2024 insurance M&A outlook

Climbing the leaderboard

Contents

An inflection point for the industry

In the world of insurance mergers and acquisitions (M&A), 2023 was a sleepy year. Although many insurance companies and investors used the time to rebalance their portfolios, fewer transactions took place, likely due to banking woes and rising interest rates.

Against that backdrop, the insurance sector as a whole saw a decline in the number of deals completed, although aggregate deal value went up (figure 1).

By the end of the year, inflation had moderated and the economic outlook had brightened. This was welcome news to a market eager to demonstrate growth. As interest rates settle and sellers make peace with the passing of pandemic-era valuations, some of the variability around valuations seemed poised to stabilize, encouraging what was an uptick in transaction interest.

What were some of the conditions that caused 2023 to play out as it did, and what are the implications for ambitious players aiming to climb to the top of the leaderboard this year? Let's break it down.

Figure 1. Insurance sector M&A activity, 2022–2023 (US and Bermuda)

	Number of deals			Aggregate deal value			Average deal value		
	CY 2022*	CY 2023**	YOY change	CY 2022*	CY 2023**	YOY change	CY 2022*	CY 2023**	YOY change
Underwriters	54	52	-4%	$13.6B	$10.1B	-26%	$0.9B	$0.8B	-1%
L&A	16	17	6%	$160M	$5.8B	3516%	$80M	$1.2B	1,346%
P&C	38	35	-8%	$13.5B	$4.3B	-68%	$1.0B	$0.6B	-36%
Brokers	584	485	-17%	$4.1B	$18.8B	359%	$187M	$0.7B	274%
Total	**638**	**537**	**-21%**	**$17.7B**	**$28.9B**	**63%**			

* CY 2022 represents full calendar year 2022.
** CY 2023 represents full calendar year 2023.
Source: Deloitte analysis utilizing SNL Financial M&A database as of December 31, 2023; accessed January 2, 2024.

Corporate minimum tax regimes take hold

2023 was a time of recalibration when it came to insurers' tax position and potential tax liabilities for transactions going forward. Some of that recalibration sprang from ongoing adoption of the Organisation for Economic Co-operation and Development (OECD) global minimum tax, widely known as Pillar Two. Under Pillar Two rules, certain multinational enterprises with €750 million or more in annual revenue are required to pay a 15% minimum tax on net income earned in each country where they operate.

The United States has not yet adopted Pillar Two, and the extent to which US domestic legislation will be updated to align with Pillar Two currently remains uncertain. However, Pillar Two is now live in a number of jurisdictions across Europe and the rest of the world.

On December 27, 2023, Bermuda enacted the Corporate Income Tax Act in response to Pillar Two. The enacted law introduces a 15% corporate income tax on Bermuda businesses that are part of multinational enterprise groups with annual revenue of €750 million or more. The effective date for the tax is January 1, 2025 (i.e., it's effective for tax years beginning on or after January 1, 2025).

Groups contemplating M&A activity involving a Bermuda presence will face greater complexity as they model the impact of this new Bermuda tax and the interplay between the Bermuda tax and Pillar Two. In practice, these tax matters are expected to have an impact on a number of deal workstreams including due diligence efforts, structuring, deal funding, valuation efforts, contractual representations and warranties, and post-integration compliance obligations for both purchaser and vendor groups. Consideration should be given to these tax matters as early in the deal process as possible.

Meanwhile in the United States, the 15% corporate alternative minimum tax (CAMT) is effective for taxable years beginning after December 31, 2022. The CAMT generally is focused on corporations (or groups of corporations) that have significant financial statement income but aren't viewed as having significant US federal income tax liabilities. The IRS provided guidance on CAMT and some relief in 2023, but questions remain and additional guidance is expected in 2024.[1]

Buyers should monitor additional guidance and evaluate potential CAMT risk with respect to the pre-closing tax liabilities of targets. In addition, although the CAMT is conceptually similar to Pillar Two in some ways, it isn't a qualifying Pillar Two tax and has a different tax base. As a result, buyers and sellers should be mindful of the potential impact that acquisitions and dispositions, respectively, may have on their CAMT and Pillar Two profiles post-transaction and should model each separately.

Life and annuity

2023 in review

Deal activity in the life and annuity (L&A) market remained subdued in 2023. Carriers saw higher returns on their investments due to elevated interest rates. That made them more attractive to dealmakers interested in spread-based businesses. But there was a mismatch between those with capital to deploy on the one hand and available assets with uncomplicated balance sheets on the other.

Still, many private equity investors intent on acquiring assets—and generating fees from managing them—found what they were looking for among annuities and reinsurance and in certain jurisdictions like Bermuda.

