

## 2022 insurance M&A outlook

Riding the wave



# Contents

<b>Overview and outlook</b>	<b>3</b>
2021 in review	4
2022 outlook	12
<b>2022 insurance M&amp;A trends and drivers</b>	<b>13</b>
Repositioning portfolios, unlocking opportunities	13
Private equity investors' influence on deal volume and value	13
Accelerating digitization	13
Setting M&A strategy	14
Impacts of inflation, interest rates, and hardening premiums	14
Accounting, regulatory, and tax influences on M&A activity	15
<b>Moving forward on 2022 insurance M&amp;A opportunities</b>	<b>17</b>
<b>Appendix</b>	<b>18</b>
Spotlight: Insurance industry M&A in major global markets	18

# Overview and outlook

Insurance has experienced fewer disruptive impacts from COVID-19 than other industries, resulting in the sector riding a swelling wave of mergers and acquisitions (M&A) activity. Through December 31, 2021, total deal volume across underwriters and brokers increased 40% year over year (YoY) compared with 2020, and aggregate deal value climbed an impressive 165%.<sup>1</sup>

Overall, the COVID-19 pandemic has heightened insurance company leaders' awareness of the need to optimize their portfolios—either to (a) double down in certain businesses and/or capabilities or (b) to shed underperforming or noncore assets—all in an effort to better manage capital and returns as well as meet strategic growth objectives. Even now, as the omicron and other variants produce yet another pandemic surge, we're seeing a continuing increase in M&A activity for most insurance sectors to take advantage of market opportunities, given the role M&A plays in helping organizations deliver on growth and profitability ambitions.

This report reviews 2021 M&A activity for the broad insurance industry along with its life and annuity (L&A), property and casualty (P&C), broker, and InsurTech sectors. It also examines several trends and drivers for 2022 that may shape M&A strategy as buyers and sellers continue to ride a wave of opportunities in the coming year. As in previous reports, our primary focus is on conditions and activity in the United States and Bermuda; an appendix provides snapshots of insurance M&A developments in other global markets.

## 2021 in review

Total deal volume across underwriters and brokers increased 40% YoY through December 31, 2021—869 deals versus 620 in 2020—and aggregate deal value climbed 165% YoY (\$57.5 billion in 2021 compared with \$21.6 billion in 2020)<sup>2</sup> (figure 1).

2021 deal volume at the underwriter level increased a modest 3% YoY (67 deals in 2021 versus 65 in 2020); however, aggregate deal value jumped 164% YoY (from \$17.6 billion to \$46.5 billion). 2021 average deal value, meanwhile, cracked the billion-dollar threshold: it grew 121% YoY, from \$841 million in 2020 to \$1.9 billion.<sup>3</sup>

The L&A sector led the underwriter field in number of 2021 M&A deals, as sustained low interest rates hobbled profitability of interest-rate-sensitive products and numerous insurers pursued inorganic sources of growth. Private equity investor (PE) firms continued their pursuit of L&A assets as well. Through December 31, L&A nearly doubled its YoY total from 13 to 24 transactions. It also recorded the biggest increase in aggregate deal value—up 234% YoY, from \$7.3 billion to \$24.5 billion. Average deal value climbed 100% YoY, from \$1.2 billion to \$2.5 billion. PE giant Blackstone Group figured prominently in 2021 L&A dealmaking via its announced \$2.8 billion acquisition of Allstate's life insurance unit American International Group (AIG) sold a 9.9% equity stake in its life and retirement business to the Blackstone Group for \$2.2 billion,<sup>4</sup> yielding to investor pressure to split it off from the insurer's P&C operations, maximize the value of the L&A business, and sharpen the focus on core P&C business going forward.<sup>5</sup>

The P&C sector, meanwhile, experienced a 17% decrease in deal volume YoY (43 deals in 2021, down from 52 in 2020), which is likely due to the current rate-hardening environment and a demand-supply imbalance arising from a lack of attractive acquisition targets. But decreased volume didn't get in the way of P&C posting a substantial 114% increase YoY in aggregate deal value—climbing from \$10.3 billion to \$22 billion—and topping L&A in average deal value, at 114% YoY (increasing from \$687 million to \$1.5 billion). In the year's biggest P&C deal, Liberty Mutual announced its \$1 billion acquisition of State Auto Group, a super-regional insurance holding company. That deal is expected to close in 2022.<sup>6</sup>

Behind deals by stalwarts Acrisure, Marsh, Brown & Brown, HUB International, and Arthur J. Gallagher, the broker sector bounced back from a 2020 dip in transaction volume to record a 45% YoY increase (802 deals as of December 31, compared with 555 in 2020). Brokers' aggregate deal value and average deal value increased 170% and 136%, respectively. We also saw a bit of fallout resulting from the Aon/Willis Towers Watson deal being called off with Arthur J. Gallagher & Co.'s planned acquisition of Willis Re and other Willis Towers Watson PLC assets for \$4 billion.<sup>7</sup>

**Figure 1. Insurance sector M&A activity, 2020–2021 (United States and Bermuda)**

	Number of deals			Aggregate deal value			Average deal value		
	2020	2021	YOY change	2020	2021	YOY change	2020	2021	YOY change
<b>Underwriters</b>	65	67	3%	\$17.6b	\$46.5b	164%	\$841m	\$1.9b	121%
<b>L&amp;H</b>	13	24	85%	\$7.3b	\$24.5b	234%	\$1.2b	\$2.5b	100%
<b>P&amp;C</b>	52	43	-17%	\$10.3b	\$22.0b	114%	\$687m	\$1.5b	114%
<b>Brokers</b>	555	802	45%	\$4.0b	\$10.9b	170%	\$145m	\$342m	136%
<b>Total</b>	<b>620</b>	<b>869</b>	<b>40%</b>	<b>\$21.6b</b>	<b>\$57.5b</b>	<b>165%</b>			

Source: Deloitte analysis utilizing SNL Financial M&A database

1. CY 2020 represents full calendar year 2020.
2. CY 2021 represents full calendar year 2021.
3. Figures may not sum due to rounding.
4. SNL classifies the Annuity segment in Life and Health.

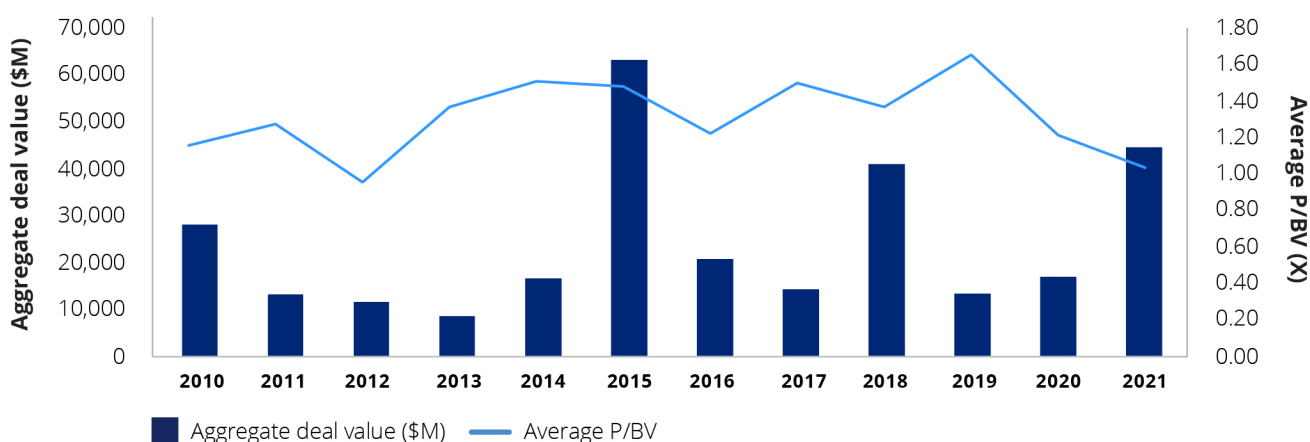
## Insurance underwriters

As previously described, deal volume YoY through December 31, increased 3%; aggregate deal value rose 164%; and average deal value 121%.<sup>8</sup> As noted in figure 2, M&A activity, in terms of volume, was the second highest (second to 2015) over the period analyzed, highlighting that despite the challenges in the overall macroenvironment, inorganic growth continued to be top of mind for insurance C-suite executives.

In addition, as summarized below, the average P/BV multiple decreased to approximately 1.0x from 2020, which was primarily driven by the dynamics of the L&A market.<sup>9</sup>

**Figure 2. M&A trends for insurance underwriters**

### Price-to-book value multiples



Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Number of deals</b>	107	99	98	88	82	79	97	84	87	60	65	67
<b>Size of deals (\$M)</b>												
Low	0.3	0.5	0.1	0.1	1.3	0.34	0.3	0.0	0.3	5.3	1.8	5.50
High	15,545.1	3,534.6	3,100.2	1,125.0	5,579.6	28,240.3	6,303.8	1,906.2	15,388.0	6,300.0	4,039.0	11,067.6
Average	395.6	222.5	195.5	136.4	277.3	1,317.4	379.8	421.6	971.1	694.7	840.9	1,861.9
<b>Observed P/BV deal multiples</b>												
Low	0.55x	0.54x	0.31x	0.68x	0.14x	0.10x	0.18x	0.64x	0.39x	0.87x	0.53x	0.39x
High	1.70x	5.81x	5.99x	4.11x	2.83x	2.53x	4.97x	2.88x	4.07x	2.87x	1.85x	1.97x
Average	1.12x	1.24x	0.91x	1.34x	1.48x	1.45x	1.19x	1.47x	1.34x	1.63x	1.18x	1.00x
Median	1.06x	1.01x	0.81x	1.55x	1.39x	1.26x	1.14x	1.28x	1.50x	1.15x	1.15x	0.89x

Source: SNL Financial.

