



2023 insurance M&A outlook

Balancing uncertainty with optimism

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Overview and outlook

Insurance merger and acquisition (M&A) activity in 2022 was essentially a tale of two markets. Following a remarkable 2021, in which insurance suffered less than other industries, deal-making began to taper off in the first half of 2022. M&A tumbled dramatically in the second half in response to fast-rising inflation, interest rates, a generally uncertain economy, constrained private equity activity, and other factors. In fact, aggregate M&A volume fell 27%, and value 65%, from 2021's lofty levels.¹

All four major insurance sectors—brokerage, property and casualty (P&C), life and annuity (L&A), and InsurTech—were impacted, with former active brokerages and InsurTechs hard hits. At the same time, managing general agents (MGAs) and managing general underwriters (MGUs) were largely untouched given their unique, profitable brokerage niches.

This report offers perspective on 2022 insurance M&A activity overall, with deeper dives into each sector's dynamics and outlook. We also discuss regulatory and tax developments likely to impact M&A, along with key trends and drivers. The most notable: rapid convergence among insurance and non-insurance products and services in numerous industries, particularly auto sales, that may soon make embedded insurance as routine for cars as service-contract offers are for electronics. Finally, we offer key takeaways that may be useful to insurers and InsurTechs in a subdued market that still offers notable opportunities for those who know where to look and how to pursue the most promising deals.

As in previous reports, our primary focus is on the United States and Bermuda, though we provide periodic glimpses into activity elsewhere around the globe. An appendix offers focused snapshots of insurance activity and outlooks in Canada, the United Kingdom, Japan, and other nations.

2022 in review

Following a buoyant 2021, transaction volumes and values began tapering off in the first half of 2022, then tumbled in the second half. Total US and Bermuda volume in 2022 fell to 638 transactions with an aggregate value of \$17.7 billion, a 27% volume decrease from 869 transactions totaling \$57.5 billion in 2021. Overall deal value dropped 69% from 2021's level (figure 1).²

For the first six months of 2022, total deal volume reached 254 transactions valued at \$16.5 billion, a 32% volume decrease over 374 transactions equaling \$22.0 billion in the same period the preceding year. In the latter six months of 2022, there were 384 deals valued at \$1.2 billion, a 22% volume decrease from 2021's comparable period. Aggregate value slid 25% and 96% in the first and second halves of 2022, respectively, from 2021.³ While the data suggests that deal volume increased approximately 50% in the second half over the first half's level in 2022, the substantial jump was unable to offset the overall market pullback.

Stalling M&A activity directly reflected the year's fast-accelerating inflation, which hit a 40-year high, and Federal Reserve Board (the Fed) interest rate increases aimed at cooling inflationary pressures. Inflation peaked at 9.1% in June 2022 before settling at 6.5% in December 2022.⁴ The Fed meanwhile instituted seven interest rate hikes, ending the year at a 4.25% to 4.5% federal funds target rate, versus its near-zero target rate at the close of 2021.⁵

Most insurers began tightening budgets in mid-2022 in concert with the economic slowdown. High market uncertainty—stemming from hard-to-predict inflation and interest rates, rising capital costs, and apprehension over transaction financing costs and availability—prompted many buyers and sellers to pull back. Bid/ask spreads also widened as buyers pressed for lower valuations, while sellers held out for the frothier markets of 2021. We believe buyers remain eager to do deals despite the M&A market reversal, but the likelihood of completing transactions has fallen in the near term.

Figure 1: Insurance sector M&A activity, 2021-2022 (United States and Bermuda)

	Number of deals			Aggregate deal value			Average deal value		
	CY 2021 ¹	CY 2022 ²	YOY change	CY 2021 ¹	CY 2022 ²	YOY change	CY 2021 ¹	CY 2022 ²	YOY change
Underwriters	67	54	-19%	\$46.5b	\$13.6b	-71%	\$1.9b	\$0.9b	-54%
L&A	24	16	-33%	\$24.5b	\$160m	-99%	\$2.5b	\$80m	-97%
P&C	43	38	-12%	\$22.0b	\$13.5b	-39%	\$1.5b	\$1.0b	-34%
Brokers	802	584	-27%	\$10.9b	\$4.1b	-62%	\$342m	\$187m	-45%
Total	869	638	-27%	\$57.5b	\$17.7b	-69%			

Source: Deloitte analysis utilizing SNL Financial M&A database

1. CY 2021 represents full calendar year 2021.

2. CY 2022 represents full calendar year 2022.

2022 megadeals

Despite those obstacles, multiple megadeals of \$1 billion or more were announced and/or closed during the year. Liberty Mutual Insurance Company closed its \$1 billion purchase of State Auto Group,⁶ an entity of State Automobile Mutual Insurance Company, in March 2022.⁷ Larger deals included Toronto-based Sun Life Financial Inc.'s \$2.5 billion purchase of Boston-based DentaQuest L.P. in June 2022 from CareQuest Institute for Oral Health and Centerbridge Partners, L.P.⁸ Five months later, Carlyle Group Inc. bought NSM Insurance Group from White Mountains Insurance Group Ltd. for \$1.8 billion.⁹ And Berkshire Hathaway Inc. acquired Alleghany Corporation in October 2022 for \$11.6 billion.¹⁰ That single transaction accounted for approximately 85% of underwriting deal volume in the P&C and L&A sectors.¹¹

In a private equity to private equity (PE-to-PE) transaction, Warburg Pincus LLC acquired specialty program provider K2 Insurance Services from Lee Equity Partners, LLC in December.¹² The Canadian Pension Plan Investment Board (CPPIB) meanwhile discussed selling Wilton Re US Holdings, Inc. with potential buyers in the year's first half.¹³ In August 2022, Wilton Re, in turn, announced the sale of its Toronto-based ivari unit to Sagicore Financial Co. Ltd. for \$325 million, a transaction expected to close in early 2023.¹⁴

Insurance brokerage

The industry's most active M&A sector by far in the past few years has been insurance brokerage, including MGAs, MGUs, and specialty agents. Even so, brokerage deal volume fell by half in 2022. A total of 584 transactions, valued at an aggregate \$4.1 billion, occurred in 2022, compared with 802 deals equaling \$10.9 billion the previous year—falloffs of 27% in volume and 62% in aggregate value. The drop occurred despite an M&A run-up in December 2022, with 149 transactions, a 34% jump from the previous month (figure 2).¹⁵

Three brokerage transactions exceeded \$500 million. Arthur J. Gallagher & Co. acquired BCHR Holdings, LP,¹⁶ and Brown & Brown, Inc. bought Global Risk Partners Limited.¹⁷ Mitsui Sumitomo Insurance Co., Ltd. meanwhile announced plans to acquire Transverse Insurance Group, LLC, which closed in January 2023. The deal gives Mitsui Sumitomo access to Transverse's US market MGA, wholesale and broker-led P&C, and specialty distribution channels while linking producers and reinsurers.¹⁸

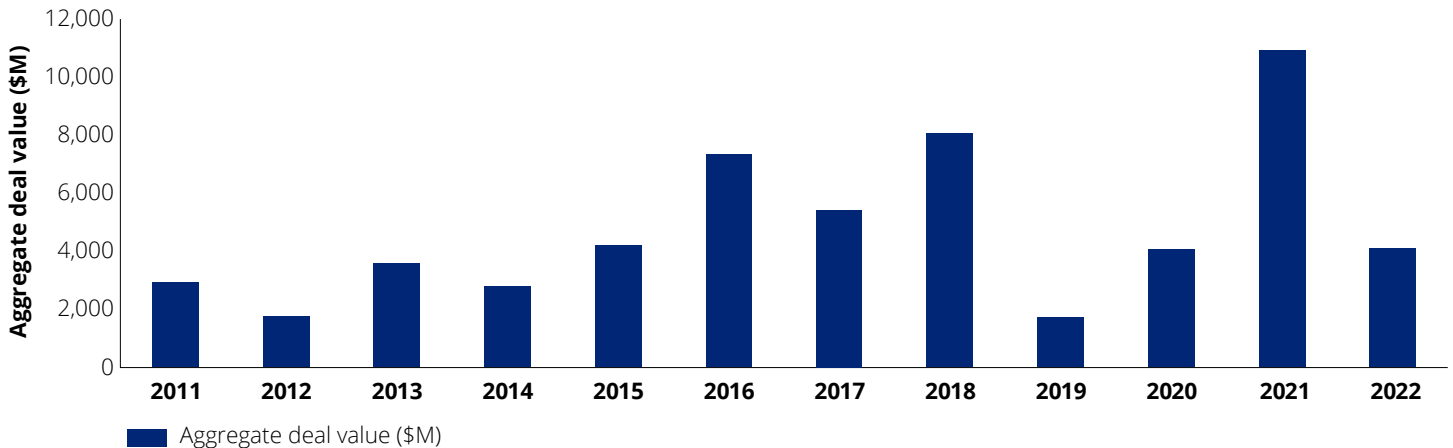
PE investment continued to dominate brokerage M&A activity last year, with financial investors accounting for 66% of brokerage deals, according to our transactional data analysis. That result is only slightly below 2021 activity, when PE buyers accounted for approximately 70% of deals.¹⁹ Brokerage has become PE firms' favored insurance investment for its high EBITDA margins, many recurring revenue, low capital expenditure requirements, and lighter regulation than other sectors. PEs can also nurture economies of scale by consolidating distributors onto technology platforms that boost customer service while providing robust sales performance and other data.

Not incidentally, acquiring distributors has enabled PEs to arbitrage between their own borrowing costs and acquired distributors' cash flows, effectively minimizing transaction costs. That strategy, combined with operational gains, enabled many PEs both to increase ongoing returns and to realize substantial profits when consolidated brokerages are sold. Such arbitrage has been hampered by rising interest rates, however, which can push borrowing costs too high to justify some new brokerage purchases.

