

# Capital Optimization Strategies and their Challenges in a Post- Pandemic World

Recent motivations in life insurance M&A

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- **Do not** discuss what you or other entities plan to do in a particular geographic or product markets or with particular customers.
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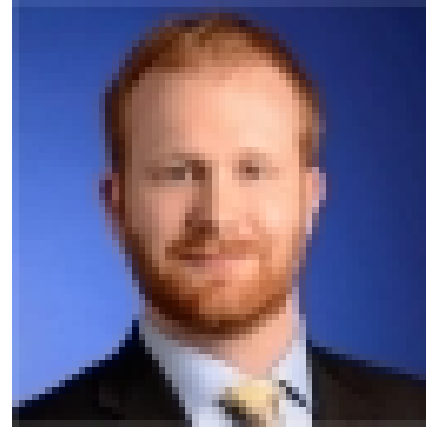
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# Agenda



Recent market activity

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What we are hearing from the market

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Motivations and trends

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Conclusion

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Q&A

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# Recent market activity



# Impacts of market volatility

COVID-19 pandemic has had severe impact to the economy and the insurance industry was not immune:

- Devaluation of equity securities
- Low interest rates
- Increase in credit risk



The economic volatility also has unique implications to insurance companies' balance sheet and projected income:

- Reductions in global equity markets' values
  - Impacts actuarially determined liabilities
  - Triggers changes in policyholder behavior
- Products highly sensitive to market variables
- Possible mismatches between liabilities and the assets that are used to back them
- Observed lags in the re-price for illiquid markets as compared to liquid markets

