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2021 insurance M&A outlook

Powering through disruption

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Overview and outlook

The COVID-19 pandemic and resulting economic fallout generated substantial headwinds for insurance industry mergers and acquisitions (M&A) in 2020, although the disruptive impacts have been much less significant for insurance than other financial services sectors. COVID-19's reach is expected to extend well into 2021; however, unprecedented times create opportunities, and M&A could play a critical role as insurance companies figure out how to move on from recovery mode to thrive in the next normal. Leaders sharpening their inorganic growth strategies are likely to explore a range of options—both defensive and offensive—including traditional mergers, acquisitions, and divestitures; alternative deal constructs; coinvestments and joint ventures (JV); and cross-sector alliances.

This report reviews 2020 insurance industry M&A activity and explores some trends and drivers for 2021 that may shape executive's M&A strategy as organizations power through disruption to take advantage of growth opportunities in the coming year. Our primary focus continues to be on conditions and activity in the United States and Bermuda; we have, however, included an appendix with snapshots of insurance M&A developments in other global markets.

2020 in review

The insurance industry posted more M&A activity in 2020 than anticipated, considering the widespread uncertainty emanating from COVID-19's health, economic, and political challenges. First-half global 2020 insurance M&A was consistent with first-half 2019,[1] likely because most deals closing in this period were already in process prior to the full-scale COVID-19 outbreak.[2] After a pause during the summer months, dealmaking picked up again, with 25 insurance company deals announced in the United States alone toward the latter part of the third quarter[3] and a life and health (L&H) megadeal to close out the year.

As seen in figure 1, total deal volume across underwriters and brokers decreased about 8% year over year (YOY) through December 31, 2020—620 deals versus 671 in 2019; however, aggregate deal value climbed about 39% YOY ($21.6 billion in 2020 compared with $15.6 billion in 2019), buoyed by several transformative transactions in both the property and casualty (P&C) and L&H sectors and a couple of large transactions in the broker space.

At the underwriter level, the 65 recorded deals through December 31, 2020, represented an increase of about 8% YOY on 2019's 60 deals. 2020 underwriter aggregate deal value growth was greater than expected, up almost 27% YOY from $13.9 billion to about $17.6 billion. 2020 average deal value was similarly impressive given the environment; it increased 21% YOY, from $695 million to $841 million.[4]

The L&H sector presented one of 2020's more interesting stories. Through December 31, 2020, deal volume was down about 41% YOY versus 2019; however, aggregate deal value was down only about 10% YOY (from $8.1 billion to $7.3 billion), while the average deal value actually experienced an uptick on the heels of New York Life's acquisition of Cigna's group life and disability insurance business ($6.3 billion)[5] and Voya's sale of its individual life business and other closed blocks to Resolution Life ($1.1 billion),[6] both of which were announced in 2019. (On December 31, 2020, New York Life announced it completed the Cigna acquisition.[7]) The transformative transactions in 2020 included KKR & Co.'s acquisition of Global Atlantic Financial Group ($4.0 billion)[8] and Fidelity National Financials' acquisition of FGL Holdings ($2.5 billion).[9]

The P&C sector saw positive results across the board, as evidenced by YOY increases in deal volume (up almost 37%), aggregate deal value (up an astounding 78%), and average deal value (up an impressive 53%). Major deals in 2020 included Allstate/National General ($3.7 billion),[10] Third Point/Sirius ($788 million),[11] and Zurich Insurance Group's (via Farmers Group, Inc.) announced acquisition of Metropolitan Life's US P&C business ($3.9 billion).[12] A hardening of P&C market rates in sectors that had struggled with profitability over the recent past has increased buyer interest (both strategic and financial) in P&C properties.

The broker segment departed from its historical trend of a YOY increase in number of deals, falling about 9% (from 611 deals in 2019 to 555 in 2020). However, aggregate deal value and average deal value increased 135% and 110%, respectively, boosted by the $1 billion Thomas H. Lee Partners, L.P./AmeriLife Group recapitalization transaction[13] and the $970 million Goldman Sachs acquisition of People Corporation.[14]

Figure 1. Insurance sector M&A activity, 2019–2020 (United States and Bermuda)

	Number of deals			Aggregate deal value			Average deal value		
	2019	**2020**	**YOY change**	**2019**	**2020**	**YOY change**	**2019**	**2020**	**YOY change**
Underwriters	60	65	+8.3%	$13.9B	$17.6B	+26.6%	$695M	$841M	+21%
L&H	22[1]	13[3]	-40.9%	$8.1B[1]	$7.3B[3]	-9.9%	$1.2B[1]	$1.2B[3]	+6.2%
P&C	38[2]	52[4]	+36.8%	$5.8B[2]	$10.3B[4]	+77.6%	$448M[2]	$687M[4]	+53.3%
Brokers	611	555[5]	-9.2%	$1.7B	$4B[5]	-135.3%	$69M	$145M[5]	+110.1%
Total	**671**	**620**	**-7.6%**	**$15.6B**	**$21.6B**	**+38.5%**			

Source: Deloitte analysis utilizing SNL Financial M&A database.

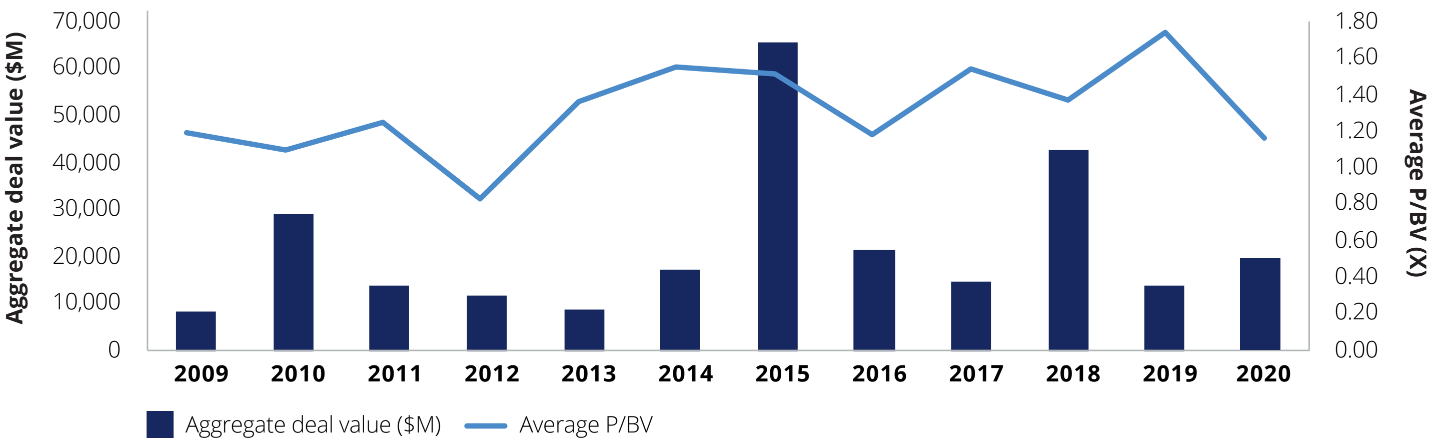
1. Includes New York Life/Cigna ($6.3B) and Resolution Life/individual life business and other closed blocks from Voya ($1.1B)
2. Includes Tokio Marine/Privilege Underwriters ($3.1B) and AmFam/IDS ($1.05B)
3. Includes KKR/Global Atlantic ($4B) and FNF/FGL ($2.5B)
4. Includes Allstate/National General ($3.7B), Third Point/Sirius ($788M), and Zurich/Metropolitan Property and Casualty ($3.9B)
5. Includes Thomas H. Lee Partners, L.P./AmeriLife Group ($1B), and Goldman Sachs/People Corporation ($970M)

Insurance underwriters

As summarized previously, the number of underwriter deals through December 31, 2020, increased about 8% from the same period in 2019. In addition, as figure 2 illustrates, the average P/BV multiple showed a downward trend YOY.

Figure 2. M&A trends for insurance underwriters

Price to book value multiples



Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Number of deals	83	107	99	98	88	82	79	97	84	87	60	65
Size of deals ($M)												
Low	0	0.3	0.5	0.1	0.1	1.25	0.3	0.3	0	0.3	5.3	1.87
High	1,900	15,545.1	3,534.6	3,100.2	1,125	5,579.6	28,240.3	6,303.8	1,906.2	15,388	6,300	4,039
Average	162	395.6	222.5	195.5	136.4	277.3	1,317.4	379.8	421.6	971.1	694.7	840.9
Observed P/BV deal multiples												
Low	0.77x	0.55x	0.54x	0.31x	0.68x	0.14x	0.1x	0.18x	0.64x	0.39x	0.87x	0.53x
High	2.98x	1.7x	5.81x	5.99x	4.11x	2.83x	2.53x	4.97x	2.88x	4.07x	2.87x	1.85x
Average	1.2x	1.12x	1.24x	0.91x	1.34x	1.48x	1.45x	1.19x	1.47x	1.34x	1.63x	1.18x
Median	0.89x	1.06x	1.01x	0.81x	1.55x	1.39x	1.26x	1.14x	1.28x	1.50x	1.15x	1.15x

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.
- 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 3x.
- Analysis as of December 31, 2020.
- SNL has noted that some numbers may not reconcile to prior years, as there may be a lag between deal public announcement and disclosure.

Life and health

L&H was the most challenged insurance sector in 2020, battered by a sustained low-interest-rate environment (reflected in plunging stock prices), elevated expectations around customer experience, increased complexity in underwriting and distribution activities, a difficult operating environment for agents, and pandemic-driven workforce and workplace uncertainty.

As stated earlier, the number of L&H M&A deals decreased about 41% compared with 2019; however, aggregate deal value decreased only 10%, and average deal value experienced an uptick of about 6% YOY. Average P/BV multiples indicated an upward trajectory from 2018, the last year data was publicly available (figure 3).

