



CLYDE & CO

Insurance Growth Report 2021
Finding opportunity in adversity

The outlook for the insurance industry at the start of 2021 is characterised by uncertainty.

How high will losses from COVID-19 climb and for how long? How deep will the recession run and which markets will be most affected? As insolvencies rise, what will the impact be on claims, on demand for insurance and on gross written premiums?

The collapse in share prices in early 2020 has yet to recover; many insurers are currently trading at a discount. Investment returns – already under pressure after years of low interest rates – have become even harder to find. Yet against this backdrop and that of a hardening market, insurance businesses around the world are scenting opportunities, becoming increasingly bold and creative as they look beyond the pandemic to deliver the growth that shareholders demand.

M&A activity resilient in 2020

Despite the acceleration of market remediation and the promise of healthier organic growth, a merger or acquisition remains an attractive route to build scale, generate efficiencies and reach new customers in new markets.

In the face of the challenges that arrived together with the pandemic, deal-makers in the insurance sector have shown commendable resilience to get transactions over the line. An anticipated lull in completed deals in the second half of 2020 failed to materialise.

After a stand-out 2019, where global insurance M&A reached a four-year high, transaction numbers in 2020 held steady with only a slight dip on the previous year. Europe was hardest hit with activity down by a third, continuing a two-year slide. However, this was offset by an uptick in M&A in the Americas and notably in the Middle East and Africa, albeit from a low base. Activity in Asia Pacific remained broadly flat.

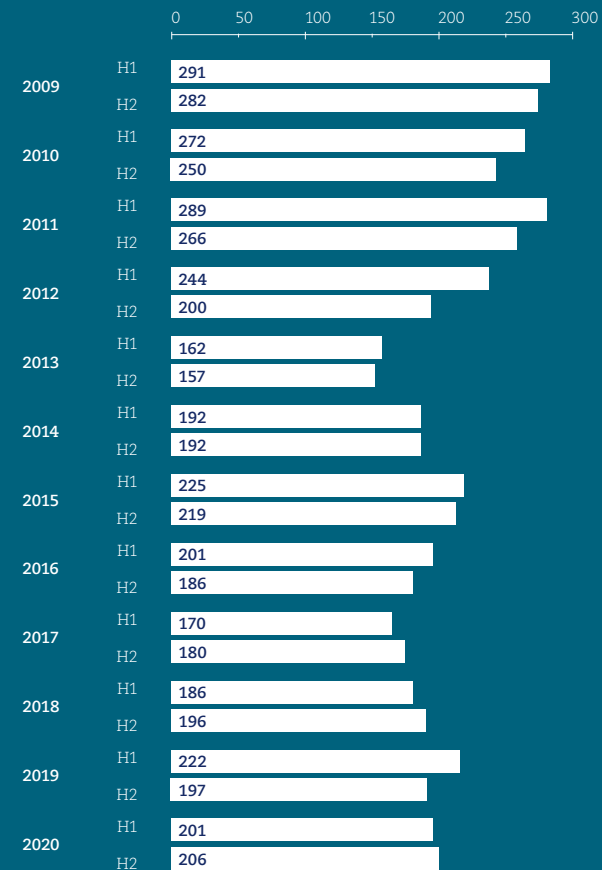
407

deals completed in 2020

—
down from the previous year

419

Volume of deals completed globally, 2009 - 2020



Five things to watch

Investor sentiment will remain robust

Deal-makers in the insurance industry, like many others, paused for reflection in the first half of 2020, but not for long. Strategic players in the market and M&A specialists clearly did not want to be relegated to the side lines and quickly regrouped to identify and pursue opportunities. Given that remote working does not easily lend itself to negotiations, due diligence and all the other elements that make up a transaction, the speed with which companies adapted to the new environment was impressive. Looking ahead, anticipation of a return to economic growth – albeit below pre-pandemic levels – is positive. With governments expected to continue to spend heavily to support the recovery of economies around the world, business and consumer spending is forecast to come racing back in the second half of 2021, bringing opportunities for insurers. This is providing deal-makers with growing confidence.

