

Insurance M&A revival continues, but does it have legs?

Insurance Growth Report 2019
– mid-year update

Despite recent signs of market hardening, delivering a positive result for shareholders remains challenging and mergers and acquisitions (M&A) are attractive strategies to deliver growth for re/insurance businesses around the world.

In the first half of 2019, completed M&A in the global insurance industry rose, with 222 completed deals worldwide, up from 196 in the second half of 2018. This marks the biggest increase in the volume of transactions since H1 2015 and the fourth consecutive six-month period of growth.

Much of this increase has been in Europe where there has been a surge in completed deals that had been put on hold due to Brexit preparations. Deal-makers elsewhere have been buoyed by a combination of strong economic growth, notably in the US, and positive growth prospects for the insurance sector, especially in Asia Pacific.

M&A off to a strong start in 2019

Volume of deals globally, Jan 2009 – Jun 2019



Activity up in all regions except MEA

Region	H2 2018	H1 2019	% change
Global	196	222	+13.2% ▲
Americas	92	93	+1.1% ▲
Europe	63	88	+39.7% ▲
APAC	34	38	+11.8% ▲
MEA	4	3	+25.0% ▼

Mega deals continue

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USD 1.0 billion

There were 11 deals in H1 2019 valued at over USD 1.0 billion. There were 18 in the whole of 2018.

Global spread of big hitters

^
14

14 acquiror nationalities among the top 20 largest deals by value. US has three of the top 20 deals, India and Switzerland two each.

Overseas targets remain popular

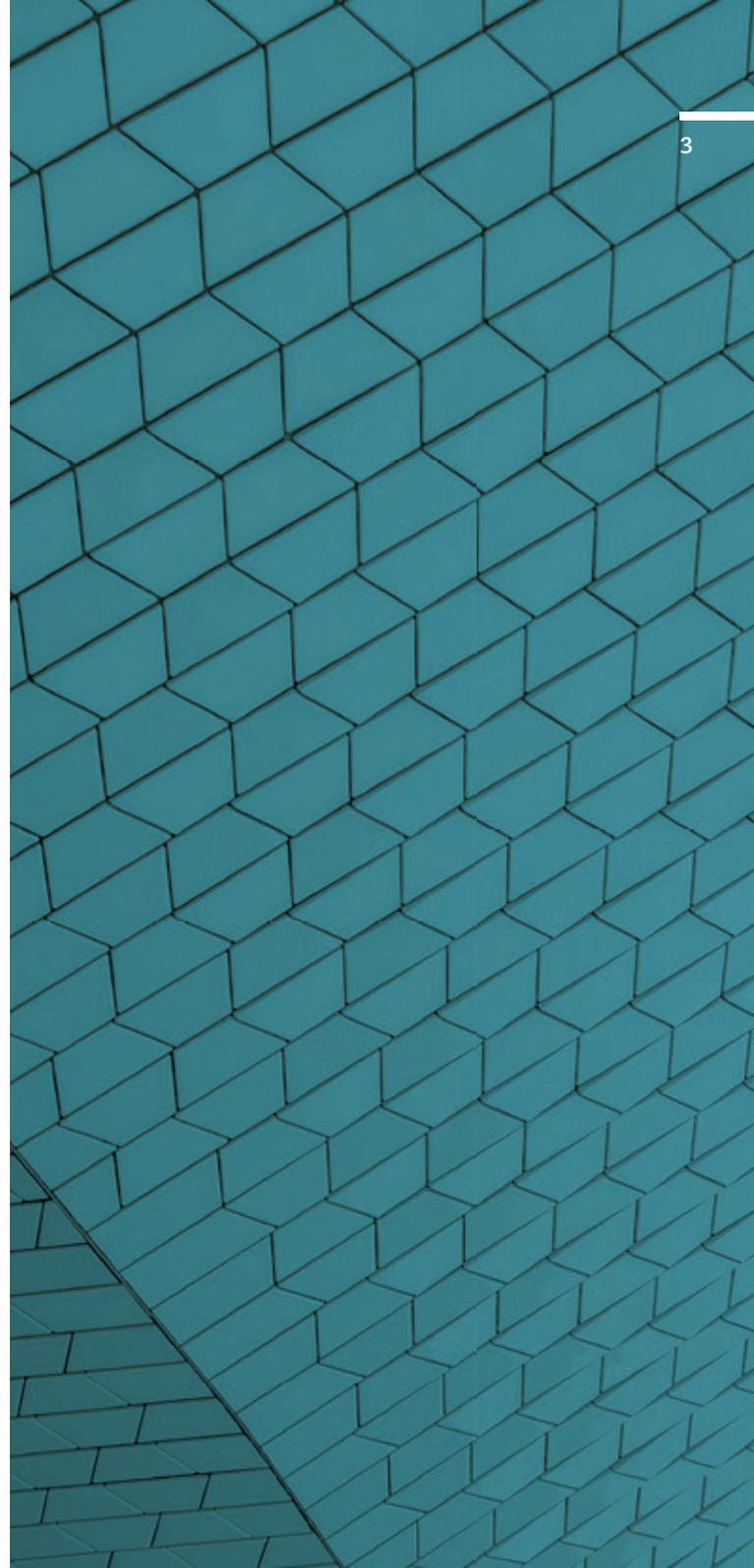
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57.1%