In 2019, there was a single announced transformative M&A deal (New York Life/Cigna), whereas in 2020, we would consider three transactions transformative: Fidelity National, already a minority investor in Fidelity Guarantee & Life, bought out two other owners in a $2.7 billion deal, making Fidelity National a significant player in the US individual annuity market.[15] Private equity (PE) firm KKR agreed to buy Global Atlantic in an estimated $4.4 billion transaction. The acquisition builds KKR's scale in insurance[16] and gives it a mechanism to secure permanent capital. The Carlyle Group and T&D Holdings completed their acquisition of a 76.6% interest in Fortitude Group Holdings, whose group companies include Fortitude Re, from insurer American International Group (AIG).[17]

MetLife has been turning to dealmaking to round out its product offerings in the group insurance business. MetLife also announced the acquisition of Verstant Health in September 2020 for $1.675B which establishes MetLife as a top-three player in the US managed care vision industry. In December 2020, MetLife announced that it would sell its auto and home insurance business to Farmers Group, Inc. (FGI), a subsidiary of Zurich Insurance Group, for $3.94 billion in cash.[18] The deal would expand Zurich Insurance's P&C business and allow MetLife to exit an offering in which it faces fierce competition from larger players.[19] Similarly, AIG is signaling its intent to focus on P&C insurance by separating out its life and retirement unit.[20]

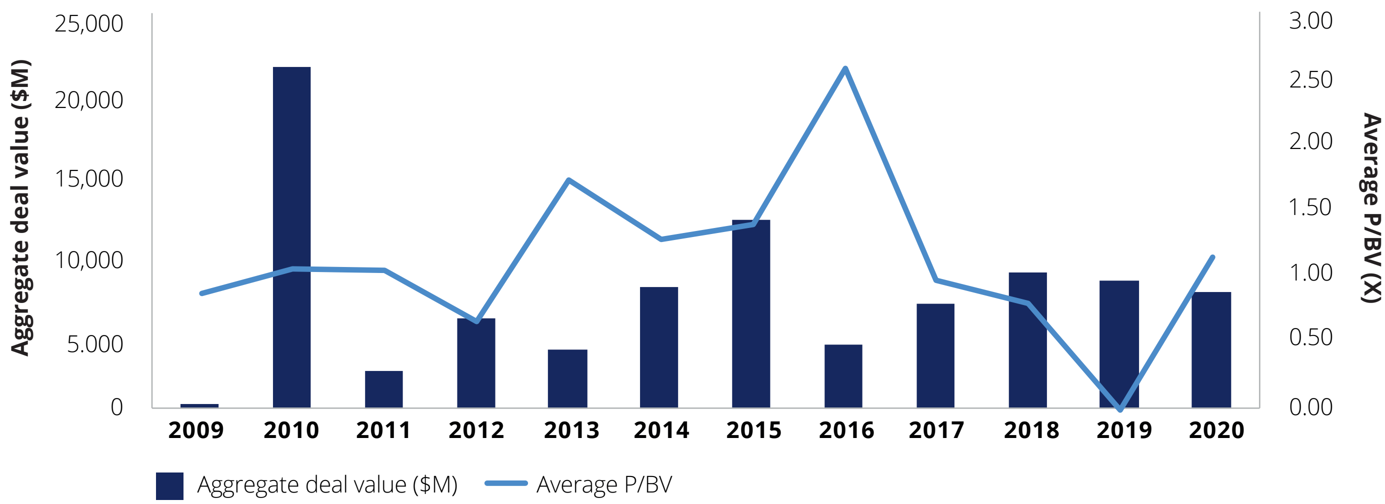
One trigger for M&A activity in the L&H subsector is the continuation of players transacting reinsurance deals that free up capital to use for other growth initiatives. In 2020's largest such deal, Prudential sold a minority stake in its US insurance business, Jackson, to Apollo Global–backed Athene Holding for $500 million.[21] Athene also agreed to fully reinsure $27.6 billion of Jackson's in-force-fixed and fixed-indexed annuity portfolio.[22] The investment seeks to help Jackson pursue growth initiatives in line with its commercial diversification strategy, while the reinsurance agreement looks to help Athene grow its gross invested assets by about 20% and fuel inorganic growth.[23]

On the distribution side, Brookfield Asset Management announced a set of commercial business arrangements through reinsurance and a strategic partnership with American Equity Investment Life Holding Company, a leading originator for fixed-indexed annuities. As part of the partnership, Brookfield will acquire ownership interest in American Equity common shares, an initial purchase (which closed November 30, 2020) of a 9.9% equity interest, and a second purchase (expected to close in the first half of 2021) that, together with the initial purchase, will equal a 19.9% equity investment.[24]

Equitable Holdings entered into an agreement with privately held Venerable Holdings to reinsure about $12 billion in legacy variable annuity policies. The deal is expected to generate about $1.2 billion in value for Equitable (including a capital release of $800 million), more than double Venerable's general account assets to $24 billion from $11 billion, and result in Venerable's reinsured business growing to more than $46 billion in separate account value.[25]

Figure 3. M&A trends for L&H

Price to book value multiples



Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Number of deals	21	28	27	30	25	17	28	27	31	26	22	13
Size of deals ($M)												
Low	0.5	0.3	0.5	0.1	0.1	3	1.5	6.8	0	0.3	18.47	1.8
High	126.5	15,545.1	917.3	1,550	1,056	5,579.6	5,001.9	2,750.8	1,835.2	3,269	6,300.0	4,039
Average	28.7	1,026.2	122.3	299.6	204.6	544.5	698.8	290.7	505.3	614	1,153.5	1,224.9
Observed P/BV deal multiples												
Low	0.88x	1.06x	0.54x	0.31x	1.73x	1.29x	0.1x	0.18x	0.64x	0.39x	NA	1.15x
High	0.88x	1.06x	5.81x	5.99x	1.73x	1.29x	2.17x	4.97x	1.28x	1.21x	NA	1.15x
Average	0.88x	1.06x	1.05x	0.67x	1.73x	1.29x	1.4x	2.58x	0.99x	0.8x	NA	1.15x
Median	0.88x	1.06x	0.94x	0.67x	1.73x	1.29x	1.13x	2.58x	0.96x	0.8x	NA	1.15x

Source: SNL Financial.

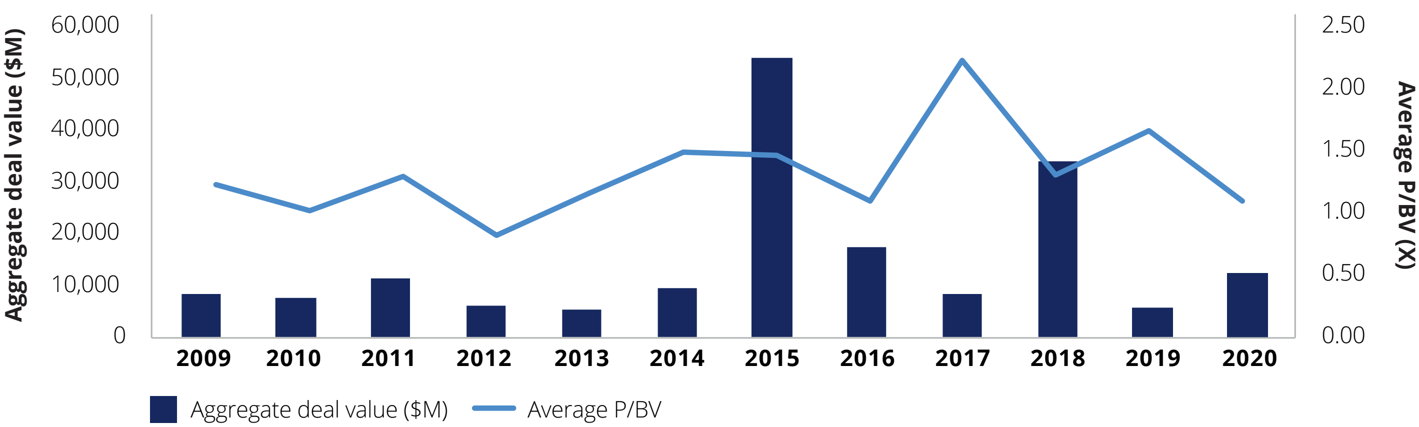
- Transactions represent US and Bermuda companies making acquisitions on a global basis and international buyers making acquisitions in the United States and Bermuda.
- Transactions grouped by the year they were announced.
- Deal multiples represent closed multiples, unless the transaction is still pending close.
- For years 2009, 2010, 2013, 2014, and 2020, there is only one deal with data, respectively. For year 2019, no deal has multiple data; as such, the multiple in 2019 is showing as 0.
- 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 3x, except in 2016.
- Analysis as of December 31, 2020.
- 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

The P&C sector saw YOY increases in deal volume (up about 37%), aggregate deal value (up almost 78%), and average deal value (up about 53%) in 2020; this was welcome news after recording a dramatic drop in these measures from 2018–2019. As noted in figure 4, deal volume in 2019 was the lowest over the period reported. Whereas 2020 did experience an increase from 2019, it lagged slightly behind the 10-year average (2009–2018). We expect deal momentum to continue in 2021, resulting in deal volume that would meet or exceed the 10-year average. In addition, while average P/BV multiples did decrease from the prior year, we expect that as the market normalizes from the impact of COVID-19 and the influence of the hard market reverberates through the P&C sector, especially in commercial and specialty, the P/BV multiples will increase to their 10-year average of 1.4x.

Figure 4. M&A trends for P&C

Price to book value multiples



Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Number of deals	62	79	72	68	63	65	51	70	53	61	38	52
Size of deals ($M)												
Low	0	1.2	0.5	0.8	0.4	1.3	0.3	0.3	1.4	1.8	5.3	2.3
High	1,900	1,318.5	3,534.6	3,100.2	1,125	1,671.3	28,240.3	6,303.8	1,906.2	15,388	3,100	3,940
Average	196.9	145.7	266.8	148.5	110.3	199.4	1,636.1	408.8	372.2	1,137.8	447.6	687.3
Observed P/BV deal multiples												
Low	0.77x	0.55x	0.73x	0.57x	0.68x	0.14x	0.99x	0.21x	1.5x	0.5x	0.87x	0.53x
High	2.98x	1.7x	2.69x	1.52x	4.11x	2.83x	2.53x	1.45x	2.88x	4.07x	2.87x	1.85x
Average	1.3x	1.13x	1.34x	0.97x	1.24x	1.50x	1.48x	1.19x	2.08x	1.35x	1.63x	1.19x
Median	0.99x	1.06x	1.16x	0.9x	1.38x	1.43x	1.29x	1.14x	1.97x	1.53x	1.15x	1.19x

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.
- Insurance underwriters include P&C, L&H, multiline, title, mortgage guaranty, and finance guaranty sectors covered by SNL Financial.
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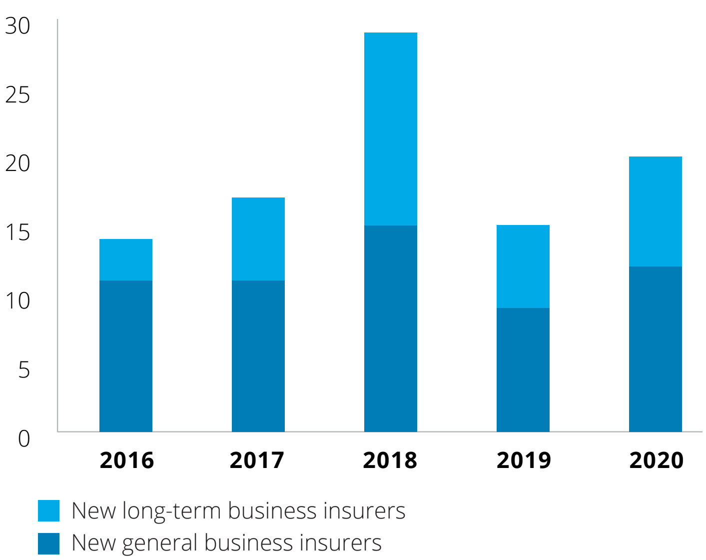
- Analysis as of December 31, 2020.
- SNL has noted that some numbers may not reconcile to prior years, as there may be a lag between deal public announcement and disclosure.