M&A among MGAs, MGUs, and specialty agents remained hot throughout 2022. MGAs and MGUs may be desirable targets given that their margins tend to be higher than those of retail brokerages, a function of specialty brokers' ability to assign risk and underwrite for specific insurance companies, yet often take little to no underwriting risk themselves.

Specialty agents' vital, less widely available coverage—from umbrella liability and physicians' malpractice to circus performers' and skydivers' policies—likewise typically delivers greater pricing power and higher margins than traditional brokerage. And because MGAs, MGUs, and specialty brokers may be able to control distribution in specialized lines, they often can influence policy terms and rates.

Figure 2. M&A trends for insurance brokers
Aggregate deal value



Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Number of deals	304	344	239	351	492	457	537	594	611	555	802	584

Notes: Outliers have been removed from the average deal multiples. Outliers include all deals with a price to earnings (P/E) multiple smaller than 5.0x or greater than 20.0x.

Source: SNL Financial.

- Transactions represent US and Bermuda companies making acquisitions on a global basis and international buyers making acquisitions in the United States and Bermuda.
- Transactions grouped by the year they were announced.
- Analysis as of 12/31/2022.
- SNL has noted that some numbers may not reconcile to prior years as there may be a lag between deal public announcement and disclosure.

Property and casualty

M&A activity slowed across the P&C spectrum last year. Many companies were impacted by rising interest rates, economic inflation, supply chain disruptions, social inflation driven by spiraling lawsuit costs, natural disasters, and other factors. Deal volume in 2022 slid to 38 transactions with an aggregate value of \$13.5 billion, a 12% volume drop from 43 transactions totaling \$22 billion in 2021. Overall deal value dropped 39% in 2022 from 2021 (figure 3).²⁰

Hit hard by the pandemic in 2020, auto commercial lines' profitability soared in 2021 and early 2022, then decreased significantly in late 2022. Inflation, along with ongoing supply chain issues that slowed the arrival of cars, trucks, and components, largely drove a 10% increase in auto claims costs for vehicles, parts, and repairs. Individual and fleet policyholders meanwhile continued to drive despite record-high gas prices.²¹

The homeowners' market also suffered a dramatic claims-cost buildup. As with auto payouts, homeowners' claim costs jumped about 10% due to higher labor and materials costs, continuing supply chain issues, and geopolitical risk for building materials often sourced from Russia and China.²²

Social inflation meanwhile significantly impacted the P&C sector as jury awards continued to increase—including so-called nuclear verdicts exceeding \$1 billion.²³ Given that P&C carriers' losses can outstrip their ability to implement rate changes, potential acquirers were increasingly unsure about what liabilities might come along with any new acquisition. That uncertainty in estimating casualty claims costs appears to have dampened deal appetites despite rate hardening in the past few years.

Natural disasters in Florida likewise have impacted the sector. The state is becoming increasingly unattractive for insurers due to hurricanes and other climate-driven disasters, which have hit earnings for P&C and reinsurance companies hard. Homeowner insurers continued to liquidate or flee, causing some observers to speculate that the Florida homeowners' market could be nearing collapse.

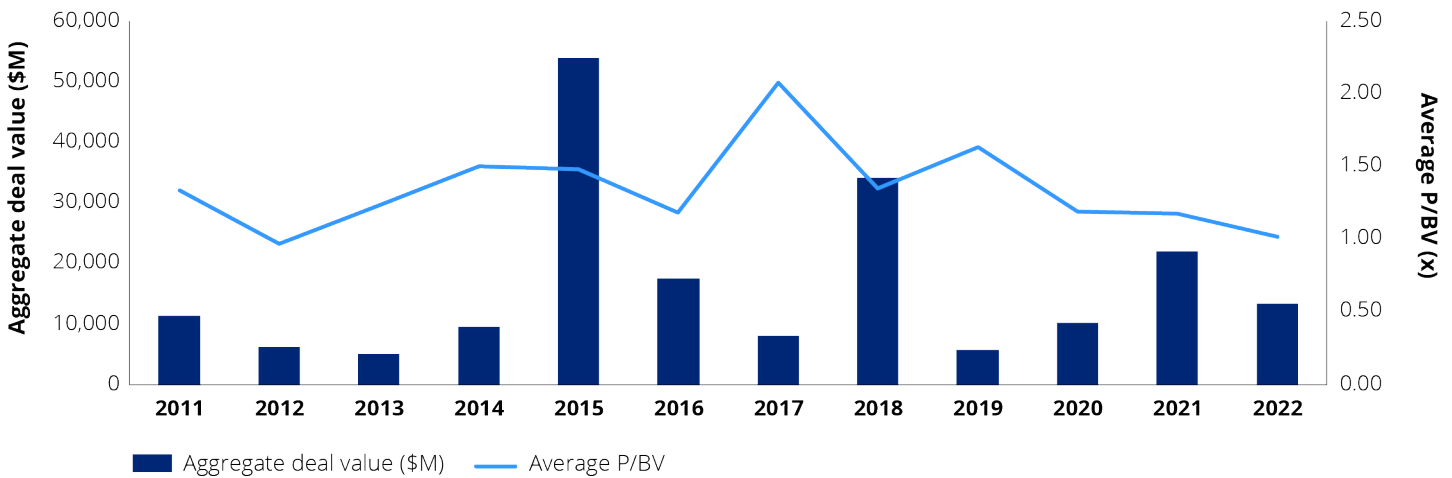
Fraud also became a significant issue for insurers even before the 2022 economic slowdown. Florida generates 9% of US home insurance claims but 79% of associated lawsuits.²⁴ Many suits turn out to be fraudulent, a situation that—when paired with increasing jury awards—has made doing business in the state unfeasible for many companies. State law has exacerbated the issue by encouraging third-party vendors to solicit assignment of benefits from tens of thousands of Florida homeowners. The third parties then attempt to collect from insurers for home repairs that may be

overpriced or unnecessary and file suits against insurers that dispute or deny claims.

In response, Florida passed sweeping property insurance legislation in December 2022 that largely eliminates the requirement for carriers to pay winning policyholders' attorney fees, prohibits assignment of benefits to third-party contractors, and enables insurers to include mandatory binding arbitration clauses in contracts.²⁵

Figure 3. M&A trends for Property & Casualty

Price/Book Value Multiples (P/BV)



Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Number of deals	72	68	63	65	51	70	53	61	38	52	43	38
Size of deals (\$M)												
Low	0.5	0.8	0.4	1.3	0.34	0.3	1.4	1.8	5.3	2.3	5.5	7.7
High	3,534.6	3,100.2	1,125.0	1,671.3	28,240.3	6,303.8	1,906.2	15,388.0	3,100.0	3,940.0	9,000.0	11,569.4
Average	266.8	148.5	110.3	199.4	1,636.1	408.8	372.2	1,137.8	447.6	687.3	1,468.2	962.8
Observed P/BV deal multiples												
Low	0.73x	0.57x	0.68x	0.14x	0.99x	0.21x	1.50x	0.50x	0.87x	0.53x	0.76x	0.78x
High	2.69x	1.52x	4.11x	2.83x	2.53x	1.45x	2.88x	4.07x	2.87x	1.85x	1.97x	1.26x
Average	1.34x	0.97x	1.24x	1.50x	1.48x	1.19x	2.08x	1.35x	1.63x	1.19x	1.18x	1.02x
Median	1.16x	0.90x	1.38x	1.43x	1.29x	1.14x	1.97x	1.53x	1.15x	1.19x	0.96x	1.02x

Notes: Outliers have been removed from the average deal multiples. Outliers include all deals with a P/BV multiple smaller than 0.5x or greater than 3.0x.

Source: SNL Financial.

- Transactions represent US and Bermuda companies making acquisitions on a global basis and international buyers making acquisitions in the United States and Bermuda. Property & Casualty include P&C, Multiline, Title, Mortgage Guaranty, and Finance Guaranty sectors covered by SNL Financial.
- Transactions grouped by the year they were announced.
- Outliers have been removed from the average deal multiples. Outliers include all deals with a P/BV multiple smaller than 0.5x or greater than 3.0x.
- Analysis as of 12/31/2022.
- SNL has noted that some numbers may not reconcile to prior years as there may be a lag between deal public announcement and disclosure.

Florida lawmakers also created a \$1 billion reinsurance fund following six consecutive years of outsize losses. Reinsurance capacity worldwide has been falling as demand is rising, which normally would support rate hardening among remaining carriers. In 2022, however, reinsurers internationally were hit hard by losses

stemming from climate change-driven property damage and, in the case of European-based companies, by the dollar's rising value against the euro. The Russia-Ukraine conflict also took a toll on European reinsurers as corporate policyholders pulled out of Russia, leaving behind insured property, assets, and inventory.²⁶

Bermuda

2022 review

Insurance M&A activity in Bermuda remained solid in 2022, unlike in much of the rest of the world. That said, Bermuda — while home to more than 60 licensed life and reinsurance companies — is a relatively small market when compared to the United States, making a large drop or rise in deal volume and value much less meaningful than for its North American neighbor.

The year's largest deal was the \$9.1 billion purchase of PartnerRe Ltd. by Covéa Cooperations S.A., a French mutual company, from EXOR N.V.,²⁷ a Dutch holding company controlled by Italy's Agnelli family. Given Covéa's existing portfolio, the transaction helps the company strategically expand its reinsurance capabilities from a global perspective. PartnerRe also benefitted from a Fitch Ratings, Inc. upgrade following its acquisition by Covéa.

