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Insurance Growth Report 2024

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Navigating complexity

As businesses continue to face geopolitical and macroeconomic challenges, their insurers will need a clear strategy for navigating the complex risk landscape and shifting commercial environment.

This year's Insurance Growth Report highlights M&A trends in 2023 and assesses the opportunities for organic growth ahead in a climate of uncertainty.

With 2024 set to be a bumper election year, political uncertainty is likely to be giving some business leaders sleepless nights.

The latest Global Risks Report from the World Economic Forum (WEF) found that of the leading risks that were 'most likely to present a material crisis on a global scale', societal and/or political polarisation remained a persistent concern. The risk was not only ranked third this year (up from fifth last year) but was also expected to remain third over the next two years.

Business leaders polled by *Politico* magazine at the WEF event in Davos this year echoed these concerns, with sentiment driven in part by the resurgence of populist political movements.

With a continuing backdrop of conflict in Europe, Africa and the Middle East, this geopolitical uncertainty may persuade insurance businesses to either pull back from lines of business and/or territories impacted by conflict, or to rein in expansion plans.

That said, the insurance sector is adept at finding opportunity amid uncertainty, and the growth outlook is more optimistic overall this year, with hotspots in certain product lines, geographies and distribution channels.

However, this is a market with a lot of moving parts and insurers must be able to negotiate a complex environment in order to create growth and deliver returns for shareholders.

M&A activity in 2023 ends at ten-year low

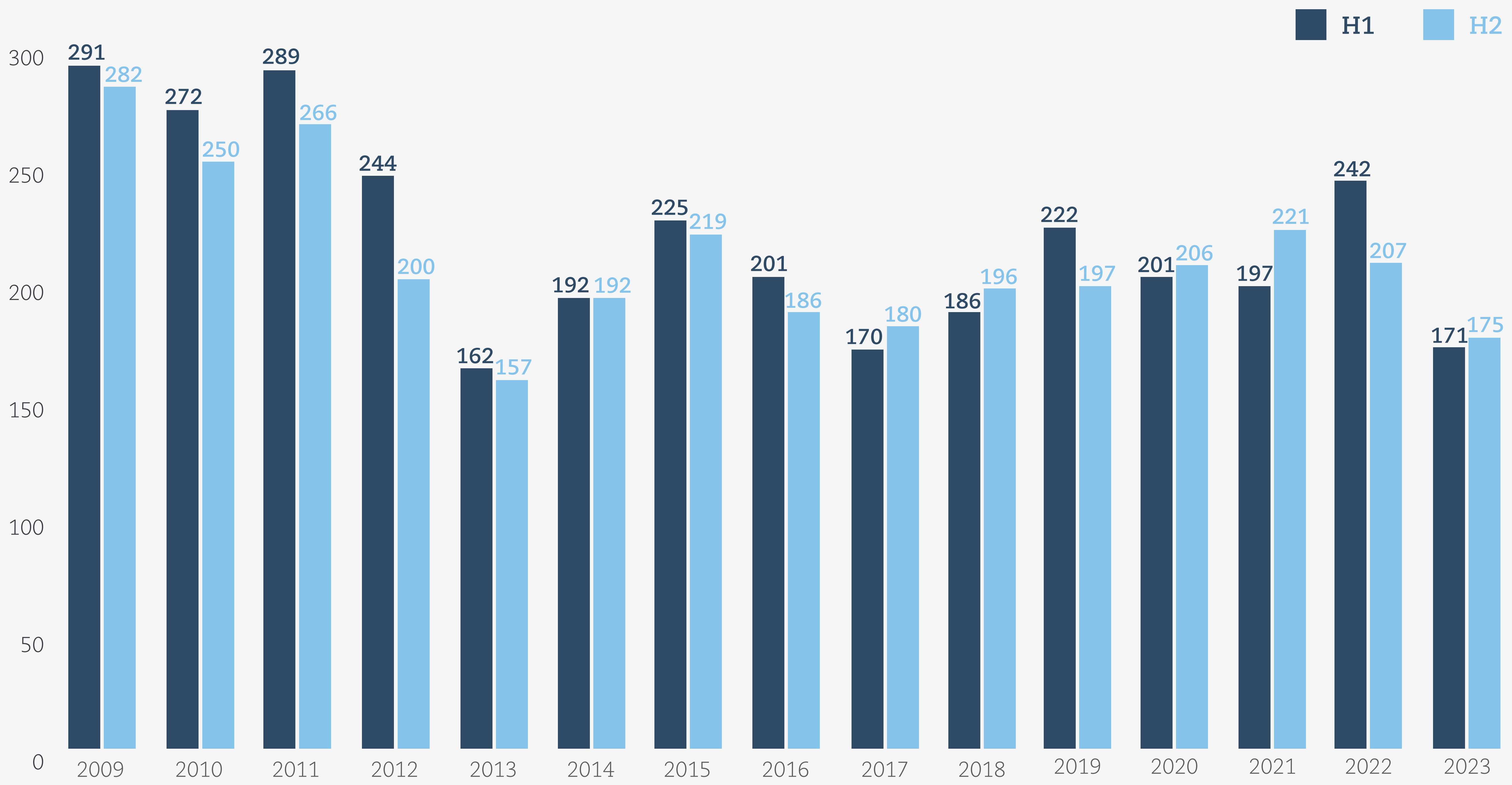
Inflation continues to dog the global economy and with expectations of central bank interest rate cuts pushed back to later this year in key markets such as the UK, the US and the Eurozone, the cost of borrowing to fund M&A is likely to restrict activity for at least the first half of this year.

In 2023, the full year volume of deals globally hit a ten year low, although activity strengthened in the second half of the year. Private equity backing for deals may be harder to find while interest rates remain high, with those carriers who are capital rich due to prior divestments or careful reserving more likely to move on deals in the coming year.

Europe looks to be leading the way going into 2024, having seen a 23% increase in M&A activity from H1 to H2. The Americas still lead on overall deal volumes, but M&A activity has slumped by a third on the previous year and US growth from H1 to H2 has been much slower than in Europe.

Meanwhile investment in the Asia-Pacific (APAC) and Middle East and Africa (MEA) regions in mergers and acquisitions fell significantly across the year, although the regions were at opposite ends of the scale with respect to the year-on-year decline in deal numbers.

Volume of deals in completed globally 2009–2023



deals completed in 2023 down from

the previous year

Five growth drivers to watch

1 Insurance M&A to rebound in Europe

2 Geopolitical risks also spell opportunity

3 Insurtech bounces back but AI growth is slow

4 Cyber and W&I driving organic growth

5 Regulation remains double-edged

Five growth drivers to watch

1 Insurance M&A to rebound in Europe

Despite a year-on-year plunge in M&A activity across all regions, the 23% uplift in deals in Europe from H1 to H2 could indicate returning appetite for acquisitions in the region.

International carriers and MGAs who previously withdrew primary capacity from other regions are now looking to deploy their capital elsewhere.

