AqabaConf 2023

M&As in the insurance sector

May 2023

Agenda

- Overview of the current macroeconomic environment and its impact on the insurance sector
- Overview of the key challenges and opportunities in the insurance sector
- Global and regional insurance sector market size and growth outlook
- Overview of the M&A activity in the insurance sector and key transactions financial indicators
- Overview of the key sector developments, challenges and opportunities impacting the M&A activity in the insurance sector
- Insurtech segment key development and opportunities
- Insurance sector future recommendations

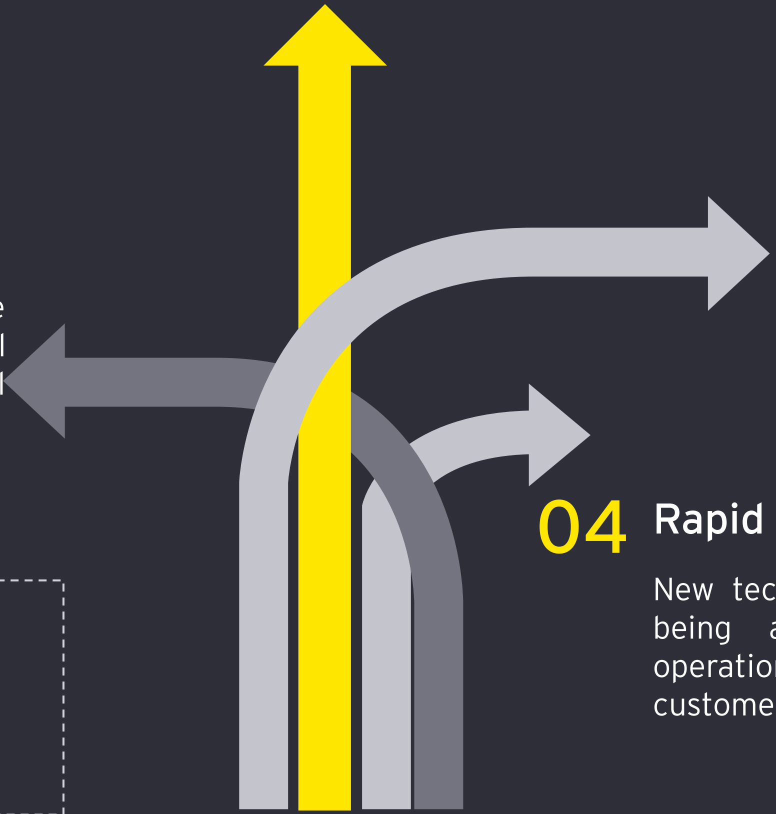
The insurance sector has been forced to rethink fundamental assumptions in view of major macroeconomic and geopolitical factors, which poses a unique and complex matrix of risks.

01 Geopolitical uncertainty

Supply chain disruptions produce structurally higher prices impacting global carriers that specialize in large commercial trade and reinsurance.

02 Changing macroeconomic environment

Insurers face recessionary headwinds, which can adversely impact demand and claim expenses. Interest rates are supporting investment income.



03 Change in consumer behavior

Emergence of ecosystems and embedded insurance continues as customers choose how, when and with whom they engage with for their insurance solutions.

04 Rapid technology adoption

New technology and ways of working are being adopted to drive cost-effective operations, while facilitating a better customer experience.

Insurance sector is facing a unique and complex matrix of risks.

Central banks are committed to lowering inflation. Lower liquidity and rising interest rates will raise the cost of capital and will put further pressure on returns `

1 Rising cost of capital and lower liquidity levels in 2023

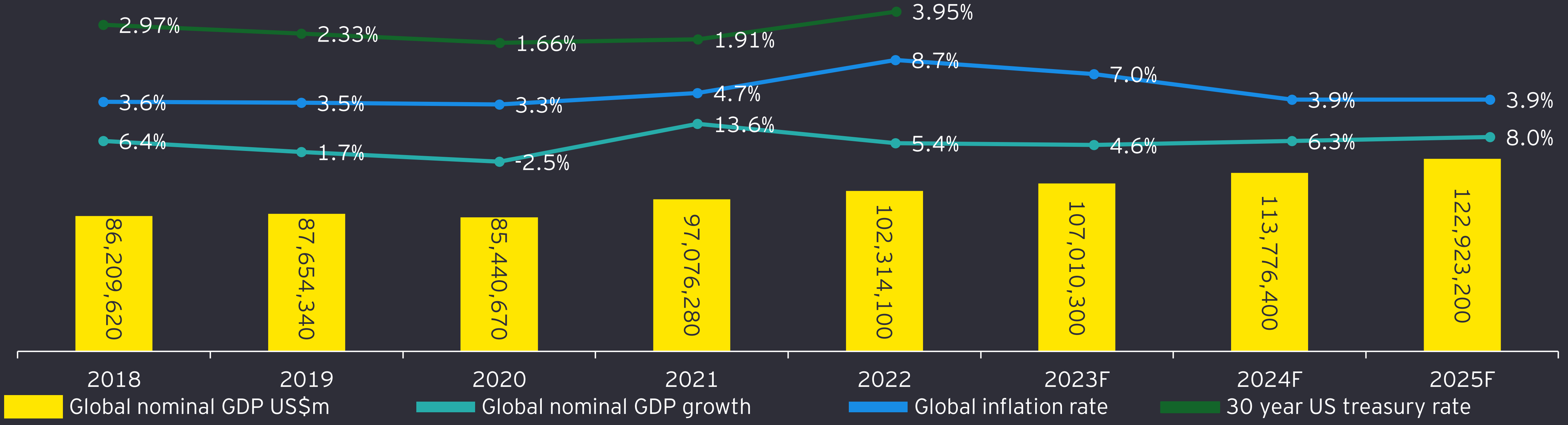
Inflation remains rampant, with rising costs reducing consumer spend and business profitability. Elevated interest rates will be a concern for M&A activities driving higher funding costs.