In other Bermuda and Caribbean activity, Barbados based Sagicor Financial Co. Ltd. acquired Toronto based ivari from US based Wilton Re Ltd. for \$325 million.²⁸ Jamaica based GraceKennedy Ltd. acquired Scotia Insurance Caribbean Ltd. from Canada's Scotia Reinsurance Ltd. for an undisclosed sum.²⁹

New York based Blackstone Inc. invested \$500 million in Bermuda based Resolution Life Group Holdings LP,³⁰ which aims to raise another \$2.5 billion to support rapid expansion.

2023 outlook

To some extent, Bermuda's 2023 M&A activity will depend on a ghost: that of Hurricane Ian, which is estimated to be a \$50 billion to \$75 billion insured event, of which Bermuda insurers expect to incur \$13 billion. Ian alone could push reinsurance prices up, given that rates rise following a catastrophe to cover losses and to improve pricing for the same level of risk. Rate increases that bolster companies' margins also could draw new capital into Bermuda, though we have yet to see movement in that direction.

We are witnessing many US companies exploring Bermuda based opportunities, and expect American interest to expand to improve risk management through diversification of risks. Given international economic conditions, overall long term business premium volume is likely to drop, which could create pressure for consolidation. There is currently more interest in the life market than in the health market, given life's longer term nature, and an increasing need for carriers to offer new life risk management solutions.

Challenges

The year's greatest M&A challenge, as in other parts of the world, likely will be the cost and availability of capital. Buyers needing to raise funds will find that debt is much more expensive, and capital harder to come by, than in recent years. Bermuda also faces an ongoing shortage of resident qualified chief risk officers, actuaries, insurance accountants, and other professionals, suggesting that acquirers or new market entrants may need to source their own talent to the small, albeit charming, British territory.

According to Fitch, overall benefits of domiciling and operating in Bermuda will continue. But Fitch expects the net profitability gap between Bermuda incorporated and non Bermuda incorporated businesses will narrow over time. The agency foresees no need for Base Erosion and Profit Sharing (BEPS) driven ratings actions in Bermuda in the near term and believes companies will have time for strategic changes before the agreement goes into effect.

Opportunities and strategies

As for M&A opportunities, the Bermuda market retains well funded companies in varied insurance sectors and in reinsurance. Bermuda is among the world's most attractive insurance domiciles given its stable regulatory environment, robust risk and capital management programs, and encouragement of innovative technology. That makes the island an appealing target for prospective acquirers with funds in hand. We also expect PE firms, particularly those seeking to diversify their portfolios into cross border insurance and reinsurance, to continue seeking and/or financing Bermuda transactions.

Strategies for acquirers, per the primary section of this report, are those of any less frenetic market: start target conversations early, screen targets carefully, understand the regulatory environment, and determine whether the organization is seeking a strategic or financial fit. It also would be wise to have talent in, or happy to move to, Bermuda's sunny, compact 21 square mile island.

Life and annuity

L&A M&A volume was down substantially in 2022 compared to 2021. Deal volume fell to 16 transactions with an aggregate value of \$160 million in 2022, a 33% volume decline from 24 transactions totaling a record \$24.5 billion in 2021. Overall deal value dropped a startling 99% in 2022 from 2021 (figure 4).

In another large deal, American International Group, Inc. (AIG) carved out Corebridge Financial, Inc., an insurance and asset management business in which Blackstone is a minority owner. AIG retains majority control following the \$1.7 billion transaction, which was actually an initial public offering that closed in September 2022.³¹

The past year's interest rate hikes may have reinforced L&A providers' desire to move from less predictable to more consistent revenue sources. Companies that provide interest-rate-sensitive, guaranteed-protection products and annuities continued moving

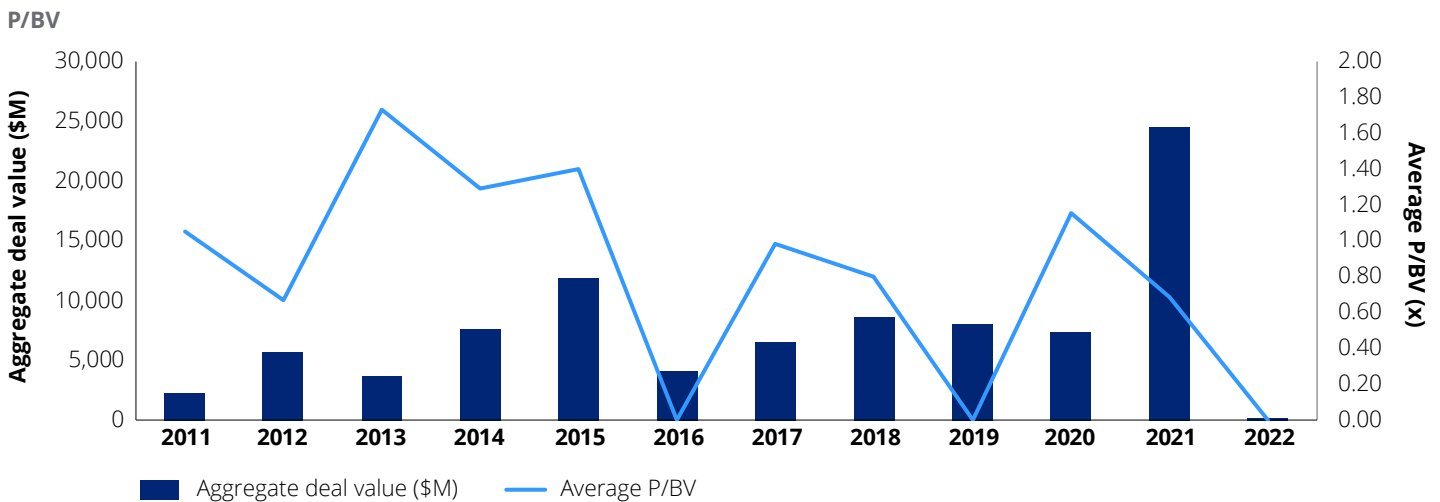
toward less capital-intensive roles such as fee-based asset managers and administrators, including oversight of employee benefit and specialty health products.

L&A insurance business continued to experience high demand and low supply in 2022. Given that the L&A group insurance market tends to move in lockstep with gross domestic product, 2022's still-growing economy boosted group business. But results may have been driven in part by wage inflation, which, in turn, drove up premiums, rather than actual volume and value growth.

Several top-tier group M&A deals usually occur each year as providers seek scale or new capabilities, or as new foreign or domestic entrants appear in the US market. No such activity occurred in 2022, likely because most major players have already paired up. Those that remain solo are primarily units of large companies that appear in no rush to divest.

A few late-2022 deals also sent mixed signals about value chain reconfiguration. Voya Financial Inc.'s announced acquisition of Benefitfocus, Inc. is pointing to more vertical integration,³² while Guardian Life Insurance Company of America's sale of Reed Group, Ltd. to Alight suggests a return to carrier specialization.³³ M&A activity in 2023 may provide more clarity on industry direction.

Figure 4: M&A trends for Life & Annuity



Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Number of deals	27	30	25	17	28	27	31	26	22	13	24	16
Size of deals (\$M)												
Low	0.5	0.1	0.1	3.0	1.5	6.8	0.0	0.3	18.5	1.8	20.00	70.0
High	917.3	1,550.0	1,056.0	5,579.6	5,001.9	2,750.8	1,835.2	3,269.0	6,300.0	4,039.0	11,067.6	90.0
Average	122.3	299.6	204.6	544.5	698.8	290.7	505.3	614.0	1,153.5	1,224.9	2,452.3	80.0
Observed P/BV deal multiples												
Low	0.54x	0.31x	1.73x	1.29x	0.10x	0.18x	0.64x	0.39x	NA	1.15x	0.39x	NA
High	5.81x	5.99x	1.73x	1.29x	2.17x	4.97x	1.28x	1.21x	NA	1.15x	0.89x	NA
Average	1.05x	0.67x	1.73x	1.29x	1.40x	NA	0.99x	0.80x	NA	1.15x	0.69x	NA
Median	0.94x	0.67x	1.73x	1.29x	1.13x	2.58x	0.96x	0.80x	NA	1.15x	0.59x	NA

Notes: Outliers have been removed from the average deal multiples. Outliers include all deals with a P/BV multiple smaller than 0.5x or greater than 3.0x.

Source: SNL Financial.

- Transactions represent US and Bermuda companies making acquisitions on a global basis and international buyers making acquisitions in the United States and Bermuda.
- Transactions grouped by the year they were announced.
- Deal multiples represent closed multiples, unless the transaction is still pending close.
- Outliers have been removed from the average deal multiples. Outliers include all deals with a P/BV multiple smaller than 0.5x or greater than 3.0x, except in 2016.
- Analysis as of 12/31/2022.
- SNL has noted that some numbers may not reconcile to prior years as there may be a lag between deal public announcement and disclosure.
- SNL classifies the Annuity segment in Life and Health.

InsurTech

For clarity, we define InsurTechs as startups with technologies or services that support the insurance industry. InsurTechs may enable underwriters, distributors, and other players to process contracts and/or claims, evaluate risk, underwrite policies, or perform other vital functions more accurately and efficiently. In contrast, extending well-established technologies to insurance isn't necessarily InsurTech.

InsurTech valuations dropped sharply in 2022 in connection with the stock market downturn.³⁴ As with other hot tech sectors, many InsurTech valuations increased significantly by mid-2022. InsurTechs that chose special-purpose acquisition companies (SPACs) as a vehicle for capitalization indicated that they may not have been mature enough to justify their price tag, and the subsequent collapse of SPACs proved that may be the case.³⁵

The InsurTech hype cycle of 2021 and early 2022 peaked around midyear, and stratospheric valuations came back to realism that better serves both sides of M&A transactions. From an InsurTech founder's perspective, high valuations may amplify pressure to succeed quickly, which can prompt a founder to focus on short-term deliverables rather than long-term success. Lower valuations may enable founders to focus more on operations and technology to mature enough to demonstrate genuinely valuable, sustainable results.