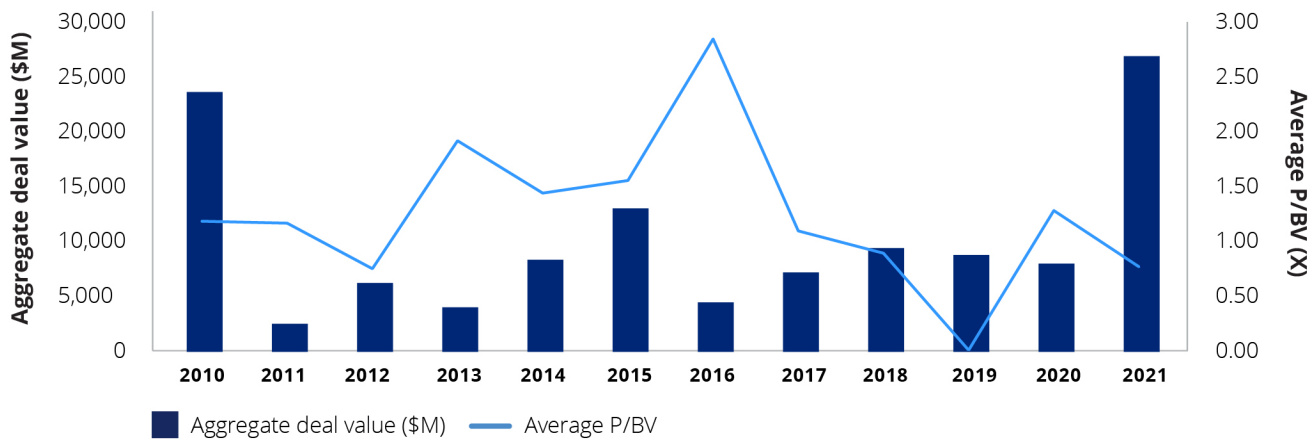
- Transactions represent US and Bermuda companies making acquisitions on a global basis and international buyers making acquisitions in US and Bermuda. Insurance Underwriters include P&C, L&H, Multiline, Title, Mortgage Guaranty and Finance Guaranty sectors covered by SNL Financial.
- Transactions grouped 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.
- Analysis as of 12/31/2021.
- 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.

## Life and annuity

The L&A sector was a major catalyst for 2021 insurance industry M&A. Sustained low interest rates hindered the growth profitability of interest-rate-sensitive L&A products,<sup>10</sup> prompting numerous insurers to turn to inorganic sources of growth. 2021 L&A deal volume (24) exceeded 2019's pre-pandemic total of 22 transactions, while the sector's dramatic 234% YoY increase in aggregate deal value—from \$7.3 billion to \$24.5 billion—was the largest in a decade. 2021 activity also saw an increase compared to 2020 in deals in excess of \$500 million—in 2020 there were three such transactions, whereas in 2021, the market saw six transactions of this size announced.

Based on publicly disclosed information, it appears that the multiples in this space have decreased below 1.0x book value (figure 3), which is directionally consistent with the experience in 2017 and 2018 (there were no publicly disclosed multiples in 2019). As the number of transactions in this sector increased, it was a reasonable expectation that multiples would revert to the recent historical norms. However, it is further expected that with a significant PE presence in this sector focused on runoff blocks of business that was fully framed by the end of 2021, the multiples should start to accrete to 1.0x and above.

**Figure 3. M&A trends for life and annuity**  
Price-to-book value multiples



Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Number of deals</b>	28	27	30	25	17	28	27	31	26	22	13	24
<b>Size of deals (\$M)</b>												
Low	0.3	0.5	0.1	0.1	3.0	1.5	6.8	0.0	0.3	18.5	1.85	20.0
High	15,545.1	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
Average	1,026.2	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
<b>Observed P/BV deal multiples</b>												
Low	1.06x	0.54x	0.31x	1.73x	1.29x	0.10x	0.18x	0.64x	0.39x	NA	1.15x	0.39x
High	1.06x	5.81x	5.99x	1.73x	1.29x	2.17x	4.97x	1.28x	1.21x	NA	1.15x	0.89x
Average	1.06x	1.05x	0.67x	1.73x	1.29x	1.40x	2.58x	0.99x	0.80x	NA	1.15x	0.69x
Median	1.06x	0.94x	0.67x	1.73x	1.29x	1.13x	2.58x	0.96x	0.80x	NA	1.15x	0.59x

Source: SNL Financial.

- Transactions represent US and Bermuda companies making acquisitions on a global basis and international buyers making acquisitions in US and Bermuda.
- Transactions grouped by the year they were announced.
- Deal multiples represent closed multiples unless the transaction is still pending close.
- For years 2010, 2013, 2014, and 2020 there is only one deal with data, respectively.
- 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 12/31/2021.
- 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.

2021 deal types have spanned the spectrum from divesting noncore L&A businesses to establishing large reinsurance transactions under the banner of portfolio rationalization to unlock capital. As mentioned earlier, Allstate agreed to sell its life insurance unit to PE giant Blackstone Group for \$2.8 billion, and Principal Financial announced it will stop selling US retail fixed annuities and consumer life insurance products and explore sales of those businesses.<sup>11</sup> Prudential sold a \$31 billion block of legacy variable annuities to Fortitude Re for \$2.2 billion<sup>12</sup> to help de-risk its portfolio. Global Atlantic announced an \$8 billion deal with Ameriprise Financial to reinsure a large block of fixed annuities.<sup>13</sup> Allianz Life entered a reinsurance agreement with affiliates of Sixth Street for a \$35 billion fixed index annuity portfolio.<sup>14</sup> Companies also continued shedding fee-based businesses like 401(k) retirement servicing—Prudential sold its 401(k) business to Empower for \$3.5 billion<sup>15</sup>—to focus on biometric risk (i.e., L&A insurance).

Macroeconomic conditions are heightening seller and buyer interest in the group insurance space. Life insurance companies holding blocks of business written 10–15 years ago when interest rates were higher are signaling their openness to carving out assets to take some risk off their books. Similarly, some insurance companies (particularly, publicly traded entities) possessing a relatively small, noncore group life and/or disability insurance business appear agreeable to monetizing the asset after seeing profitability tumble during the last two quarters of 2021 due to COVID-19. In both cases, sellers have the option of redeploying post-divestiture capital to businesses with a different risk profile (e.g., closed books, annuity contracts, reinsurance) that would generate higher returns.

On the buyer side we are seeing group insurers acquire leave management, benefits administration, and nontraditional/ancillary benefits to expand their capabilities portfolio. In October 2021, Sun Life Financial, through its US business, announced a nearly \$2.5 billion acquisition of DentaQuest, the nation's largest provider of Medicaid dental benefits.<sup>16</sup> Looking into 2022, we anticipate the ongoing demand/supply imbalance as group insurance continues to be profitable and a hedge against cross-correlated volatility.

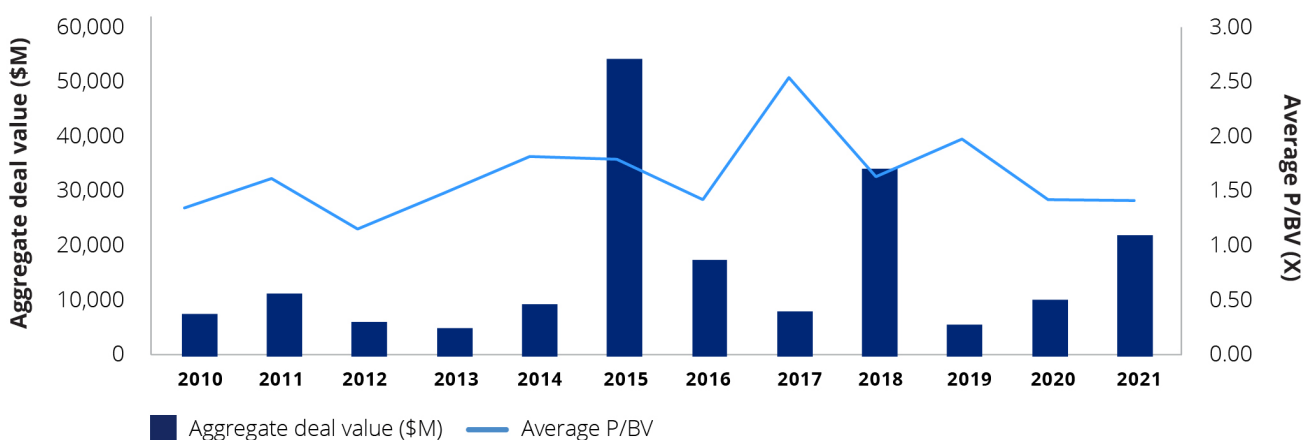
## Property and casualty

P&C aggregate deal value posted a 114% YoY increase in 2021 even as transaction volume decreased 17%, likely due to the current rate-hardening environment more than any other factor. US commercial insurance prices increased 8% in Q1 2021 versus 10% in Q4 2020,<sup>17</sup> while rates continued to increase (by 12%) in Q2 2021.<sup>18</sup> Similar to the L&A sector, P&C 2021 activity also saw a slight increase compared to 2020 in deals in excess of \$500 million. In 2020 there were four

such transactions, whereas in 2021, the market saw five announced transactions of this size. Amid the rate hardening, some insurance companies have elected to carve out noncore legacy products and businesses, including the previously mentioned AIG-Blackstone Group transaction.