The technology imperative is now indisputable

The shift to remote working forced by the pandemic has accelerated the adoption of technology across the insurance industry. In 2020, insurtech fundraising hit an all-time high of USD 7.1 billion, according to Willis Re. On one level this is a connectivity issue – not just with employees – but more importantly with brokers and insurance buyers. When growing your business face-to-face is no longer an option, re/insurers have little choice but to fall back on technology to maintain existing relationships but also to access new markets and grow your customer base. At the same time, in the face of balance sheet pressure, any innovation that can generate efficiencies and bring down the cost base is welcome. Technology will continue to be a key feature of the growth agenda in the coming year as re/insurers seek out insurtech providers that can deliver a competitive edge, be it through acquisition, investment or partnership.

Capital is abundant

Increasing premium rates and a more optimistic outlook for most lines of business will make stronger market players more likely to look for growth opportunities through acquisitions, some of which may have been put on hold in 2020 due to the pandemic. The improving market conditions have seen insurers move to raise capital but are also attracting more funds into the industry, including from private equity, which will help finance more deals. In addition, with interest rates at historic lows, buyers may look to tap cheap debt or deploy funds stored away during the pandemic to fund acquisitions. Meanwhile, the trend of new players entering the re/insurance market, often backed by an established figure with a proven track record capable of attracting significant financial backing, is set to continue.

Targets are plentiful

For those on the acquisition trail, there will be no shortage of targets in 2021. The pandemic has forced insurance businesses to review their strategies and get laser-focused on which products they should be underwriting, in which markets. A number of firms are actively pursuing opportunities to exit their non-core businesses through restructurings, divestitures, and other deal activity. Elsewhere, smaller insurers in particular may struggle to cope with the ongoing pressures of COVID-19 and be forced to put themselves up for sale. Meanwhile, live carriers are looking for run-off deals to free up capital to redeploy in the hardening market. Legacy sales will continue to grow and will be a feature of the market in the coming year.

Scrutiny is intensifying

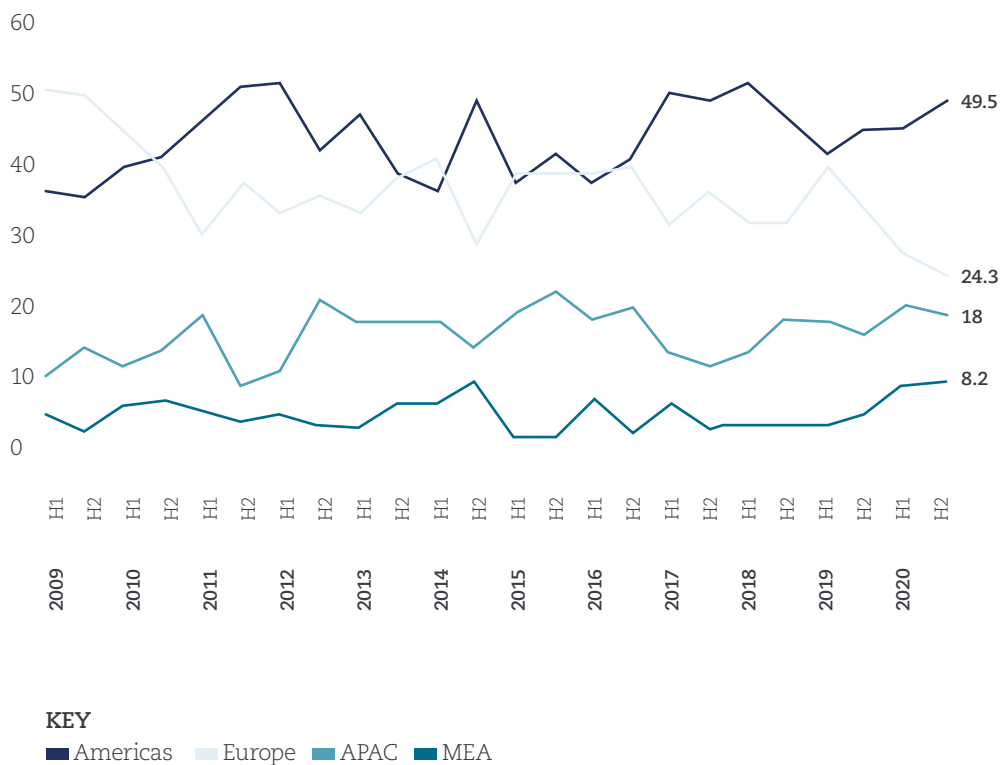
While deal-makers are on the front foot and actively looking for acquisitions, most are doing so with a more heightened sense of caution than in the past, asking tougher questions as they go. Acquirors want to be certain that any assets they take on not only fit within the strategic direction of their core business, but that they do not come with any additional unwanted pressures. This cautious approach is also reflected in valuations, with buyers unwilling or unable to pay the prices that may have been asked for in recent years. The viability and profitability of potential targets are receiving increasingly intense scrutiny.



