KPMG

Accelerating transformation with M&A

A global perspective on M&A strategy across the insurance industry

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Contents

> The global insurance industry is entering a new era of rapid transformation. With expectations that a higher-for-longer interest rate environment could persist, the insurance industry is witnessing a strategic realignment from a financial engineering focus — aimed at restructuring balance sheets to extract incremental yields and returns in a low interest rate environment — to an operational engineering focus — aimed at optimising and simplifying operating models and enhancing customer experience to generate sustainable profitable growth.

Ram Menon
Global Head of Insurance Deal Advisory,
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KPMG in the US

Foreword

The last five years have been remarkably positive for M&A activity across the insurance industry. In the midst of a global pandemic, global deal value reached a record high of US$213 billion across 1,371 deals in 2021, according to PitchBook Data, Inc. — driven by record levels of both deal value and deal activity in the Americas, ASPAC, and Europe.[1]

During the last 12 months, however, insurance M&A activity has declined considerably across many regions. Geopolitical and economic uncertainties, in addition to shifting macroeconomic conditions in advanced insurance markets, have necessitated revisions to the M&A deal calculus — particularly in a higher-for-longer interest rate environment. Regulatory implications, such as potential changes to tax legislation and accounting, reporting, and capital requirements, have also increased uncertainties and slowed down overall deal activity. These factors have forced industry players into wait-and-watch mode as they reconsider their growth strategies in the new realities of a post-pandemic world.

While challenging in the moment, many of these shifting market factors could present new opportunities for the insurance industry. Many insurance companies are looking to transform their business models, modernise their operating models, and embrace emerging technological innovations in order to improve their operating efficiencies and create stakeholder value. Insurance leaders are also looking for ways to better engage with customers, to enhance their experience and provide more targeted and relevant products and services that address the diverse needs of different demographics in the geographies in which they operate.

Some of these challenges have resulted in a growing number of insurers de-risking their balance sheets and right-sizing their risk exposures, by offloading their capital-intensive businesses and exiting non-core markets and business segments in order to focus their investments on relatively capital-lite and fee-based revenue streams. And these actions have spurred high levels of transformation, including new strategic partnerships and reinsurance arrangements, to help business leaders adapt to the evolving market.

Over the next few years, transformation across the industry is only going to accelerate as insurance companies strive for sustainable profitable growth. Industry players will likely need to find new ways to become more agile and more relevant in the eyes of their customers — and to differentiate themselves from their competition. Very few companies will be able to do this on their own. That's why we expect to see the return of strategic M&A deals, continued consolidation activity in certain sectors, and the forging of unique strategic alliances and partnerships within the insurance ecosystem. For the continued evolution of the industry, there's little doubt that collaboration will be critical.

At KPMG, we remain optimistic about what's coming for the insurance industry. I encourage you to contact your local KPMG member firm to learn more about the insights shared in this report and to discuss your M&A and growth strategies in an industry undergoing unprecedented transformation.

Ram Menon
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Mark Flenner
Co-Head of Global Financial Services M&A

[1] Global Analysis of M&A activity in insurance, KPMG International (data provided by PitchBook, September 2023)

Learning from the past and present to create a new future

In recent years, the global insurance industry has been navigating through an era of transformational change. Numerous factors have combined to drive insurers and other industry players to rethink their growth strategies and reshape their business models — including their M&A, partnerships and alliances strategies — so they can grow and thrive in a future expected to look fundamentally different from the past. Key factors that are currently influencing strategies in the global insurance industry, and that will likely remain relevant in the years ahead, include:

Changing mix in global premium volumes:

Although total global premium volumes continue to grow at a CAGR of approximately 3 percent in the current decade, global non-life insurance premium volumes have surpassed global life insurance premium volumes over the last 10 years.[2] This change in mix, powered primarily by overall growth in the global GDP, is expected to stay. As global population growth continues to decelerate, specifically in more developed markets, the negative impact of slowing life insurance premium volumes on future top-line growth for life insurance companies is already influencing business model and growth strategy decisions globally.

Shifting demographics:

Major demographic changes — from the aging populations in developed economies to a rising middle class in frontier and emerging markets — have changed how insurance industry players think about their products, services, and the value they provide to their varied customer base. Companies are increasingly seeking out strategic opportunities to respond to shifting customer needs and extend their value propositions across the insurance ecosystem.

Evolving customer needs — beyond death benefits, towards financial security:

In the United States, 17 percent of the population is aged 65 and over — As a result, it is expected that a large majority may require long term care at some point in their lifetime.[3] However, 56 percent of the US workforce does not have access to a workplace retirement plan, while approximately 40 percent of the employees that do are not satisfied with their benefits.[4] In China, government projections show that 28 percent of the population will be aged 60 or older by 2040.[5] These long-term trends have encouraged major life insurers to target their strategies towards planning for the financial security needs of their customers as they live longer — with investment and wealth management offerings, retirement services, and more holistic workplace benefits and health-related solutions.

Growing demand for risk prediction, prevention, and diversification:

The last three years has put an intense spotlight on rapidly emerging global risks — increasing recognition of the entire risk spectrum for insurance customers, their businesses, and their lives and livelihoods — from climate risks and catastrophic natural disasters to sophisticated risks like cyber and ransomware attacks. To better manage these emerging risks, insurers are exploring M&A activities and partnerships to gain access to risk prediction and prevention technologies, solutions, and capabilities.

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[2] Global analysis of M&A activity in insurance, KPMG International (data provided by PitchBook, September 2023)
[3] 2020 Census: 1 in 6 People in the United States Were 65 and Over, United States Census Bureau, article published May 2023
[4] Analysis: How Much Does Retirement Plan Coverage Vary by State and Income? Economic Innovation Group (EIG), August 2023
[5] Ageing and health in China, World Health Organisation (www.who.int/china/health-topics/ageing)

Accelerating innovation and the modernisation of operating models:

The COVID-19 pandemic forced many insurance organisations to embrace innovation and new ways of working, including the use of digital technologies and AI-enabled solutions, at an incredible pace to maintain market relevance, enhance customer experience and promote employee satisfaction. As companies continue to modernise their operating models, they will likely continue to forge strategic alliances and partnerships across the insurance ecosystem to help them accelerate these changes.