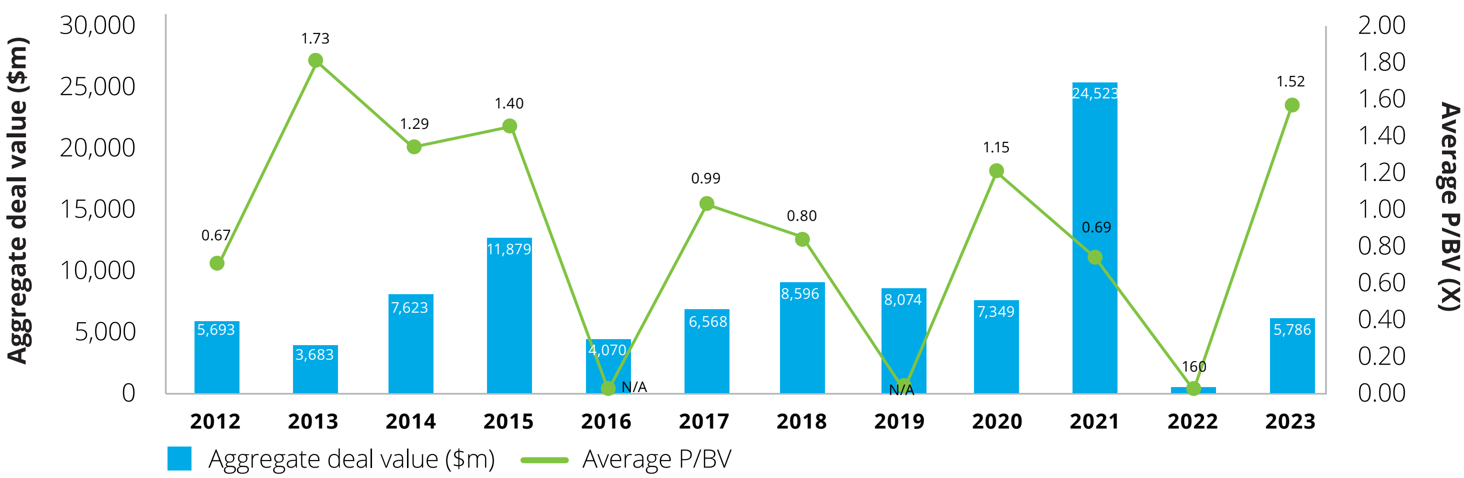
On the divestiture front, we saw a number of transactions take place where L&A companies sold or reinsured blocks of business. Some of these deals may have been in response to the financial statement impacts stemming from Accounting Standards Update (ASU) 2018-12, which went live for public companies on January 1, 2023.[2] Commonly known as long-duration targeted improvements, or LDTI, the new rules require insurance companies to use more updated assumptions in the valuation of their reserves.[3] For L&A carriers, it was a significant financial reporting change that affected both the balance sheet and the go-forward earnings patterns for long-duration products, prompting some to think differently about the product exposure insurers want to have prospectively.

The top-line result for M&A is that while the number of deals in the sector changed only slightly from the year before, aggregate deal value and average deal size showed significant increases driven by several large transactions. One was the $1.9 billion merger between Prosperity Life Group and National Western[4].There was also Brookfield Reinsurance's $4.3 billion acquisition of American Equity Investment Life.[5]

Meanwhile, the average price to book value (P/BV) ratio hit its highest level in 10 years, and the median was the highest since 2016 (figure 2).

Figure 2. M&A trends for life and annuity

Price-to-book value multiples



Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Number of deals	30	25	17	28	27	31	26	22	13	24	16	17
Size of deals ($M)												
Low	0.1	0.1	3.0	1.5	6.8	0.0	0.3	18.5	1.8	20.0	70.0	10.0
High	1,550.0	1.056.0	5,579.6	5.001.9	2,750.8	1,835.2	3,269.0	6,300.0	4,039.0	11,067.6	90.0	3,586.6
Average	299.6	204.6	544.5	698.8	290.7	505.3	614.0	1,153.5	1,224.9	2,452.3	80.0	1,157.2
Observed P/BV deal multiples												
Low	0.31x	1.73x	1.29x	0.10x	0.18x	0.64x	0.39x	0.00x	NA	0.39x	NA	0.80x
High	5.99x	1.73x	1.29x	2.17x	4.97x	1.28x	1.21x	0.00x	NA	0.89x	NA	2.30x
Average	0.67x	1.73x	1.29x	1.40x	NA	0.99x	0.80x	NA	1.15x	0.69x	NA	1.52x
Median	0.67x	1.73x	1.29x	1.13x	2.58x	0.96x	0.80x	NA	1.15x	0.59x	NA	1.47x

Notes:
- Transactions represent US and Bermuda companies making acquisitions on a global basis and international buyers making acquisitions in United States and Bermuda.
- Transactions grouped by the year they were announced.
- Deal multiples represent closed multiples unless the transaction is still pending close.
- Outliers have been removed from the average deal multiples. Outliers include all deals with a P/BV multiple smaller than 0.5x or greater than 3.0x, except in 2016.
- Analysis as of 12/31/2023.
- SNL has noted that some numbers may not reconcile to prior years, as there may be a lag between deal public announcement and disclosure.
- SNL classifies the Annuity segment in life and health.

