting Dubai
Dubai has been pursuing a similar path in the Middle East for some time. Although the reinsurance market in the Dubai International Finance Centre was not as active in 2016 as it had been in the previous 12 months, the number of reinsurance brokers is increasing and more MGAs are being set up. There has also been an increase in independent MGAs underwriting on behalf of one or more insurers.

Miami is the gateway for LatAm and Caribbean markets
In the US, Miami has long been seen as an ideal location to establish operations to access insurance markets in Latin America and the Caribbean (LAC). In January 2017, Axis launched a direct and facultative platform in the city as it looks to expand its offering to LAC market. Axis Miami will operate as part of the carrier's international insurance division and will provide D&F coverage to the LAC market with a focus on energy and property. With its existing Axis Re Brazil representative office in Sao Paulo writing treaty business, the carrier said the Miami launch allowed it to deliver a full range of facultative and treaty reinsurance solutions in the LAC region.

Entering into a joint venture

For those unwilling or unable to satisfy their growth ambitions via merger or acquisition, or by setting up on their own in a new market, entering into a joint venture (JV) has long been an attractive option. Over the last 12 months, there's been plenty of evidence that this remains a popular strategy.

India makes a strong play while China and Brazil play catch up

For example, in India, a change in the law in March 2016 raised the foreign direct investment limit for insurance companies to 49% up from the previous limit of 26% via the automatic route i.e. without prior approval of the government. This resulted in a number of foreign insurers moving quickly to increase their stakes in Indian ventures including Liberty, Sun Life, Tokio Marine Holdings and AXA.

In China, another market that has been traditionally challenging to enter for foreign insurers, we also continue to see new JVs. In September 2016, Euler Hermes partnered with China Pacific Property Insurance Company (CPPIC) to launch a credit insurance JV in China, based in Shanghai. The move marks a further expansion of CPPIC's relationship with Euler Hermes' parent Allianz, with the company also cooperating in areas including health cover, automotive and roadside assistance. In another example, in early 2017, Singapore-based health technology start-up CXA Group announced plans to collaborate with Chinese conglomerate Fosun International to launch a new insurance platform on mainland China that automates employee health care programmes and creates a marketplace for wellness providers.

40,000
insurance brokers and agents are registered to Brazil's Bradesco Seguros

In Brazil, another emerging market with huge potential for the insurance industry in which it is difficult to obtain a foothold, Swiss Re Corporate Solutions agreed to form a JV with Bradesco Seguros, the insurance arm of Bradesco Group. Under the terms of the deal, Swiss Re will take a 60% stake in the new vehicle and Bradesco's team responsible for commercial large risk business in Sao Paulo and Rio de Janeiro will join the new vehicle. Approximately 40,000 insurance brokers and agents are registered to Bradesco Seguros.

> Despite economic and political headwinds, Latin America is still attracting the attention of foreign investors, who are considering a range of ways into the market including acquisitions, joint ventures or via the Lloyd's platform.
>
> **Stirling Leech, Sao Paulo**

Companies also targeting JVs as a fast route to tech enablement

However, companies are not just entering into joint venture agreements in order to tap local knowledge. There are an increasing number of cases where this is happening to get access to technical expertise that will open up opportunities in new and emerging product areas.

In a move targeting the market for small and medium-sized enterprises, AIG entered into an agreement with Hamilton and Two Sigma to potentially access a market that Hamilton chairman and CEO Brian Duperreault said was worth USD 80 billion in premium and which is largely untapped.

And, with the demand for cyber insurance increasing, so is the number products available. A JV can be the most effective way of combining capital and expertise. One example saw Neon Underwriting launch its first managing general agent JV with former Barbican cyber liability head, Geoff White, to create Avalon.

The lure of Lloyd's

Another perennially attractive route into new markets is via the Lloyd's platform. The ability to write business as a Lloyd's syndicate offers immediate access to around 60 countries where it has licences to operate. However, Lloyd's has not been resting on its laurels and in the last 12 months has expanded its international presence still further. In January 2017, it received final regulatory approval from the Insurance Regulatory Development Authority of India to open a reinsurance branch in in the country, in time for the April major reinsurance renewals.

