Insurers are on the road to strategy-aligned deal-making

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The insurance industry is rapidly evolving. Disruption is everywhere. The pressure to transform is immense.

Not surprisingly, deal activity in the sector is expected to rise. In fact, in a recent survey of decision-makers at more than 200 insurance organizations around the world, we found that 84 percent of firms think they will undertake one to three acquisitions over the coming year, while 94 percent plan at least one divestiture.

Insurers also believe that deal-making will be key to achieving their transformation objectives. Indeed, the same survey found that the desire to transform the business and operating model is the number one motivator for deal-making: 33 percent of firms said they intend to undertake mergers and acquisitions (M&A) to redefine their business and operating model, while 40 percent intend to enter partnerships and alliances.

But, at the same time, industry players are also becoming more strategic about inorganic growth initiatives; everyone recognizes that the traditional reactive approaches to M&A opportunities are no longer sufficient in today's environment.

A strategy-aligned approach is emerging

By taking a strategy-aligned M&A approach, insurers are hoping to enhance strategic clarity about which markets, geographies, products and channels they should 'play in' going forward. And that helps them decide which processes, technology infrastructure, talent and culture will best support transformation of the operating model for future growth.

However, non-traditional approaches require non-traditional capabilities. And that means that insurers will need to improve their holistic data and analytics-enabled deal-evaluation capabilities, particularly regarding due diligence, integration and separation activities, in order to extract maximum value from their proposed acquisitions.

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Insurance decision-makers certainly understand that strategy-aligned M&A will require a different mind-set and a renewed focus on execution: 39 percent of firms said aligning their deal evaluation process to corporate strategy objectives is the key factor for M&A success.

But it is also clear that there is more work to be done. Many organizations surveyed admitted that their corporate development and M&A teams' objectives were not fully aligned to their overall corporate strategy. Many respondents also admitted that their M&A priorities continue to be 'reactive' to market opportunities, as opposed to targeting deals strategically aligned to overall corporate strategy.

No better time for an M&A 'playbook'

What can insurance leaders do to improve the transformative value they receive from their M&A deals? One of the first steps insurers may want to consider is the development of an enterprise-wide M&A 'playbook' to enhance and deepen their evaluation of the strategic fit a potential acquisition target offers. To improve deal outcomes over the long term, the playbook would need to cover all aspects of M&A activity, including due diligence, deal evaluation and post-deal integration/separation processes.

Others are taking a more strategic approach by focusing their efforts on partnerships and alliances. In fact, respondents in our survey told us that partnerships are the clear choice for transforming the business model: 87 percent of organizations expect to partner for gaining access to new operating capabilities, and 76 percent are looking to partnerships to help improve access to new technology infrastructure.

Asia-Pacific is expected to see the most partnerships and alliances forged, with China and India ranking as the top two destinations in the region. The majority of the respondents also said they intend to forge strategic partnerships and alliances with larger firms — those with values ranging from US$250 million to US$1 billion.

To stay abreast of emerging trends in technological innovation, several insurance companies have already established (or are considering establishing) in-house corporate venture capital (CVC) investment capabilities, largely as a way to invest in innovative technology capabilities.

Among firms with established CVC models, the majority stated that their investment activities are focused on non-insurance technologies. While more than a quarter of insurers with CVC models boast more than US$1 billion in allocations, 90 percent say the median value of their CVC investments ranged between US$10 million and US$50 million.

Seven steps to a strategy-aligned deal environment

1. Identify and prioritize the primary synergies of a deal, including the unique synergies that only your company can create
2. Identify targets with unique strategic fit and value creation potential
3. Conduct due diligence that is focused on the strategically relevant parts of the business
4. Value targets based on how they fit uniquely with your business (rather than just rely on average 'multiples')
5. Select an appropriate deal type and structure to realize your competitive strategy
6. Plan for an integration approach that will foster the unique synergies that you will create and achieve maximal value capture
7. Set in place post-transaction performance assessments that track value creation on an ongoing basis.

Trends shaping current and future deal-making

As insurers formulate their M&A strategies, we believe the following trends will shape deal activity:

— The hunt for innovation will increasingly shape insurers' rationale for doing deals. Companies with a strong digital model and startups with advanced technology will attract a multitude of willing suitors as legacy companies seek to transform their business models through acquisitions.

— Greater alignment of corporate strategy and M&A objectives will provide an edge to buyers as competition for deals rises. Strategy-aligned approach to M&A planning and execution will result in better deal outcomes over the long term compared to a 'reactive' approach of simply pursuing deal opportunities as they arise.

— Portfolio rationalization and strategic repositioning of businesses by larger insurers is expected to drive global M&A activity. Divestiture of non-core business segments in strategically non-core geographies is expected to be a key driver for increased deal activity.

— Cross-border activity will increase as insurers worldwide seek to diversify their geographic risks and earnings profits: with stagnation in global economic growth and changing geopolitical risks across the mature and emerging markets, insurers will look beyond their domestic borders to buy or sell assets abroad.

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