

TOP DEAL DRIVERS FOR GLOBAL INSURANCE M&A 2016



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Far exceeding anyone's expectations, global insurance M&A last year soared to \$143.5b in worldwide transactions. That total tripled 2014 while outstripping even the previous high set in 2010. This growth reflects the continual ability of firms to access their cash on hand, along with the low cost of capital available throughout the globe.

According to a recent survey, Defying gravity by Mergermarket and Willis Towers Watson, insurers anticipate deal flow to be led by North America, with emerging Asia close at hand, 34% of M&A activity and 32% of M&A activity respectfully, and Latin American deal activity coming in at 15% of the total for 2016.

Further, while firms already in North America are anticipating inter-regional deals to diversity and underwrite risks, firms outside the region are targeting the customer base, licenses and technology of this mature market.

Meanwhile, Asia's attractive assets and innovation are luring buyers while increasing cash reserves. It is also anticipated that M&A activity in Asia, over the next three years, will lead deal volume. Spurred on by China's government, Chinese firms are seeking international business standards and international business exposure.

Asian governments are not alone in their drive for deals, Europe, is also expecting further activity once Solvency II is formally in place.

All this bodes well for 2016, with deal activity being further driven by several key factors:

BIG DEALS

Large transactions have returned as a trend across sectors worldwide, not just within insurance. However, within insurance, in the last year, there were four megadeals—each valued at over \$5.5b—compared to just one in 2014 that was valued at \$6.44b. Included in last year's four mega deals were U.S. Aetna's \$37b acquisition of Humana, and Swiss giant Ace's \$28b purchase of P&C insurer Chubb.

Those insurance deals represent just a few of the 117 mega deals across all global sectors in 2015, as a result of low-interest rates and a plentiful supply of cheap financing.

The trend of mega deals in insurance, like other sectors, will last as long as large targets and inexpensive financing are in abundant supply. There are a number of very large, mature reinsurance firms that are seeking to refine their panel of reinsurers to just the top five or top ten which should help drive industry consolidation.

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TOP-LINE GROWTH

Driving deal value and deal volume is the need for companies to expand and accelerate their top-line growth. The drive for top-line growth is taking place in a challenging environment where firms are finding that achieving organic growth is difficult, especially as the marketplace becomes more competitive and crowded, leaving companies with few other options than to engage in acquisitions.

P&C firms, in particular, say they are looking for deals that will diversify and expand their product offerings.

For all insurers looking to capture top-line growth, existing market position and existing customer base were the key drivers in 2015, and the same is expected for 2016. Across the board, a unique customer base or unique product lines with enhanced distribution channels make for ripe geographic plays, whether the deal is inbound or outbound. As a result, these new sources of revenue are key drivers in M&A activity.

CONSOLIDATION

Even when looking beyond one's borders, consolidation is happening around the globe. When an Australian company looks to acquire an Asian counterpart, or a Western European firm acquires a Central or Eastern European firm, it is clear that the growing commercial links are one of the driving sources of insurance M&A.

Still, most insurers want to consolidate their existing market position, rather than branch out across the globe. Of the insurers surveyed, four out of five said they are planning strategic buys to focus on consolidating their core markets. Of those asked, approximately two-thirds said they are already market leaders in the markets they are targeting.

One exception to this is that some players are looking to move into new developing markets, as populations boom and a growing number of middle-class customers have the ability to purchase both general and life insurance products.

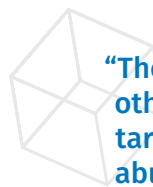
DISTRIBUTION

For global insurers, the myriad of ways that distribution models continue to evolve within disparate markets is having a significant impact on M&A investment theses. Today, companies seek to find the most impactful path to reach their customers.

In the Americas and in the APAC region, companies which view distribution as important were more likely to rate direct sales channels as highly important. In the Middle East and in Western Europe, digital distribution was a driver of deals by 56% and 45% respectively.

INBOUND ASIAN INVESTORS

Demand by foreign investors into the U.S. market continues today, as many Asian insurers view U.S. assets as valuable add-ons to their portfolios, purchasing business-building platforms that will enable growth going forward.



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Just last year, the value of deals with an Asian target was four times higher than in 2014, coming in at \$21.2b, while the value of deals from Asian acquirers was close to five times as high, coming in at \$48.1b.

At a worldwide level, Asian competitors—and new non-insurance players in deals from Asia—are key in deals taking place in the developed markets of North America and Western Europe.

TECHNOLOGY

Asia Pacific companies view web technologies as vital while web and mobile deals were also especially important to EMEA insurers. In the Americas, particularly for P&C players, big data and analytics were the important tech plays. Though less of a focus, cybersecurity was a consistent concern across all regions.

For Asian acquirers that are looking to buy in Europe, not for high growth but for technical comparative advantage, there are IT structures, distribution tools, algorithms and so on that are very attractive.

Meanwhile, telematics technologies are beginning to rise in European marketplaces and were a driver in greater than one in ten deals in the P&C sector (11%). An example was Japanese Aioi Nissay Dowa Insurance's purchase of Gibraltar-

based telematics provider Box Innovation Group for \$152.9m. That deal was based on the growing demand for connected car solutions.

CONCLUSION

The following factors should be considered in any M&A deal in 2016:

Distribution: To reach their customer base, distribution innovation is key. Insurers who compete worldwide will need an array of distribution models to maintain a competitive edge in different markets, and the evolution of these models will impact M&A activity.

Planning: Completing a deal takes careful planning. According to most analysts, the sector is oversold. While valuations are still attractive, prices are stiffer as capital comes in and insurance stocks gain. It is in this context that dealmakers in the sector need to think carefully about the metrics they are using to determine the best price for an asset.

Revenue growth may be the focus in emerging markets, but enterprise value can be a significant factor in developed markets.

Completion: The most challenging work on a deal can be the completion. Many insurers highlight the importance of strategic rationale and not just price. Another factor is building relationships prior to any deal so that vetting and a clear path to [due diligence](#) is established ahead of time.

Honest and transparent negotiations are paramount to completing any deal.

Competition: The competition will only stiffen in the M&A market as PE players and others enter into more developed markets.

Value: Insurers will want to see more from their M&A deals. This means that even if the value is not always the prime reason for the price, there is the trade-off between return on investment and risk. Within the sector, life and P&C insurers continue to expect high returns on capital from emerging markets, but for mature, developed markets the reality is that there are lower potential returns.

Strategy: Companies that tie their business and M&A strategy together, while understanding and managing these deal drivers, will more likely reap the benefits of a successful deal.

Process: A cross-disciplined M&A team should establish deal objectives that will apply throughout the integration process. Understanding that a deal causes disruption to the business is important. Therefore, leadership expectations beyond deal-close and throughout the integration process need to be clearly articulated.

Any acquisition will require significant changes within both the target and the buyer's organizations, which includes key roles, business structures, and an understanding of the underlying culture of each company.

Finally, it is of great help if a culture of learning from experience with prior deals is established..

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