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Insurance Growth Report 2023

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Uncertainty breeds opportunity

In an increasingly uncertain world, insurance companies, like all businesses, need to be adept at assessing the challenges and navigating the risks across a spectrum of issues. This report looks back at the drivers behind insurers' growth activity last year and pulls out key trends likely to impact them in 2023 as they seek to grow in this complex environment.

Insurers received a boost from hardening property-casualty rates in 2022, but the growth outlook for the sector in the year ahead appears to be a mixed bag.

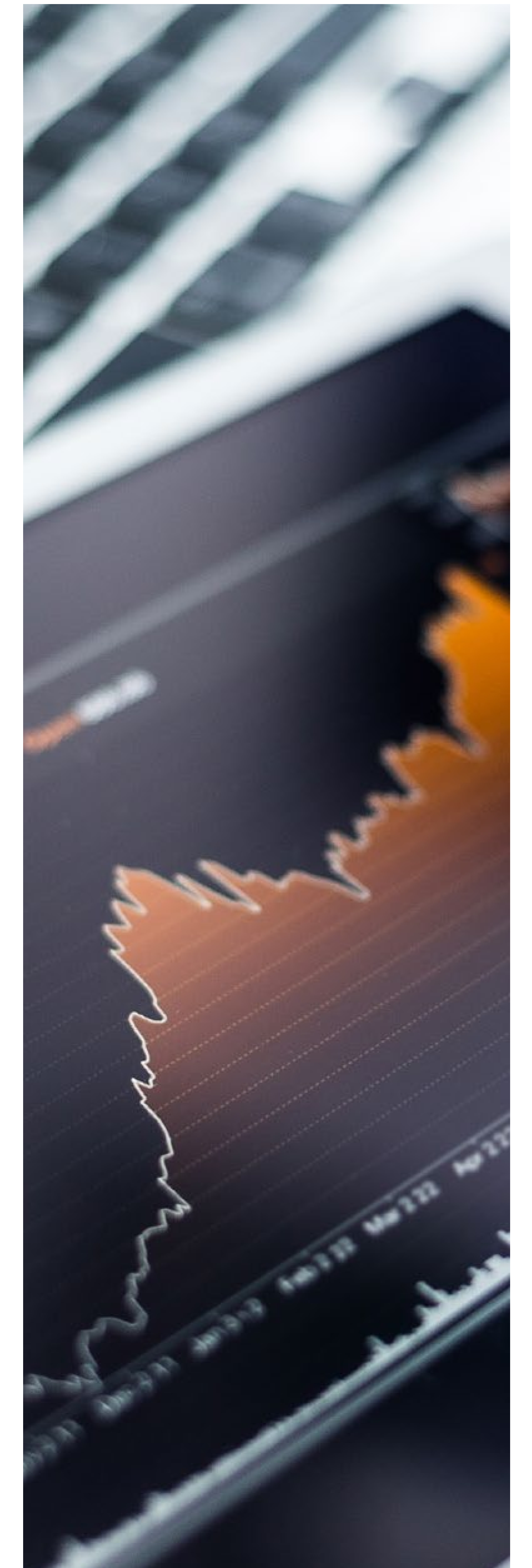
The effects of the on-going Russia-Ukraine conflict on global insurance business are still being felt – from greater complexity around war and cyber risk exposures, to increased costs of doing business from inflated energy and commodity prices.

Rising operational costs have put a brake on expansion plans, and hastened the departure of some firms from territories where profitable business has continued to elude them.

Meanwhile, continuing economic uncertainty has muted investor appetite for start-ups, particularly in the insurtech space, and has started to dampen enthusiasm for M&A transactions, impacting corporate business for investment banks and law firms.

However, the managing general agent (MGA) space remains buoyant, particularly in London and Europe. China is opening up for cross-border business. Big-ticket M&A transactions are expected to pick up. And the liberalisation of certain regulations is attracting investment to markets across the EMEA region.

Those carriers who made strategic investment reallocations last year are now in a good position to re-deploy capital for acquisitions when the time is right.



M&A activity in 2022 hits ten-year high

There's no question the last 12 months have been economically volatile. Despite the return of inflation, and measures from central banks to restrict liquidity, M&A activity in the global insurance market reached its highest level for a decade, driven by a strong first half. Deals that were put on hold during the pandemic continued to come to market, maintaining the upswing in deal-making that began in 2021.

The Americas remain the perennial front-runner in terms of M&A volume – driven in the main by the US. The region saw a stand-out first six months before activity dropped back in the second half of the year. Asia-Pacific was the only region that saw increases in M&A across 2022, propelling its year-on-year total up by almost half. The Middle East and Africa region also saw an increase in its annual total, albeit from a low base, primarily driven by a busy H1 2022. Although the annual volume of deals in Europe exceeded the total for 2021, the region has seen consecutive periods of declining activity.

