ASIA-PACIFIC

M&A in Asia-Pac's emerging markets

In line with the downward trend in mergers and acquisitions (M&A) activity over the past three years, Asia-Pacific has seen its share of global M&A activity drop from a high of 24% in the first half of 2011 to 8% in the first six months of 2012.

China

IAG's acquisition of a 20% stake in China's Bohai Property Insurance was the highest-profile inbound deal over the period July 2011 to June 2012. Bohai is focused primarily on motor insurance, a product line in which IAG traditionally has had competitive strength. More transaction activity in this sector is likely as the regulator has opened up the motor insurance market to foreign companies. Also, in April, German insurance group Ergo, a subsidiary of global reinsurer Munich Re, announced that it had received start-up permissions from local regulators to launch a joint venture operation with Shandong's state-owned Assets Investment Holding Company (SSAIH).

Notable outbound activity is limited to the announcement in November 2011 of state-owned reinsurer China Re's partnership with the UK's Catlin, marking the first time a Chinese company has made a direct investment in the Lloyd's market.

India

During 2011 and the first half of 2012 the Indian insurance M&A market has been relatively static. The most significant domestic deals saw Future Generali India Life Insurance acquire the Industrial Investment Trust, and the acquisition of GS Mace Holdings by Max India. International acquisitions were limited to two Japanese companies – Nippon Life Insurance Company and Mitsui Sumitomo Insurance – acquiring Reliance Life Insurance Company and Max New York Life, respectively, in the aftermath of heavy catastrophe losses in recent years.

Indonesia

Although a number of insurers are seeking opportunities in Indonesia, attractive targets are lacking. Many local businesses are considered weak, with insufficient business controls, deterring potential entrants, particularly in light of anti-corruption legislation in developed markets. However, the second half of 2011 and the first six months of 2012 did see a number of new entrants into the Indonesian market, with Japanese insurers Mitsui Sumitomo Insurance, Hitachi Capital and Meiji Yasuda Life Insurance all making acquisitions. In September 2012, Ace continued its Indonesian expansion with the acquisition of Jakarta based PT Asuransi Jaya Proteksi (JaPro) in a cash transaction worth approximately $130m.

Malaysia

There were some significant deals in the Malaysian market in the second half of 2011 and the first six months of 2012. This reflects its continuing attractiveness to foreign investors, due, in part, to the relatively lax foreign ownership regulations; foreign owners may buy up to 70% of a domestic insurer. In September 2011 Switzerland's Zurich Insurance Company acquired composite insurer Malaysian Assurance Alliance Berhad. In April 2012 Australian insurer IAG's Malaysian joint venture business, AmG Insurance Bhd, entered into a conditional agreement to buy Kurnia Insurans (Malaysia) Bhd in a transaction worth $509.1m. Kurnia is the largest motor insurer in the country.

South Korea

South Korea is one of the world's most saturated and competitive insurance markets, meaning that many are considering expanding into new markets through M&A abroad. In November 2011 Korea Life Insurance announced a 50-50 joint venture insurance operation in China with Zheijiang International Business Group. The insurer, South Korea's second largest life insurance company, has also expressed interest in ING Group's Asia Pacific insurance operations and in May 2012 was shortlisted in the bidding process for a deal that could eventually be valued above $7bn. Plans have followed from their chief rival, Samsung Life, to develop operations in Thailand, India and Indonesian insurance markets in 2012. Despite the difficulties of entering this market, many leading foreign insurers believe that the opportunities are too good to ignore and in May 2012 Canada's Tiger Holdings LP completed a deal to acquire Kyobo Life Insurance. In the same month French insurance giant Axa moved to strengthen its position in South Korea's direct insurance market through the acquisition of general insurer Ergo Daum Direct in a deal that should be completed later in 2012.

This article was written by Andrew Holderness, head of Clyde & Co's global corporate insurance team. The team released its report, *M&A Activity – A Global Overview, 2009-2012*, in September 2012

Taiwan

Taiwan is also a highly saturated market, and the deal trend has been for domestic mergers to create better capitalised carriers. The largest deal in 2011 was the sale by AIG of Nan Shan Life Insurance Co Ltd to Ruen Chen Invest Holding Co for $2.2bn. This is the latest example of a line of foreign insurers exiting the market, a result of the high level of product guarantees and the downward pressure this places on margins.

Thailand

The floods of 2011 were the costliest natural disaster event in south-east Asia's history. This is a clear opportunity for international insurers to move into, or strengthen their presence in, the Thai market. In March 2012 Canadian insurer Fairfax closed a deal to acquire a 25% interest in Thai Re for around $70m in what is likely to be the first of a number of deals in the country's embattled insurance sector.

Vietnam

In May 2012 IAG completed its acquisition of a 30% stake in Vietnam-based AAA Assurance Corporation. In another significant move into Vietnam, Sun Life Financial signed a joint venture agreement with PVI Holdings to form PVI Sun Life Insurance Co. ●