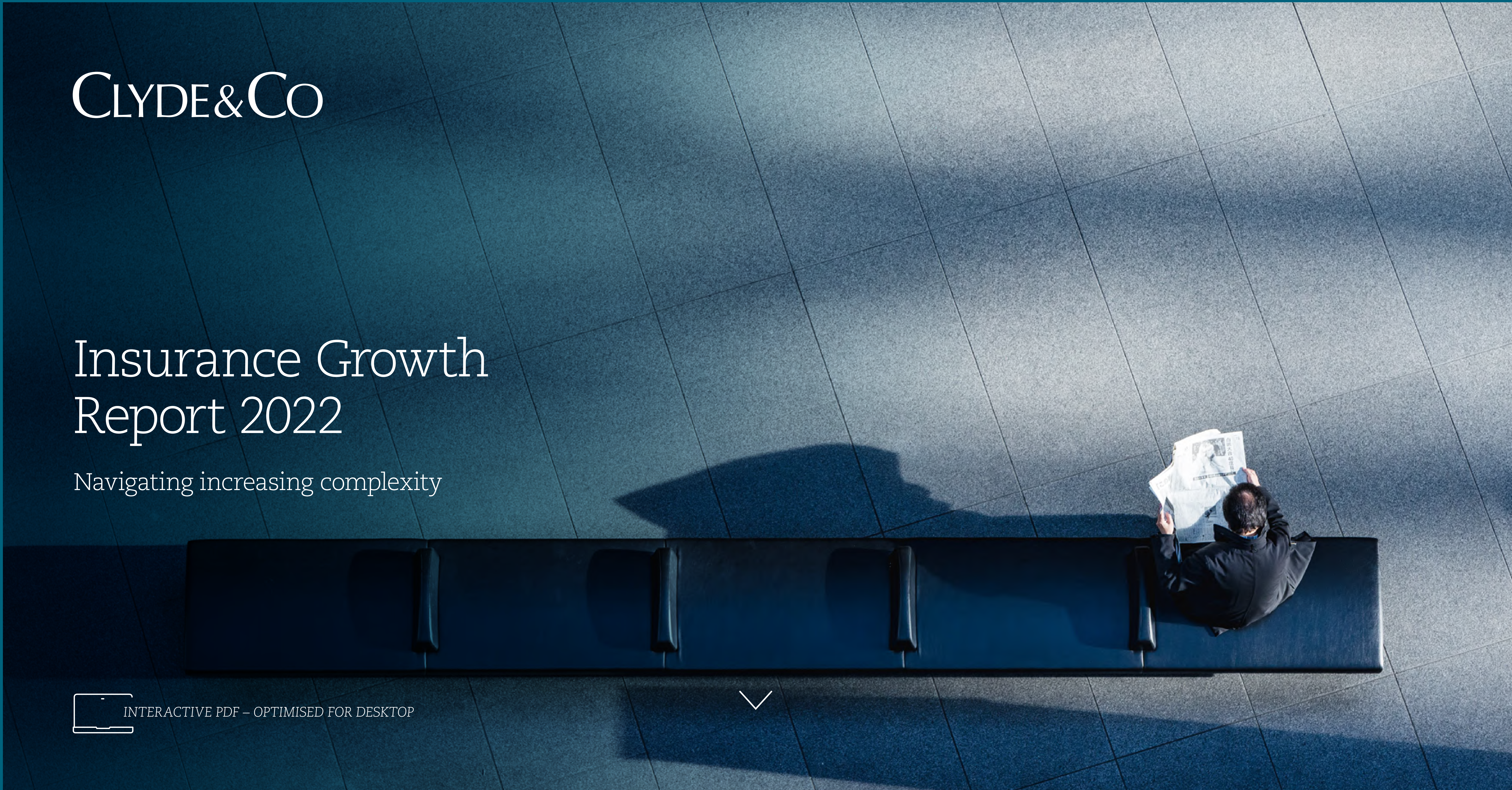


CLYDE&CO

Insurance Growth Report 2022

Navigating increasing complexity

INTERACTIVE PDF – OPTIMISED FOR DESKTOP

Contents

Overview

Sentiment across the insurance industry is markedly positive, especially in the context of events of recent years.