Geographic axis tilting

Insurance M&A in Europe continued its downwards trajectory in 2020, held back by a lack of viable targets and uncertainty over Brexit. There are signs however that this trend could be set to reverse with a number of major re/insurers looking to reorganise their business lines either by putting assets up for sale or actively seeking out acquisitions, predominantly of small to medium sized targets. In the US, the world's most active insurance M&A market, as the economy returns to a more stable state in 2021, re/insurers will shift focus back to longer term strategy and deal-making. Meanwhile, Asia Pacific has not been impacted by COVID-19 to the same extent as the Americas and Europe, either in terms of human casualties or financial fallout. As a result, we expect that investor appetite will bounce back in 2021 more quickly in the region than elsewhere, likely leading to a surge in M&A starting in the first or second quarter.

Percentage of deals per region



15 in 2020

Fewer mega deals coming to market

- In 2020 there were 15 deals valued at over USD 1.0 billion versus

20 in 2019

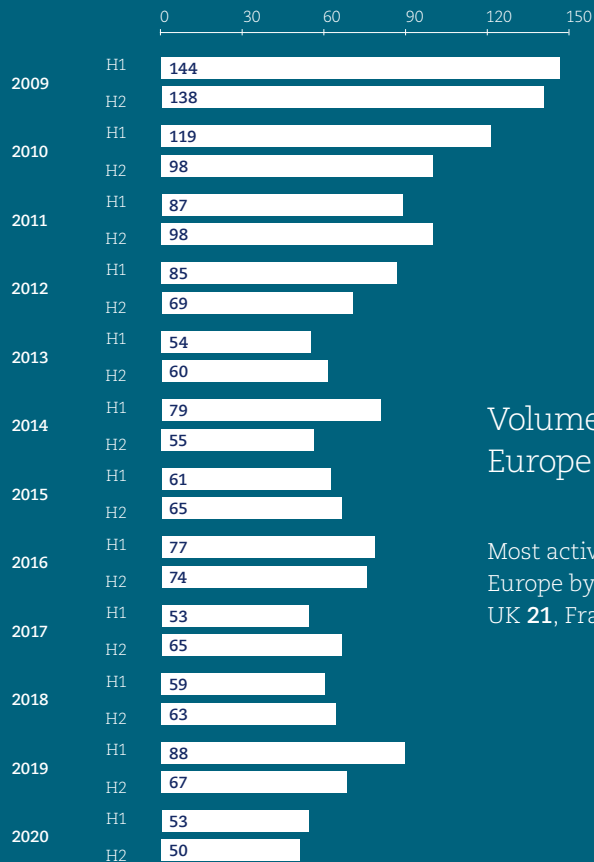
Geographic spread of big spenders

- 13 acquiror nationalities among the top 20 largest deals by value
- US has six of the top 20 deals, France and South Korea two each

