Market volatility and Gen AI drive insurance M&A

L-R: Messrs Ted Hodgkinson, Martin Noble, Mark Saunders and Ms Orchis Li

The insurance industry's M&A landscape is being reshaped by rising interest rates and the transformative power of generative AI. Speakers at the Asia Insurance M&A Conference 2024 discussed how these forces are driving insurers to rethink acquisition strategies, prioritise technological innovation and optimise capital deployment.

By Reva Ganesan

Speakers at the Asia Insurance M&A Conference 2024 discussed technological advancements around M&A deals, risk mitigation, ESG considerations and strategic collaborations, with a focus on Asian markets.

Themed 'Asia's M&A advantage: Navigating the global landscape and harnessing regional growth potential', the conference was especially pertinent considering ongoing business and political changes, including the introduction of new regulatory frameworks such as Hong Kong's risk-based capital regime.

"Insurers face challenges from a high-interest rate environment and market volatility, which complicate future valuations and may necessitate holding more capital. Additionally, the rise of gen AI is transforming the M&A insurance industry, impacting everything from sales to product development," Huntington Partners partner Ted Hodgkinson said.

"Overlaying the current challenges, there is a growing demand for insurance products and services across the region, driven by large populations, low insurance penetration in many countries and an exciting long-term growth projection. This increasing interest, particularly from brokers looking to invest in Asia, suggests potential for consolidation among local companies aiming to adapt to changing regulatory environments, expand ecosystems, adopt technology and enhance distribution," Mr Hodgkinson said.

Despite the favourable conditions for M&A activity, he said that actual transactions have decreased in the first nine months of this year compared to last year, prompting questions about the reasons behind this trend.


Mr Tony Chan

In his keynote speech, Insurance Authority associate director for policy and legislation division Tony Chan said global insurance M&A activities are currently characterised by cautious economic uncertainty, with high inflation and interest rates dominating the headlines.

"These pressures, along with underlying geopolitical tensions, have significantly inhibited M&A activity in 2024. In contrast, the M&A market in Asia remains relatively resilient. Demand from traditional insurers, asset managers and private equity firms persists, although deal volume has slowed y-o-y. Life and health insurance sectors continue to be the main drivers of M&A activity across Asia, as market leaders seek to expand distribution, gain scale and enhance their value chains," Mr Chan said.

Mr Chan cited China as another major contributor to insurance M&A activity in Asia.

"In 2020, the restriction on foreign ownership of life insurance companies was lifted. This move was welcomed by foreign investors, particularly those with minority or 50/50 stakes in joint ventures, as it provided an opportunity to increase their shareholding and expand in China. The relaxation of entry requirements for foreign investors has spurred foreign investment in the Chinese insurance sector," Mr Chan said.

"Turning to Hong Kong, the insurance M&A market was relatively quiet in 1H2024. Despite the absence of major international headlines, insurers remain on the lookout for transaction opportunities. Some are focusing on core business areas while exploring the disposal of non-core assets for overseas expansion," he said.

Trends in M&A


Mr Ellick Tsui

The Hong Kong Federation of Insurers deputy chairman Ellick Tsui mentioned three main M&A trends in the insurance industry.

1. ***Market expansion***: "Insurers are revising strategies to navigate the uncertain global

economy and post-pandemic challenges. This has led to market entries, expansions, joint venture buyouts and market exits. Notable moves include Sumitomo Life's acquisition of Singlife to strengthen its presence in Singapore and Zurich's acquisition of Kotak General Insurance to expand in India. In China, the removal of the foreign shareholding cap in 2019 allowed companies like HSBC and AXA to buy out their local joint ventures, reshaping the competitive landscape," Mr Tsui said.