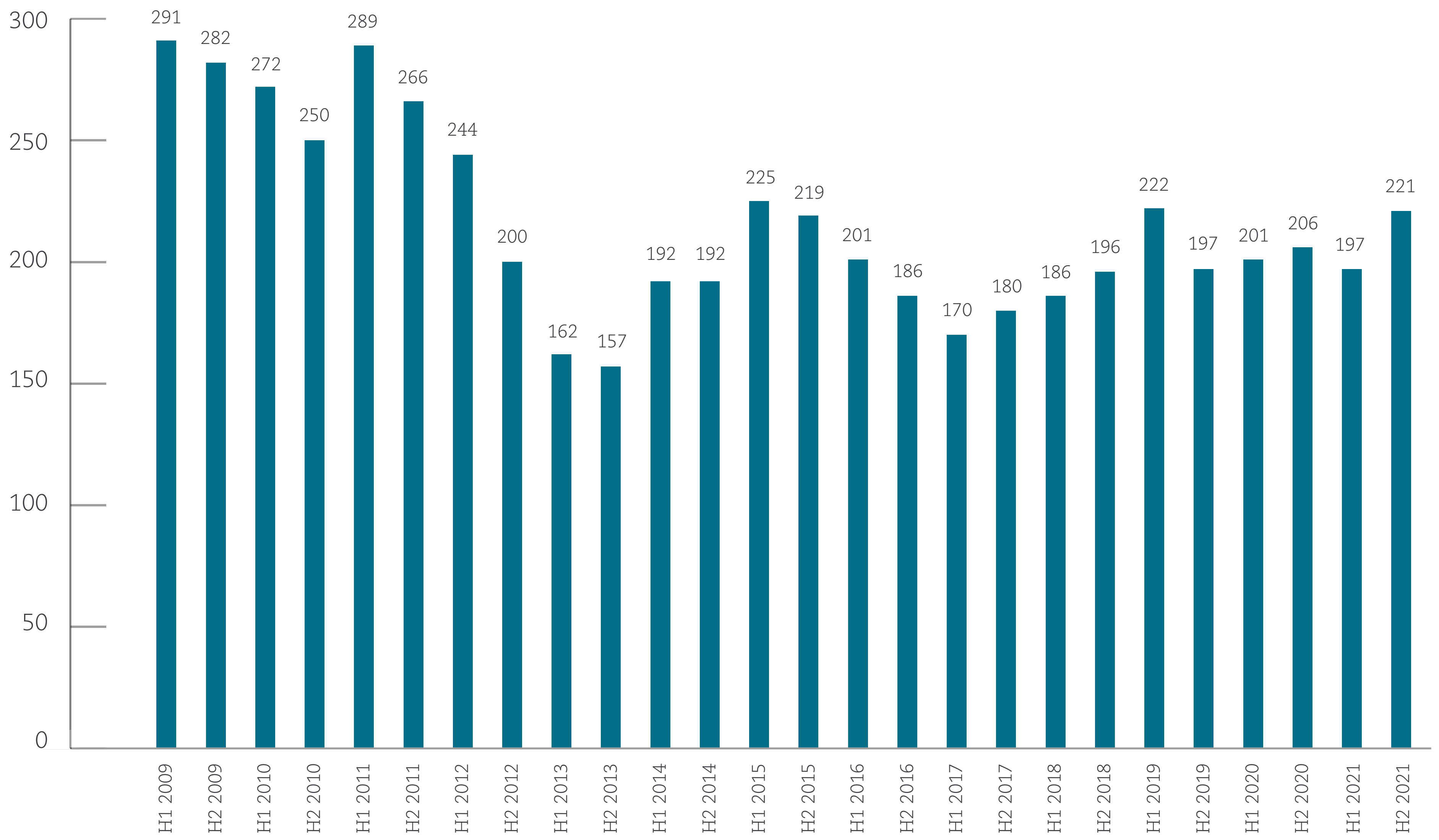
While 2021 saw the pandemic continue to shape the economic and political landscape, rising prices across all product lines, even those perceived as difficult, generated healthy top line growth for many insurance businesses. The claims picture was relatively benign. Although there were a number of significant catastrophes, combined with some large attritional losses, there were no seismic events that would have depleted market capacity. On the flipside, inflationary pressures are starting to return and re/insurance carriers are feeling the impact of rising costs on their operations. The war for talent has intensified post-COVID, as the industry cannibalises its own talent pool rather than look further afield. For those businesses looking to expand, the decision on whether to grow through acquisition or by building out existing operations has never been more relevant.

M&A activity on the up in 2021

Despite having to suffer through another year of the pandemic, the global M&A market has held its nerve.

While there are new avenues to growth on the horizon, mergers and acquisitions continue to provide attractive opportunities for insurers to grow their businesses, expand into new markets and acquire new customers. Following a particularly busy second half of the year for deal-making, M&A activity for 2021 as a whole was back close to the heights of 2019 levels. Deals in the Americas were up strongly year-on-year, while M&A in Europe saw a marked uptick in activity in H2 2021. However, Asia Pacific saw the number of completed transactions drop to their lowest level since 2017. Activity in the Middle East & Africa was also down compared to last year, despite a relatively strong second six months.

Volume of deals globally 2009-2021



418

deals completed in 2021
(up from the previous year, 407)

Five growth drivers to watch

Innovation takes centre stage

Insurtech companies are coming into their own as engines of growth for the insurance sector.

The US remains the most developed market for insurtechs, with a number of firms having reached a mature phase of growth where they are now looking to acquire existing insurance operations to become 'full stack' carriers, rather than becoming agencies that sell policies on behalf of other carriers. In other regions, by contrast, the relative lack of insurtech unicorns means that most firms are still too small to either partner with large insurers or acquire carriers.

Insurers are also looking to leverage their abundant data to find new areas of growth, with an industry-wide push to make use of innovations such as artificial intelligence (AI) and machine learning to improve data capture and analysis and to boost overall efficiency.

However, with regulation in this space still embryonic, without a harmonised approach to regulating AI across jurisdictions, carriers potentially risk butting up against individual country/state data protection laws in their use of AI. In the Middle East, for example, regulators are still relying on regulatory sandboxes for these activities. Whilst creating flexibility, this undermines certainty of regulatory approach to key issues.