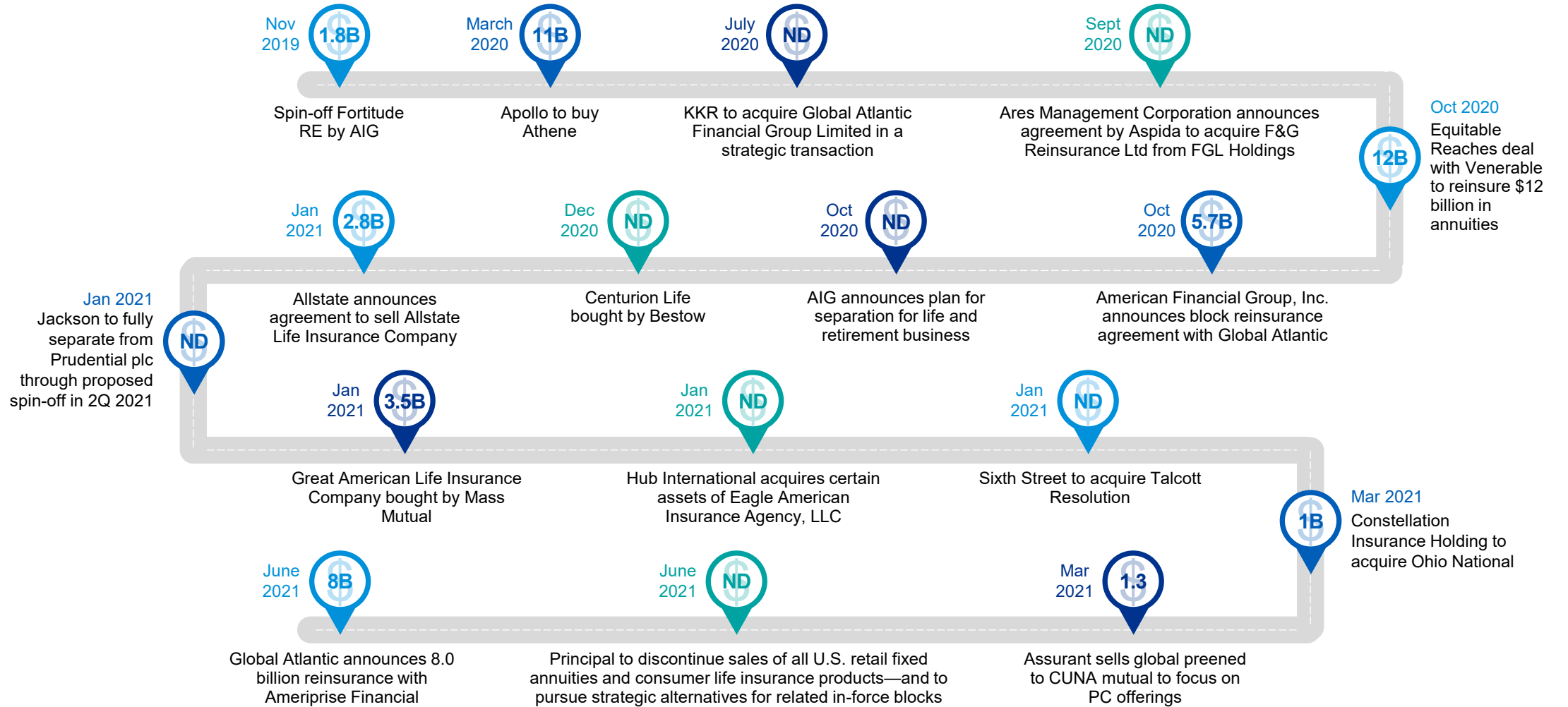


**As a consequence, major life insurance companies are evaluating their portfolio of business to be more focused strategically as they redefine their 'core' business and operating model for the future.**



# Recent M&A transactions

ND= Not Disclosed





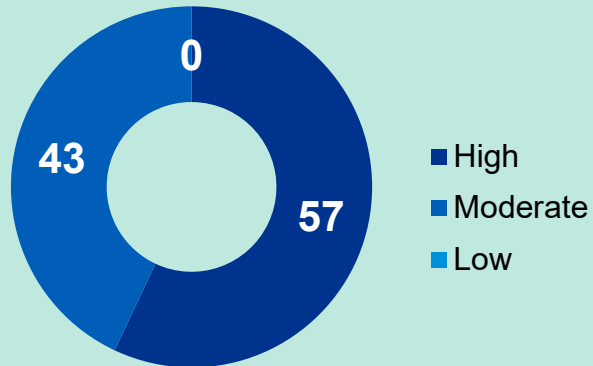