Changing regulations:

Regulatory changes — particularly new global capital requirements for insurance companies along with changing accounting, reporting, and tax legislation — could influence M&A activity in the industry. Over the last few years, a number of insurers have divested some of their more capital-intensive books of business, and exited operations in countries where performance has been underwhelming and local competition and regulatory requirements no longer make operations feasible. As a result, the industry is seeing consolidation among local players, particularly at the national and regional levels in certain geographies.

Competing demands for capital that could be deployed for inorganic growth through M&A:

Faced with the new realities of the post-pandemic world, companies are juggling competing demands for capital, including large-scale enterprise-wide operational effectiveness and digital transformation initiatives. As insurers redefine their organic growth strategies for the future, their capital optimisation efforts are increasingly focusing on lowering expense ratios; further realigning their operating models via outsourcing or off-shore opportunities; exploring various reinsurance strategies; sponsoring side-cars and group captive strutures; and improving their capital position by taking advantage of yields from alternative assets structures by leveraging offshore tax havens.

> “As insurance carriers evolve their customer value propositions beyond loss protection to include wider risk prediction and prevention services in the non-life insurance sector, and expand retirement planning and investment management services for financial security in the life insurance sector, the evolution of the global insurance industry can only accelerate. M&A, partnerships and alliances can serve as a key catalyst to enable this strategic transformation.”

Ram Menon
Global Head of Insurance Deal Advisory,
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KPMG in the US

Finding ways to thrive in an uncertain world

The global insurance industry continues to navigate — cautiously yet optimistically — the realities associated with geopolitical and economic uncertainties, shifting demographics, emerging risks and shifting consumer behaviours. Many of these challenges, however, are also creating new opportunities — ones that industry leaders are exploring and embracing within their business and operational strategies as a means to help drive sustainable profitable growth.

As insurance organisations look to find ways to thrive in an uncertain world, the strategic initiatives they will likely focus on can be broadly categorised into four interdependent themes:

- **Transforming the business model:** Organisations within the insurance industry will likely continue to rationalise their portfolio of businesses and capabilities as they pivot away from the multi-line strategies predominant in the past. As a part of this, they may redefine what their core business looks like for the future; identify and evaluate adjacent markets, new value propositions, and customer segments; reassess their existing products, brands, and value propositions beyond loss protection; and identify and implement innovative revenue models. M&A, partnerships and alliances will likely catalyse and enable this transformation.
- **Modernising the operating model:** The quest for more speed, less cost, and better efficacy through the use of automation and emerging technologies can drive further realignment of core capabilities, competencies, and operating costs. The operating model simplification, digitisation and optimisation objectives of several larger insurers could lead to further outsourcing of components of the insurance value chain to cost-efficient managed services and business process solution providers within the insurance ecosystem — primarily through strategic alliances and partnerships.
- **Enhancing customer experience and stakeholder engagement:** Successful insurance organisations will likely be those that have the most meaningful engagement with their customers, employees, brokers, vendors and other stakeholders. These players empathise with their stakeholders and have access to robust insights into their needs, wants, motivations, and challenges — which can be used to inform interactions and to design relevant products and services. Acquisitions, partnerships and alliances that enable access to innovative technologies and capabilities can be critical for enhancing the customer experience and driving meaningful stakeholder engagement.
- **Accelerating innovation:** Strategic partnerships within the insurance ecosystem will likely become a mainstay as businesses strive to gain access to emerging technologies, innovative capabilities, and new sources of differentiation at scale. Companies may struggle to compete and maintain market position through this period of transformation and collaboration as a differentiation strategy may be become a source of competitive advantage.

Successful insurance organisations in the future will likely be those that transform their operating capabilities to include:

- **Better understanding of their customers —** Acquire robust knowledge and understanding of the needs, wants, motivations, and challenges of their customers, and leverage these insights to inform customer interactions and to design products and services for tomorrow's customers.
- **Relevant value propositions, products and services —** Create value propositions that reflect customer motivations and address customer challenges; provide products and services that meet the needs and wants of customers; and identify the right set of experiences, features and value-added insights to enhance customer engagement.
- **Loosely coupled, but tightly connected operating platforms —** Leverage a connected operating model that enhances platform connectivity by integrating new capabilities into existing technologies, while continuing to modernise the core operating platform, and enable efficient, data-driven operating models that enhance decision-making and improve interactions with customers, employees, partners and stakeholders.
- **Capital optimisation —** Harness insights across their businesses, insurance ecosystem and broader competitive landscape to inform their capital allocation and deployment strategies, and constantly rationalise their portfolio of existing businesses and operating capabilities via divestitures, mergers and acquisitions, and partnerships and alliances.

Key drivers of M&A activity across insurance subsectors

Life insurance

- De-risking of balance sheets to release capital
- Right-sizing of risks within lines of business to release capital
- Private Equity (PE) acquisitions and reinsurance of insurance liabilities
- Divestiture of suboptimal lines of business and non-core geographies
- Acquisitions focused on investment/wealth management and retirement services/ group benefits/workplace solutions
- Strategic alliances and partnerships, adjacent markets, and emerging technologies for product, service and channel diversification and to enhance product bundling opportunities

Non-life insurance

- Acquisitions for economies of scale, market and product expansion, and risk diversification
- Right-sizing risks within lines of business to release capital
- Divestiture of suboptimal lines of business and non-core geographies
- Strategic alliances and partnerships, adjacent markets, and emerging technologies for product, service and channel diversification

