CLYDE&CO

Insurance Growth Report 2021

Mid-year update

Despite a tough year across the insurance sector, the industry has proved remarkably resilient in the face of significantly reduced revenue in Covid-19-affected classes of business, and the impact of business interruption disputes on insurers hit by the resulting class actions.

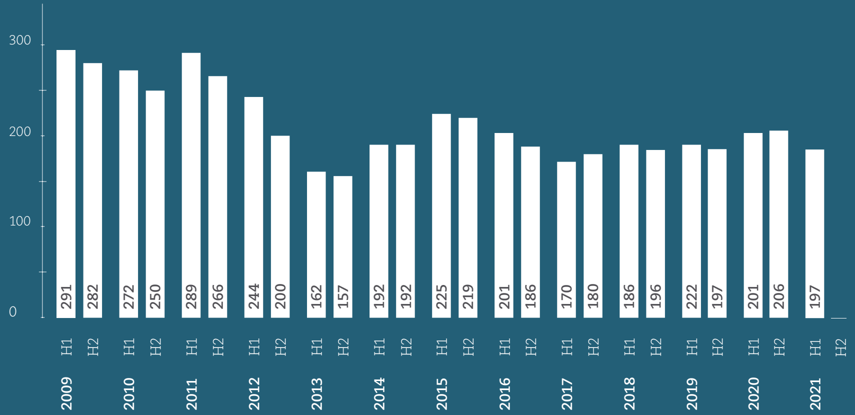
In contrast to the outlook at year-end 2020, global M&A activity in the first half of 2021 dipped to 197 completed deals, compared with 201 in H1 2020. Activity was up 7.3% and 2.0% in the Americas and Europe, respectively, but was down everywhere else. In the Asia-Pacific region, the number of H1 deals fell 51.4%, year-on-year.

While a hardening (re)insurance market is driving organic growth at insurance carriers, at the same time, cheap liquidity, growing private equity interest, and the re-structuring of large carrier portfolios is presenting plenty of M&A opportunities for strategic buyers of insurance assets.

Although the collapse of the Aon-Willis Towers Watson merger due to US antitrust concerns means some caution for mega deals, at least in the US, M&A activity should otherwise continue to remain on a strong pace.

M&A holds steady in H1 2020

Volume of deals completed globally, 1 Jan 2009 - 30 Jun 2021



Activity up in Americas & Europe, falls back elsewhere

Region	H2 2020	H1 2021	% change
Global	206	197	-2.9% ▼
Americas	102	116	+7.3% ▲
Europe	50	51	+2.0% ▲
APAC	37	18	-51.4% ▼
MEA	17	5	-70.1% ▼

