Hogan Lovells

Insurance M&A 2017/2018

INTRODUCTION

This paper reviews global insurance M&A in 2017, considering activity both at a regional level (the US, Europe and Asia) and across different sub-sectors of the insurance industry. It also considers the different factors which impacted insurance M&A across 2017 and emerging trends moving forward in 2018**.**

KEY STATISTICS FOR INSURANCE M&A ACTIVITY IN 2017

Overall, insurance M&A activity during 2017 could be characterised as a case of quality over quantity – deal volume remained flat from 2016, failing to recover to the levels seen in 2015, but aggregate deal value increased.

	2017		**2016**		**2015**	
	Number	Aggregate value (US$)	Number	Aggregate value (US$)	Number	Aggregate value (US$)
All deals	770	264.4 billion	769	183.1 billion	825	504.7 billion
Deals over $500 million	86	221.1 billion	74	141.9 billion	117	463.7 billion
Deals over $1 billion	48	193.5 billion	46	122.6 billion	80	428.3 billion

Source: Mergermarket

The aggregate value figures for 2017 are distorted to some degree by the presence of one "mega-deal", namely US pharmacy group CVS Health's proposed acquisition of Aetna for US$77 billion. However, if the number of US$5+ billion deals did not return to 2015 levels (two transactions, compared with five in 2015 and one in 2016), larger deals were generally on the increase, with the number of US$500+ million and US$1+ billion deals both rising.

Please see the Appendix for a list of the top 20 announced deals by deal value.

KEY FACTORS IMPACTING INSURANCE M&A DURING 2017

Some of the key factors affecting insurance M&A during 2017, both in driving and limiting deal volumes, included the following:

(a) **Structural pressures in the US health care and insurance market**: while a number of attempts at consolidation by larger participants in the US health insurance market were quashed during 2017 by anti-trust concerns, notably the proposed US$48 billion merger of Anthem and Cigna and the US$37 billion deal between Aetna and Humana, the sector did also produce the largest insurance M&A transaction of 2017, CVS Health's US$77 billion acquisition of Aetna, as the drugstore chain sought to restructure its operations to combat Amazon's entry into the pharmacy space.

(b) **Continuing private equity interest in both life/annuity businesses and broking and insurance service businesses**: private equity and other alternative investment interest in various parts of the insurance market drove a large number of transactions during 2017, particularly in acquisitions of closed book annuity and life insurance businesses in the US and broking businesses in the US and UK.

(c) **Difficulties for Chinese outbound M&A**: Chinese outbound investment decreased over 2017 as a result of restrictions on capital outflows and outbound M&A by the Chinese government, including the introduction of a requirement for regulatory approval for some foreign acquisitions carried out through an offshore entity. Some of the most significant recent acquirers of overseas assets have also found themselves under investigation. At the same time, ongoing transactions, such as China Oceanwide's proposed US$2.7 billion acquisition of Genworth, have still not been able to complete due to continued scrutiny by CFIUS and state insurance departments of several states.

(d) **Opportunities for growth in Asian markets**: low levels of insurance and rising levels of affluence, combined with difficulties in setting up new vehicles in certain markets, has continued to drive M&A activity across Asia. 2017 was particularly notable for the increasingly active role taken by Asian headquartered insurers from China, Hong Kong and Singapore, with a number of US groups also exiting markets.

(e) **Restructuring and refocusing by major European groups**: responding both to regulatory changes such as Solvency II and wider structural changes in the insurance market, a large number of transactions across the life, non-life and broking sectors were driven by larger European groups disposing of non-core assets and buying assets in their targeted growth areas.

(f) **Quest for scale in reinsurance and specialty markets**: pricing pressure and continuing competition in reinsurance and specialty markets continued to drive consolidation during 2017, particularly in the US and Europe, and to push market participants, including Japanese insurers such as MS&AD, to expand their global footprint.

REGIONAL REVIEW

ASIA

Outbound investment by Asian insurers and investors into the US and European market continued to be subdued in 2017, with Chinese companies in particular continuing to run into difficulties with regulators (notably China Oceanwide in its ongoing bid for US insurer Genworth). Indeed the only Asian market participant which continued to be extremely active in insurance M&A outside of Asia was the Japanese group MS&AD, which acquired a stake in Swiss Re's closed book business ReAssure and bought the Australian annuity provider Challenger.

Sompo, having closed its acquisition of Bermudan insurer Endurance (which was announced in 2016) also disposed of its Lloyd's business, Canopius.