2 Developing nations concerns and opportunities

Despite the slower growth rate in developing countries compared to pre-pandemic levels, they are expected to account for a higher percentage of global GDP in the upcoming years, posing challenges but also opportunities for insurers to grow in these markets.

3 Increased value of insured assets

Inflation has been compounded by the COVID-19 pandemic-related supply chain disruptions, monetary and fiscal stimuli, and higher food and energy prices caused by the war in Ukraine.



Source: Oxford economics & IMF.

Inflation will hurt insurers in the form of higher claims costs and reduced demand, while higher interest rates may provide an earnings tailwind driven by improved investment returns.

Impacts and opportunities

Inflation and interest rate fluctuation

Surging inflation, rising interest rates and volatility in capital markets are likely to result in an economic slowdown.

Underwriting profits is hit by inflation and uncertainty

Inflation and economic uncertainty will hurt insurers in the form of higher claims costs and reduced demand.

Higher earnings from investments

Higher interest rates may provide an earnings tailwind driven by improved investment return.

Increase demand for guaranteed income products

Rising interest in guaranteed income products will likely attract customers to move into guaranteed income products.

Improved KPIs

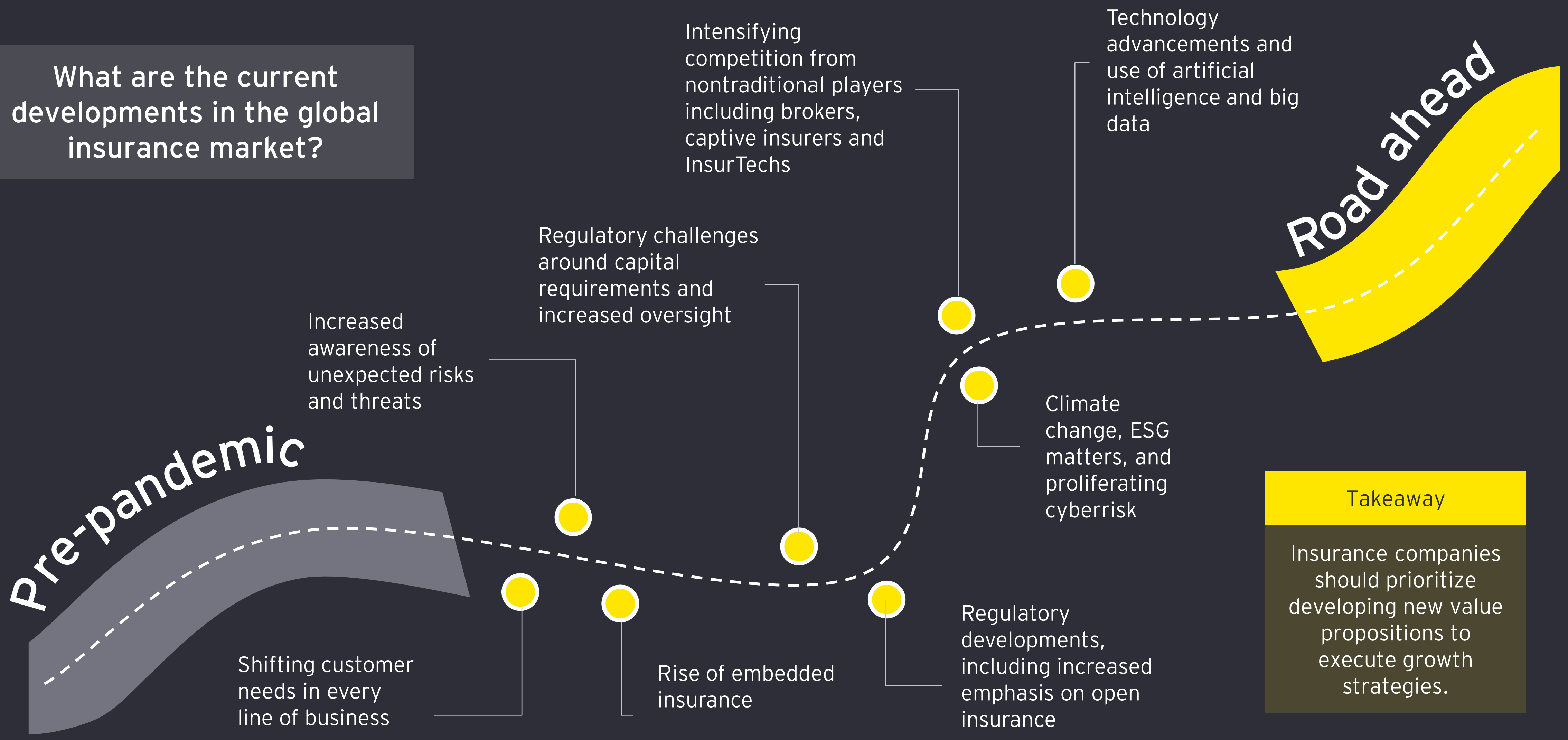
Rising interest rates will also lead to higher net investment income, wider margins and better capital positions.