After a prolonged soft pricing market, there seems to be demand for companies in this sector, as buyers and sellers alike understand that the current pricing market enhances their entities, and buyers (both strategic and financial) want to strike while the iron is hot. This dynamic has attracted financial buyers to this sector. Whereas in 2019, we noted that there was a single financial buyer, in 2020, we observed that there were three involved in M&A. This is in addition to the private funding that has made its way into the P&C sector to sponsor startups; for example, the Carlyle Group and Hellman & Freidman infusing equity capital into Vantage Group Holding Ltd.[26]

Among the year's larger P&C deals, Allstate Corp. announced its acquisition of National General Holdings Corp., which offers services in personal auto, recreational vehicle, motorcycle, and commercial auto businesses, for nearly $4 billion in cash. Allstate is scaling up its auto insurance business at a time when COVID-19 has dramatically slowed traffic on roads and reduced claims. The deal is expected to close in early 2021.[27]

The P&C reinsurance space was generally quiet in 2020, although Third Point Re and Sirius International Insurance Group, a global multiline insurer and reinsurer, agreed to combine in a cash and stock transaction worth $788 million.[28] Both companies are headquartered in Bermuda, which has been attracting considerable capital in the form of pure startups and new money for existing underwriters in response to hardening P&C markets (see sidebar).

Figure 5. New Bermuda general business commercial insurers and long-term business commercial insurers



Source: Bermuda Monetary Authority.

Figure 6. Bermuda 2020 capital raises and pipeline

Insurer	Amount raised/ to be raised (TBR)
Fidelis	$1.3 billion
RenaissanceRe	$1.12 billion
Conduit Re	$1.1 billion (TBR)
Arch Capital	$1 billion
Vantage	$1 billion
Convex Group Ltd.	$1 billion
Hiscox	$465 million
Ascot Group	$400 million
Essent Group Ltd.	$440 million
Lancashire Holdings Ltd.	$344 million
R&Q Re	$207.75 million
Carrick Re	$100 million
Gracie Point Holdings, LLC	$50 million
Compre	£23.2 million (GBP)
Chaucer	(TBR)

Source: Deloitte analysis using company publications and websites, Artemis.bm, the *Royal Gazette*, The Motley Fool, Reinsurance News, and Intelligent Insurer.

Bustling Bermuda

2020 M&A activity in Bermuda, while not absent, was muted. Uncertainty around COVID-19's impact on business interruptions hung a question mark over insurance companies' balance sheets, and many chose to keep their powder dry rather than engage in M&A. There were a few notable deals—among them, Arch Capital Group's purchase of Watford Re and the aforementioned acquisition of Third Point by Sirius—as well as signs that, once the health care and economic landscapes begin returning to normal, pent-up demand and companies' desire to move forward with their growth strategies should drive increased dealmaking in 2021.

Bermuda has been bustling in two other areas: establishing startups and attracting fresh investment capital (figure 6). PE firms have been infusing funds into Bermuda-based startups (figure 5), including general business commercial insurers, long-term business commercial insurers, and InsurTechs. There is renewed excitement among the entrepreneur community about opportunities to drive innovation (particularly in the artificial intelligence [AI] space) and be successful through InsurTech investments, initial public offerings (IPOs), and acquisitions.

PE-backed vehicles also have been injecting funds into insurance and reinsurance underwriters, drawn by the hardening rate environment (figure 6). This is good news for companies that may have been facing the prospect of a sale or merger, but now may find new opportunities for survival through the infusion of new capital.

Insurance brokers

The insurance brokerage sector remained relatively active in M&A during 2020, although the pace of consolidation decreased compared with the prior year. Through December 31, there were 555 deals completed, compared with 611 deals over the same period in 2019. However, aggregate deal value increased approximately 135% (figure 7). As the brokerage sector is capital-light, the uncertainty due to COVID-19's health and economic impacts is less severe than that experienced by underwriters.[29]

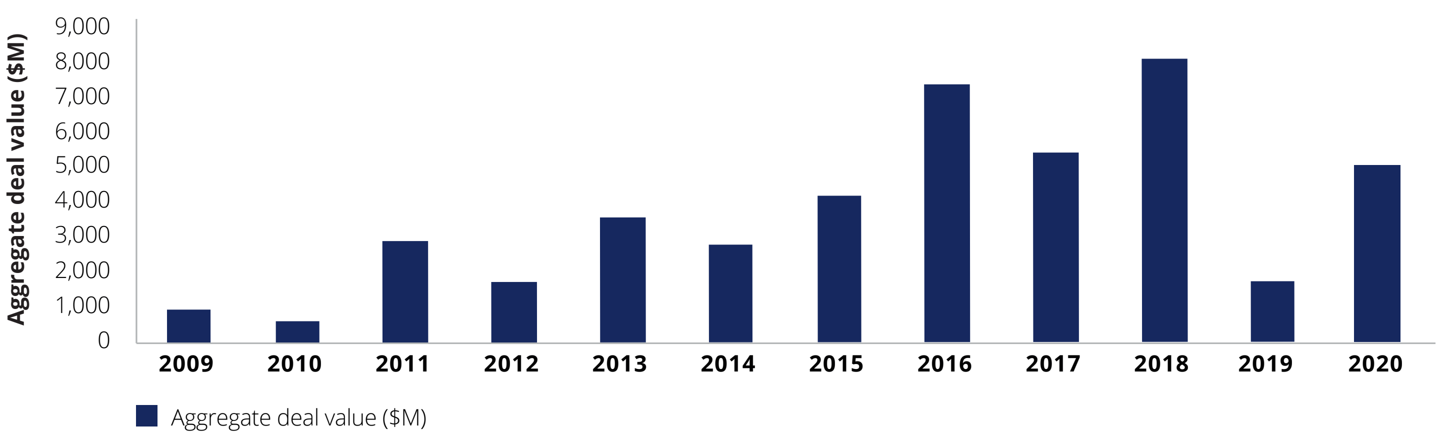
Among noteworthy 2020 transactions, London-based Aon plc and brokerage firm Willis Towers Watson agreed to merge in an all-stock transaction.[30] As both entities are domiciled in Ireland, the impact of this transaction is not captured in the graphs presented herein, as our geographical focus is buyers and/or sellers in the United States and Bermuda. Had we considered this transaction, the 2020 aggregate deal value in this sector would have increased from $4 billion to $34.5 billion and would represent the high watermark over the period presented. The new entity is to focus on the areas of risk, retirement, and health, emphasizing high-growth areas like cyber, delegated investments, intellectual property, climate risk, and health solutions.[31] In December, Aon confirmed that the European Commission has initiated an antitrust review of the company's proposed $30 billion bid, but said it remains on track to close the deal in the first half of 2021.[32]

2020 also saw an interesting broker and InsurTech partnering deal in the small-business space between technology provider Bold Penguin and digital broker Mylo. Bold Penguin, which operates a commercial exchange that includes five of the largest US brokerages and leading carrier brands in the admitted and excess and surplus (E&S) markets, expanded its successful two-year partnership with Mylo through a simplified quoting interface that provides small-business owners with an enhanced customer experience and faster quoting of personalized insurance recommendations. Bold Penguin's exchange has helped Mylo become one of the fastest-growing digital brokerages in the United States.[33]

PE firms continue to be attracted to the broker space because acquisitions are easy to bolt on, scale, and sell in a few years. In one of 2020's earliest deals, an investor group led by PE firm Thomas H. Lee Partners agreed to buy a majority stake in AmeriLife Group, a Florida-based life, health, and annuity distributor, from another PE firm, J.C. Flowers & Company, for $1 billion.[34] If the number of 2020 transactions that included buyers who were backed by financial sponsors—about 70%, led by aggregators including, but not limited to, Acrisure, HUB International, and Assured Partners—is any indication, the deal pipeline should remain robust in 2021.