**Figure 4. M&A trends for P&C**

### Price-to-book value multiples



Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Number of deals</b>	79	72	68	63	65	51	70	53	61	38	52	43
<b>Size of deals (\$M)</b>												
Low	1.2	0.5	0.8	0.4	1.25	0.3	0.3	1.4	1.8	5.3	2.3	5.5
High	1,318.5	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
Average	145.7	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
<b>Observed P/BV deal multiples</b>												
Low	0.55x	0.73x	0.57x	0.68x	0.14x	0.99x	0.21x	1.50x	0.50x	0.87x	0.53x	0.76x
High	1.70x	2.69x	1.52x	4.11x	2.83x	2.53x	1.45x	2.88x	4.07x	2.87x	1.85x	1.97x
Average	1.13x	1.34x	0.97x	1.24x	1.50x	1.48x	1.19x	2.08x	1.35x	1.63x	1.19x	1.18x
Median	1.06x	1.16x	0.90x	1.38x	1.43x	1.29x	1.14x	1.97x	1.53x	1.15x	1.19x	0.96x

Source: SNL Financial.

- Transactions represent US and Bermuda companies making acquisitions on a global basis and international buyers making acquisitions in US and Bermuda. Property & Casualty includes P&C, Multiline, Title, Mortgage Guaranty, and Finance Guaranty sectors covered by SNL Financial.
- 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.
- Analysis as of 12/31/2021.
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In both 2020 and 2021, the P&C market experienced a hard pricing market, which appears to have caused the multiples YoY to maintain a steady level (figure 4). This dynamic seems to be insulated from the decrease in the number of deals and/or the increase in the aggregate deal volume.

The continuing P&C hard market has also greatly contributed to the ongoing demand/supply imbalance, with a lack of desirable acquisition targets contributing to the decline in 2021 deal volume. Outside of the top 20 P&C companies, the vast majority are mutual companies, and unless they have a compelling reason to sell, the market doesn't see many midsize or lower-end books of business being traded. One 2021 deal did buck the trend: Liberty Mutual announced that it will acquire State Auto Group, a super-regional insurance holding company headquartered in Columbus, Ohio, for about \$1 billion. The acquisition will expand Liberty Mutual's already strong position in personal lines and small commercial insurance.<sup>19</sup>

Looking into 2022, the hard rate market will continue to satisfy many P&C insurers' growth and profitability goals, thus putting a bit of a damper on short-term M&A activity. We do believe that the P&C sector offers growth opportunities in several areas that could generate meaningful M&A activity over the course of 2022: PEs are buying blocks of business in anticipation of increasing valuations. A number of managing general agents (MGAs) are coming to market and are being sought by both PEs and strategic players, as an MGA generally experiences margin accretion and has a deeper reach into the insurance ecosystem. One even went public in a special purpose acquisition companies (SPACs) transaction, as Hagerty was acquired by Aldel Financial in a \$3 billion transaction.<sup>20</sup> In addition, there is increasing interest in the small commercial, excess and surplus lines (E&S), and specialty insurance (e.g., cyber, biometrics) segments.

## Bermuda reinsurance goes big in 2021

Bermuda-based reinsurance companies took center stage in two prominent 2021 M&A transactions. Apollo Global Management merged with Athene Holding in an \$11 billion all-stock deal.<sup>21</sup> Apollo already owned a 27% stake in Athene and for more than a decade has been getting paid for providing asset allocation services and managing a portion of Athene's assets across its investment platform.<sup>22</sup> In December, French mutual insurer Covéa announced its purchase of PartnerRe from Italian holding company Exor for \$9 billion.<sup>23</sup> The announcement revived a transaction that collapsed in May 2020 when Exor rejected Covéa's request for a discount due to "significant uncertainties threatening the global economic outlook."<sup>24</sup> Covéa's tenacity in finding the right partner—the company also reportedly explored, then abandoned, a move for AXA XL's reinsurance business,<sup>25</sup>—signals the company's awareness that reinsurance can provide valuable portfolio diversification: as certain reinsurance companies have continued to perform well throughout the pandemic.

Bermuda's 2021 insurance startup activity was similar to that of 2020, with 19 companies registered through December 31 compared with 20 the year before.<sup>26</sup> This result is not surprising, as many of the 2020 deals were done to take advantage of the hardening rate environment. The rates have held, but the capital that was going to come from new corporations came last year.<sup>27</sup>

In early 2021, Fitch Ratings released a report stating that Bermuda's 2020 startups benefited from clean balance sheets and lack of legacy issues or reserves, a particularly valuable assessment given the uncertainty around pandemic-related claims and rising social inflation affecting the US P&C sector. Fitch sees Bermuda as continuing to be a desired jurisdiction for forming insurance and reinsurance companies to quickly capitalize on favorable pricing.<sup>28</sup>

Year	P&C	L&A	Total
2019	9	6	<b>15</b>
2020	11	9	<b>20</b>
2021	6	13	<b>19</b>

## Insurance brokers

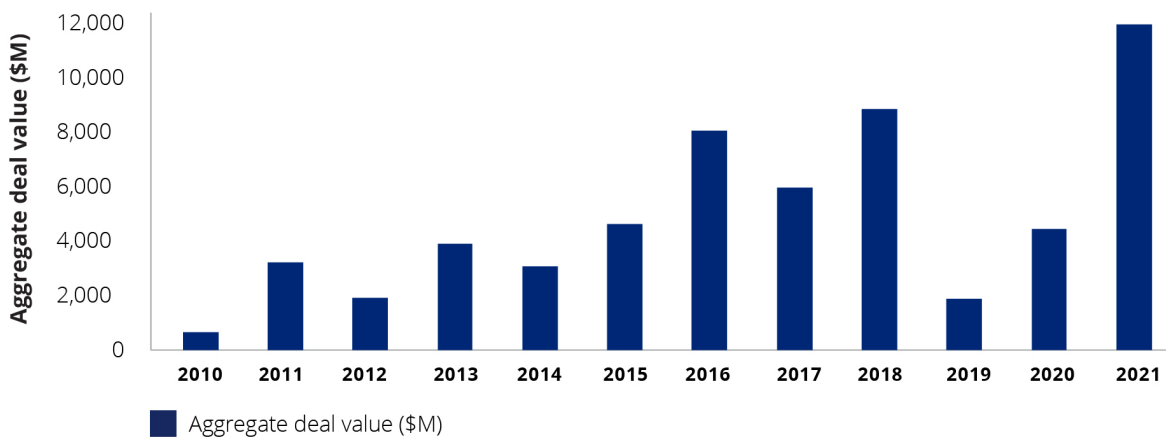
After a positive but relatively quiet 2020, insurance brokerage M&A sprung back to life in 2021 with major gains in deal volume and value. Through December 31, the sector had 802 announced transactions, a 45% increase YoY compared with 2020's 555 deals. Meanwhile, aggregate deal value of \$10.9 billion was up 170% YoY, greatly exceeding the 10-year average (figure 5).

Aggregators and PE firms continue to be attracted to insurance brokers because the acquisitions are easier to bolt on, scale, and sell compared with blocks of insurance business. PE firms or PE-backed aggregators accounted for approximately 70% of 2021's activity in this segment,<sup>29</sup> which is consistent with 2020. While the same participants who were active in recent years (e.g., Acrisure, HUB International, and AssuredPartners) maintained deal

activity, the market also showed an increase in active participants. Marsh McLennan Agency (MMA), a subsidiary of insurance broker Marsh, announced its acquisition of InSource Insurance Group LLC, an independent Texas agency that provides business insurance, employee health and benefits, private client, and surety services to the oil and gas, construction, manufacturing, and transportation industries.<sup>30</sup> This was one of many notable acquisitions made by MMA in 2021. Brown & Brown went on a buying spree in 2021, announcing that it acquired the assets of Rainmaker Advisory, LLC,<sup>31</sup> Corporate Insurance Advisors, LLC,<sup>32</sup> and Heacock Insurance Group,<sup>33</sup> as well as closing on the CoverHound and CyberPolicy acquisition, bringing them a small business direct distribution capability.<sup>34</sup>

**Figure 5. M&A trends for insurance brokers**

### Aggregate deal value



Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Number of deals	240	304	344	239	351	492	457	537	594	611	555	802

Source: SNL Financial

- Transactions represent US and Bermuda companies making acquisitions on a global basis and international buyers making acquisitions in US and Bermuda.
- Transactions grouped by the year they were announced.
- Analysis as of 12/31/2021.
- SNL has noted that some numbers may not reconcile to prior years as there may be a lag between deal public announcement and disclosure.