Underwriting flexibility

The increase in interest rates can ultimately enhance the value of life insurance companies by granting them more flexibility in underwriting new policies.

Changing customers needs, intensifying competition, technology advancements and regulatory changes are all factors that present simultaneously growth opportunities and competitive threats for insurers.

What are the current developments in the global insurance market?



Takeaway

Insurance companies should prioritize developing new value propositions to execute growth strategies.

The global protection gap is estimated to be around US$1.4t, 2x the gap in 2000. Closing the gap will require insurers to think and act differently and innovate boldly.

Strong digital capabilities

Adopt digital transformation across the business rather than deploying point solutions within stand-alone functions or individual lines of business.

Tailored services and products

Innovate new products and services by using real-time data and analytics systems to deliver on-demand, personalized services and experiences with variable pricing.

Flexible distribution and service

Cater for the younger generation needs by adopting fresh thinking and new approaches to penetrate younger customers.

Partnership with InsurTechs, popular retailers and large employers to offer embedded insurance.

Assess large risks opportunities

Engage with regulators and government authorities to find solutions for big risks.

Mitigate risks arising from climate change and cyber through use of predictive technology.

People and businesses have far less protection than they need against proliferating and intensifying risks. Global protection gap is estimated to be **around US$1.4t, 2x the gap in 2000.**

- **Increased protection gap**
- **Emergence of new risks demanding protection e.g., climate and cyber threats**
- **Demographic changes lead to increased longevity**

Source: Internal analysis

In 2021, the insurance sector benefited from rising risk awareness of consumers and businesses in both life and non-life segments following the shock of the COVID-19 pandemic ...

Life

	Americas			EMEIA			Asia-Pacific		
Year	2016	2021	*5-year CAGR*	2016	2021	*5-year CAGR*	2016	2021	*5-year CAGR*
GWPs (US$b)	633	740	*3.2%*	943	1,225	*5.4%*	939	1,033	*1.9%*
Penetration (%)	2.5	2.4	*(0.8%)*	3.1	3.3	*1.3%*	3.9	3.3	*(3.3%)*
Premium density per capita (US$)	640	721	*2.4%*	239	291	*4.0%*	341	363	*1.3%*
Operating margin (%)	27	23	*(3.2%)*	7	7	*0.0%*	9	9	*0.0%*
Cost ratio (%)	29	26	*2.2%*	12	12	*0.0%*	22	21	*0.9%*

Non-Life

	Americas			EMEIA			Asia-Pacific		
Year	2016	2021	*5-year CAGR*	2016	2021	*5-year CAGR*	2016	2021	*5-year CAGR*
GWPs (US$b)	1,730	2,291	*5.8%*	680	894	*5.6%*	508	677	*5.9%*
Penetration (%)	6.9	7.6	*2.0%*	2.2	2.4	*1.8%*	2.1	2.1	*0.0%*
Premium density per capita (US$)	1,749	2,232	*5.0%*	174	213	*4.1%*	181	238	*5.6%*
Loss ratio (%)	60	65	*(1.6%)*	67	66	*0.3%*	72	71	*0.3%*
Expense ratio (%)	33	31	*1.2%*	28	28	*0.0%*	33	30	*1.9%*
Combined ratio (%)	93	96	*(0.6%)*	95	94	*0.2%*	104	101	*0.6%*

Takeaways

- GWP growth of 2021 was led by rising demand for protection from the impact of the COVID-19 pandemic on consumer risk awareness.
- The COVID-19 pandemic has proved to be a major catalyst for health insurance products especially for markets where public health systems are weak.
- Non-life penetration rates increased almost across all geographies.

Source: Swiss re.

However, in 2022, real insurance premiums witnessed a negative growth driven by the adverse impact of inflation on demand. Insurance premium growth recovery is expected in 2023-24, albeit at a lower rate compared with the historical growth rate.

Global	Historical growth (2017-21)	2022	Outlook (2023-24)
Insurance premium growth	2.6%	(0.2%)	2.1%
Life insurance ROE	9.7%	9.9%	
Non-life insurance ROE	7.3%	3.4%	
P/BV insurance sector average	1.2	1.4	

EMEA	Historical growth (2017-21)	2022	Outlook (2023-24)
Insurance premium growth	2.4%	(2.9%)	1.6%
Life insurance ROE	8.3%	11.2%	
Non-life insurance ROE	7.0%	3.3%	
P/BV insurance sector average	1.1	1.3	

Takeaways

- Improved profitability in 2022 for life insurance as interest rates rise from their lowest levels.
- The rise of InsurTech is expected to increase the profitability of insurance companies moving forward.
- Increased economic digitization and rising frequency of cyber attacks will drive growth of cyber insurance.
- The overall profitability of non-life insurers were impacted by inflation, and supply-chain disruptions.
- High inflationary pressures impacted insurance demand.
- Motor premium growth is expected to remain weak, characterized by lower car sales compared to the COVID-19-pre pandemic level.

Source: Swiss Re

The COVID-19 pandemic accelerated the transformational trends impacting the insurance sector and highlighted the need for corporate divestments to help boost digital capabilities.