Distribution and services

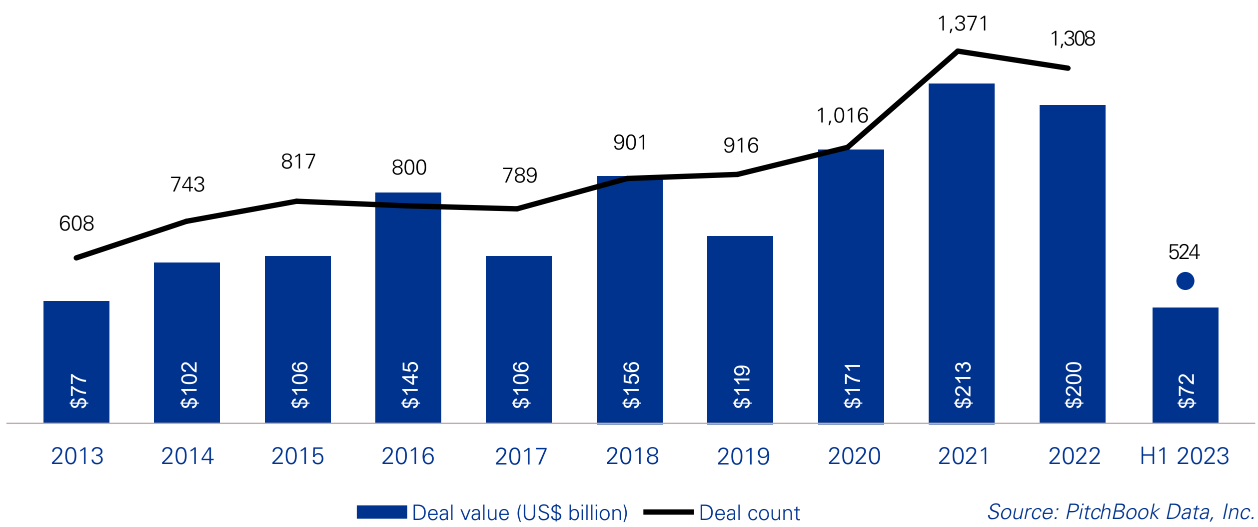
- Continuing consolidation and Private Equity sponsored platform acquisitions
- Strategic bancassurance partnership in Asia
- Strategic alliances and partnerships, adjacent markets, and emerging technologies for embedded insurance and risk management services

Global insurance M&A landscape

Insurance sector saw strong M&A activity globally throughout pandemic

M&A activity in the insurance industry globally saw a strong uptick during the COVID-19 pandemic, particularly during 2021, when deal volume rose to a new high of 1,371 and deal value soared past US$213 billion for the first time. According to PitchBook Data Inc., while 2022 saw both deal activity and deal value decline, it remained the second strongest year for insurance M&A deals on record — with US$200 billion in deal value across 1,308 deals. 2022 also saw both average deal size and median deal size reach record highs — of US$651.5 million and US$137.7 million respectively.[6]

Global M&A deal activity



Source: PitchBook Data, Inc.

Shifting demographics and changing customers transition focus to less capital-intensive products

Over the last few years, insurance companies have paid significantly more attention to demographic changes in the jurisdictions and regions in which they operate. The aging population in developed countries, for example, has led life insurance companies in the Americas and Europe to enhance their focus on the provision of less capital-intensive products, such as retirement-focused products and annuities, asset management, and wealth management products. In addition to shifting the mix of their revenue base from risk-based earnings to spread-based and fee-based earnings, this is seen as a way for insurance companies to strike a balance between products focused on the mortality and longevity of their customers. The strategic change has sparked M&A activity focused on acquiring asset and wealth management capabilities, and divestitures aimed at freeing up capital from legacy, run-off and less profitable books of business in order to fuel new endeavours.

[6] Global analysis of M&A activity in insurance, KPMG International (data provided by PitchBook, September 2023)

Global insurance players are changing geographic growth strategies

Historically, many large insurance players took a widespread approach towards geographic expansion, focusing on building a presence in an increasing number of jurisdictions around the world. More recently, these companies have shifted their focus — divesting their assets in and withdrawing from some of the markets in which they had a presence due to their inability to grow their market share and achieve the scale needed to compete locally in those markets. Some global insurers have pulled back from making major investments in Asia due to the presence of a number of dominant market players in the local industry that make competition difficult outside of niche product areas.

Redefining the insurance business model: The pivot away from a multi-line strategy

One of the key themes seen over the past five years has been the ongoing transformation of business models across the industry. There has been a clear divergence away from multi-line insurance, where companies provided everything from non-life insurance and life insurance to retirement products. Now, many insurance companies are redefining what their core business is, what products they want to focus on, where their brand is recognised most, and what markets adjacent to their core business they want to be focusing on.

In rethinking their business model, insurance companies are embracing an expanded view of their customers' needs and wants by expanding their offerings from primarily protection products to a more holistic approach that includes both prevention and protection products. As companies redefine their role in the insurance ecosystem, they are increasingly looking at M&A and partnerships and alliances as mechanisms for growing their capabilities quickly.

Regulations are reshaping the insurance industry across regions

In the wake of Solvency II regulations in Europe, which increased the capital requirements on some risks that insurance companies hold, several the major European insurers withdrew out of the US market — particularly those focused on the life insurance space. More recent capital requirement rules (e.g. the IAIG Insurance Capital Standard) have also forced some insurance companies to offload some of their non-core businesses to take the more capital-intensive ones off their books and free up cash for other opportunities.

Pillar Two, which sets out a global minimum tax requirement for multinational companies around the world could also take away some of the tax arbitrage situations related to companies being domiciled in offshore tax havens compared to tax-heavy jurisdictions. The new rules could drive further rationalisation and divestitures as insurance companies look to define the right optimal geographic footprint for their organisation from a tax perspective.

Growing maturity of Private Equity (PE) firms in the insurance industry

One of the most noticeable trends in the insurance industry has been the growing maturity of PE firms operating in this space. A decade ago, PE firms were not a major player in the insurance sector. This changed quickly as PE firms saw an opportunity to gain permanent or perpetual capital by gaining access to large pools of assets of insurance companies either via the acquisition or reinsurance of liabilities on books of businesses of Life and Annuity (L&A) insurance companies. The cost of servicing these liabilities is typically significantly lower than the potential investment return PE firms could generate on the assets. As a result, PE firms with the capabilities needed to generate higher returns on these assets seized the opportunity.

Insurance carriers also benefited from the de-risking of capital-intensive books of businesses off their balance sheet. Sale or reinsurance of capital-intensive (legacy) books of business to PE buyers help Life and Annuity insurers improve their return on equity and free up capital for reinvestment or return to shareholders.