The experience of moving to remote working during the pandemic has forced insurance businesses of all sizes to overcome the issue of investment in outdated legacy IT systems by moving to cloud-based solutions. This is opening up opportunities for product innovation and greater agility as carriers partner with tech firms on transforming their platforms.

> *Investment flowing into the insurtech space keeps growing by leaps and bounds. The successful insurtechs are at a place where, for various reasons, they want to have that full stack insurance company. These companies want to grow further, go on to develop products and control their destiny."*

Vikram Sidhu
Partner, New York
+1 212 702 6773
vikram.sidhu@clydeco.us

New business models are emerging

Developing ecosystems will be an important growth strategy for insurers in the year ahead: identifying key services that dovetail with their insurance products and integrating those into their customer journey.

A recent McKinsey study on the value of digital ecosystems suggested they could account for around EUR60 trillion in revenue globally by 2030.

While the insurance sector is firmly on the path to digitalization following the move to remote working during the pandemic, those who don’t take full advantage of digital platforms, and access to innovations such as automation, data analytics and modelling are likely to be left behind.

The anticipated growth in parametric insurance business could form a key part of this. The growth of insurtech start-ups writing parametric business via an MGA model is being paralleled by traditional carriers expanding their existing parametric offering across multiple business lines. Adding a variety of data and analytics providers and tech businesses to their digital ecosystems will help carriers with structuring parametric triggers and facilitating payments on parametric policies.

“

Any insurer who finds the right partners and builds up ecosystems that can be seamlessly connected with a bank or another distribution partner will, in five years, be in a much better position than those who just experiment in this area.”

Eva-Maria Barbosa
Partner, Munich
+49 89 244420101
eva-maria.barbosa@clydeco.com

Build, buy or both?

Alongside, or as an alternative to acquisitions, insurers are also pursuing a number of avenues for generating organic growth.

As well as the development of parametric insurance products across a range of business classes, which promises to be a significant opportunity, other product innovations include coverage for the growing use of telemedicine, a renewed focus on renewable energy solutions driven by ESG imperatives, and emerging risk solutions for climate change-related exposures.

In the cyber market there has been a continuing expansion of cyber insurance operations and capacity, driven in part by the proliferation of data protection regulations around the world. China and the UAE are examples of jurisdictions that have introduced new cyber security and data privacy legislation in recent months.

Growth in M&A activity has been accompanied by an increased appetite for warranty and indemnity (W&I) insurance. The Middle East, in particular, is emerging as a growth W&I market as awareness of the product grows, and European W&I carriers have had two record years in a row. The more mature US W&I market also offers significant room for growth.

Following Brexit, many UK insurers are looking to expand representative offices in Europe into fully-licensed subsidiaries, to meet Continental demand for specialty capacity. For the London market, however, this represents less of an opportunity than a drain of capacity into Europe.

"

Brexit is acting like a slow puncture for the London market. The UK branches are gradually getting smaller as business migrates to Europe. As regulation gets ever more complex, so does the ability to do business on a global basis – and Brexit has highlighted this."

Ivor Edwards
Partner, London
+44 (0) 20 7876 4162
ivor.edwards@clydeco.com

Run-off business proliferating worldwide

The legacy market remains a popular choice for the divestment of non-core assets, whether from P&C carriers and banks selling off life insurance divisions, or the spin-off of underperforming classes of business or subsidiaries due to market conditions.

The legacy market remains a popular choice for the divestment of non-core assets, whether from P&C carriers and banks selling off life insurance divisions, or the spin-off of underperforming classes of business or subsidiaries due to market conditions.

In Europe, the overhaul of Solvency II regulations is putting a lot of pressure on insurers to change their approach to both underwriting and investments, to align themselves with climate change goals, as regulators look to restrict access to capital relief measures for insurance business stemming from carbon-intensive industries.

In the Middle East, strong appetite for portfolio transfers as a means of divesting assets continues to build momentum for the realistic prospect of a standalone run-off market in the region. While appetite among buyers and sellers, as well as investors in legacy operations, is buoyant, the region's regulators are still some way off from delivering a workable framework for run-off business.

In the US, run-off players still have plentiful capital available to conduct legacy deals. A growing number of carriers are thinking about how best to position themselves for growth, post-pandemic, with strategic disposals being considered as a route to freeing up capital.

> *Run-off is becoming a hot topic. I've had more conversations with international run-off specialists around accessing the market in this region in the last 12 months than ever before. This year we will see much more discussion with regulators and increased activity for the purpose of run-off."*

Peter Hodgins
Partner, Dubai
+ 971 4 384 4000
peter.hodgins@clydeco.com

A wider range of distribution channels

Bancassurance continues to be a growth market in Europe and Asia, notwithstanding the retrenchment of banks from life insurance business.

Banking firms are continuing to have great success in selling insurance through apps and online portals. However, while this represents a good growth opportunity for carriers it also requires a different partnership structure, with insurers needing to invest heavily in additional capabilities, such as data analytics and improvements to the online customer journey, to be able to service this business.