	2019	2020	2021	2022
Number of deals	1,299	1,427	1,819	1,505
Implied transaction P/BV	1.4x	1.7x	1.0x	1.1x
Average transaction value US$m	139	175	178	217
	High interest rate environment and focus on organic growth	Shifting gears toward InsurTech and operational development	Persistent low interest rates and focus on inorganic growth	Economic uncertainty and increasing regulatory scrutiny

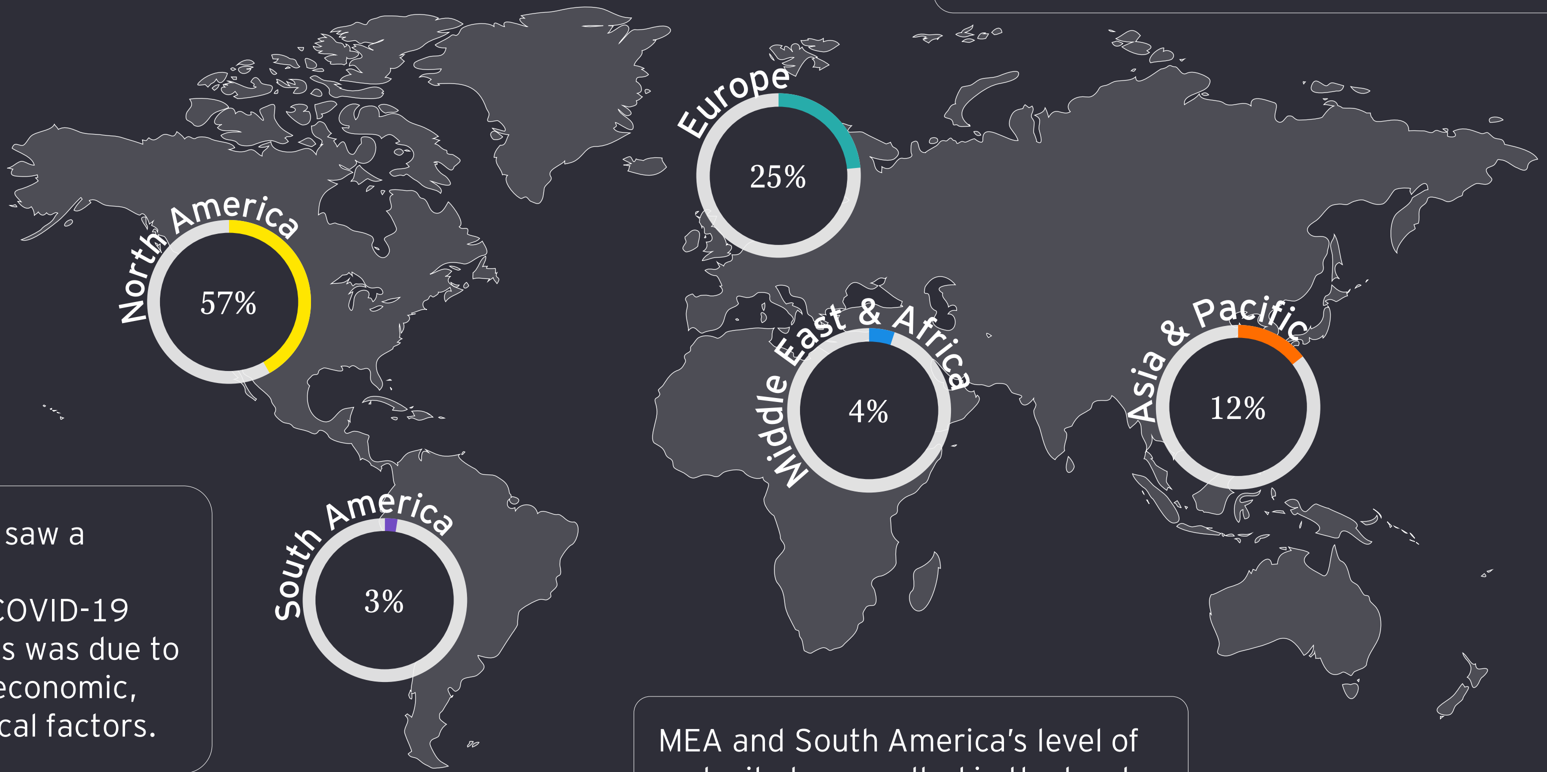
Source: Capital IQ & Internal analysis.

The Americas accounted for the majority of the M&A deals globally in 2022 followed by Europe, which experienced a decline in M&A activity compared to 2021 level.

Deals by location in 2022

In 2022, Europe experienced a decline in transaction activities compared to the previous year. This can be attributed to the war in Ukraine and the subsequent reversal of interest rate levels

Concentration of M&A activity in the US, accounting for the majority of the total world transactions in year 2022.



Due to the persistent heavy restrictions in China, the M&A activity in the insurance sector accounted for less than 1% of the global M&A activity in 2022. In contrast, Australia alone contributed to approximately 3% of the total world M&A activity.

In 2022, South America saw a decline in the number of transactions below the COVID-19 pre-pandemic levels. This was due to a combination of macroeconomic, regulatory and geopolitical factors.

MEA and South America's level of maturity has resulted in the least M&A activity in their market.

Source: Capital IQ and Internal analysis.

Divestment of noncore areas and legacy practices to enable investment in digital capabilities and ecosystems solutions were the key reasons that drove the M&A activity in the insurance sector.