France hosts biggest deal of 2020

- La Banque Postale's takeover of CNP Assurances for USD 6.3 billion was the largest deal of 2020

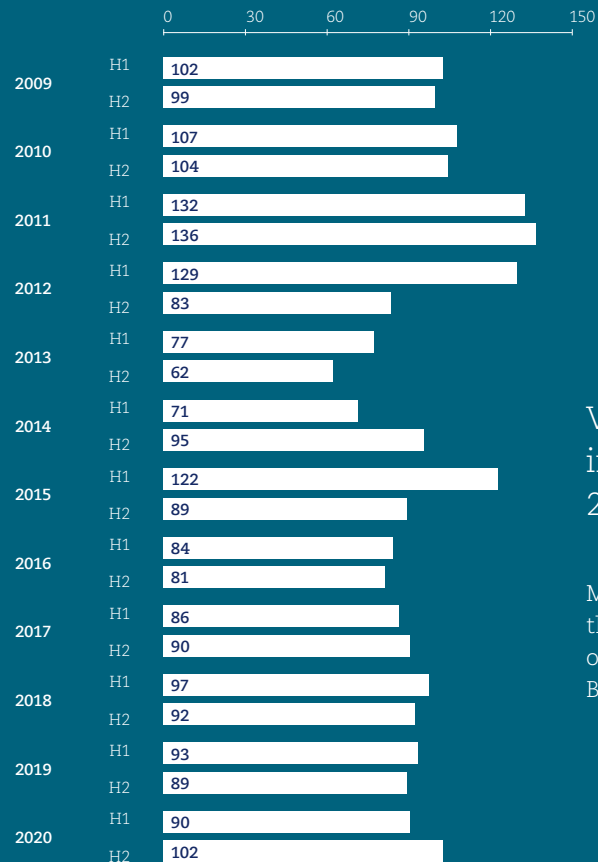
Activity in Europe continues to slide



Volume of deals in Europe 2009 - 2020

Most active countries in Europe by number of deals: UK **21**, France **12**, Italy **12**

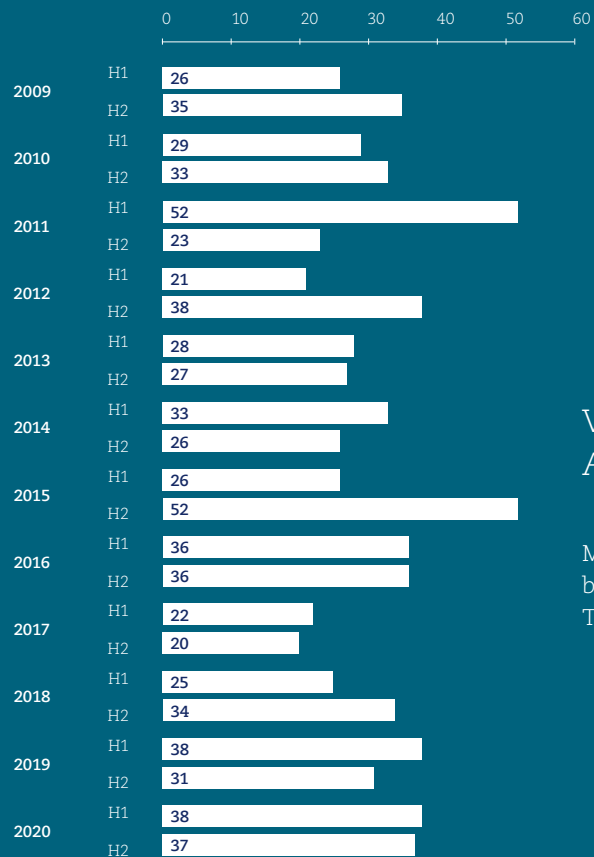
Deals in the Americas at five-year high



Volume of deals in the Americas 2009 - 2020

Most active countries in the Americas by number of deals: US **138**, Canada **18**, Bermuda **15**