449 deals completed in 2022 up from the previous year **418**

Click on the graph to enlarge

Five growth drivers to watch

Many companies sat out the M&A downturn in 2022, but with limitations on the amount of organic growth that can be generated through new distribution networks or broader lines of business. Firms that want to leap forward and grow quickly will be taking another look at mergers or larger acquisition opportunities.

Eva-Maria Barbosa, Clyde & Co Partner, Munich

1. The return of big deals

While 'mega-deals' in the insurance M&A market – those valued in excess of USD 1 billion – have struggled to get off the start line in the past 12 months, there is an expectation that this year could see the return of big M&A transactions.

Following Gallagher's completion of the purchase of Willis Re at the end of 2021, M&A rose to a three-year peak in the first half of 2022, before becoming progressively quieter. However, M&A lawyers are expecting a two-speed 2023. Small to medium-sized enterprises will continue to be wary of transactions as they wait for the current market uncertainty to subside.

In contrast, large global insurance businesses seem undeterred by market conditions. Their focus is on consolidation given limited organic growth options, so they are actively seeking merger and acquisition opportunities. Private equity funds have largely been absent from the insurance market over the past year but have maintained their focus on larger M&A targets in anticipation of potential opportunities.

In the Gulf Cooperation Council (GCC) region, the continued retrenchment of international insurers has been balanced by key regional players looking to step into the breach and grow their regional presence. Consolidation continues to be a theme in the Saudi Arabian insurance market, with local regulators encouraging further M&A activity with increased minimum capital requirements. Meanwhile the GCC is attracting a lot of international interest from intermediaries looking to acquire licences in order to pursue M&A opportunities in the region.

Transactions have been down on the peak of 2021/22 but there is optimism that the economy will emerge from this difficult period as inflation stabilises. There remains plenty of capital to be deployed and likely no shortage of M&A targets. There will be growth opportunities over the coming years as investor sentiment improves.

Matt Ellis, Clyde & Co Partner, Melbourne

Five growth drivers to watch

Previously, every insurer in Saudi Arabia needed a proportion of local ownership and to be listed locally, so the idea of having a foreign branch is quite radical. SAMA also appears to be offering higher foreign ownership limits for insurance sector entities that aren't risk carriers, as a way of attracting investment.

Peter Hodgins, Clyde & Co Partner, Dubai

2. Regulatory action is a mixed blessing

Heavy regulatory activity is proving burdensome for insurance carriers, impacting their capacity for organic growth. Consumer protection laws are making it harder to do the same volumes of business across multiple jurisdictions, with data protection laws a common area of focus.

Globally, ESG is expected to be a major focus for regulators this year, with a particular emphasis on cracking down on 'greenwashing' and 'social washing' as organisations seek to market their ESG credentials.

However, regulatory action is also proving a spur to growth in some territories. In Asia, South Korea's Financial Services Commission is looking at reforming regulations to drive digital transformation in the insurance space, potentially enabling established and start-up insurers to create digital-only platforms.

Meanwhile, there has been a change of sentiment in China. The government appears keen to broaden out the private pensions market on the mainland, suggesting international insurers may have a future role to play in developing pensions products in the country.

In the GCC region, Saudi Arabia's $1tn+ Vision 2030 National Investment Strategy for infrastructure and real estate hints at an enormous (re)insurance opportunity. The Saudi regulator SAMA is in the process of liberalising some insurance regulations to encourage inward investment in the sector.

Meanwhile, in South Africa, the drop in formations of its unique cell captive vehicle is likely to turn around. The publication of long-awaited regulatory guidance which enables insurance intermediaries to share in the profits of cell captives, within strict guidelines, is expected to drive growth in use of the imitable structure.

For the last ten years or more, there has been a concern in South Africa with the conflict of interest around intermediaries owning or sharing profits with cell captive insurers which has stifled growth in this market. With the publication of the FSCA's revised conduct standard, this is really going to take off, with more brokers setting up cell captives.

Ernie Van Der Vyver, Clyde & Co Partner, Johannesburg

There is a definite push to develop a private pensions infrastructure in China, with commercial banks, wealth management firms and insurance companies being encouraged to develop the pensions business on the mainland. Considering the size of the working population, this could be huge, and could mean many new opportunities for international insurers/pension players.

Joyce Chan, Clyde & Co Partner, Hong Kong

Five growth drivers to watch

MGAs are still very popular. If rates are hardening and insurers can make a profit, then they want to get as much business as possible through the door. If you can do it yourself, great, but if you need an MGA to do it, that's still more business to underwrite that increases your market share.

Ivor Edwards, Clyde & Co Partner, London

3. MGA market remains buoyant

The MGA experience across the world also hints at a bifurcated global market.

In the US, amid the uncertain economic climate, there is growing caution among reinsurers with respect to insurance clients' partnerships with MGAs and MGUs. Insurers are paying closer attention to oversight of those MGA/MGU relationships, for fear that reinsurance carriers might retrench from coverage of more complex risks such as cyber and war.

That said, new MGAs are still reported to be coming to market in the US with strong support, such as the BP Marsh/CBC UK-backed Alchemy.