# What we are hearing from the market



# Insurance M&A outlook

## Insurance M&A outlook for the next one to three years

Given current headwinds, do you expect the level of M&A activity in the insurance industry over the next one to three years to be... low, moderate or high?



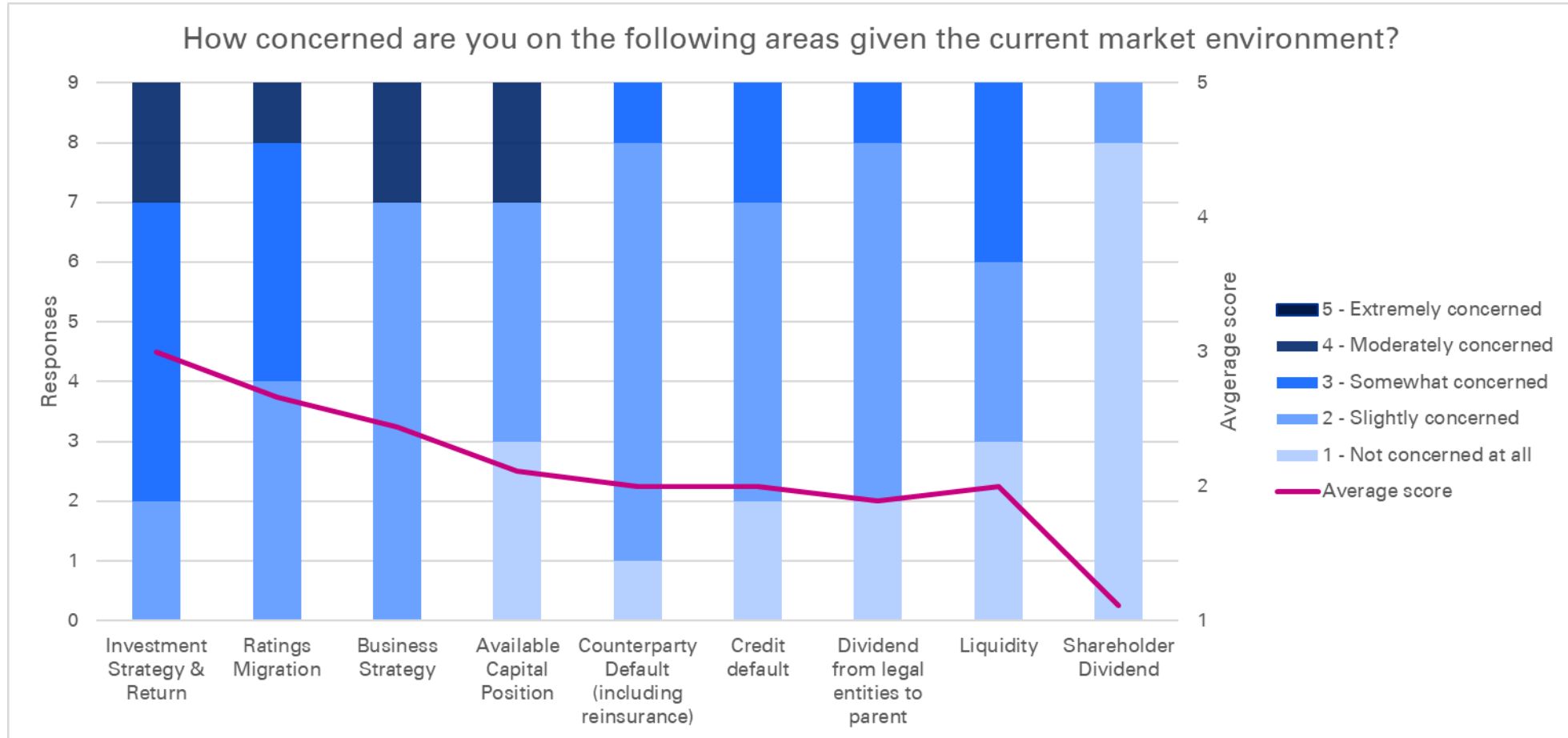
Senior insurance executives expect high or moderate levels of M&A activity over the next **1** to **3** years.



