CLYDE&CO

PART 3/3

Alternative routes to growth

Insurance growth report 2019

In the first two sections of this report, we examined trends in M&A. But while a perennially popular and effective strategy for delivering growth, a transaction is not always the best solution. A range of challenges can get in the way, such as finding a target at an acceptable price; overcoming regulatory restrictions or obstacles; and dealing with post-transaction issues around people and systems. Whether by necessity or design, it is often better to consider alternatives. In this final section, drawing on the insights of our partners around the world, we look at some of the other ways re/insurers are tackling the growth conundrum.

Planting a flag

USD 280 billion
projected size of India's insurance industry by 2020
India Brand Equity Foundation

9
total number of foreign re/insurers who have opened a branch in India
Insurance Regulatory and Development Authority of India

In developed market locations where buying an insurance entity is too expensive, opening a branch or establishing an insurance subsidiary may be a viable alternative. In Hong Kong, some operators are looking at a greenfield licence instead of M&A in order to enter or strengthen their position in the market. This is not necessarily disadvantageous in terms of time and capital. The regulators are particularly keen on insurers seeking to utilise technology, and Hong Kong has a fast track licensing process for digital-only insurers. In the first such example, in late 2018, Bowtie – a new online-only life insurance company backed by Sun Life and a group of angel investors – was granted a licence.

Elsewhere, in South Africa, branch licences have been introduced, and foreign re/insurers are currently applying for these. However, uptake has been lower than anticipated as the costs of establishing a branch are high in terms of office space and staffing. An additional factor has been a lack of clarity about the application requirements which has deterred some companies.

In December 2018, the government in Saudi Arabia published regulations to allow foreign insurers to set up branches in-country. This will have the effect of reducing the number of smaller operators, and bringing in insurers with better controls and skills, in line with moves we have seen in other emerging insurance markets. However, as yet no new licences have been granted. Elsewhere in the region, a number of international players including Talbot and PartnerRe have exited the market in Dubai where they had previously set up a presence to act as a hub for business in the wider Middle East region.

India, one of the world's most promising insurance markets, continues to attract attention from foreign players looking for opportunities. Allianz is the latest international re/insurer to take advantage of regulations opening up the market, receiving approval in August 2018 to open a new branch office in Mumbai. Lloyd's offers another route into the India market, with Markel granted a licence last year to write business on the Lloyd's platform.

"Although more savvy investors are looking at greenfield licensing options in some developed markets as an alternative market entry option to M&A, this is dependent on being able to hire a quality management team – finding the right talent with the requisite experience can be a challenge.

Kevin Martin, Hong Kong

Alternative distribution

£4.7 billion
amount of UK general insurance premiums written by MGAs
Managing General Agents Association

4 million
number of customers Prudential can reach through its bancassurance deal with Singapore's UOB
Prudential

Bancassurance has been around for some time and deals involving those banks that wish to partner with insurers have largely been done. However, this remains a significant channel. Prudential recently extended its deal with United Overseas Bank of Singapore up to 2034 to enable it to distribute its insurance products through UOB's extensive network of more than 400 branches in five markets. This gives Prudential access to over four million UOB customers in Singapore, Malaysia, Thailand, Indonesia and now a fifth market, Vietnam.

Meanwhile, insurers are looking at ways to join up with non-insurance alliance partners in sectors including travel, medical and retail to enhance their distribution. In one example, online motor insurer Singapore's DirectAsia, which operates without an agency network, has entered into an introducer arrangement with a group of vehicle service centres that conduct compulsory annual car inspections. DirectAsia is opening up mobile sales centres in those service centres themselves to offer insurance policies to customers at the same time as their cars are being serviced.

Worldwide, Managing General Agents (MGAs) are one of the fastest-growing segments of the insurance industry. Over 300 MGAs currently underwrite over 10% of the UK's GBP 47 billion general insurance market premiums.[1] In the US, MGA growth continues to outpace the growth of the property and casualty market, while 21 of the top 25 P&C insurers have relationships with MGAs.

Over the past couple of years there has been a rise in the number of new reinsurance-focused MGAs. There is a clear rationale behind this development: re/insurers considering their growth options may be looking at potential acquisitions and lamenting a dearth of targets, particularly at the right price. Should this initial hurdle be overcome, any potential deal would take time to complete before the challenge of post-merger integration and its inherent people and systems issues are addressed. It can be far simpler to set up an MGA or invest in an existing one.

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MGAs continue to be an important, established and fast-growing sector but there is a concern in some parts of the market that an MGA bubble may be forming. The key to maintaining success for any MGA is to consistently prove their value by delivering profitable underwriting on a lower operating expense base than their paper providers. Increasingly this will make specialisation crucial for success in a crowded market.

Jennette Newman, London

[1] https://www.mgaa.co.uk/MGAA_/MGAA/About_Us/MGAA_R/MGAA2/About_Us.aspx

Partnering for success

17
number of Vietnamese life insurers that are joint ventures or wholly foreign-owned, out of a total of 18
Hanoi Times

49%
size of Italian insurer Generali's increased stake in its Indian reinsurance joint venture with Future Group (up from 25.5%)
Insurance Journal

Where M&A is not an option, a joint venture (JV) can be an alternative route to deliver similar outcomes.

In the search for accelerated growth, in May 2018 HDI Global and Hannover Re announced the launch of a EUR 1 billion specialty joint venture that will write business in lines such as errors and omissions, directors and officers, aviation and offshore energy insurance which it believes are profitable and rapidly expanding.

