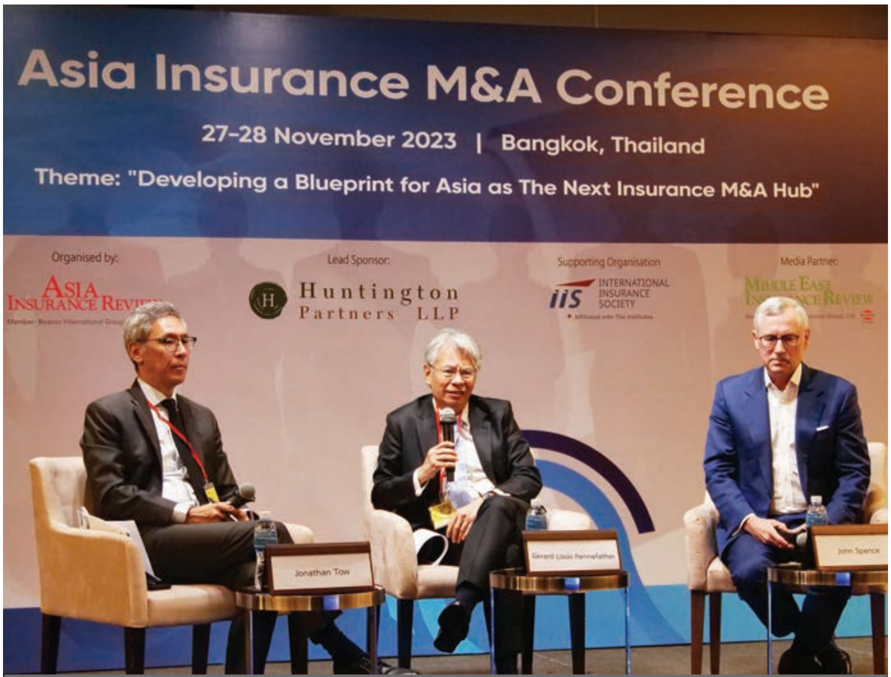
Heightened M&A activity in insurance forecast across Asia



L-r: Messrs Jonathan Tow, Gerard Pennefather and John Spence

The past decade has seen global M&A deals come and go in the international insurance space. In 2022, Asia not only saw the highest percentage increase year-on-year in deals, but it was also the only region that did not experience a dip in the second half, something other markets did. Speakers at the Asia Insurance M&A conference shared their insights on the opportunities in Asia.

By Reva Ganesan

With insurance M&A deals dropping sharply, partly attributed to regulatory changes, capital market trends and low appetite for InsurTech, speakers at the Asia Insurance M&A Conference discussed the broad trends in the market, opportunities with technology, best practices in M&A deals, elements of a successful M&A partnership and how private equity and private capital is being redeployed around the world.

Speakers also provided insights on the issues facing the industry and the practical implications for dealmakers, with challenges such as geostrategic concerns, inflation and capital redeployment hindering the deal-making process.

"We are in a very challenged environment. Things are not going as well as they should. To top it off, we have got huge number of risks - both intended and unintended. We've got significant issues with climate change and inflation prices are rising exponentially in all areas of the economy," said Huntington Partners managing partner Gerard Pennefather.

"We have supply chain disruptions, recession risks and we are also starting to see bank failures. Labour market scarcity is another issue - the price of good quality labour is significantly increasing. We are seeing liquidity tightness as well – cash that was readily available in the market with very low interest rates has now become scarce," Mr Pennefather said.

The better news is, according to him, is that Asia seems to be the bright spot through the darkness the insurance industry is facing.

"GDP in Asia in 2030 is expected to be $45tn. Combined GDP of the US and Europe is $43tn. That's a significant number to look at while we get caught up in the day-to-day happenings in each of our markets and regulatory hurdles," he said.

An important statistic he quoted was that close to 65% of the global middle class would emanate from Asia. This means people in Asia have the earning power to buy insurance to protect themselves and save.

Asia is said to be the biggest consumer of goods and services and in some countries, he said, "we observe a certain relaxation of rules in terms of acquisition of foreign companies into domestic markets".

KPMG Singapore head of ELEVATE and deal strategy Jibu Philip also shared the same sentiments on Asia having the most potential for M&A in insurance.

"The insurance industry in Asia has been evolving in the past few years, especially with heightened M&A activity in the region as well as the use of M&A by both new entrants in the market and traditional players using it as a strategic lever for growth and reinventing businesses," Mr Philip said.

According to him, 2021 was a record year for M&A insurance, with 2022 dipping a little albeit remaining the second largest ever.

Insurance companies have paid significant attention to the demographic changes, especially in the developed markets where there is an ageing population.

"There has been a shift in some of the products, one being a shift to retirement products in the more developed markets. Also, they have been trying to diversify from a risk-based revenue model to a more fee-based and spread-based revenue model in some of these markets," he said.

