



## 2022 insurance M&A midyear update

### Is the market on course to end 2022 in correction territory?

Earlier this year, we published our annual [2022 insurance M&A outlook: Riding the wave](#). In this article, we present the following five mergers and acquisitions (M&A) trends and drivers to be cognizant of in 2022:

1. Impact of macroeconomic factors (inflation, interest rates, and hard market)
2. Repositioning portfolios
3. Private equity activity
4. Digitization acceleration
5. Setting the M&A strategy

This midyear update explores observations related to these trends based on the current marketplace and how M&A activity has progressed in 2022.

#### 2022 at a glance<sup>1</sup>

- The number of deals year to date (YTD) decreased approximately 30%.
- Deal volume in 2022 appears to be positioned to conclude significantly behind the deal levels observed in 2021 and might end in line with 2014—the last year of sub-500 overall deal volume.
- The aggregate deal value YTD is approximately 25% lower than the same period in 2021. However, there was a transformative deal announced during each six-month period. In March 2021, **Apollo and Athene** announced their agreement to merge,<sup>2</sup> and in March 2022, **Berkshire Hathaway** announced its acquisition of the **Alleghany Corporation**.<sup>3</sup> Adjusting for these transactions saw transaction value decrease more than 50% period over period.
- Regarding the average deal size for insurance underwriters, the impact of the **Berkshire** transactions was greater in 2022 because of the deceleration in the market. Again, adjusting for the aforementioned transformative transaction saw the average deal size decrease more than 80%.
- **Property & Casualty (P&C)** P&C deal volume YTD is down—26 transactions versus 41 transactions compared to the same period in 2021.
- **Life & Annuity (L&A)** L&A activity is also down—six deals versus 18.
- **Brokers** Broker deals, traditionally the most inelastic sector of the market, are also down—228 transactions versus 333.

## Impact of macroeconomic factors (inflation, interest rates, and hard market)

In our annual report, we noted inflation and interest rates were on the radar of both strategic and financial buyers. However, at that point it was expected inflation would most likely be transitory, and while the idea was the Federal Reserve Board (the “Fed”) may increase interest rates to control inflation, expectations were that the increase(s) would be measured. Now, the current prevailing opinion is that inflation will not be transitory. On June 15, 2022, the Fed increased interest rates 0.75%—the highest increase seen since 1994—and has implied that further rate adjustments are likely, as evidenced by its 0.75% increase on July 27, 2022.

Toward the end of 2021, P&C insurers were already experiencing increases in claims costs as a result of inflation due to increases in replacement goods and materials and the prevalence of social inflation related to claims costs. The current environment will only exacerbate both of these factors and may lead to insurance companies passing these costs to the consumer through increased renewal premiums. This dynamic may push the price of entities in this sector above where potential buyers can achieve their required rates of return.

Interest rate adjustments are expected to increase the level of investment income in the L&A sector, which should lead to an

increase in valuations. However, the result might be similar to what’s expected in the P&C sector; these increased valuations may make completing a deal more challenging. Coupled with these factors is the increase in financing costs as a result of rising interest rates, which may lead to an increase in transaction costs and hinder returns on investment (ROIs). The effect of these macroeconomic factors may already be impacting the market as noted in the pullback in overall deal activity.

## Repositioning portfolios

In 2021 and continuing into the first half of 2022, we observed insurance companies reimagining their portfolios with the potential goal of restructuring to a different operational model and maximizing their balance sheet. A confluence of factors led to this activity—the low-interest-rate environment enticed L&A carriers to execute agreements to get out from under certain long-tail businesses, and this was coupled with an historically active M&A market, creating a dynamic market in which to sell. In the P&C sector, we observed clients rebalancing their balance sheets from capital-intensive to fee-based businesses, with the focus being on managing general agents/underwriters (MGAs/MGUs). This segment of the market has also been favored by the private equity (PE) community, given its non-capital structure, which has added to the competition for MGAs/MGUs. While active transactions might continue, we believe that the current market

uncertainty will lead to a general pause in additional activities. However, certain segments, such as L&A and distribution, may continue to be active, but we believe overall deal activity in the second half of 2022 will continue to decrease.

