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PErspective in INSURANCE

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

Deal-making in the insurance sector has been slow to recover since the financial crisis, but investors may see pockets of activity in the insurance broker and specialty reinsurance spaces.

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Deal-making in the insurance industry is on the rise again after being relatively subdued since the global financial crisis. M&A activity in recent months has ticked upward and the pipeline of future deals has grown, according to a recent Swiss Re sigma report, “M&A in Insurance: Start of a New Wave?” There were 359 M&A announcements in the second half of 2014 compared with 295 in the first half, and this momentum continued into 2015.

However, the report highlights that the number of transactions is still well below levels prior to the financial crisis, and recent activity is unlikely to lead to an industry-wide surge.

Instead, there will likely be pockets of activity – the insurance broker space and the specialty reinsurance sector in particular have seen greater investor interest. According to Insurance Journal, much of the consolidation among middle market reinsurance firms is a result of competition from alternative risk-absorbing products, such as catastrophe (cat) bonds. A record $8 billion worth of cat bonds were issued in 2014 – a level that is likely to be surpassed in 2015, according to ratings agency Fitch. Cross-border deals are also up among intermediaries – established players are looking to grow their overseas business to meet greater demand from corporates for partners with international footprints, Insurance Journal reports.

PE interest is driving more activity, particularly in the more predictable life insurance and annuities sectors, as well as the insurance-linked securities and cat bonds markets, according to InsuranceNewsNet.com. The Wall Street Journal’s MoneyBeat blog reports that tens of billions of dollars have been spent on insurance companies and assets by PE, hedge funds, pension funds and other investment entities since the financial crisis. Most recently, San-Francisco-based Golden Gate Capital committed $750 million to form a combination insurance/reinsurance company – Nassau Reinsurance Group – alongside two insurance-industry executives.

While the uptick in M&A activity does not apply to all areas of the insurance industry, the shakeout of certain segments represents a growing opportunity for PE firms. Deal-making may not yet be back up to pre-crisis levels, but there continue to be opportunities for savvy PE investors that don’t mind taking a longer view – and that don’t mind operating in an increasingly stringent regulatory environment.

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