ACORD

Carrier Mergers & Acquisitions:
Major Transaction Value Analysis

Study Sponsored By

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2024

Background

Carriers and brokers have often pursued mergers and acquisitions as a means of growing and diversifying their businesses. When ACORD asked our carrier members what they saw as the top value levers for driving growth, share, and profitability, C-suite executives cited M&A more often than any other value lever — 35% of those surveyed named it among the top three.

In recent years, we have seen continued growth in the number of M&A transactions as well as the size of these deals, with well over 15,000 transactions across the global industry over the last decade.

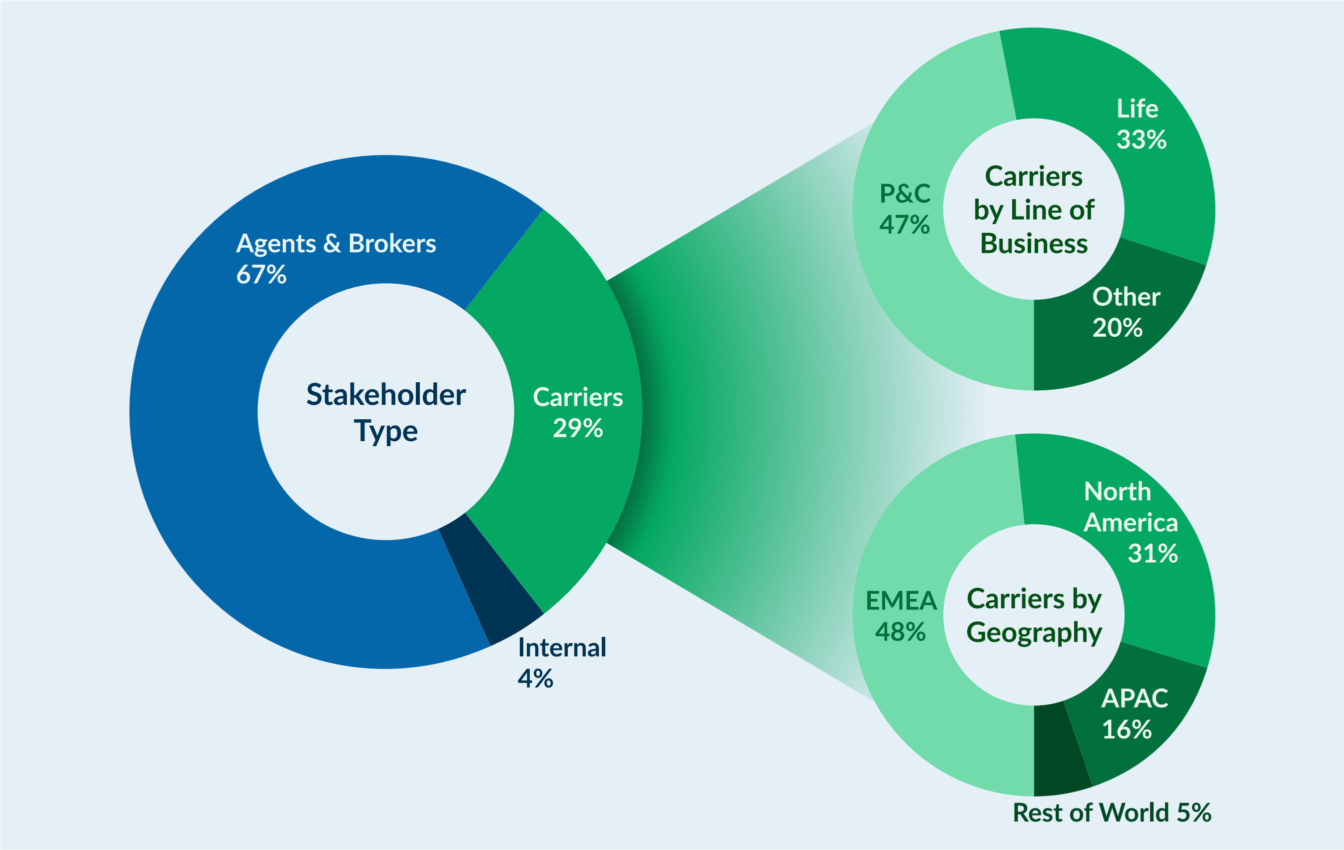
ACORD recently conducted a study on mergers and acquisitions in the industry to answer several key questions about M&A activity and its correlation to long-term success for insurers, including:

- What motivates carriers to engage in M&A?
- Does engaging in M&A lead to value creation?
- What are the value barriers & imperatives?

Selected findings from ACORD's research are included in this report. Further results of this study, as well as other ACORD research, are available upon request at research@acord.org.

Scope & Approach

ACORD screened approximately 15,000 mergers and acquisitions over the last decade (2012-2022), comprised of transactions involving agents & brokers, carriers, and affiliates. In this study we focused on carrier transactions, of which there were over 4,300.



We further narrowed the focus to material transactions with measurable impact, and enough publicly available data to allow for meaningful quantitative analysis. Criteria for inclusion were:

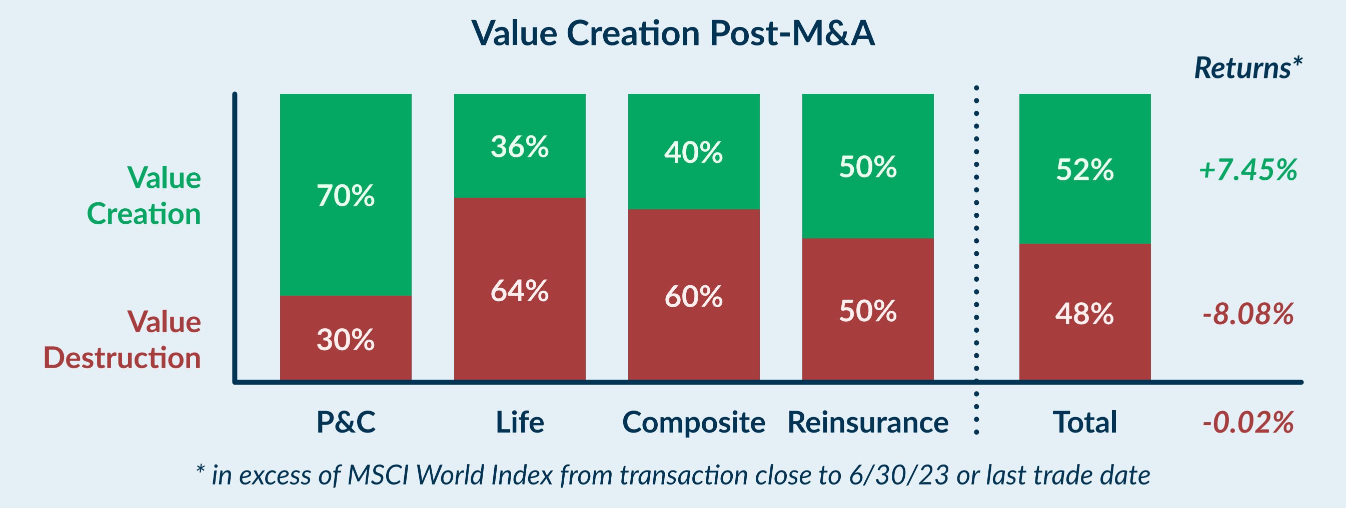
- Transaction value was disclosed
- Deal was valued at $1 billion or greater
- Buyer was a publicly traded insurer

This resulted in a field of 80 large public M&A transactions, across various lines of business and geographies, representing a total value of nearly $290 billion — accounting for more than one third of the value of all carrier M&A transactions worldwide, over the period studied.

ACORD assessed several key factors, including deal size and buyer motivation, in relation to post-transaction outcomes, in order to derive insights around the M&A strategies and tactics that support long-term success.

