

IIS Seminar: Low Returns and Pricing Constrain Insurance M&A Activity

Merger and acquisition activity in the global insurance market has been sluggish in recent years, and the economics of the sector suggest a significant change in that scenario is not on the horizon.

Stephen Packard, a director with Deloitte Consulting USA, said in a panel discussion at the International Insurance Society's 47th annual seminar in Toronto that despite the large number of insurers in the U.S. market, combined with excess capital and soft pricing, and low returns for both life and nonlife companies, M&A activity is not picking up.

Tom Vandever, who has a managing director with Goldman Sachs, has an investment banker's eye for deals, said there are several reasons for low M&A activity in a market that should otherwise see plenty.

"For life companies, low interest rates combined with excess capital drove down [return on equity]," he said.

Nonlife insurers are entrenched in a soft market, especially in casualty lines, and are seeing too much underwriting volatility.

These factors feed excessive caution in developed insurance markets.

Vandever said there is increasing M&A activity across borders, where insurers are seeking diversification. From the United States there is "outbound M&A activity to Asia," he said.

Deals between U.S. and European firms are common as well, as companies on both sides of the Atlantic seek to divest noncore units.

Vandever said about 36% of insurance M&A activity has been cross-border since 2000, and the proportion is growing.

One reason for this is the higher book values of Asian insurers compared to those in the West. Also, U.S. and European insurers have been in the midst of restructuring that includes divesting assets in Asia.

Vandever foresees "episodic" growth in insurance M&A deals, mainly in growth markets. Deals will be "constrained" in mature markets.

"Due diligence and caution" will be the rule overall, he said. (Published: BestWire - 06/23/2011).

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