Insurance

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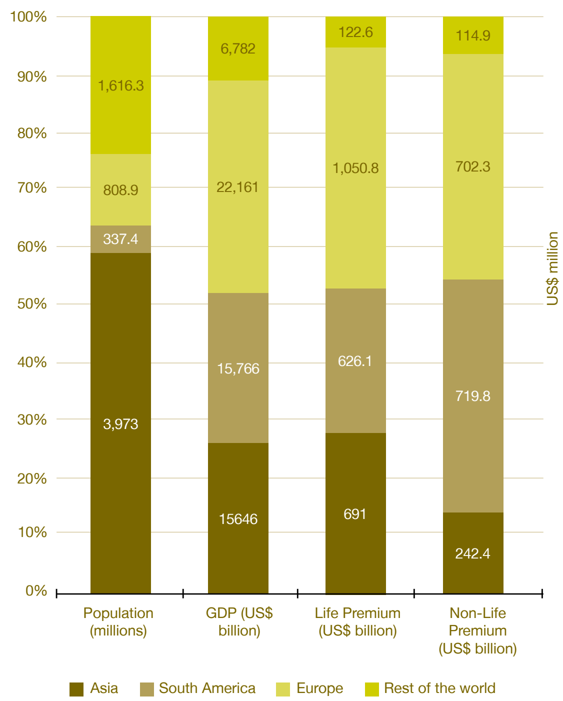
2009 started as an exciting year for Insurance M&A in Asia. As with 2008, we continued to see plenty of action in the first six months of the year, fanned in part by AIG's proposed divestment in certain of its Asian operations, ALICO being one of them.

Whilst interests and activity levels remain high, few deals were closed. Non-completion factors such as pricing gaps, fear of the extent of "toxic assets" and uncertainty in potential acquirers' own capital positions (as discussed in the previous issue of this bulletin) continue to feature in the first half of 2009.

The interest shown by the large local and foreign buyers in the AIG assets reinforce our view that there is a strong M&A appetite for insurance assets in Asia. Strategically, for many global players, Asia remains a key market for growth given the low insurance penetration rate in many of the large and growing emerging Asian economies, particularly in comparison to home markets of the US and Europe (see figures 1 and 2). Many Asian insurers also continue to focus on Asia, either as part of their strategy to focus on a single market or to venture to nearby countries as they look to diversify revenue sources.

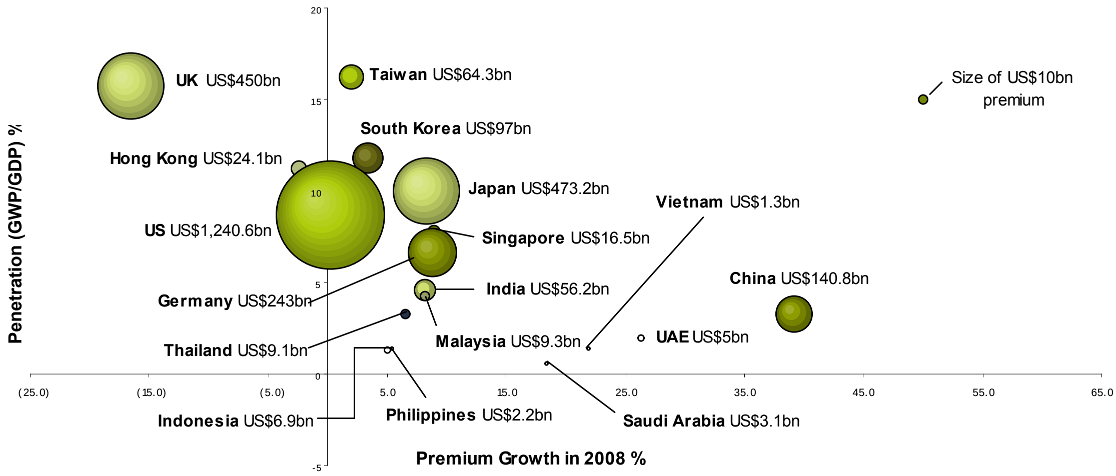
Figure 1: Asia Insurance Penetration 2008



Source: SwissRe Sigma No 3/3009 World insurance in 2008 and PwC Analysis

For the first half of 2009, 75% of total Insurance M&A deal activities were in Asia (see figure 3). In Asia, deals were driven by Chinese and Japanese insurers who are generally thought to have avoided major losses from the financial crisis and as a result, still have the required capital base to make acquisitions. Four of the seven insurance deals with a deal value in excess of US$50 million involved Chinese and Japanese buyers.

