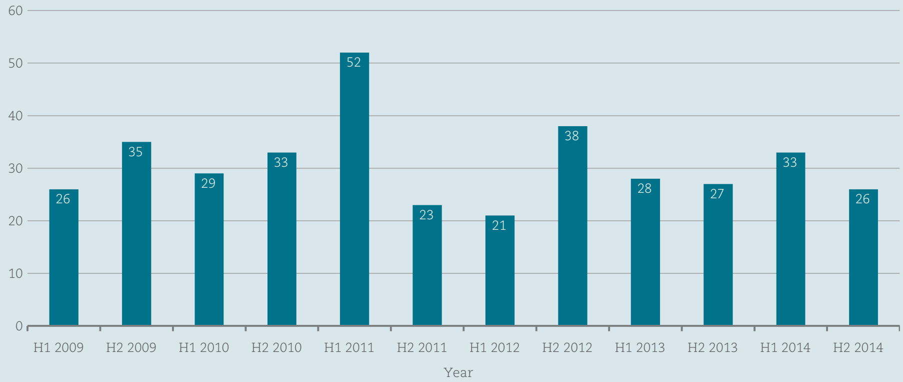
CLYDE&CO

Update

Asia insurance M&A holds firm

Mergers and acquisitions (M&A) in the insurance industry in the Asia Pacific region are continuing at a healthy pace. There were 59 completed transactions in 2014, up from 55 in the previous year. This was in line with the wider trend which saw deal-making worldwide up year-on-year, from 319 to 384.

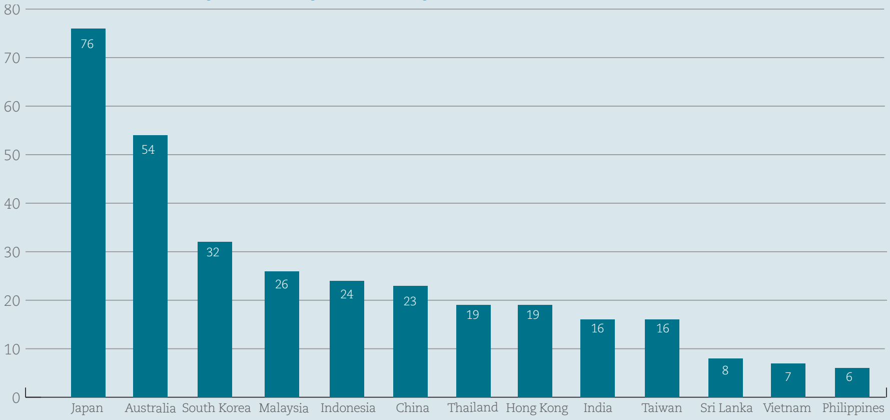
Volume of deals in APAC



In recent years Asia Pacific has avoided the fluctuations in deal activity that have been very much evident in other parts of the world. In part this is due to the fact that the region was not as badly affected by the global financial crisis as key markets in the western hemisphere but also because it benefits from being made up of a wide number of economies at different stages of development.

This fact was underlined in 2014 with mature and developing markets alike seeing a range of M&A activity. Australia and Japan led the way with nine deals each followed by South Korea and Malaysia with seven, China (five) and Indonesia (two) and it is evident that there are a number of transaction drivers at play.

Deals in APAC by country: January 2009 - June 2014



Asia remains an attractive proposition for insurers looking for growth opportunities. With soft pricing persisting and opportunities in mature insurance markets difficult to come by, diversification through acquisition into new sectors or distribution channels is a key driver of transaction activity in the region. The second half of 2014 saw a number of deals that were indicative of this trend. ACE acquired a stake in Thailand's Siam Commercial Samaggi while BNP Paribas agreed a deal with ERGO Daum Direct Insurance of South Korea. Two German companies were also involved in deals in the region: Allianz bought Australia's state-owned Territory Insurance Office and ERGO International AG purchased Singapore's SHC Insurance Pte Ltd.

Regulatory reforms are proving to be another key driver of transaction activity. Regulators in many markets are looking for fewer, stronger insurers that hold the appropriate levels of capital and are encouraging new players to enter local markets via acquisition rather than as a start-up. China is one country where this certainly is the case. In the second half of 2014 China Life Insurance Co Ltd and Anbang Insurance Group Co Ltd both acquired smaller players in the industry.

Anbang is interesting for a separate reason as it also provides evidence of another trend – the move of emerging market insurers into mature markets. Anbang demonstrated its international growth ambitions with the announcement of a deal to acquired Belgium's FIDEA ASSURANCES which is expected to complete in the first quarter of 2015, marking the first time for a Chinese insurance company to acquire 100% ownership of a European insurance company.

In December Chinese conglomerate Fosun International acquired US insurer Meadowbrook for approximately USD 433 million, in a deal scheduled to close in the second half of this year. This follows Fosun's International Ltd. Purchase of 80% of state-owned Portugal's Caixa Geral de Depositos S.A.'s insurance unit for USD 1.36 billion in May 2014.

Looking ahead, developed and developing markets across Asia Pacific can expect more M&A activity but China is one to watch closely. The new rule that allows insurers – both domestic and foreign – for the first time to buy shares in more than one company operating in competing lines of business in the country, will be significant for the future volume of transactions, as will the fact that companies will be permitted to use external debt to fund acquisitions, up to a limit of 50% of the overall price, subject to regulatory approval.

Further information

If you would like further information on any issue raised in this update please contact:

Andrew Holderness
E: andrew.holderness@clydeco.com

Clyde & Co LLP
The St Botolph Building
138 Houndsditch
London EC3A 7AR

T: +44 (0)20 7876 5000
F: +44 (0)20 7876 5111

Further advice should be taken before relying on the contents of this summary.