Figure 7. M&A trends for insurance brokers

Aggregate deal value



Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Number of deals	183	240	304	344	239	351	492	457	537	594	611	555

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 December 31, 2020.
- 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

We were on target with our 2020 projection that insurance carriers would start acquiring InsurTechs to accelerate their investments in capabilities, distribution, and diversification. Closing out 2019, Aon acquired CoverWallet for close to $300 million, giving Aon additional access to the fast-growing, premium, global digital insurance market for small- and medium-sized businesses.[35] In November 2020, insurance broker Brown & Brown acquired CoverHound, a digital P&C insurance marketplace, as well as CyberPolicy, CoverHound's small-business subsidiary.[36]

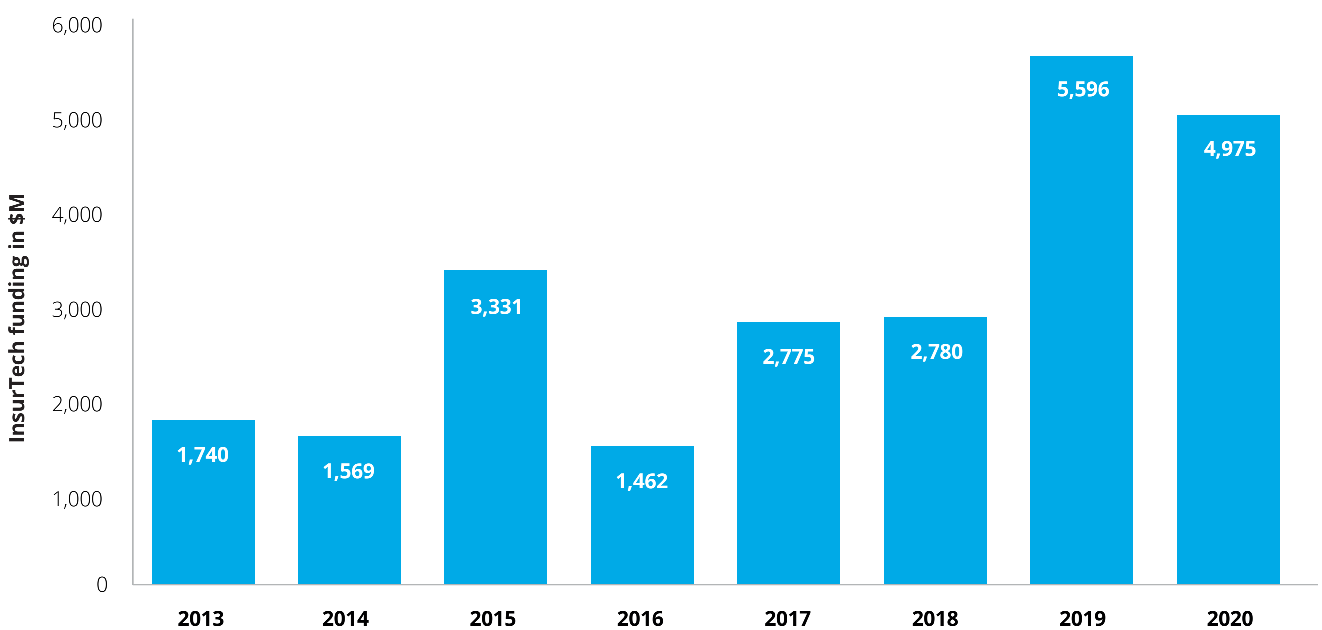
We also projected consolidation in 2020 among InsurTechs that are reaching a level of maturity where they typically decide whether to merge, acquire, partner, use alternative deal constructs like special-purpose acquisition companies (SPACs), or make IPOs to continue growing. Hippo Insurance Services, a P&C-focused personal lines broker, announced its acquisition of Spinnaker Insurance Company, a national P&C insurer, for an undisclosed sum.[37] Hippo has partnered with Spinnaker as its largest carrier platform since 2017.[38] Digital InsurTech company Next Insurance acquired Juniper Labs, a provider of alternative open data and underwriting technology focused on small businesses.[39] InsurTechs Buckle and Bold Penguin also made acquisitions in 2020.[40] As projected, InsurTech consolidation is due to evolving market needs for a more holistic solution that brings together components of the value chain or customer journey rather than historical point solutions, which required carriers to be the integrators.

Other InsurTechs elected to go the IPO route. SoftBank-backed Lemonade, a startup that sells renters and homeowners insurance to consumers, filed to go public in June 2020.[41] Auto insurer Root and comparison site SelectQuote also issued IPOs in 2020. Metromile agreed to be acquired by a SPAC, INSU Acquisition Corp II, in November 2020 for $1.3B.[42]

The pandemic's economic fallout could increase the number of insurance company-InsurTech collaborations in coming months. InsurTechs may have a greater willingness to partner or be acquired due to the uncertain economic outlook, and carriers seeking to quickly respond to a rapidly changing world (such as an increased need for virtual or touchless claims) may find InsurTech investment a more appealing allocation of capital than investing in the current low-interest-rate environment.[43] In one 2020 example, American Family Ventures launched AFV Fund III, a $213 million venture capital fund focused on investing in early-stage InsurTech startups.[44] It's the first time American Family Ventures took in outside capital and brought on additional LPs to one of their funds.

Figure 8. 2020 InsurTech investment remained robust

2020 had the second-highest total ever, but just 10 InsurTechs received 53% of funding, compared with 47% for the other 155, while focus shifted to digitization, scale, and integrated solutions



Source: Venture Scanner data; analysis by Deloitte Center for Financial Services.

2021 outlook

We expect 2021 to be a positive year for insurance M&A, with companies powering through pandemic-driven disruption to pursue growth opportunities that are likely to emerge alongside an improving—and likely transformed—economy and industry landscape, as well as increased appetite for InsurTech acquisitions to meet customers' digital engagement demands and support employees' new work-from-home needs. A Deloitte survey[45] of insurance industry executives (which was conducted prior to the pandemic) found that more than half expect to complete an M&A transaction in the next two years. In Deloitte's July–August 2020 global outlook survey of insurance executives, 32% of North American respondents, 38% of European respondents, and 26% of Asia Pacific respondents plan to pursue M&A as a way to support financial stability over the next six to 12 months.[46] Deals are likely to be strategic rather than opportunistic as companies consider where to play and how to win in the next normal. Some companies may need to consider radical action, including distressed asset sales, to salvage value from loss-making divisions and preserve the viable core business. This portfolio rebalancing may bolster market supply for future dealmaking. Conversely, companies that have a strong balance sheet and competitive positioning but expect a significant degree of structural disruption could use M&A to safeguard their customer base and accelerate long-term transformation of their business model.[47]

For L&H insurers, persistently low interest rates are likely to affect growth and profitability in annuities and many nonterm life insurance products through and beyond 2021.[48] This could prompt L&H companies to divest older variable annuity blocks and use the proceeds to, for example, fund hybrid investment and insurance plays or partner with health and well-being companies to develop holistic health offerings.

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 in 2021, particularly among regional P&C companies, in order to create more optionality for capital deployment and strategic expansion. Over the past 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.[49]

InsurTechs should continue to be desirable investment vehicles, partners, and acquisitions in 2021. Certain US states are actively promoting InsurTech development by creating regulatory sandboxes so new technology services can be developed in a safe regulatory environment. This should encourage the startup community and help drive early-stage investment. In addition, recent SPAC activity could be a precursor to 2021 InsurTech IPOs. For example, in December, Delwinds Insurance Acquisition priced its IPO at $175 million. The SPAC is focused on InsurTech, traditional insurance, and insurance-related products and services industries.[50]

By some estimates, PE firms have a combined $2.5 trillion[51] worth of dry powder ready to be deployed on insurance M&A opportunities. Already active in the distribution space—almost 50% of the brokerage deal volume in the first six months of 2020 was driven by PEs and PE-backed established aggregator platforms[52]—these firms are widening their lens to include underwriting acquisitions, such as sidebar-type deals for books of business in life insurance and annuity books of business they can clean up and sell. Also, the recent P&C sector rate hardening has sharpened PE interest in pursuing select opportunities in the commercial P&C sector, especially the specialty segment, as it is expected to experience the biggest uptick in pricing. At least two PE-backed P&C specialty entities were framed in 2020: Bermuda-based Convex and Vantage Group Holdings, Ltd. Also, Premia Holdings established a sidecar vehicle, named Elevation Re (SPC) Limited, in early January 2021 that 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.[53]

In addition to piloting their company through the pandemic and various economic and market conditions in 2021, insurance executives should consider how to address the following trends as they move forward with their M&A growth strategies:

- Portfolio optimization and carve-outs
- Accelerating digitization
- Accounting, regulatory, and tax influences on M&A activity
- Nontraditional considerations for inorganic opportunities

2021 insurance M&A trends and drivers

Capitalizing on carve-outs

As insurance companies are optimizing portfolios to take advantage of market conditions and evolving opportunities that are going to continue to play out in 2021, many are assessing their current product and service portfolio to determine what's performing well and whether their investments are delivering value as expected.

In the process, some are rethinking their existing business models as they realize that certain assets may be more valuable separately than together and that deploying freed-up capital could benefit them and their stakeholders in better ways. This awareness is driving companies to rebalance their portfolio by carving out noncore businesses and/or geographies. Among preferred actions to support financial stability in the coming months, divesting nonperforming or noncore operations was cited by 36% of North American executives, 22% of European executives, and 30% of Asia Pacific executives.[54]

Cigna, in late December 2019, sold its nonmedical insurance unit to New York Life for $6.3 billion[55] in a move to focus on its health care businesses. In October 2020, AIG announced that the company will split off AIG's life and retirement business as part of a continued effort (which started in 2019 with the divestiture of Fortitude Re) to simplify its corporate structure and focus on P&C insurance.[56] (From a valuation perspective, AIG's carve-out plan looks like a timely move. P&C businesses have been trading near their five-year average forward P/E multiples, as investors anticipate that the hardening market should see insurance rates rise more than enough to cover increased losses from COVID-19, wildfires, hurricanes, and other catastrophe-related risks.[57]) In November, MetLife, which is looking to round out its group benefits business, entered talks to sell its US P&C car and home insurance unit to Zurich Insurance Group for close to $4 billion. The deal would allow MetLife to exit a segment in which it faces fierce competition from larger companies and expand Zurich's P&C business.[58]

Many sellers are using the proceeds to engage in big-ticket M&A to build scale, add capabilities, and gain cost efficiencies. In September 2020, MetLife acquired Versant Health, owner of brands Davis Vision and Superior Vision, for $1.675 billion in cash. The deal seeks to establish MetLife as a top-three player in the US managed vision care industry.[59] In December 2019, MetLife announced it would enter the pet insurance market by acquiring PetFirst Healthcare.[60] The MetLife plays are evidence of what we are seeing as gameboard moves as companies dispose of noncore assets as a defensive measure to then use the proceeds to go on the offensive in scaling or expanding upon core go-forward business models.

Accelerating digitization

Not only has the COVID-19 pandemic severely disrupted insurance companies' day-to-day operations—prompting a dramatic shift to remote work and virtual customer engagement—but it has also uncovered substantial gaps in insurers' operating models and enabling digital capabilities that they should work to close in 2021.[61] Deloitte's August–September 2020 global survey of insurance executives found 79% of respondents believe that the pandemic exposed shortcomings in their company's digital capabilities and transformation plans. In response, 95% of those surveyed are already accelerating or looking to speed up digital transformation to maintain resilience.[62]

Historically, the insurance industry has underspent in technology investments, creating a digital divide between insurers and current and prospective customers. To deliver a frictionless, end-to-end customer experience, improve operational efficiency, and accelerate innovation, companies across the insurance industry need to think and act digitally. The urgency to act—partly in response to COVID-19–spawned disruption—is accelerating organizations' efforts to deliver within the coming year what might originally have been three-to-five-year transformation plans.[63] Among survey respondents, investment priorities include cybersecurity (66%), cloud computing (59%), data privacy (53%), and data analytics (49%) (figure 9).