Overall, there were 63 completed cross-border deals in H1 2019, 28.4% of the global total. 36 (57.1%) of 63 cross-border deals were intra-region

India tops the leaderboard

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USD 2.8 billion

Largest deal of H1 2019 was the acquisition of IDBI Bank by the Life Insurance Corp of India for USD 2.8 billion.



Eye on M&A – key takeaways from H1 2019

Beware Europe’s dead cat bounce

Activity in Europe saw the biggest increase of any region in the first half of 2019 – up 40%. The majority of re/insurers are now Brexit-ready – a process that has consumed large amounts of management attention – and have refocused on their growth ambitions. This has led to a surge in completed deals in 2019 that had been put on hold due to Brexit preparations. However, while operational uncertainty around Brexit may have lifted, economic uncertainty remains. Deal-makers will likely revert to caution mode as they await the details of the withdrawal agreement, which will have a temporary slowing effect on M&A. We expect a drop in deals in the second half of the year in Europe.

Eyes to the East

Insurance M&A in Asia Pacific is at its highest level since 2015 with acquirors from 11 nations completing transactions in H1 2019. Japanese deal-makers were again the most active ahead of Australia and India, where recent legislative changes are starting to translate into M&A. The largest deal of the year worldwide so far was the acquisition of IDBI Bank by the Life Insurance Corp of India for USD 2.8 billion, while the move by Ageas for a 40% stake in Royal Sundaram General Insurance Co. was just one example of inbound activity, a trend we expect to continue. Meanwhile, in China, a slew of new regulations has led to a spike in interest from foreign insurers and we expect a number of significant transactions to emerge in the second half of the year.

It’s all about the tech

Technology continues to be a key growth driver in all regions. H1 2019 saw many technology investments around the world. Key deals included USD 90 million into insurtech Singapore Life from Japan’s Sumitomo Life; USD 45 million from a US investor group into Paris-based Alan – a software-as-a-service startup for the health insurance market; and a similar amount into Pie Insurance, which offers US workers’ compensation insurance online. While these investments may be relatively small, especially in comparison to the value of the larger, big-ticket M&A, they retain tremendous strategic importance. We expect to see a continuing surge in insurtech tie-ups, joint ventures and partnerships, and more involvement from tech companies entering the insurance market in the second half of the year.



Technology can unlock access to new distribution routes, markets and customers, while at the same time delivering substantial efficiencies, resulting in a dramatic impact on the balance sheet. We expect to see a continuing surge in insurtech tie-ups, joint ventures and partnerships, and more involvement from tech companies entering the insurance market.