The MGA market continues to grow, particularly around insurtech platforms. Strategic alliances between between carriers and MGAs offer the former an easier route to white-labelling new products than launching their own new platforms.

While launching start-up operations remains challenging in the current economic climate, the exit of capacity from some markets is being matched by the licensing of new players – notably in the Middle East where the DIFC has seen a number of new underwriting vehicles established, including Lloyd's syndicates. Licensing has also been a route to expanded distribution in Asia, as carriers look to set up in Hong Kong rather than acquiring existing operations.

Strategic alliances between insurers and non-insurance business are also strongly in evidence, whether with bricks-and-mortar retailers, e-commerce platforms or technology firms.

"

Partnerships between insurance and non-insurance businesses is a major growth area, because when customers have a relationship with an existing business, they think of it holistically. That kind of offering makes sense from the customer's perspective. However, it's also a space the regulators are scrutinising very carefully."

Joyce Chan
Partner, Hong Kong
+852 2287 2752
joyce.chan@clydeco.com

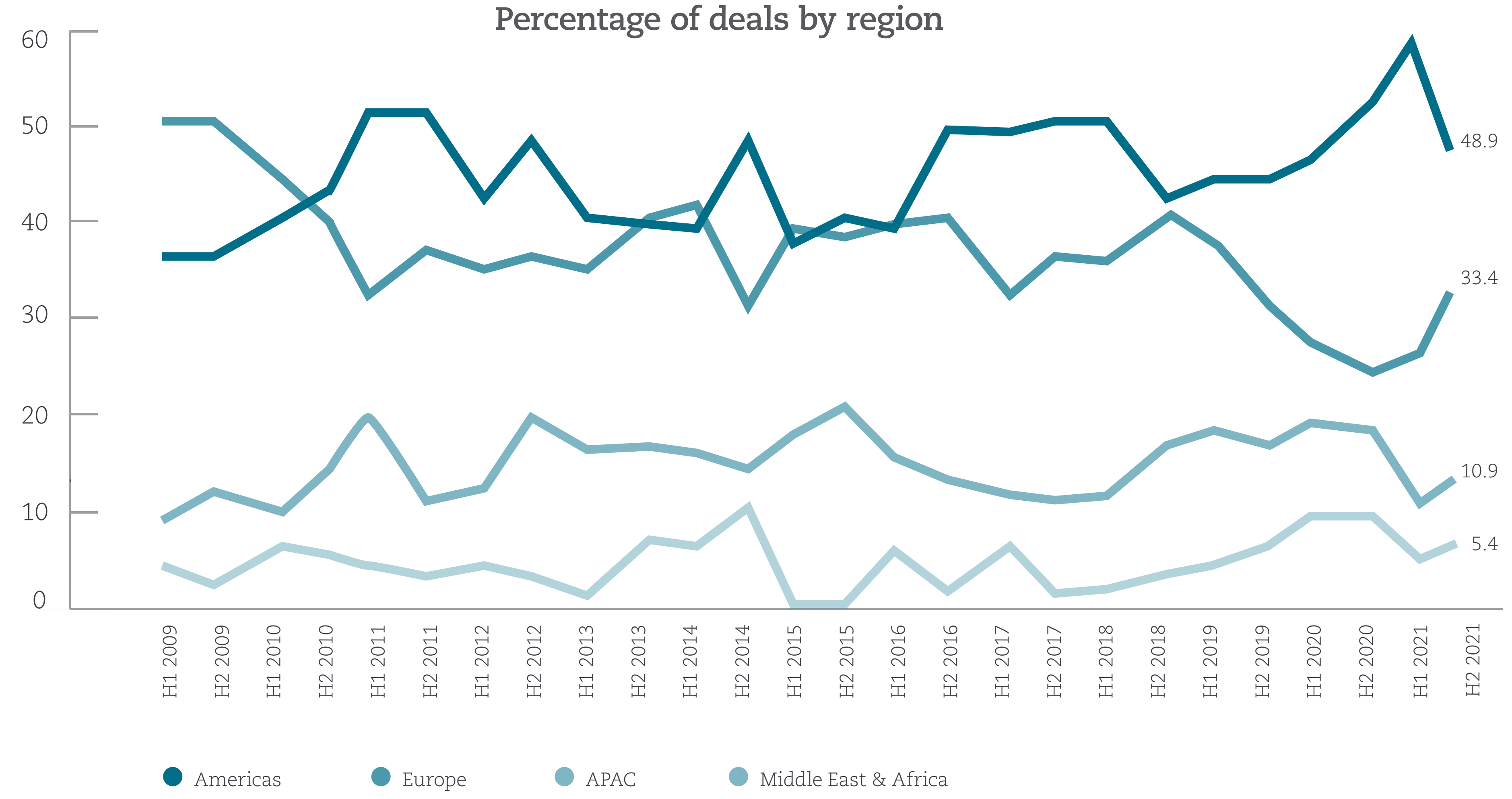
Regional focus shifting

Regional focus shifting

Despite a growing number of deals in Europe in 2021 the market still remains depressed post pandemic.