Results

To date, 52% of all the M&A transactions studied created value, while 48% destroyed value over the course of the decade studied.



As a group, only property & casualty insurers were likely to create long-term value, with reinsurers split evenly between value creation and destruction. Life and composite insurers, on the other hand, were disproportionately likely to experience post-transaction dilution of value.

Note that this decade of M&A activity across the industry, when considered in aggregate, garnered long-term returns essentially equal to the relevant market index — in fact, 0.02% lower. However, of course, many individual transactions either outperformed or underperformed significantly. Insurers that were successful in executing M&A often demonstrated shareholder returns in material excess of the market average.

Buyer Motivations

ACORD analysis supported the identification of four key sources of buyer motivations in M&A transactions.

- **Scale & Scope:** Amortize fixed costs and improve resource access by increasing absolute size, and/or expanding scope across strategic and tactical dimensions.
- **Core Expansion:** Increase share across areas in which the insurer already executes, such as products, geographies, channels, and customer segments.
- **Capability Acquisition:** Optimize the risk, cost, and time associated with developing new or enhanced internal capabilities.
- **Diversification:** Expand portfolio by acquiring new revenue and earning sources.

We then evaluated each deal and its associated motivation to understand how these contribute to long-term outcomes.

Notably, the results greatly diverged across lines of business, even for carriers sharing a similar motivation.

Returns Relative to Market*

	P&C	Life	Composite	Reinsurance	Total Across All LOB
Scale & Scope	↑ 5.76	↓ -1.16	↓ -8.46	↓ -1.80	↓ -0.04
Core Expansion	↑ 2.34	↓ -3.10	↑ 4.34	↑ 6.29	↑ 1.90
Capability Acquisition	↑ 1.58	↓ -6.09	↓ -1.19	N/A	↓ -0.39
Diversification	↑ 8.76	↓ -13.85	↓ -18.42	↓ -0.07	↓ -3.39
Total Across All Motivations	↑ 3.58	↓ -3.57	↓ -2.33	↑ 0.33	↓ -0.02

** CAGR in excess of MSCI World Index from transaction close to 6/30/23 or last trade date*

Scale & Scope

- This was the most commonly identified rationale, especially among Life insurers and Reinsurers.
- Only P&C insurers realized significant long-term returns in M&A transactions motivated by Scale & Scope.
- Life insurers saw their “best” outcomes in Scale & Scope-motivated deals — but still failed to outperform the index.

Core Expansion

- This was the second-most commonly identified M&A motivation industry-wide, accounting for approximately one quarter of deals.
- Transactions motivated by Core Expansion were the only ones, in aggregate, that outperformed the index in the long term.
- Core Expansion-motivated transactions were the only consistent source of value creation among Composite carriers and Reinsurers.

Capability Acquisition

- P&C insurers most often pursued deals with this motivation.
- P&C deals with this rationale realized modest positive returns, but it was still the lowest-performing category for this line of business.
- No Reinsurers in the study exhibited Capability Acquisition as their primary motivation for M&A.

Diversification

- This was the least common rationale for carrier M&A activity overall, and produced wildly divergent results in different lines of business.
- P&C insurers, who almost exclusively limited their diversification to other P&C lines, were the only group to see positive outcomes with this motivation — in fact, it accounted for their highest returns.
- Life and Composite insurers, often straying outside their core, saw their worst outcomes by far in Diversification-driven deals.

The vastly different results demonstrate the fact that there is no "one-size-fits-all" approach to M&A. Some insurers — particularly in the Life sector — might consider avoiding M&A activity altogether, considering their failure to generate long-term value regardless of motivation. Many P&C carriers, as well as some Composite insurers and Reinsurers, saw positive results from M&A activity — but their approach and strategies to success must be tailored to their particular circumstances.

Deal Size

ACORD further assessed the M&A transactions by deal size and shareholder value at risk (SVAR) to understand how these contributed to long-term outcomes.