During the pandemic, there was a major boost in M&A activity as PE firms stepped up significantly, particularly in the US Life and Annuity insurance sector, but also in European jurisdictions like Germany and Italy, and more recently in Japan. The insurance brokerage and distribution space also saw significant investments from PE firms looking to consolidate or roll-up smaller players to create larger distribution platforms and to become sizable competitors with scale in the distribution sector.

Key global M&A trends

1. **Rising interest rates slowing down M&A deals:** While M&A activity was strong in the insurance industry throughout 2021 and 2022, recently, the rapid rise in interest rates has slowed down deal activity considerably for PE backed deals, driven in part by concerns about valuations, the potential erosion of deal value, and the ability of buyers to get returns that justify their investment. As capital gets more expensive, however, there may be a unique opportunity for life insurance companies to generate more income from their investment portfolios — which they could then deploy towards M&A and other growth strategies.
2. **Large corporates focusing on core activities and regional growth:** Given the lackadaisical success of flag-planting focused geographic expansion and M&A activities by large corporates, and given current geopolitical uncertainties, corporate M&A activity over the next few years will likely be focused on strategic M&A that allows them to double down on the jurisdictions in which they have strong growth potential and the ability to gain market share — and on building the strength of their product and service offerings within their high-growth markets. This will likely result in more national and targeted regional M&A deals.
3. **Growing focus on innovation and modernisation to drive efficiencies:** Global market challenges, combined with increasing regulatory pressures, will likely drive insurance companies around the world to increase their focus on innovation and modernisation in order operate more efficiently and profitably in leaner conditions. This will likely drive increasing interest in start-ups with emerging technologies able to help insurers with their modernisation efforts, such as companies focused on automation, AI or new risk areas like ESG. Companies currently focused on divesting assets to free up capital could, over time, look at these start-ups as investment opportunities or eventual acquisition targets.
4. **Increasing opportunities in emerging markets with growing populations:** Over the next decade, some large insurance industry players will likely increase their attention on opportunities in regions and countries with growing populations and an increasing middle class. Already, smaller ecosystems in frontier markets, like Africa and Southeast Asia, are seeing the emergence of small local insurance players that are providing niche products and services that meet the unique needs of their geographies. Over time, there may be opportunities for major players to help scale and build these products in the marketplace.

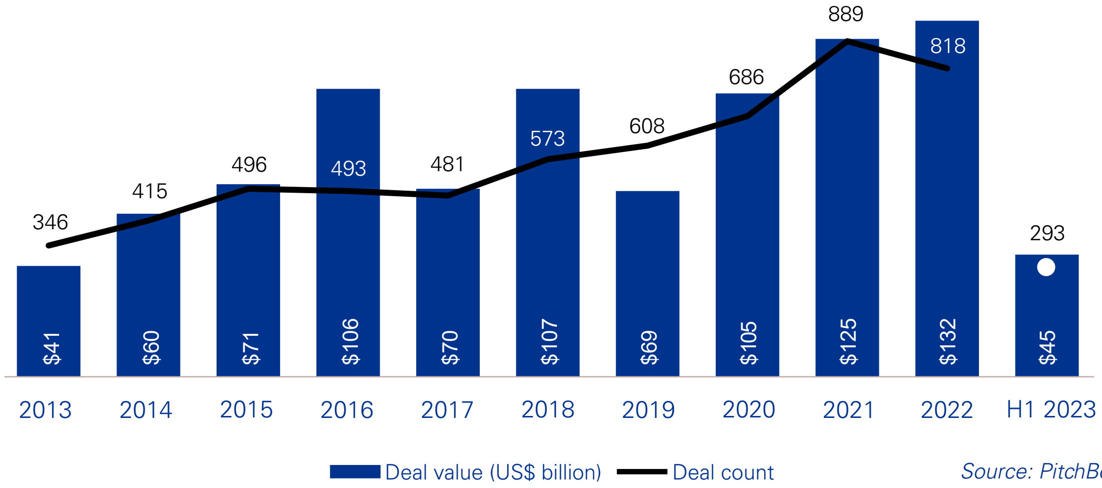
“The insurance industry has had to navigate a series of global challenges, including high interest rates, inflation, and geopolitical uncertainty. But the industry is also in the midst of significant modernisation — with many insurance leaders looking for ways to accelerate their transformation and innovation activities, respond to the shifting demands and demographics of their customer base, and develop products and services that align with the changing nature of risk.”

Silvano Lenoci
Head of Corporate Finance and Insurance Deal Advisory in EMA, and Partner
KPMG in Italy

Americas

Americas dominates insurance M&A activity

Insurance M&A performance in the Americas was incredibly strong over the past three years which, according to Pitchbook Data, Inc., reached a record high of US$124.7 billion in 2021, before dropping slightly in 2022. Following on historical trends in the region, the US attracted the vast majority of insurance M&A deals during 2022. While the US remained the clear leader in the region, other jurisdictions also saw sizeable M&A deals, including Bermuda (PartnerRe — US$9.3 billion, in part due to an acquisition by Covea; Athora — US$2.8 billion; Fortitude Re — US$2.1 billion) and Brazil (SulAmérica — US$2.9 billion).[7]



Source: PitchBook Data, Inc.

Increasing strategic convergence between life insurance, health and wealth products

In recent years, many insurance companies in the US have started looking for ways to extend the value they provide to their customers. In particular, the aging population in the country has led insurers to branch out into the provision of supplemental health benefits, including those focused on providing financial wellness and medical care. To an extent, this has been reflected in M&A activity, with some large public life insurance companies offloading many of their large risk books to release more capital that they can then deploy towards more fee-based earnings in the retirement, workplace solutions, asset management and wealth management spaces. Mutual insurance companies are expected to remain the backbone of the life insurance industry in the US given their alignment of interest with their policy holders.

[7] Global analysis of M&A activity in insurance, KPMG International (data provided by PitchBook, September 2023)

Insurance companies are enhancing engagement with customers

Insurance companies across the Americas have increasingly recognised that what has worked with customers in the past will not work with customers in the future. Millennials and Gen Z consumers — and those coming after them — have very different needs and wants. They want companies to understand them as individuals and to develop, design, and offer products and services that reflect their values, their way of life and how they want to engage. Forward-thinking insurance companies have already started to consider what these changes mean for them and how they need to rethink their products and service offerings to be relevant to future generations of consumers. This has likely contributed to the significant rise in niche and targeted insurance products, such as pet insurance, on-demand insurance, embedded insurance and usage-based insurance products.