There is lots of interest from potential buyers but there simply are not enough suitable targets. In contrast, general market sentiment in the US – once again the world's most active market for M&A by some margin – is more buoyant, which propelled the country's deal total in 2021 to a six-year high. We expect this strong appetite for deal-making to endure in the coming year. Meanwhile, in Asia Pacific, the ongoing impact of COVID-19 continues to dampen appetite for M&A, and significant caution around making investments will remain for the foreseeable future. Although the first half of 2021 saw very few deals in the Middle East and Africa, there was a notable uptick in activity in the second six months and we expect this trend to continue with further deals through 2022.

Percentage of deals by region



Region	2020	2021	%change
Global	407	418	+2.7%
Americas	192	224	+16.7%
Europe	103	125	+21.4%
APAC	75	41	-44.0%
MENA	32	17	-46.9%

Region	H1'21	H2'21	%change
Global	197	221	+12.2%
Americas	116	108	-6.9%
Europe	51	74	+45.1%
APAC	18	24	+33.3%
MENA	5	12	+140%

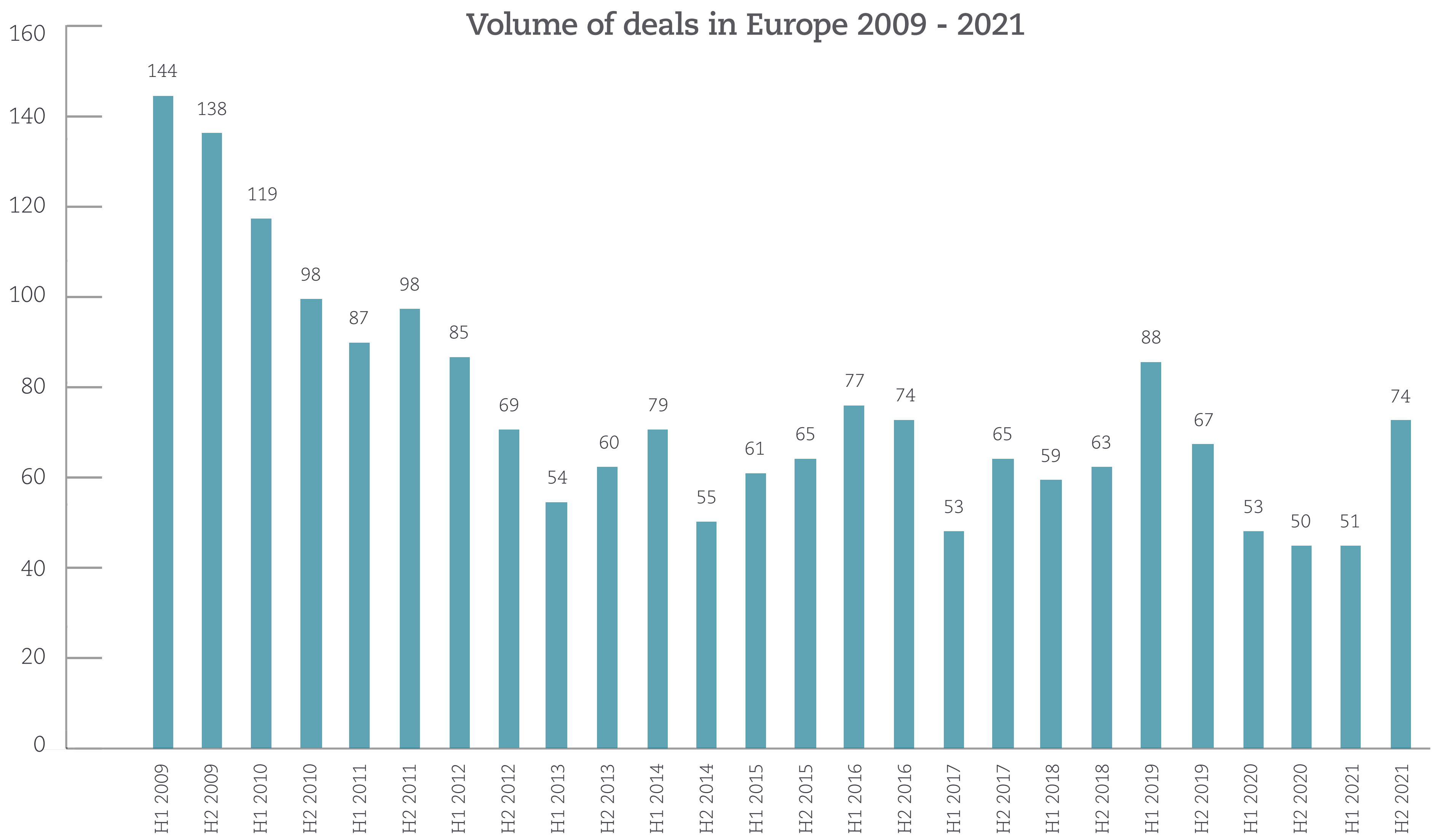
Increase in mega deals coming to market

- In 2021 there were 25 deals valued at over USD 1.0 billion versus 20 in 2020
- Geographic spread of big spenders
- Eight acquiror nationalities among the top 20 largest deals by value versus 13 in 2020.
- Last year the US had six and France and South Korea two each

UK hosts biggest deal of 2021

- Regent Bidco Ltd's takeover of RSA Insurance Group PLC for USD 9.2 billion was the largest deal of 2021