Dividing the transactions into quartiles by deal size revealed a "Goldilocks principle" at play — in the long run, mid-sized deals performed better than the largest or smallest transactions studied.

Short- and Long-Term Outcomes by Deal Size

			Return		
		Average Deal Size	10-Day	TTD CAGR	TTD vs. Index
Largest	Q4	$7.2B	0.78%	8.32%	↓ -0.21%
	Q3	$2.6B	0.55%	5.76%	↓ -0.24%
	Q2	$1.4B	-1.54%	6.99%	↑ 1.15%
Smallest	Q1	$1.0B	0.31%	6.48%	↓ -0.79%

When looking at deal size, the second-smallest quartile — comprised of transactions averaging about $1.4 billion — was the only cohort that outperformed the MSCI World Index over the period studied. The larger and smaller quartiles both underperformed the market.

It is interesting to note that immediate market reaction to M&A news did not necessarily translate to long-term outcomes — and in fact, the two were often inversely related. Quartile #2 was the only group with negative 10-day returns, yet the only one that outperformed in the long term.

Assessing shareholder value at risk — the target purchase price relative to the buyer's market capitalization — revealed similar results.

Short- and Long-Term Outcomes by Shareholder Value at Risk

			Return		
		SVAR	10-Day	TTD CAGR	TTD vs. Index
Largest	Q4	over 35%	0.06%	1.89%	↓ -4.82%
	Q3	15-35%	0.36%	11.01%	↑ 3.53%
	Q2	6-15%	-0.16%	2.37%	↓ -3.77%
Smallest	Q1	under 6%	0.68%	9.08%	↑ 1.79%

The second-largest quartile, representing the middle range of 15-35% SVAR, outperformed the other groups, with larger and smaller deals more likely to destroy value in the long term.

The "just right" range in both deal size and SVAR underscores the potential barriers to value creation we see among insurers pursuing M&A transactions. The largest multibillion-dollar deals may simply be too big for insurers to effectively digest. Alternatively, a deal that is too small might not draw the necessary oversight and attention to ensure a positive result.

Imperatives

While successful M&A strategy will look different for everyone, consider these key factors in successful long-term value creation.

Barriers

- Inaccurate benefit timing & magnitude
- Overemphasis on scale & scope
- Inadequate risk analysis
- Need to manage existing operations while pursuing M&A
- Pressure to complete deal
- Unclear near- and long-term strategy
- Assumption that strategic value requires less effort vs. operational
- Misaligned incentives

Enablers

- Identify opportunity continuum & exhaust alternatives
- Leverage third parties selectively
- Approach conservatively
- Maintain low integration slack
- Anticipate competition (price, requirements, atmosphere)
- Communicate benefits to stakeholders throughout lifecycle
- Maintain strategic & external focus
- Establish integration team from both acquirer & target

The barriers to value creation and capture in the transactions studied were largely characterized by a lack of focus and/or thoughtful assessment of the deal. In order to create post-M&A long-term value, insurers must take a careful, measured approach to these transactions. Carriers will need to assess how the deal aligns with their organization's goals, weigh the potential risks, and dedicate the resources and attention required to ensure a successful outcome.

Additional data, insights, and analysis from ACORD's research on insurance M&A activity are available upon request. To learn more about ACORD R&D, visit our research library at www.acord.org/research or contact research@acord.org.

About ACORD

ACORD is the global standards-setting body for the insurance industry. For over 50 years, we have been an industry leader in identifying ways to help our members make improvements across the insurance value chain. ACORD facilitates fast, accurate data exchange and efficient workflows through the development of electronic standards, standardized forms, and tools to support their use.

ACORD currently engages more than 36,000 participating organizations spanning over 100 countries, including insurance and reinsurance companies, agents and brokers, software providers, financial services organizations, and industry associations. ACORD maintains offices in New York and London.

Learn more at www.acord.org.

All data in this report are sourced from S&P Global, company filings, ACORD analysis 2024.

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