Forty percent of those surveyed expect to increase investment in direct online sales, which is understandable, since most customers likely didn't want to meet face-to-face with insurance salespeople during the pandemic—a trend that may continue long-term,[64] especially among younger audiences already fluent in digital engagement. Insurers are also looking to invest in AI, alternative data sources, and more advanced predictive models, not only to automate routine, labor-intensive data-gathering and processing tasks, but also to augment underwriters' capabilities and eventually transition them to higher-level, value-added roles such as portfolio management and greater interaction with brokers and large customers.[65]

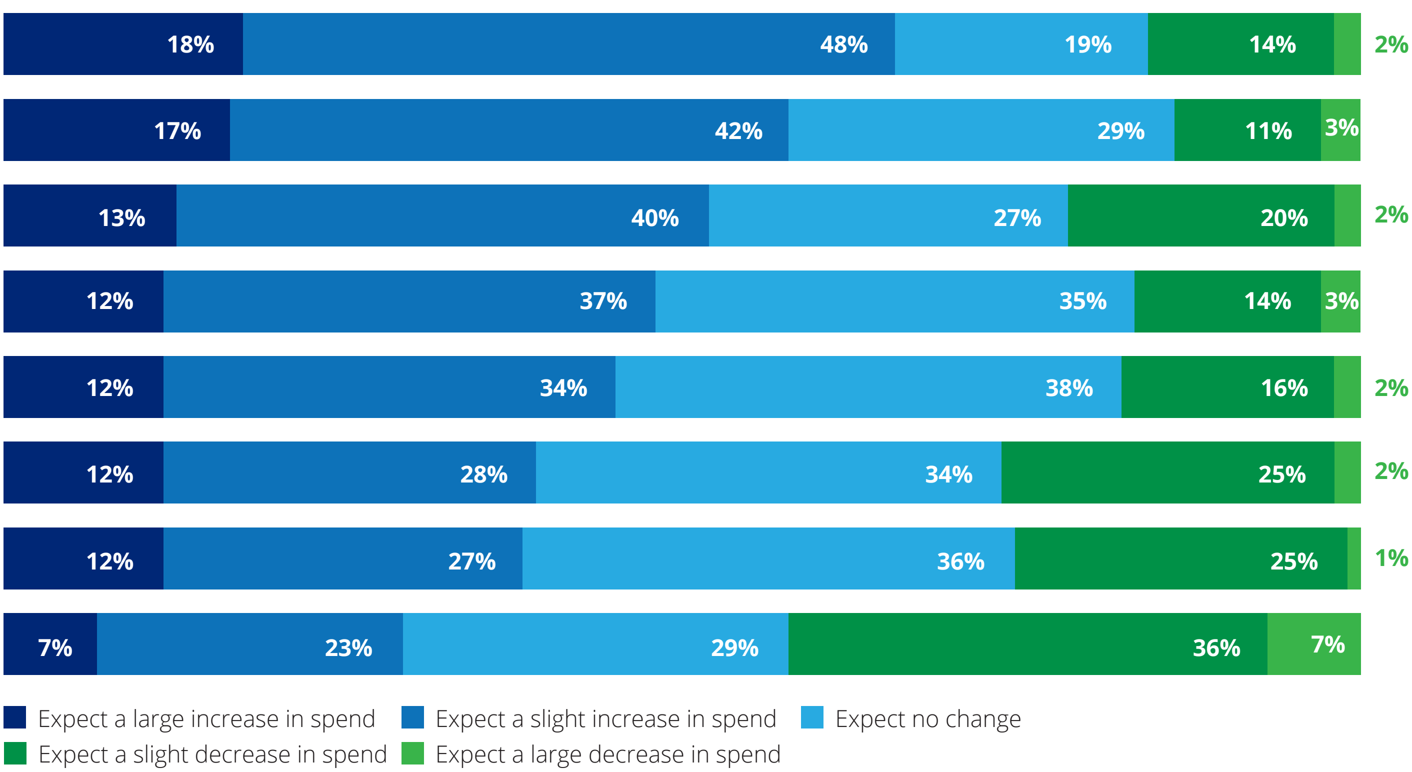
Brokers and agency channels appear to be leading in InsurTech investment and utilization. P&C personal lines (e.g., auto insurance) show a fairly high degree of digitization, commercial lines less so. Group insurance is a mixed bag. For example, dental claims processing is moving entirely digital, and some companies have tried to create digital experiences to make it easier for employees to do business with them, but they also recognize there are opportunities to digitize more core and back-office operations. Life insurers, whose face-to-face sales model has been most disrupted by the pandemic, have employed tactical digitization to get through the crisis. Further ahead is a potential hybrid sales approach in which consumers conduct transactions primarily online, but have the option to engage in a live chat or phone call with a representative to ask questions or clarify complex policy information.

While many insurance companies purchase specific digital capabilities (generally more time- and cost-effective than developing them in-house), others are acquiring entire InsurTechs outright. For example, Prudential Financial acquired Assurance IQ in 2019 to reach a new demographic using the InsurTech's business-to-customer platform.[66]

Even with digital investments on the rise, insurance companies may miss the boat in terms of true innovation unless they shed outdated ways of thinking along with their legacy IT systems and software. Additionally, they should broaden their view of InsurTech providers beyond that of vendors to partners and codevelopers and actively pursue partnership and investment opportunities with the startup community.

Figure 9. Insurance industry technology investment policies

Cybersecurity, cloud, data privacy, and analytics were identified as tech investment priorities



Note: Percentages may add up to more than 100% due to rounding.
Source: The Deloitte Center for Financial Services Global Outlook Survey 2020

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

Accounting developments

There are no looming accounting developments in 2021 that would serve as a deal-forcing function. Still, life and annuity insurers should continue preparing to meet updated Financial Accounting Standards Board (FASB) reporting rules for long-duration contracts (such as life insurance, disability income, long-term care, or annuities), which are expected to fundamentally change how insurers measure, recognize, and disclose insurance liabilities and deferred acquisition costs.[67] To comply with the new standards, insurers likely need to become much more agile in how they report, manage, and analyze data. While compliance efforts can be complex, costly, and time-consuming (e.g., modernizing data platforms, analytics capabilities, and tools for automation), they may be leveraged as a catalyst to modernize and expand business value across the insurer's information value chain.[68]

Regulatory developments

Insurance companies should keep on top of new and changing regulations in the following areas:

Privacy compliance. The California Consumer Privacy Act (CCPA), the first major piece of data privacy legislation in the United States,[69] became effective January 1, 2020. The good news for carriers with a global footprint is that much of the effort going into compliance with the European Union's General Data Protection Regulation (GDPR) overlaps with what should be done for CCPA.[70] Insurers also should strategize their compliance approach amid the continued rollout of other state-level legislation. Specifically, they should know where data about individual consumers is stored, how complete and accurate it is, and how it is used and protected.

Best-interest industry sales standards. The insurance industry is dealing with important new federal and state regulations that make transformative changes to its sales conduct standards. June 30, 2020, was the compliance date for the US Securities and Exchange Commission's (SEC) Regulation Best Interest (Reg BI), which requires broker-dealers to satisfy four important obligations: care, disclosure, conflicts of interest, and compliance.[71] Similarly, the New York Department of Financial Services' Regulation 1870, Suitability and Best Interests in Life Insurance, sets stringent requirements for insurers and producers who provide recommendations for the purchases of annuity products and life insurance products. NAIC membership approved revisions to the Suitability in Annuity Transactions Model Regulation Model #275 in February 2020; to date, three states—Arizona, Iowa, and Rhode Island—have adopted it.[72] Companies should assess their current state to identify potential gaps and enhancements needed for compliance, especially in anticipation of an M&A transaction.[73]

Market conduct. The mitigation of conduct risk continues to be a key focus area for insurance companies. Heightened regulatory scrutiny over the way insurers and their employees and agents interact with customers and markets likely will continue in 2021 and could extend into the various allowances and accommodations that states made for consumers under COVID-19 protections. Market conduct exams may uncover that consumers were not treated as they should have been under established rules.

Fraud. Regulatory and insurance company watchdogs should remain alert to increased instances of hard and soft insurance fraud in 2021, as they often accompany an economic downturn. Insurance fraud steals at least $80 billion every year from American consumers.[74] Fraud occurs in about 10% of P&C insurance losses and totals $30 billion annually.[75] The FBI estimates nonmedical insurance fraud to cost at least $40 billion every year.[76] Fraud can be committed by applicants, policyholders, third-party claimants, professionals who provide services to claimants, insurance agents, and company employees. Common frauds include inflating claims; misrepresenting facts on an insurance application; submitting claims for injuries or damage that never occurred; and staging accidents.[77]

Climate risk. COVID-19–related issues distracted from the US National Association of Insurance Commissioners' (NAIC) planned agenda in 2020; however, NAIC announced that climate risk is to be a priority issue in 2021. This is important as the escalating frequency of extreme weather events around the globe is sharpening regulatory focus on insurance risk and climate change. US state regulators and lawmakers are carefully watching the implications of climate-related risks (physical, liability, and transition) and their likely impact on coverage availability and underwriting assumptions; regulators are becoming increasingly concerned about the insurance industry's response[78] and are acting accordingly. For example, the New York Department of Financial Services, for the first time, is directing insurers to develop a financial disclosure approach specific to climate risk.[79]

The Deloitte *Insurance Regulator State of Climate Risks Survey* found that many regulators either aren't aware of how prepared carriers are to deal with this threat or aren't fully confident that carriers are indeed prepared. Insurers have an opportunity to more effectively communicate around climate risk management strategies and performance measurement through more standardized disclosure.[80]

Diversity, equity, and inclusion. At the NAIC 2020 summer meeting (held virtually), members agreed to form a commissioner-level special committee on race and insurance, which has several charges to "effect real, meaningful, and lasting change." Fifty member states of the 56 member jurisdictions have signed up to be part of this committee to take meaningful action.[81]

Tax policy developments

With potential changes in the US tax landscape on the horizon, insurance companies should strategically think through the tax implications of 2021 M&A transactions, both in the United States and other jurisdictions. The unprecedented amount of excess capital in the system from global COVID-19 economic stimulus efforts could produce short-term M&A tailwinds that turn into headwinds as policies tighten and tax rates go up. Planning is likely to require close monitoring of legislative and economic developments on multiple fronts, as well as investment in tax modeling and structuring to quantify and adapt to whatever changes materialize.

