2023 at a glance

The number of deals year to date (YTD) was relatively flat as compared to the same period in 2022 (down 2%; 248 compared to 254). Based on the first half of 2023, deal volume appears to be on pace with 2022, which was a low point for activity over the past several years. However, the story is different when aggregate deal value YTD is the point of comparison. The first half of 2023 saw aggregate deal value approximately half of that for the same period in 2022.

The Life & Annuity (L&A) sector saw the largest increase in aggregate deal value driven by the Brookfield Reinsurance Ltd./American Equity Investment Life Holding Company transaction, with a disclosed consideration of approximately $3.6 billion.² Although deal activity in the L&A sector doubled, from six deals to 12 deals, the aforementioned Brookfield deal skewed the average deal size in the L&A sector compared to the same period in 2022. Brookfield struck again in the Property & Casualty (P&C) sector, with the announcement of the transaction involving Argo Group International Holdings, Ltd. (disclosed consideration of approximately $1.1 billion).³ RenaissanceRe also announced a transformative deal in the first half of 2023—the approximate $3 billion deal for certain segments of Validus Re from AIG.⁴ However, unlike the impact of a transformative deal on the average deal size, this metric actually decreased for the P&C sector from $2.5 billion to $1 billion.

**Underwriters (P&C and L&A):** Deal volume was up by approximately 30%, but aggregate deal value was down approximately 40% compared to the same period in 2021.

**Brokers:** Deal volume for the first six months of 2023 was directionally consistent with the same period in 2022 (decrease of 6%).
Continuing MGA/MGU/specialty broker demand
Based on our data source, demand in the broker segment remains consistent with 2022 for the first half of the year. In 2022, we observed an acceleration in the number of deals that occurred in the second half of the year. This surge drove deal activity in the sector to exceed the 10-year average. Assuming the macroeconomic conditions improve for the remainder of 2023, or at least remain constant, we expect the same dynamic will occur in the second half of 2023. Financial buyers continue to be active in this space, accounting for more than half of the transactions, and we expect this buyer group to play a large role in increased activity for the remainder of the year. We also expect that, in the latter half of 2023, interest in MGA/MGU/specialty brokers should be leading M&A activity, as these have benefits of better economics, which are attractive to both strategic and financial buyers. The additional economics that can be captured in this segment can help offset the impact on the credit markets of the interest environment. Also, the specialization associated with this segment could help a buyer justify the multiples being sought by sellers.

Elongation of rate hardening, particularly in reinsurance and P&C commercial lines
For the P&C sector, a key date for reinsurance contracts was the July 1, 2023, renewal period. The sentiment in the general market was that due to recent adverse loss experience, the reinsurance sector was already in a hard market (i.e., the presence of increasing rates reinsurers charge clients for coverage) for a couple of renewal periods. Reuters reported that the July 1 renewal period saw US property catastrophe reinsurance rates further rise by approximately 50%. The expectation is that, in this rate environment, reinsurers may focus on driving business as the mechanism to grow and enhance shareholder return. However, this dynamic—increasing rates and therefore return on equity—could have been included in the rationale for the Brookfield/Argo deal. RenaissanceRe publicly disclosed that its reason for acquiring the reinsurance segment of Validus Re was to enhance its position as a leading global P&C reinsurer as well as to provide additional scale. This may better position RenaissanceRe in future client discussions. If this rate environment persists, as is expected, we would expect other financial buyers to closely examine this P&C segment, which may lead to an increase in deal activity after the 2023 hurricane season.

Growth of alternative capital in reinsurance
The rate increase experienced by the P&C reinsurance sector is only one of the factors making this sector attractive for alternative forms of capital. Other factors include, but are not limited to, losses from more frequent and severe catastrophes, new risk types entering the insurance market, and rising interest rates. This increase in demand comes due to a pullback in several traditional reinsurance avenues as companies recalibrate their risk appetite as a result of the recent loss experience. The expectation is these two competing forces—reduction in traditional supply coupled with an increase in alternative capital—will maintain the status quo, at least until the next catastrophic event, which could lead to an even longer hard market.

Increased L&A tactical deals
This segment has maintained velocity over the past couple years because of the attractiveness of this segment to the financial investor market. As noted earlier, this sector has doubled in activity compared to the same period last year. The interest rate environment has an impact on this sector, more so than others; however, its impact is twofold. In a rising interest rate environment, the outflow of funds increase and as investments mature, the entities can put the money to work at higher rates. The game depends on whether the positives will outstrip the negatives. Our view is it will, and this market will continue to be active. The other factor that will influence this market is the need for existing financial platforms to continue to execute on deals given the need for additional assets under management. For this reason, we see this sector, along with brokers, as being the most active market for the conclusion of 2023 and leading into 2024.
Industry convergence

Though industry convergence may slow in 2023 as some companies look to strategically rebalance their portfolios, this trend is not expected to hinder the continued move toward industry convergence. Factors such as an increasingly digital, data-driven economy are causing companies to share and collaborate with a greater diversity of partners across a broader set of industries. Additionally, given how earnings in certain sectors of the economy are drying up, companies continue to look to reevaluate their growth and earnings prospects by seeking new ways to generate value for customers, which includes nontraditional sector plays (e.g., original equipment manufacturers and digital giants in the auto industry). This could affect insurance faster than other industries given its dependence on data and lack of a tangible product.

Embedding auto coverage

Embedded insurance has taken a bit of a back seat in early 2023 with the near-term focus of insurers on profitability and inflation concerns. However, the outlook still remains strong. We predict that if as much as 20% of the US personal auto market goes the embedded route by 2030, at least $50 billion in premiums could be diverted away from the industry’s traditional distribution channels. This rate of growth will have vast implications for intermediaries and carriers. The companies that move first in this area should gain significant competitive advantages. The current challenging economic environment could increase partnerships as other industries look for nontraditional ways to drive earnings revenue per customer and improve their return on customer acquisition spend. Similarly, carriers may start to look more favorably on these deals as traditional channels become more expensive and embedded alliances may require less upfront capital than traditional M&A deals.

Contacts

Barry Chen
Principal and US M&A leader
Deloitte Consulting LLP
+1 213 996 5688
bacheni@deloitte.com

Douglas Sweeney
Managing director
Deloitte & Touche LLP
+1 212 436 5417
dosweeney@deloitte.com

Matt Hutton
Partner
Deloitte & Touche LLP
+1 212 436 3055
mhutton@deloitte.com

Endnotes