Opening up in Bogota

In the middle of last year, Lloyd's opened an office in Bogota, to build its trading relationships in the fast growing Latin American market. Two Lloyd's insurers - Advent and Brit - will be represented on the Lloyd's Colombia platform alongside the Lloyd's representative office. Colombia is a fast-growing centre for facultative reinsurance and Lloyd's is already a well-established provider of energy, property, financial lines and aviation cover. John Nelson, Lloyd's Chairman, said: "Colombia is an important part of Lloyd's future growth strategy, both as a fast-growth market and as a gateway to Latin America."

Malaysia in the cross-hairs

On the other side of the world, in Malaysia, Lloyd's also has plans to expand. It currently serves the Malaysian market as a Tier 2 reinsurer through its nine Labuan Service Companies, and as a cross-border reinsurer primarily from London and Singapore. However, Lloyd's is working closely with the Malaysian authorities on an application for an onshore Tier 1 reinsurance licence which will enable it to contribute greater capacity and specialist underwriting expertise in emerging and complex risks to serve the growing demands of the domestic insurance sector.

Finally, at the time of writing, there is still some uncertainty surrounding Lloyd's post-Brexit plans. It will certainly have to set up some operational infrastructure in one of the EU 27 countries with Ireland, France and Germany among those locations under consideration. The exact nature of the underwriting model has yet to be determined although Lloyd's may opt for a similar model in the EU to the one it has in China where the Lloyd's P&C company authorised in Shanghai funnels business back to London through a set of reinsurance contracts.

Wherever in the EU Lloyd's chooses to establish its subsidiary could present interesting opportunities for local re/insurers and those across the region.

From new markets to new products and new models

As well as moving into new markets, insurers with growth ambitions are looking at the opportunities presented by offering new products. These may be solutions that have worked well in mature markets for some time that may now be rolled out in emerging economies. Alternatively they may be new products, developed in response to emerging risks.

Growth through technology

Technology is rapidly cementing itself as the key to accessing new customers in new markets – the Holy Grail for those looking for growth. In the Middle East, as in many other markets, insurers are looking at alternative distribution routes and technology is at the forefront of that. Aggregator websites are becoming big business and the market for mobile apps to sell products is growing.

Compared to other African countries and in particular Kenya, South African insurance companies were initially slow to move into the mobile apps space. However, we note a definite increase in the number of insurers that is moving into this area and we expect rapid growth over the next five years.

> “ Insurers are increasingly looking at how they can deploy new technologies such as artificial intelligence and machine learning to make savings – reducing back-end overheads, tackling fraudulent claims and bringing down headcount.
>
> **Mark Williamson, London**

In markets such as Indonesia, mobile technology could really make a difference. All the right elements appear to be in place: a nation that is disjointed geographically but with a huge population, very low insurance penetration, a massively growing middle class and the widespread take-up of mobile phones. This equates to a recipe for disruptive innovation in the market.

Possibly the most significant example of technology opening up new markets over the last 18 months has been in China. The introduction of new rules has enabled underwriters to distribute products online in all classes of business throughout China without the need to have a branch office in place. This finally opens a path to truly national distribution throughout the country for underwriters, encouraging international players to reconsider the Chinese market both in GI and life. Although the new rules initially excluded motor insurance, this has now been permitted on an exceptions/waivers basis. So far, ZhongAn Insurance has been approved by the China Insurance Regulatory Commission (CIRC) to distribute motor insurance online nationally, while Anxin Insurance and Taikang Insurance have been approved to do so only in regions designated by CIRC.

Search is on for better people, better data and better insight

Most insurance businesses are still grappling with the best way to get the most out of all the data they hold. Many require considerable investment in systems, analytics and processes to move the strategies in this area forward in a meaningful way.

Talent is another issue – the insurance industry is going to need to start recruiting people with the right technological skill set. In one example of where this might be starting to change, the Australian insurer IAG recently appointed a board member from a strong technology background.