*Source: Based on a KPMG Poll of over two dozen senior executives at major insurance companies engaged in M&A, Strategy, and/or Innovation initiatives at their respective companies (mid to late 2020).*

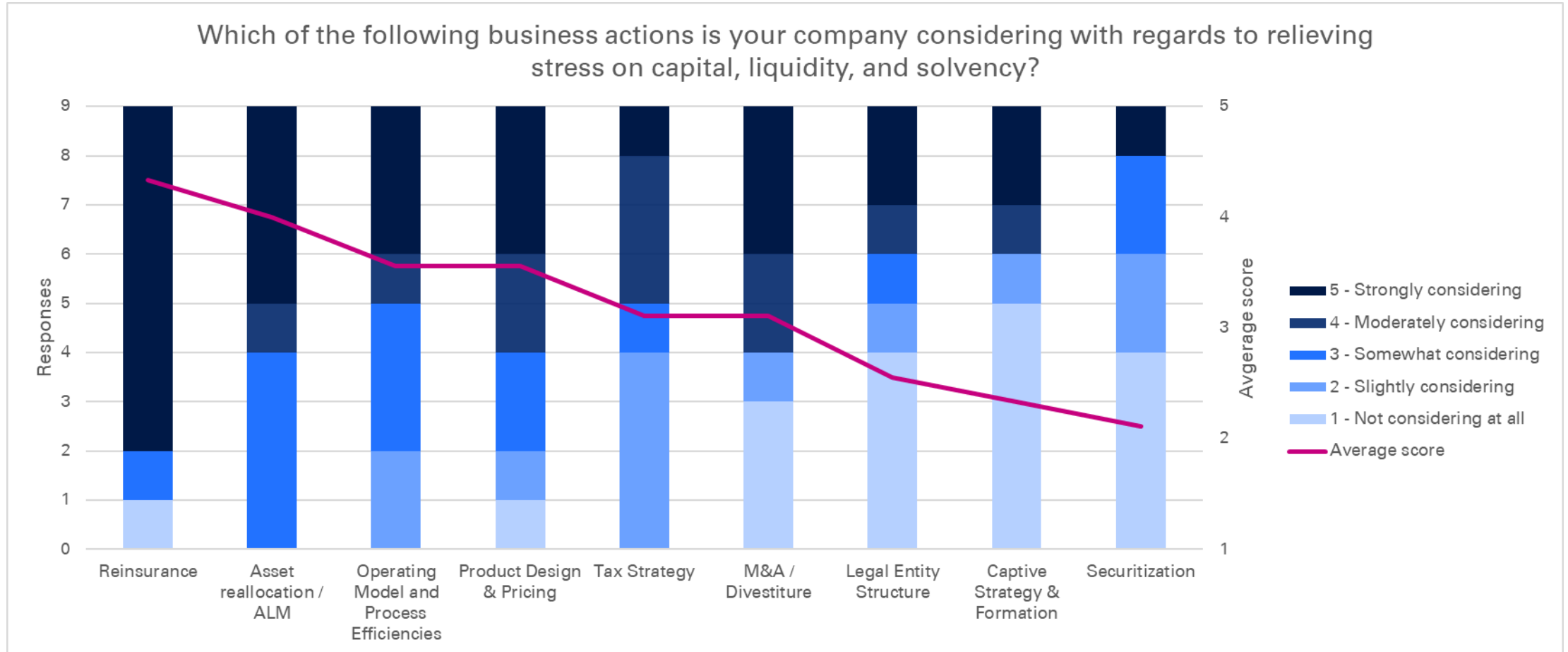


# Concerns about the market





# Business actions in stressed environments





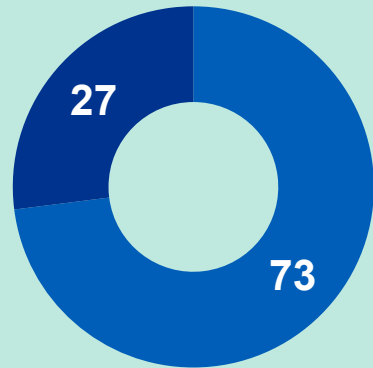
# Acceleration of digital journey

## The pandemic has also accelerated the digital journey for insurers with a refocus on

- Customer experience
- Digital distribution
- Operational excellence

## What we are hearing from market participants

As individuals and businesses adopt new behaviors and set new expectations, do insurance carriers prefer to enter into strategic alliances & partnerships with Insurtech companies **OR** acquire Insurtechs (M&A) to gain access to innovation capabilities



- Acquire Insurtechs (M&A) to gain access to innovation
- Strategic alliances & partnerships to gain access to innovation

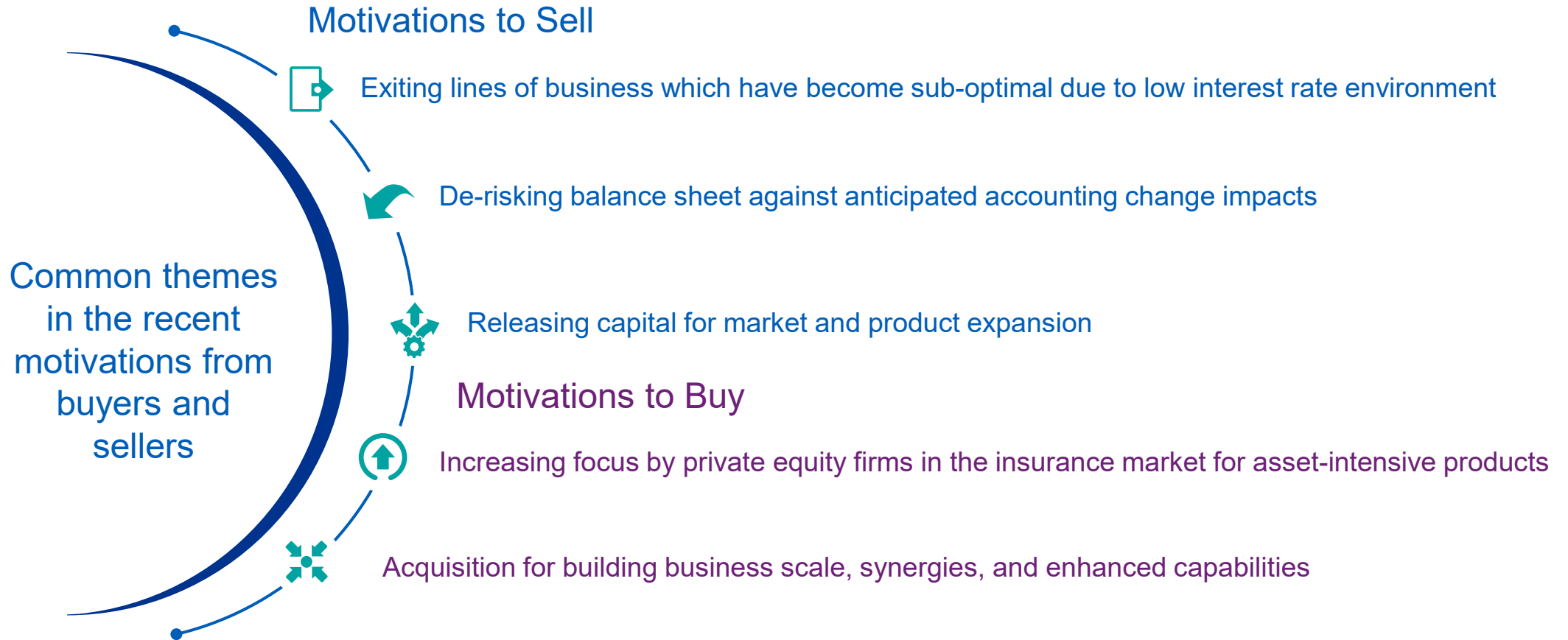
In the current environment, majority of the insurers prefer to enter into strategic alliances & partnerships with Insurtechs, rather than outright acquisition of Insurtechs.