In further evidence that partnering can enable two parties to draw on each other's strengths, last year Langhorne Re was launched as a joint venture between Renaissance Re and Reinsurance Group America to target large in-force life and annuity blocks. The venture brought together underwriting expertise provided by RGA and the third-party capital and structural expertise of RenRe.

A joint venture is also a popular way to access new markets, especially when restrictions on foreign ownership are in place. In early 2019, Allianz entered the general insurance sector in Vietnam – one of the fastest-growing economies in Asia – through a joint venture with FPT group, a locally based technology services provider.

India remains one of the most attractive emerging markets for those with growth ambitions. American insurance major MetLife recently announced it is looking to raise its stake in the Indian life insurance business it runs through a joint venture with state-owned lender Punjab National Bank. Australia's IAG is going in the other direction, looking to exit its nine-year JV with India's SBI General Insurance as part of a larger global realignment. There is no shortage of investors looking to step in, with reports suggesting around 40 global suitors have expressed an interest.

China's Belt and Road initiative is seeing Chinese construction companies looking for opportunities in emerging markets across Latin America, Africa and Asia. As they do so, Chinese insurers are seeking to create surety operations in partnership with international insurance businesses.

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In China, the regulator has made moves to open up the insurance sector to further foreign equity participation and is already accepting and approving life insurance joint venture applications with foreign shareholdings at 51%. However, the *"one substantial equity interest"* per life and non-life sector rule means that for many incumbent foreign shareholders, a domestic JV partner must be commercially willing to cede control to foreign shareholders, thereby raising potential commercial obstacles.

Michael Cripps, Chongqing

Technology is a game-changer in emerging markets

While insurtech is taking hold in every insurance market – receiving USD 1.3 billion in funding during Q3 2018, up 20% on the prior quarter according to Willis Towers Watson – it is arguably in the emerging markets where its potential is greatest. A combination of historic insurance under-penetration and rising levels of wealth present significant opportunities. The ability to approach them with a clean slate, unencumbered by legacy systems and processes, is leading to an explosion of innovation driven by widespread adoption of mobile phone technology.

In South Africa, a new breed of insurer is emerging offering products delivered via phone-based apps and taking advantage of phones' features such as cameras to help minimise paperwork and time to purchase for buyers. Insurtech start-up Pineapple, which provides indemnity insurance, uses photos taken on mobile phones and uploaded to an app to deliver a form-free quote within three minutes for any goods an individual wants to insure. Claims are made by voice recording and supported by photos, with supporting data from the mapping device on the user's phone. No written paperwork is involved at any point.

In South East Asia, Chinese online insurer Zhong-An's tie-up with Singapore's Grab to launch a digital insurance platform across the region is also being viewed as a transformative move. The prize here is access to Grab's vast customer base utilising Zhong-An's technology with policies underwritten by Chubb. Insurance will initially be offered to Grab drivers in Singapore to protect them from loss of income owing to illness or accident but with ambitions to scale up quickly we can expect the creation of a new marketplace for a whole set of insurance products.

And in another significant insurtech move in the past year, Berkshire Hathaway made a significant investment, estimated to be around USD 350 million, into Paytm, India's largest digital payments firm, which has around 300 million users. Re/insurers around the world will continue to seek out opportunities to access a new generation of customers who can be reached through technology companies.

130 million

number of downloads of the Grab app in Southeast Asia across 336 cities

Grab.com

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Growth strategies are becoming more nuanced – it's not just about M&A. The disruptive force of insurtech is creating significant opportunities for insurers to access new customers, providing they can move quickly enough to find the right partners.

Ian Stewart, Singapore

Spotlight on: Emerging risks

As re/insurers consider their strategies for growth, they do so against a rising tide of emerging risks. With today's globalised world now more interconnected than ever before, there are a range of threats which are currently difficult to insure against but which are moving up the risk radar. Finding solutions to these challenges will open opportunities and re/insurers will look at every route to take them.

Technology

The flipside of the growth of technology and having ever more devices joined together is that it is increasingly difficult to quantify exposures. Some predict that cyber exposure is a catastrophic event waiting to happen if, for example, a state-sponsored hacker shuts down the systems of an entire country.

Climate change

Climate change risks faced by businesses fall into three main categories. First, physical risks that might lead to damage to property, assets or supply chains. Second, transition risks that arise as the worldwide shift to a low or zero carbon economy impacts the finances and valuations of organisations and asset portfolios. And third, liability risks faced by those alleged to be responsible for contributing to climate change, or failing to avert, minimise, or report on physical or transition risks.

Environmental product liability litigation

We are seeing an increasing body of litigation claiming damages for the effects of manufactured products. Examples include lawsuits brought in the United States against the manufacturers of the fuel additive MTBE and against the petrochemical and energy industries for causing climate change. The accumulation of plastics and their impact on the environment, now attracts daily media interest. As a result, plastic manufacturers are at significant risk of being the next industry to get caught up in the wave of environmental product liability litigation.

Pandemics

The World Economic Forum released a white paper at Davos in 2019 highlighting the threat to business posed by a new era of epidemic risk. The number and diversity of epidemic events has been increasing over the past 30 years and the world is now seeing nearly 200 per year. This trend is only expected to intensify – business leaders need to better understand the expected costs of epidemics and how to mitigate them.

50+

Offices worldwide*

3,800

Total staff

415

Partners

1,800

Lawyers

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