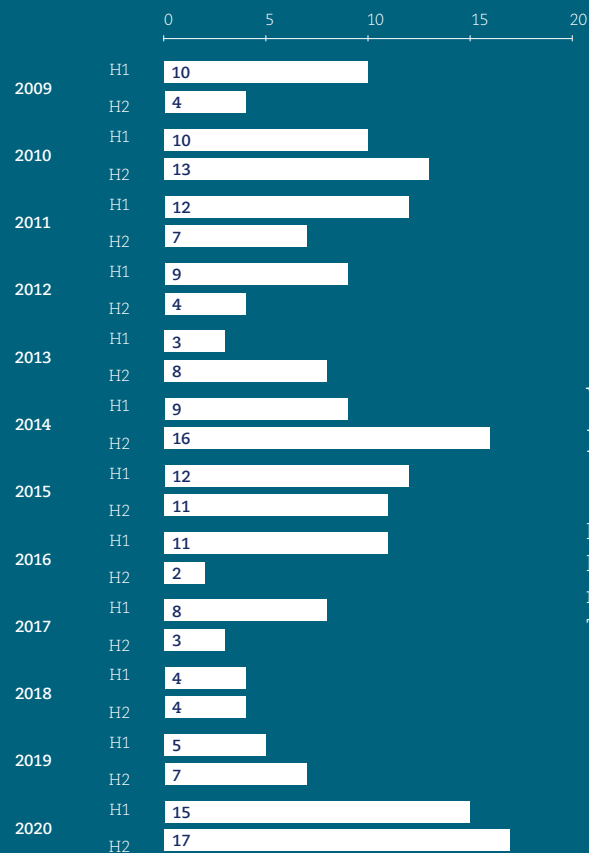
M&A up year-on-year in Asia Pacific



Volume of deals in APAC 2009 - 2020

Most active countries in APAC by number of deals: Japan **26**, Taiwan **12**, China **8**

Busiest year on record in Middle East and Africa



Volume of deals in ME&A 2009 - 2020

Most active countries in the Middle East and Africa by number of deals: Egypt **11**, Turkey **6**, UAE **3**

Cross-border M&A drops in 2020

Mergers and acquisitions involving foreign targets were down by 18% in 2020. Cross-border deals accounted for 21% of the global total, compared to 25% the previous year. Investors from the Americas pulled back from Europe, where they directed 25% of overseas spending, compared to 66% in 2019. In contrast, interest from Asia into Europe increased from 8% to 18%. The UK was the most popular destination for investors into Europe, attracted by the quality of the assets and the opportunity to establish or strengthen a presence in a key mature market, possibly at a favourable price ahead of the end of the Brexit withdrawal period. A similar sentiment drove the other big cross-border trend of 2020 – the rise in Asian acquirors moving into the Americas. Buyers from Japan, Taiwan and China all made moves on targets domiciled in the US.

Percentage of outbound M&A deals by region



85 completed

Cross-border deals in 2020, down from **104** in 2019

60% of cross-border deals in 2020 were **intra-region**



Insurance M&A will surge in 2021

Given the number of deals announced in recent months, we predict that insurance M&A will surge in the first half of 2021. The number of completed deals worldwide is likely to surpass 220 in a six-month period for the first time since 2019 and could go even higher in the second half of the year.

Deal-makers' appetites have returned, buoyed by growing confidence in the economic outlook and the sense that there are opportunities to be had. Despite market hardening, many of the fundamentals driving M&A will persist. These include competition for assets, the need to diversify portfolios, add digital capabilities, and increase scale and market share. The availability of plentiful capital, combined with a deeper pool of targets, will give buyers plenty of choice although we expect them to select acquisitions carefully to ensure the best fit with their strategic objectives.

440

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1,800

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4,000

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50+

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