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

Figure 10. Key provisions of the US 2017 Tax Act relevant to the insurance industry

Tax issue	Current status	Notable insurance details	M&A considerations	What's next?
Base erosion and anti-abuse tax (BEAT)	The IRS and Treasury finalized certain regulations (Final Regs) on September 1, 2020.	The Final Regs allow taxpayers to waive deductions for all US federal income tax purposes to help reduce the amount of base erosions tax benefits. The Final Regs also provide a cutoff rule, by which activity of members of an aggregate group is only included for the part of the year that they are a member of the aggregate group.	The rule allowing the waiver of certain deductions for tax purposes should provide relief and certainty to taxpayers engaging in transactions placing them on the periphery of incurring BEAT liabilities. Taxpayers should consider how the timing of transactions will affect BEAT for the old and new aggregate groups under the proposed cutoff rule. BEAT is expected to remain a significant factor, both for diligence and transaction structuring purposes.	At this time, no further BEAT guidance is expected.
Passive foreign investment company (PFIC)	The IRS and Treasury issued final and new proposed PFIC regulations on December 4, 2020.	The Final Regs provide some clarity around qualified insurance company (QIC) status. The Proposed Regs refined the bright-line “active conduct percentage” test, which may make it significantly more difficult for foreign insurance companies that outsource significant portions of their operations (e.g., by retaining highly compensated third-party investment managers or providing significant oversight for outsourced services) to avoid PFIC treatment under US tax law. The Proposed Regs also include a host of other rule changes, including clarifications as to what companies are eligible for QIC status under the law.	US investors considering acquiring a minority stake in a foreign insurance company should carefully consider whether the company may run afoul of the Final and New Proposed Regs as part of its due diligence.	Public comments have been requested and are expected to be submitted. There is no publicly announced timeline for the revision or finalization of the Proposed Regs.
Life and nonlife consolidation regulations under Treasury Reg. 1.1502-47 (-47 Regs)	No substantive guidance issued to date.	No substantive guidance issued to date.	Taxpayers should consider the potential impact of revised life and nonlife consolidation rules on current and future tax liabilities when evaluating potential transactions.	The IRS’s Priority Guidance Plan released in October 2019 identified the issuance of regulations “regarding absorption of consolidated net operating losses and consolidated group computations under multiple TCJA provisions” under Treasury Reg. 1.1502-47 as a priority for the 2020 fiscal year. It is anticipated that the IRS will issue regulations for noninsurance consolidated groups under Treasury Reg. 1.1502-21 before tackling the more complex life and nonlife regime.

Nontraditional considerations for inorganic opportunities

M&A executives who responded to Deloitte's *2020 Future of M&A Trends Survey* are sending clear and strong signals that dealmaking is expected to be an important lever to navigate the COVID-19 crisis, enhance organizational resilience, and pursue new and disruptive growth strategies. We concur that M&A should have a strong influence on shaping the next normal insurance environment. Indeed, disruption can birth opportunity—historically, M&A deals during uncertain times have created more value.[82]

We expect to see a mix of offensive and defensive M&A strategies materialize in 2021 as insurance companies position themselves to protect existing markets, evaluate business mix and portfolio options, and capture defensible market leadership (figure 11). In addition to traditional mergers and acquisitions, companies should consider deploying a wide range of inorganic growth strategies, such as partnerships with their peers, coinvestments with PE firms, investment in disruptive technologies, cross-sector alliances with specialists, and partnerships with governments.[83]

Figure 11. Organizations may leverage strategies across multiple quadrants in M&A decision making[84]

Defensive M&A

The impact of the pandemic has forced many in the industry to evaluate their respective business models. As a result, some in the insurance industry may turn to M&A—whether by choice or necessity—to drive down costs, increase economies of scale, guard their client base, and safeguard their future. We expect companies to deploy defensive M&A strategies strengthen their capabilities and market posture in order to maintain competitive positioning coming out of the pandemic.

- **M&A to salvage value.** Companies that have been severely affected by the crisis and are in a financially vulnerable position likely will need to take decisive measures. Some may look at portfolio optimization to identify assets that lack strategic fit and could be divested. Others may take radical actions, including distressed asset sales to salvage value from loss-generating divisions.
- **M&A to safeguard markets to maintain competitive parity.** Companies where the impact has been less severe likely will need to build financial resilience by extracting deep synergies from recent deals. Many may consider alliances or coinvestment opportunities to reduce risk and capital outlay in their core business. This is where the acceleration to digitization may have a big impact as carriers look to make investments to safeguard what they do today in order to be more resilient coming out of the pandemic.

Offensive M&A

The COVID-19 crisis has highlighted the attraction of new digital channels, agile operating models, and supply chain links. Many insurance companies may need to actively pursue transformative acquisitions to rapidly adapt to the irrevocable changes to their business models. Priorities include transforming operations based on structural changes from the crisis (e.g., digitization, legacy modernization), driving longer-term operational efficiency, and increasing liquidity. In addition, companies should more actively engage with the innovation ecosystem, as well as consider alliances with both traditional and nontraditional players.

- **M&A to transform business and safeguard the future.** Companies with strong balance sheets and competitive positioning may use a more expanded view of M&A to establish broader alliances, evaluate ecosystem options, and expand into adjacent business areas. Others may explore acquisitions and alliances to close gaps in their portfolio and accelerate long-term transformation of their business models.
- **M&A to change the game.** A select few resilient and strategically well-placed companies may use M&A and other inorganic activities to capture unassailable market leadership. This would likely require alliances with both large specialist partners and startups from the innovation ecosystem. They also should use M&A to acquire disruptive companies at the edge of their existing businesses and use those as the springboard to launch new offerings to shape their sectors in the future.

M&A is a central part of CEO strategic discussions. Until organic growth becomes easier to achieve (unlikely in the near term) and able to appropriate stakeholder returns, a more expanded view of M&A should continue to be a primary mechanism for insurance companies to respond to market disruptions and opportunities.

Moving forward on 2021 insurance M&A opportunities

Conditions are aligning for a positive insurance M&A environment in 2021. As company leaders look beyond COVID-19 and strategize how to thrive in the next normal, they are considering how acquisitions, mergers, alliances, disposals, and investments can help them enhance their portfolios, enter more profitable market segments, and accelerate the shift to digital operating models. It will be important for industry leadership to take a more expanded view of M&A to include options which are inorganic in nature and can be characterized by:

- Stock valuations remain high. If they continue to increase, doing a stock transaction may be attractive, particularly for larger players.
- A hardening rate environment in commercial and specialty insurance and a middle market ripe for consolidation should boost P&C M&A.
- Persistent low interest rates may drive L&H and multiline companies to exit certain businesses or markets and divest properties that aren't delivering adequate returns.
- High valuations and low interest rates should allow strong buyers to use their share capital and leverage at an all-time-low interest rate.
- PE firms' interest to buy, improve, and sell remains strong. And both PE firms and insurance businesses have plenty of available capital to apply to M&A.
- Liquidity and credit spreads should not be inhibitors.
- Some early InsurTech investors formulating an exit strategy may trigger one or more IPO or acquisition by insurance carriers to accelerate the building of capabilities, such as the acceleration of digital efforts.
- Opportunities for greater collaboration among industry participants to reduce overall friction across the process; enhance customer experience throughout the journey; and bring new products, services, and capabilities to market.
- New ecosystems and marketplaces being formed for insurers to embed products and services as a way of reaching a broader customer base.

Insurance executives evaluating M&A opportunities in 2021 should factor in the following:

- Consider the pandemic's impact on economic recovery and market supply/demand dynamics, employees, customers, and the competitive environment. Then consider the company'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.
- Use scenario planning and M&A "wargaming" to help guide overall corporate growth and expansion strategies. Determine whether the company can thrive in the next normal on its own or if it needs to acquire a capability, technology, or book of business. Prioritize the markets in which the company needs to operate to drive growth and profitability.[85]
- For buyers, be selective about which properties to pursue. Also, be proactive about contacting targets, establishing executive-level relationships, and stating interest in a potential deal. Consider early and often the downstream integration implications.
- For sellers, develop a very specific view of the company's value proposition beyond financials to differentiate in an auction.
- Show authenticity and consistency while dealing with ecosystem partners, demonstrating collective gain in investments, JVs, and other partnering arrangements.[86]
- Be aware of the changing tax and regulatory landscape's potential impact on both domestic and global deals. Demonstrate to governments and regulators the long-term benefits of the company's M&A actions.

Appendix

Spotlight: Insurance industry M&A in major global markets

United Kingdom

2020 review

The United Kingdom (UK) insurance industry in 2020 was a hotbed of M&A activity across all subsectors and deal types.

The year's aggregate deal value was driven up by several megadeals, most notably Aon's announced acquisition of Willis Towers Watson,[87] but also the combined Tryg and Intact announcement to acquire RSA[88] and a few other sizable transactions, such as Sampo and Rand Merchant Investment's acquisition of Hastings.[89] 2020 also saw continued consolidation in the distribution space and an increase in public-to-private activity and attempted deals.

The UK P&C insurance subsector continued to be more active than life insurance. We saw significant transactions in both P&C commercial and personal lines and across carriers and distribution and services. Commercial lines insurers, which have benefitted from recent rate hardening and high customer retention levels, attracted considerable capital during 2020. The Lloyd's market, which has enjoyed the same benefits as the broader P&C commercial lines market and offers company-specific advantages (e.g., writing global risk from a single balance sheet, access to underwriting talent, access to E&S lines), experienced significant M&A activity in 2020, including an influx of funding for new startups. Similarly, P&C companies' pursuit of geographical expansion, operating scale, and technology capabilities in a market experiencing structural pressures drove personal lines M&A.

UK insurance distribution M&A continued at pace, with ongoing consolidation by trade and PE–backed vehicles attracted by the underlying fundamentals of the buy-and-build business model.