Uptick in mega deals

11 deals

in H1 2021 valued at over USD 1.0 billion

15

in the whole of 2020

UK tops the leaderboard

The sale of UK-headquartered RSA to Regent Bidco for

USD 9.2 billion

was the was the largest

US leads big spenders

Americas' acquirors dominate the top

20 largest

deals by value

United States has

9

of the top 20, Bermuda three, Canada and Cayman Islands one each

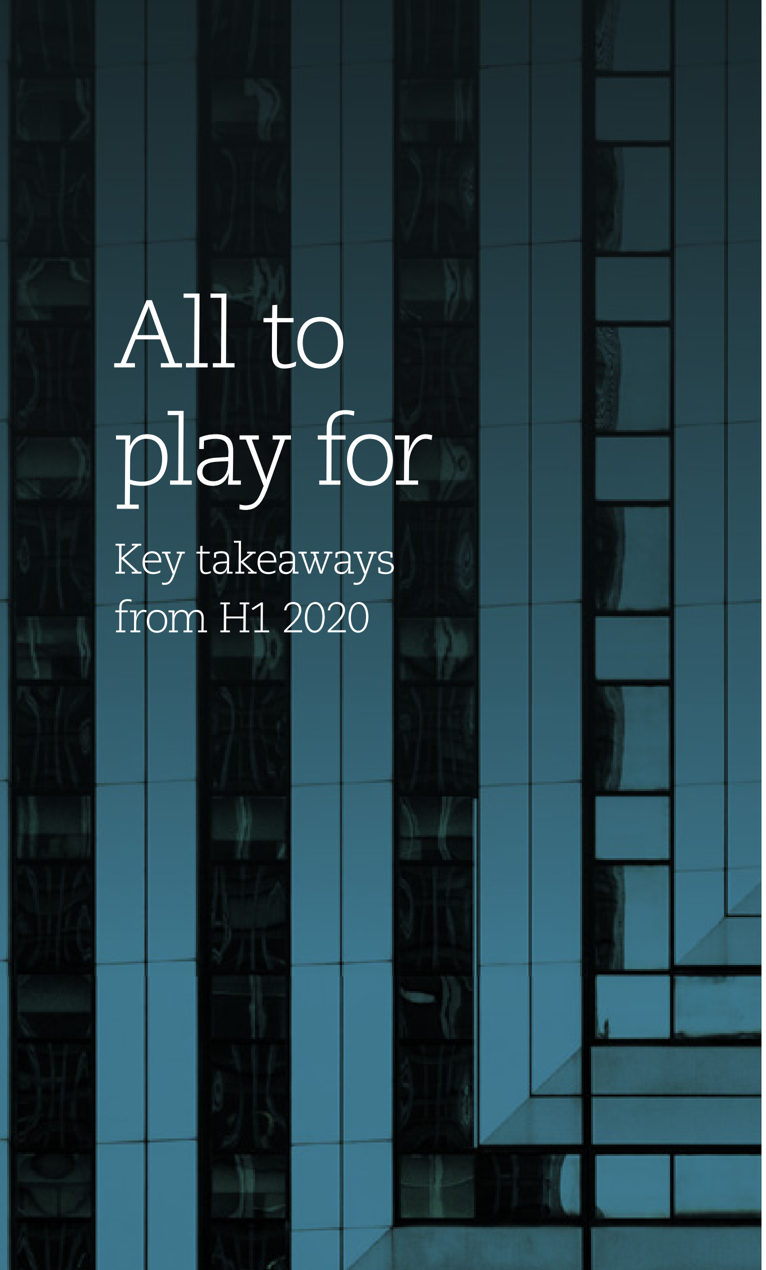
Cross-border activity holds steady

35

completed cross-border deals in H1 2021 – 17.7% of the global total – the same number as in H2 2020.

54.2%

19 of 35 cross-border deals were inter-region



All to play for

Key takeaways from H1 2020

Regulatory challenges and drivers

In the Asia-Pacific region, the anticipation of a robust H1 for M&A transactions was frustrated in part by a continuing high regulatory bar in certain jurisdictions, with prospective acquirors facing higher solvency requirements. Insurers are instead looking at strategic alliances – whether with online banks, e-commerce giants, or other online retail platforms – to access new distribution networks.

At the same time, regulatory activity is also driving divestment of insurance businesses, with some significant portfolios likely to become available. In Australia, the recent Royal Commission on financial services has led to all four major domestic banks choosing to offload non-core lending businesses.

Notable acquisitions include Hollard Insurance's purchase of Commonwealth Bank's insurance division CommInsure, and Westpac's sale of both its general insurance business to Allianz and its captive Lenders Mortgage Insurance business to Arch.

Those looking to acquire or invest in European insurance businesses (including the UK) will need to be mindful of the EU's Insurance Distribution Directive, which places requirements on companies to invest in staff training, professional indemnity cover, re-wording of terms and conditions and greater disclosure requirements.

> "Regulators in Asia Pacific are focused on ensuring a long-term commitment from new entrants. When new players come in and buy a particular insurer in the region, local regulators usually request quite a substantial capital increment.
>
> Avryl Lattin, Sydney

MGAs remain popular

MGAs continue to hold their allure for insurers looking to access new distribution channels while, at the same time, private equity capital is very active in the space, looking for potential targets. In the Americas, some insurtech MGAs who have attained sufficient scale are keen to have their own insurance capital and are looking to buy small insurers to expand. In Australia, where growth in traditional acquisitions and startups of standalone carriers has been muted, the MGA route is also proving attractive, particularly for specialist lines such as cyber.

Europe has likewise seen the establishment of a number of MGAs for specialist classes of business such as cyber, warranty and indemnity, and financial lines. In addition to MGAs that have made a success of offering niche lines (for example, Generali-backed Descartes Underwriting, with its parametric weather coverage), the MGA space has given established carriers, especially in France and Germany, an opportunity to grow market share by establishing new brands, distinct from their traditional products. Carriers hope to appeal to a different demographic by selling coverage either directly to consumers or through alternative channels such as social media.

> "In certain markets we are also seeing large MGA plays; MGAs looking to buy their own insurers. They may be looking for shell companies that they can build out. Setting up an insurer can be tricky, expensive and time-consuming, so buying up a small business and growing it is easier.
>
> Ivor Edwards, London

Technology: insurtech ‘yes’, legacy IT ‘no’

Insurtechs are now in the position of being both attractive as assets as well as potential acquirors and creators of insurance businesses. The first half of 2021 has seen a flood of investment into insurtech projects. US homeowners’ insurtech Kin received USD 64 million in funding, for example, while USD 43 million was invested in India’s online insurance comparison platform D2C Insurance Broking.

Funding reached a record high of USD 7.4 billion across 308 deals in H1 2021, exceeding full-year investment both last year and in every preceding year, according to data from Willis Towers Watson.

The attractiveness of the insurtech sector as an alternative to traditional insurance start-ups has never been more obvious.