Figure 2: Insurance Penetration 2008



The outlook for the next six months remains positive. We expect more Chinese and Japanese players, and potentially certain private equity houses, to be involved in large deals. Many global non-Japanese/Chinese players have to contend with the impact of capital requirements such as Solvency II and this may indirectly impact their bid prices. As capital is precious, whilst these insurers have trained teams looking at most opportunities, the reality is that they will ultimately focus on one or two large deals. An opportunity for large foreign insurers would be to partner local players that lack the manufacturing capability of complex insurance products. The other opportunity would be to seek out innovative distribution channels in each market place. Whilst joint ventures are not always the preferred route for market entry, this may be a more pragmatic way, especially if the capital needs can be shared.

We also expect more insurers, and the holding companies of insurers, to stay the course of divesting non-core insurance operations. With increased capital requirements, "staying in the game" only makes sense to those who are serious about this sector.

Liberalisation of the insurance sector in Asia is also expected to increase M&A activity. We are already seeing signs of this in Malaysia, with the recent announcement of allowing foreign players to take up to 70% equity stakes in insurance companies. Over the longer-term, we are also expecting other economies such as India and Indonesia to follow suit with their own insurance liberation measures, with the recent election success expected to translate to market reforms in the financial services sector. Other ASEAN economies are also expected to start opening up their insurance sector to prepare domestic players for competition as the region moves towards being compliant with the ASEAN Financial Liberalisation Goals by 2015.

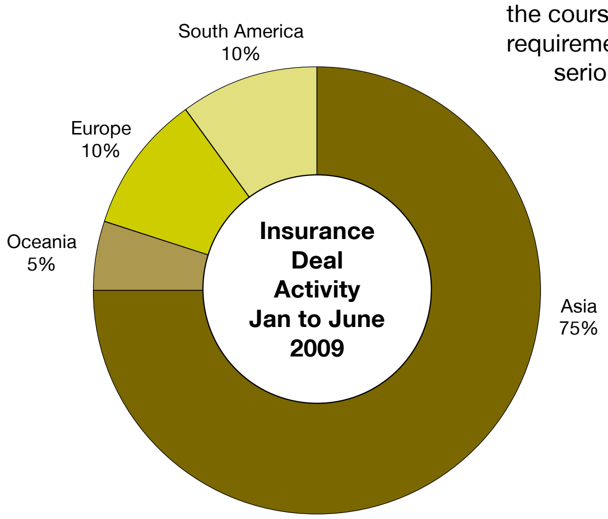


Figure 3

Against this backdrop, the rumoured listing of AIA through an IPO could further accelerate competition in the region but this is unlikely to happen in the next six months.

While Takaful (insurance based on Islamic principles) was the buzzword in 2008, micro-insurance is an area of focus in 2009. Given Asia's large population (estimated at 3.9 billion people) and economies growing at an average rate of 6.3%, combined with low insurance penetration rates, we anticipate micro-insurance will make greater headway into China, India and Indonesia. It will be interesting to watch how this model develops into a sustainable and profitable business mode.

Finally, I would like to echo a statement in the PwC survey report, The Outlook for FS M&A in Asia. "Fortune favours the brave". The present environment is one of uncertain times and unprecedented opportunities. Those institutions that are able to manage the multiple demands of ensuring continued growth without taking on greater risks, in addition to capitalising on acquisition opportunities where they arise – at the right price – will be the ones who emerge stronger from this crisis. ■