The life sector in 2020 saw Phoenix complete its acquisition of ReAssure,[90] which resulted in the creation of the largest life insurance and retirement business in the UK and left Phoenix as the only scale consolidator in the UK market. Life insurance companies doubled down under the combined pressures of COVID-19, low interest rates, and cost inflation and focused on changing their operating models, shoring up their balance sheets, and readying themselves for change in 2021. A good example of this was LV=, a major mutual in the life insurance space, which announced it will sell itself to PE group Bain Capital[91] with the objective of securing future benefits for its members.

2021 outlook

We expect 2021 to be another year of robust M&A activity for all UK insurance subsectors. Market commentary points to multiple drivers of continued P&C insurance rate hardening—social inflation driving increasing claims cost in US casualty, crystallizing COVID-19 losses, sustained low interest rates, and no recurrence of insurance-linked securities reloading—which could potentially draw more capital to P&C commercial lines. New P&C startup players could make M&A or IPO plays as they look to expand and challenge incumbents to become the new industry majors or to provide liquidity to existing shareholdings. PE firms and sovereign wealth funds provided most of the initial funding for new P&C startups, and some investors may have their mind on an exit. M&A activity in the Lloyd's market should again be brisk—while most of the attractions of being at Lloyd's remain, some companies may consider exiting due to the cost and governance of operating there. Other 2021 M&A drivers may include composite players shifting toward P&C, London brokers' long tail continuing to consolidate, and carriers seeking specialty capabilities and synergies. We expect the UK P&C personal lines M&A market to continue to be active; those insurers with differentiated technologies and platforms may benefit most from this consolidation by recognizing efficiencies when acquiring businesses and portfolios that were previously not optimally run.

For insurance distribution, the UK market remains highly fragmented despite high levels of consolidation, which should drive continued M&A among PE platforms seeking further scale.

Life insurance companies, having worked hard to change their operating models, will likely focus on portfolio optimization by reorganizing balance sheets and shedding noncore portfolios. One area of emphasis is expected to be noncore business in the offshore market, such as Ireland and the Isle of Man. There is likely to be a wide range of potential acquirers, with PE at the forefront looking to deploy funds in the space. Despite low interest rates, the BPA market is highly attractive to investors, with both rollups and new entrants likely. Finally, banks looking at over-the-cycle product offerings also may eye the insurance sector, particularly as pressures mount on their net interest margins with lower-for-longer rates.

Among macro-level regulatory and tax changes that could influence UK insurance M&A in 2021, Brexit could potentially drive a wedge in the UK's application of certain Solvency II regulations (e.g., with regard to the risk margin). This could embolden certain players to acquire, create uncertainty around the UK capital gains tax regime, and tax rates more broadly, and may accelerate transaction timelines.

China and Hong Kong

2020 review

The pace of insurance sector M&A activities slowed in mainland China during 2020 as potential acquirers and investors took time to observe and assess the health and economic impacts of COVID-19 and uncertainty around US elections. There were, however, several 2020 transactions that highlight a trend in which multinational insurers desire to take majority control of insurance operations in mainland China after the Chinese government's new rules on foreign ownership came into effect in January 2020:

- In June 2020, CBIRC approved the proposed share transfer of 15.3% of Huatai Insurance to Chubb Tempest Reinsurance Ltd., ultimately owned by Chubb Limited.[92] The transaction value is reported to be around US$1.1 billion, according to a news announcement by Junzheng Group, which sold the shares to Chubb. The transaction would bring Chubb's holding of Huatai to 46.2%.[93] The proposed transfer of the remaining 7.05% is currently held by Junzheng Group.
- HSBC subsidiary HSBC Insurance (Asia) acquired the remaining 50% stake in its life insurance JV in China from its partner, National Trust, to fully own the company.[94]
- Munich Re's ERGO insurance unit acquired 24.9% of Taishan Insurance, a P&C company.[95]
- AIA successfully turned its Shanghai branch into a wholly owned subsidiary.[96]

In another trend, insurance technology companies and online platform players are trying to acquire insurance licenses in mainland China. The latest attempt was by Shuidi Mutual Insurance Technology Company (Shuidi Group or Waterdrop Group). However, the transaction was halted by the regulator, as it has an issue with the indirect route of acquisition.

2020 proved to be a challenging year for insurers in Hong Kong. COVID-19 effectively halted mainland visitors coming to Hong Kong. Many insurers that rely heavily on mainland visitors to grow their new business saw their sales drop significantly. Tahoe Life, an insurance business sold to Tahoe Group by Dah Sing Bank in 2017,[97] is again on the market due to financial difficulties with Tahoe Group. The Insurance Authority of Hong Kong also has been more cautious in approving transactions due to a few recent incidents in which a transaction was not completed or the new owners had to put the business on the market again.

2021 outlook

Multinational insurance companies trying to acquire a majority stake or full ownership in China-based JVs could be a primary driver of increased M&A activity in 2021. In addition, insurance companies are showing keen interest in making technology investments and actively exploring opportunities to acquire digital capabilities to improve the customer experience, increase operational efficiency, and accelerate innovation.

Smaller insurers in Hong Kong that are already struggling to find a profitable business model may experience additional pressure from significant system costs and resource requirements associated with IFRS 17 and Solvency II regulations. Because of this, more insurance businesses may be looking for buyers. A few of them are already in the market, including Hong Kong Life, BEA Life, Tahoe Life, and AXA Wealth Management. AXA has multiple licenses in Hong Kong and appears to want to cash in on duplicates; others may do the same.

Australia

2020 review

The 2020 COVID-19 pandemic affected Australian insurance subsectors in different ways:

- Widespread redundancies and rising unemployment led to a spike in income protection claims for life insurance companies.
- A higher prevalence of COVID-19–associated physical and mental health issues led to a worsening claims experience for health insurers.
- A ban on international and domestic travel and widespread stay-at-home orders resulted in diminished travel insurance claims and motor vehicle accident–related claims for general insurers.
- A significant spike in claims on business interruption insurance policies, and a recent Supreme Court of New South Wales Court of Appeal judgment (unanimous decision), which determined pandemic exclusions that refer to the Quarantine Act, rather than the Biosecurity Act, are not effective to exclude coverage for losses associated with COVID-19. In response, IAG announced it will raise an additional $750 million in new equity capital.[98]

The pandemic also severely affected Australian 2020 insurance industry M&A activity, with deal volumes substantially lower than in prior years. 2020's landmark transaction was Westpac's announcement that it will sell its general insurance business to Allianz and enter an exclusive, 20-year distribution agreement. The sale price of $725 million represents a multiple of 1.3x FY2020 gross written premiums.[99] Allianz was viewed by many as the obvious suitor for the asset, given its existing relationship with Westpac as underwriter for auto, travel, boat, and business insurance policies offered to Westpac customers since 2015.

Brokerage transactions, driven by market consolidation, dominated the insurance sector by volume in 2019, and this trend continued for the small number of transactions in 2020. Of the three announced broking deals, US-based Arthur J. Gallagher & Co. acquired ZAS Insurance Management Ltd (trading as Southbank Insurance Brokers),[100] and PE firm TA Associates Management added to its global portfolio of insurance brokers with the platform acquisition of an equity stake in Honan Insurance Group.[101] Rounding out M&A insurance activity for 2020 was Australian local insurance broker AUB Group Limited's acquisition of a 40% stake in BizCover Pty Limited, an Australia-based online insurance distribution platform, for cash consideration of AUD 132 million.[102]

2021 outlook

The outlook for 2021 insurance M&A in Australia appears strong, as the risks associated with COVID-19's spread are contained and mitigated following successful statewide stay-at-home orders and other restrictions, national border closures, and mandatory hotel quarantine for citizens returning from overseas. A low-interest-rate environment is pressuring capital and returns for insurers, which means capital efficiency and optimization, including through M&A, will likely be critical to sustained success.

Various insurance assets are expected to come to market in 2021, driven by the ongoing divestment and simplification programs of the Big Four banks in Australia. (One potential transaction is CBA's carve-out of its general insurance business, Comminsure.) Executing these large bank divestment programs represents the greatest insurance M&A-related opportunity in 2021, with both life and general insurance businesses expected to be up for sale in 2021. These assets should interest local and international trade players.

Similarly, the trend of large life insurance divestments should continue in 2021. In one indicator, Australian bank NAB announced the sale of its New Zealand life insurance subsidiary, BNZ Life, to New Zealand life insurance provider Partners Life in late December 2020;[103] this after divesting its Australian life insurance business, MLC Life, to Nippon Life Insurance Company in 2015.[104] Profitability in the life insurance sector continues to be impaired by disability income insurance, which has deteriorated for some years. Increased regulatory scrutiny in this area is likely, in addition to the ongoing impacts of Royal Commission recommendations.

Due to the fragmented nature of the brokerage market in Australia, ongoing sector consolidation is expected to continue driving M&A activity in 2021. Listed local participants AUB and Steadfast continued to protect and expand their market share with offensive M&A to drive volume, capture more of the insurance value chain, and achieve economies of scale. We expect to see heightened competition in the Australian market for brokerage acquisitions following the entry of offshore players and PE investors.

Continuing the digitization pathway to modernize product offerings—for example, health and wellness support options as part of health and life insurance policies—and further development of InsurTech capabilities are expected to be crucial to bridge the consumer expectations gap, especially given the world-leading uptake rates of new technology by Australian consumers.

Canada

2020 review

Insurance M&A announced deal volume in Canada jumped in 2020 versus the previous year, driven primarily by Intact Financial Corp and Tryg's announced CA$12.3 billion (US$9.4 billion) acquisition of RSA Insurance Group,[105] as well as continued consolidation among insurance distributors. National and regional brokers and managing general agents (MGAs), many of which are backed by PE investors, continue to consolidate those markets.

Canada's P&C and life insurance underwriting subsectors posted relatively few transactions in 2020; this reflects the already consolidated nature of both markets among stock companies. Intact Financial Corp and Tryg's agreement to acquire RSA Group's Canada, UK, and international operations[106] was Canada's largest insurance M&A transaction. The acquisition is expected to help Intact significantly add to its already dominant market share in the Canadian P&C insurance sector and expand into the United Kingdom and Europe. Within the life insurance subsector, fraternal life insurer Foresters Financial and distribution company Canada Protection Plan agreed to merge, facilitating growth by leveraging mobile and technology-enabled operations as customers and advisers move increasingly to digital options.[107]

2021 outlook

Deal volume is likely to continue to accelerate in the brokerage sector as the rollup strategies of well-funded national and regional brokerages continue in 2021. Meanwhile, value assessments in some sectors have been complicated by recent market volatility and the impact on investment portfolios. Valuations within the life sector may be range-bound as a result.