There's also strong appetite among would-be acquirors for buying up both carriers and books of business in the embedded insurance and affinity lines space. Global carriers who are seeing disappointing margins in commercial business are looking for reliable cashflow from the personal lines segment.

M&A volume appears set to increase in Italy, with further consolidation in the broker market as smaller and mid-sized players consider mergers in order to compete with leading firms.

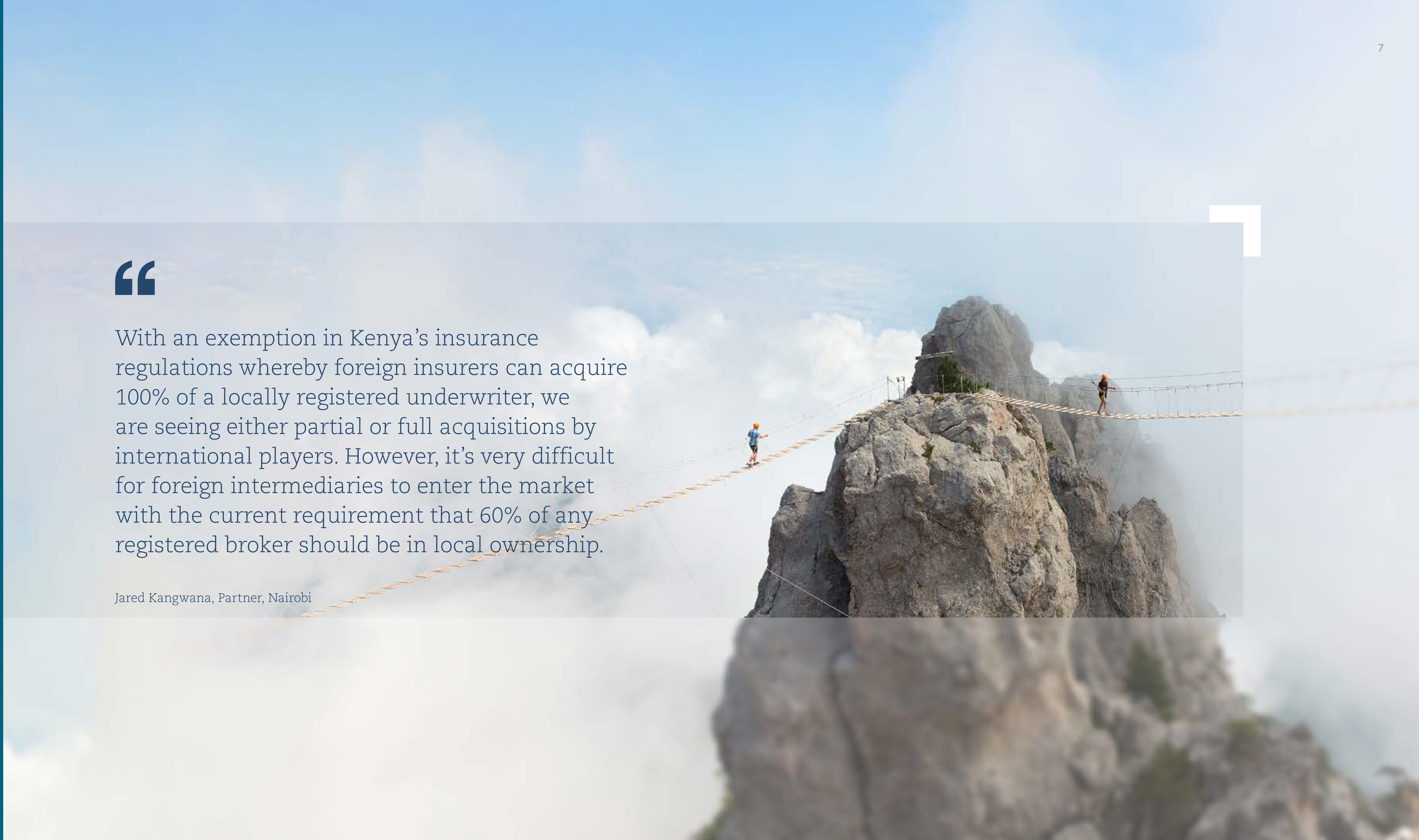
Other Regions

In the US, larger broking players are looking to make acquisitions in both the MGA and broking spaces, while cross-border transactions by intermediaries are also on the move.

In the MEA region, despite major decreases in transactions both year-on-year and from H1 to H2 2023, there is expected to be renewed activity this year. East Africa is likely to see continuing broker consolidation, with huge growth potential in the Kenyan market for international carriers looking to acquire local businesses either wholly or partially.

Meanwhile, international interest in the GCC region is returning, with international brokers looking to acquire businesses in the UAE and Saudi Arabia, and a record number of new licences in the DIFC for broker, MGA and carrier formations (primarily reinsurers).

> M&A activity is coming back to the European insurance market, as leading global carriers look to acquire specific business lines – particularly those high volume, but relatively low premium contracts that can be sold as embedded or affinity products. Companies finding it challenging to achieve healthy margins on commercial business are looking for reliable cash flow in the personal lines space.
>
> Eva-Maria Barbosa, Chair of the Global Corporate & Advisory Group, Munich



> With an exemption in Kenya's insurance regulations whereby foreign insurers can acquire 100% of a locally registered underwriter, we are seeing either partial or full acquisitions by international players. However, it's very difficult for foreign intermediaries to enter the market with the current requirement that 60% of any registered broker should be in local ownership.

Jared Kangwana, Partner, Nairobi

Five growth drivers to watch

2 Geopolitical risks also spell opportunity

The uncertainty that accompanies the sheer volume of elections this year could impact insurers' willingness to deploy capital in some markets. The outcome of the US elections in particular is likely to be closely followed, not least for the potential impact on Asian business that a possible return to more fractious US-China relations could bring.

Slowing overall growth and a downturn in China's real estate sector is also causing concern about the knock-on effects for the global economy. A dip in Chinese imports will impact a wide range of industries, as well as the insurance coverages associated with trading and shipping arrangements for those goods.

A more pressing concern for businesses, however, is the impact of regional conflicts: the Russia-Ukraine war, the Israel-Hamas conflict, growing tensions with Iran and attacks by Houthi rebels in the Red Sea.

Aside from the disruptions to shipping caused by these conflicts, delays have been compounded by the impact of drought in Panama on passage through the shipping canal. Businesses will be on high alert for the accompanying political risks around trading arrangements and foreign assets located in and around conflict zones.

Conflict creates opportunity as well as challenges for the insurance sector, however, and Middle East carriers in particular are seeing increased appetite for coverage of war and political violence risks.

General concern about the impact of the conflicts on revenues, shipping times and assets located in foreign countries is also driving an uptick in enquiries about trade credit insurance in the US.