Vertical integration driving activity as insurers look to expand their value

Across the Americas, a number of insurance companies — particularly those focused on the health insurance space — have embraced vertical integration in order to enhance the services they can provide to their customers. This has been particularly true in Brazil, where health insurance operators have bought groups of hospitals, clinics and related services in order to provide better access and higher quality care to their policy holders. This industry verticalisation has not been without its setbacks, with some buyers finding it difficult to make such acquisitions work.

Collaboration is becoming a core business strategy as companies look to enhance value

Over the past five years, as insurance industry players in the US and across the Americas looked to enhance their value in the eyes of their customers, they increasingly focused on finding ways to collaborate and partner with other companies across the insurance ecosystem and value chain. While M&A continued to be a major growth strategy, insurers also embraced the creation of innovative partnerships with insurtechs, platform players, big tech companies and financial services institutions. Such partnerships and alliances have already helped a number of companies to grow and expand their value, and to test unique value propositions. Some of these partnerships and alliances could form the building blocks of future M&A activity.

Consolidation is driving M&A activity in Brazil

Over the past five years, Brazil saw a wave of consolidation, particularly in the property and causality (P&C), life and health sectors. This consolidation was driven by buyers with a number of different priorities, including buyers looking to scale quickly in a race to become one of the leaders in the market. Existing insurers looking to divest underperforming assets also helped drive additional consolidation in the space. Most recently, US-based Liberty sold its Latin American operations — including its operations in Brazil — to Germany-based HDI International for US$1.48 billion) so it could focus on its core US market.[8]

[8] https://www.bloomberg.com/news/articles/2023-05-27/liberty-sells-latin-america-business-to-hdi-for-1-48-billion

Key trends to watch for in the Americas

1. **Growing recognition of the innovation imperative:** With the pace at which the business environment is changing in the Americas — and across the globe — insurers of every size are likely going to feel intense pressure to innovate over the next few years. The ability to achieve sustainable, profitable growth is no longer certain; if companies want to be relevant, they will likely need to continue to rethink their business models, their products and services, the value they provide, and how they engage both with their customers and across the entire ecosystem of insurance.

2. **Diminishing M&A activity in Brazil:** Given the intense period of consolidation, the number of insurance M&A targets in Brazil has declined dramatically — with buyers primarily focusing on integrating the businesses that they acquired in order to capture their expected deal value. In the wake of challenges and complications experienced by industry players during the pandemic, and current macroeconomic issues including high inflation, the increasing cost of capital and growing concerns about valuations, M&A activity in Brazil and Latin America is likely to be somewhat softer over the next few years.

3. **Insurers looking to use M&A to drive capabilities in new risk areas:** Risks today are ever changing — as evidenced by the rapidly evolving risks associated with cybersecurity and ransomware and the growing risks associated with climate change and ESG risks. Insurance companies in North America are increasingly looking for ways to better understand and price these risks and to create relevant protection and prevention products related to them. As these new risk areas mature, there will likely be an increasing number of acquisitions led by large corporates looking to buy relevant capabilities in order to extend their value into these areas.

4. **Increasing pressure to achieve M&A synergies and value:** Given some of the consolidations that have taken place in the insurance space across the Americas, particularly in Brazil and Latin America, investors will likely be looking to confirm the ability of M&A investments to create the value over the next few years prior to making additional big-ticket deals. This is particularly true as it relates to M&A focused on vertical integration as insurers look to expand their relevance and value to customers while also generating more profit.

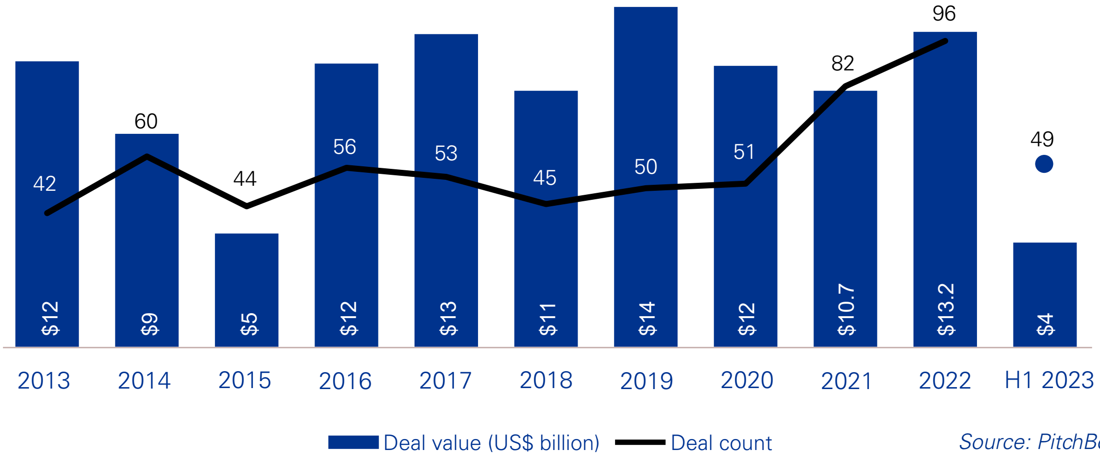
“In the Americas, convergence is becoming a major factor in the M&A activity for insurance companies. We're seeing large insurers — particularly in the US — selling off their large risk books and increasingly looking for ways to deploy capital towards fee-based product offerings — such as those focused on asset and wealth management. Vertical integration strategies in Latin America have also driven significant deal activity, although investors will increasingly be monitoring whether existing deals have been able to generate the value and profit envisioned prior to greenlighting further ventures.”

Fernando Mattar
Head of Financial Advisory, Deal Advisory and Strategy, and Partner
KPMG in Brazil

Asia Pacific

Insurance industry players see Asia Pacific (ASPAC) as pivotal to future growth

According to Pitchbook Data, Inc., insurance-focused M&A activity has been relatively robust in the ASPAC region in recent years, although the pandemic saw both deal value and deal volume dropping during 2020 and 2021. Activity saw a resurgence in 2022, with deal value climbing over 23 percent year-over-year.[9]



Source: PitchBook Data, Inc.