Increased M&A activity in recent years has been a result of ongoing transformation in the industry

1. **Operational resilience: disposal of legacy and noncore insurance businesses and portfolios**
   Rise of specialist consolidation vehicles that can achieve the expense and capital synergies required to manage such legacy business on an economic basis.

2. **Digital transformation**
   Sector consolidation was driven in large part by insurers' realization that companies with greater scale and the ability to invest in digital capabilities and new value propositions, have an advantage.

3. **The move toward a more dynamic value chain**
   The rise of new insurance ecosystems and recognition that future propositions and distribution routes will involve collaboration across current and emerging value chains.

4. **Regulatory pressures on insurance sector**
   The COVID-19 pandemic prompted regulators to impose stricter rules on insurers. They aimed to ensure that insurers had adequate solvency, operational resilience and customer protection.

Brokers deals accounted for the biggest share of total deals as they have attracted capital often from private equity and players from outside the industry due to their improved profitability and innovation.

Deals by segment

Insurance	Brokers
Reinsurance	InsurTech

Highlights

- Economic challenges within the core business as losses have increased over the past couple of years resulted in less M&A activities.
- The reinsurance M&A market has remained stable globally owing to the intricacy and concentration of reinsurance companies.
- Brokers have attracted sufficient investment, driven by their innovative offerings and increased market share.
- In the wake of the COVID-19 pandemic, there has been a greater recognition of the value of InsurTech, leading to an uptick in M&A activity.

2019		2020		2021		2022	
1,299 deals		1,427 deals		1,819 deals		1,505 deals	
125	10%	144	10%	217	10%	138	9%
714	55%	849	59%	1,135	62%	941	63%
18	1%	24	2%	18	1%	19	1%
442	34%	410	29%	449	25%	407	27%

Source: Capital IQ and Internal analysis.

Demand for InsurTech solutions increased after coming out of the COVID-19 pandemic, driven by companies seeking to accelerate their digital transformation agenda.

Drop in carrier deals

Carrier deals usually include a complicated mix of legacy blocks, aging technology, and systems and processes that may or may not be a good fit with the acquiring company. Economic challenges within the core business (mainly P&C) led to the sharpest decline.

Investments moving toward nontraditional competitors

Captive insurance and brokers have all been growing faster and more profitably than other market players, attracting more capital often from private equity and players from outside the industry.

The rise of InsurTech deals

Demand for InsurTech solutions increased after coming out of the crisis, driven by companies seeking to accelerate their digital transformation agenda. Insurers are looking to develop more resilient and flexible ways of interacting with customers.

Insurance companies are delivering unique solutions that combine conventional protection with risk prevention and high-value services by partnering with InsurTechs as they seek to optimize operations.

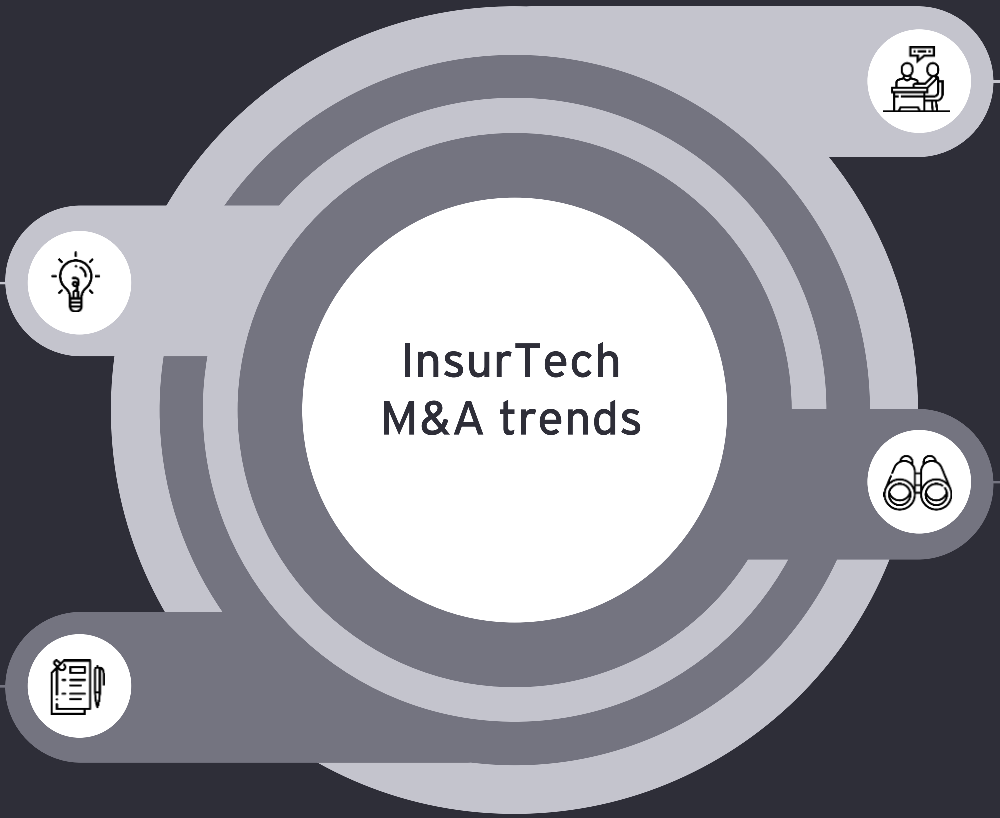
Shifting waves

Entry by acquisition

Insurance companies with established operations are often opting to acquire InsurTech companies rather than building their own digital platforms from scratch, as it is seen as a faster and more cost-effective way to establish or improve their digital presence.