*Source: Based on a KPMG poll of 24 senior executives at major insurance companies engaged in M&A, Strategy, and/or Innovation initiatives at their respective companies (mid to late 2020).*

# Motivations and trends



# Motivations from buyers and sellers



# Strategic drivers of divestiture from capital-intensive and non-core business





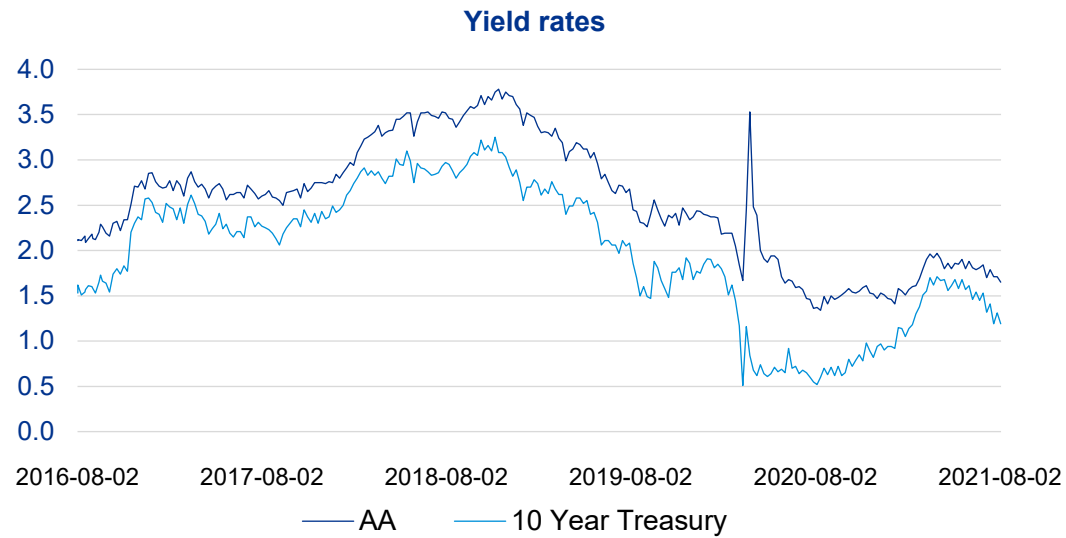
# Exiting sub-optimal lines of business

## Interest rates have been at historical lows since the 2007-2008 financial crisis

- Real Treasury rates have turned negative
- Expectation is that rates will take a number of years to increase
- Lasting impact on the insurance industry
  - High investment in fixed income securities
  - Liabilities sensitive to interest rates
  - High minimum guaranteed rates from older contracts

## Recent examples

- Equitable Holdings Inc reinsuring their \$12bn block of annuities to Venerable Holdings Inc.
- Allstate Life Insurance Co. sold by Allstate Corp. to entities managed by Blackstone



The company **“is deploying capital out of lower growth and return businesses while continuing to execute our strategy to grow market share in personal property-liability and expand protection solutions for customers.”**

*Tom Wilson – Allstate CEO*





# De-risking balance sheet and accounting change impacts

## Regulation changes have also encouraged entities to reassess the capital intensity and profitability

- Public companies are facing pressure from their Boards to de-risk their balance sheet
- Accounting changes such as LDTI or IFRS 17 are changing the way insurers recognize profit
  - Impact on investors communication
  - Costly and complex implementation programs