Within Asia, however, there was a continued flow of transactions, both domestically and cross-border. These included, in China, Zhongtian Financial's US$4.7 billion acquisition of a stake in Huaxia Life; in Hong Kong, the Yunfeng Group's US$1 billion acquisition of MassMutual's HK operations and First Origin's US$914 million acquisition of Hong Kong Life; and in Singapore, MS&AD's acquisition of First Capital from Fairfax for US$1.6 billion. This activity was supplemented by a number of large public offerings, including the Japanese government's US$11.5 billion sale of shares in Japan Post Insurance, PICC's US$1.9 billion offering on the Shanghai stock exchange and the US$1.5 billion flotation of Chinese online insurer Zhong An.

India also saw a notable amount of market activity, with the state-owned reinsurer GIC Re raising US$1.7 billion, India's largest non-life insurer New India floating a 14.56 per cent. stake for US$1.5 billion, SBI Life (owned by State Bank of India and BNP Paribas) floating a 12 per cent. stake for US$1.3 billion, and ICICI Lombard (owned by India's ICICI Bank and Fairfax) raising US$890 million. Fairfax also sold a 25 per cent. stake in its Indian venture Fairfax India for US$900 million, while Tokio Marine increased its stake in the Indian general insurer IFFCO Tokio from 23 per cent. to 49 per cent. (reflecting the relaxation of Indian ownership rules) for US$395 million.

EUROPE AND THE UK

In Europe, deal flow across both the life and non-life sectors in 2017 appears to have been driven primarily by the restructuring that a number of the larger European insurers have been undertaking – partly in response to regulatory changes, most notably Solvency II, but also as part of a wider project of re-focussing their core activities. In the life sector, for example, notable deals included Swiss Re selling a US$800 million stake in its run-off division, ReAssure, to MS&AD, while Aviva continued its disposals of non-core businesses by selling its stake in its French life insurance JV, Antarius S.A., to SocGen for US$550 million and its interests in various Spanish life insurers to Santalucia for US$561 million. In the non-life sector, Allianz bought out the remaining minority interests in trade credit insurer Euler Hermes for US$2.2 billion.

The ongoing importance of Brexit as a strategic consideration for European insurers and reinsurers is likely to have depressed M&A activity throughout 2017, redirecting corporate energy away from growth and other strategic opportunities and towards planning for the impact of the UK's departure from the EU. Although the UK did produce the second largest insurance-related transaction in 2017, namely Standard Life's US$13.5 billion merger with Aberdeen Asset Management, this was a transaction driven by the parties' desire to achieve scale as a global fund manager rather than opportunities in the insurance market. The February 2018 announcement that Standard Life Aberdeen will sell its insurance operating company to Phoenix Group Holdings represents the last stage in Standard Life's progression from its roots as a mutual life insurer into an investment fund management business.

US

Investor uncertainty following the outcome of the 2016 US election seemed to restrain US M&A activity in the first half of the 2017 as insurers waited to see how the Trump administration's initial policy initiatives and the wider economy developed. Increases in the share prices of listed insurers and a scarcity of potential targets may also have affected activity.

However, high demand from private equity and alternative asset managers for life and annuity businesses, together with consolidation and wider sector pressures in the health sector and specialty markets, meant that transaction volumes and values picked up over the course of the year. Early signs of this included CF Corp's US$1.8 billion takeover of Fidelity & Guaranty Life and Intact's US$1.8 billion acquisition of OneBeacon, both of which announced in May, but the last quarter of 2017 saw a flurry of deals announced, including, in December alone, the US$2 billion acquisition of The Hartford's run-off and annuity division, Talcott Resolution, by an investor group led by Cornell Capital, Voya's sale of its closed book annuity business to a consortium including affiliates of Apollo, Crestview and Athene Holding for US$1.1 billion and CVS Health's US$77 billion proposed tie-up with Aetna.

SECTORAL TRENDS

LIFE INSURANCE

Life insurance represented one of the most active parts of the insurance market during 2017, with notably high levels of activity in Australia, as international insurers sought access to this mature market, and Asia, particularly from Chinese and Japanese buyers.

Australian deals included some of the year's largest insurance acquisitions, with AIA re-emerging as a buyer with its proposed acquisition of Comminsure Life & Sovereign, Commonwealth Bank of Australia's Australian life business, for US$4.7 billion, and Zurich agreeing to acquire OnePath Life, ANZ Bank's life business, for US$2.1 billion. MS&AD also continued its strategy of broadening its global exposure by targeting the Australian annuity provider, Challenger, for US$396 million.

