

Update

New wave of deals is building on 2014 M&A momentum

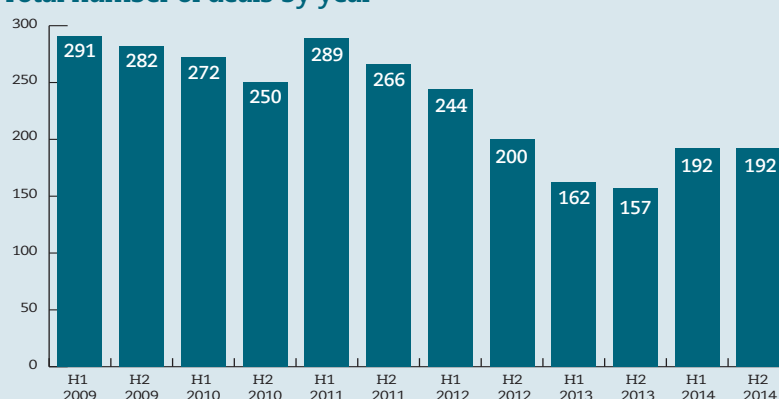
The start of 2015 has seen a wave of consolidation news in the global insurance market and there is considerable speculation that a number of mid-sized operations are likely to be considering their futures in the latest drive for scale. A glance down the list of Bermudian players reveals a number of names that have been linked with merger and acquisition activity in recent times, and in London, analysts have frequently cited the likes of Lancashire and Novae as potential acquisition targets in the year ahead, given the high interest and low availability of targets with a Lloyd's platform.

This new phase of activity is undoubtedly building on momentum from the previous year. There were 384 mergers and acquisitions (M&A) in the global insurance industry in 2014, compared to 319 the previous year, marking the first annual increase in transaction volume since 2011.

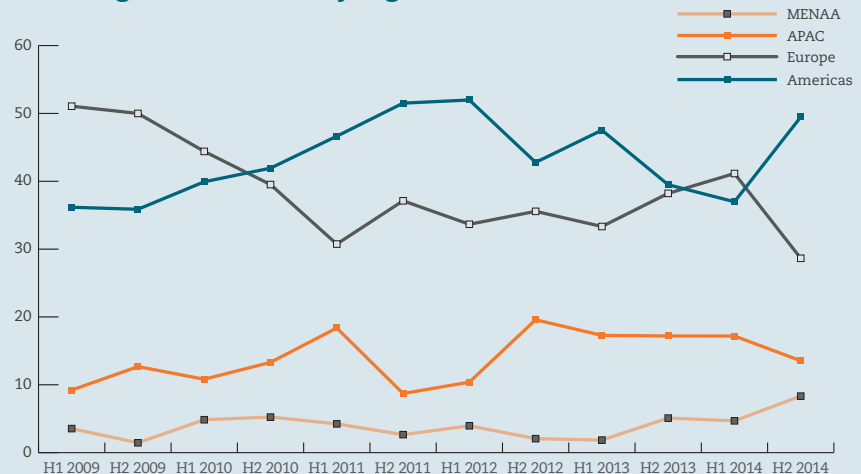
The second half of 2014 saw 192 deals – the same number as in the first six months – but with considerable regional shift. After a slow start to 2014 with 71 deals in the period January to June, activity in the Americas rebounded with 95 transactions between July and December driven by a resurgence in deal-making in the US.

Conversely, Europe saw 79 deals in the first six months – briefly taking top spot from the Americas – but fell back in the second half with 55 transactions completed, predominantly in the mature markets of the UK, France and Spain. Asia Pacific saw a slight annual increase with 59 deals compared to 55 in 2013, while the Middle East and Africa was the region that posted the biggest percentage gain with 25 deals in 2014, the most since 2010.

Total number of deals by year



Percentage of deals done by region



Sign of things to come

This data confirms the anecdotal evidence of the last three months that the market has reached a tipping point in terms of transactions. The pressure from excess capital and soft pricing has escalated to the point where those companies that cannot deliver their shareholders decent returns on their investments are under pressure to return the capital or deploy it elsewhere.

Re/insurers have become even more active in their search for alternative strategies as size becomes increasingly important. Cedents want their reinsurers to be of a size where they can absorb earnings volatility, and the reinsurers themselves want to be as relevant as possible when it comes to renewal. So, for those with smaller market share, M&A is becoming increasingly appealing. Given PartnerRe's recently announced intention to merge to boost its market capitalisation, it will be no surprise if some of the smaller Bermudian players follow suit in the coming months.

Another driver of transaction activity around the world is that investors are looking for growth opportunities outside their own, often stagnant, domestic markets. This would account for the small annual increase in Asia Pacific, and the jump in the Middle East and Africa which posted the biggest percentage gain with 25 deals in 2014, the most since 2010.

Looking ahead there is a sense of renewed energy around transactions across the re/insurance market which has spurred the increase in the number of deals over the last 12 months. When announcing the agreement for XL and Catlin to combine earlier this month, both CEOs spoke of their desire to be proactive and choose their own partner as part of the rationale between the move, given the expectation consolidation will speed up in the coming months. It is likely we will be seeing more of this as the year progresses.

Further information

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