Source: SNL Financial database as of December 31, 2023; accessed January 2, 2024.[6]

Expectations for 2024

Ongoing inflow of private equity money. Private equity investors are likely to drive further M&A activity as they acquire life and annuity insurers in a bid to grow books of business and, in some cases, take balanced risks to extract a greater degree of return from underlying assets.

A pickup in external investment. Amid geopolitical and global economic challenges, the US L&A marketplace may attract more investment from abroad, with Japan leading the charge (consider Meiji Yasuda Life's 2023 agreement to acquire three group insurance units from Elevance Health).

Aggregators getting back in the game. Market activity among the L&A aggregators seems to have cooled off now. But that doesn't mean the aggregators have given up on growing assets under management. If the Federal Reserve eases up on interest rates, these deals may start up again in 2024.

Opportunities for favorable acquisitions. Now that the impact of LDTI is better known, and as more public insurance companies turn to divestiture as a strategy for mitigating its impact, those looking for economic cash flows or additional exposure may be able to acquire blocks of business for a relative bargain.

More pension risk transfers. Some L&A companies have been offering pension buyouts or pension risk transfers, which entails taking over the management of longevity risk associated with other companies' defined benefit pension plans. The resulting asset mix may make these insurers more attractive for acquisition. Look for a continuation of this trend in 2024.

Greater potential for bigger plays. A slowdown in premium sales, paired with a premium outflow issue, means insurers should think about how they reposition themselves. One option is to go on the offensive to acquire some scale. In addition, more insurers may shed life and annuity products in favor of selling through investment management and wealth management. Whatever the strategy, investors will likely be looking for organizations to get back to a narrative of growth.

Storytelling takes on greater importance

For many US-based carriers, LDTI is more than just a change in accounting processes. It also presents new challenges in communicating to external stakeholders.

In part, LDTI produces results that are different from how many life and annuity products were accounted for previously. Beyond that, LDTI results at a point in time may not reflect the profitability of a block of business over time. Other metrics such as distributable earnings, free cash flow, and embedded value may aid insurers in communicating a broader story to investors, external stakeholders, and board members.

All this dovetails with a broader need for insurance companies to better forecast the business. Today, many insurers are looking for solutions to forecast more efficiently, when needed, and with more reliable output. For example, what will capital look like following a planned divestiture or acquisition? Where will growth come from and what will future targets look like when considering a variety of economic scenarios? By thoughtfully leveraging financial and nonfinancial results, insurers can share a vision of the company's future in a way that resonates with stakeholders.

Property and casualty

2023 in review

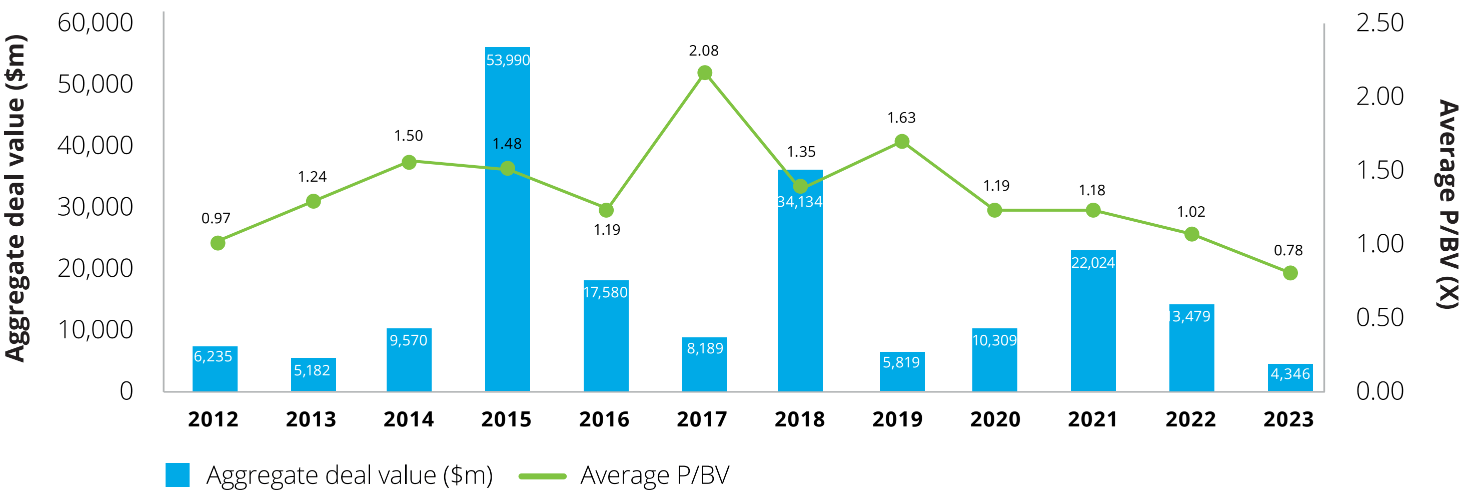
A confluence of ongoing trends contributed to dampened M&A activity in the property and casualty (P&C) market this year.