> “ Big data offers significant opportunities for insurers but they also need to make sure they have their own houses in order and are ready to comply with the new EU data rules, due for implementation next year.
>
> **Isabel Ost, London**

Elsewhere there are opportunities for insurers to team up with companies from different sectors who also have access to large quantities of consumer data. These include supermarkets, with their long-established loyalty programmes, as well as manufacturers of wearable activity trackers, such as Fitbit.

In a different kind of example, last year AIG announced a strategic investment in Human Condition Safety (HCS), an early-stage technology start-up company developing wearable devices, analytics, and systems to improve worker safety. Human Condition Safety is creating tools that help workers, their managers, and worksite owners prevent injuries before they happen. Incorporating wearable devices, artificial intelligence, building information modelling, and cloud computing, the product and service offering is designed for industries that hold the highest risk for workers, including manufacturing, energy, warehousing and distribution, and construction.

Insurtech generating significant interest

Insurtech is also generating huge interest among insurers around the world. As they look to develop process and cost efficiencies, they are keen to leave no stone unturned. A quick look at the numbers explains why. Worldwide, deal activity in the insurance tech space hit its highest annual total in 2016, according to CB Insights data, with deals to insurance tech start-ups rising 42% to 173 on a year-on-year basis in 2016. Total funding to insurance start-ups in 2016 hit USD 1.7 billion, the second consecutive year investment dollars to the space topped USD 1 billion.

Total funding for insurance start-ups in 2016 hit USD **1.7 billion**

The large European reinsurers are leading the way in this part of the market, looking to get in on the technology that's been changing financial services on Wall Street. Insurtech start-ups are attracting investment from a growing list of traditional insurance partners, including Excel Innovate, Munich Re, AXA and Liberty Mutual. In two examples in the second half of 2016, Munich Re's Digital Partners took a stake in Slice Labs, a one-year-old start-up that offers insurance, while Allianz SE invested in Simplesurance, a new firm that's offering product protection for online purchases.

> “ Distribution is still critical and we are seeing a big move on the part of insurers, distribution companies and MGAs towards bringing more efficiency to the customer journey through the use of new technology.
>
> **Ivor Edwards, London**

It could be some time before these investments pay off, as Insurtech is “a long-term challenge and an opportunity, with material effects that may only start to emerge in 10 years' time,” according to an S&P Global Ratings report. However, many think that the return will be worth the wait. Some of the technology's appeal is that it can help reduce the cost of distribution. In one prominent example start-up Lemonade, which has attracted prominent backers including Berkshire Hathaway and XL Group, has eliminated brokers and sells renters' and homeowners' insurance in direct competition with primary insurers.