> The growth driver in the US will be existing and modified products that address political, trade credit, and war risks, alongside natural catastrophes. There's been increased interest in acquiring trade credit insurance, particularly with the escalating tensions in the Middle East, and companies are also concerned about the likely exposure of their assets abroad to political risk.
>
> Marc Voses, Partner, New York

> Alongside the inevitable delays and additional costs that are resulting from ongoing conflict in the Red Sea, the situation is also creating growth opportunities for local insurers in the GCC region. We are seeing a significant uptake on some of the available coverages with respect to war and political violence risks.
>
> Peter Hodgins, Global Head of Corporate Insurance, Dubai

Five growth drivers to watch

3 Cyber and W&I driving organic growth

With cyber fraud, ransomware and data theft incidents showing little signs of abating, coverage for cyber risks continues to see significant growth in multiple territories across Europe, the MEA region and the Americas, with movement of both claims and underwriting talent between companies.

Appetite for professional lines coverage is also booming, with D&O coverage particularly in demand in the Australian and GCC markets, and professional indemnity business growing in Australia, Italy and East Africa.

Coverage for M&A transactions in general is seeing a healthy increase in interest. In Italy and France the uptick in W&I business is accompanied by a continuing war for both broking and underwriting talent. Demand is also up in the Middle East, with a substantial proportion of M&A deals in the region now involving W&I coverage.

Embedded insurance is taking off not only as an acquisition strategy but also as an organic growth opportunity in some territories (particularly Australia and Italy) in connection with flight and hotel bookings and retail purchases.

However, carriers face challenges from the impact of 2023 catastrophic events, affecting both the affordability of property coverages in some territories and the cost of writing the business for carriers, some of whom have pulled out of writing property cat business altogether.

General pressure from the macroeconomic climate continues to push up the cost of labour and materials, increasing the cost of claims in property and motor lines.

> We are now seeing massive growth in cyber insurance and a huge increase in W&I products in Italy and France. Previously, policies for both risks were not very popular, possibly because customers didn't know about or understood the products. With a major increase in cyber threats, all insurers are investing in this line, while around half of all M&A transactions in Italy involve the purchase of W&I coverage.
>
> Leonardo Giani, Partner, Milan

Five growth drivers to watch

4 Insurtech bounces back but AI growth is slow

While investment in new insurtech ventures slowed last year, there are indications that it is bouncing back in the US while the London market has seen new insurtech formations on the underwriting side.

Chile's insurtech market is developing at pace following introduction of its FinTech law in January 2023, particularly for structuring of parametric coverages. East Africa has seen rapid insurtech growth, largely focused on Kenya which has emerged as a regional hub, with strong support from the authorities in the form of a regulatory sandbox.

While the immediate impact of artificial intelligence (AI) on the insurance industry has perhaps been over-hyped, most international carriers are thought to be exploring its potential in areas such as improved data mining, automated underwriting for selected business lines and automatic processing of volume claims.

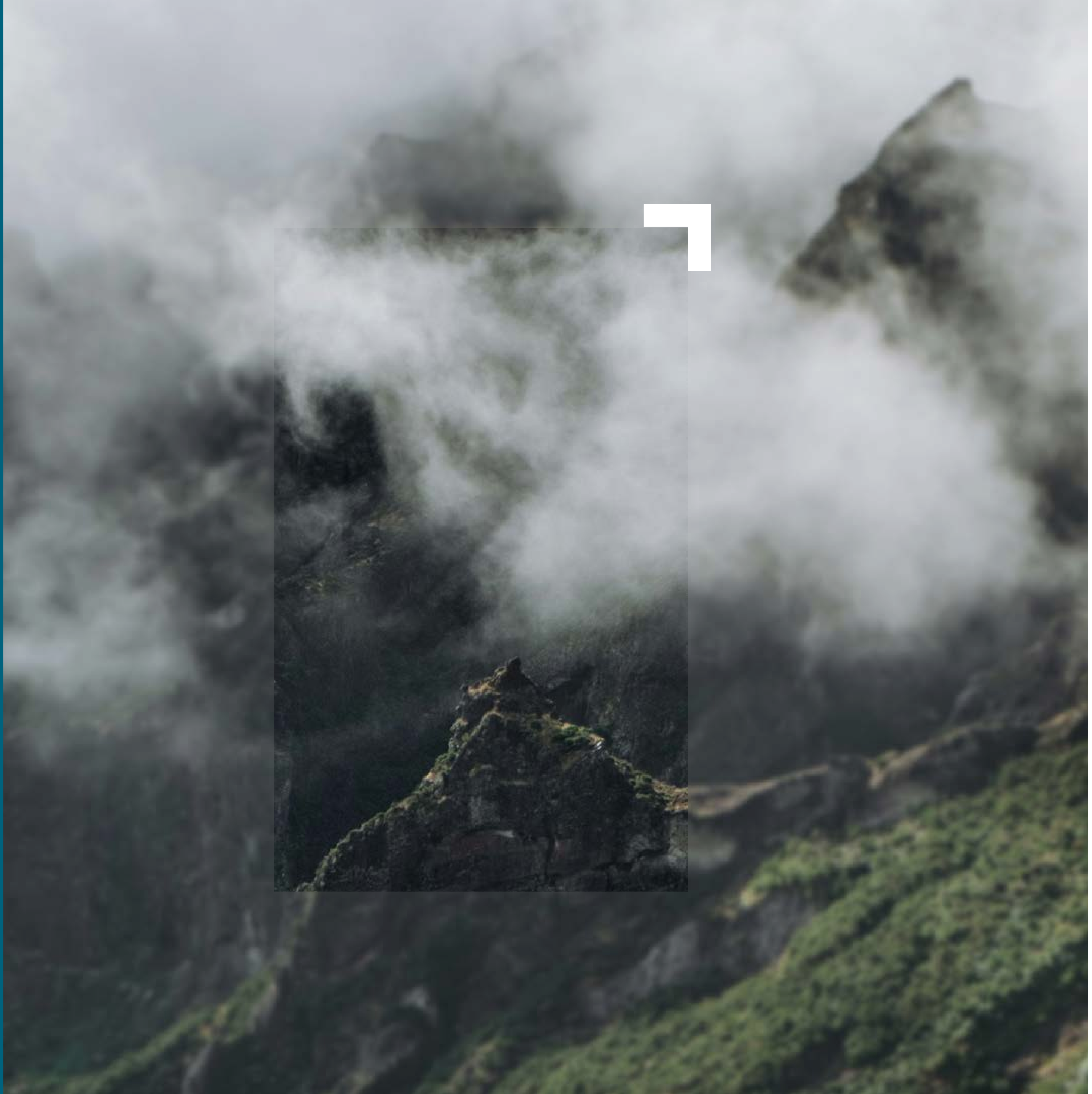
However, few are willing to commit to significant investment before AI solutions have been fully road-tested and regulatory frameworks established in key markets.

The revolution in digital assets and the use of cryptocurrencies presents a significant growth opportunity for insurers, with a range of coverages already being written to cover the risks of trading in digital assets.