Changing demographics is driving interest in ASPAC

The ASPAC region includes a number of jurisdictions with increasing populations, a growing middle class, and a relatively immature range of available insurance offerings. This has led many regional and international insurance companies to identify ASPAC as one of their predominant growth areas for the future. Over the next five years, the region will likely only increase in importance as insurance players look to become dominant market leaders in the space.

Relatedly, customers in the ASPAC region are also becoming more educated with respect to the purpose and value of different insurance products, particularly in emerging markets in the ASEAN region, including Thailand, Indonesia and Vietnam. The ability of insurance companies to meet the unique and shifting interests and demands of these customers will likely play a major role in whether insurers are able to get value from any M&A transactions that they make.

[9] Global analysis of M&A activity in insurance, KPMG International (data provided by PitchBook, September 2023)

Regulatory changes are driving consolidation

Globally, a number of regulatory changes are driving consolidation activity in the insurance industry in the ASPAC region. This includes increases to the capital requirements of insurance companies globally, a change that has led to the exits of a number of smaller players in different markets — primarily via acquisitions by larger national or international insurance players. In the ASPAC region in particular, a number of countries have also adjusted their foreign direct investment (FDI) limits in order to attract more foreign investment in the space. Most recently, India raised its FDI limit from 49 percent to 74 percent for companies in the insurance sector.[10]

Regulatory changes around selling, most notably the re-selling of unit-linked products, are also having a major impact on some markets. Most recently, Indonesia introduced a new unit-linked insurance regulation in 2023, which came into force in March 2023.[11] These regulations will likely have a significant impact on the market — driving changes to market structure and, potentially, consolidation.

Distribution is a key factor in ASPAC M&A

Over the last five years, distribution has been one of the major factors driving both M&A and partnership activity in the insurance sector in the ASPAC region. While M&A deal volume in the region has, to some extent, been driven by the desire of insurance players to effectively buy industry licenses in specific jurisdictions, M&A deal value has been driven more by industry players looking to expand their distribution and carve out a larger share of the market.

There has also been a growing number of joint ventures and interconnected deals in the region; for example, an insurance company buying the insurance entity of a bank while also agreeing to a long-term distribution agreement with the bank. More recently, ASPAC has also seen deals focused on technology players, whereby large tech companies are leveraging their distribution networks to sell insurance product offerings.

Large ASPAC insurance players are making value chain acquisitions

Recently, some of the largest insurance companies in ASPAC have focused less on expanding their insurance product offerings — choosing instead to enhance the value they provide to their customers by expanding their offerings along the value chain of insurance. To date, such acquisitions have primarily been focused on the health insurance space, with insurers acquiring specific healthcare businesses in order to improve the value they provide, enhance their customers' access to high-quality health care, and to bring more holistic health services to their customers beyond simply issuing health insurance policies.

Life and health deals are driving M&A activity in ASPAC, while P&C sees solid deal volume

According to PitchBook Data, Inc., the health and life insurance space was the main driver of insurance-focused M&A deal value in Asia over the past five years, as market participants looked to expand distribution, gain scale quickly and extend their reach across the value chain.[12] The P&C space also saw solid M&A activity, primarily driven by regional players looking to acquire insurance licenses via businesses already operating in different jurisdictions. While China saw a significant number of broker-based M&A deals in recent years — driven in part by digital brokerages — this trend is likely to peter off as a result of regulatory changes that tightened rules for online insurance sales in late 2022.[13]

China insurance market centres around powerhouses; investors targeting niche areas

Given the size of its market, it is no surprise that China receives a significant amount of interest from investors all over the world. While this interest has spurred some limited activity, such as joint ventures converted into fully owned subsidiaries or companies making acquisitions in order to gain access to licenses, large deals in the insurance space have not materialised. This is primarily due to the makeup of the industry in China; both the health and life insurance sector and the P&C sector are highly concentrated, with market share dominated by a few domestic state giants. Typically, small insurance companies and foreign investors looking to get a foothold in China have focused on trying to find niche markets in which to compete.

Hong Kong-based insurance providers growing footprint across Asia

Historically, Hong Kong (SAR), China has been a very profitable hub for the insurance industry in Asia, both because of the positive insurance regime in the country and because of mainland Chinese policyholders using Hong Kong-based insurance policies as a type of wealth management platform. This has led to profitable insurers in Hong Kong having a wealth of capital available to spend on growth initiatives. Many of these insurers have used this capital to grow their footprint in the region, including companies like AIA, Prudential and FWD. FWD has been particularly active in the insurance M&A space in Asia in recent years as it looks to become a larger regional player.

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10 FDI Limit Rise to 74% in Insurance Sector | FDI India
11 Indonesia's Unit-Linked Insurance Regulation May Restore Consumer Trust (fitchratings.com)
12 Global analysis of M&A activity in insurance, KPMG International (data provided by PitchBook, September 2023)
13 https://www.bloomberg.com/news/articles/2021-10-22/china-tightens-online-insurance-rules-in-widened-crackdown

Key trends to watch for in the ASPAC region

1. **Industry players taking a double-down-or-quit approach to expansion:** Historically, many insurance companies have focused on planting their flag in as many jurisdictions as possible in order to extend their breadth and reach. Many insurers — especially second-tier players — have realised that they simply can't win in every market. This is driving them to switch their strategy — pulling out of regions where they can't win or break into the top three, and doubling down on jurisdictions where they have much stronger opportunities to grow and thrive.

2. **Banks and insurers divesting non-core assets:** In different jurisdictions in the ASPAC region, but particularly in China, banks are coming under regulatory pressure for having too many different types of operations. This is leading some to divest their insurance operations — which will likely drive some future M&A activity.

3. **Regulatory requirements sparking M&A activity:** As companies in the region adapt to new capital requirements and the need to take a risk-based capital approach, there will likely be an upswell in related M&A activity, including consolidations among smaller insurance companies that are unable to meet changing regulatory requirements, and medium and large insurance players looking to spin off some of their alternative investments or to divest themselves of non-core or underperforming assets.