Close to maturity

The InsurTech industry has reached a stage of maturity, following the initial wave of investments made over the last five to seven years.



Inorganic growth

InsurTech companies are increasingly acquiring other InsurTechs that have complementary capabilities, in order to provide a more comprehensive solution that integrates different components of the value chain or customer journey.

Further growth

We can expect to see consolidation and rollups by private equity (PE) firms, as well as the continued use of alternative deal structures and initial public offerings (IPOs) to fuel further growth in the industry.

Regulatory and accounting changes will have significant reporting and cost impact on the M&A activity going forward. Rising interest rates will also elevate the cost of capital, lower liquidity and valuations.

1 Cost and availability of capital

Buyers needing to raise funds will find that debt is more expensive, and there is limited liquidity in the market.

3 Valuations

Rising interest rates will negatively impact valuations, creating a gap between buyer and seller expectations.

2 Accounting changes

While IFRS17 implementation is likely to have significant reporting and cost impact, it is expected to enhance transparency. New KPIs will be introduced, with an emphasis on cash flows.

4 Regulatory capital requirements

Risk based capital (RBC) norms are being adjusted in many jurisdictions to conform to IFRS17 RBC requirements. M&A impact could be substantial.

The biggest opportunities in the insurance sector are intricately linked to the biggest threats. Insurers that proactively respond to new risks and innovate while being resilient will be able to outperform.

01

Social purpose

ESG criteria is increasingly influencing investment strategies and decision-making.

Climate, cyber and ESG risks are not going away and will only intensify. Communicating and demonstrating the industry's social purpose will feature heavily in due diligence of acquisition targets and in investment decisions.

02

Product innovation

Insurers are under pressure to redesign products to make them more applicable and adaptable to emerging risks. Ability to innovate to be a top criterion as insurers evaluate acquisition targets, at least as much as historical product sets.

03

Resilience

When assessing targets, insurers will focus on how flexible and resilient their systems and processes were during the COVID-19 pandemic.

Saudi Arabia and the UAE account for the majority of the region's written premium, 34% and 29%, respectively.

Jordan

GWP *US$m*	994
GWP CAGR (2017-22)	5.5%[1]
Penetration (% GDP)	2.0%[1]
Number of companies	21
Combined ratio	121%

KSA

GWP *US$m*	13,973
GWP CAGR (2017-2022)	9.7%
Penetration (% GDP)	1.7%
Number of companies	27
Combined ratio	140%

Kuwait

GWP *US$m*	3,681
GWP CAGR (2017-2022)	19.3%
Penetration (% GDP)	2.9%
Number of companies	22
Combined ratio	99%

Bahrain

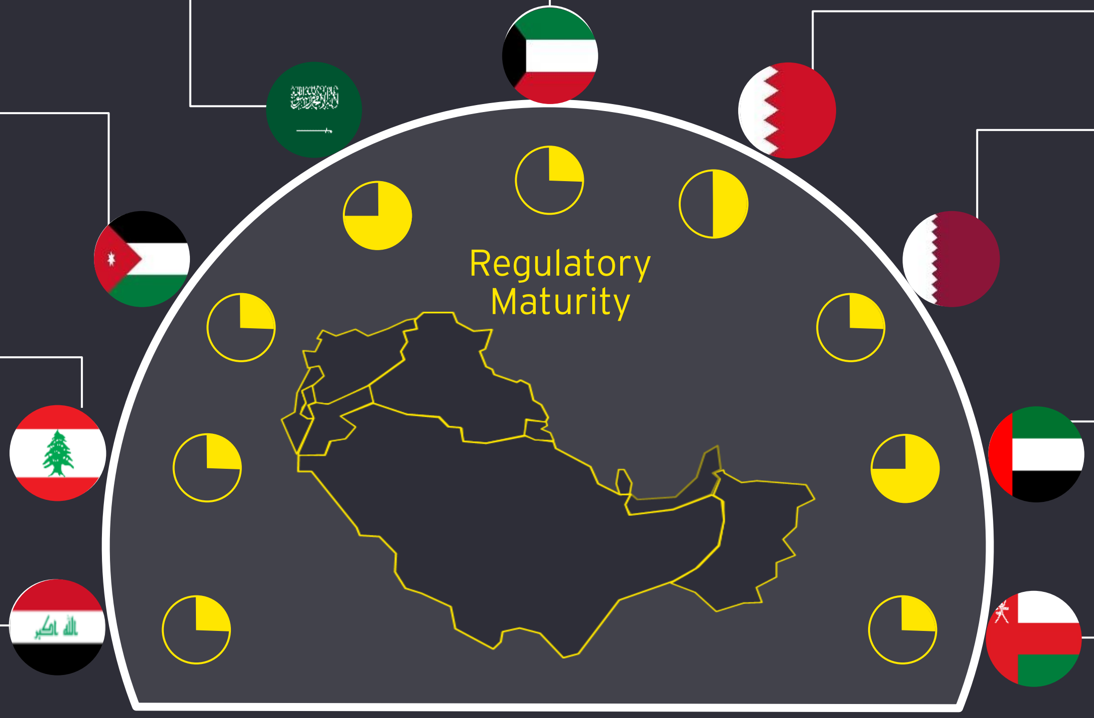
GWP *US$m*	732[1]
GWP CAGR (2017-22)	4.6%
Penetration (% GDP)	2.1%
Number of companies	24
Combined ratio	107%

