Press Release

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| *Pages*  | 3 |

**PwC: Insurance M&A faces “quiet revolution”**

*Smarter pricing could reduce insurers’ combined ratios by 2-3%*

*Latin America represents the last major untapped growth opportunity in life insurance sector*

A new report from PwC has revealed the recovery in insurance M&A finding that the strategic importance of M&A to insurers across the globe is set to increase. However the report says that transaction volumes won’t recover along the same lines as during the last decade. Instead, the next few years will see a quiet revolution in global insurance M&A. In the short to medium term, low profitability will have a critical effect on insurance M&A. Weak profitability is closely linked to low investment yields, and is encouraging insurers in mature markets to seek domestic deals and to plan international expansion. The report also finds that technology will continue to grow in influence in insurance deals; political risks, the economic climate and regulatory reform will all continue to shape the market; and Asian and Latin American targets top the wish lists for insurers with capital to spend.

Nick Page, transaction services partner at PwC, said:

“The global insurance industry’s outlook is improving. The mature economies of Europe and North America are moving towards recovery, while the emerging markets of Asia and Latin America continue to grow. A pick-up in global premiums is forecast, but the industry should not expect a return to the old ways. Insurers are operating in a world where the goal of long-term growth seems to be getting further away. Instead insurers face a range of obstacles including persistently low investment yields, tightening regulation and overcapacity in many markets.

James Tye, transaction services partner at PwC, said:

“As insurers adapt their business models to this new environment, the strategic importance of M&A will only increase. However we do not expect transaction volumes to recover to their pre-crisis levels. Instead, we predict the next few years will see a quiet revolution in global insurance M&A.”

Key findings from the report include:

***Technology grows in influence…***

* Technology will play an increasingly important role in insurance deal-making.
* Insurers will acquire technological expertise, for example, in telematics, in part as a defensive strategy against disruptive new entrants.
* Communication or social networking companies could also use M&A to acquire an insurance vehicle and combine it with their high levels of customer insight and trust.

***Political risks for insurance M&A include:***

* The sale or break up of nationalised insurers
* Intervention in systemically important insurers
* Restrictions on the sale of insurance assets or greater protectionism

***Economics and regulation continue to mould the market…***

* Economic concerns include the shift of power away from developed economies, the threat of renewed uncertainty in Europe and the chance of market volatility creating deal opportunities.
* Regulatory trends include gradual harmonisation – seen in the IAIS’ anticipated adoption of Solvency II – but also disruption, illustrated by changes to Solvency II or the identification of global systemically important insurers.

***Smarter pricing could reduce insurers’ combined ratios by 2-3%...***

* General insurers that have already achieved economies of scale are increasingly turning to smarter pricing to improve their profitability. European insurers could slice 2-3% off their combined ratios by emulating pricing best practice from markets such as the USA or Australia.
* Over the next few years the ability to price individuals rather than groups of customers will become an increasingly important driver of M&A.

***General Insurance***

* Premium growth in developed markets is slowly recovering from 2010’s low, but remains restricted by slow economic growth.
* Aggressive competition, higher claims and weak investment yields are putting profitability under pressure.
* Growth is much stronger in developing regions, but even here, many insurers’ combined ratios are climbing.
* The search for greater scale remains a crucial strategic response to these challenges, and the drive for domestic consolidation will continue to shape global insurance M&A.

***Asian and Latin American firms top of insurers’ acquisition wish list…***

* Insurers with capital to spare will continue to target Asia and Latin America and general insurers that can afford to do so will continue use M&A to acquire new customers.
* Better capitalised firms in Europe and North America will continue to follow established routes into emerging markets in Asia-Pacific or Latin America. In some cases, they will take advantage of their peers’ withdrawals from the same markets.

***Life Insurance***

* Premiums in many mature markets are expected to return to modest growth from 2013, but low yields are squeezing profitability.
* Capital is also under pressure from progressively tougher solvency requirements.
* But, the picture in emerging markets is much more positive. Premium growth remains strong, and should improve further in Asia-Pacific following a period of regulatory upheaval in China and India.

Global insurance M&A will continue to generate a steady flow of midmarket transactions, punctuated by the occasional large-cap deal. Over time, M&A will see insurers sort themselves into three groups: Large international insurers with deep technical and financial resources; local and regional firms with distribution-led strategies; and niche players specialising in particular products or customers.

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