Asia also saw a number of high-profile deals as buyers sought to position themselves for future growth for savings and investment products in increasingly affluent markets such as China. These included Zhongtian Financial's acquisition of up to 25 per cent. in Huaxia Life for US$4.7 billion, the third largest announced insurance M&A deal of 2017; China Development Financial's US$1 billion bid for a 25.3 per cent. stake in Taiwanese life insurer China Life; Hong Kong-based Yunfeng Group's US$1 billion acquisition of MassMutual's Hong Kong operations; and Hong Kong investment group First Origin's US$900 million acquisition of Hong Kong Life.

In the US, life and annuity businesses were central to M&A activity, particularly as a result of alternative asset managers and private equity targeting "permanent capital" opportunities. Voya's transaction with a consortium that included affiliates of private equity group Apollo Global and the insurance consolidator Athene Holding was a case in point, with the Apollo consortium agreeing to buy a book of variable annuities with reserves of approximately US$54 billion and, at the same time, agreeing to reinsure an additional US$19 billion of fixed annuities. For Voya, the transaction represented an opportunity to divest businesses subject to increasingly onerous capital requirements; for Apollo and Athene (which was set up by Apollo in 2009), the opportunity to deploy credit expertise to maximise investment returns over and above its obligations to policyholders. However, unlike Apollo's usual fundraising, which needs to be returned to investors when a given fund reaches the end of its life cycle and is wound up, insurance assets remain available over a much longer timeframe and can therefore constitute a form of "permanent capital" for the private equity house. Since it was set up by Apollo in 2009, Athene's assets have grown to over US$80 billion, all of which are managed by Apollo, helping to swell Apollo's overall assets under management to US$250 billion from $41 billion just 10 years ago and driving a proportionate increase in Apollo's fee income. CF Corp's takeover of Fidelity & Guaranty Life reveals a similar dynamic, with CF Corp, which is led by former Blackstone executive Chinh Chu, passing the management of FGL's assets to Blackstone.

NON-LIFE/P&C AND REINSURANCE

Increasing pressures within the healthcare and health insurance sector, not least the rising threat of competition from Big Tech, encouraged M&A during 2017. This was most obvious in the US, where CVS Health's acquisition of Aetna was by far the largest M&A transaction in the insurance sector during 2017, but other significant transactions, such as UnitedHealth's acquisition of Latin American healthcare insurer Banmédica for US$2.75 billion, saw insurers seek to broaden their geographic exposure as well as consolidate their market position.

2017 also saw a number of significant transactions in US and European specialty markets as pressures on margins continued due to excess capital and historic low loss experience, notwithstanding a number of heavy catastrophic losses during the course of the year.

In the US, these included Intact's acquisition of specialty insurer OneBeacon for US$1.8 billion; Assurant Inc's US$2.5 billion acquisition of The Warranty Group, which increased its US and global footprint in vehicle protection and financial services markets; Madison Dearborn and AmTrust entering into a strategic alliance, with Madison taking a 51 per cent. stake in AmTrust's warranty and service contracts business for US$1.15 billion; and Markel acquiring US collateral protection provider State National for US$919 million.

In Europe, meanwhile, Allianz bought out the remaining minority interests in trade credit insurer Euler Hermes for US$2.2 billion, while AXIS's acquisition of Novae for US$620 million reduced the number of publicly held Lloyd's insurers to three (Beazley, Lancashire and Hiscox). A Lloyd's entity was also involved in another significant transaction, as, following the completion of its acquisition of Bermudan reinsurer Endurance in early 2017, Sompo Holdings sold the Lloyd's reinsurer Canopius to private equity firm Centerbridge for US$952 million.

RUN-OFF MARKET

2017 saw continued activity in the run-off market, as regulatory change, pressure on margins and restructuring by some of the larger existing market participants encouraged further M&A. In addition to the activity in the US market discussed above, notable deals included RSA's disposal of a US$977 million UK employer's liability legacy book to Enstar, MS&AD's US$800 million investment in ReAssure and Scor's acquisition of a US$750 million US-based life reinsurance book from Aegon. The continued appetite for further transactions in this space was also highlighted by the new capital being raised to invest in run-off transactions, such as Athene Holding's US$2.36 billion equity raise to fund investments in the European guaranteed life insurance run-off markets and Apollo's acquisition of the Bermuda-based run-off specialist Catalina.