4. **Macroeconomic and geopolitical factors impinging on M&A dealmaking:** While the challenging global macroeconomic and geopolitical environment has not substantively affected M&A in the insurance space in the ASPAC region to date, these concerns could weigh heavily on future dealmaking activity and slow down any potential deals processes. The rise in interest rates is particularly concerning as it will likely erode potential deal value, making the ROE more difficult to justify.

5. **Pension plan reform driving deals interest:** In developed ASPAC markets with aging populations (e.g. Hong Kong (SAR), China, Japan, Australia, South Korea), individual pension plans are becoming an area of increasing focus and regulatory reform. For example, China has undertaken significant pension reforms in recent years, such as the introduction of a new individual private pension plan system, with others on the horizon.[14] As such activity continues to grow, there will likely be an increase in deals as investors and corporates look to take advantage of new opportunities.

[14] China Pensions Reform (kpmg.com)

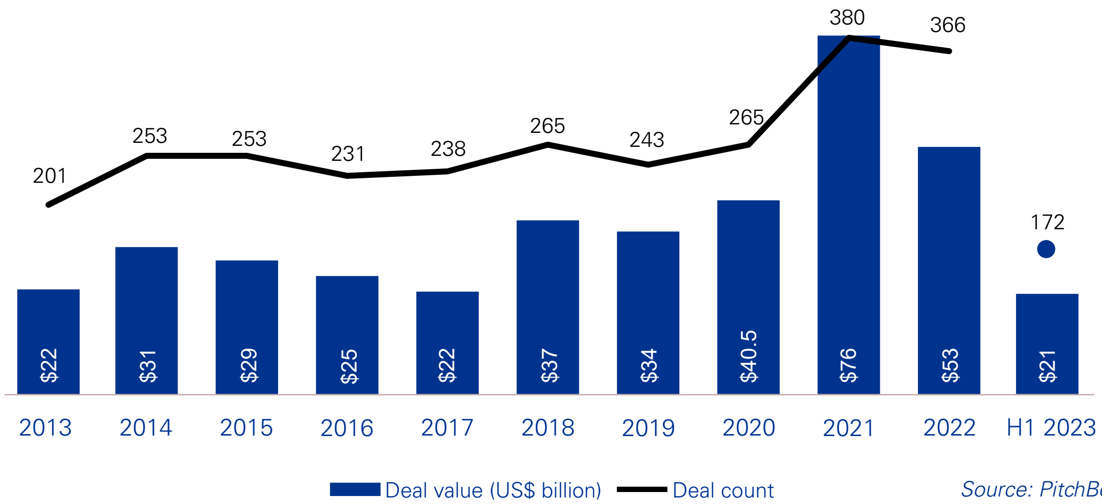
> "The ASPAC region is incredibly diverse, ranging from more developed jurisdictions with aging populations to emerging economies with growing populations and an increasing middle class. This is creating unique differences, challenges, and opportunities in terms of the development and distribution of insurance product offerings. While historically, many industry players have focused on expanding across the region, many are now putting a laser focus on jurisdictions where they understand evolving market needs and are performing well, while pulling out of others."

Barnaby Robson
Head of FS Deal Advisory, Hong Kong and Partner
KPMG China

Europe

After record year for insurance M&A in 2021, Europe sees deal value drop back down

Over the last five years, Europe saw relatively consistent levels of M&A activity in the insurance industry, with the exception of 2021 — when, according to PitchBook Data Inc., M&A deal value rose quite dramatically from US$40.5 billion to US$76 billion year-over-year, before dropping back to US$53 billion in 2022.[15]



Source: PitchBook Data, Inc.

Smaller-scale M&A activity common across Europe

Over the past three or four years, there has been a strong amount of M&A activity and investment in the insurance industry across Europe. The region accounted for both the second highest level of deal volume and value globally after the Americas, with totals well above those seen in the ASPAC region. Smaller-scale investments and deals accounted for the vast majority of M&A activity. According to PitchBook Data Inc., only three deals were valued above US$1 billion.[16]

Many of Europe's M&A deals have focused on the distribution space, driven in part by investors looking to respond to customer demand for easier and more digital ways to buy insurance and make claims. Given the increasing macroeconomic and geopolitical uncertainty in Europe, however, interested buyers and investors have recently shifted their focus away from companies focused on front-end distribution and more towards start-ups focused on underwriting and data and analytics.

[15] Global analysis of M&A activity in insurance, KPMG International (data provided by PitchBook, September 2023)
[16] Global analysis of M&A activity in insurance, KPMG International (data provided by PitchBook, September 2023)

PE buyers raising the bar on returns despite availability of capital

The shortage of attractive insurance-focused assets and the amount of capital in the market over the past few years has made some deal processes very short and highly competitive in Europe. This has led many PE deal teams to expand the amount of pre-process work they undertake, in particular commercial and operational due diligence and the testing of investment hypotheses in advance of a process actually beginning. PE firms have also expanded their search for opportunities more broadly across Europe; for example, UK-based PE firms have shown increasing interest in making investments in countries like Germany, France, Spain, and the Nordic countries.

Over the past year, the bar has also been raised quite dramatically in terms of the returns that PE firms in particular want from their investments. The rapid rise in interest rates combined with the high valuations associated with many target businesses has caused PE firms in the region to put a laser focus on value creation to get the returns they need. The increasing number of secondary buyouts opportunities has also created a unique challenge for buyers as PE buyers need to evaluate whether they can take an asset that has been under PE ownership for three to five years already to the next level of value.

Insurers focusing on portfolio rationalisation

Corporates in the insurance space have continued to focus on portfolio rationalisation in recent years, undertaking a near-constant review of their capital investment approaches to determine whether they are investing in the right areas and allocating capital in the right places to maximise their return. This has led some large insurers in the region to undertake relatively large disposal programmes in order to refocus their business model around their core markets or products.

M&A activity across life insurance is focusing primarily on book consolidation

While the dynamics of the life insurance space vary across individual jurisdictions in Europe, one major common trend over the last few years has been large corporates looking to offload their legacy life businesses because of their ability to suck up capital. A number of investors in this space have taken advantage of this trend, using it as a consolidation vehicle.