Activity in Europe picks up

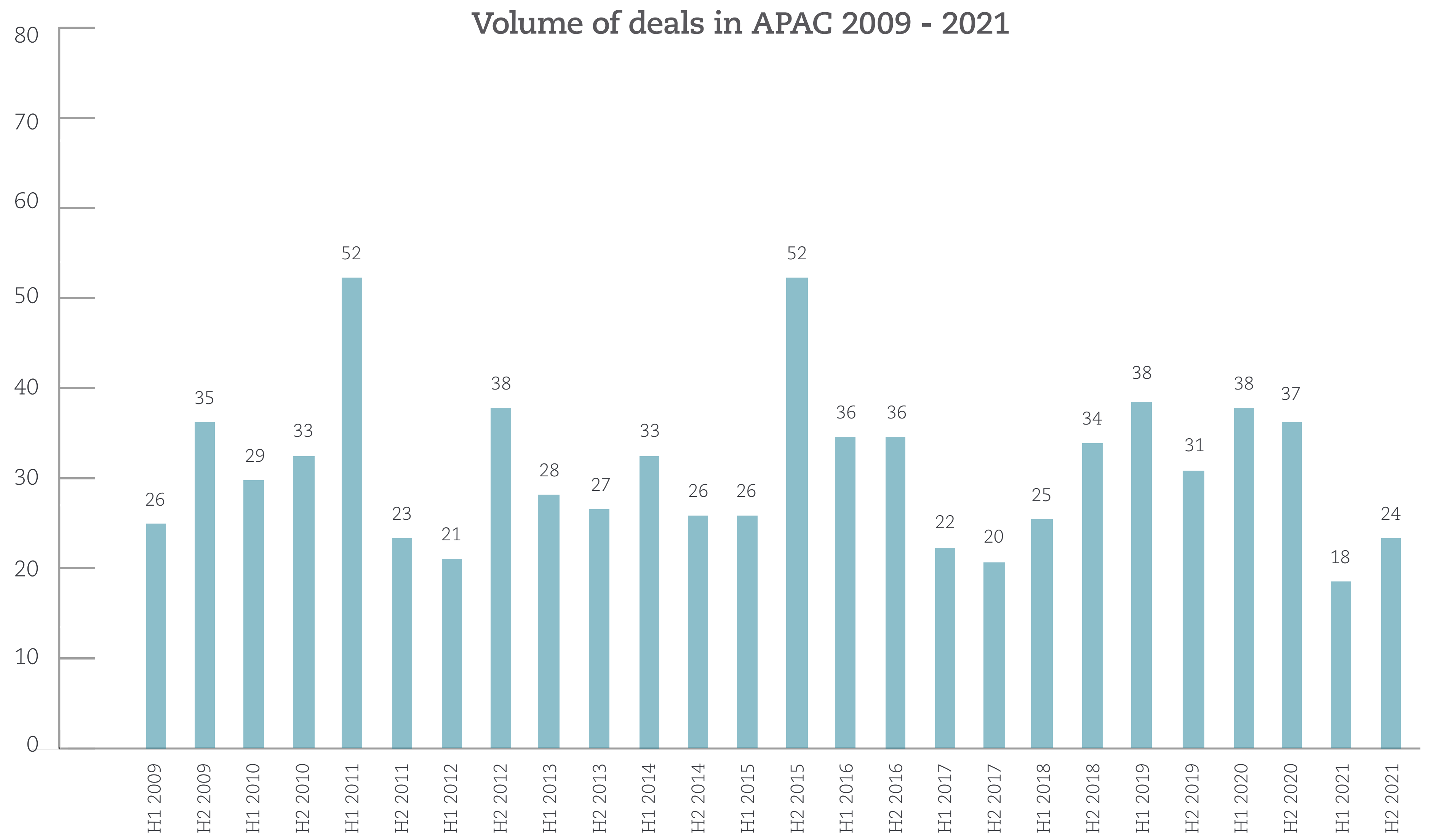


- Most active countries in Europe by number of deals: UK 37, France 19, Spain 15

Deals in the Americas at six-year high

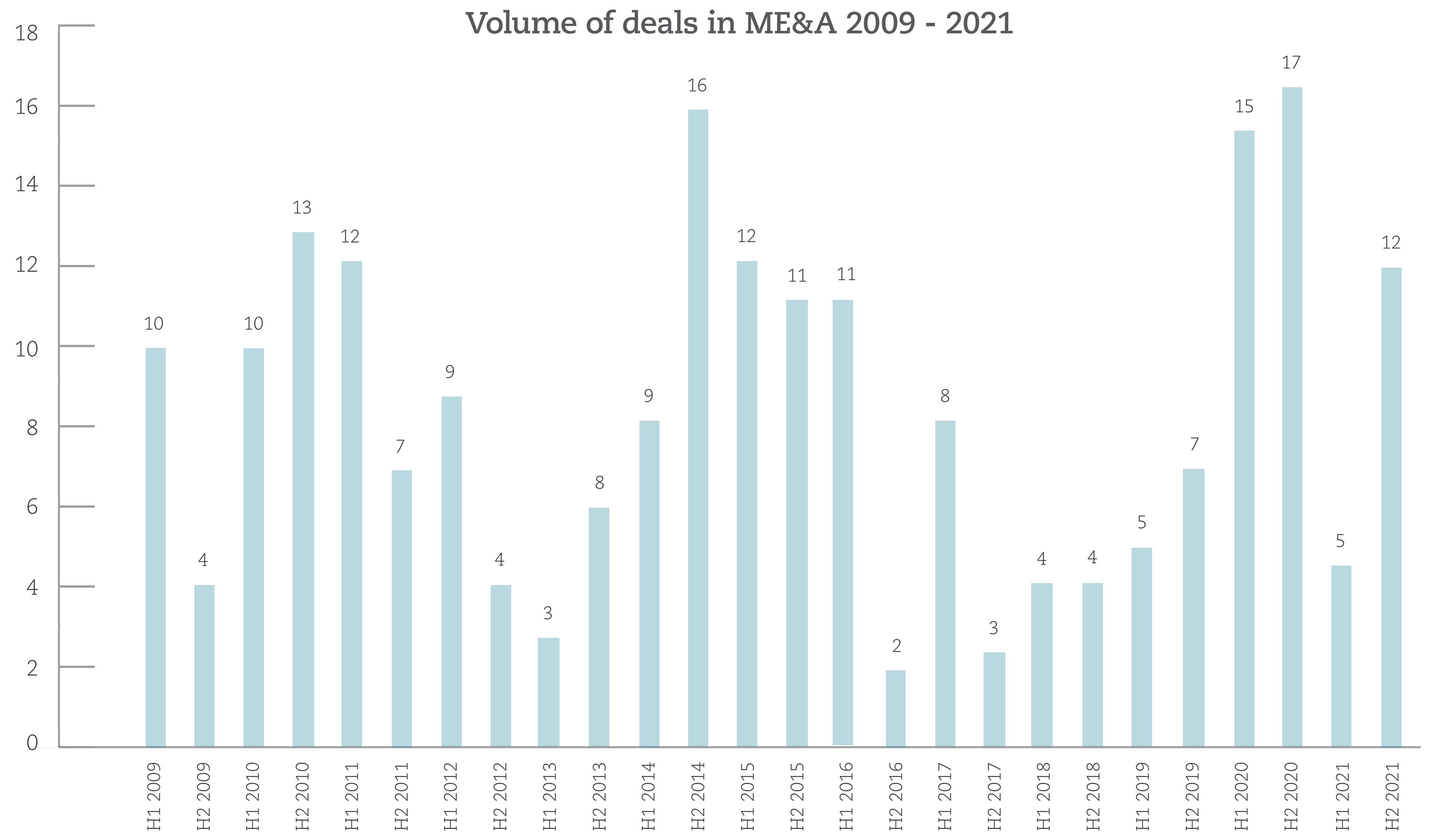
- Most active countries in the Americas by number of deals: US 180, Canada 17, Bermuda 15