Lebanon

GWP *LBPbn*[2]	2,573[1]
GWP CAGR (2017-22)	N/A
Penetration (% GDP)	1.0%[1]
Number of companies	49
Combined ratio	N/A

Iraq

GWP *US$m*	118[1]
GWP CAGR (2017-2022)	-5.9%[1]
Penetration (% GDP)	0.1%[1]
Number of companies	29[1]
Combined ratio	N/A



Qatar

GWP *US$m*	5,167
GWP CAGR (2017-22)	3.6%
Penetration (% GDP)	2.1%
Number of companies	22
Combined ratio	110%

UAE

GWP *US$m*	12,068[1]
GWP CAGR (2017-22)	4.7%
Penetration (% GDP)	2.8%
Number of companies	62
Combined ratio	119%

Oman

GWP *US$m*	1,398
GWP CAGR (2017-22)	9.6%
Penetration (% GDP)	1.5%
Number of companies	20
Combined ratio	95%

1. As of 2021
2. Based on 13,270 LBP/USD exchange rate as of December 2021, the GWP value is US$ 194m

Source: Insurance regulatory authorities, Capital IQ, Swiss Re and Internal analysis

For Arab African countries, Morocco accounts for the majority of the written premiums…

Sudan

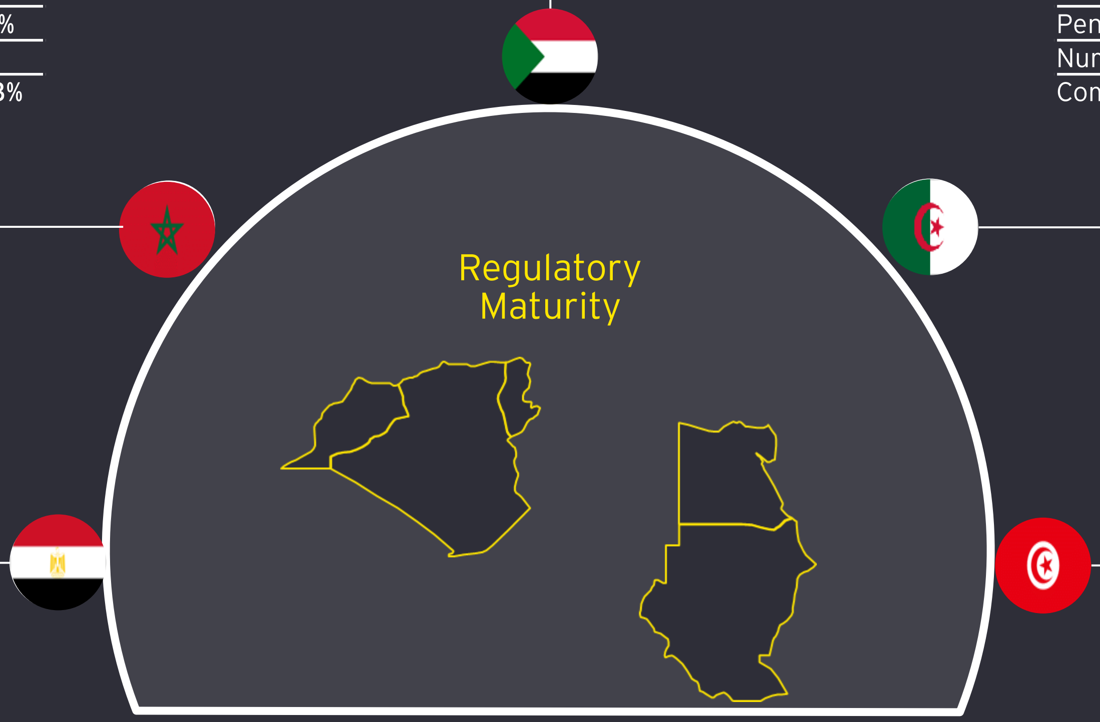
GWP *US$m*	169[1]
GWP CAGR (2014-2019)	-11.9%
Penetration (% GDP)	0.48%[1]
Number of companies	13[1]
Combined ratio	N/A

Morocco

GWP *US$m*	5,699
GWP CAGR (2017-2022)	6.4%
Penetration (% GDP)	4.45%
Number of companies	22
Combined ratio	104.3%

Algeria

GWP *US$m*	1,131[2]
GWP CAGR (2019-2022)	-2.6%
Penetration (% GDP)	0.71%[2]
Number of companies	25[3]
Combined ratio	83.84%[2]



Egypt

GWP *EGPbn*[4]	48[3]
GWP CAGR (2017-2022)	N/A
Penetration (% GDP)	0.7%[3]
Number of companies	39
Combined ratio	69%[3]

Tunisia

GWP *US$m*	983[3]
GWP CAGR (2017-2021)	3.95%
Penetration (% GDP)	2.10%[3]
Number of companies	32[3]
Combined ratio	92.5%[3]

1. As of 2019
2. As of 2022
3. As of 2021
4. Based on 15.7 EGP/USD exchange rate as of December 2021, the GWP value is US$ 3,026m

Source: Insurance regulatory authorities, Capital IQ, Swiss re and Internal analysis

The insurance sector in the region is confronted with various challenges arising from regional development and the competition with the more advanced global insurance sector.