The MGA model is still proving popular in the London and Lloyd's market and Australia, especially where insurers want to penetrate further into markets where they lack the appropriate depth or breadth of underwriting expertise.

In Europe, some MGAs appear to be entering a new growth stage, either through bringing original products to market, or, in the case of one well-established firm, having transitioned into becoming a full-stack risk carrier, with licensed insurer status. Other MGAs harbour similar ambitions.

Reinsurers are exercising heightened caution with respect to what's being written under producer agreements between insurers and MGAs/MGUs. In particular, there's a focus on exactly how the pen is being monitored for compliance with underwriting guidelines. How exactly are insurers making sure that the risks being reinsured fall within the loss profile intended to be covered by the underlying insurance contract.

Marc Voses, Clyde & Co Partner, New York

Five growth drivers to watch

Technology has enabled the industry to deliver innovations such as on-demand insurance through the use of big data, AI and algorithms to price risks quickly and deliver policies digitally. Demand for these products is being driven by the growth of the gig economy and the move away from ownership of material goods, in favour of short-term rental models.

Dino Wilkinson, Clyde & Co Partner, Abu Dhabi

4. Embedded insurance offers opportunity in sluggish insurtech sector

While technology plays a continuing role in enabling growth in the insurance sector – automating elements of underwriting and claims processes, driving parametric coverage, and opening up new distribution channels – investment in insurtech companies has slowed.

However, established companies are still managing to attract investment, as seen with the £35mn funding round by Amazon partner Superscript earlier this year.

Meanwhile, territories focused on becoming key players in the digital economy are offering both financial incentives and regulatory sandboxes to encourage fintech companies to set up in hubs such as the Dubai International Finance Centre.

Against this broadly slow growth background, embedded insurance offers a growing area of opportunity. Solutions tailored to online retail sales, travel-related bookings, and other online services are likely to increase discretionary insurance purchases.

While the insurance market is finding more applications for blockchain technology, particularly for parametric coverage, the cryptocurrency market that is underpinned by blockchain has yet to make much impact on insurers. While some jurisdictions are looking to align financial services sectors with cryptocurrencies, the space needs to be more closely regulated before insurers can commit to using these currencies to collect premiums and hold reserves.

One of the issues with the cryptocurrency space is a lack of regulation. The reality is that it's backed by a fairly secure blockchain platform, but until those underlying regulatory concerns are addressed, and the monetary value of the currency itself becomes more stable, it's unlikely that insurers will press forward with accepting crypto payments.

Thomas Choo, Clyde & Co Partner, Singapore

Five growth drivers to watch

Firms recognise the need to rise to this challenge as their top talent is eyeing up the approach of competitor firms to culture, flexibility, DE&I and family benefits, more than ever before. In an environment where team poaching is a constant business risk, getting the culture right is another key tool for talent retention.

Heidi Watson, Clyde & Co Partner, London

5. War for talent could heat up in drive for organic growth

In the insurance space, litigation around employment contracts has been more focused in recent years on the movement of individuals and teams to rival companies in so-called 'poaching' disputes.

Although consolidation in the broker market appeared to have reached a peak after the Aon-Willis merger didn't go ahead and Willis Re was sold to Gallagher, the war for talent in the intermediary space has been re-invigorated in the aftermath of these deals. As companies weigh up the pros and cons of organic growth versus M&A, against a backdrop of continued economic turmoil more movement of individual talent and teams seems likely, raising the prospect of contentious claims.

If 2023 does see a return to major M&A deals in the insurance market, there is likely to be a sharper focus by acquirors and merger partners on the best approach to combining differing company cultures.

Indeed, culture continues to be a major focus for insurance sector employers post-pandemic, as companies grapple with an uptick in employee complaints arising from a greater focus on a "speak up culture", alongside increased regulatory scrutiny on non-financial misconduct.

The Financial Conduct Authority (FCA) and Lloyd's are increasing the pressure for firms to take a proactive stance on employee behaviour and to comply with their own disciplinary and grievance procedures in order to drive a more optimum culture within the sector.

Businesses increasingly therefore need to consider whether the culture of a combined entity is consistent with ESG strategies, DE&I frameworks, employee wellbeing and mental health considerations, and the need to modernise working practises, while anticipating increased regulatory scrutiny of their complaints procedure.

We're seeing a much bigger focus on employment investigations around issues like bullying and harassment, as companies are increasingly being held to account for their diversity, equality and inclusion programmes – both internally and in their supply chains. There's a greater expectation of corporate executives being held to account for the culture of the organisation.

Avryl Lattin, Clyde & Co Partner, Sydney

Deals up across the globe

While deal activity was up in all regions in 2022, underlying trends point to mixed investor sentiment. A combination of pent-up demand, healthy levels of capital ready to deploy and a favourable investment environment has seen deal-makers in the Americas and Europe drive higher levels of M&A in the last couple of years than were evident at the beginning of the decade. However, investors in these regions are displaying a heightened sense of caution as they switch to wait-and-see mode in the face of market uncertainty, which will likely result in a lag in transaction volume.