BROKING

Insurance broking continued to be one of the most active sectors for insurance M&A during 2017, as consolidation continued across the US and Europe and brokers pulled out of higher risk markets in order to refocus their efforts elsewhere (for example, Aon exiting a range of African brokerage operations but also acquiring Henderson Insurance Brokers in the UK). And while the majority of these transactions were for lower value targets, 2017 also saw some very significant transactions involving private equity investment into insurance broking, including Caisse de Depot et Placement du Quebec and KKR's US$4.3 billion acquisition of US broker and employee benefits company USI Holdings Corp from Onex Corporation, and Caisse de Depot's subsequent investment of a further US$400 million acquiring a minority stake in Hyperion Insurance Group, the UK insurance and reinsurance broker. Canada Pension Plan Investment Board also made a substantial US$898 million investment in UK broker BGL Group, taking a 30% stake.

INTO 2018

Notwithstanding the adjustments to global equity prices following the highs at the end of 2017, global M&A activity has begun at a rapid pace in 2018, with a record US$1.7 trillion in deals announced to 30 April 2018 – topping the previous high in 2007 – and a range of transformational deals announced in sectors such as telecoms, energy and retail. The insurance sector has not been exempt from this activity, with a number of significant transactions announced already.

Bermudan insurers/reinsurers have been at the centre of this activity, with AIG agreeing to buy Validus for US$ 5.6 billion and AXA agreeing to buy XL Group for US$15.3 billion. Continuing the theme from 2017, an intensely competitive environment in P&C reinsurance appears to be squeezing mid-cap players to look to tie-ups with larger groups, who themselves are looking to diversify or re-orientate their overall strategic focus. Taking into account the level of competition on the XL Group deal, it seems likely that other deals may emerge in this space over the course of 2018.

Private equity has also been involved in some significant transactions so far in 2018, with Stone Point agreeing to pay US$1.2 billion for a 45 per cent. stake in Amtrust Financial, and Apollo and Varde Partners agreeing to acquire a 41 per cent. stake in OneMain, a US consumer finance and credit insurer, for US$1.4 billion. Elliott Management, partnering with Wand, has also continued the trend of private equity interest in life and annuity businesses by agreeing to purchase US life insurer Prosperity Life for US$500 million.

In line with these examples, we would expect a number of the key trends from 2017 to continue to be on display in 2018, with further consolidation in the reinsurance and P&C sectors and continuing private equity activity at the forefront. In closing, however, we would suggest two further areas which may drive M&A activity over the course of the year.

INSURTECH

InsurTech transactions have, to date, tended to take the form of partnerships rather than outright acquisitions. However, as the relevant businesses mature, M&A is likely to become an increasing feature as the larger insurer's seek to bring innovative in-house in order to leverage it fully. This was evident during 2017, with a number of companies moving from being investors to owners. One of the largest such deals was Traveler's acquisition of Simply Business, a UK tech-based broker for small accounts, for US$490 million. Allianz also paid US$96.6 million to buy micro-insurer BIMA, which uses mobile technology to serve low-income customers in Africa, Asia and Latin America. The largest InsurTech deal of 2017, however, was Zhong An's US$1.5 billion flotation, which represents perhaps the first InsurTech public offering. Zhong An is backed by cornerstone investors including Alibaba, Ping An and SoftBank.

Going forward, health insurance is likely to be a particular focus for both tech investment and M&A for insurance companies. AXA chief executive Thomas Buberl commented in late 2016 that the area where insurers were most under threat from technology companies such as Amazon or Apple was health insurance, a perspective that seems remarkably prescient in light of developments such as Amazon's health insurance tie up with Berkshire Hathaway and JPMorgan, and Apple's launch of a health app that enables users to access their medical records and various health data via their iPhones.

Insurers such as AXA, Allianz, Aviva, Ping-An and Cigna are actively responding to this threat – Ping-An, for example, has three big health ventures, including "Good Doctor", which already has 193 million users for its telemedicine and other services, and which Ping-An plans to float during 2018. However, InsurTech M&A is also likely to feature during 2018, and January 2018 saw two significant acquisitions announced, with AXA buying Maestro Health, a US health benefit administration digital company, for US$155 million, and Allianz's taking a US$59 million stake in American Well, a telehealth company that sets up video links between doctors and patients. We would expect this trend to continue as more early stage investments start to bear fruit.