M&A in Asia Pacific at four-year low



- Most active countries in APAC by number of deals: Japan 17, Australia 6, India 4

Mixed year for deal-making in the Middle East & Africa



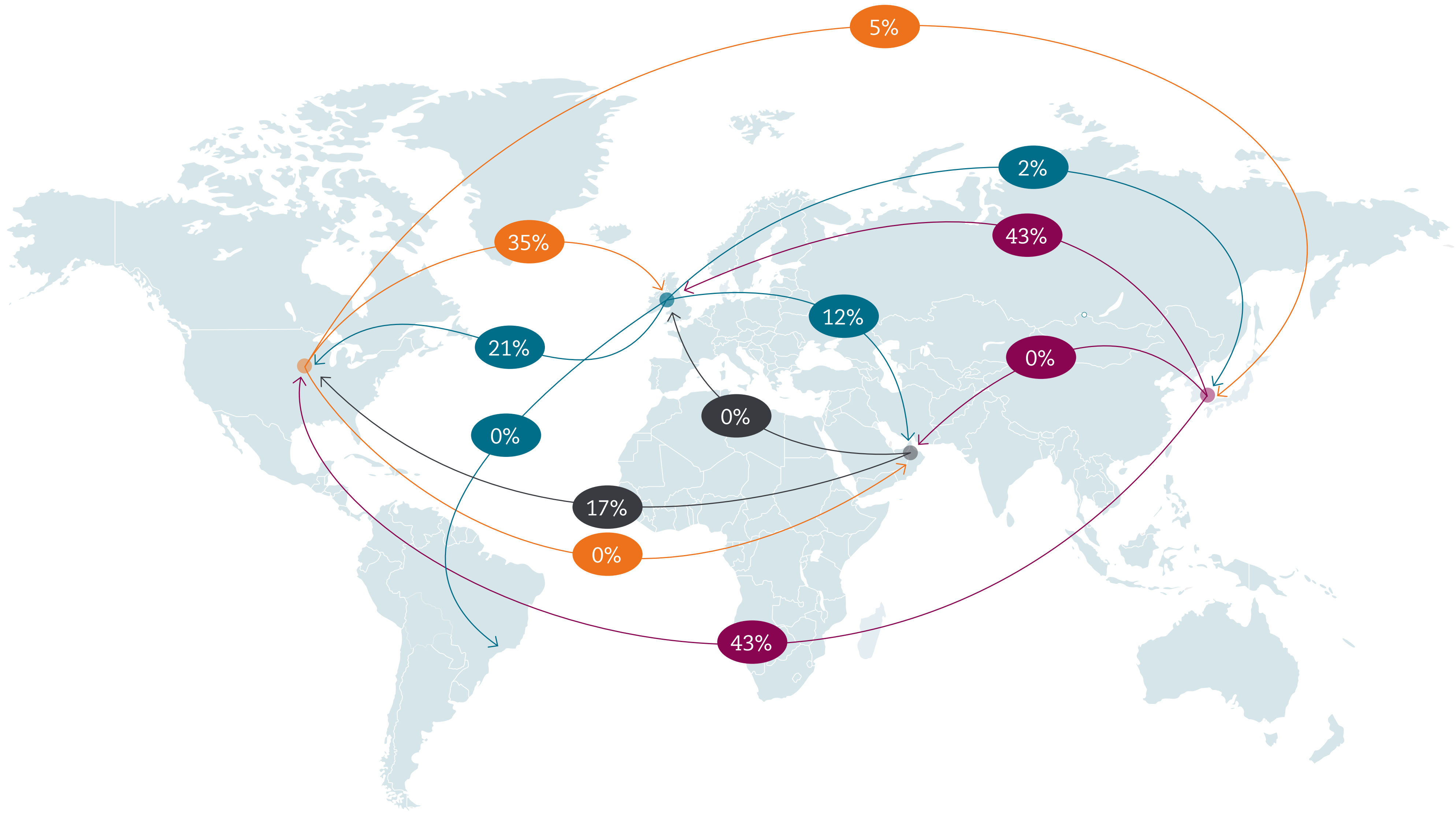
- Most active countries in the Middle East and Africa by number of deals: Israel 4, Kuwait 4, UAE 2