In contrast, deal-makers in Asia Pacific were generally slower to regain confidence post-pandemic, but have put that reticence behind them with a consistent and increasing trend of rising deal numbers. The re-opening of China's borders following lockdown restrictions will only serve to bolster confidence further.

While M&A volume in the Middle East has been irregular, regulatory developments suggest further consolidation in the market is likely.

Region	2021	2022	% change
Global	418	449	+7.42%
Americas	224	236	+5.36%
Europe	125	127	+1.60%
APAC	42	60	+42.86%
MENA	17	24	+41.18%

Region	H1'22	H2'22	% change
Global	242	207	-14.46%
Americas	132	104	-21.21%
Europe	67	60	-10.45%
APAC	27	33	+22.22%
MENA	16	8	-50.00%

Click on the graph to enlarge

Deals up across the globe

Drop in mega deals coming to market

- In 2022 there were 19 deals valued at over USD 1.0 billion versus 25 in 2021

International blend of larger acquirors

- 8 acquiror nationalities among the top 20 largest deals by value
- The Americas have 14 of the top 20 deals, Europe 5 and APAC 1

The US host biggest deal of 2022 – breaking the 10 billion barrier

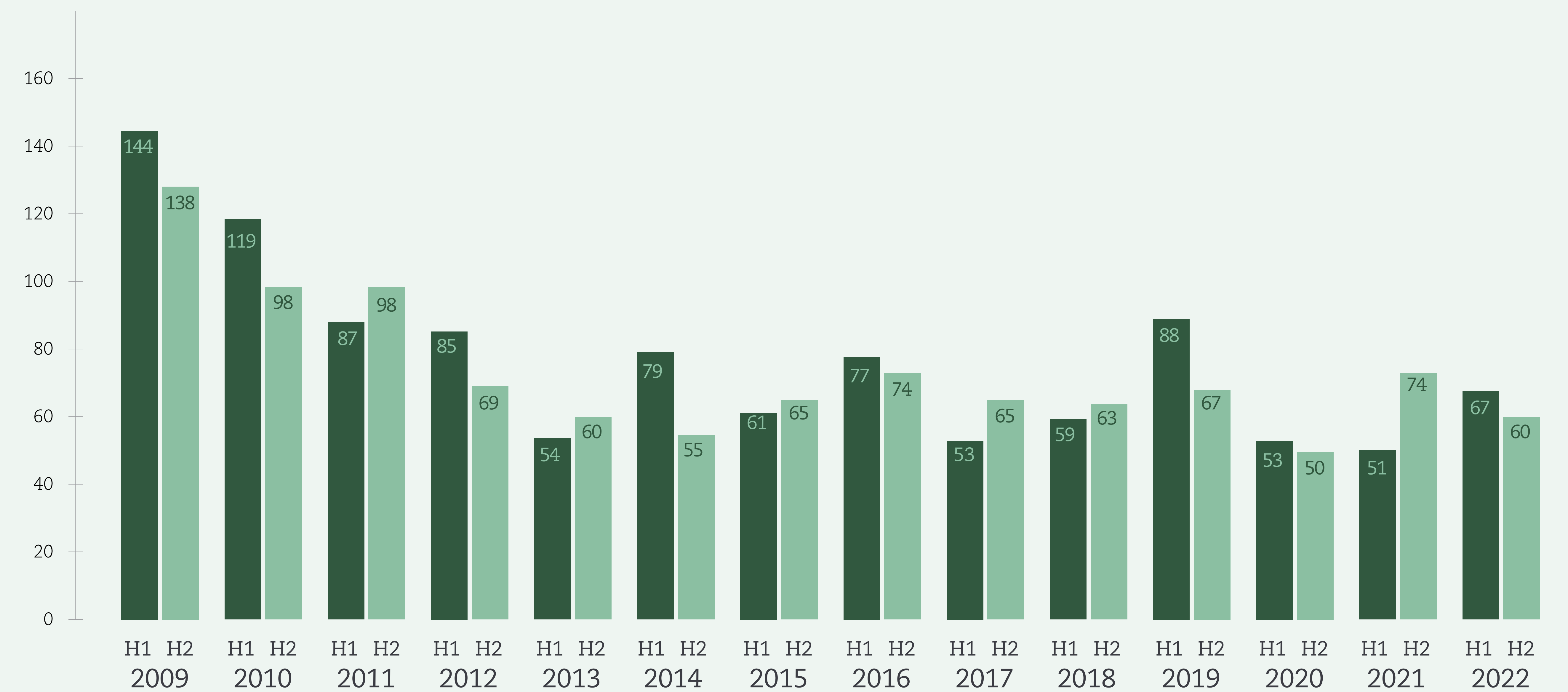
- Berkshire Hathaway Inc's takeover of the Alleghany Corp for USD 11.6 billion was the largest deal of 2022 by over 2 billion

Activity in Europe declining steadily

Most active countries in Europe by number of deals:

- UK **25**
- France **18**
- Spain **16**

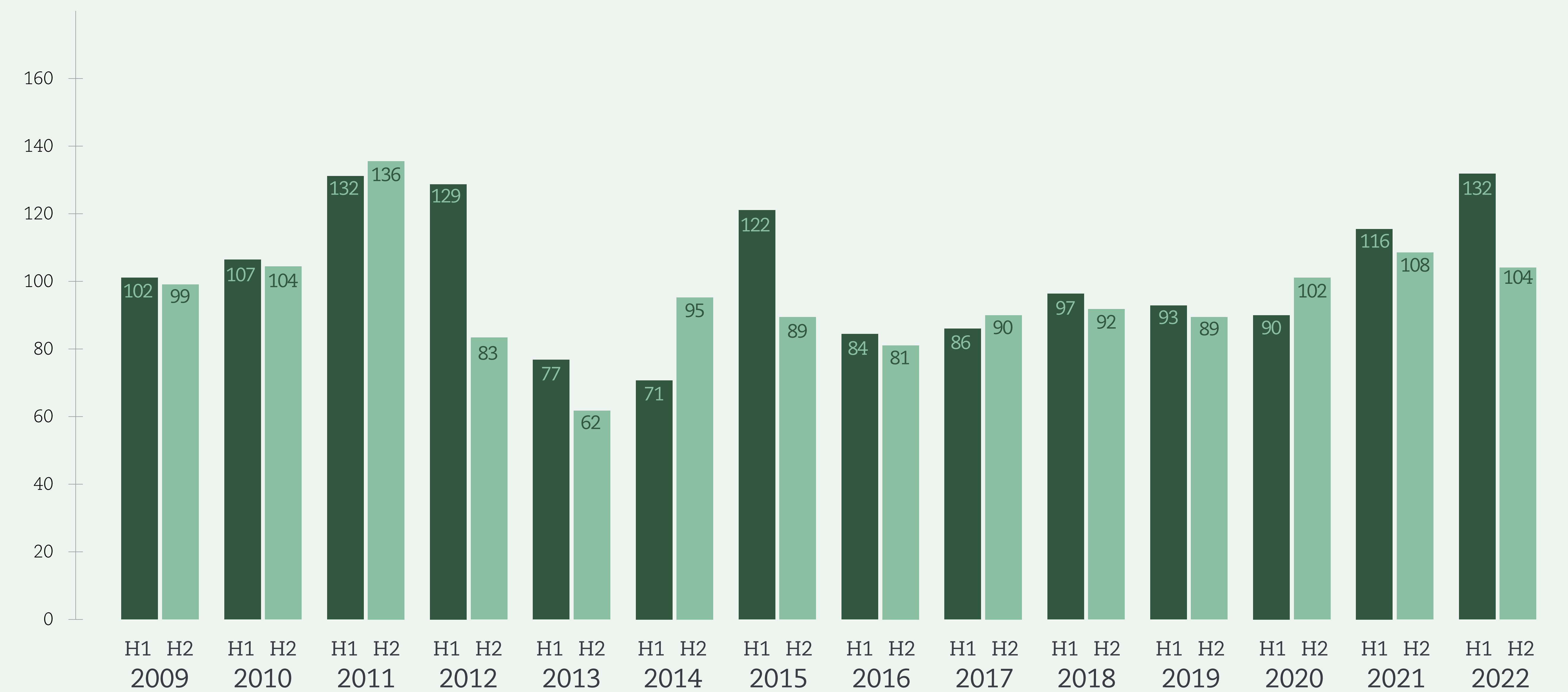
Volume of deals in Europe 2009 – 2022



Deals in the Americas down from recent peak

Most active countries in the Americas by number of deals:

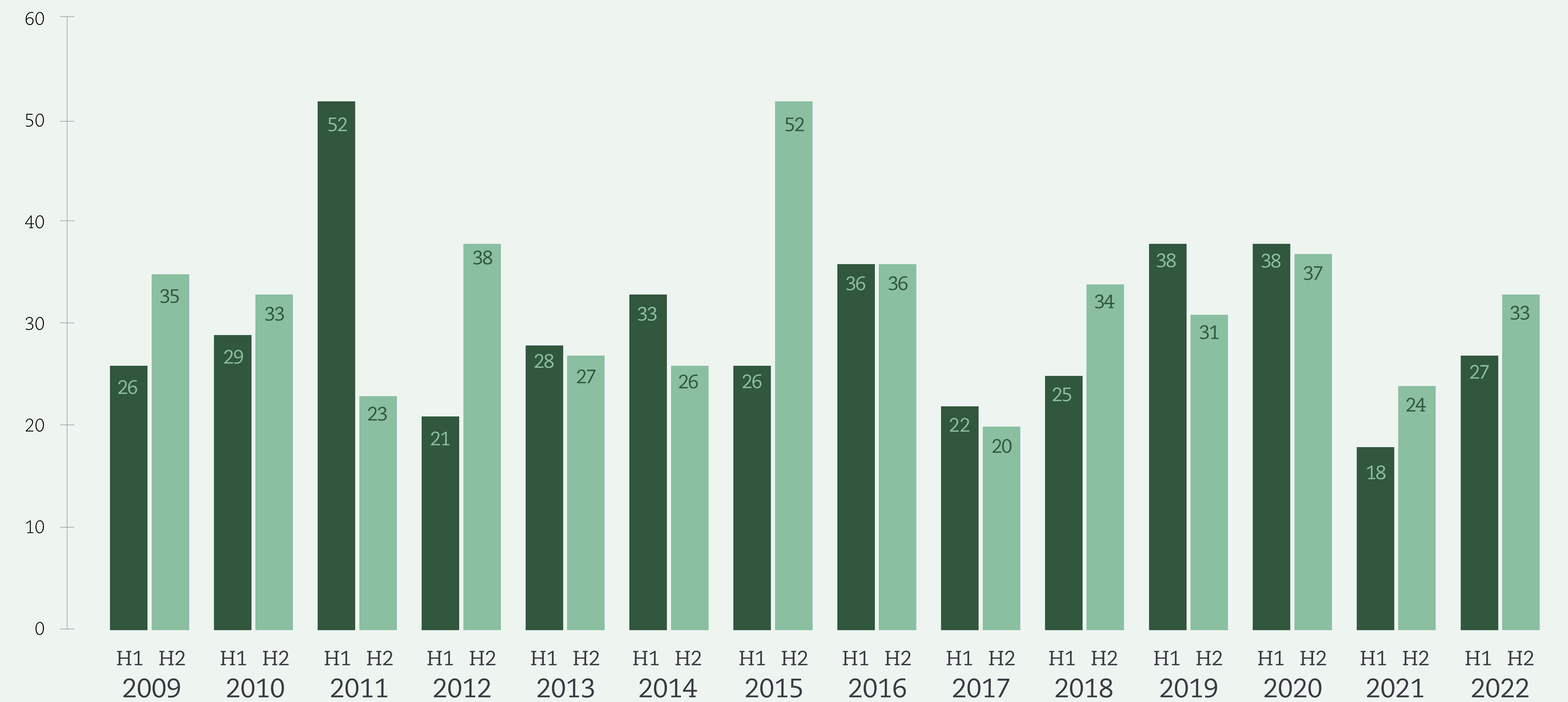
- US **186**
- Canada **22**
- Bermuda **11**



M&A in Asia Pacific making steady gains

Most active countries in APAC by number of deals:

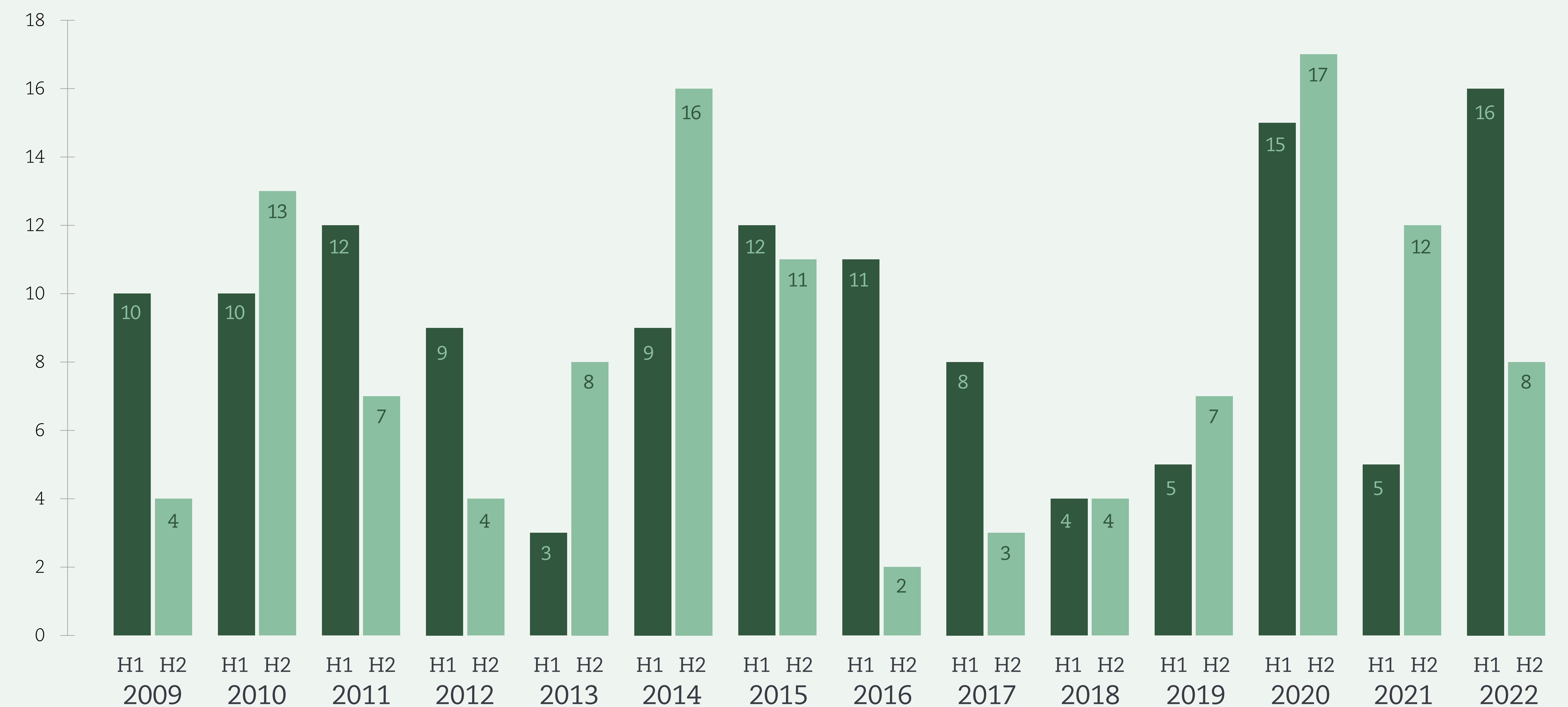
- Japan **22**
- Australia **8**
- South Korea **8**