## Recent examples

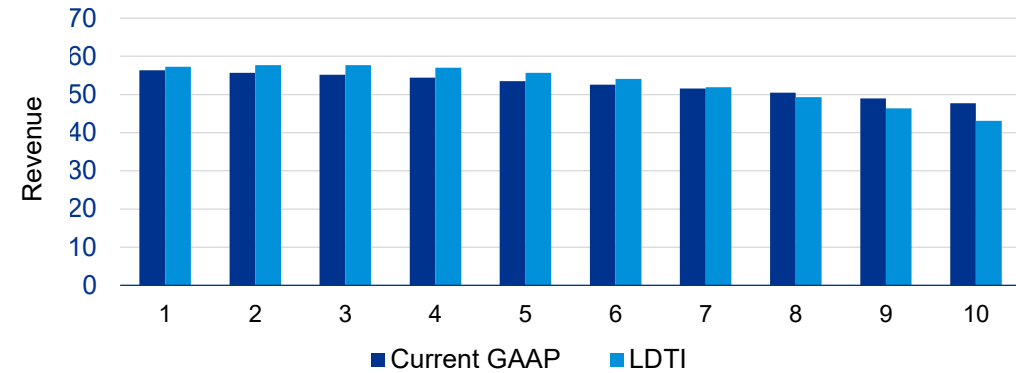
- Sale of Fortitude Re to The Carlyle Group and T&D Holdings by AIG
- Acquisition of Ohio National Mutual Holdings, Inc by Constellation Insurance Holdings, Inc.

“In the midst of a challenging economic environment, historically low interest rates, **increased regulatory costs** and pressure for the entire industry, Ohio National is taking this next logical step to fortify the business with additional capital and a more flexible capital structure.”

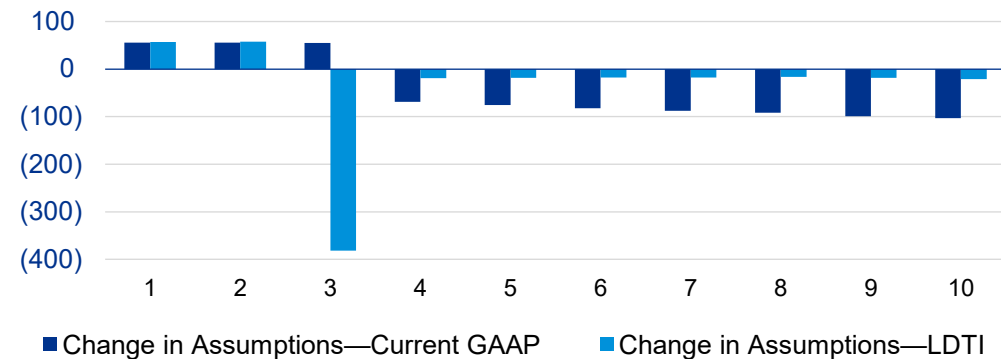
*Barbara A. Turner – President and CEO of Ohio National*



Income is recognized faster under LDTI due to removal of PADs



Experience variance immediately recognized under LDTI, a change from the persistent locked-in assumptions under current GAAP





# Market and product expansion

## Many insurers have offloaded capital intensive blocks of business to deploy capital for growth

- Focus on capital light businesses
- Stable capital ratio
- Pay out dividend
- Invest in profitable lines of business

## Several companies have entered the Group Life, Disability and Voluntary benefits business

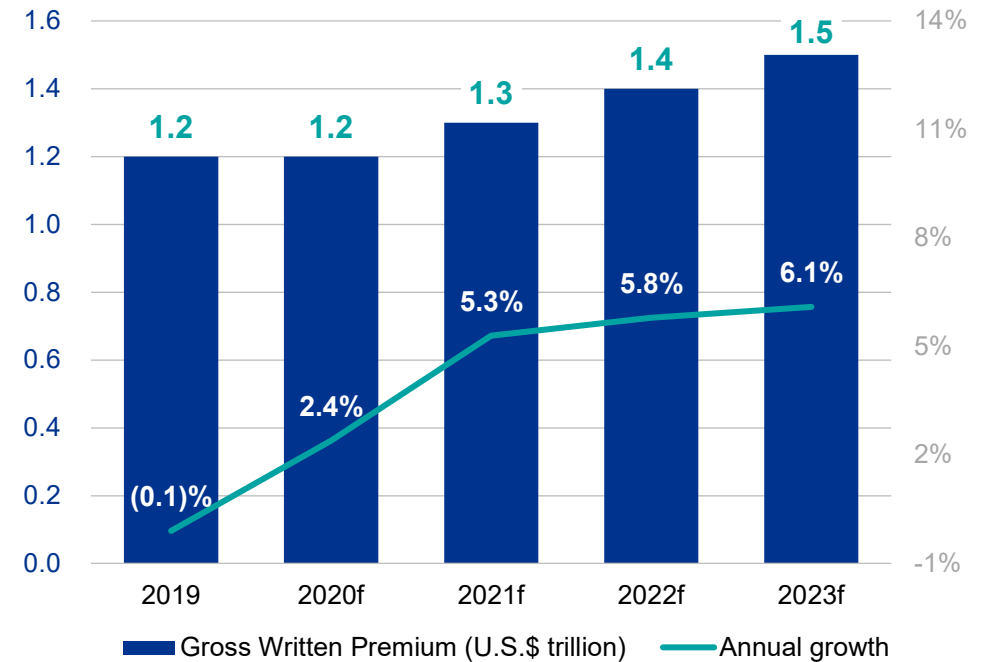
- MetLife’s \$1.7bn acquisition of Versant Health in 2020
- New York Life \$6.3bn acquisition of Cigna’s group life & disability insurance business in 2019