Notable 2022 deals included State Farm Mutual Automobile Insurance Company's \$1.2 billion equity investment in home security provider ADT Inc. to apply smart technology to the detection and mitigation of property losses³⁶; The Travelers Companies Inc.'s purchase of TröV, Inc., which evolved from micro-duration policies for items such as guitars and laptops to an embedded InsurTech; Lemonade Inc.'s purchase of telematics-driven auto insurer Metromile Inc.; Zurich Insurance Group acquisition of conversational AI startup AlphaChat to enhance its customer experiences; and Munich Re's purchase of SaaS provider apinity. In addition, Munich Re Life US entered into an agreement to buy medical records retrieval company MedVirginia, Inc., which does business as Clareto.³⁷

The InsurTech industry has matured considerably in the past decade. In 2022, many insurance companies saw value-chain opportunities more clearly and addressed them more precisely. InsurTechs and their backers appeared to be more deliberate in selecting technologies to develop and capabilities to acquire—versus creating “cool” technologies and searching for applications, as happened in the sector's early years.

Economic impacts

The most significant M&A decelerators in 2022 were inflation, a global phenomenon that hit similar levels in other developed countries, and subsequent interest rate hikes. Dominant inflation drivers included the COVID-19 pandemic, fiscal stimulus measures aimed at blunting its impact, and Russia-Ukraine conflict. The pandemic caused consumers to spend more on goods and less on services, aggravating supply chain issues caused by Chinese factory closures and other factors. Fiscal stimulus can be inherently inflationary as economies stabilize. And the Russia-Ukraine conflict raised energy prices, along with those of food, minerals, and metals.

Determined to avoid a repeat of the staggering inflation of the 1970s and early 1980s, the Fed used several of its tools—raising interest rates to boost borrowing costs, selling bonds to raise yields, and making announcements closely watched by investors and the press—in an attempt to prevent inflation from becoming entrenched. The results included sharp mortgage rate rises, some real estate price drops, and notably higher bond yields.

Other than real estate, however, the economy continued to weather the Fed's actions well, with companies continuing to hire and to invest in productivity-enhancing technology. The question now is whether the Fed can engineer a decrease in inflation without sparking a recession. Should a recession occur, however, we expect the decline to be relatively mild and short term.

Regulatory developments

Several insurance regulation themes became apparent last year. Climate change had major economic effects for the first time,³⁸ as rising temperatures contributed to an unprecedented run of US natural disasters that included ice storms, hurricanes, wildfires, and heat-fueled tornadoes. Globally, water-level drops disrupted inland transportation, food cultivation, and hydroelectric and nuclear power generation. Given those issues, regulators are concerned that coverage could become unaffordable for consumers in disaster-prone areas—and/or that P&C carriers and reinsurers could face increasing claims and potential insolvency.

InsurTech will likely face more scrutiny as regulators become increasingly concerned with cybersecurity and data protection,³⁹ including how artificial intelligence and machine learning are deployed for premium calculations, claims, and other decisions. Regulators also are paying more attention to privacy issues such as examining data storage, retention, and deletion. While European regulators are expected to continue taking the lead, legislation such as California's 2018 Consumer Privacy Act—which gives individuals more control over information collected about them—is prompting other state- and national-level investigation.

PE firms can expect greater scrutiny of their insurance assets, from reserve levels to ownership structures and motivations. Insurers in all sectors are likely to see increased regulatory challenges around capital requirements, as well as financial models for predicting and pricing risks such as climate. Finally, regulators are stepping up information-gathering about race and ethnicity issues as they seek to address potential race- and ethnicity-based insurance bias and barriers.

Accounting standards changes

Many insurance companies will be publishing financial results that may look very different from historical presentations in 2023. In particular, Long Duration Targeted Improvements (LDTI) is a US GAAP accounting standard that has similarities to the requirements established under International Financial Reporting Standard No. 17 (IFRS 17).⁴⁰ The two major initiatives, which went into effect on January 1, 2023, for many public companies, were drafted in response to stakeholder feedback indicating that more timely, transparent, and decision-useful information was needed about certain insurance contracts. Both standards create more operational complexity for insurance companies. LDTI primarily impacts the L&A sector, whereas IFRS 17's scope is broader and may have impacts to companies in other insurance sectors.

IFRS 17 requires entities to measure contracts using updated estimates and assumptions.⁴¹ LDTI amends the US GAAP accounting models for certain long-duration insurance contracts. Insurance companies that have global operations are affected most heavily, as they may have a compliance requirement under both standards. Specifically, insurance companies in the United States that publish US GAAP financial statements must comply with LDTI—and with IFRS 17 in foreign domiciles where subsidiaries have statutory reporting requirements. Similarly, a foreign entity that published IFRS financial statements may have a US-based subsidiary with US GAAP reporting requirements, in which case the US subsidiary must comply with both standards.

M&A impact could be substantial. Insurers that are considering acquiring other businesses will need to consider the potential impacts IFRS 17 and/or LDTI may have on those transactions. That complexity could push some companies to divest non-core holdings to lessen their reporting burdens, such as a US-based insurer choosing to sell its non-material holdings overseas or vice versa. Others may decide to divest through reinsurance agreements rather than the sale of the business itself—a trend we've already begun to see.

Tax developments

Last year's Inflation Reduction Act (IRA), included wide-ranging objectives including raising taxes on corporations and investing in domestic energy production.⁴² The first IRA item that may affect insurance M&A: a new book minimum tax on corporations with three-year annual average adjusted financial statement income over \$1 billion, a classification that may have bite with insurers given the industry's inherent volatility. Companies required to pay the minimum tax will be subject to it prospectively. Should they divide or divest operations, it's unclear whether the remaining entities will retain that liability.

The second item, a 1% excise tax on share buybacks, will affect insurers that buy back stock. The tax is unlikely to drive transactions, but it may be a factor for deals on the margins of viability for one or both parties. The third item—transferable or refundable new and extended energy tax credits for solar power, electric vehicles, and low-income housing, among other items—may provide more transaction flexibility since taxpayers that no longer qualify can sell the credits. Again, credits are unlikely to sway deals but could play into M&A pricing. Finally, the legislation increases funding for the IRS, potentially suggesting that complex transactions may receive greater scrutiny than in recent history.

Separately, the 15% global minimum tax (GloBE) continues to move ahead. Agreed by more than 130 member countries of the Organisation for Economic Co-operation and Development (OECD) in 2021, GloBE creates a framework for common corporate taxation.⁴³ Its Pillar Two relies primarily on book accounting data versus tax data, with a variety of adjustments, including those relating to deferred tax expense, which is likely to add complexity and compliance burdens. Pillar Two is expected to take effect on January 1, 2024, potentially suggesting that many companies in 2023 will be getting ready for its implementation.

Only South Korea has enacted legislation to adopt the GloBE and the European Union recently announced unanimous support for Pillar Two, with member states required to create its own laws for detailed implementation by the end of 2023.⁴⁴ The prevailing assumption, however, is that Pillar Two will come to pass. The 15% minimum tax likely will increase cross-border investment costs and significantly reduce the appeal of low-tax jurisdictions. Taxpayers may want to consider modeling best-and-worst-case financial scenarios carefully prior to acquisitions, creating corporate-structure contingency plans that consider where targets and parents are located, and determining whether operations can be moved, if necessary.

2023 outlook

Not surprisingly, the two most powerful 2023 M&A drivers are inflation and interest rates.⁴⁵ The Fed has indicated that it expects to continue raising rates, but in smaller increments than occurred in 2022.

When rates settle, we expect to see companies begin deploying capital for acquisitions, but with subdued frequency and at lower prices compared to the higher valuations in 2021. In the interim, insurers likely will wait for uncertainty to work its way out of the system. The current reinsurance market also will likely set up participants with strong balance sheets to begin acquisitions.

Valuation spreads may continue to be an issue between buyers and sellers. Sellers may believe that they have adequate reserves and a realistic valuation, while prospective acquirers and third parties may disagree. Acquirers appear to be valuing companies or blocks of business in what they see as a leaner market environment, which will continue disrupting deals unless sellers let go of attachments to previous valuations.

We expect insurance brokerage to be the first sector to recover. Given its high deal volume and appeal to PEs, distribution likely will be a leading indicator for insurance M&A activity. The fact that PE interest waned only slightly last year suggests that financial buyers view brokerage positively despite rising interest rates and believe that longer-term growth will offset any increase in deal cost. In the interim, however, brokerage appears to be influenced by insurance M&A softness overall.

When insurance M&A activity begins to recover will depend on the length and depth of the economic slowdown. Based on current forecasts by economists, however, we believe the insurance M&A market may begin to recover in late 2023 or 2024.

2023 M&A trends and drivers

We are watching the following trends, which may impact insurance industry M&A this year:

- **Continuing MGA/MGU/specialty broker demand.** Assuming the slowdown is relatively mild, we expect continuing M&A demand for MGAs, MGUs, and specialty brokers, particularly from PE firms. The factors that drove the sector's acquisition boom are still strong, making interest rates less a factor for PE firms⁴⁶ than is borrowing to buy a general brokerage.
- **Elongation of rate hardening, particularly in reinsurance and P&C commercial lines.** While hard rate environments usually don't last, this one appears poised to stretch into 2023, creating a second year of hard rates.⁴⁷ That suggests M&A may begin picking up in late 2023 or early 2024.