Furthermore, the ability to leverage blockchain technology, which underpins digital asset trading, also presents a major opportunity to improve insurance processes, including the structuring of smart contracts for parametric insurance, instant claims payments, and storage of client data in a form that is largely impervious to cyber criminals. Blockchain has the potential to significantly reduce the cost and increase the speed of insurance transactions.

> Digital assets are on a very fast trajectory globally and we're seeing great demand for those assets. On the commercial side it presents a massive opportunity for insurers and, indeed, some major Lloyd's insurers are starting to underwrite D&O, corporate crime, and professional indemnity risks, on behalf of asset managers who are advising clients on diversifying their portfolios with exposure to this asset class.
>
> Liam Hennessy, Partner, Brisbane

> Chile's insurtech market is developing at pace following introduction of its FinTech law in January 2023, requiring the issuance of more than 70 regulations within 18 months, particularly for structuring of parametric coverages.
>
> Felipe Hoetz, Partner, Santiago



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Major insurers in Asia are focused on developing AI, whether in-house or partnering with a tech service provider, to leverage these technological capabilities in distribution so as to reach a wider customer demographic. The bancassurance sector is also looking at using AI for cross-selling opportunities, through closer integration of their distribution networks in banking and insurance.

Joyce Chan, Partner, Hong Kong

Five growth drivers to watch

5 Regulation remains double-edged

In Hong Kong, the Insurance Authority's risk-based capital regime which is targeted to come into force this year is expected to make insurance business a more capital-intensive undertaking for small and medium-sized entities.

Meanwhile, the GCC region has seen an uptick in enforcement activity in the UAE and the Kingdom of Saudi Arabia (KSA). KSA has a new specialist insurance regulator and an overhaul of insurance regulations is expected later this year.

The UK retail market is still under pressure from regulations that mean only 50% of primary insurance business can be ceded to reinsurers. This has created some tricky situations for insurers who have needed to recapitalise, and is having a knock-on effect for premium costs.

Climate change regulations continue to create challenges for insurers with portfolios that include carbon-intensive industries. In Australia, climate change litigation is expected to expand in 2024, with companies likely to be more exposed to accusations of greenwashing. As well as impacting insurers' appetite for fossil fuel exposures, there may be a growing impact on professional liability covers from climate litigation.

However, the afore mentioned growth opportunity for insurers in the digital asset space is likely to draw closer with new and incoming regulatory frameworks for digital assets in the UK, EU and Australia.

Spot exchange-traded funds (ETFs) have been approved in the US by the SEC; the EU's MiCA framework for digital assets is due to incept shortly; and ETFs in Hong Kong and Australia are expected to come online in the next couple of months, opening up opportunities for insurers of asset management firms involved with digital assets.

"

Having come through a lot of regulatory change, companies are now bullish about getting out there. They are looking at new distribution arrangements, some Lloyd's syndicates are establishing operations in Australia, and in areas such as professional indemnity and D&O, where companies had completely pulled out, we're seeing new and different players come into that space.

Avryl Lattin, Partner, Sydney

The retail lines sector remains under pressure since the UK regulators ruled that only 50% of insurers' business could be ceded to reinsurers. The requirement to retain 50% of the risk has created some tricky situations for insurers where they have needed to recapitalize, which is having a knock-on effect on the cost of premiums.

Ivor Edwards, Partner, London

Deal activity falls to lowest for a decade

Deal activity fell in all regions year-on year in 2023, but the downward trend for the full year picture was ameliorated by a slight uptick globally (+2.3%) from H1 to H2, suggesting the rapid decline seen last year may have bottomed out, with a gradual return to growth possible this year.

The Americas and the MEA region saw the biggest decline in deal numbers from 2022 to 2023, but while the downward trend continued from H1 to H2 in the latter, US deals increased slightly in H2.

However, with bank funding for US M&A deals drying up due to interest rate hikes, and PE buyouts also likely to be more challenging, only those entities with the deepest pockets are likely to make acquisitions in 2024.

While the APAC region saw the smallest decline in deal-making year-on-year, it came second to the MEA region in terms of the biggest falls in business from H1 to H2. While insurer M&A growth has dropped off in Asia, there seems to be appetite from funders for growth through acquisitions in the broker tech space.

Growing interest in the Middle East from international players looking to make broker acquisitions in the UAE and KSA suggests capital for further investment in the region might become available.

Deal numbers in Europe rose significantly in H2 2023, up by over a fifth on H1. Having withdrawn primary capacity from the Middle East in previous years, carriers are now looking to deploy that capital elsewhere, possibly with a focus on personal lines business.

Region	2022	2023	% change
Global	449	346	-22.9%
Americas	236	162	-31.4%
Europe	127	107	-15.7%
APAC	60	52	-13.3%
MEA	24	15	-37.5%

Region	H1’23	H2’23	% change
Global	171	175	+2.3%
Americas	79	83	+5.1%
Europe	48	59	+22.9%
APAC	29	23	-20.7%
MEA	9	6	-33.3%

Deal activity falls to lowest for a decade

Drop in mega deals coming to market

- In 2023 there were just **7** deals valued at over USD 1.0 billion versus **19** in 2022