However, technology also features as a significant barrier to M&A in the insurance sector, with legacy IT systems proving off-putting to potential acquirors of otherwise profitable portfolios of business. The complexity of some insurers’ in-house IT infrastructure presents an expensive problem that some buyers would prefer to not have to solve following an acquisition.

> “
>
> Recently, there has been an upward trend of insurtech deals happening. Insurtechs are reaching the point where they have critical mass, and we are seeing established tech service providers and start-ups entering into joint ventures or strategic alliances with traditional insurers. On the flipside, traditional insurance players are looking to acquire insurtechs or making strategic investment into the insurtech space. Mature insurtechs present valuable propositions to buyers.
>
> Joyce Chan, Hong Kong

Life insurance presents challenge to M&A

In Europe, what is currently the live insurance sector's pain could prove to be the legacy sector's gain, as the preponderance of life insurers and life insurance divisions at composite carriers presents a challenge to M&A activity.

The capital-intensive nature of life insurance means that not only is such business unattractive to potential acquirors, but companies looking to build scale in their non-life book through M&A have to solve the conundrum of what to do about their life operations before seeking a merger partner.

Zurich has already signalled its intention to cease writing life insurance business, and the expectation is that more carriers will eventually follow suit in order to improve their balance sheets, with the bulk of life business divestments expected to end up in the run-off market.

> "
>
> We are seeing a lot of legacy books being sold off or prepared for sale. The sellers tend to be companies looking to the future in a robust and creative way, trying to clean up their balance sheets and free up capital; they are taking a proactive focus on the next two, five, 10 years.
>
> **Vikram Sidhu, New York**

Strategic disposals highlight carriers' core focus

While hiving off distressed business to the legacy market has been a recurring feature of the insurance sector since before the pandemic, disposals of non-core, but not necessarily under-performing, business appears to be a growing theme this year.

Disposals of legacy books will be driven by, among other things, insurers seeking to divest non-core business in order to build up a war chest for future acquisitions or otherwise wanting to focus on their core lines and businesses.

In the Americas in particular, strategic deal-making has been trending, not only in the form of divesting non-core assets but also searching for acquisitions that complement core business. As reported in the trade press in July, for example, US-headquartered AmTrust has placed the remainder of its European business up for sale as it continues to simplify its operations following a series of divestments in recent years.

In Europe, meanwhile, strategic opportunities are less in evidence but carriers are taking a more strategic approach to certain corporate business lines. Smaller carriers in particular, anticipating difficult reinsurance renewals, may consider exiting lines such as D&O or disposing of books of business where the absence of affordable reinsurance protection makes them less viable. This could present an opportunity for mid-tier carriers to build scale.

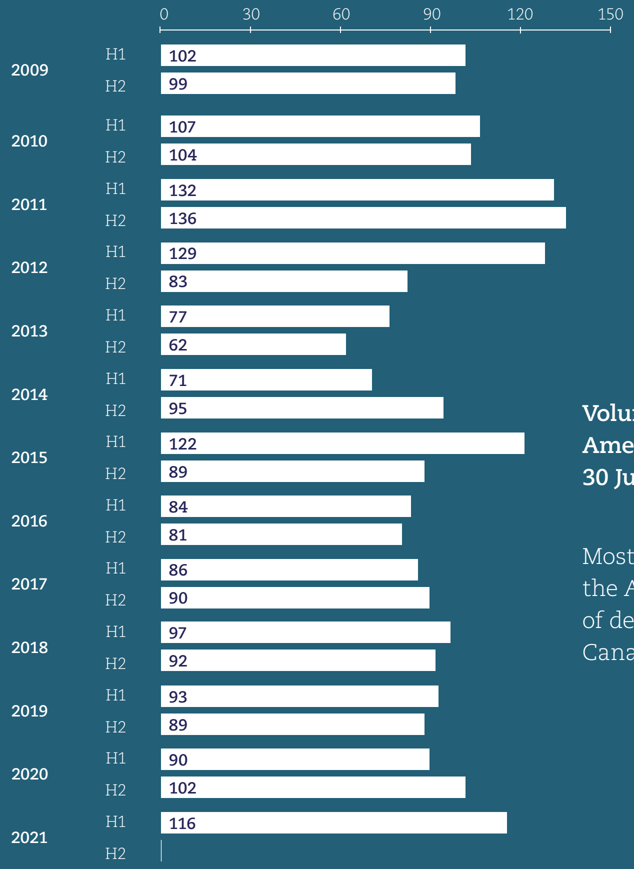
> “
>
> The issue that we have in Europe is we've got a lot of life insurance companies, and not enough non-life. Everybody would like to buy non-life carriers, or do a big merger, but there are not enough targets. So we see a lot more moving of life businesses into run off, rather than traditional M&A, to get the balance sheet in better shape for a merger.
>
> Eva-Maria Barbosa, Munich