One trend that impacted M&A activity was social inflation, which caused retained losses—and the initial estimates that actuaries make on losses—to go up.[7] That affected not only companies in the insurance space but corporations that retain significant risk under large deductible and self-insured retentions.

Third-party litigation from claims aggregators also had an impact on M&A activity. In addition, buyers looking to diversify their mix of business grew cautious in the wake of some insurers' adverse claims experience.

Figure 3 paints the picture. Both the number of deals and the aggregate deal value were the lowest in the 12 years we tracked. Average deal size reflected a significant downward trend since 2021, while average and median P/BV ratios were the lowest they had been over the same 12-year period.

Figure 3. M&A trends for property and casualty
Price-to-book value multiples



Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Number of deals	68	63	65	51	70	53	61	38	52	43	98	35
Size of deals ($M)												
Low	0.8	0.4	1.3	0.3	0.28	1.4	1.8	5.3	2.3	5.5	7.7	16.3
High	3,100.2	1,125.0	1,671.3	28,240.3	6,303.8	1,906.2	15,388.0	3,100.0	3,940.0	9,000.0	11,569.4	2,985.0
Average	148.5	110.3	199.4	1,636.1	408.8	372.2	1,137.8	447.6	687.3	1,468.2	962.8	620.9
Observed P/BV deal multiples												
Low	0.57x	0.68x	0.14x	0.99x	0.21x	1.50x	0.50x	0.87x	0.53x	0.76x	0.78x	0.59x
High	1.52x	4.11x	2.83x	2.53x	1.45x	2.88x	4.07x	2.87x	1.85x	1.97x	1.26x	0.97x
Average	0.97x	1.24x	1.50x	1.48x	1.19x	2.08x	1.35x	1.63x	1.19x	1.18x	1.02x	0.78x
Median	0.90x	1.38x	1.43x	1.29x	1.14x	1.97x	1.53x	1.15x	1.19x	0.96x	1.02x	0.78x

Notes:
- Transactions represent US and Bermuda companies making acquisitions on a global basis and international buyers making acquisitions in United States and Bermuda. Property & casualty include P&C, Multiline, Title, Mortgage Guaranty, and Finance Guaranty sectors covered by SNL Financial.
- Transactions grouped by the year they were announced.
- Outliers have been removed from the average deal multiples. Outliers include all deals with a P/BV multiple smaller than 0.5x or greater than 3.0x.
- Analysis as of 12/31/2023.
- SNL has noted that some numbers may not reconcile to prior years, as there may be a lag between deal public announcement and disclosure.

Source: SNL Financial as of December 31, 2023; accessed January 2, 2024.[8]

Expectations for 2024

A slow reinsurance market. Property catastrophe rates have been going up, which may prompt some companies to look for scale in the reinsurance market. But others may decide to reap the rewards of the high-rate interest environment for another 12 months. There's also the chance that some will exit the market altogether.

Consolidation in the face of climate change. The federal Financial Stability Oversight Council has said that climate change is a systemic threat in the United States.[9] If climate-related perils—think extreme weather, flooding, and wildfires—become more severe and frequent, insurers may face additional capital requirements from regulators to maintain a sufficient buffer. This, in turn, may lead to more consolidation as insurers strengthen their balance sheet and decide where to do business in the future.

Continued growth in specialty lines. As the broader market pulls away from certain risk classes, expect some carriers to expand their footprint with creative, flexible solutions tailored to specific risk profiles. This may draw interest from private equity investors looking for opportunities that are capital light and bring less risk than traditional lines.

InsurTech goes mainstream

Looking back, 2023 may be the year when insurance technology (InsurTech) finally entered the mainstream conversation. Amid continuous deal flow, plug-and-play solutions emerged from the ecosystem to become part of the insurance company infrastructure. Many of these solutions collect data—including from third-party sources like weather or satellite providers—and massage it to help underwriters make better decisions about risk.

Such solutions have helped to solidify InsurTechs' position as an enabler along the journey to profitability, especially for P&C companies. At the same time, InsurTech providers continued their march across multiple segments of the insurance industry to develop solutions for specific commercial lines and geographical markets.