Demand is being driven largely by climate-change-driven weather catastrophes, including in Florida, where reinsurers alone raised prices by as much as 30% in many instances last summer. There also have been sharp hikes in cyber insurance costs as more—and more destructive—hacks against businesses and government entities proliferate. The good news for insurers is that commercial pricing power will likely remain on the insurers' side for the foreseeable future. With rates rising, growth is likely to occur organically whether or not companies pursue acquisitions.
- **Growth of alternative capital in reinsurance.** The reinsurance market continues to attract alternative capital, including hedge funds and asset managers eager to take advantage of rising policy prices.⁴⁸ We may see some consolidation as the de novo class of reinsurance investors, principally those who made acquisitions four to six years ago, looks to exit.
- **Increased L&A tactical deals.** Despite the pullback in 2022, in recent years there has been a rise in L&A tactical deals, with back-books acquisitions driving consolidation in life businesses. COVID-19 pandemic-stressed L&A insurance companies may need to exit non-core lines to retain profitability.

The big trend: Industry convergence

Notably, we expect accelerating convergence with non-insurance players. Already common in banking and related financial services, convergence—or embedded insurance—creates vertically integrated businesses that package insurance along with other products or services. Embedded insurance in personal and small commercial lines could exceed \$70 billion in premiums in the United States by 2030.⁴⁹ A prime example: electronics purchases, in which a retailer offers insurance at point of sale. The same business model is appearing in insurance cross-industry.⁵⁰ Online purchases are particularly conducive to embedded insurance since websites easily can add a “click here” option and customize coverage for purchasers during checkout.

For example, in October 2022, Amazon.com, Inc. became a sales channel for home insurance in the United Kingdom.⁵¹ The new Amazon Insurance Store began quoting policies for third-party providers, which Amazon advertises as a “more transparent” way to shop for homeowners' insurance. According to Amazon, its Insurance Store provides customer reviews, star ratings, and claims acceptance rates to aid homeowners in making carrier decisions.⁵²

Airlines and online booking agencies such as Airbnb Inc. also have joined the fray, offering insurance coverage at checkout alongside flight tickets or lodging reservations.⁵³ As long as policies are third-party underwritten, the system creates an additional, risk-free revenue stream for travel providers.

Embedding auto coverage

We expect to see convergence in auto purchases in the near future. Tesla Inc. already sells its own insurance to car buyers in 12 states, including California, Texas, and Illinois.⁵⁴ Extensive telematics enable Tesla to collect real-time information on driving behavior—sudden stops or accelerations, without signaling, lane changes, difficulty parallel parking—that effectively creates a fingerprint of driving habits.

Tesla argues that its telematics promote competitive insurance pricing while delivering a unique understanding of its products and safety and drive-assistance features. Such information improves underwriting data, enabling the company to predict risk and loss ratios more accurately (except in California, where real-time driving data use is barred).

Similarly, General Motors Company (GM) has said its goal is to “integrate insurance in [the] vehicle ownership lifecycle.” GM has announced its intention to grow its insurance presence to \$6 billion in revenue by 2030⁵⁵ and last year expanded its OnStar Insurance Services to all 50 states and Washington, DC. GM offers both auto and homeowners’ policies, including coverage for non-telematic-equipped cars. Usage-based coverage, however, is in only four states so far.

GM’s stated goal is to “transform the auto insurance industry” with fair, personalized, easy-to-use coverage.⁵⁶ GM says its emphasis is on rewarding good drivers, although telematics-based policies presumably also will subject less stellar drivers to greater scrutiny. Coverage currently is underwritten by American Family Mutual Insurance Company subsidiaries. It’s unclear whether GM intends to assume underwriting responsibility at some point. But should that happen, GM would become an original equipment manufacturer for both its vehicles and the coverage that accompanies them.

Meanwhile, telematics also offers significant convergence opportunities for major fleet operators such as FedEx Corp., United Parcel Service, Inc. and Amazon. Given their detailed driver telematics, it seems likely that all three companies increasingly will leverage analytics to weed out poor drivers and lower their insurance costs.

We also expect other industries, such as technology players with big-data analytics expertise, to buy or build insurance capabilities. Insurers likewise will form partnerships in diverse industries. Minority InsurTech investments also may rise as potential acquirers aim to shape product development, judge a startup’s potential success, and pilot organizations’ cultural fit without undertaking a full acquisition.

Opportunities

Inflation. Deloitte currently projects 4% to 5% inflation in 2023, and below 3% in 2024 and 2025.⁵⁷ Because inflation tends to be a short-term negative but medium-term positive for insurers, reinvesting at higher rates could free up capital for acquisitions just as less stable companies are ready to bail out.

Volatility. Uncertain times are ideal for opportunistic acquisitions, and buying growth is generally easier than building internal capabilities. Both those precepts bode well for acquirers in 2023. Insurers with less solid balance sheets will need to dispose of non-core operations to focus on core strengths. Acquirers will be able to use decreasing valuations to their own advantage in buyers-market sectors.

Small P&C. As a \$150 billion market in which 60% to 65% is held by carriers with less than 1% market share, small P&C remains ripe for consolidation.⁵⁸ The primary hurdle is a highly relationship-driven market. Small-business owners prefer having agents for personalized advice. Despite massive expenditures, no company has figured out how to shift small P&C to an electronic-based market. The business that succeeds will have a plethora of M&A prospects.

L&A group business. We see opportunity in differentiated product concepts, including growth in pet insurance, student loans, contact lenses, wellness services, home and product warranties sold through the workplace, and hyper-local services for employees. The sector also still requires substantial digitization to improve pricing and make underwriters and agents more cost-efficient.

InsurTech. InsurTech remains compelling for acquirers seeking tangible value.⁵⁹ We expect 2023 investments to be much more intentional, rather than driven by fear of missing out. Surviving InsurTechs will be more mature, bringing buyers better technology at fair—though not fire-sale—valuations. Traditional insurers with InsurTechs well integrated into their technology stacks may have the chance to purchase terrific assets at much lower prices relative to prices from one or two years ago.

The same is true for insurers' captive venture capital (VC) funds. VC funds can capitalize on dual benefits: potential ability to provide services and determine prices better, and to create a new revenue stream. VC parent insurers may find that buying portfolio companies is more economical than paying license fees over the long term. They also may want to keep a promising InsurTech out of competitors' hands or commercialize tech in new ways.

PEs meanwhile hold checkbooks as many InsurTechs are starving for capital. Deep-pocketed PEs will be able to drive favorable investment or acquisitions terms. We also expect PEs to seize the opportunity to capture multiple, market-adjacent InsurTechs, then consolidate them into more vertical solutions. Many startups offer point solutions that address only one element of the claims, policy, or customer acquisition value chain. Acquisitive PEs may be able to manage wide swaths of the insurance life cycle.

Challenges

Technology. Insurers should continue upgrading their technology platforms to deploy pricing, profitability, and other analytics more effectively—often a complex, demanding process.⁶⁰ Whether or not technology is upgraded, insurers should also be aware of constant, intensifying cyber risks and escalating privacy requirements.

In auto lines, the challenge will be to reduce friction for customers in price quoting, policy information, and claims processes while keeping pace with the real-time analytics prowess related to auto insurance offerings of the likes of Tesla and GM.

Insurers and PEs in partnerships with, or invested in, InsurTechs may need to keep young companies focused on building unique market advantage versus veering toward other enticing opportunities.

Market uncertainty. Bid/ask spreads likely will lessen as deteriorating conditions leave sellers no choice but to accept lower offers. But the timing will depend on economic factors, the insurance M&A market overall, and the specifics of subsectors and geographies. We expect deals will remain difficult to complete while noise—in the form of economic and market unknowns⁶¹—echoes loudly in the system.

Modeling. P&C companies may need to examine their rate modeling approaches in areas prone to extreme weather events. Some industry analysts speculate that traditional rate modeling no longer holds after several years of climate-change-driven disasters and resulting outside losses.⁶²

Climate change. A new reality for businesses in every industry, climate change issues will likely persist—if not worsen.⁶³ The challenge will be pricing for climate exposure. Along with high-profile concerns such as hurricanes and wildfires, some portfolio investments may be at high risk for less obvious climate issues, such as European inland shipping disruptions when many rivers dried up in 2022's hot summer.

There is also increasing shareholder concern over whether companies are significant polluters, among other environmental, social, and governance (ESG) issues. Public perception has become a real risk both for perceived offenders and for insurers that invest in and hold their shares.⁶⁴

Key takeaways

We recommend looking for ways to drive strategic partnerships, such as how insurance and non-insurance partners can go to market together and/or create shared opportunities that generate new income streams. More mature InsurTechs also may provide viable partnership opportunities.

Insurers also should decipher how to stay profitable in a slowed economic environment, with or without recession, and ensure balance sheet health by controlling wages and other costs. That may mean restructuring or exiting non-core businesses. It doesn't mean companies should change their fundamental strategies or cut off operations that may revive in a few years. Rather, we suggest looking closely at cost bases and being judicious about pros and cons of acquisitions versus organic growth.

For acquirers, we recommend staying current on top-flight potential targets, including monitoring actions that may signal need or willingness to sell. Building relationships is vital given that owners may make choices in a down market that they wouldn't have made six, 12, or 18 months ago. New corporate leadership also may create new targets as executives streamline businesses or portfolios. We suggest that assessing whether the current economic environment has strengthened or weakened a would-be acquirer's investment thesis, as well as being prepared to be opportunistic and move quickly.

Potential sellers may want to reduce financial risk so they can be prepared to act quickly. Understanding buyers' interests and priorities is vital, as is being aware of changing valuations. While most buyers are still PE-backed, particularly in the brokerage and reinsurance sectors, expectations are different given the precipitous fall in valuations in 2022.

We also recommend that all insurance market players consider the recovery that is likely to follow this current economic slowdown. As occurred following the housing-collapse-driven recession of 2007 to 2009, the recovery could be much longer and stronger than the current downturn. In that case, companies will likely still face labor and supply chain shortages not unlike those occurring now. Further, the current hard rate market won't continue indefinitely. Companies benefiting from hard rates, such as P&C carriers and reinsurers, should consider how they'll position themselves for growth when rates soften again.