“The demerger we are announcing today will significantly accelerate Prudential’s transformation into a business purely focused on profitable growth in Asia.”

*Mike Wells – Group Chief Executive of Prudential about the spinoff of Jackson Financials from Prudential plc*



Companies are freeing up capital to explore other markets for growth. One geography anticipating such growth is the Asia-Pacific market



Note: f: forecasted

# Strategic drivers behind acquisition of complementary portfolios



# Focus by private equity firms for asset-intensive products

## Acquisition of legacy insurance companies by private equity firms is accelerating

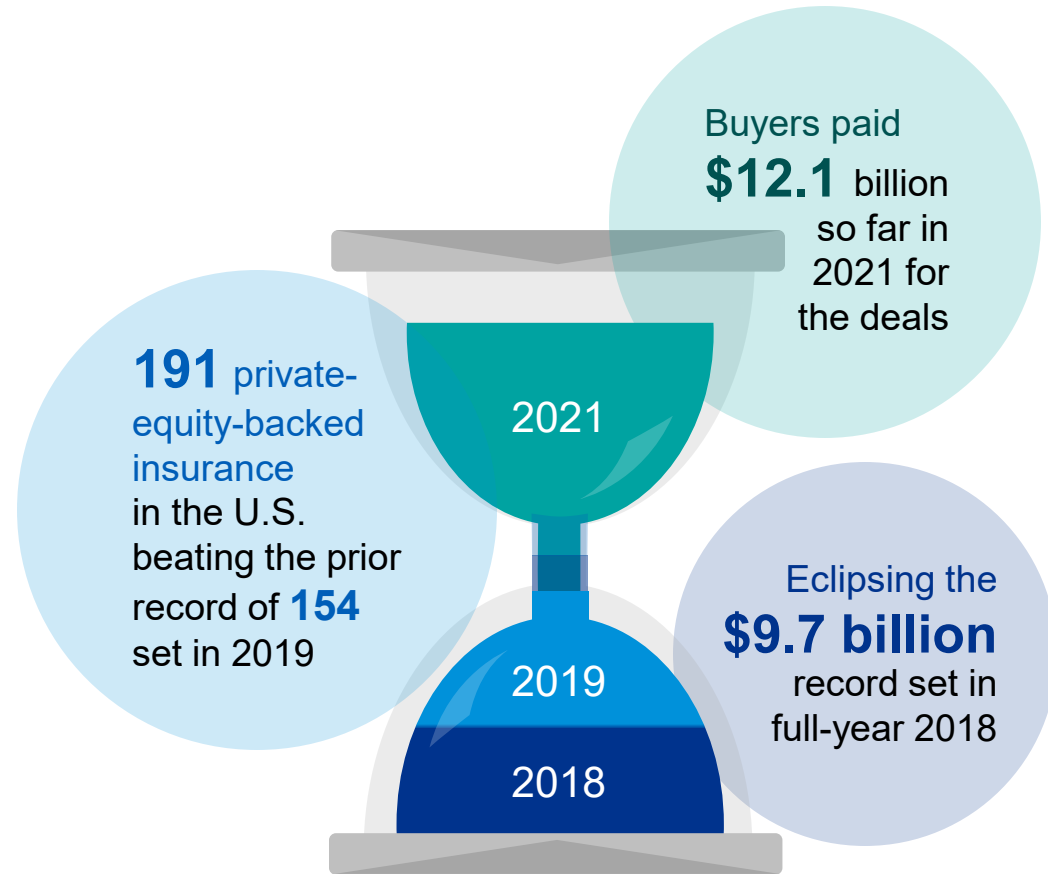
- Increase their assets under management with low risk of losing these funds
- Maintain strong credit quality
- Leverage the steady stream of assets offered by insurance books

## Private equity firms provide expertise and greater offshore and unique capital structures

- Seek optimal capital efficiency and up-risk the portfolio to improve profitability