JAPANESE OUTBOUND

Japanese outbound insurance M&A was reasonably subdued in 2017, at least by the standards of previous years: although there were a number of mid-market acquisitions, particularly of specialty businesses, there generally appear to have been fewer public bids, possibly due to high stock market valuations.

As Takeda's recent US$65 billion takeover offer for Shire perhaps exemplifies, however, there continue to be a number of compelling reasons for Japanese companies to make overseas acquisitions, including pressure to produce better returns on equity (in part as a result of corporate governance reforms), a lack of domestic investment opportunities, support from a range of government-backed institutions tasked with facilitating cross-border investment, and a banking sector that sees acquisition financing as a valuable opportunity for growth given the limited demand for loans in the domestic market. 2018 has already seen at least one significant outbound investment by a Japanese insurer, with Dai-ichi Life's US subsidiary Protective Life reaching an agreement to purchase Lincoln Financial Group's life and annuity business for US$1.17 billion, and we would expect further deals to be agreed as the year goes on.

Hogan Lovells - May 2018

APPENDIX: TOP 20 INSURANCE M&A TRANSACTIONS ANNOUNCED IN 2017 BY VALUE

Buyer	Target	Comment	Deal value (US$m)
CVS Health	Aetna	A US cross-sector tie-up between CVS's drugstore chain and Aetna's health insurance business touted as the deal that could reshape the US health industry.	77,000
Standard Life	Aberdeen Asset Management	UK insurer and asset manager Standard Life merging with UK asset manager Aberdeen, with Standard Life shareholders owning two-thirds of the combined company.	13,495
Zhongtian Financial	Huaxia Life	Chinese investment and property group Zhongtian, controlled by billionaire Luo Yuping, acquiring up to 25 per cent. in Chinese insurer Huaxia.	4,700
AIA	Commonwealth Bank of Australia	AIA acquiring Comminsure Life & Sovereign, CBA's Australian life business.	3,036
UnitedHealth	Banmédica	US health care company and insurer acquiring Banmédica, a Latin American healthcare insurer.	2,750
Assurant	The Warranty Group	US risk management solutions group Assurant acquiring protection insurer The Warranty Group from private equity and investment firm TPG Capital.	2,500
Allianz	Euler Hermes	Allianz purchasing the 24.6 per cent. stake it doesn't already own in French-based credit insurer Euler Hermes.	2,200
Zurich	OnePath Life	OnePath is ANZ bank's Australian life business.	2,140
Cornell Capital and others	Talcott Resolution	Talcott Resolution is US insurer The Hartford's run-off life and annuity business. The private equity consortium led by Cornell included Atlas Merchant Capital, TRB Advisors, Global Atlantic Financial Group, Pine Brook and J. Safra Group.	2,050
Intact	OneBeacon	Canadian P&C insurer Intact acquiring US specialty insurer OneBeacon.	1,840
CF Corp	Fidelity & Guaranty Life	US investment group purchasing US life and annuity insurer Fidelity & Guaranty Life.	1,835
MS&AD	First Capital	MS&AD is acquiring the Singapore-based P&C insurer First Capital from Canadian insurer Fairfax.	1,600
Tryg	Alka	Tryg is the second largest provider of general insurance in the Nordic region; Alka is a Danish non-life insurer.	1,300

Buyer	Target	Comment	Deal value (US$m)
Madison Dearborn	AmTrust	Chicago-based private equity firm Madison Dearborn acquiring a 51 per cent. stake in AmTrust's US-based fee businesses.	1,150
KB Financial	KB Insurance	Korean group acquiring remaining 60 per cent. stake in insurance division.	1,140
MS&AD	ReAssure	Acquisition of a stake in Swiss Re's European closed book business.	1,048
Danica	SEB	Danica, one of Denmark's leading life insurers, purchasing rival SEB's Danish pension business.	1,035
China Development Financial	China Life	Taiwanese financial holding company acquiring a 25 per cent. stake in Taiwanese life insurer China Life.	1,020
Yunfeng Group	MassMutual's Hong Kong unit	Hong Kong-listed financial services group Yunfeng acquiring US insurer MassMutual's Hong Kong business.	1,010
UnipolSAI	Unipol	Restructuring by Italian financial services group UnipolSAI involving the disposal of stakes in health insurer Unisalute and direct insurer Linear.	1,000