## InsurTech

InsurTechs are extending their run as desirable investment vehicles, alliance partners, and acquisition targets as insurance companies look to import transformative technology solutions and capabilities into their legacy operations.<sup>35</sup> Many insurers have likely already increased their stake in the InsurTech ecosystem—as have PE firms and venture capitalists: The first three quarters of 2021 saw more money invested than in 2019 and 2020 combined.<sup>36</sup>

Legacy insurers looking for an expedient, cost-efficient way to establish or enhance their digital platforms frequently have chosen an InsurTech acquisition over a build-your-own approach. In one example, American Family Insurance purchased Bold Penguin, an InsurTech that simplifies small business insurance via a digital exchange used by agents, brokers, and other distributors to match, quote, and bind policies from a range of insurers.<sup>37</sup> In another, Zurich Insurance announced its purchase of AlphaChat, which provides conversational artificial intelligence (AI) technology for customer service automation.<sup>38</sup>

InsurTechs also have continued buying other InsurTechs with complementary capabilities, addressing evolving market needs for a more holistic solution that brings together components of the value chain or customer journey rather than historical point solutions that required insurance companies to be the integrators. Digital insurer Lemonade, which offers renters, homeowners, pet, car, and life insurance, announced its acquisition of auto insurance platform Metromile and the launch of Lemonade Car.<sup>39</sup> Porch Group, a vertical software and InsurTech company in the home services industry, announced numerous acquisitions in 2021; four in January alone: Homeowners of America (HOA), a MGA and insurance carrier hybrid; V12, a Software-as-a-Service (SaaS) marketing and data platform with tools to help brands engage with consumers at key purchasing decision points, such as moving; and two smaller acquisitions, Palm-Tech and iRoofing.<sup>40</sup> In addition, Porch and Covéa executed an agreement for Porch to acquire CSE, a California-based personal lines insurer focused on property and auto. Porch also signed and closed its acquisition of American Home Protect (AHP), a direct-to-consumer provider of multi-year, whole home warranty policies.<sup>41</sup> Finally, Porch announced its acquisition of Floify, a provider of digital mortgage automation and point-of-sale (POS) software for mortgage companies and loan officers, for a reported \$76.5 million in cash and \$10 million of Porch common stock.<sup>42</sup>

Last year we projected that growth-minded InsurTechs would likely continue their use of alternative deal constructs like SPACs or make initial public offerings (IPOs). While a few of them took the SPAC route in 2021—including Hippo Insurance Services, Metromile, CCC Intelligent Solutions, and Hagerty—the majority are trading well below their IPO price, even forcing Metromile to seek an alternative route via its acquisition by Lemonade.<sup>43</sup> There remain a number of SPACs pursuing deals in the insurance space, but the lack of quality available targets ready to be public companies will likely limit the number of transactions this year.

The InsurTech sector is now at a stage of maturity resulting from the first wave of investment over the past five-to-seven years where we expect to see exits resulting in consolidation and rollups by PE firms, and the continued use of alternative deal constructs and/or IPOs to continue growing.

## 2022 outlook

Has the insurance industry M&A wave crested, or could it go higher and longer? 2020 and 2021 deal metrics set several records, and signs point to 2022 being another strong year. Strategic investors have ample available capital, the stock market appears to be supportive, and there are few anticipated economic, regulatory, or tax headwinds. Cross-border M&A should also contribute to 2022 deal totals, particularly in specialty insurance segments. Potential M&A impediments—and these likely are not deal-breakers—are high valuations and a demand-supply imbalance for sought-after products and capabilities.

Insurance finance executives responding to Deloitte's 2021 global outlook survey expect more active M&A in 2022, with over one-third anticipating heightened takeover activity to be very likely. The appetite appears to be stronger on the L&A side, with 44% of respondents citing increased dealmaking as very likely, versus non-life at 32%. Expanding geographic reach was the top motivating factor across respondents, followed by increasing scale and adding new technology capabilities.<sup>44</sup>

2022 deal volume will likely continue to be led by the L&A sector. Interest rates lower than recent history are likely to impact L&A insurer growth and profitability in annuities and many non-term life insurance products through and beyond 2021.<sup>45</sup> This could prompt L&A companies to divest older variable annuity blocks and use the proceeds to, for example, fund hybrid investment/insurance plays, or partner with health and well-being companies to develop holistic health offerings. L&A insurers challenged by legacy technologies also may acquire InsurTech solutions to accelerate digitization. And, as noted above, in 2022 we expect there to be fully formed, PE-backed aggregators ready and able to bid on these properties.

Amid P&C rate hardening, insurance companies may seek value from their noncore legacy products and businesses; this could drive carve-out transactions and rollups of smaller players. We also expect to see the mutual holding company structure continue to gain popularity, particularly among regional P&C companies, in order to create more optionality for capital deployment and strategic expansion. Over the last few years, mutuals including American Family, CopperPoint, and others have converted their corporate structure into two entities: a mutual insurance holding company and a stock insurance holding company. This arrangement allows insurers to preserve the benefits of mutuality for current members while giving them greater strategic flexibility, broader access to capital, and a wider array of options for executing M&A.<sup>46</sup> This also may create platforms looking to inorganic growth in the small-and-medium-size enterprise (SME) P&C market.<sup>47</sup>

Brokers' M&A story changes little from year to year. They will continue to acquire other brokers to build scale and to keep up with the major players (versus the PE model of acquire, operate, improve, and sell assets). The typical hold period is three-to-five years; however, assets with a technology component generally are getting traded even faster. Also watch for continued sector consolidation, particularly in the lower- and middle-aggregation market up to \$200 million.

InsurTechs will remain sought-after investment vehicles, partners, and acquisitions. Forty percent of respondents to Deloitte's recent M&A survey say it is very likely that legacy insurers will look to acquire one or more InsurTechs in 2022. L&A respondents (47%) are more likely to buy an InsurTech in 2022 compared to P&C respondents (35%)—possibly because P&C insurers already have been more actively engaged in InsurTech M&A. We also anticipate more consolidation among maturing InsurTechs. While each startup launched with a specific value proposition, those that want to be more than a one-hit wonder will need to add to their tech stack. If an acquisition is the chosen path forward, the InsurTech will need to be mindful of potential traction challenges when merging different tech stacks.

How can growth-minded insurance organizations extend their ride on the M&A wave? As part of their strategic M&A planning process, executives should consider how to address the following trends:

- Repositioning portfolios, unlocking opportunities
- PE investors influence deal volume and value
- Accelerating digitization
- Setting M&A strategy
- Impacts of inflation, interest rates, and hardening premiums
- Accounting, regulatory, and tax influences on M&A

# 2022 insurance M&A trends and drivers

## Repositioning portfolios, unlocking opportunities

Portfolio composition will play a critical role as insurance companies consider where to play and how to win in 2022 and a next normal shaped by the continuing COVID-19 pandemic, inflation at a 30-year high,<sup>48</sup> and the potential for three interest rate hikes.<sup>49</sup> As companies evaluate their holdings from a strategic perspective of value versus risk and core versus noncore, repositioning may be driven by management's desire to move from a broad platform to a more focused business model and/or to scale effectively, profitably, and nonlinearly. This portfolio rebalancing is likely to bolster market supply for 2022 dealmaking.<sup>50</sup>

The challenge and opportunity for company leaders is figuring out which markets they want to be in and which customers they want to target, and managing their assets and capital accordingly. If a company can rid its portfolio of underperforming or nonessential assets, unlock and redeploy the capital, and obtain higher returns from alternative investments, its leaders will do a deal. In the L&A sector, for example, the organic growth opportunities through underwriting profit that we thought would emerge have lagged, despite the fact that other markets are growing. Thus, companies that have placed their focus on underwriting profit as a core competency may want to consider shifting from capital-intensive businesses to less-capital-intensive ones, such as group insurance or supplemental health. Alternatively, they could continue in L&A but shift to products with more favorable risk profiles, which will require less capital. P&C insurers with an expanding strategic appetite for fee-based businesses and technology-enabled plays may contemplate M&A in adjacencies to improve their balance sheets and strengthen core competencies. InsurTechs juxtaposing capital and customer efficiency may decide to focus portfolio acquisitions on those that provide the ultimate customer experience.

Repositioning portfolios is an important step to unlocking M&A-related opportunities, but it is not the end game. Many insurance companies, hobbled by historical inertia, also may need to redesign their business and operating models to take full advantage of newly streamlined and prioritized portfolios.

