CLIFFORD CHANCE

CLIFFORD CHANCE INSURANCE INSIGHTS 2024

SESSION 2 – M&A OPPORTUNITIES AND TRENDS

OCTOBER 2024

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This session featured a panel discussion chaired by Cheng Li Yow, a partner in the Financial Institutions Group at Clifford Chance. The panellists included Paul Miller, a Senior Managing Director at Fenchurch Advisory Partners, James Cashier, a partner in the Financial Institutions Group at Clifford Chance and Moritz Petersen, a corporate partner in Clifford Chance's Frankfurt office. The panel explored the current trends in UK and EU general insurance M&A.

The general insurance (GI) M&A market in the UK and the EU has seen signs of recovery after an extended decline in activity over the last couple of years which followed the record-breaking highs in terms of deal volumes and valuations that were seen in 2021. Over the course of H1 2024 there has been a rise in the number of M&A transactions in the UK and EU. This can be seen as a result of the growing confidence in a more stable economic environment which has emerged as inflation comes under control and interest rates start to come down. Uncertainty remains, but this increase in activity should continue into and even accelerate during H2 2024. A softening insurance market may also contribute to an increase in the GI M&A transactions as (re)insurers look externally to achieve growth.

BROKERS AND MGAs

There remains a lot of interest in the broker and MGA market.

PE sponsors and other financial investors have long been attracted to intermediaries given their lower capital requirements in comparison to full insurance carriers and they are structurally well suited to PE style management incentive arrangements. This continues to be the case. In the UK, most notably we have seen in H1 the acquisition by Warburg Pincus and Temasek of Specialist Risk Group (SRG). GIC has also completed the acquisition of a majority stake in Miller Insurance, increasing their shareholding in the specialist broker by purchasing the shares of Cinven who they had originally invested alongside in 2021.

EU trends in M&A typically follow those in the UK and we have also seen a focus on broker and MGA targets on the Continent. In Germany, the PE house Permira has acquired a controlling stake in German insurance broker Gossler, Gobert & Wolters (GGW) alongside existing shareholder Hg Capital, another PE firm. In Germany, brokers and other intermediaries are regulated by the local Chambers of Industry and Commerce and not BaFin (which regulates insurance carriers). The Chambers of Industry and Commerce impose significantly less regulatory oversight than BaFin and the capital, conduct and disclosure requirements for German intermediaries are much less burdensome than in other jurisdictions. The Chambers of Industry and Commerce are generally seen as being comfortable with PE and financial investors taking controlling stakes in German intermediaries.

Key to the success of any intermediary is the human capital that it possesses. This works well in conjunction with the incentive plans that can be put in place by PE sponsors for management and top performers. As a result, brokers and PE houses are suitable partners with benefits and rewards available for both the sponsors and the portfolio companies. Furthermore, brokers and MGAs in the UK and German offer plenty of opportunities for consolidation. There is a large and diversified broker/ MGA market which can give investors bolt-on opportunities once they have made an initial acquisition.

On the other hand, there are a number of PE houses and financial sponsors who currently hold intermediaries as portfolio companies who will, in due course, need to exit their investments and return the proceeds to LPs as the life cycle of their investment funds comes to an end.

For these reasons we would expect to see a continued activity involving PE and financial investors in the broker and MGA sector. We would, though, not discount trade buyers looking to grow non-core businesses through MGAs with expertise in particular business lines such as cyber.

PERSONAL AND COMMERCIAL LINES

The personal lines M&A market has continued to be tough with limited M&A activity.

Increased regulatory scrutiny coupled with claims inflation has been attributed to damping the valuations of some UK targets. The Belgian insurer Ageas' approach for Direct Line Group (DLG) ended after the DLG board reportedly rebuffed two possible offers from Ageas with the board announcing that the proposals significantly undervalued DLG whilst being opportunistic in nature.

In the commercial lines sector, Aviva has acquired Probitas which notably has enabled Aviva to enter the Lloyd's market through Probitas' fully integrated Lloyd's platform. More recently there has also been a few rumours that Hiscox is the subject of takeover interest from the Japanese insurer Sompo and Italian insurer Generali. Analysts have also picked out Beazley and Lancashire as potential takeover targets in the UK.

It is expected that, as inflation returns to more normal levels and potential buyers can more confidently value target businesses, the gaps in valuations which have existed in the last few years will start close and enable prices to be agreed upon which parties can transact. This will likely be the case in both the public and private markets.

Whilst PE and financial investors will remain an integral part of the M&A landscape in the personal and commercial lines sectors, we would expect that strategic transactions will lead the way in H2 2024.

As premiums in the insurance market soften and we enter into a soft market cycle, it is likely that insurers will look for inorganic growth opportunities to achieve their targets and ambitions. "Hot" sub-sectors where we would anticipate particular levels of activity include cyber, climate and political risk insurance.

Likewise, insurers may use this time to divest of non-core business lines as they look to make their group operations more streamlined and profitable, be it by way of portfolio transfers of varying size or the carve-out/sale of certain business units/subsidiary that are no longer considered relevant for the affected insurer.

Outside of the UK, we have recently seen Zurich Insurance plc relocate its head office from Ireland to Germany and change its legal form to a German stock corporation in what was one of the first practical implementations of the new EU Mobility Directive in the insurance sector and may serve as role model for further cross-border reorganisations to follow.

Another trend that we would expect to see emerge in H2 2024 is the use of M&A by insurers to develop and build out their tech capabilities and offerings. Artificial intelligence has become a dynamic and exciting branch of the FinTech sector that offers a huge range of technologies. Earlier this year Aon acquired the assets and intellectual property of a UK Insurtech called Humn.ai., which Aon have said is for use within it commercial fleet proposition by providing clients with a real-time view of fleet performance. We would anticipate insurers increasingly looking to acquire or partner with Insurtechs as technologies evolve and offer products and services which can actually enhance the efficiencies of an insurer's underwriting model, claims handling processes and overall customer satisfaction.

KEY CONTACTS

We would be delighted to discuss these topics further with you.

CHENG LI YOW
Partner, London

T +44 20 7006 8940
M +44 7903 941538
E chengli.yow
@cliffordchance.com

JAMES CASHIER
Partner, London

T +44 20 7006 3988
M +44 7946 545409
E james.cashier
@cliffordchance.com

DR. MORITZ PETERSEN
Partner, Frankfurt

T +49 69 7199 1563
M +49 160 98133714
E moritz.petersen
@cliffordchance.com

Clifford Chance, 10 Upper Bank Street, London, E14 5JJ

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