He also said the APAC insurance market is leading globally in terms of life, but not so much in terms of non-life.

"What is most important to consider is that the CAGR is expected to be 9.3% in the next five years which is an indicator for shaping M&A insurance in the APAC region," he said.

Keeping costs down

During a panel discussion on the red flags on the latest due diligence issues in M&A, it was discussed that transaction costs are heavy, both internally and externally and the time and effort that goes into buying and selling a company is huge and often disruptive to business.

DLA Piper Thailand partner Samata Masagee said, "The number one cause of rising fees all around is the timeline".

"It is easier to control a deal that spans across four months than a deal that lasts a year or over a year. Timeline is very important. If you are from the buyer side, it will help if the seller is fully involved and ready with all documentation to answer some questions. If you want to go beyond that, approach your adviser with an equity term sheer because often, much of the time is spent on negotiating commercial matters," Ms Masagee said.

Thailand and Malaysia – hotbed for M&A activity in Asia


Mr Xavier Miet

"In the past year, we have witnessed a significant shift in the landscape driven by evolving regulatory policies and changing economic environment," said Huntington Partners director Xavier Miet.

"From increased digitalisation to cross border collaborations, M&As are not only shaping the insurance industry but also responding to the unique challenges and opportunities presented by Asia markets," Mr Miet said.


Mr Peera Rayamas

Kickstarting the panel discussion, The Quant Group managing director Peera Rayamas said, "The heat of M&A is always down to three things – capital requirements, technology and competition. We are seeing a lot of developments in the Asian market over the last two and three years. The two countries that we see a lot of M&A activity in is Thailand and Malaysia and the latest being Singapore.


Mr Alex Kimura

McKinsey & Company Singapore partner Alex Kimura said that the golden years of Asia having distinctive premiums compared to other regions are over.

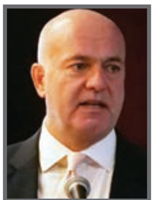
"The operating environment currently is quite tough. This will force a lot of insurance companies to rethink their merging decisions. Another interesting thing is, when we look at deal activity, we are seeing lots of private equity in deals. This is especially prevalent in North Asia," Mr Kimura said.

When an M&A deal goes sour

When asked to share insights on what happens when an M&A deal turns sour, Sompo Holdings Asia executive director chief strategic development officer Vincent Ng said, "There will always be highs and lows in an M&A partnership. And generally, the best way to deal with the lows is to be prepared. This entails making sure you understand the partnership, the asset, the opportunity and doing proper due diligence.

"You need to have had the opportunity of having upfront discussions with your partner or company about the strategic objectives you are trying to achieve and also having good legal documentation.

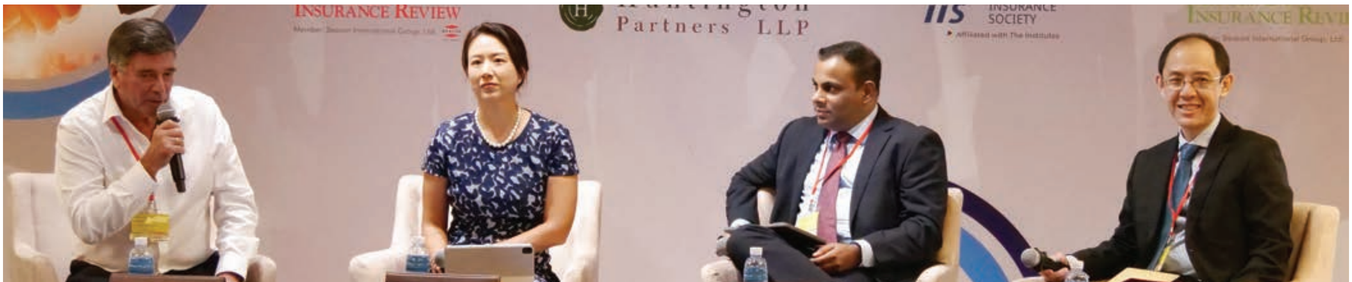
"When there is an evident low in an M&A deal, it usually is because people change, partners change, and situations change in which we have to reach accordingly. I always tell people, play the long game and don't be too hasty about making decisions," Mr Ng said.


Mr William Seccombe

Miller Insurance Services Singapore head of financial lines for Asia William Seccombe said, "One of the things to consider in terms of the developing failure of an acquisition is whether the deal was dependent upon somebody making the wrong call.

"There are a number of reasons why things don't turn out the way we expect them to and sometimes it is just a perception that the good public out there who are our customers have a different view than we do over what constitutes a good opportunity," Mr Seccombe said.

The Asia Insurance M&A conference: Developing a Blueprint for Asia as The Next Insurance M&A Hub organised by *Asia Insurance Review* ran from 27 to 28 November 2023.



L-r: Mr Anthony Hobrow, Ms Samata Masagee, Messrs Jibu Philip and Ngai Kay Cheung