Increasing focus on technology-into-insurance offerings compared with insurtechs

In recent years, Europe has seen a plethora of companies that claim to be insurtechs, but in reality are primarily broker, insurance or distribution businesses simply leveraging different types of technologies. This has created some perception challenges in the market, with sellers having increasingly high expectations of value, but then struggling to land in the market — and buyers not necessarily agreeing that target companies are as tech-enabled as they claim.

One area that has seen a real uptick in interest in recent years has been around technology-into-insurance players — in particular, large software platform providers that service the insurance industry. In Europe, many of these organisations have seen significant growth in recent years, which has made them quite attractive. Investors with little interest in investing in a heavily regulated and capital-intensive insurance business have shown far more willingness to invest in technology-into-insurance and other value chain activities — such as claims management.

Buyers are targeting the fragmented brokerage space as part of buy-and-build strategies

A number of jurisdictions within Europe, including Germany, have relatively fragmented insurance broker spaces, with few clear leaders operating in the sector. This has made the space a particularly visible opportunity for buyers looking to use a buy-and-build strategy to create and scale a competitive brokerage business. Germany-based MRH Trowe has been one major example of this; since 2020, the company has made 21 bolt-on acquisitions in order to enhance its capabilities into specialty lines of insurance and its geographic reach.[17]

[17] As of January 2023. AnaCap-backed MRH Trowe to acquire leading pension and HR specialist Lurse AG — Anacap

Key trends to watch for in Europe

1. **Headwinds continuing to slow down deals:** Ongoing macroeconomic and geopolitical challenges will likely continue to generate headwinds both for the insurance industry in general and more broadly. Both M&A volume and deal value will likely see a pullback as investors take far more time to consider M&A deals.
2. **Investors focusing on countries with fragmented insurance industries or subsectors:** With few large insurance targets left in Europe, the region will likely not see any large-scale transformative M&A over the next two to three years. The region could see some movement from continental Europe players looking to use M&A to break into the Nordics
3. **Strengthening interest in technology enablers and ancillaries:** With many insurance industry players looking to improve the efficiency of their operations, better manage and respond to the needs of their customers, and improve the retention rate of their customer bases, there will likely be an increasing focus on platform companies and other companies focused on tech-enablement within the insurance industry over the next few years. There will likely also be an upswing in interest in companies able to help acquirers enlarge their insurance spectrum in order to provide a more holistic set of services — such as companies looking to provide a broad range of mobility services, including targeted insurance policies.
4. **Increasing consolidation as a result of regulatory pressures:** Europe may see a slowdown in cross-border transactions over the next year as a result of global challenges, but regulatory pressures (e.g. higher capital requirements) will likely drive consolidation among Tier 2 and Tier 3 insurance industry players both within individual jurisdictions and across the region as a whole.

> “Historically, insurance has been a tough market for many investors in Europe, in part because the sector can be capital-intensive and highly regulated. This has evolved more recently with insurance brokers providing a capital-light entry to the market. Now we are seeing investors increasingly look at opportunities which enable the industry through technology — such as by improving distribution or by enhancing efficiency across the value chain, for example in claims. Over the next few years, these tech enablers will likely see growing interest from insurers looking to modernise and provide more agile insurance offerings.”

Laura Stamp
Partner, Deal Advisory
KPMG in the UK

Key takeaways

2023 has been characterised by significant uncertainty, from ongoing geopolitical tensions to rising interest rates and high inflation. In particular, rising interest rates have posed a major challenge to insurance-focused M&A activity in almost every region of the world, sparking increasing concerns about valuations and the ability of buyers to achieve their desired returns.

Despite the economic uncertainty, approximately two-thirds of insurance CEOs globally have expressed high-to-moderate appetite for M&A activity.[18] While many potential buyers are currently in a wait-and-watch mode, the pressure to retain momentum within an industry navigating transformation will likely see M&A activity recover once some of the fog of uncertainty dissipates.

Looking forward, a number of key areas are expected to drive M&A activity and partnerships and alliances in the future as insurance industry players look to drive sustainable profitable growth.

“We are standing at a crossroads in the insurance industry. Over the next few years, we will likely continue to see a significant level of industry change in regulations, IFRS17 and digital transformation, which will create both opportunities and challenges for insurance sector participants. Agility, operating model efficiencies, and strong and diverse partnerships and alliances will likely be major factors in the success of insurers moving forward.”

Stephen Bates
Head of FS Deal Advisory in ASPAC, and Partner
KPMG in Singapore

These key trends include:

- The ongoing transformation of business models as insurers look to continue to de-risk and right-size their balance sheets, double down on their most profitable geographies, exit non-core markets and lines of businesses, explore adjacent markets, and seek fee-based and other new revenue streams. Divestitures, acquisitions, and partnerships and alliances continue to play a pivotal role in enabling this transformation.
- An increasing focus on the modernisation of operating models as insurers look for innovative ways to simplify and optimise their operations in order to better manage costs, improve efficiencies and create more value both for their customers and their businesses. Strategic partnerships and alliances within the insurance ecosystem will likely be critical for successful execution and profitable growth.
- The prioritisation of customer engagement to enhance both the customer experience and value creation as insurers look to better understand, engage and empathise with their customers, and to better align their products and services to the needs of different generations. Acquisitions, and partnerships and alliances to gain access to emerging technologies and capabilities may be key to driving seamless and more meaningful customer and stakeholder engagement.
- The continued acceleration of innovation as insurance industry players look for new ways to evolve their organisations in the market, both directly and through strategic partnerships and alliances within the insurance ecosystem to seek innovative sources of differentiation at scale.

[18] 2022 Insurance CEO Outlook — KPMG Global

How KPMG can help

Every transformative transaction is unique and highly complex. KPMG's global network of experienced Deal Advisory professionals support insurance clients throughout their journey. With leading industry perspectives, deep M&A and strategy knowledge and access to advanced data and analytics, our team of specialists provide a comprehensive multi-disciplinary approach, orchestrating deal activities across multiple functions and across the transaction process to generate unique insights into companies and markets.

KPMG takes a tailored approach focused on deal evaluation, value identification through to realisation — aligned to our client's business objectives and tracked to their post-deal financials. We provide a fresh perspective on how to design and implement strategies that help our clients adapt to industry challenges and respond to dynamic market forces, while managing complexities and risks to minimise disruption.

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