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Insurance industry execs say conditions still ripe for M&A

By Calvin Trice

An ongoing soft pricing market and an abundance of capital will continue to encourage consolidation in the insurance industry, observers said at the RIMS Annual Conference in San Diego.

While the blockbuster tie-ups of 2015 are not likely to be matched this year, the need for growth, scale and diversity behind some of those deals will continue to drive M&A, industry consultant and Grace Global Capital founder Grace Vandecruze said in an interview.

Deal pursuits in the industry tend to have long gestation periods of extensive due diligence when companies are assessing their next strategic steps and possible combination partners, said Vandecruze, who gave a presentation on insurance mergers during the conference. Mergers are particularly complicated for insurance companies, she said.

"Integration of technologies and cultures are the two most complicated elements," Vandecruze said.

Peter Eastwood, president of [Berkshire Hathaway Specialty Insurance Co.](#), said during a forum discussion that capital and supply continues to outweigh demand. Acquisition is one of the preferred uses of excess capital, Eastwood said.

"Not only do we have too much capital in the business, my belief is we have too many providers and distributors of that capital," he said. The trend will be toward fewer, larger and leaner companies in the space, he said.

Both balance sheets and human capital are more affordable in this part of the industry's economic cycle, meaning both can move easily throughout the world. When both move, they are looking for a "high ground" — a place for the best possible return, Eastwood said.

When a business is sitting on a large store of capital, companies can either return it or use it, said John Lupica, vice chairman of [Chubb Ltd.](#)

"M&A can get you in the marketplace and get good returns," Lupica said during the panel discussion.

The prolonged low-interest rate environment will continue to pressure earnings, driving companies to grow through acquisition, according to Vandecruze.

"No one in the industry had really projected a zero or near-zero interest rate environment for so long," she said. That condition is likely to persist through 2018, she added.

Specialty insurance lines will attract buyout attention as a source of growth. Cyber insurance has been one of the fastest-growing and most popular emerging specialty lines, Vandecruze said. Emerging markets and their growing middle class are also a potential growth area for the industry because of the rising demand in those markets for life and P&C coverage, according to the industry consultant.

"Diversity is not only adding products and services, but also expanding geographically. This is why consolidation will continue," she said.

Asian companies will continue to look to U.S. firms for buyout targets that can help them achieve scale and diversify outside their markets, Vandecruze said. Further, three of the four companies deemed non-bank systemically important financial institutions, [American International Group Inc.](#), [General Electric Co.](#) and [MetLife Inc.](#), will continue to market assets, she said.

AIG Americas President and CEO Robert Schimek said during an executives' panel discussion that the current insurance environment is part of a cycle that parallels conditions decades ago. He read a shareholder's letter describing the economics of falling oil and gas prices, a slew of mergers for companies reaching for scale and banks selling assets at the urging of regulators. It was written in December 1985, Schimek pointed out.

"History may not always repeat, but it surely at least rhymes," he said.