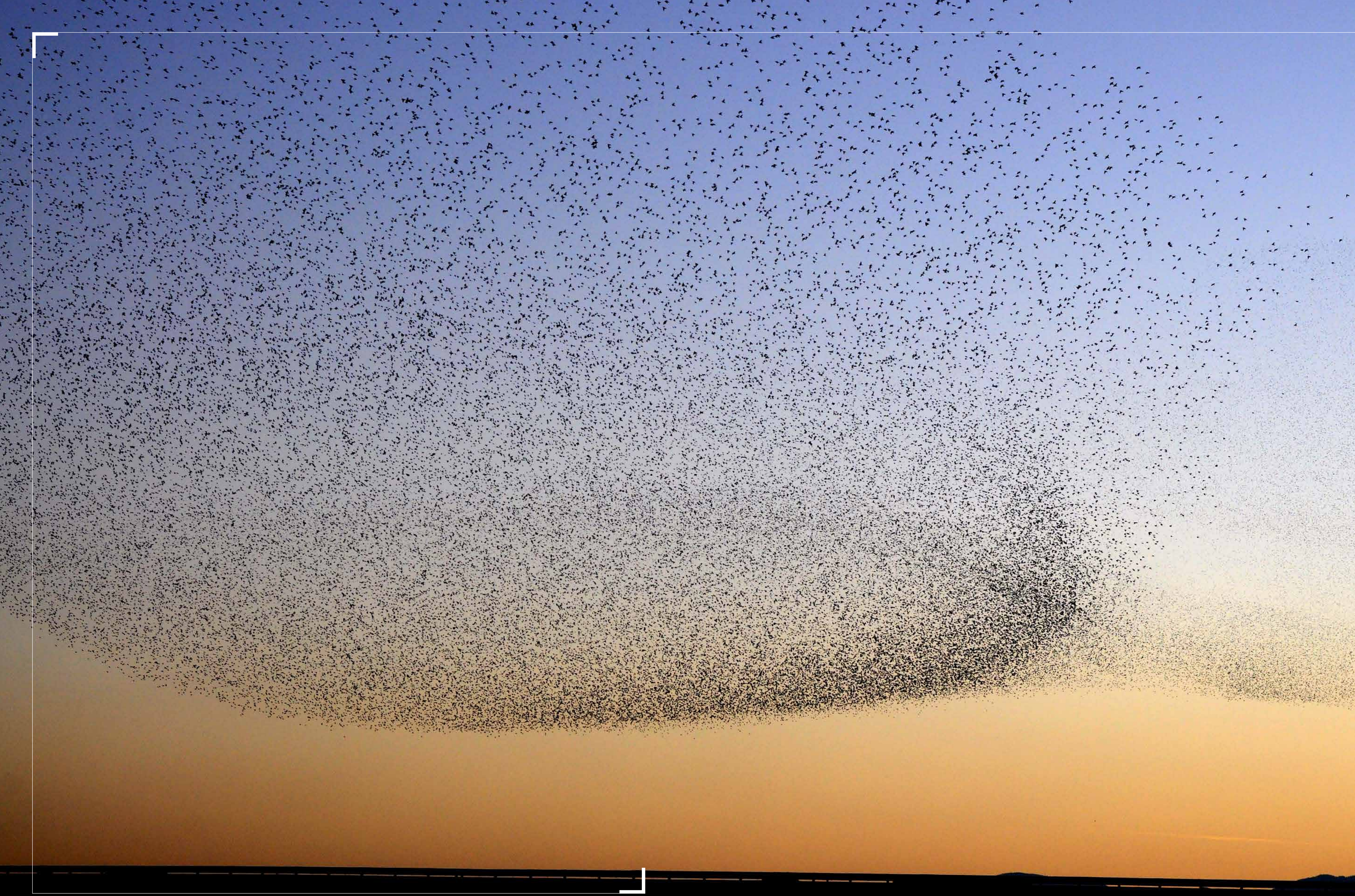
Regulators in other markets are recognising the opportunity that Insurtech presents and are competing with each other to attract innovators. Abu Dhabi has created a new financial free zone, which acts as an incubator for developers to test products. The authorities work with start-ups and other innovators to help develop specific regulations, in a clear signal that the emirate is very keen to attract this type of business. Singapore has constructed something similar - a regulatory sandbox where innovative ideas can be tested via a limited controlled rollout - as the city state continues to pursue its ambitions to position itself as a regional and global insurance hub. In order to achieve this aim, there is a recognition that it needs to be at the forefront of Insurtech innovation.

Micro-insurance still work in progress

Micro-insurance is another product which offers significant growth potential. In South Africa, a new framework will be established under the upcoming Insurance Bill, designed to help the growth of the micro-insurance market, and lay the groundwork for specific standards to follow. The Bill will reduce the level of capital required to be held by micro-insurance businesses and will lower the regulatory requirements needed for selling micro-insurance products.

Underpinned by strong cultural factors, funeral insurance is the most prevalent type of micro-insurance product currently available in South Africa. Indeed, these are the country's biggest-selling policies and have enormous market penetration.

The global microinsurance market is set to grow at a CAGR of **8.2%** during the period 2016-2020



As a result, many large domestic insurers already have substantial micro-insurance expertise in-house and are well placed to expand into other product areas. However, new entrants from elsewhere in the financial services industry will also try to enter this segment of the market to take advantage of the huge potential opened up by the new regulatory regime.

Meanwhile, in Thailand last year, Asia Insurance launched an insurance product aimed at players of the popular Pokémon Go game in response to a spate of injuries following the game's release.

The product is available exclusively online and provides personal accident insurance for a period of 30 days. Mobile phones, motorcycles and cars can also be insured under the policy.