As InsurTech matured, much of the hype has shifted to artificial intelligence (AI) and Generative AI. Although these capabilities haven't overtaken sophisticated analytics for complex tasks like underwriting, pricing, and loss mitigation, they've opened new avenues for insurers to reduce operational costs, improve customer experience, and manage their books of business.

The Generative AI juggernaut has shifted the make-or-buy debate as insurance companies focus on protecting their markets from new entrants. Some companies and private equity investors with dry powder may respond in 2024 by acquiring InsurTechs for their solutions or mature tech talent, especially as valuations fall to more reasonable levels. Others may opt to develop solutions in-house without acquiring or partnering with an InsurTech vendor. Either way, a successful foray into emerging technology will likely require a thorough understanding of the core problem each insurer is trying to solve.

Insurance brokers

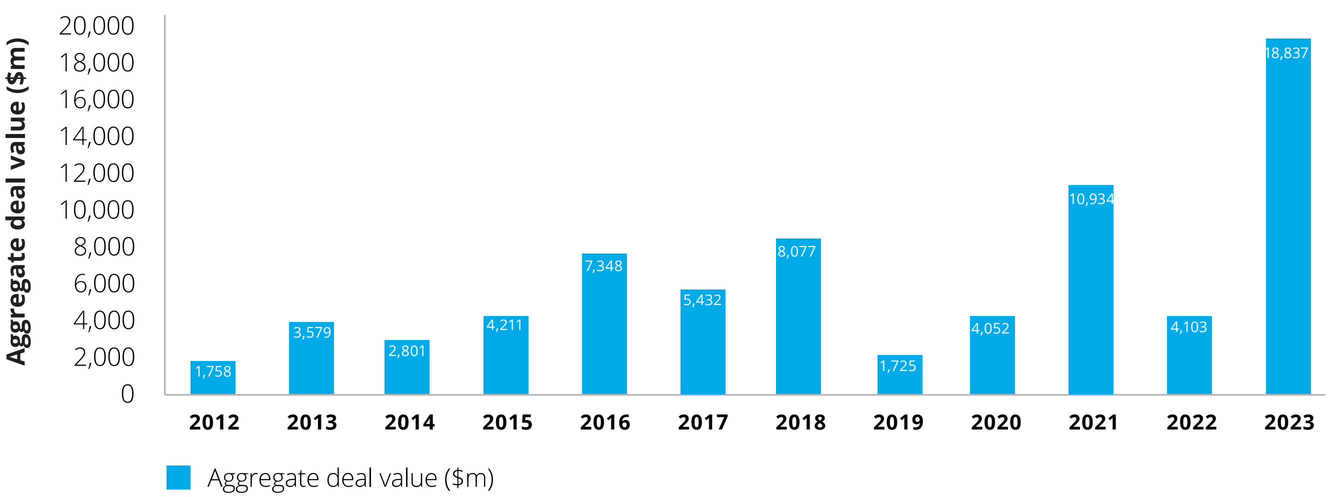
2023 in review

Insurance brokers are one of those businesses that many have long expected InsurTech to disrupt. But so far, they've held their own. The adage that insurance is bought, not sold, is reflected in many customers' ongoing need for expert guidance in a complex market.

Although there are some large brokerages in the space, the overall market remains highly fragmented. That makes it a fertile hunting ground for dealmakers, especially private equity investors. Private equity accounted for 50% of the transactions in 2023 compared to approximately 70% in previous years.

We surmise that the interest rate environment adversely affected the ability to achieve hurdle rates at the current cost of financing. However, 2023 ended at deal value levels not seen in some time. The aggregate deal value was skewed because of Aon's $13.6 billion acquisition of NFP Insurance Services. Announced on December 20, 2023, the deal became the first significant transaction by a strategic buyer in the last several years (figure 4).[10]

Figure 4. M&A trends for insurance brokers
Aggregate deal value



Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Number of deals	344	239	351	492	457	537	594	611	555	802	584	485

Notes:
- Transactions represent US and Bermuda companies making acquisitions on a global basis and international buyers making acquisitions in United States and Bermuda.
- Transactions grouped by the year they were announced.
- Outliers have been removed from the average deal multiples. Outliers include all deals with a private equity multiple smaller than 5.0x or greater than 20.0x.
- Analysis as of 12/31/2023.
- SNL has noted that some numbers may not reconcile to prior years, as there may be a lag between deal public announcement and disclosure.

Source: SNL Financial as of December 31, 2023; accessed January 2, 2024.[11]

Expectations for 2024

More acquisition opportunities. Undeterred by higher premiums, many private equity investors will likely continue to pursue a strategy of aggregating smaller brokerages. Meanwhile, large brokerage houses will likely continue to see where they can consolidate and expand their footprint in the middle market.