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

Most active countries in the Middle East and Africa region by number of deals:

- Israel **4**
- Ivory Coast **4**
- South Africa **3**

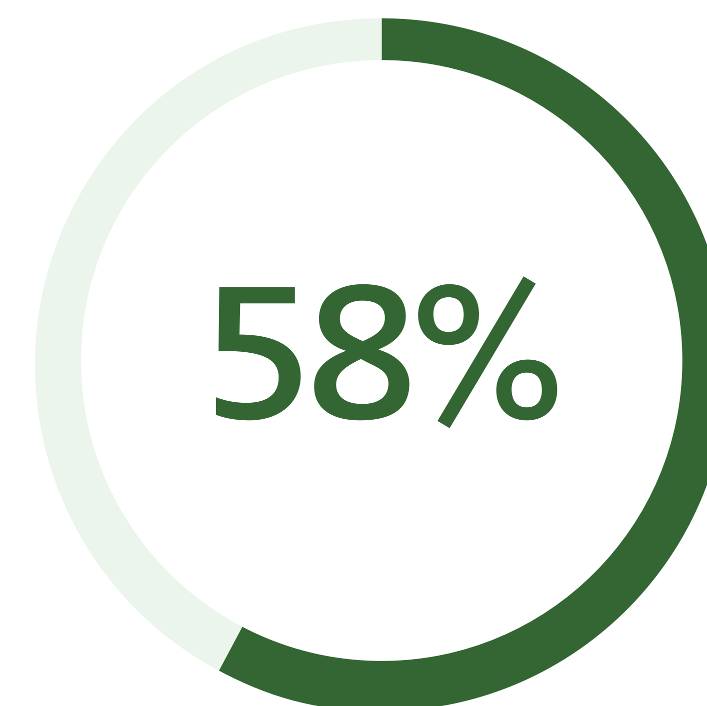


Proportion of cross-border deals holds steady

The volume of mergers and acquisitions involving foreign targets was broadly flat in 2022. Cross-border deals accounted for 21% of the global total, compared to 22% the previous year. Investors from the Americas pulled back from Europe, where they directed 26% of overseas spending, compared to 35% in 2021.

In contrast, interest from Europe into Asia increased from 2% to 24%. Asian deals involving acquirors from the Americas also went up, from 5% to 18%. Target markets included Australia and India, each of which accounted for 25% of deals into Asia-Pacific, followed by Malaysia with 19%. A significant proportion of these deals involved market exits by multinational players and the purchase of their assets by competitors.