The objective is to manage the current economic slowdown while positioning a business to thrive post-economic slowdown. Insurers that succeed will have the greatest choice of M&A targets—and will likely emerge farthest ahead—in the insurance market in 2024 and beyond.

Appendix

United Kingdom

2022 review

The United Kingdom's (UK) M&A market split into two distinct halves in 2022. The first six months saw extremely high deal volumes at record valuation multiples, with a particular focus on the commercial insurance-distribution sector. In contrast, deal volume slowed dramatically in the latter six months as UK macroeconomic uncertainty, rising interest rates, political volatility, and the Russia-Ukraine conflict unsettled would-be buyers and sellers in much greater numbers than in 2021 and early 2022.

Several large distribution deals occurred in the first half of 2022, including the sale of Global Risk Partners Ltd. (GRP) to US-based Brown & Brown, Inc.⁶⁵ Goldman Sachs Asset Management also acquired a majority stake in Clear Insurance Management Ltd. (Clear) from ECI Partners LLP.⁶⁶ These strategic and financial transactions, both for undisclosed sums, exemplify the buy-and-build model of sequentially adding smaller companies to a well-positioned platform business.

Multiple factors tamped down M&A activity in the second half of 2022. As in the United States and elsewhere, UK inflation and interest rates jumped dramatically. The unpredictable inflation outlook, concerns over cost and availability of transaction financing, and difficulty modeling uncertain tax impacts weighed on the market. Completing transactions also became more challenging given widening bid/offer spreads. Buyers sought to take advantage of the slowing deal pace by reducing purchase costs, while sellers held out for the loftier valuations of 2021 and the first half of 2022's exuberant market.

Corporate activity began to pick up a bit in the second half of 2022. There were transactions in both the life insurance and specialty commercial sectors. Barriers to entry and continued rate hardening proved an advantage in specialty commercial, as well as access to the benefits of the Lloyd's market in certain cases.

2023 outlook

Despite the economic downturn, we expect to see solid M&A activity across multiple sectors in the coming year. Life insurance, including disposal of back books that continue generating cash but no longer receive new business, remains attractive given rapidly changing interest rates and asset valuations. Insurance distribution likely will remain buy-and-build-focused as GRP, Clear, and the other acquisitive brokers extend their reach among small and medium-size enterprises (SMEs). Continued disruption caused by pricing regulations and claims inflation, as well as continued fierce competition, in both the motor and home insurance markets, could potentially drive M&A activity. We also see many companies in these markets that are owned by PE or founders, which could look to exit in the near to medium term.

Among current positive factors: Commercial pricing power remains on insurers' side given the ability to raise rates and make up for inflationary losses. Insurers can also reinvest at higher rates, benefiting from the rising interest rate environment. Companies' balance sheets are generally cash rich, and the dollar's strength relative to the pound is benefitting carriers writing dollar-denominated business and incurring cost in GBP. Strong sector participants with long-term outlooks and sharp strategic visions could capitalize on sliding valuations to make previously unaffordable acquisitions—as could PE firms, which still have significant resources to deploy.

Potential negative factors include an expected recession in the UK in 2023, which is likely to affect some corporate lines and the SME market most strongly, in the sense that many smaller corporations will look to save money, including on insurance coverage and in particular as premium rates increase, but also due to some companies going out of business. However, we still see the SME insurance sector in the United Kingdom as continuing to be resilient and insurers benefiting from growing insurance penetration with SMEs and increasing prices. General uncertainty, including longer timelines and greater hurdles to getting deals done, may remain—including bridge-too-far bid/offer gaps as sellers hold on to previous valuations and buyers think in new-world terms.

Depressed stock market prices have diminished the appeal of corporate shares as acquisition currency. Debt remains more expensive and less available than in recent years. Insurance profits also may be affected by a rise in fraud, which unfortunately tends to accompany recessions.

We foresee appeal in multiple sectors. The greatest of these is in commercial specialty lines, which have strong premium-rate-increase momentum and are least challenged by market and economic factors, though volatility particularly in natural catastrophes (Nat Cat) exposed lines remains high. Distribution also retains a solid outlook as broker platforms sweep up smaller brokers and platforms buy other platforms.

In personal lines, consolidation is likely to continue due to the 2022 UK General Insurance Pricing Practices (GIPP) regulation designed to increase pricing transparency for consumers. Companies that were highly dependent on price walking, that operate at a high expense base, or that cannot price for the high claims inflation while growing may be more vulnerable. Life insurance back books, while not a new strategy, remain attractive to acquirers able to squeeze efficiencies, though this market is quite mature in the United Kingdom.

Across sectors, the availability of capital among overseas carriers and investors—and relative strength of the dollar for US companies in particular—will attract buyers eager to take advantage of UK currency weakness. Reduced corporate share prices probably will support the peer-to-peer market, in which publicly traded companies that suffer shrinking market capitalizations are taken private by PE firms.

The Lloyd's of London market meanwhile is likely to see continuing interest from strategic and financial investors. Lloyd's global license access, deep talent pool, and relatively attractive capital requirements give its businesses evergreen appeal, including those companies now owned by PE firms.

As is happening in other developed nations, consolidation also is likely to continue in reinsurance as capital and capacity become constrained in the sector and some owners of reinsurance businesses decide to reduce volatility exposure.

As previously discussed, companies will be wary of jumping into M&A both on the sell-side and buy-side given the ongoing economic uncertainty. Private equity is keen to deploy funds in the sector but will need to seek out stronger returning investments to counter higher debt costs and lower debt availability. Life carriers have typically hedged against market shocks and, as a result, have balance sheets that are relatively resilient. However, increasing costs and challenges around the growth agenda are forcing life insurers in particular to consider the structure of their business. In fact, we are seeing some life carriers defensively moving into wealth management to supplement investment income with fee-based sources.

Some insurers with significant legacy businesses (being closed blocks of business) are feeling the impact of increased inflation on business that is already suffering from diseconomies of scale. This has led them to review their legacy businesses and has resulted in disposal processes, while others are restructuring, rather than disposing of, back books. The restructuring option will often involve the use of outsourced service providers or business simplification.

Per the primary section of this report, volatile, uncertain times also can be ideal for opportunistic acquisitions. Companies with solid balance sheets may want to begin reaffirming their growth strategies, searching actively for potential targets, building relationships with those targets, and preparing to move quickly should deals begin to materialize. Those without balance sheet strength may need to focus on core operations and prune operations by disposing of non-core holdings.

Australia

2022 review

Momentum continued in 2022 for Australian insurance M&A, with 16 deals valued at a total of AU\$2.8 billion (US\$2.1 billion), compared to 14 deals valued at AU\$2.8 billion in 2021.⁶⁷

Landmark deals occurred primarily in the brokerage and life sectors. AUB Group Ltd. acquired Tysers Insurance Brokers, a Lloyd's wholesale brokerage, from US-based PE firm Odyssey Investment Partners. The AU\$880 million (US\$610 million)⁶⁸ purchase price ultimately may reach up to AU\$1 billion (US\$728 million),⁶⁹ including up to AU\$170 million (US\$118 million) deferred consideration.⁷⁰ Steadfast Group acquired Insurance Brands Australia, one of the country's largest privately owned distribution businesses, for AU\$301 million (US\$209 million).⁷¹ Japanese giant Dai-ichi Life Holdings, Inc. meanwhile acquired New Zealand-based Partners Life for AU\$888 million (US\$616 million).⁷²

Profitability has been eroded over the past five years in the P&C sector following catastrophic bushfires and floods. However, net profits for P&C insurers remained flat year-over-year at AU\$0.9 billion (US\$0.6 billion) for the 12 months ended September 2022. Growth in gross written premiums of AU\$6.1 billion (US\$4.2 billion) to AU\$63.6 billion (US\$44.1 billion) was driven primarily by volumes within household, motor vehicle, fire, and travel insurance within personal lines. Gross incurred claims increased to AU\$46.3 billion (US\$32.1 billion) due to adverse weather events throughout 2022. This was mitigated by improved reinsurance recoveries, leading to a reduction in net incurred claims and a stronger underwriting result of AU\$6.1 billion (US\$4.2 billion) for the year. However, these tailwinds in 2022 were largely offset by losses incurred on investment portfolios of AU\$2.4 billion (US\$1.7 billion) resulting from tumultuous market conditions.⁷³

2023 outlook

Insurance M&A activity in 2023 is likely to be driven by two classic forces: portfolio rebalancing and market consolidation. Uncertainties resulting from geopolitical conflict, including the conflict in Ukraine and tensions with China, and the need for improving returns on equity may prompt insurers to divest noncore assets and exit underperforming markets. For example, Suncorp Group last year announced plans to sell its banking business to Australia and New Zealand Banking Group (ANZ) for AU\$4.9 billion (US\$3.4 billion),⁷⁴ enabling Suncorp to focus on core retail and commercial lines as the insurer seeks to become a Trans-Tasman leader.⁷⁵

Legacy business models and operating pressures meanwhile are driving further consolidation as firms seek to capture economies of scale via increased size and technology investments, including data and analytics. Listed brokers in Australia, several of which recently completed or announced equity raising, appear likely to continue their aggressive inorganic growth in 2023.

Challenges include an end to Australia's low interest rates. The Reserve Bank of Australia (RBA) ended its quantitative easing program in January 2022, and by year end, interest rates had increased to 3.1%. The RBA projects current inflation of 6.9% for the year to October 2022 will taper to 3% by 2024, however, as global growth, supply chain issues, and commodity prices moderate.⁷⁶

Natural disasters continue to be a concern in the P&C market, with another La Niña event occurring in summer 2022 leading to increased flooding, particularly on Australia's more heavily populated East Coast. Further, aggregate reinsurance coverage of domestic insurers is weak, causing underwriters in regions prone to natural disasters to bear greater risk.