The product offers not only protection to game players, but business opportunities for companies that want to strategically place individual Pokémon at sites where their businesses operate, therefore attracting new customers.

Other developing markets such as China, India and Nigeria possess immense growth opportunities for micro-insurance companies to increase their penetration into different market segments. A number of international insurers including Allianz, Tokio Marine and Mapfre are looking at investing in micro-insurance, with a current focus on the quality of their target market infrastructure and managing operational costs.

Takaful resurgent?

Takaful – insurance products that are compliant with Shariah Law – has long been touted as a potentially huge growth market. However, a number of structural challenges, including the absence of an adequate reinsurance market and a shortage of Islamic scholars able to underwrite the policies has, up to this point, held this nascent part of the industry back.

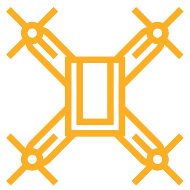
Last year, a couple of interesting moves by sizeable players in the market may indicate reignited interest in this sector. In April 2016, Zurich Insurance Group received regulatory approval to take full ownership of Malaysian provider MAA Takaful, a joint venture between MAA Group Berhad and Bahrain's Solidarity, which hold 75% and 25% stakes respectively.

Salim Majid Zain, Chief Executive Officer of the newly renamed Zurich Takaful Malaysia Berhad (ZIMB) explained the rationale behind the move: "For Zurich to fully realise its potential in Malaysia and achieve the market share that it aspires to, we must be able to provide attractive solutions to customer needs right across the country; particularly in providing them with the necessary products to protect themselves and their assets. Through ZTMB, we are confident that we are able to provide our customers with a wide range of Insurance and Takaful solutions across multiple customer segments."

The IPO of Orient UNB Takaful was oversubscribed by around **13 times**

In November 2016, in the United Arab Emirates, Union National Bank announced that it had tied up with Orient Insurance Company to form an Islamic insurance joint venture, Orient UNB Takaful. In January 2017 the entity was subsequently floated on the Dubai stock exchange, the Dubai Financial Market (DFM). The IPO was oversubscribed by around 13 times. Mr Mohammad Nasr Abdeen, UNB CEO, said: "Despite the high number of insurance companies operating in the UAE, we see an opportunity, as there is only a limited number of companies operating in the field of takaful. In addition, there is a growing demand for Shariah-compliant financial products and services and insurance products."

Drones and driverless cars



Drone insurance market to reach USD **1 billion** in a decade

The increasingly widespread use of drones is creating opportunities for insurers. In the Middle East, drones are widely used by the fire services, as well as by media companies covering large sporting events. Amazon, the multinational online retailer, is also looking at how drones can speed up the delivery of its products. In doing so it is also looking at the associated risks and considering how to mitigate against them.

Many insurers are now moving into this space by extending existing media and entertainment covers or by pioneering new drone covers, including most recently cover for so-called "manned drones".

Another new risk area which the insurance industry is moving fast to capture is of course that of autonomous vehicles which looks set to become the single biggest game-changer in the insurance industry. For many insurers, motor policies are their bread and butter and this work will continue in many markets for many years as the new technology will not be introduced or adopted overnight. However, new cyber and product liability covers are starting to emerge that reflect the alternative nature of the risk posed by autonomous vehicles such as systems malfunction and cyber security, as well as residual driver error.

Singapore appears to be some way ahead in this part of the market; it is the first country in the world to trial driverless taxis. At the moment this takes place in a contained environment and is being undertaken by single company operating in a certain area. However there will be a wider rollout by 2018 and insurers and regulators around the world will be watching the developments with interest.

Parametrics offer potential but more effort needed

Parametric insurance has the potential to transform the way disasters are managed as governments and aid agencies re-set expectations on how fast aid can be made available using these developing insurance products.

2 weeks =

time it took for USD 29.2 million to be paid out on products with parametric triggers following Hurricane Matthew

Neighbouring countries in the developing world have formed mutuals that pay out promptly for defined natural hazards. In Autumn 2016, CCRIF SPC in the Caribbean (the pioneer of the concept in 2007) paid out USD 29.2 million to member countries within two weeks of them being hit by Hurricane Matthew. ARC did something similar when Malawi was hit by drought. But so much more could be done.