Japan

2020 review

Japan's insurance industry saw limited M&A activity in 2020, due in part to COVID-19's impact during the year's first half. Overall, 2020 deal volume and value declined compared with 2019, although among subsectors, general insurance was a little more active. The trend of investing in technology ventures continued in 2020; however, overseas investments from life insurance companies went down.

2020's diverse deal types illustrate how Japan's insurance companies are using M&A to support their corporate growth strategies:

- **Investments in overseas insurance companies.** Sompo International Holdings acquired Diversified Crop Insurance Services, a subsidiary of CGB Enterprises, Inc.,[108] and Mitsui Sumitomo Insurance announced its investment in Hippo Enterprises.[109]
- **Portfolio optimization in overseas subsidiaries.** Tokio Marine group sold stakes of Tokio Marine Egypt Family Takaful.[110]
- **Additional investments in overseas subsidiaries.** Nippon Life Insurance injected capital into MLC Ltd.,[111] and Sumitomo Life Insurance invested in Singapore Life Pte. Ltd.[112]
- **Acquisition of insurance brokerage firms in Japan.** Orix Life Insurance acquired stakes in Life Assist Co., Ltd;[113] Neo First Life Insurance acquired stakes in Advance Create;[114] and Dai-Ichi Life Insurance acquired Asset Guardian Life.[115]
- **Newcomers entering industries.** AEON Financial Service, the financial subsidiary of AEON, the leading Japanese retail group, acquired majority stakes in Allianz Life Insurance Japan.[116]

2021 outlook

We expect insurance M&A activity in Japan to rebound in 2021 as the country and industry begin to recover from the pandemic's health and economic fallout. Among drivers for increased dealmaking are Japan's aging and shrinking population, continued ultra-low interest rates, ongoing consolidation in the brokerage sector, and investment in technology ventures.

Online distribution channels are expected to be among the most sought-after acquisition assets, for two reasons: By law, financial intermediaries now will be able to concurrently provide insurance products, banking products, and securities, which likely will encourage mobile carriers and fintech companies to pursue entry into Japan's insurance industry. Also, COVID-19 has had a negative effect on face-to-face sales and service interactions, and therefore many insurance companies are looking to transform their traditional distribution channels to digital ones or a hybrid of both.

France

2020 review

Although the impacts of COVID-19 greatly reduced economic activity throughout Europe during the second quarter of 2020, the French government's broad economic support packages appear to have suppressed or at least delayed corporate defaults and restructurings, in turn allowing the strongest actors to pursue their acquisition and consolidation strategies with continued access to capital markets. Financial services transaction volumes were slightly less affected than other sectors in the first half of the year, and both strategic players and insurance brokerage sponsors were back in size and number in 2020's second half. Nevertheless, fiscal and monetary policy impacts are unlikely to fully stem corporate defaults in 2021, which were preemptively priced into credit insurance policy renewals in the latter half of 2020.

In the global composite space, AXA and its European peers continue their repositioning efforts with significant worldwide asset sales. Most notably, AXA announced its exit of the Gulf region[117] for a completed sale of its Eastern European Life and P&C businesses to UNIQA for €1 billion in October.[118] For example, Generali's assistance business, Europ Assistance,[119] announced the 50% sale of its French subsidiary and the setup of a strategic partnership with Credit Agricole Assurances, further validating the bancassurance model as the preferred distribution channel in France.

The wave of consolidation sweeping the asset management (AM) sector worldwide did not spare Natixis and La Banque Postale, which combined its fixed-income and insurance-related AM businesses in a €415 billion (US$500 billion) JV in June 2020, creating Ostrum Asset Management.[120] With an asset-liability matching product suite and an institutional client base, Ostrum likely will seek to grow its European client base outside of France.

Both insurance broking consolidators and their sponsors, very active in recent years, stayed the course in 2020 and pursued a number of smaller acquisitions. Financière CEP, a leading mortgage and credit broker, was acquired by Bridgepoint from J.C. Flowers for €1.3 billion.[121] Brokers Santiane[122] and Finaxy[123] were acquired by Latour Capital and Ardian respectively, both from PE sellers.

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 reached record prices in 2020, and banks are expected to return to M&A after a prolonged hiatus as negative European Central Bank rates continue to erode earnings and force cost reductions.

2021 outlook

Interest in French business-to-consumer (B2C) and wholesale insurance brokers from US and UK private equity houses is expected to continue as the sector benefits from recurring revenue and a digitalization push forces 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 benefiting from a group distribution infrastructure, ultimately gaining market share in an otherwise low-growth industry.

In the carrier space, ongoing rumors around the scale and scope of an Aviva France sale, with composite business of more than €115 billion (US$135 billion) in assets, are likely to dominate industry headlines for the first half of 2021, while other large carriers remain focused on executing M&A transformation plans. Allianz was in exclusive talks to acquire Aviva in a joint bid with Apollo-backed life insurance consolidator Athora until October 31, 2020,[124] when it ultimately let its exclusivity period lapse. Given that back-book consolidators have yet to execute a transaction in France, any joint approach will likely require a regulated onshore insurance company to serve as back-book reinsurer or purchaser to obtain regulatory approval. Other offers of interest are expected as an open process is launched.

The reorganization of the shareholding structure of La Banque Postale and CNP Assurances, backed by the Groupe Caisse des Dépôts with the objective of creating a publicly owned bancassurer, is proceeding apace despite the crisis.

Several broad industry trends may boost 2021 insurance M&A activity in France:

- **Insurance broking consolidation and PE interest.** Two secular trends in French insurance broking are increased consolidation activity and an influx of PE capital driven by a persistently low real and nominal interest rate environment. Consolidators seek to grow operating margins by scale and digitization while maintaining client loyalty, and many are supported by domestic and foreign PE funds seeking resilient, fast-growing, and cash-flow-generative businesses like insurance broking.
- **Mutual sector consolidation.** With a steep rise in combined ratios for health and employee benefit insurers, predominantly mutual insurers without access to capital markets, mergers, integrations, and cooperation agreements 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 a deep-rooted one—from a total 1,200 mutuals in France in 2006, slightly fewer than 400 remain.[125] 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. Their digital delivery propositions are expected to gain in relevance post-crisis.
- **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 relatively slow uptake, the number of insurers applying for an FRPS regulatory approval increased in 2020.
- **Legacy life insurance products and reserves.** French savers have long looked at two products for higher-yielding deposits: banks' "Livret A" and insurers' "eurocontracts," the latter usually guaranteeing a minimum rate of interest 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. However, 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 the regulator, the ACPR.[126] Consolidators, therefore, need to purchase an existing life insurer or set one up, both options currently being explored by the industry.
- **ESG fund management offerings.** With regulations requiring environmental, social, and governance (ESG) fund options in an increasing number of savings products, life insurers and asset managers are bringing to market a wide variety of ESG-compliant funds. Debt capital markets are increasing the European corporate supply of green bonds while the industry grapples with defining and agreeing on recognized qualification standards.

Germany

2020 review

At 22 reported transactions, 2020 insurance-related M&A volume in Germany dipped slightly below 2019's total of 25 reported deals. 2020 aggregate deal value will likely decline in line with the deal count; however, detailed volume figures for a number of the year's transactions are not available.

Nonlife and InsurTech M&A comprised the bulk of the year's activity. Among notable deals, Provinzial NordWest insurance group (PNW) and Provinzial Rheinland insurance group merged in August (backdated to January 1, 2020); this was the largest merger in the German insurance market in more than five years.[127] Allianz and Banco Bilbao Vizcaya Argentaria (BBVA) formed a bancassurance JV in Spain, including a long-term exclusive distribution agreement for the sale of P&C insurance products through BBVA's banking network in Spain.[128] Allianz also bought a majority stake in Jubilee Holdings' short-term or general insurance units in Kenya, Uganda, Tanzania, Burundi, and Mauritius for a total of $100 million.[129] Finally, in a late December 2019 deal, liability management company Gossmann & Cie.[130] acquired Schwarzmeer and Baltic Sea Insurance Company (SCHWARZMEER UND OSTSEE Versicherungs-Aktiengesellschaft).

2021 outlook

Despite the current macroeconomic uncertainties, we expect that 2021 insurance-related M&A volume should increase compared with 2020, although overall deal flow may not reach previous historic levels before mid-2021. We may see more M&A activity in the life insurance and pension funds segment—both are exposed to the low-interest-rate environment, which prompted the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Germany's financial regulatory authority, to announce closer monitoring of the segment. Several pension funds and some life insurance entities are closed for new business, and, despite scarce solvency funds, we expect that current shareholders are likely to be reluctant to contribute further equity.

Increasing attention from foreign financial investors and insurers might trigger transactions in the InsurTech, broker, and specialty insurance segment; however, local market participants continue to be reluctant to divest. German multinationals likely will continue to target nonlife opportunities globally and vertically to diversify their portfolio (e.g., by looking to insurance targets in selected markets).

With many major European insurance groups shifting their strategic focus to core markets, the existing trend of divesting foreign, noncore operations, particularly in Central European markets, is expected to continue. Some insurers are acquiring distribution channels and MGAs to gain market presence and redirect distribution volume from other market players to their own books. In general, disposal of capital-intensive business remains at a low level. For nonlife runoff platforms, in particular, it has not been possible to acquire a significant stake of portfolios from German market players, since they prefer to manage them internally.

Risk carriers show an increasing focus on InsurTech collaborations and strategic acquisitions. Currently, the distributor and process-enabler segments dominate the InsurTech landscape. Incumbent insurers are looking for ways to closely control their InsurTechs, as evidenced by a stronger level of activity around majority investments and full-fledged acquisitions versus more cooperation-based models. This continues to drive the upward price points observable in the market.

Driven by the COVID-19 pandemic, Germany's insurance industry significantly increased its technology investments in 2020, and we expect this trend to continue. Most of the investments are about improving customer experience and operational efficiency or, more generally, about shifting strategic focus toward comprehensive operating model digitalization. The specific challenge for buyers in the M&A market in 2021 is to adapt their digitization strategy to the current requirements and manage the successful integration of technically weak target companies. Potential buyers should develop a clear view of their future strategy and analyze takeover candidates for their fit, focusing diligence beyond financials to include technology, operating excellence, and products.

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