UK retains top spot in Europe

Volume of deals in Europe 1 Jan 2009 - 30 Jun 2021

Most active countries in Europe by number of deals: UK **15**, Spain **8**, Germany **5**

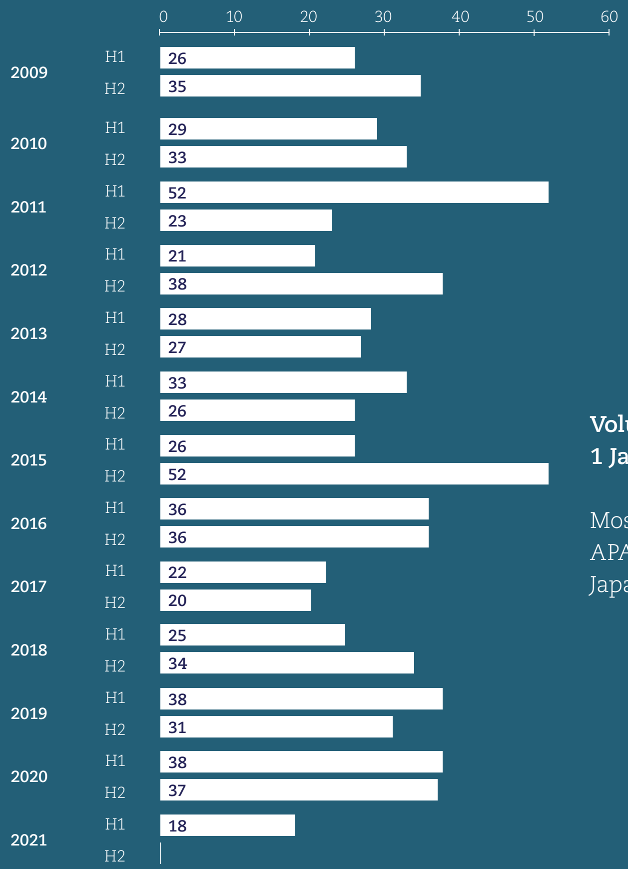
US drives surge in Americas' activity



Volume of deals in the Americas 1 Jan 2009 - 30 Jun 2021

Most active countries in the Americas by number of deals: US **93**, Bermuda **8**, Canada **8**

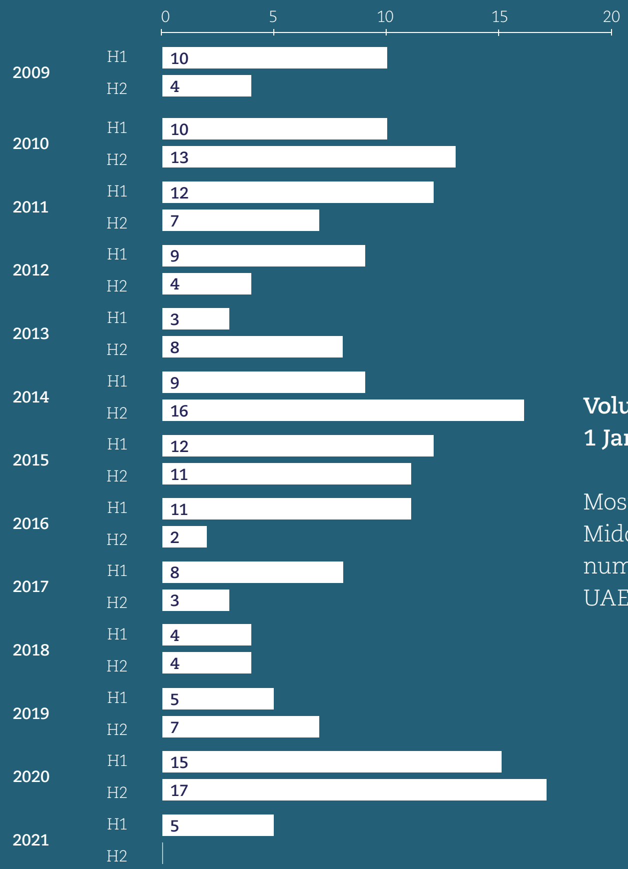
M&A dives in Asia Pacific



Volume of deals in APAC
1 Jan 2009 - 30 Jun 2021

Most active countries in APAC by number of deals: Japan **9**, India **3**, Australia **2**

Deal activity drops back in Middle East and Africa



Volume of deals in ME&A
1 Jan 2009 - 30 Jun 2021

Most active countries in the Middle East and Africa by number of deals: Israel **2**, UAE **1**, Saudi Arabia **1**

440

Partners

1,800

Lawyers

4,000

Total staff

50+

Offices worldwide*

www.clydeco.com

*includes associated offices

1695512 - 08 - 2021