## Private equity activity

PE firms have traditionally favored the distribution segment given the ability to aggregate and integrate targets to achieve scale and the lack of regulatory capital. Recently, PE firms have become involved in the L&A sector driving a majority of the activity in this space. While this segment does have regulatory capital requirements, acquisitions allow PE firms to expand their assets under management (AUM) and convert the platform to a fee-based structure. However, in a typical transaction, a PE firm would apply leverage. Over the past several years, the low-interest-rate environment has been an element to drive the active PE M&A market. However, in the current market, there are two general thoughts: (1) the rate increase will slow the M&A activity as the cost of debt rises and negatively impacts the expected ROI, or (2) with the overall level of dry powder in the PE market, there will be certain entities that continue to pursue transactions but rethink deal structure. We believe this deal structure might include an increase in the equity commitment that could lead to a reduction in deal size but presents the PE firm with the ability to execute an equity recapitalization earlier than otherwise possible, thereby enhancing returns.

## Digitization acceleration

In our annual outlook, we highlighted trends responsible for the rapid acceleration of digitization, including enhancing cybersecurity, upgrading the existing technology platform, and improving customer experience. While these attributes are expected to continue to drive change, in the current economic environment, we believe that insurers and brokers will grasp onto digitization as a means to increase expense efficiencies within their organizations. While management teams will need to rationalize spend in this time of uncertainty (whether this “spend” is organic or inorganic), we believe the long-term ROI will show that the benefits outweigh the costs. Our hypothesis is twofold: The rightsizing of the expense structure will be permanent, and consumers have come to expect products and services to be available digitally; and, enacting digitization now will position companies to maximize impact on the back end of the current economic climate.

## Setting the M&A strategy

In this dynamic market, execution of transactions will be more challenging—increasing financing costs, stock market volatility, etc. However, we would advise management teams to stick with their M&A strategy. In times of economic uncertainty, there may be opportunities to acquire entities that were otherwise

priced at unattainable multiples or enter into alliances that were not possible in the recent past as certain potential partners seek to widen their aperture to increase revenues. However, enhanced focus needs to be brought to bear as unnecessary churn will increase deal costs and adversely impact expected rates of return when there is limited room for error.

## Summary

Conditions for the M&A environment have shifted rapidly in 2022, with the future uncertain. If the start of the year is any indication, M&A volume in 2022 is expected to be a low point compared to the recent past. We are of the opinion that M&A should continue to be one element of a management team’s strategy when considering future growth plans. However, it appears that M&A activity will be focused on L&A and distribution in 2022 with a possible uptick in alliances and partnerships as other segments seek to drive top-line growth in this economic environment. The elephant in the room is how long investor confidence holds in the face of increasing speculation around a near-term economic downturn, and who will emerge as the winners during this potential future period, having seized opportunities to acquire undervalued assets.

## The global market at a glance

### Canada

The Canadian insurance M&A activity followed a similar trend as previously mentioned—deal volume and aggregate deal value involving Canadian companies declined in the first half of 2022 with 16 announced deals (US\$2.45 billion) compared to 53 deals (US\$12.3 billion) in the same period in 2021. The deal landscape was dominated by the completion of Intact's acquisition of RSA Group.<sup>4</sup> However, the overall M&A theme was the acquisition of MGAs and distributors in Canada by both Canadian and foreign firms and Canadian firms executing on these entities in the United States.

### Japan

The theme of repositioning portfolios was prominent in Japan—Dai-ichi Life Holdings, Inc. (through its US subsidiary Protective) agreed to acquire AUL Corp.,<sup>5</sup> Sampo Holdings, Inc. announced its intent to divest its consumer business in Brazil,<sup>6</sup> and Tokio Marine Holdings, Inc. announced its intent to divest the US construction division of Tokio Marine Highland.<sup>7</sup> Another theme evident in Japan is accelerating digitization through acquisitions. Examples are Dai-ichi Life Insurance Company, Limited and Tokio Marine Holdings, Inc. investments in Cinnamon AI<sup>8</sup> and May Mobility, Inc.,<sup>9</sup> respectively.

### Southeast Asia

Insurance M&A activity in Southeast Asia has been reasonably resilient in the first half of 2022, with volumes staying broadly stable within the same period in 2021, and with expectations that this momentum will continue for the remainder of 2022. The first half of 2022 saw the completion of a majority of the recently announced large transactions—HSBC Insurance completed its acquisition of AXA in Singapore,<sup>10</sup> and Generali<sup>11</sup> and Liberty Mutual<sup>12</sup> announced the impending completion of their respective transactions in Malaysia. In Thailand, we have observed adverse COVID-19 claim activity, which has severely impacted the capital position of several local insurers. If local regulators are willing to entertain majority foreign ownership in return for strengthening the capital position of certain insurers and stabilizing the industry, it is expected that M&A activity in Thailand will increase. However, there appears to be a continuing trend of certain global insurers deciding to exit the Southeast Asia market driven primarily by their market positioning and the importance of their international operations to the overall portfolio.