## Recent examples

- Blackstone's purchase of Allstate Life Insurance Company
- Sixth Street's purchase of Talcott Resolution Life Insurance Company
- KKR's acquisition of all of Global Atlantic's outstanding shares





# Building business scale, synergies and enhanced capabilities

## Some insurance companies aim to grow their core book of business

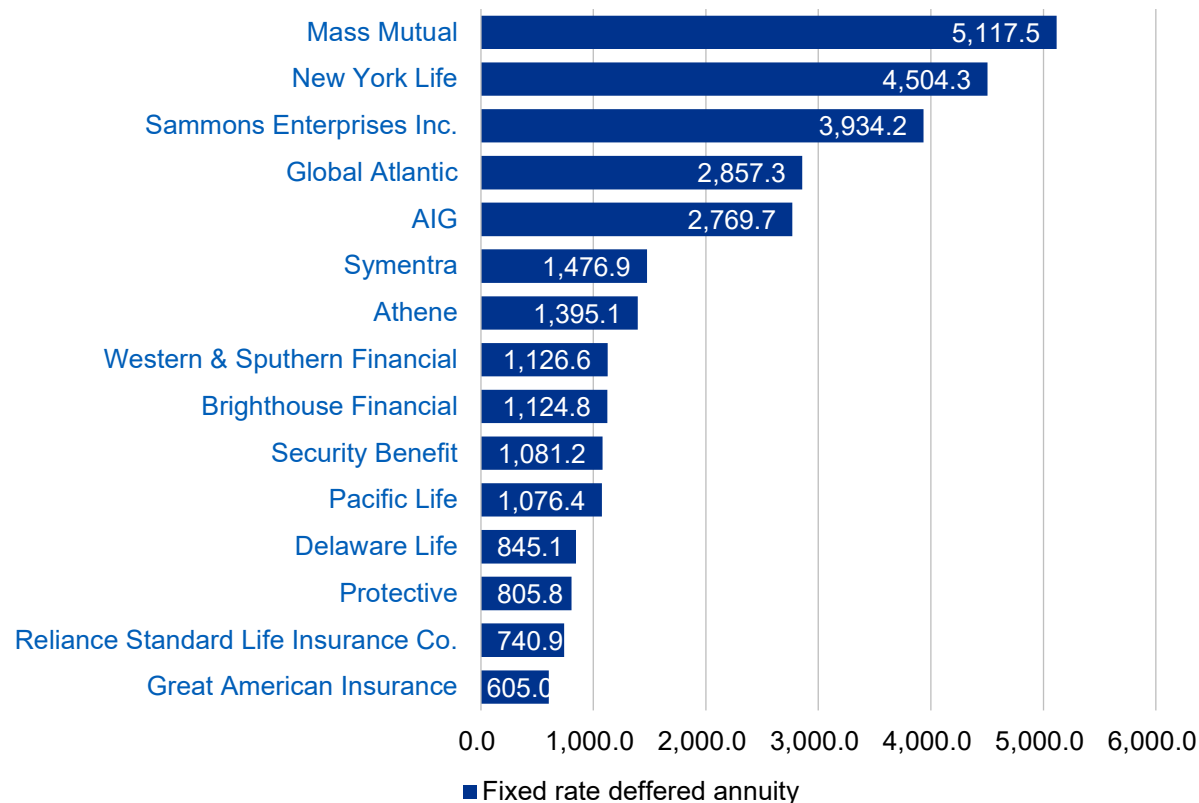
- Economy of scale
- Greater assets under management
- Larger participant base
- Access to enhanced technology expertise or new distribution channels

## Recent examples

- Acquisition of American Financial Group Inc's annuity business by Massachusetts Mutual Life Insurance Company

**MassMutual leads the industry in fixed-rate deferred annuity sales through Q3'20 (\$M)**

The graph shows MassMutual's market share for fixed deferred annuities. The acquisition of GALIC will give them a further competitive advantage.



# Conclusion



# Conclusion

**While the US economy continues to recover from the effects of the COVID-19 pandemic, the primary drivers of M&A activities in the insurance industry are expected to keep insurance companies under pressure**

- Dates of entry into force of regulatory and accounting changes have only been delayed
- Interest rates are likely to remain at low levels for several more years

**COVID-19** has created an unprecedented economic environment for life insurers to navigate and life insurance companies must continue to evaluate their portfolio of business in order to optimize capital deployment in line with their overall strategic objectives.





Q&A



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