At the same time, there are likely to be considerable M&A opportunities. Insurers can expect greater returns on assets and invested premiums as interest rates continue to rise. Australian M&A also tends to be insulated from interest rate rises and to rebound quickly following economic downturns. Further, rates remain low relative to historical trends, making acquisition debt relatively affordable.

The InsurTech sector meanwhile has matured to the point that we expect to see consolidation between InsurTechs, along with acquisitions of InsurTechs by traditional firms. Insurers, particularly brokers, may find opportunity for partnerships and/or acquisitions in a new subsegment that uses third-party data to disrupt underwriting and pricing partnerships. The surge of real-time data analysis, smart-home sensors, and Internet of Things developments also will enable insurers that invest in InsurTech to tailor policies and pricing to customer-specific risk, improve underwriting accuracy, and enhance risk management.

To capitalize on an uncertain market in 2023, insurers need to reassess core strengths, divest less profitable or non-core operations, be prepared to move quickly on acquisition opportunities, and continue differentiating products and services through technology, health, and communications.

Canada

2022 review

Overall Canadian insurance M&A volume dropped substantially in 2022 from the previous year. Megadeal activity also remained subdued for the second consecutive year. The sole 2022 megadeal was JAB Holding Company's \$1.4 billion purchase of Fairfax Financial Holdings Ltd.'s holdings in Crum & Forster Pet Insurance Group and Pethealth Inc.⁷⁷

By comparison, there were two major transactions in 2021: Intact Financial Corporation and Tryg A/S's acquisition of RSA Insurance Group plc for £7.2 billion (C\$12.3 billion, US\$9.15 billion),⁷⁸ and Brookfield Business Partners L.P.'s acquisition of Genworth MI Canada from Genworth Financial, Inc. for C\$1.6 billion (US\$1.2 billion).⁷⁹

Midmarket and smaller businesses remained active in 2022 M&A, particularly in the P&C and brokerage segments. Private equity firm BBH Capital Partners, a Brown Brother Harriman & Co. unit, took a more than C\$94 million (US\$70 million) stake in P&C brokerage Synex Business Performance Group.⁸⁰ Definity Financial Corp. acquired a majority stake in McDougall Insurance Brokers Ltd. for C\$217 million (US\$160 million),⁸¹ while Barbados-based Sagicor Financial Co. Ltd. announced its acquisition of Toronto-based ivari from US-based Wilton Re Ltd. for C\$325 million (US\$250 million).⁸² Sun Life Financial Inc. sold its UK business, SLF of Canada UK Limited, to London-headquartered Phoenix Group Holdings plc for C\$385 million (US\$301 million).⁸³

Among insurance carriers, even in robust years, most Canadian insurance acquisitions are undertaken by larger public companies and their subsidiaries. Many Canadian carriers are mutually owned, which limits capital for acquisitions. That said, they could contemplate divestitures of non-core businesses as a means of accessing capital. In L&A insurance, just four companies represent 90% of the life market premiums. As a result, M&A activity occurs primarily among small and midsize companies, or in adjacent sectors including distribution.

2023 outlook

We expect most deals in the coming year to continue to involve brokerages—principally in P&C and life/benefits—where consolidation remains a compelling way to boost efficiencies and leverage technology platforms. While PE firms still have significant dry powder for acquisitions, rising interest and inflation rates may temper deal-making as access to debt tightens and valuations fall.

M&A deals may also have a different character. We expect shifting market dynamics, including rising interest rates and falling valuations, to create fresh buying opportunities. Small or midsize business owners industrywide could decide to sell operating units, blocks of business, or entire companies. As discussed in the primary section of this report, M&A often benefits from economic volatility.

Challenges will include falling investment returns, especially for life companies with portfolios heavily invested in equities and real estate. Potential acquirers may have limited access to capital, and PEs may be more cautious due to the increased cost of funding. Canadian PE insurance investments are not yet sufficiently seasoned for monetization in the near term. Meanwhile, insurers in all sectors will need to figure out how to drive value from existing portfolios.

Acquisition strategies echo those in the primary section of this report, including staying current on top potential targets and being prepared to move quickly if opportunities crop up. Potential sellers probably will want to reduce financial risk, understand buyers' perspectives, and remain current on valuations. And life companies that are being hurt in capital markets may want to either pause acquisitions until the deal climate reverses or sell non-core businesses to reduce operating pressures. Canadian M&A may be less hot in 2023 than in recent years, but we expect the market to simmer in interesting ways

China and Hong Kong

2022 review

Insurance M&A in China was quiet for the second consecutive year in 2022. There were no megadeals, either between Chinese companies or with overseas firms, and deal size in general was smaller than during the previous year. L&A was slightly more active than P&C.

In one interesting transaction, tech company iFLYTEK acquired an insurance brokerage with the goal of pursuing tech-driven competitive advantage.⁸⁴ Other companies may choose a similar route, given that the Chinese insurance regulator seems reluctant to issue new brokerage licenses. But M&A transactions involving a target with an existing license apparently are permissible.

Global economic uncertainty likely was a factor, along with the investment limitations that foreign investors felt from the sudden ratcheting up of inflation and interest rates in developed economies. Activity also may have been affected by the intensity of China's COVID-19 restrictions, which made planning and completing deals more difficult, prior to the lockdown's sudden scale back in December 2022. Escalating geopolitical tension between China and the United States also may have tamped down external demand.

The year's major insurance M&A theme involved reshuffling of shareholders. As industry growth slowed, smaller insurers found expansion difficult, and some frustrated shareholders—particularly those already experiencing financial difficulty—opted to leave the industry.

2023 outlook

Shareholder reshuffling is likely to continue in 2023, with transactions concentrated among smaller insurers that find profitability and growth challenging. Some large state-owned enterprises that hold insurance shares appear poised to divest non-core businesses. Valuations also remain low, which is likely to discourage substantial deals.

On the flip side, some foreign insurers with a long-term horizon have been looking for acquisition targets and may become more active if transactions can be closed. Domestic insurers are not yet buying up other smaller insurers.

The biggest challenge faced by insurers in China is to generate profits and become more capital efficient. Shrinking investment sources could pose an opportunity for foreign insurers looking to establish wholly owned businesses in China, which has only been possible since March 2021. Having cash available will be a boon to buyers. Inbound and outbound M&A between the United States and China, however, likely will remain limited given the chill in geopolitical relations.

France

2022 review

The French insurance M&A market experienced a lively year in 2022. Primary M&A drivers were broker consolidation and a PE capital influx. PEs continued to target InsurTechs and brokerage firms, with InsurTech valuations beginning to decrease alongside those of global tech companies. Still, the brokerage sector remained competitive, characterized by ongoing consolidation among brokers in a race for size.

Among brokerage firms, Ardian—along with TA Associates, RAISE Investissement, and existing management—invested a reported valuation range of €900 million to €1 billion⁸⁵ in Groupe Odealim, an insurance brokerage firm specializing in real estate insurance and credit products. Columna Capital organized a €150 million (\$162 million) fundraising round for Santevet,⁸⁶ a leading provider of pet insurance, for which it is a majority shareholder.

As for InsurTechs, +Simple, an insurance brokerage aimed at digitizing and building scale efficiently for self-employed professionals and small businesses, raised €90 million in European growth financing from its founders, KKR, Tikehau Capital, and existing investors Eurazeo and Speedinvest.⁸⁷ Howden Group meanwhile acquired the French insurance broker Theoreme⁸⁸ from its founding family.

Despite their relatively small market shares and a standard insurance business model, these InsurTech startups have gained public visibility due to innovative technologies, social media marketing, enhanced transparency, and the promise of fresh approaches to customer experience. France saw continued emergence and development of neo-insurers that are challenging established companies, including Alan (a health insurer licensed in 2016),⁸⁹ Seyna (a P&C insurer licensed in 2019),⁹⁰ and Luko,⁹¹ along with health insurer Lemonade's 2020 launch in the nation.

Other InsurTechs are operating under a distribution model and contemplating the acquisition of an underwriting license. Among the players that gained momentum in 2022: Alan raised €183 million,⁹² while climate risk-focused Descartes Underwriting led a \$120 million Series B fundraising.⁹³ Luko bought Coya to acquire the insurer license.⁹⁴ Raising funds became increasingly difficult for tech companies,⁹⁵ however, as rising interest rates and declining valuations led investors to be more vigilant about startups' cash burn rates.

The main regulated transaction was the acquisition of PartnerRe, a leader Bermudian reinsurer, by Covéa for €7.8 billion.⁹⁶ The transaction will reinforce PartnerRe's development and will bring diversification and internationalization to Covéa by creating a top-tier European insurance and reinsurance group. The second-largest transaction was the acquisition of La Médicale de France, a French insurance provider for health care professionals, by Generali for €435 million.⁹⁷ This acquisition allows Generali to consolidate its position in the health care professionals market and to strengthen its distribution through general agents.

2023 outlook

Given last year's intense activity, upward M&A momentum is expected to slow in 2023, especially for large deals. Investors are concerned about the unstable geopolitical and economic context, including the impact of Brexit, consequences of the Russia-Ukraine conflict for Central and Eastern Europe, interest rate increases, greater hurdles to raising significant buyout debt, and possible looming recession. Concern is also increasing around fundraising difficulties for startups and fintechs.

Broad industry trends expected to impact 2023 M&A activity include:

- **Less favorable macroeconomic context for leveraged buyout transactions favored by PEs.** The unfavorable macroeconomic context, deteriorating economic prospects, and increasing interest rates are creating significant uncertainties and reducing returns on current investments. PEs are likely to reduce both acquisitions and disposals⁹⁸ as a result.