## Private equity investors influence deal volume and value

By some estimates, PE firms have a combined \$2.5 trillion<sup>51</sup> worth of dry powder ready to be deployed on insurance M&A opportunities, which some PEs view as a more predictable investment than other, more volatile financial services sectors. Already active in the distribution space—PEs and PE-backed established aggregator platforms drove almost 60% of the insurance brokerage deal volume in the first six months of 2021.<sup>52</sup> These firms are widening their lens to include underwriting acquisitions, such as deals for assets that support the liabilities to increase assets under management (AUM) and create a fee-based structure. KKR, Apollo, Sixth Street, Blackstone, Brookfield Asset Management, and Carlyle have all demonstrated that having such L&A platforms can be an engine for M&A activity. This is likely to drive this space at a pace that we have not seen previously, although it is unclear how this may change if interest rates go up.

The recent P&C sector rate hardening has sharpened PE interest in pursuing select opportunities in the commercial P&C sector, particularly the specialty segment, as it is expected to experience the biggest uptick in pricing. At least three PE-backed P&C specialty entities were framed in 2021: Bermuda-based Convex, Vantage Group Holdings, and Premia Holdings' sidecar vehicle, named Elevation Re (SPC) Limited. The latter will offer reinsurance support to Premia's activities in the global P&C runoff market. Elevation Re has initially raised more than \$265 million from third-party institutional investors.<sup>53</sup>

PE shops view M&A as a more effective way to build their AUM than fundraising for new funds. The PE firm can buy an insurance company or book of business, put a minimum amount of capital behind it to satisfy regulators that the liability is covered, and manage the asset block on its platform, for which the firm earns a fee. L&A businesses, in particular, are attractive to PEs because they are more capital-intensive, provide more assets for the PE to invest on its platform, and earn a higher rate of return on that capital. This increase in returns also allows PEs to bid aggressively in future M&A transactions.

## Accelerating digitization

Digital technology is proving to be the key to insurance industry transformation. Companies are increasingly dependent on emerging technologies and data sources to drive efficiency, enhance cybersecurity, upgrade policy administration and claims systems, and expand automation capabilities across the organization. Accelerating digitization can help insurers improve the customer experience by streamlining processes with automation and providing customized service where needed and preferred.<sup>54</sup>

Insurance companies are using technology acquisitions to complement their existing suite of products, as well as diversify to offer multiple services, as seen in the recent deals completed by Next, Porch Group, and Hippo. Insurance broker Brown & Brown announced its acquisitions of Remedy Analytics, which uses a proprietary, database medication platform to offer pharmacy consulting services to employers throughout the United States,<sup>55</sup> and Winston Benefits, which provides technology-enabled benefit communication, enrollment, and administration solutions for employers.<sup>56</sup>

As the marketplace shifts due to increased technology use, those traditional insurance companies not structured to take advantage of digitization may look for acquisitions/alliances outside of insurance to create a platform for their solutions. This may align with new/renewed interest by tangential FSI and technology giants with data analytics capabilities to partner with insurance incumbents and extend or expand their presence in the marketplace.

Certain US states are actively promoting InsurTech development by creating regulatory sandboxes so that new technology offerings can be developed in a safe regulatory environment. This may encourage the startup community and help drive early-stage investment.<sup>57</sup>

## Setting M&A strategy

All of the insurance ecosystem changes being introduced and influenced by the pandemic—accelerating digitization, evolving customer behaviors, and access to relatively cheap capital—have made this an optimal time to develop M&A strategies that take into consideration shifts in market conditions that could warrant examining the acquisition or disposition of assets. Given the episodic nature of deals in the sector, many executives have never been exposed to or have had limited experience with a transaction. As such, developing an M&A strategy that defines company appetite and deal characteristics based on an identified inorganic business need is paramount to taking advantage of market opportunities versus competitors.

We use the term setting M&A “appetite” quite intently here, as it is analogous to defining the underwriting and risk parameters in

bringing insurance products to market. It would be unwise to bring a new product to market and/or allow brokers and underwriters to bind business without first setting the parameters within which defines acceptable risks. The same holds true for M&A strategy and, all too often, we see executives recognize a need for an inorganic play and then immediately look for an asset or respond to a banker inquiry without first defining the parameters within which to seek and evaluate potential targets.

In considering strategy, executives should broaden the definition of M&A to include alliances, partnerships, ecosystems, platforms, and joint ventures, as these are all considerations for inorganic options and are a means to an end, like the choice to acquire or dispose of assets. However, we often find that executives start contemplating M&A strategies when presented with a deal or partnership opportunity, which leads to a lot of unnecessary churn—and, more often than not, limits their respective abilities to act upon the opportunity. Taking a proactive approach now to defining an M&A strategy will pay significant downstream dividends by providing agility when seeking out or reacting to market moves.

## Impacts of inflation, interest rates, and hardening premiums

The US economy and, more narrowly, the insurance industry, haven't seen the combination of higher inflation rates and higher interest rates in quite a while. Whether the current high inflation proves to be transitory or endemic, it has the potential to impact insurance company financials, operations, and M&A decisions in 2022.

To begin, rapid increases in demand for goods, materials, and labor, as well as ongoing supply chain disruptions, have been raising claims costs for personal and commercial property losses.<sup>58</sup> Corresponding price hikes for construction materials, rental vehicles, and auto parts are among the expenses threatening to drive up insurer loss costs into 2022.<sup>59</sup> This factor alone is likely to push P&C prices higher for buyers<sup>60</sup> and, in turn, push some buyers out of deal contention.

Sustained high inflation may also prolong the P&C sector's hard market. Insurers hit with rising claims costs have to pass premium rate increases along to customers. But because inflation touches all insurance companies, consumers are limited in their ability to migrate to new carriers; they can't shop themselves out of higher rates.

For businesses worried about what will happen with inflation, there is good reason to expect that the current situation will abate within the next 12–18 months. Financial indicators suggest that the investment community remains unconcerned: Fear of persistent inflation has not been reflected in the bond market. Rather, bond investors in the United States and Europe appear to accept the argument of central bankers that the current inflation is transitory

and likely to be quickly reversed.<sup>61</sup> Businesses can plan to simply manage a temporary shock while awaiting a return to normalcy.<sup>62</sup>

The other half of this economic equation is the prospect of three increases in short-term interest rates in 2022, which US Federal Reserve Chair Powell alluded to at the Fed's December 2021 meeting. Higher interest rates' impacts on insurance company financials and M&A activity can swing both ways: As interest rates rise so, too, will insurers' investment income, helping improve cash flows—welcome news for L&A insurance providers whose returns have been in the doldrums. In another positive, higher interest rates typically increase company valuations, which can strengthen sellers' negotiating position. Buyers, however, may encounter some roadblocks: Rising interest rates mean more investment income and greater cash flow to apply to M&A, but when buyers apply leverage, the cost of debt will go up. And buyers literally will pay the price for those previously mentioned increased valuations. Deal teams may be expected to show their company boards and executives how they can convert an asset's high purchase price into value for shareholders.

## Accounting, regulatory, and tax influences on M&A activity

We do not anticipate any significant headwinds for 2022 insurance industry M&A arising from accounting, regulatory, or tax influences. In general, regulators have been pleased at how resilient the industry has been under various stressors. We have, however, been seeing some changes in focus among advisory and regulatory bodies (e.g., climate change; environmental, social, and governance [ESG] issues) as well as the progression of (and increasing clarity around) certain country and global regulations and standards that merit watching.

### Accounting developments

The US National Association of Insurance Commissioners' (NAIC) Statutory Accounting Principles Working Group (SAPWG) did not adopt any substantive items during its 2021 Summer and Interim Meetings. Eighteen non-substantive items (changes that clarify existing accounting principles) finalized during these meetings were effective upon adoption. As the adopted items impact both L&A and P&C sectors, we suggest that insurers review [Deloitte's NAIC Summer 2021 National Meeting update](#) for details.

### Regulatory developments

Global insurers are concluding preparations to comply with International Financial Reporting Standards 17 (IFRS 17), determining how insurance assets and liabilities are presented on company balance sheets. Implementation of IFRS 17, due to go into effect in January 2023, ultimately could cost global insurers between \$15 billion and \$20 billion.<sup>63</sup> The United States is one of the few countries not adopting IFRS 17. As a result, many global insurers are also

managing the parallel implementation of Long Duration Targeted Improvements (LDTI), the US GAAP analog of IFRS 17, which also has a January 2023 effective date. LDTI implementation efforts have been ongoing since early 2019; however, respondents to a June 2021 Deloitte survey report their preparations are, on average, only 42% complete.<sup>64</sup>

### Climate risk and ESG

Many insurers have been accelerating efforts to quantify and address climate risk in both their underwriting and investment portfolios, driven in part by increasing demands for data and evidence of concrete mitigation action from a variety of stakeholders.<sup>65</sup> The International Association of Insurance Supervisors' executive committee adopted a paper to help regulators "promote a globally consistent approach to addressing climate-related risks,"<sup>66</sup> and a number of regulators have already launched their own initiatives. For example, the US Treasury Department and Federal Insurance Office issued a call for public comment on climate-related insurance risks.<sup>67</sup> The focus is on assessing any potential climate-related gaps in insurer supervision and regulation and the possibility of major market disruptions, as well as ways to help insurers achieve climate-related goals.<sup>68</sup> Climate change is just one part of a broader insurance industry imperative to tackle a host of ESG concerns.<sup>69</sup> Moving away from the environmental aspects to the social components of ESG, financial inclusion is increasingly coming to the fore. As insurance companies consider their future strategy, financial inclusion may be an important factor as it impacts many aspects of an insurer's business model and there could be significant, mutually realizable benefits for both the insurer and insured.