Kathrin Feldmann, Counsel, Dusseldorf

Scale and reach remain key drivers

Cross-border M&A activity continued apace in H1 2019 with 63 deals representing 28% of the global total as re/insurers look to extend their reach into new territories. Changes are evident though – despite Apollo's USD 2.5 billion acquisition of Aspen, which completed in February – the pool of targets in Bermuda is shrinking while the remaining Bermudan players were responsible for the largest number of M&A in the first half of the year. By region, Europe was most active – 34 of its 88 deals were cross-border. Big deals also remain attractive at the top end of the market as leading players seek to deliver cost synergies in addition to new distribution channels and customers. But with a limited pool of targets at the top end of the market, it may become increasingly difficult for buyers and sellers to come to an agreement on valuation.

Dip in M&A expected in H2 2019

After a bumper six months we expect M&A activity to dip in the second half of 2019. Uncertainty due to geopolitical issues has been slowing deal-making in the US – H1 2019 saw its third consecutive period of declining M&A – and we expect this trend to continue at least until the end of the year. Meanwhile, after the glut of deals in the first half of the year, Europe may see a slowdown once again as investors slip back into wait-and-see mode ahead of Brexit. At the same time, as market hardening continues, it may be that the spate of disposals of non-core assets has run its course and may be due to slow down. Re/insurers will be eyeing price rises in their core business lines with the hope that this will translate into sufficient organic growth to satisfy shareholder demand.

France leads the way in Europe

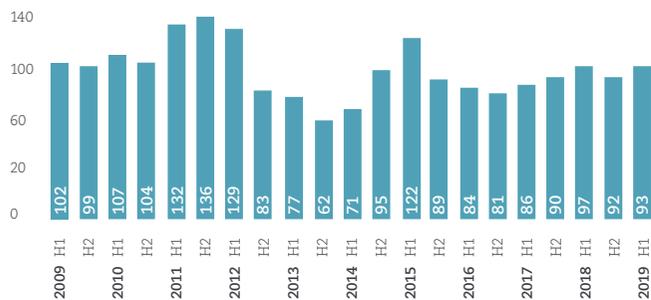
Volume of deals in Europe, Jan 2009 – Jun 2019



Most active countries in Europe by number of deals: France **12**, UK **11**, Spain **9**

US activity dips as Canada and Bermuda rise

Volume of deals in the Americas, Jan 2009 – Jun 2019



Most active countries in the Americas by number of deals: US **64**; Canada **11**, Bermuda **9**

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Although US insurance M&A continues at a steady pace, there is growing geopolitical and financial uncertainty that is causing US dealmakers to pause. We are seeing for instance a cooling on cross-border deals as potential acquirors wait to see how issues such as trade disputes might unfold. It is likely that US insurance M&A deal activity will cool down in the second half of 2019, although certain areas such as insurance agency acquisitions are likely to continue strongly throughout the year. After that, M&A dealmakers will see how the dust has settled and take stock of available opportunities.

Vikram Sidhu, Partner, New York

Mix of emerging and developed market M&A in Asia Pacific

Volume of deals in APAC, Jan 2009 – Jun 2019



Most active countries in APAC by number of deals: Japan **8**, Australia **6**, India **6**

Deal activity flat in Middle East and Africa

Volume of deals in MEA, Jan 2009 – Jun 2019



Most active countries in ME&A by number of deals: Bahrain **1**, Kuwait **1**, Israel **1**

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The breadth of opportunity in Asia Pacific was underlined in the first six months of the year with acquirors from 11 nations completing transactions. Inbound activity was also up, in a trend we expect to continue. Meanwhile, in China, a slew of new regulations has led to a spike in interest from foreign insurers and we expect a number of significant transactions to emerge in the second half of the year.

Joyce Chan, Partner, Hong Kong

440

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1,800

Lawyers

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About the Clyde & Co Insurance Growth Report

The Clyde & Co Insurance Growth Report is report is based on data by Thomson Reuters and Alacra for completed mergers and acquisitions in the global insurance industry in the period 2009 to 2019 for businesses with the SIC codes: 6311 Life Insurance, 6321 Accident and Health Insurance, 6331 Fire, Marine, and Casualty Insurance, 6351 Surety Insurance, 6361 Title Insurance and 6399 Insurance Carriers, Not Elsewhere Classified. Additional input, analysis and insight was gathered from face-to-face and telephone interviews with Clyde & Co partners around the world during December 2018 and January 2019, supplemented by existing third-party research.