Continued competition. Although pricing pressures may continue, expect the market to stay competitive as private equity goes head-to-head with corporate buyers looking to grow through M&A in the middle market.

New regulations for broker-dealers. On October 31, 2023, the Department of Labor proposed new standards for fiduciary advice around certain retirement products.[12] The proposal aims to improve the quality and fairness of the investment recommendations that professional advisers provide. If the proposed regulations are adopted this year, it may encourage life insurance companies to revisit the value of an independent sales force that can give advice across a range of products.

Group insurers continue to consolidate

Group insurance is a market segment comprising relatively few players. In that kind of environment, a single large M&A deal can have an outsized impact; for instance, The Standard's announced acquisition of Elevance's group insurance business in 2023.

The number of industry players has continued to decline for a couple of reasons. One is the need for scale to make larger investments as complexity continues to grow with true group products, voluntary products, services, education, and technology connectivity. There's also regulatory change, such as the multiple leave regimes happening across the United States, that naturally fall into group insurers' realm of expertise as an extension of their disability product suites.

These shifts give the advantage to large insurers that can handle the increased administrative complexity more efficiently due to their scale. Large insurers also have a revenue advantage because many brokers are more likely to send them requests for proposals. Consolidation in group insurance is likely to continue in 2024.

Taking a proactive stance

By the end of 2023, the insurance M&A market was approaching a two-year slowdown. However, if optimists are right about the direction of the US economy, the market may rev up in 2024 as more buyers come off the sidelines. What does this mean for insurers and investors looking to dip a toe in the dealmaking pool?

Assess your existing book of business. You'll want to understand the levels of capital you're currently required to hold, the return that stakeholders expect, and whether the underlying products are sustainable. Then you should look at your options for addressing any gaps, such as strengthening your balance sheet or moving into new products.

Button up your growth strategy. That means deciding your approach (e.g., buyer or seller, proactive or reactive) and staying on top of market intelligence and regulatory requirements. For corporate buyers and sellers, it also means getting corporate development aligned with the business. Even if you decide that 2024 may not be the year to take risks, a well-thought-out growth strategy can position you to move on opportunities as they arise.

Clean up your data and modernize your financial analysis and reporting. Whether growing by acquisition or building with partners, a common, stable data model and efficient automated reporting are key. It helps to optimize new capabilities, scale the capabilities to the rest of the organization, and ease the transition to a larger, more complex enterprise. A robust data model also provides a foundation for timely and accurate forecasting and financial reporting as well as emerging technologies like generative AI.

Set up Pillar Two systems and processes. A working knowledge of the global minimum tax regime can help to head off surprises. Now is the time to identify and collect the data you'll need, consider the due diligence questions to ask a potential target, and set up models to weigh alternative scenarios.

M&A offers a path to broadening the industry's historical focus from risk and cost reduction to ongoing innovation, competitive differentiation, and profitable growth. A clear, concise playbook can help organizations execute quickly on those goals, reap the rewards, and move on to the next phase of growth.

Appendix

M&A in major global markets

Australia

2023 in review

A combination of high inflation, interest rate hikes, and geopolitical conflicts created an environment of uncertainty in Australia, contributing to an overall slowdown in capital markets. The insurance industry saw the completion of 22 deals with a total disclosed value of US$0.6 billion in 2023. That was a significant decrease from the previous year's total of 28 completed deals with a total disclosed value of US$2.7 billion.[13]

Brokerage remained the industry's standout sector, maintaining dominance in deal volumes and showing resilience despite market volatility. Among listed brokers in Australia, a number of insurers announced or completed capital raises to fund acquisitions and provide additional debt headroom capacity into 2024.

In P&C, claims continued to go up due to a series of natural disasters in recent years. Insurers passed these costs on to policyholders through increased premiums, which supported revenue growth and boosted profitability for insurers.

Expectations for 2024

From a macroeconomic perspective, a gradual easing of inflationary pressures and a slowdown in interest rate rises may foster greater market stability and indicate a potential uptick in M&A activity in 2024. Market consolidation and portfolio rebalancing remain prevailing factors, with market players looking to trim underperforming assets, reassess their market segments, and reposition themselves geographically.

Shifting perspectives in investment markets reveal savvy investors aiming to leverage and capitalize on volatility. Those seeking to divest noncore operations may create openings for corporate buyers pursuing inorganic growth potential through opportunistic acquisitions.

In the P&C market, the surge in claims expenses and increased premium levels are likely to persist, especially in the wake of an El Niño event during the 2023–24 summer season. Rising costs attributed to inflation, notably in construction materials, may continue as well. But insurers may be challenged to adjust policy pricing further amid intensifying financial strain on consumers. Overall, the persistently challenging environment may reduce the attractiveness of investing in the P&C market.