As we move into 2017, we think it likely that more commercial insurers will develop an appetite for offering this type of cover to national and regional governments. Swiss Re and a Lloyd's consortium have led the way in China and other parts of Asia. The test will be whether insurers can work with the UN and other bodies to extend the reach of these products so that other agencies (including NGOs) can use them to fund their own humanitarian interventions.

One of the key challenges for the industry will be to help NGOs and others explain to potential donors why it makes sense to fund premiums for a parametric cover that might only occasionally pay out. In insurers' favour is the inalienable argument, borne out by the Hurricane Matthew experience that payment based on a range of scientific data triggers is faster and more reliable than politicised decision-making about aid allocations could ever be.

The advantages of parametric insurance are clear but there remains much work to be done to increase awareness so that products such as these can play their part in building greater resilience to natural disasters and closing the protection gap.

Traditional products in new markets

Beyond these new product types, there are also opportunities for traditional products in new markets.

Health and life

Health insurance and life insurance are a good example of this trend. This is particularly the case in the Middle East and China where new regulations will serve as a catalyst for growth in the market.

> "Regulations in Abu Dhabi, Dubai, Qatar and Saudi Arabia have made it compulsory to have private health insurance, a move which has led to significant interest from major international players. For those who are not already present in the region, access is predominantly through partnership arrangements with local players. However, the possibility of obtaining direct licences where possible in order to position themselves to grow their market share is also being explored.
>
> **Peter Hodgins, Dubai**

Cyber

Cyber insurance, certainly a relatively new product, but becoming more established in mature markets, is also set to make considerable inroads in some of the more emerging economies.

For example, in India, the recent data breach impacting a number of major banks, thought to have been caused by malware on an ATM network, compromised the security of an estimated 3.2 million customers in one of the country's largest-ever cyber incidents. This incident will likely serve as a wake-up call and help to precipitate a reversal of the low growth trend in the cyber insurance market.

The number of providers of cyber cover in India has been limited but more and more Indian insurers are already including it as part of their treaty arrangements. Now, an increasing number of insurers are recognising the scale of the opportunity and looking to launch new cyber insurance products. Many of them will seek collaboration with foreign insurers – who have greater experience and capacity in writing cyber insurance business – for reinsurance and underwriting support.

In another interesting development in India, mobile wallet companies are increasingly looking for partnerships with insurance companies to offer protection to users from cyber security breaches. At the end of 2016, FreeCharge announced the country's first e-wallet protection plan for all its users, in partnership with Reliance General Insurance. Other insurers are partnering with mobile wallet companies for premium collection purposes. E-wallets are set to become more popular following the Indian government's push towards more cashless transactions.

Meanwhile, in mature markets, demand for cyber insurance has been booming. The London insurance market saw a 50% rise in individuals and companies taking out policies against cyber-attacks in 2016 and a further surge is expected this year. Further ahead, the arrival of the General Data Protection Regulations (GDPR) in 2018 will bring stronger and consistent data protection regulations throughout the EU.

The GDPR brings in obligations to report data breaches, which will greatly increase notification costs and the costs associated with reputation damage protection; as well as the threat of big financial penalties for companies that fail to take adequate steps to protect data. As a result, consent requirements around the collection of data could become stricter, and we anticipate that the new regulations will drive-up demand for specialist cyber insurance cover, while insurers will need to make sure they too are ready to comply with the changes.

Likewise, in the US, the regulatory situation is also changing. However, this is a complicated picture as there are 47 different state data privacy laws. In addition, there is a broader definition of data privacy emerging that includes national security issues, the impact on elections and business continuity, and the laws are likely to change to reflect this broader risk exposure.

M&A and W&I

Another product that has been around for some time in some parts of the world, specifically in Europe, is mergers and acquisitions insurance, also known as warranties and indemnities. We are now starting to see take up of this product in other parts of the world, such as North America, Asia and Australia. This is partly due to the recent buoyant deal environment, but also due to a growing awareness of the product. Insurers are also recognising the opportunities in this class of business, as a result, the number of providers has been increasing.

Clyde & Co LLP

www.clydeco.com

J368471 - March 2017