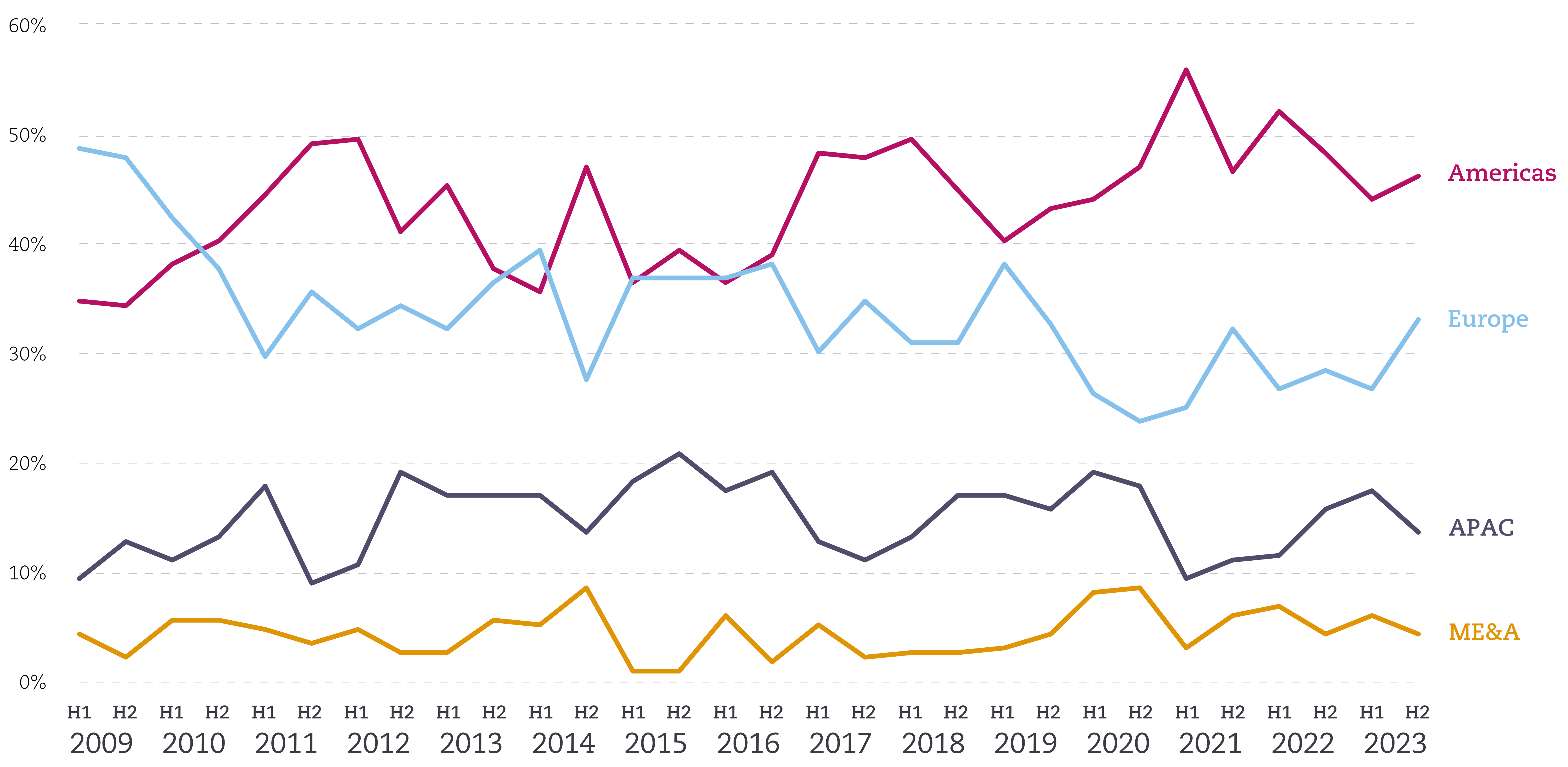
Geographic spread of big spenders

- **13** acquiror nationalities among the top **20** largest deals by value
- Americas have **8** of the top **20** deals, Europe **7**, APAC **3** and **one** in MEA.

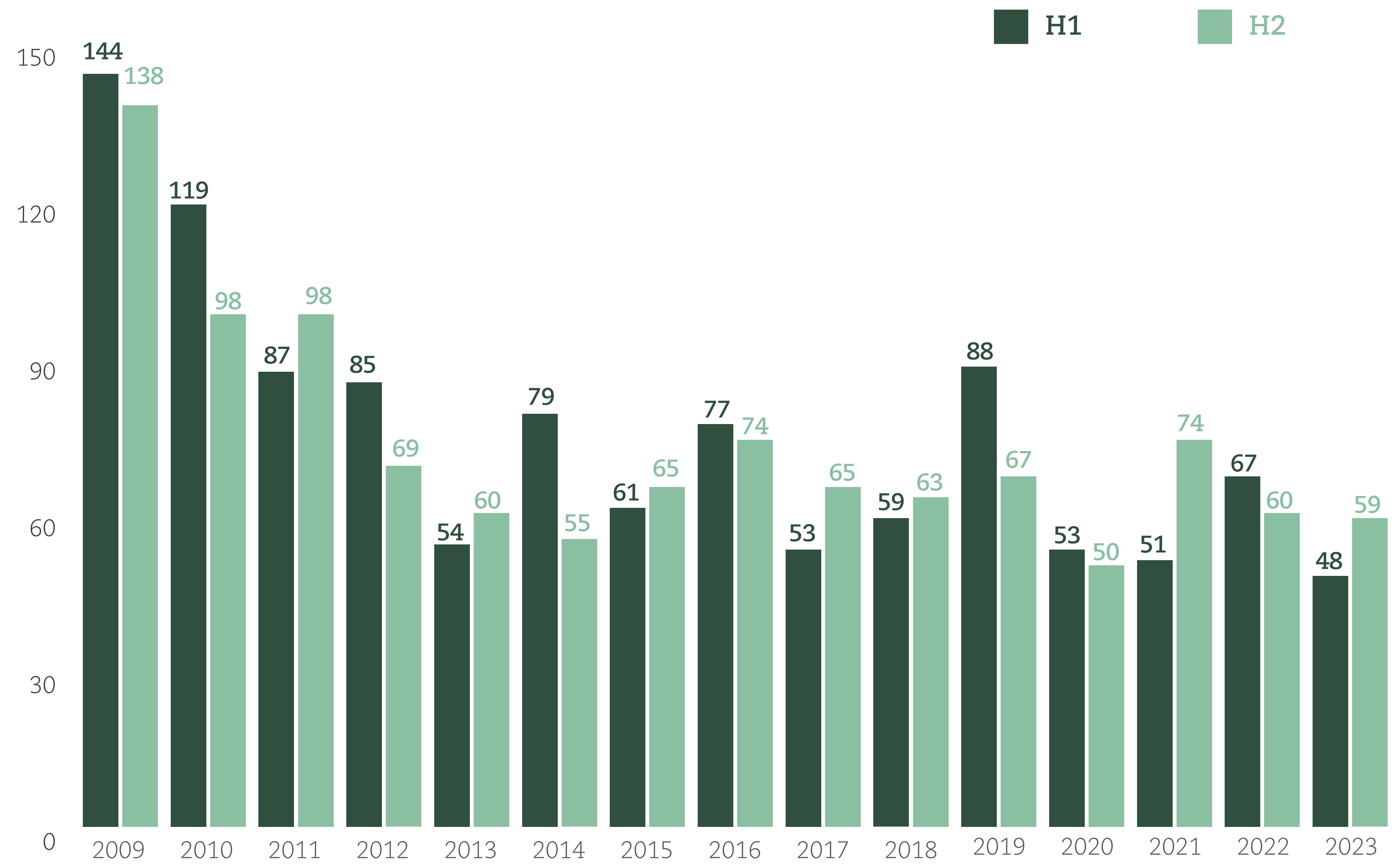
Netherlands hosts biggest deal of 2023

- ASR Nederland's takeover of Aegon Nederland for **USD 4.98 billion** was the largest deal of 2023