Large, listed brokers in Australia will likely continue to capitalize on scale via market consolidation to increase their prominence in the market. Aggressive acquisition strategies are expected to extend into 2024.

Some smaller life insurance transactions may be completed in early 2024, reflecting the sale of businesses that are noncore to Australian banks or are smaller businesses that have struggled to grow. New owners may reinvigorate and grow these franchises.

To seize opportunities in an unpredictable 2024 market, insurers should remain agile, with an eye to swiftly divest noncore or unprofitable businesses and actively pursue synergistic opportunities to capitalize on scale. Technology integration, advancements in generative AI, and a sustained enthusiasm for investment in InsurTechs can help insurers improve their value proposition and unlock future growth.

Canada

2023 in review

In Canada, deal activity improved after a relatively quiet 2022. Most notably was a continuation of small insurance brokerage deals, but there were also some megadeals and large middle-market deals involving Canadian insurers. In 2023, there were 198 deals with aggregated deal value of US$41 billion involving Canadian companies.[14] All told, it was a welcome shift to a more normal cadence of activity.

Also in 2023, there was a return of megadeal activity and midmarket deals. Notably, there were four megadeals mostly by well-capitalized financial sponsors. There were a few midmarket deals involving large Canadian P&C insurers, including various transactions in the United Kingdom and the United States. Insurance companies have been selling noncore businesses to enhance their capital allocation and/or making selected acquisitions to expand their footprints. Broker consolidation continues to be a prevalent theme in Canada as elsewhere.

Expectations for 2024

Equity and fixed-income markets are poised to stabilize somewhat in 2024, easing pressure on insurance companies across the board.

Look for strategic buyers who continue to be tactical with their capital commitments. Some may shed noncore businesses, while others may expand into adjacent businesses to secure their supply chains.

Smaller companies may seize the opportunity to demonstrate profitability for and contemplate nontraditional deals while large (mostly life companies) may make more plays outside of Canada.

For their part, private equity investors are likely to continue their long-term trend of investing in Canada's broker consolidation space, mostly at the smaller end and on the distribution side. Meanwhile, InsurTech—an area of interest in the Canadian market[15]—has matured to the point where providers may be bought out by some of the larger brokers or insurance carriers.

China and Hong Kong

2023 in review

In China and Hong Kong, the key theme for 2023 was shareholder reshuffling. Deal announcements ticked up as more insurance companies fell under solvency pressure. Although few deals were completed, the year ended with opportunities and demand on the rise, especially in the P&C sector.

Besides internal shareholding restructuring, insurers had different reasons to consider an exit. In some cases, disappointment with operating results led shareholders to resist injecting capital into the company. And for state-owned enterprises, there was Beijing's mandate to focus on their main business of insurance.[16] The latter was a significant development given that many shareholders of joint venture insurance companies in China have a concentration in other industries like energy and transportation.

Expectations for 2024

The challenging insurance environment in China and Hong Kong is likely to remain in 2024, weighing on shareholders with limited financial resources or commitment to the insurance business. Many insurers lack scale and struggle to make a profit as Chinese consumers cut back on spending.[17] These conditions mean the industry's growth rate and valuations may remain unfavorable in the short term.

Amid rising deal volume and value, a potential M&A-related opportunity this year is for foreign insurers to take full or majority control of a joint venture, which is something many (particularly life insurers) have been wanting to do. In any case, for insurance companies aiming to enhance M&A opportunities, they may consider doing so in 2024.

France

2023 in review

After a record-breaking 2021 and a dynamic 2022, dealmaking in France slowed down last year. Both deal volume and value took a hit as a new economic paradigm reshuffled the M&A cards in the French insurance market.

The shift toward consistently high interest rates and moderated inflation put the life insurance and savings sector back in the spotlight. Savings and retirement products recently originated by the 2019 PACTE Act continued to boost inflows for wealth managers, providing them with more opportunities and acting as tailwinds to propel the sector forward.

In the insurance savings and retirement brokerage sector, private equity–backed transactions boomed, partly due to industrial strategies aimed at achieving critical size in a fragmented market. For their part, InsurTech startups continued to challenge established players, although decreasing valuations meant funding was an issue for some.

Expectations for 2024

An upswing in M&A activity may materialize for 2024 as inflation and interest rate hikes ease.

In life insurance, the recovery of savings activities may prompt insurers to focus on their core business and rationalize noncore operations such as asset management. Meanwhile, private equity investors are likely to remain active in the French insurance distribution sector, particularly in wholesale, savings, and wealth management brokerage.

Multinational insurers based in France are becoming more proactive about assessing their footprint in certain geographical zones. Look for them to reinforce their position in core regions while strategically streamlining operations in noncore geographies and activities, triggering disposals and strategic mergers.