Despite these concerns, PEs are likely to remain interested in French business-to-consumer and wholesale insurance brokers in 2023, particularly the small- and lower-mid-cap segments⁹⁹ and best performers. Consolidation among insurance brokers backed by PE investors will continue to be supported by the significant spread between the targets' buy-side valuation multiples and the lower consolidators' trading multiples in the distribution and service provider sector.

- **Tech fundraising slowdown.** Artificial intelligence is a powerful vector for transforming the insurance industry. Algorithms can simplify processes and automate repetitive tasks, helping to contain insurers' costs and customers' premiums—and to optimize coverage for the price. While algorithms are accelerating the launch of French InsurTechs, the difficult macroeconomic and fundraising environments¹⁰⁰ have led to significant downward price adjustments.¹⁰¹ Several InsurTechs have abandoned funding projects to focus on their nearer-term profitability.
- **Pressure on life insurers from interest rate hikes, with back-book transactions yet to materialize.** While rising rates should be reflected gradually in euro fund yields, gains currently are overshadowed by soaring inflation and increased competition in the life insurance sector. Rate jumps have had a direct impact on French insurers' general assets, about 75% of which are invested in bonds. Returns on these bond portfolios are improving gradually, and so are those of their euro funds. But rising rates only benefit newly subscribed bonds, giving potential entrants a competitive advantage over firms with established portfolios.

We do not anticipate a notable change in the French life insurance back-book landscape. Although the M&A market has been active in continental Europe, notably in Germany,¹⁰² no new deals were announced in France in 2022. Large life insurance consolidators and back-book investors are reluctant to invest in French portfolios because reinsurance or asset transfers outside the country could be challenged by banking and insurance sector regulator ACPR.¹⁰³ Consolidators instead need to purchase an existing life insurer or create a new one. In our experience, both options are currently being contemplated by the industry.

- **Mutual sector consolidation.** Mutual insurers without capital markets access are expected to accelerate their consolidation around the largest mutual groups. Among the reasons: a steep rise in combined ratios for health and employee benefit insurers, substantial investments needed for digitalization and operational efficiency, liberalized government tenders, and Solvency II's increased capital and operational requirements. Those forces have helped pare the number of mutual insurers in France from 1,200 in 2006 to less than 300 in 2023.¹⁰⁴ Meanwhile, functions such as claims management and loss adjustment increasingly are outsourced to specialist service providers, which pool industry compliance and regulatory tasks to operate at lower price points than their vertically integrated, large incumbent counterparts.

Germany

2022 review

German insurance M&A has been somewhat counterintuitive for the past two years. In 2021, when deals were happening with blazing speed in many developed nations, German insurance M&A was relatively weak. Yet in 2022, when the pace sank elsewhere, activity in Germany rose significantly.

Advances were fueled by two established, accelerating trends: consolidation among brokers and insurance intermediaries, and appetite for novel InsurTechs. Consolidation prompted more than 20 deals in 2022, particularly among smaller brokers and InsurTechs, which continued to attract mainly PE investors.

In early 2022, HUK-COBURG invested in Neodigital Versicherung AG,¹⁰⁵ a retail digital property and casualty insurer that operates as Neodigital. HDI Versicherung AG followed with its own joint venture with Neodigital later in the year.¹⁰⁶ Apart from that activity, however, German P&C insurers continue to be extremely reluctant M&A participants. There have been no major deals other than InsurTechs in numerous years, a trend that persisted in 2022.

More prominently, the life insurance sector was rocked when Zurich Insurance Group and AXA Group divested large parts of their traditional closed books.¹⁰⁷ Zurich sold its legacy life book with an asset volume of €21 billion (US\$23 billion) to Viridium Holding AG,¹⁰⁸ and AXA divested a legacy portfolio with an asset volume of €19 billion (US\$21 billion) to Athora Deutschland GmbH.¹⁰⁹ The transactions were the second- and third-largest closed book sales in Germany following Generali Leben's 2018 sale to Viridium for €1.9 billion (US\$2.22 billion).¹¹⁰ Both 2022 transactions bolster established platforms' scale while raising barriers for closed-book investors seeking German market access. Given that the biggest legacy portfolios are now in PE hands, prospective efficiency gains for new market players likely are limited.

German multinational insurers meanwhile accompanied other international companies in divesting or reducing Russian operations following the outbreak of the conflict in Ukraine.

2023 outlook

Given last year's global economic downturn, we expect German insurers to lessen their M&A activities, including in brokerage consolidation and InsurTechs, in 2023. Companies may be hesitant to expand or reposition portfolios internationally, particularly on a large scale, given considerable market uncertainties. Rising interest rates also will hinder PE firms' ability to engage in the leveraged transactions that many financial investing firms prefer. With no inbound insurance M&A from the United States to Germany in the past few years, and low outbound investing, the international market is unlikely to pick up in 2023.

At the same time, there are positive signs. Life insurers are breathing more easily as interest rate hikes improve cash flow, reduce capital management pressures, and lessen solvency capital requirements. Recent closed-book transactions were fully accepted by the markets, media, and general public, which may reduce insurers' concerns about initiating future transactions. We also expect that large, Germany-based global insurance groups will continue to monitor the American and Asian markets for targets that match their strategies and budgets, particularly for specialty insurance or tech-focused investments.

PEs meanwhile appear interested in returning to the brokerage and InsurTech sectors over the longer term. Rising interest rates, which led to lower solvency requirements and regulatory capital relief, also may spark PE investors to venture into the open-book segment. There also is movement among building societies, which are mutual institutions comparable to mortgage banks with a specific savings product. Building such conversations have been sliding below the radar after the merger of Provinzial Rheinland and Provinzial NordWest in 2020.¹¹¹

Lastly, market rumors continue that if transactions emerge among the mutual insurers, the deals likely will be handled and retained within the mutuals segment. The market is likely to consolidate further, with a few larger mutual firms interested in acquiring all or part of their peers.

Accelerating digitalization, automation, and expanding the value-creation chain remain the strongest drivers for insurance M&A, even if increasingly focusing on smaller targets. Both established market incumbents and market participants are pursuing urgently needed, sector-wide IT standardization, though the outcome remains to be seen. The public focus and attention are being captured by the few large InsurTech companies, such as Wefox.

The biggest challenge for insurers will be the recent slump in equity markets. Falling valuations simultaneously may turn out to be an excellent M&A opportunity, given that target companies will be less expensive for potential acquirers.

As rising interest rates lessen financial pressures, insurance groups may choose to reconsider their market segment and geographic positioning. Companies that can afford to take greater risks may come up with new ways to employ available capital for greater rewards. However, re-risking strategy needs to be carefully planned, executed, and monitored in light of unstable and fragile economic fundamentals.

Japan

2022 review

Insurance M&A volume in Japan dropped from the previous year's level, while aggregate value rose considerably. Improving deal values likely were due in part to the country's extremely low interest rates, which were much less affected by escalating inflation and interest rates than were other nations.

Among the significant deals:

- Dai-ichi Life Holdings, Inc. went on an acquisition spree, with three significant purchases:
 - New Zealand-based Partners Group Holdings Ltd., a fast-growing life insurance provider, for ¥85.6 billion (NZ\$ 1,010)¹¹² as part of a strategy to diversify internationally
 - ipet Holdings, Inc., a pet insurer that also provides online pet health counseling¹¹³
 - UK-based YuLife Holdings Ltd., an InsurTech that provides group life insurance coverage and health lifestyle support, for £75 million (¥12.2bil JPY)¹¹⁴
- Mitsui Sumitomo Insurance Co., Ltd., a subsidiary of MS&AD Insurance Group Holdings, Inc., bought managing general agent Transverse Insurance Group, LLC for ¥53.8 billion (US\$400 million)¹¹⁵
- Tokio Marine Holdings, Inc. purchased Singapore-based bolttech Holdings Limited, an embedded insurance provider, for an undisclosed sum.¹¹⁶

Japanese M&A is motivated in part by companies' need to find creative ways to expand sales in the face of high insurance penetration and a shrinking population. In the life and annuity sector, for example, about 90% of Japanese households carry life insurance—far more than in the United States or United Kingdom. With a low fertility rate and long life expectancies, Japan also is one of the world's fastest-aging societies. A median age of 48 years means that firms have limited prospects for domestic growth.

Non-life insurers meanwhile continued to face investing challenges in both domestic and global markets. Years of deflation and a stagnant economy limited investment options at home, while volatile international markets last year made companies hesitant to take additional risks. However, Japan did experience two positive economic developments: Many investors welcomed positive inflation after years of low rates, and the yen also hit a record low against the dollar. The latter made Japanese assets less expensive for foreign buyers, but the market is difficult to enter due to relatively strict regulation.

2023 outlook

Non-life companies in Japan generally are in very strong capital positions, which suggests insurers have ample capital to weather a volatile year should one occur. In October 2022, AM Best maintained its stable outlook on the Japanese non-life segment, citing recent, profitable underwriting and the likelihood that companies will be able to maintain positive results. That stability bodes well for M&A as insurers continue seeking to make up for revenue shortfalls due to decreasing population. In general, we expect 2023 deal volume to be comparable with that of 2022.

Among other positive signs, global PE firms have been looking at Japanese investment opportunities. Low exchange rates may encourage inbound deals when international economies begin to stabilize. Japanese insurers also may divest assets to optimize returns. Finally, firms' expense ratios tend to be higher than in other nations, suggesting opportunity for efficiency-boosting InsurTech acquisitions.

Firms in all sectors will need to find ways to connect better with policyholders and potential customers through online services, access to local assistance such as health care, and access to communities whose members tend to have the same risk levels. P&C companies meanwhile will need to evaluate natural disaster risks in the wake of 2022's Fukushima earthquake, along with a landscape increasingly prone to coastal flooding, mountain landslides, torrential rains, and heavy snow.

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