### Tax policy developments

The following chart summarizes key tax provisions the insurance industry has focused/offered comments on and the current state of play.

**Figure 6. Key provisions of the US 2017 Tax Act relevant to the insurance industry**

#### Build Back Better Act

Drafts of the Build Back Better Act have included changes to the Base Erosion and Anti-Abuse Tax (BEAT) and Global Intangible Low-Taxed Income (GILTI), as well as the implementation of a minimum tax on book income, among other provisions. Although the fate of the Build Back Better Act is unclear, taxpayers should monitor legislative proposals, model the potential tax implications of proposed legislation, and consider potential structuring and operational changes that may help them adapt to these potential new tax laws. The following is a high-level summary of changes that have been proposed recently.

Tax issue	Tax considerations	M&A considerations
<b>Base Erosion and Anti-Abuse Tax (BEAT)</b>	<p>The BEAT rules have significant implications for certain insurance companies, such as US insurance companies that enter into reinsurance transactions with related-party, non-US entities.</p> <p>The draft Build Back Better Act proposal would, among other things: (1) repeal the base erosion percentage safe harbor for tax years beginning after 2023; and (2) exclude from base erosion payments amounts paid to foreign-related parties subject to certain minimum ETR thresholds.</p>	<p>BEAT is expected to remain a significant factor both for diligence and transaction structuring purposes.</p> <p>Taxpayers may need to reassess their tax profile as well as the tax profile of any prospective targets, as these rules may change the payments that are and are not subject to BEAT.</p>
<b>Global Intangible Low-Taxed Income (GILTI)</b>	<p>Draft Build Back Better Act proposals include, among other things: (1) an increase to the GILTI corporate tax rate to approximately 15%, effective for tax years beginning after December 31, 2022; and (2) a country-by-country calculation.</p>	<p>US-parented insurance companies with international operations should monitor the developments related to GILTI and Pillar Two (see below).</p> <p>In particular, the critical question will be whether Pillar Two is adopted with the GILTI grandfather, which would ensure that the GILTI regime is considered acceptable under the proposed global minimum tax.</p>
<b>Minimum Tax on Book Income</b>	<p>Insurers with significant book income that is shielded by tax deductions, tax credits, or other tax attributes should consider the impact of the proposed book minimum tax.</p> <p>In general, the most recently proposed book minimum tax would impose a 15% minimum tax on the adjusted financial statement income of a corporation that reports average annual income of more than \$1 billion for a three-year period.</p>	<p>Taxpayers with book income less than \$1 billion should consider the impact of potential acquisitions that might increase book income over the \$1 billion threshold. The proposed book minimum tax may also incentivize certain dispositions or spin-offs that bring the taxpayer below the \$1 billion threshold. Additional thought should also be given to overall tax posture in light of the proposed computation of the minimum tax.</p>

#### The Organisation for Economic Co-operation and Development (OECD) Pillar Two

Since 2017, the 141 member countries of the inclusive framework have developed a “two-pillar” approach to address the tax challenges arising from the digitization of the economy: addressing nexus and profit allocation challenges (Pillar One) and the global minimum tax rules released on December 20, 2021, as Model Rules (Pillar Two). At this time, Pillar One and Pillar Two are proposals, and neither have been enacted in any jurisdiction.

Tax considerations	M&A considerations	What's next
<p><b>The expected minimum tax rate is approximately 15%. For any country that falls below a 15% tax rate, a top-up tax is proposed in the parent jurisdiction.</b></p>	<p>Taxpayers can prepare for potential implementation of Pillar Two by:</p> <ol style="list-style-type: none"> <li>(1) Performing high-level computations of the potential impact of Pillar Two and educating the C-suite and/or board of directors on potential implications;</li> <li>(2) Considering structuring and planning alternatives in response to the new tax regime(s); and</li> <li>(3) Considering the relevant reporting requirements and the data/personnel needed to comply with these reporting requirements.</li> </ol>	<p>The OECD is expected to release detailed commentaries to these Model Rules in early 2022, with intended implementation of the rules by inclusive framework members in 2023.</p> <p>Open questions remain in regard to which countries will adopt these rules and how they will interact with existing tax laws (e.g., GILTI grandfather).</p>



# Moving forward on 2022 insurance M&A opportunities

We don't expect insurance industry M&A activity to slow down anytime soon. The deal marketplace is replete with abundant capital and willing buyers for asset classes that provide a rate of return commensurate with the risk, even though the competition for high-value targets (e.g., InsurTech capabilities, specialty insurance) may be fierce and inflationary concerns may complicate the valuation process. Both factors are likely to drive up prices—potential buyers in 2022 should be prepared to write a big check relative to the opportunity.

As insurance executives continue to examine how M&A can help safeguard future enterprise value by establishing more resilience in what they do today, it offers them ways to strategically consider options to extend, expand, and move into new markets. Those specifically evaluating M&A opportunities in 2022 should factor in several considerations, including:

- The COVID-19 pandemic and its impacts on economic recovery, market supply/demand dynamics, employees, customers, and the competitive environment are likely to continue to persist well into 2022. Company leaders should monitor both the macroeconomic environment and their organization's liquidity position, balance sheet strengths, and ability to raise capital from the markets in relation to the resilience of its business operating model and those of suppliers and partners.
- Leadership should determine whether the company can thrive in the next normal on its own or if it needs to acquire a capability, technology, or book(s) of business. This should include prioritizing the markets in which the company needs to operate to drive growth and profitability.<sup>70</sup>
- Buyers and sellers should develop M&A strategies that take into consideration shifts in market conditions that could warrant the potential acquisition or disposition of assets. Developing an approach that defines company appetite and deal characteristics based on an identified inorganic business need is essential to take advantage of market opportunities.
- Buyers should be selective about which properties to pursue and proactive about contacting targets, establishing executive-level relationships, and stating interest in a potential deal to avoid public auction processes.
- InsurTech unicorns are likely to be few and far between in 2022; however, insurance incumbents should consider investing in a startup to gain the immediate benefit of putting available capital to work as well as the future opportunity to acquire the InsurTech, help it grow, and use its capabilities to strengthen their competitive position going forward.
- As multinationals review their global tax footprint and how to calculate it, they should model "what if" scenarios to assess possible tax implications, which could become complicated, as tax reform proposals and changes in corporate rates and global minimum taxes are being debated around the world. The impact of such changes could be very significant, particularly for deals involving insurers or InsurTechs domiciled in traditional low- or no-tax jurisdictions as well as in global insurance hubs, such as Bermuda and Ireland.<sup>71</sup> Companies will need to demonstrate flexibility and pivot quickly when the tax situation gains clarity.

# Appendix

## Spotlight: Insurance industry M&A in major global markets

### United Kingdom

#### 2021 review

The UK insurance M&A market was very active in 2021, driven by PE involvement and rate hardening. Commercial lines posted buy-and-build activity in both the Lloyd's and the company markets. While M&A in the Life segment was slower than in 2020 due to price dislocation as a result of the pandemic, the Isle of Man saw activity as the offshore/nearshore market consolidates and looks for its endgame. Personal lines M&A transactions were abundant, as PE firms fueled a number of transactions and investments targeting MGAs and Insurtech capabilities. Finally, 2021 was another huge year for distribution, as PE-backed commercial insurance broker consolidation recorded robust deal volumes and valuation multiples.

#### 2022 outlook

**Commercial lines.** 2022 M&A activity is likely to intensify as investors look to capitalize on continued rate hardening in Commercial and Specialty lines. The Lloyd's market should continue attracting capital and new investment due to its advantages of access to global licenses and a deep talent pool, as well as attractive capital requirements versus other markets. Rate hardening has been positive and long-lasting, but some insurers are considering ways to decouple from the ratings cycle with less correlated lines (e.g., Accident & Health (A&H) and Credit). Overweighted US insurance companies are indicating strong interest in acquiring continental European exposure. Potential buyers are also showing strong interest in acquiring exposure to specialty lines due to high barriers, lower volatility, and profitability rooted in sticky relationships and expertise. Consolidation among smaller MGAs into larger broker/MGA groups should continue. Finally, 2021 saw the first London insurance market intention to list for some time. Will this signal a reverse in the take private trend?

Commercial M&A may face some headwinds in 2022. Cost inflation remains higher in certain lines of business than pricing inflation. Arguably, changing climate risk is not fully priced-in with insurance risk priced-in aggregate covers rather than all underlying risks, which is an emerging issue in terms of weather and secondary perils.