Percentage of Deals by Region 2009–2023

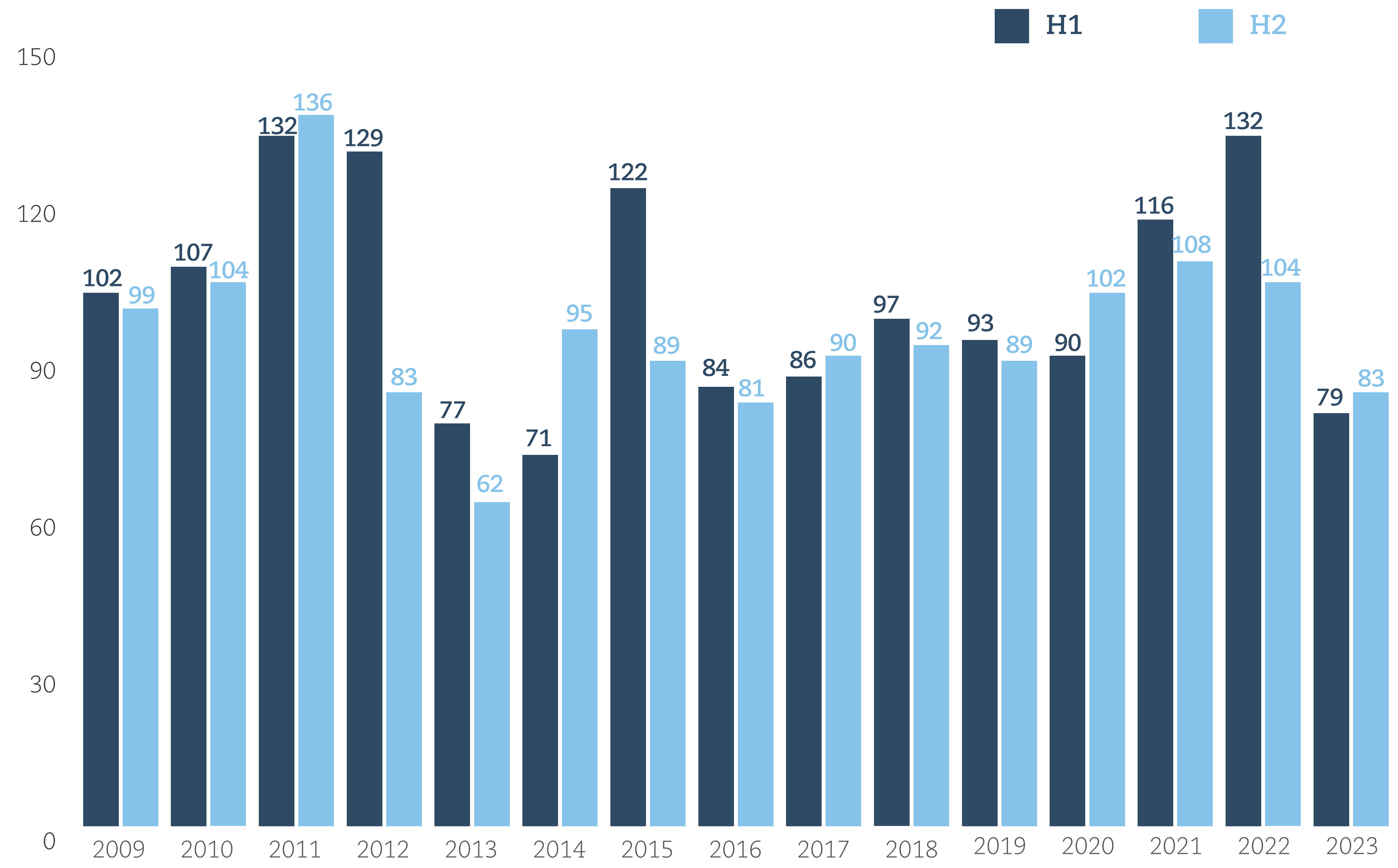


European activity rebounds from H1 all-time low
Volume of deals in Europe 2009 to 2023



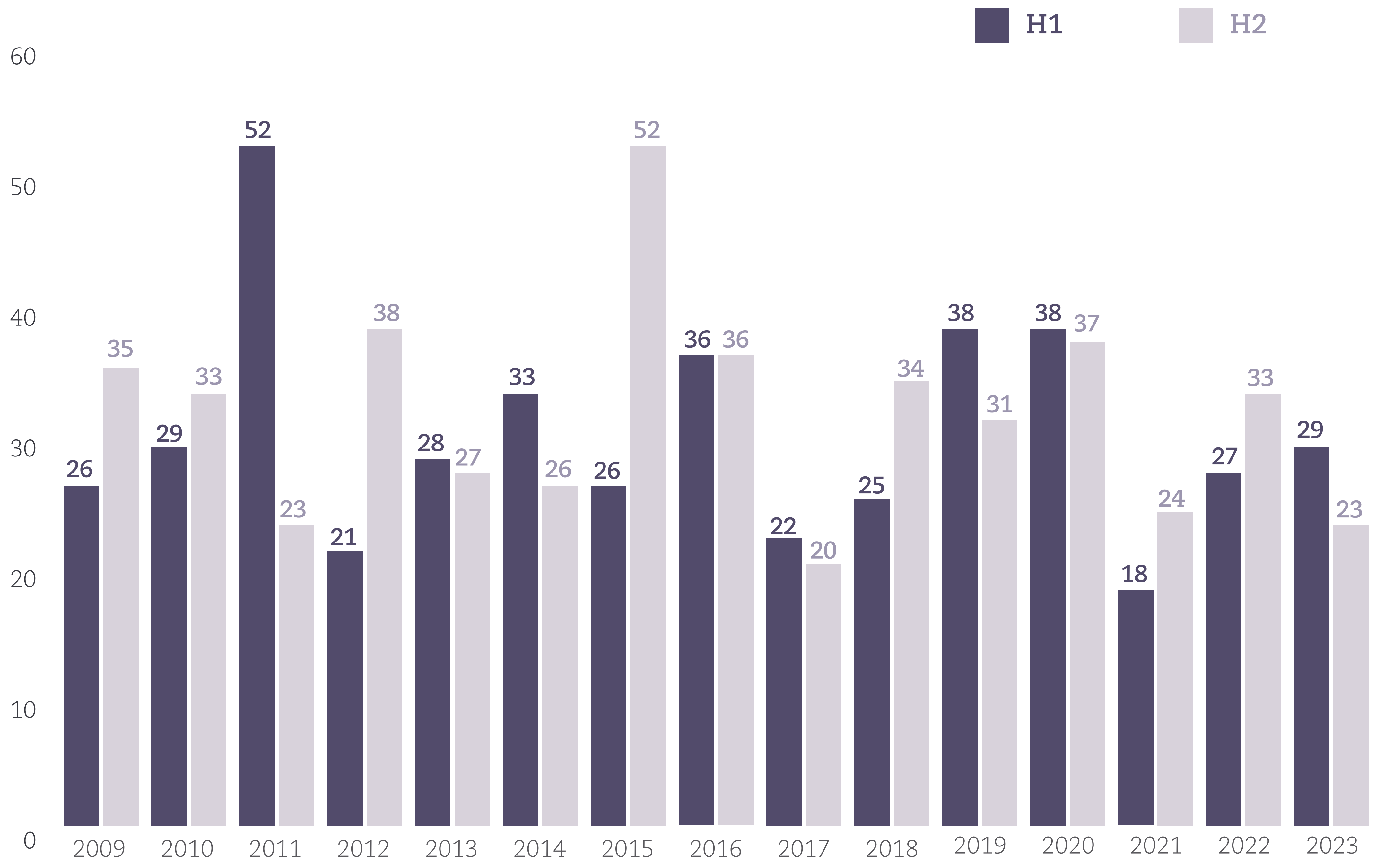
Most active countries in Europe by number of deals: **UK 28**, **France 16**, **Italy 15**