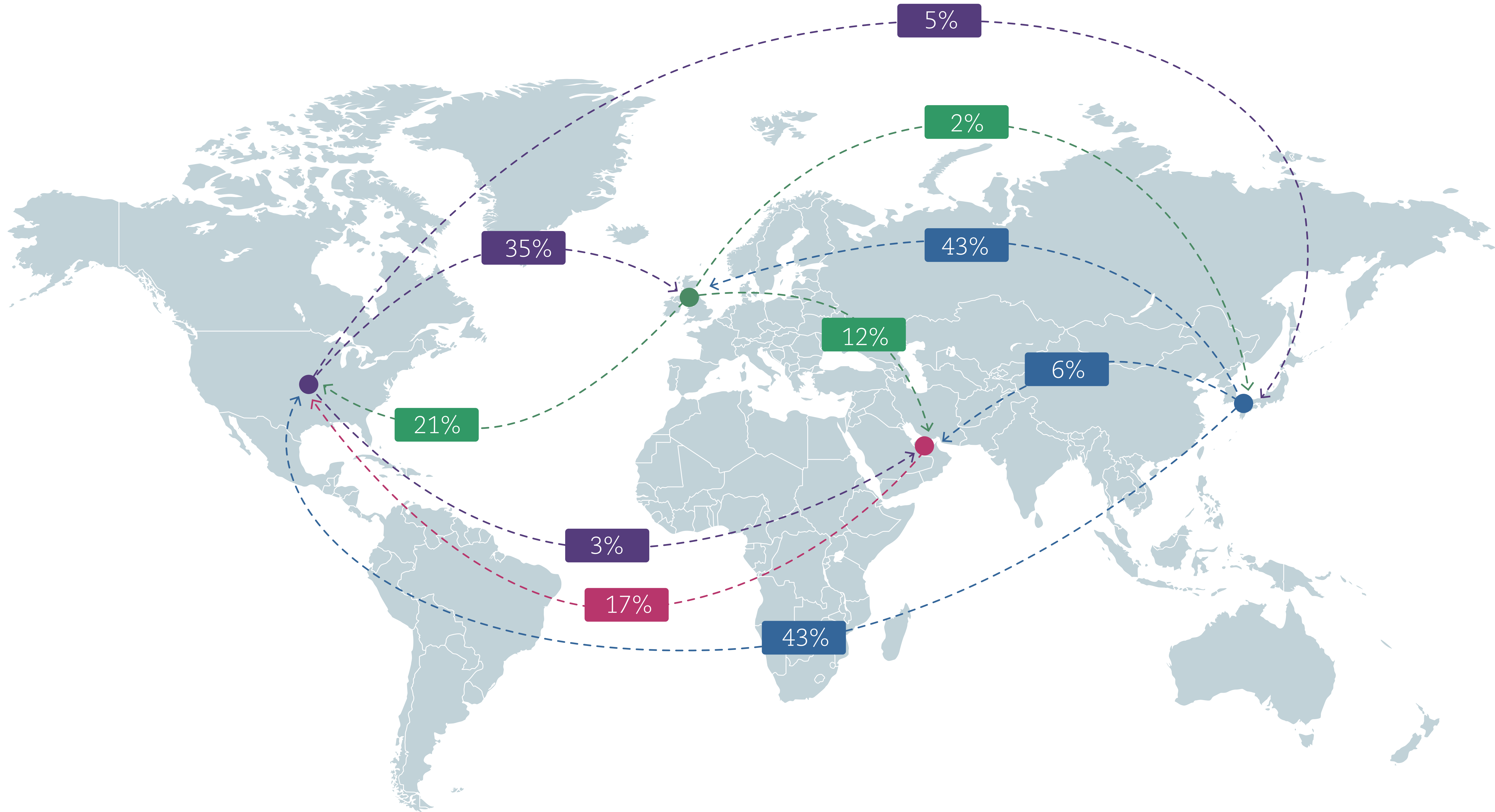
Meanwhile, interest in targets located in the Americas fell in 2022 – only 17% of deals into the region involved international buyers, compared to 35% in 2021.



of cross-border deals in 2022 were intra-region

93 completed cross-border deals in both 2021 and 2022

Proportion of cross-border deals holds steady



Mixed outlook for 2023

Uncertainty – the enemy of deal-making – continues to provide barriers to growth for the insurance sector, with significant headwinds coming out of the events of the last year.

The war in Ukraine continues to complicate global trade and drive up costs, while some eye-opening weather events in 2022 that exceeded all loss expectations have confounded the property catastrophe (re) insurance market.

On the plus side, insurers increasingly have access to better loss data on lines including cyber, D&O, management liability, and employment practices liability and are getting better at analysing that data.

We can expect to see increased appetite for coverage and greater loss activity in these classes of business in the year ahead, so improved underwriting of these risks could significantly boost carriers' organic growth.

While investment for M&A activity and start-ups may have dipped, there is evidence that both are still viable routes to growth, depending on territory. Market sentiment indicates that the worst of the economic downturn is past in most parts of the world and that deal-making will come back on the agenda. We expect M&A volume to drop from the highs of 2022, but start to rebound in the second half of 2023, with larger deals especially in focus.

(Re)insurers will also continue to pursue other routes to growth. For example, Saudi Arabia is a huge potential growth market for international (re)insurers, where on-going liberalisation of insurance regulations could see the first branch office licence issued to a foreign insurer later this year, and there is potential for foreign investors to take significant stakes in Saudi-run intermediaries. Increasing harmonisation of UAE and Saudi regulations will also boost the GCC region's potential as the fastest growing insurance market.

Elsewhere, the appeal of MGAs will continue undiminished as carriers look for alternative ways to deploy their capital and reach potential customers. One growth area will be parametric insurance. Although this area of the market hasn't grown as significantly as perhaps expected, the increasing quantity of publicly-available data makes this a promising growth opportunity, where smaller underwriting teams at MGAs can leverage technology to process exposure data.

Although we are going to see the failure of certain insurtech companies that are not well prepared or mature enough to survive the current economic downturn, those with a proven track record and a compelling equity story will continue to attract investor attention.

Conclusion

As illustrated by this report, while political and economic pressures continue to challenge the M&A market, there remain growth opportunities for those able to navigate the risks successfully.

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