InsurTechs will likely continue to confront fundraising woes, declining valuations, and an industry shift toward AI-powered risk assessment and pricing models. These forces may encourage large insurers to favor acquisitions of InsurTechs over developing technology internally, and technology companies to explore strategic partnerships or funding with prominent corporate groups.

Finally, the mutual sector's consolidation trend may continue into 2024 due to ongoing challenges in collective health and protection, affecting overall profitability.[18]

Germany

2023 in review

Transaction volume in Germany's traditional domestic insurance business stayed low in 2023. While the two major life insurance transactions announced in 2022 waited for regulatory approval, M&A market activity remained largely concentrated in the broker market and insurance distribution, with consolidation in the latter being the biggest growth driver. German multinationals also made investments, mainly in South America and neighboring European markets.

Expectations for 2024

The announced merger of Gothaer and Barmenia gave the M&A market a surprising boost for 2024, not to mention fresh momentum for the consolidation of smaller and medium-size insurance groups in the mutual segment. Increasing technological pressure and challenging conditions in the capital and insurance markets could fuel a broader consolidation trend in Germany's sizable but fragmented insurance market.

After years of restraint and caution, strategic market players may be more willing to invest in 2024. The insurance industry's improved earnings situation from last year could motivate acquisitions of portfolios, specialized risk carriers, and distribution businesses, despite higher prices in the equity markets.

Activity on the broker markets is likely to stay high as well. The wave of consolidation seen in previous years, particularly in the United Kingdom, has now hit Germany, and the number of private equity investors investing in this sector continues to increase. New platforms have once again entered the market to ride the acquisition wave.

German life insurance markets are a different story. Rising interest rates have stifled the resurgence of closed-book transactions for the time being. It remains to be seen to what extent the negative price trend for fixed-interest investments, along with the associated significant fall in the market value of investments, will influence M&A activity this year.

If there is an economic downturn in Germany, companies may be hesitant to expand their international business. Higher interest rates could also hinder private equity investors' ability to engage in the leveraged transactions that many prefer. With no inbound insurance M&A from the United States to Germany in the past few years, international transactions could face a slowdown in 2024.

All told, digitalization, consolidation of rather fragmented markets, and expansion of the value-creation chain remain the strongest drivers for insurance M&A in Germany, even if the targets are getting smaller. This is especially the case for investment technology and distribution-oriented companies. Both established market incumbents and market participants are pursuing sectorwide IT modernization.

Japan

2023 in review

Compared with 2022, overall deal volume in Japan's insurance industry went down last year while deal value went up. The most activity took place among insurers acquiring shares of technology companies.

Expectations for 2024

Deal volume and value are not expected to dip this year as insurers continue to pursue growth through M&A. Insurers are poised to make more acquisitions of technology companies to develop their digital capabilities, as well as more acquisitions of health care companies in a bid to build closer relationships with customers. Expect increasing competition as the number of potential targets dwindle. As for cross-border transactions, the Japanese insurance market saw several last year[19] and is likely to continue the momentum into 2024.

Insurers looking for M&A opportunities in Japan may be able to position themselves for success by laying out a clear vision of their future from both an insurance and non-insurance perspective (such as strategies to enhance customer lifetime value), then maintaining a list of potential targets that could help make that vision a reality.

United Kingdom

2023 in review

Although M&A in the UK insurance market declined last year, compared with the heady levels of 2021 and early 2022, pockets of activity remained. One was in motor insurance underwriting, where participants looked to either double down or exit the market altogether in the face of changing regulation and claims inflation. Broker consolidation continued as well, albeit at volumes and deal sizes that were lower than before, and there was ongoing appetite for scale platform broking and managing general agent (MGA) assets. There was also limited activity in the specialty insurance markets, with deals focused on inbound investors into existing platforms looking to capitalize on an attractive premium rating environment.

Overall, 2023 saw the continuation of a challenging insurance M&A market. The gap between buyer and seller valuation expectations remained, and the threshold for issues to derail deals remained low.

Expectations for 2024

While uncertainty remains, there's a growing sense of confidence that M&A markets are returning across the insurance sector. Interest rates have stabilized, and the challenges facing insurers regarding claims inflation seem to be easing. In addition, post-Brexit plans for a UK version of Solvency II[20] are laying the groundwork for more M&A activity by making it easier for insurers to invest in real assets.

Continued tailwinds in the premium rate environment across commercial and specialty lines will likely drive further interest in Lloyd's platform assets. As private equity has flowed into the Lloyd's market over the past three years, this is likely to become a source of transaction activity over the medium term as these investors look for liquidity events.

The pipeline for insurance brokers and MGA groups continues to grow as sellers capitalize on a more stable outlook. Private equity interest in the sector remains heightened and is expected to continue to drive activity.

While the recovery remains fragile, cautious optimism is the catch phrase for this year.

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