Deal volumes in the Americas lowest for 10 years
Volume of deals in the Americas 2009 to 2023



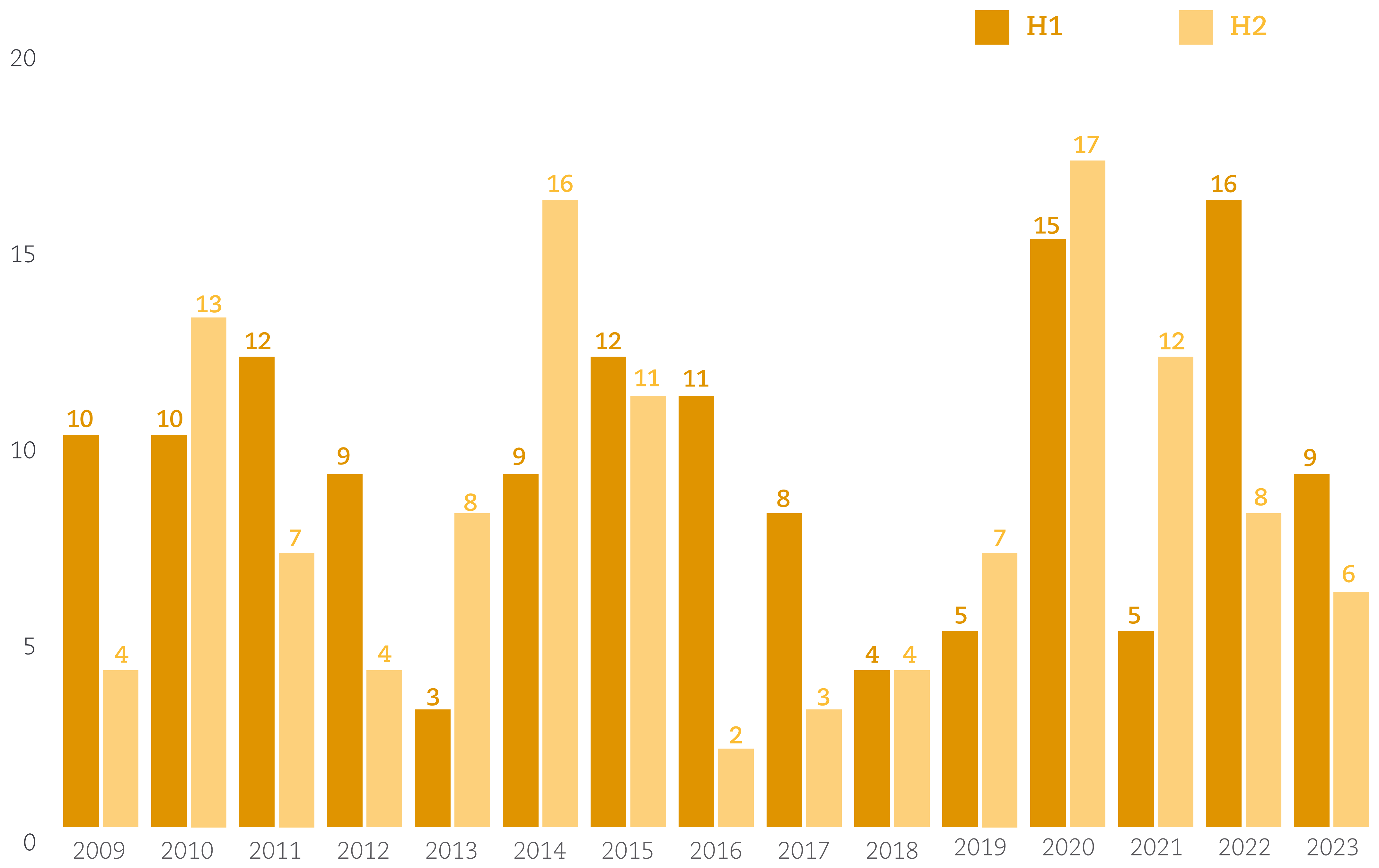
Most active countries in the Americas by number of deals: **US 122**, **Canada 28**, **Bermuda 4**

Asia Pacific M&A trends down again
Volume of deals in APAC, 2009 to 2023



Most active countries in APAC by number of deals: **Japan 23**, **Australia 9, China 6**

Lacklustre year for Middle East & Africa deals
Volume of deals in MEA, 2009 to 2023



Most active countries in the Middle East and Africa by number of deals: **South Africa 3**, **Bahrain 2**, **Israel 2**, **UAE 2**

Proportion of cross-border deals ticks up

Mergers and acquisitions involving foreign targets fell by 13% last year, compared with 2022. However, against an overall decline in M&A transactions in 2023, the proportion of cross-border deals increased to more than 23% of the global total, compared with 21% in 2022 and 22% in 2021.

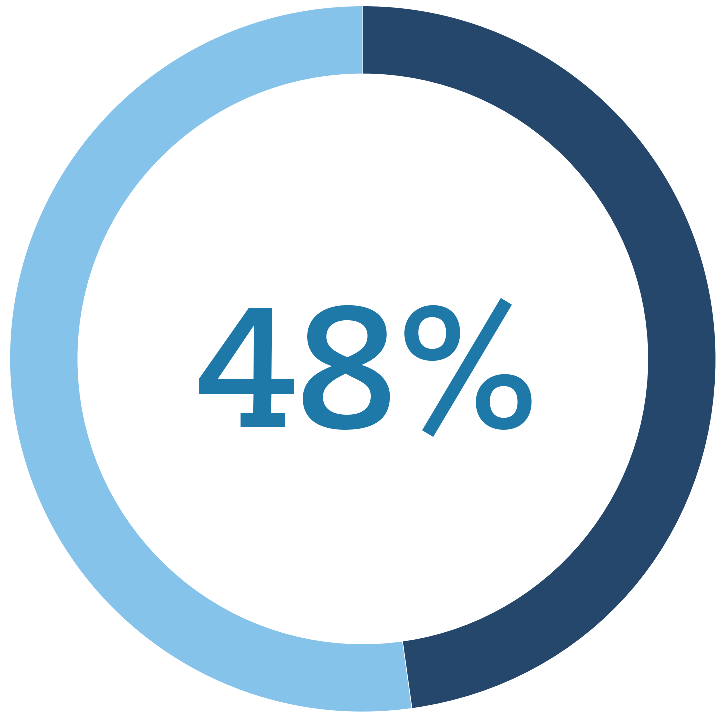
Investment from the Americas in Europe declined slightly from last year, to 25% of overseas spending, compared with 26% in 2022. The percentage of investment from the Americas in Asian deals also fell, down from 18% to 11%.

Investor interest from Europe into Asia declined significantly, down from 24% in 2022 to 3%. Investment from the MEA region into Asia also shrank, albeit at a lesser rate, down from 18% to 14% in 2023.