**Life.** Significant market interest exists in using life cash flows to invest in long-dated real assets, with investors seeking to target through both traditional and asset-heavy asset-heavy reinsurance transactions. Some asset-backed annuity deals are expected in 2022, but activity should be quieter than in the past. It will be interesting to see regulators' attitude toward asset-heavy RI transactions. As consolidators get on with their integrations, we expect other investors to exit the Life market as part of ongoing portfolio optimization and platform retirement. Finally, there is an

active interest in acquiring protection business; however, market availability may restrict M&A volumes.

**Personal lines.** Insurers have been preparing for the new rules banning price walking. Some insurer models will be less dependent on this strategy; some companies may exit the market due to the resultant pressure. A question arises as to whether there will be a medium-term change to the UK market's distribution chain as a result. Renewal pricing, renewal inertia, and ancillary products have driven profitability in the past—underwriting now has to drive profitability.

The pandemic brought about lower claims frequency in 2021, but supply chain costs are increasing in severity. In theory, frequency should return as pandemic restrictions ease, meaning a potential squeeze on profitability.

Other expected developments in 2022 include increased M&A activity around usage-based insurance capabilities, from personal lines into SME insurance (delivery, vans, fleets), M&A in the home insurance, and renter and contents insurance segments. In addition, insurance service businesses are in high demand from PE investors due to their high-visible cash flows and asset-light business model.

Considerable insurance M&A activity is focused on acquiring superior technology to support digital transformation, improve data access and use, increase agility, and segment the market. A number of the largest insurance groups are focused on their retail business, getting close to the customer, and owning that relationship. We expect to see significant M&A in this space. Meanwhile, companies that have fallen behind and don't have scale in any given niche are looking to exit.

**Distribution.** We expect 2022 to be another big year for commercial insurance broker consolidation, driven by PE interest in the space and very competitive sales processes. Some of the larger consolidators came to market in 2021, so there is potential for a reset as new consolidators form and start the accumulation phase. Personal lines distribution M&A is likely to be targeted on niche, nonstandard products, where underwriting/pricing can provide a competitive advantage and technology can drive barriers to entry and competitive advantage. Finally, buy-and-build platforms are looking internationally to replicate in Europe what they've achieved in the United Kingdom.

### Australia

#### 2021 review

The pandemic severely depressed Australian insurance industry M&A activity in 2020. However, a significant recovery in 2021 indicates building momentum and a potential return to pre-COVID

levels. The year's 16 deals had an aggregate value of \$3.5 billion, compared with eight deals and an aggregate value of \$1.1 billion in 2020.<sup>72</sup>

2021's landmark deals were dominated by continued divestments by the major Australian banks. Westpac completed the sale of its life insurance business to TAL for \$900 million and its lender's mortgage business to Arch Capital Group for \$350 million.<sup>73</sup> CBA announced the sale of its general insurance business to Hollard Group for initial consideration of \$625 million.<sup>74</sup> The deal included a 15-year strategic partnership agreement between CBA and Hollard.

Brokerage transactions, driven by market consolidation, continued throughout 2021. Steadfast Group Ltd completed the sector's largest transaction with its \$412 million acquisition of Coverforce.<sup>75</sup>

### 2022 outlook

The 2022 outlook for Australia's insurance industry appears strong. The country's current low-interest-rate environment looks likely to persist in 2022. The Reserve Bank of Australia (RBA) has announced the end to its quantitative easing program, and rising inflation is placing pressure on RBA's commitment to leaving interest rates in place until 2023. Low rates may drive further M&A activity in 2022 as insurers seek to drive optimization, improved returns, and capital efficiency.

Major banks' strategy to focus on core businesses has driven Australia's insurance-related M&A activity over the past two years. That simplification theme is continuing, as participants focus M&A dealmaking on key capabilities, products, and market segments. A number of assets may come to market as companies align on their 2022 growth objectives and shed underperforming or nonessential businesses.

Consolidation within the brokerage market is also expected to continue into 2022. Deals are likely to be strategic rather than opportunistic, with heightened activity perhaps spurred by capital from PE firms already active in the insurance brokerage space that are now turning their attention more aggressively to the company segment.

InsurTechs continue to be desirable investment vehicles, partners, and acquisitions targets, as insurance carriers look to import transformative technology solutions and talent into their legacy operations.

Prospective buyers and sellers should be prepared to move quickly as opportunities arise and talk to counterparties about potential divestment of their noncore operations, as the pandemic and other factors have led to faster and more decisive decision-making by boards and group executives to return to core functions and move forward with desired business strategies.

## Canada

### 2021 review

Canada's insurance industry announced few notable M&A transactions during 2021. There were no significant insurance underwriter transactions; most activity was in the broker space, where the large regional broker networks have continued to be active acquirers of small targets. Most of the large activity involved Canadian insurers making acquisitions outside of Canada.

The biggest M&A news in the Canadian insurance market was the completions of two deals that were announced in 2020: Intact Financial Corporation's £3.0 billion (\$5.2 billion) acquisition of RSA closed June 1. The acquisition strengthened Intact's position as the leader in the nonlife market in Canada and continued its progression of acquisitions.<sup>76</sup> Brookfield Asset Management also concluded its buyout of Canadian mortgage insurance firm Genworth MI Canada. Brookfield already owned an approximate 57% stake in the company.<sup>77</sup>

### 2022 outlook

Most of the Canadian domestic M&A activity has been in the general insurance sector, primarily distribution. This reflects the significant consolidation of life insurers in Canada, where the top four account for more than 90% of premiums. Among the remaining small and midsize life insurance companies, some consolidation is expected in 2022 as certain companies seek to exit uneconomic businesses that lack scale while others look to capitalize on their unique distribution networks.

The large Canadian life insurers have significant operations in the United States, United Kingdom/Europe, and Asia, and most of their M&A activity is likely to continue to focus on those regions. Consolidation activity among brokers and MGAs is expected to remain strong as companies pursue economies of scale and scope to improve distribution economics. An emerging opportunity is the potential for the few remaining foreign-owned insurance companies to simplify their platforms and consider reallocating capital by exiting their Canadian operations.

Domestically, the biggest challenge for acquisitive entities is scarcity of targets. It has been a sellers' market for several years, and there are several well-financed acquirers in various insurance sectors. Would-be acquirers should be actively socializing potential transactions with owners to develop relationships that could lead to deals.

## China and Hong Kong

### 2021 review

2021 was a quiet year for insurance industry M&A in China. The P&C sector led in deal volume and life and health (L&H) in deal value. Notable announced transactions included AIA Group's acquisition of 24.99% of China Post Life Insurance for \$1.8 billion, giving AIA access to China Post Life's distribution channels and customer segments, and increasing its exposure to the growth opportunities in the Chinese life insurance market.<sup>78</sup> In December, Germany's ERGO received regulatory approval to become Taishan Property & Casualty Insurance's second-largest shareholder, paying \$138 million for a 24.89% stake in the company.<sup>79</sup>

### 2022 outlook

China's insurance sector has been experiencing some challenges, including unfavorable share valuations in the capital market. While the outlook for 2022 insurance M&A is likely to remain muted, two key themes may shape dealmaking.

- Multinational corporations (MNCs) and Hong Kong based insurers are making more investments in China. The insurance market remains attractive to multinational insurers, as evidenced by AIA's investment in China Post Life and ERGO's entry into China's P&C sector. In addition, many current joint venture shareholders are keen to take full control. Although their path forward has been challenging, efforts to make this happen continue.
- Previous buyers are having difficulty growing the business. Some insurance company owners that have seen limited value from their investments may decide to divest certain assets or exit the Chinese market altogether. A further tightening of the solvency regime, scheduled to go into effect in early 2022, may put more pressure on owners to sell.

The biggest M&A opportunities in China are likely associated with insurance companies held by the Insurance Guaranty Fund or still under the custody of Chinese regulators. These companies include Dajia Group, Tian An Life, Tian An P&C, Huaxia Life, and Yi An P&C. Regulators will have to look for new owners for these companies.

## France

### 2021 review

The French government's continued broad economic support packages are expected to continue until the next presidential elections in May 2022. These appear to have curbed or at least delayed corporate defaults and restructurings, allowing the strongest insurers to pursue their acquisition/consolidation strategies with continued access to capital markets.

In the global composite space, AXA and its European peers continue their repositioning efforts with significant global asset sales. Most notably, AXA announced the disposal of AXA Singapore, the eighth-largest life insurer in Singapore, to HSBC Insurance for \$575 million,<sup>80</sup> and the disposal of its insurance operations in Malaysia to Generali for €262 million.<sup>81</sup>

The French market remains ripe for further consolidation, especially in P&C insurance and for businesses with a distribution network. Aviva sold its French business to Aéma (stemming from the merger of Macif and Aésio, two mutual insurance companies) for €3.2 billion, which included a large range of life and P&C insurance as well as distribution networks. With the Aviva acquisition, Aéma will become one of the top five players in the French market.<sup>82</sup> Generali announced in November 2021 that it entered into exclusive negotiations to acquire La Médicale de France, an insurer focusing on health professionals, with €550 million in annual premiums and a network of 125 tied agents,<sup>83</sup> from Crédit Agricole Assurances. The state-controlled bank owned by La Poste continued shaping and streamlining bancassurance partnerships in 2021 with the announcement of its intent to buy banking group BPCE's stake in French insurer CNP Assurances and subsequent proposal to buy the rest of the insurer, valuing it at €15 billion.<sup>84</sup>

France has seen the emergence and the multiplication of neo-insurers with Alan<sup>85</sup> (health insurer licensed in 2016) and Seyna<sup>86</sup> (P&C insurer licensed in 2019), as well as the launch of the French operations of health insurer Lemonade in late 2020. Other InsurTechs are operating under a distribution model and contemplating the acquisition of a license (e.g., Luko,<sup>87</sup> smart home). Despite their relatively small market shares and a standard insurance business model, these startups have gained public visibility owing to innovative technologies and marketing on social networks, enhanced transparency, and the promise of a new approach to the customer experience.