Insurance companies main challenges

1. Fragmented insurance industry
2. Low insurance penetration
3. Pressure from VAT in GCC and the possible introduction of other types of tax
4. Competitive landscape
5. Changing regulatory framework
6. Lack of resources to adopt to new technologies
7. Economic turmoil
8. Lack of awareness of certain types of insurance (e.g., life insurance and property insurance)
9. Relatively small insurance market size
10. InsurTech adoption is limited

To achieve success, a regional insurance company must pay attention to and invest in the sectoral and demographic changes that occur in the region and at the global level.

Monitor

- Monitor local and regional regulatory authorities to stay updated on any regulatory changes.
- Monitor ESG requirements and demand to stay ahead.
- Monitor local and global economic trends that may affect the insurance sector.

Listen

- Pay attention to the needs of your **existing clients** to continuously improve your offerings.
- Listen to the market and **prospective clients** for potential new offerings that you can provide.
- Keep an eye on **local and regional competition** for any new products or services they may offer.

Invest

- Invest in InsurTech and big data to optimize your offerings and improve operational efficiency.
- Consider pursuing inorganic growth as a means of scaling your business.
- Invest in raising awareness of products that may not be widely sought after in the region.

The regional M&A trend is relatively aligned with the global M&A scene, but the low number of M&A transactions in the region leads to skewed transaction multiples.

	2019	2020	2021	2022	Q1 2023
Number of deals	7	13	12	12	4
Implied transaction P/BV	0.9x	2.2x	1.9x	0.9x	0.9x
Average transaction value US$m	9	32	12	58	30
	The regional market favors organic growth strategy	Notable decline in interest rates and move toward inorganic growth	Inorganic methods fuel ongoing growth and M&A activities excluded InsurTech	Ongoing M&A activity with several transaction contributing to the increase in average transaction value	

Source: Capital IQ, Mergermarket and Internal analysis.

Low level of M&A activity among insurance brokers in the region, contrasts with the global M&A scene, and lack of InsurTech indicate a low level of technological adaptation in the regional insurance sector.

Deals by segment

Insurance | Brokers | Reinsurance | InsurTech

Highlights

Insurance companies were the main players in the M&A scene in the region, contrary to the global market, and accounted for the majority of transactions, while few transactions involved insurance brokers in the same period.

The number of transactions increased in 2020 and peaked in 2021 mirroring the global market M&A scene.

No public reinsurance M&A activities have been detected. Only one InsurTech company has gone through three different funding rounds due to the market's immaturity. This was caused by the region's scarcity of InsurTech and the few dominant players in the reinsurance sector.

2019		2020		2021		2022		Q1 2023	
7 deals		13 deals		12 deals		12 deals		4 deals	
1	14%	-	-	1	8%	1	8%	-	-
1	14%	-	-	2	17%	2	17%	-	-
-	-	-	-	-	-	-	-	-	-
5	72%	13	100%	9	75%	9	75%	4	100%

Source: Capital IQ, Mergermarket and Internal analysis.

The UAE had the largest share of transactions in the region, reflecting a higher level of sectoral maturity. The KSA had significantly higher multiples due to the expected growth of the sector.

Public transactions closed between 2019 and Q1 2023 by country

	Bahrain	Egypt	Jordan	Kuwait	Lebanon	Oman	Qatar	KSA	UAE
Transaction count (2019-Q1 23)	2	6	1	1	1	4	-	9	22
Insurance	2	4	1	1	1	4	-	9	16
Insurance brokers	-	2	-	-	-	-	-	-	3
InsurTech	-	-	-	-	-	-	-	-	3
Average transaction value US$m	1	3	-	-	-	31	-	97	81
Implied transaction P/BV	0.9x	1.9x	-	-	-	0.9x	-	1.7x	0.8x

Takeaways

The UAE is at the forefront of the M&A scene in the MENA region, accounting for the majority of M&A transactions in recent history.

During the COVID-19 pandemic period, many expats worked remotely from their home countries or left the country permanently. This resulted in challenges for both life and non-life insurance companies in growing their premiums.

Changes in the regulatory landscape, such as increased minimum requirements are leading to consolidation in the fragmented insurance sector across the region.

Source: Capital IQ, Mergermarket and Internal analysis

The regional insurance market is fragmented and subject to regulatory changes, which encourages inorganic growth. Meanwhile, InsurTech is slowly being adopted.

Fragmented insurance industry

The insurance sector in the region is highly fragmented and faces declining profitability margins as it matures. Therefore, consolidation is likely to increase in the near future, as it becomes a necessity rather than a preference.

Inorganic vertical growth

To gain more control and efficiency in the market, insurance companies in the region have pursued vertical growth strategies by acquiring or merging with other businesses along the supply chain allowing them to expand their product offerings.

InsurTech is here to stay

InsurTech offers undeniable benefits to insurance companies. However, those that fail to adopt it will soon be left behind, while those that embrace it will be able to compete by gaining operational advantages and attract new customers.

Regulatory changes

The regulatory environment is undergoing fundamental changes in recent years that affect the insurance sector. Insurance companies face increasing challenges in complying with the new requirements imposed by the governments.

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