Investment capital flowing into the Americas from Europe remained fairly steady, down 1 percentage point from the previous year at 25%. However acquisitions of targets in the Americas by European firms more than doubled, from 12% to 26%, year-on-year.

While the MEA region continued to miss out on investment from the Americas and APAC, European interest in MEA acquisitions continued, albeit at a much lower level, down from 12% in 2022 to 3% last year.

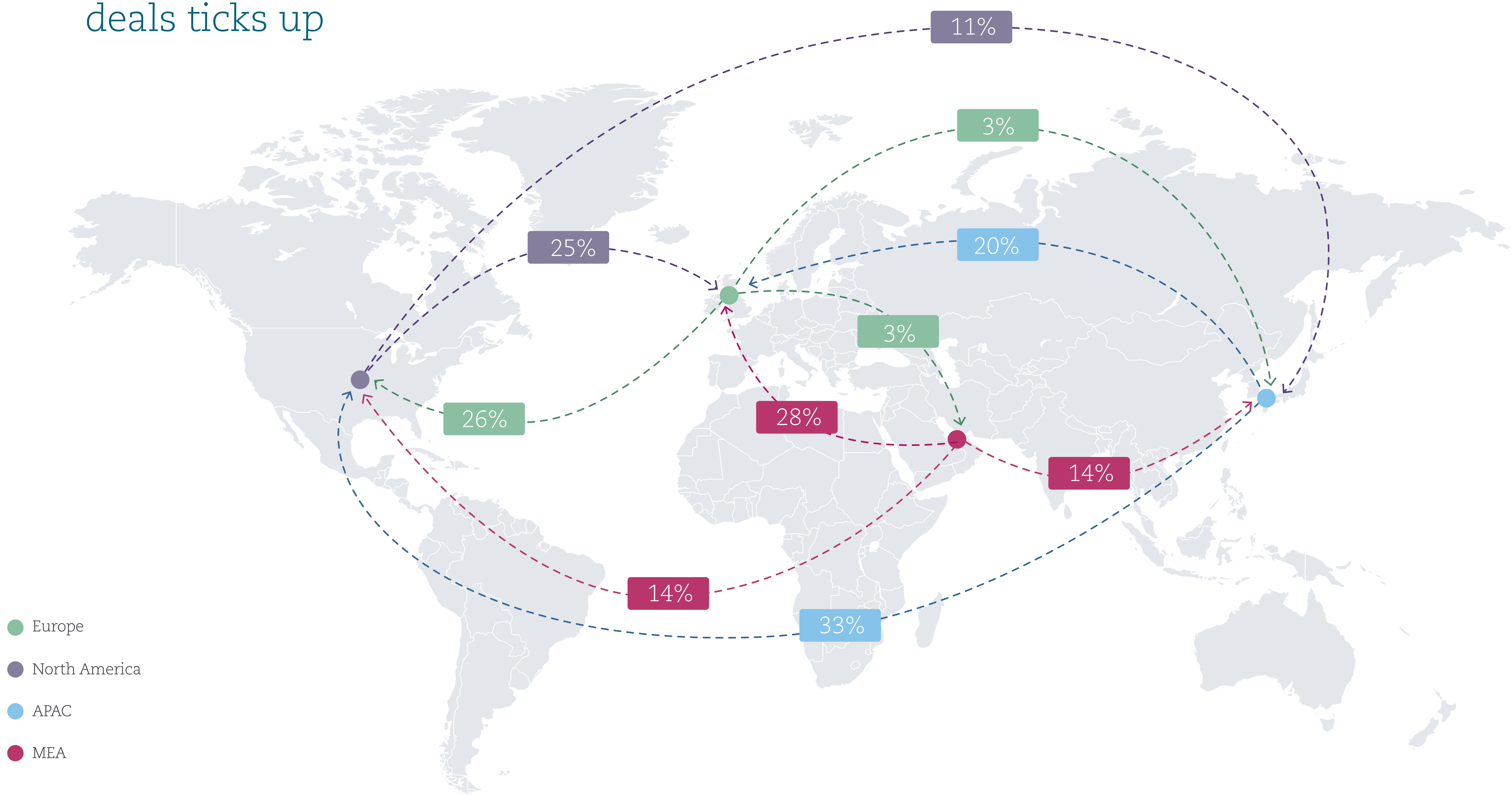
The other big growth stories in 2023 were a major increase in investment from APAC into the Americas, up from zero in 2022 to 33% of transactions in 2023, and a doubling of transactions by MEA-based entities acquiring European assets, up from 13% to 28%, year-on-year.



of cross-border deals in 2023 were intra-region

completed cross-border deals 2023, down from **93** in **2022**

Proportion of cross-border deals ticks up



Outlook

Macroeconomic factors will continue to play a significant role in the insurance sector's ability to achieve growth in 2024. With financial markets potentially looking more volatile this year, growth in carrier's investment portfolios is by no means certain, despite higher interest rates.

Continuing high interest rates will also impact the cost of debt funding for acquisitions and contribute to increased claims costs and higher operational costs.

But while optimism that 2023 would be another bumper year for M&A fell off a cliff by mid-year, reaching a 10-year low by year-end, there are signs that growth through acquisition could return this year.

Meanwhile, rating on primary insurance business is proving to be something of a mixed bag this year. There has been hardening across some lines, particularly property business impacted by natural catastrophes. But rates in burgeoning classes of business such as financial lines and cyber have either stabilised or softened slightly, possibly in response to new capacity entering the market.

However, with 1/1 renewals having proved relatively uncontentious, primary markets appear to have come to terms with hardening reinsurance rates and are better positioned to deploy their capital. Lines including cyber, trade credit and political risks, W&I and health insurance are all expected to see significant growth in 2024.

MGA formations may have passed their peak, but partners in Australia and the London market have observed modest growth in this sector in the past year. The Lloyd's market also appears to be expanding, with new syndicates established in London and Lloyd's Australia.

While incoming regulations and enforcement activity are less likely to have an impact on the global insurance industry's ability to find growth in 2024, key developments in specific markets and sectors could impact insurers.

For example, the industry in Australia has adapted to the new regulatory framework for embedded insurance product design and that market is now seeing an uptick in the retail channel as companies get to grips with the regulations.

Conversely, in the GCC region greater cooperation between the UAE and Saudi regulatory regimes is expected to drive increasing harmonisation of regulations and increased enforcement activity.

The most successful growth strategies in 2024, therefore, will require the ability to carefully navigate a complex array of geopolitical, macroeconomic, technological and regulatory risks and the flexibility to adapt to a shifting insurance marketplace.

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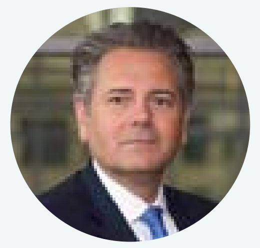

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490

Partners

2,400

Lawyers

3,200

Legal professionals

5,500

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