Both insurance broking consolidators and their sponsors, very active in recent years, stayed the course in 2021 and pursued a number of smaller acquisitions and built-ups. One notable operation is the merger of Siaci Saint Honoré and Burrus Group with a combined turnover of €700 million to create a significant independent

European alternative to the major global brokers.<sup>88</sup> The investor consortium includes the Ontario Teachers' Pension Plan, BPI France, and Cathay Capital.

In a global capital markets environment with nominal rates effectively set at zero, capital continues to flow to PE, which has in turn focused its attention on European financial services, both brokers and regulated entities. Brokers and fintechs have continued to reach record valuations.

### 2022 outlook

Interest in French business-to-consumer and wholesale insurance brokers from US and UK private equity houses is expected to continue in 2022. The sector benefits from recurring revenue and a digitization push forcing all parts of the value chain, especially brokers, to reevaluate the viability of their operational platforms. Consolidators seek to leverage a more targeted product proposition delivered by a smaller sales force benefitting from a group distribution infrastructure, ultimately gaining market share in an otherwise low-growth industry.

In the carrier space, there is ongoing conjecture around the scale and scope of life insurance back book transactions to traditional insurers or to consolidators, while other large carriers remain focused on executing M&A transformation plans.

Several broad industry trends may boost 2022 insurance M&A activity in France, including:

- **Legacy life insurance transactions.** French savers have long looked at two products for higher-yielding deposits: Banks' "Livret A" and insurers' "eurocontracts," the latter usually guaranteeing a minimum interest rate for a year and generally callable on demand. In the past, certain contracts were written with guarantees spanning the life of the contract; this created adverse policyholder behavior where high-guaranteed products were kept for very long periods in a declining interest rate environment. Under Solvency II, these legacy policies consume a disproportionate amount of capital versus newer life insurance contracts, and specialist life insurance back book consolidators have long sought to purchase these liabilities to provide capital release and finality. Notwithstanding, a successful life insurance back book sale has yet to close in France, primarily because reinsurance or asset transfers outside of the country could be challenged by ACPR,<sup>89</sup> the banking and insurance sector regulator. Therefore, consolidators need to purchase an existing life insurer or set one up with both options currently being explored by the industry.

- **Life insurance repositioning to defined contribution pension schemes.** 2019's PACTE Law fundamentally altered France's pensions industry by, on one hand, creating new group savings and pensions products and, on the other, allowing for capital-light manufacturing insurance subsidiaries (fonds de retraite professionnelle supplémentaire or FRPS), with the objective of stimulating a defined contribution-like private savings pool. Life insurers are aggressively targeting the corporate sector and see pension savings requirements as the industry's leading growth driver. After a relatively slow uptake, the number of insurers applying for FRPS regulatory approval increased in 2020.
- **Insurance brokers consolidation and PE interest.** Two secular trends in French insurance brokerage are increased consolidation activity and an influx of PE capital driven by a persistently low real and nominal interest rate environment. Consolidators seek to increase operating margins through scale and digitization while maintaining client loyalty, and many are supported by domestic and foreign PE funds seeking resilient, fast-growing, and cash for low-generative businesses like insurance brokerage.
- **Mutual sector consolidation.** With a steep rise in combined ratios for health and employee benefit insurers, mutual insurers without access to capital markets are expected to accelerate around mutual supergroups. A number of additional challenges are driving consolidation; among them, operational efficiency, digital acceleration, liberalized government tenders, and Solvency II's increased capital requirements. The trend is deep-rooted as, from a total 1,200 mutual insurers in France in 2006, slightly less than 300 remain today.<sup>90</sup> Meanwhile, specialist service providers such as claims managers and loss adjusters are increasingly being outsourced, pooling industry compliance and regulatory costs at a lower price point than vertically integrated large incumbents.

## Germany

### 2021 review

Germany's insurance sector by comparison saw significantly less M&A activity in 2021. Not a single German insurance group was acquired in either the P&C/reinsurance or the L&H subsectors. In the L&H sector, at least, repeated rumors have fueled expectations that the life closed book subsegment, which has been flagging for more than two years, may revive in the first half of 2022.

All notable 2021 M&A with German participation were transactions by larger German insurance groups abroad; these were predominantly acquisitions (spread across the globe) and isolated divestments. Only one insurance subsector, brokerage, was extremely lively. The years-long trend of small- and medium-size broker consolidations intensified and accelerated in 2021, supported by two trends: PE-backed groups stepped up the pace of their acquisition activities, and fresh money from capital increases improved financial flexibility at the more prominent InsurTechs, including wefox, which announced in June 2021 that it had raised \$650 million from investors at a valuation of \$3 billion.<sup>91</sup>

2021 closed on a positive note with a noteworthy German InsurTech deal: Allianz X announced in November that its portfolio company finanzen Group, a leading financial services and insurance leads provider, will be integrated into digital insurance broker CLARK. As part of the deal, Allianz X will become CLARK's largest minority investor.<sup>92</sup> The combined business makes CLARK one of the world's biggest InsurTechs by revenue and gives it unicorn status, a designation for private companies with a value exceeding \$1 billion.

### 2022 outlook

The German insurance M&A market often falls short of lofty expectations. Neither regulatory pressure, which has increased significantly in recent years, nor the difficult capital market and interest rate environment has led to a sustained increase in M&A activity in Germany. In this respect, a hoped-for revival in 2022 would be welcome.

There is little evidence that the P&C subsector will awaken from its long slumber. German P&C businesses have not been offered on the German M&A market for many years. All activity in this segment has been either acquisitions of P&C legacy portfolios that had been in runoff for several years or intragroup transactions such as December 2021's merger of Provinzial Rheinland Versicherung and Westfälische Provinzial Versicherung, Provinzial Group's two largest P&C insurers.<sup>93</sup>

The L&H market provides a more hopeful view. As already mentioned, we expect a significant increase in market movement here, especially in closed books. This raises conjecture as to whether, in addition to the three existing runoff platforms, further investors will venture into the German market. In addition, the brokerage market is expected to remain quite active. There remain numerous brokers and other sales organizations adding pressure for further consolidation.

A possible trigger for increased insurance industry M&A in Germany is the release of pent-up transaction pressure arising from stalled dealmaking. This, in combination with increasing regulation, intensifying competition, a renewed focus on core products, and the need for digital capabilities, may prompt companies to examine their current portfolios and release non-strategic, unprofitable, and capital-intensive assets to create new space for investments in technology or new markets.

## Japan

### 2021 review

Japan's insurance industry recorded a series of large-scale acquisitions in 2021 as the country began to recover from the pandemic's economic impact and Japanese insurers regarded M&A as a tool to support their growth strategies. Overall, 2021 transaction volume and value increased for outbound M&A and decreased for inbound M&A compared to 2020, although among subsectors, general insurance was a little more active. Among representative outbound deals:

- Dai-ichi Life Holdings, Inc., acquired Westpac Life Insurance Services Limited, through its subsidiary TAL Dai-ichi Life Australia Pty Limited.<sup>94</sup>
- Tokio Marine Holdings acquired Reliance Standard Security Life Insurance Co., a unit of life insurance company Independence Holdings Inc., through Reliance Standard Life Insurance Co., Ltd., which is 100% owned by US subsidiary Delphi Financial Group Inc.<sup>95</sup>
- Tokio Marine also acquired XS3 Seguros S.A., a subsidiary of Caixa Holding Securitaria S.A., an insurance holding company, through Tokio Marine Seguradora S.A. (TMSR), a Brazilian subsidiary.<sup>96</sup>
- The trend of Japanese insurers investing in technology ventures also continued in 2021. Examples of capital participation in overseas technology ventures include investments by Mitsui Sumitomo Insurance and Sompo Holdings in Upstream Security<sup>97</sup> and Wejo,<sup>98</sup> respectively, both automotive tech ventures that offer solutions for connected cars. Illustrating insurance companies' capital participation in the domestic technology industry are Sompo Holdings' investment in the health care field via Allm Inc.<sup>99</sup> and Aioi Nissay Dowa Insurance Co., Ltd.'s investment in the JX News Agency.<sup>100</sup>

### 2022 outlook

We expect insurance M&A activity in Japan to continue its upward trajectory in 2022 as Japanese insurers face an aging and shrinking population and an ultra-low-interest-rate environment. Japanese insurers are pursuing InsurTech capabilities in both foreign and domestic markets as well as services to improve customer acquisition, engagement, and retention.

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