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PErspective in INSURANCE

A FEATURE EXAMINING THE ROLE OF PRIVATE EQUITY IN THE INSURANCE INDUSTRY

Deal activity in the insurance sector is at its highest level in more than a decade.

According to a report from ratings agency Moody's, insurance M&A value reached over $200 billion through the end of the third quarter of 2015. Fierce competition has forced insurance companies to reduce rates, while bond market investment returns have been weak, driving firms to cut costs, seek synergies and improve profitability through consolidation. Meanwhile, low interest rates and funding costs, as well as the desire to seek scale in growing markets, are attracting bidders, *The Wall Street Journal* reports.

Regulation is also playing its part. The Affordable Care Act (ACA) is driving health insurance companies to seek greater scale in order to manage new requirements and increase profitability. In a series of megadeals set to reduce the number of health insurers in the U.S. market from five to three, Aetna plans to acquire Humana in a deal valued at $34 billion, and Anthem is seeking to take over Cigna for $48 billion, pending decisions from antitrust regulators.

Internationally, new capital requirements under Solvency II—an EU directive aimed at reducing insolvency risk, which went into effect Jan. 1, 2016—are pushing insurance companies to shore up their balance sheets and consider selling non-core assets, according to *Intelligent Insurer*.

Life insurance books are especially costly to hold under these circumstances, making portfolio owners increasingly willing to sell, says the *Financial Times*. The paper reports that European buyout firm Cinven has built a strategy around purchasing life insurers and using them as a platform to buy unwanted portfolios across the continent. The strategy has paid off, with the firm realizing a fourfold return on its original investment when it sold U.K. life insurance company Guardian Financial Services to Swiss Re for £1.6 billion ($2.5 billion).

There has also been significant cross-border activity, with Chinese and Japanese groups particularly active across the United States and EMEA, according to the Moody's report. Japan's Mitsui Sumitomo Insurance agreed in September to buy U.K. insurer Amlin for over $5 billion. This is the latest move in the Japanese insurer's bid for overseas expansion, driven partly by an aging population and sluggish domestic car sales, *The Wall Street Journal* reports. Chinese investors have also been drawn to the global insurance industry, where low interest rates made assets seem cheaper than at home. However, recent economic woes may have derailed some Chinese firms' plans to expand overseas amid falling stock prices and pressure to invest more at home.

The various drivers behind the insurance M&A boom are likely to be sustained for some time, according to *The Wall Street Journal*. Moody's predicts that M&A activity will only slow if interest rates rise significantly or if equity markets take a tumble—although the latter would reduce prices further. This environment provides robust investment opportunities for PE firms as they seek to deploy their stores of dry powder.

PErspective in Insurance is a feature examining the role of private equity in the insurance industry.

Sources: Intelligent Insurer, Wall Street Journal, Financial Times

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