### Australia and New Zealand

The retreat of the Big Four Australian banks and other large diversified financial services firms from the life insurance

industry continues, including National Australia Bank's divestment of BNZ Life in New Zealand to Partners Life,<sup>13</sup> Fidelity Life's acquisition of Westpac Life NZ, and Suncorp's rumored exit of its life insurance operations in New Zealand.<sup>14</sup> In addition, large, well-capitalized distributors, AUB Group Limited<sup>15</sup> and the Steadfast Group, are seeking organic and inorganic growth opportunities.<sup>16</sup> The Australian distribution market is also attractive to foreign financial and strategic players, including Arthur J. Gallagher & Co. and TA Associates (both in the United States) and The Ardonagh Group (United Kingdom).

### Bermuda

While inflation has created headwinds for the insurance sector in the United States, as noted previously, it has not had a similar impact on Bermuda, as the pace of M&A activity is relatively stable and the formation of new insurance and reinsurance has increased. In the first half of 2022, insurance company registrations increased approximately 80% (11 versus six) compared to the same period last year,<sup>17</sup> signaling strengthening interest to domicile in Bermuda and further increasing the pool of future targets.

The momentum for M&A reinsurance activity among global reinsurers has not slowed. Market participants are keen to acquire businesses that complement their core business, while also shedding non-core businesses to a jurisdiction that can better manage risk. For example, Aquarian Holdings recently announced its intention to acquire Somerset Reinsurance on June 6, 2022,<sup>18</sup> which aims to improve its collective business and provide greater solutions to the reinsurance market. In addition, industry consolidation continues to happen on a local level. In particular, Coralisle Group completed its acquisition of United Insurance on May 5, 2022,<sup>19</sup> which significantly consolidates the insurance market within Bermuda and the Caribbean region.

### United Kingdom

During the first half of 2022, the UK market continued to see very high levels of insurance distribution M&A deals at record valuation multiples; there were several big and bold moves in the distribution space by both strategic and financial investors. Transactions involving carriers have been relatively slow, but activity appears ready to increase in the second half of 2022, particularly in the personal lines sector of the market as the impacts of General Insurance Pricing Practices (GIPP) reverberate through the market. Lloyd's market businesses have also continued to see interest from both strategic and financial investors, and there are a number of deals in process that are expected to complete in the second half of 2022.

## Endnotes

1. Deloitte analysis based on SNL Financial M&A database.
2. Apollo, "[Apollo and Athene to merge in all-stock transaction](#)," press release, March 8, 2021.
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4. RSA, "[Intact Financial Corporation and Tryg A/S complete acquisition of RSA Insurance Group PLC](#)," press release, June 1, 2021.
5. Protective Life Corporation, "[Protective Life to acquire leading automotive finance & insurance provider AUL, adding complementary portfolio to Asset Protection Division](#)," press release, March 21, 2022.
6. Sompo International, "[Sompo International sells Sompo Seguros personal lines to focus on corporate insurance in Brazil](#)," press release, May 24, 2022.
7. Tokio Marine Holdings, Inc., "[Divestment of Tokio Marine Highland's US construction division](#)," press release, June 20, 2022.
8. Cinnamon AI, "[Cinnamon AI, an artificial intelligence technology startup, raises funds from Dai-ichi Life through a capital increase through third-party allotment](#)," press release, June 28, 2022.
9. May Mobility, "[May Mobility closes \\$111 million Series C funding, begins preliminary development on Toyota's next generation mobility platform](#)," press release, July 12, 2022.
10. HSBC, "[HSBC completes acquisition of AXA Singapore](#)," press release, February 11, 2022.
11. Generali, "[Generali signs agreement in Malaysia to acquire majority stake in AXA Affin joint ventures and plans to purchase 100% of MPI Generali](#)," press release, June 22, 2021.
12. Liberty Mutual Insurance, "[Liberty Mutual Insurance Group finalizes acquisition of Malaysian insurance company](#)," press release, July 16, 2014.
13. BNZ, "[BNZ Life sale](#)," accessed August 1, 2022.
14. Westpac, "[Westpac completes sale of New Zealand life Insurance business](#)," press release, February 28, 2022.
15. Merger Market.
16. Ibid.
17. Bermuda Monetary Authority, "[Monthly Registration Statistics](#)," accessed August 1, 2022.
18. Aquarian Holdings, "[Aquarian to acquire controlling interest in Somerset Re and contribute additional equity capital to support further growth](#)," press release, June 6, 2022.
19. *Bernews*, "[CG completes acquisition of Massy United](#)," May 5, 2022.

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