2. ***Regulatory changes driving M&A:*** "Changes in capital and accounting frameworks, such as the RBC regime, have streamlined the M&A process. Standardised accounting and improved transparency in the valuation of assets and liabilities enable acquirers to assess acquisition targets better. As more Asian countries adopt RBC, M&A activity is expected to rise, as insurers seek to optimise capital and asset positions," he said.
3. ***Tech-driven M&A and InsurTech partnerships:*** "Digital transformation is a contingent driver of M&A in the insurance sector. Insurers are acquiring or partnering with InsurTech firms to leverage AI, machine learning and big data to enhance underwriting, claims processing and customer engagement," he said.

Bridging the pricing gap is a challenge

In a panel discussion, Blackstone senior adviser Mark Saunders said, "M&A activity has slowed in recent years, with the number of deals plateauing. However, it depends on how M&A is defined. Traditionally, it refers to one company buying or merging with another. But in the insurance sector, there are at least a dozen other types of transactions that could be classified as M&A.

"The decline in deal volume is largely due to a disconnect between buyers and sellers on price expectations. Ongoing geopolitical, political and economic uncertainties have made it difficult for both sides to reach an agreement on valuations. Despite this, the interest in M&A remains. Buyers are still looking for opportunities and sellers are open to divesting parts of their businesses. However, with the current level of uncertainty, bridging the pricing gap has become a challenge," Mr Saunders said.

Gen Re general manager for Hong Kong branch strategy and CI research, Asia life and health Orchis Li said, "Asia remains a growth hub. However, the region is highly diverse and fragmented, making it challenging for insurance companies to achieve the economies of scale they need. This is due to the complexity of regulatory changes and the ongoing digitalisation of the industry."

On private equity (PE), Mr Saunders said there is a lot of activity in that space and PE are showing greater interest in the insurance sector.

"Their involvement spans from brokerages to owning insurance companies, and even life insurance companies. This is notable because it doesn't fit the traditional PE model, where firms acquire distressed assets, rejuvenate them within five to seven years and then sell them for a profit," he said.

Regulatory shifts, challenges and outcome

Zurich Insurance chief financial officer Martin Noble touched on some perspectives with regards to how companies are adjusting their strategies in response to regulatory shifts and changes.

He said, "Hong Kong typically does a good job of signposting regulatory changes in advance, giving companies time to plan and adapt. The real risk, however, comes from sudden regulatory shifts that are implemented quickly. Recent years have seen a focus on customer protection regulations, particularly in the life savings sector in Hong Kong. These changes have the potential to significantly impact the market, altering competitive dynamics both within the market and between different markets. Such shifts can create opportunities for some players, especially if a level playing field is established, but they can also introduce new competitive pressures."

Technological impact on M&A transactions

Mercer Singapore and SEA senior principal for M&A strategy and commercial leader Haze Zhang said, "AI and digitalisation are undoubtedly among the hottest topics across industry sectors. If we look at the data, there is a clear shift in how M&A deal processes are being managed. At least 30% of respondents feel that embedding AI can significantly improve these processes, especially by reducing the workload associated with tedious, repetitive tasks.


Ms Haze Zhang

"However, AI's benefits extend beyond process efficiency and time savings. It plays a crucial role in enhancing risk management. By leveraging data intelligence, AI provides a clearer view of potential acquisition targets, enabling better decision-making," Ms Zhang said.

Leveraging data analytics

"The data points most predictive of a successful M&A target often relate to metrics surrounding synergy with the existing business. For example, understanding client overlap is key to determining whether cross-selling assumptions can be met," said Aon associate director for transaction solutions for Hong Kong Siddick Khan.


Mr Siddick Khan

Mr Khan said alternative data is a way to get empirical insights on anecdotal data and should be used to spot opportunities.

"For M&A targets primarily acquired for their brand and customers, we have seen sentiment analysis as a good way to identify targets with high expected retention and renewal rates," he said.

"A challenge of predictive analytics in assessing a target's future potential is the lack of data that can be used prior to the M&A. However, tools like PathWise allow for the generation of thousands of scenarios using a combination of macro and portfolio data and can give insurers a much clearer picture on the sensitivity and risk of a target," he said.

The Asia Insurance M&A Conference 2024, sponsored by Huntington Partners, ran from 11-12 November in Hong Kong.