Increase in cross-border deals in 2021

In 2021, there was a 9% increase in mergers and acquisitions involving foreign targets.

Cross border deals accounted for 22% of the global total of completed deals, compared to 21% the previous year, with the US and the UK remaining the two most popular destinations with 21 and nine inbound transactions respectively. Interest from North American buyers in European targets was up, accounting for 35% of outbound M&A from the region, compared to 24% in 2020. There was also a noticeable rise in traffic going the other way with investment from Europe into North American targets up from 3% to 21% year-on-year. However, Americas' investors pulled back from Asia as the percentage of deals fell from 14% in 2020 to just 5% in 2021. The number of cross-border deals involving Asian acquirors was relatively muted, in line with broader sentiment in the region, with those deals that did get over the line principally involving US and UK targets.

Percentages and directions of cross-border deals



93

completed cross-border deals in 2021, up from 85 in 2020.

60%

of cross-border deals in 2021 were intra-region.

Buoyant outlook for 2022

Re/insurers have remained resilient in the face of global economic pressures, having come out the pandemic very strongly in both underwriting and investment terms, and are positioning themselves for a more growth-oriented environment in the next year and beyond.

But there are some clouds on the horizon. There are signs that market hardening is slowing down at least in certain classes, which will have an inevitable impact on re/insurers' balance sheets. Regulatory complexity is increasing, as too is the cost of compliance. In addition, the increasing possibility of interest rate rises is a double-edged sword that will lift investment returns but restrict the availability of capital to fund acquisitions. Those positioning themselves for M&A activity may seek to accelerate their plans as a result.

We expect that M&A activity will remain buoyant and that completed deals will exceed 200 worldwide in the first half of 2022, rising above 220 for the second half of the year.

There will be some regional variations, with a continued lack of suitable acquisition targets in markets like Europe and Asia, in spite of continued interest from strategic buyers and private equity. However, the MENA region is expected to see a burgeoning M&A market this year, with more activity in GCC countries than has historically been the case. Notable amongst potential acquirors in the US will be the more mature insurtech firms, who are looking to acquire existing carriers.

In some regions, the run-off market is likely to benefit from strategic disposals as carriers look to position themselves for a new era of economic growth. At the same time, portfolio transfers remain a viable source of growth for companies who are reluctant to commit to full-blown acquisitions.

However, re/insurers will continue to seek innovative solutions to the perennial issue of generating growth, with a range of alternative options to acquisitions being deployed.

Contributors

Vikram Sidhu
Partner, New York
+1 212 702 6773
vikram.sidhu@clydeco.us

Eva-Maria Barbosa
Partner, Munich
+49 89 244420101
eva-maria.barbosa@clydeco.com

Ivor Edwards
Partner, London
+44 (0) 20 7876 4162
ivor.edwards@clydeco.com

Joyce Chan
Partner, Hong Kong
+852 2287 2752
joyce.chan@clydeco.com

Peter Hodgins
Partner, Dubai
+ 971 4 384 4000
peter.hodgins@clydeco.com

Mark Williamson
Partner, Guildford
+44 20 7876 5341
mark.williamson@clydeco.com

440

Partners

1,800

Lawyers

4,000

Total staff

50+

Offices worldwide*

www.clydeco.com

*includes associated offices

2098861 - 02 - 2022