Asia Insurance M&A Conference 2024
Asia's M&A Advantage: Navigating the Global Landscape and Harnessing Regional Growth Potential

Keynote speech by Mr Tony Chan
Associate Director, Policy and Legislation, Insurance Authority

Thank you Ted[1] for the introductory remarks.

Distinguished guests, ladies and gentlemen, good morning. It is my great pleasure to join you at the Asia Insurance M&A Conference 2024. Thanks Asia Insurance Review for bringing the conference to Hong Kong this year, giving us a perfect occasion for private equity firms, investors and industry leaders to exchange on a broad spectrum of topics in the realm of M&A.

Overview of Global Insurance M&A Market

I was advised to share the evolving regulatory environment and its impact on M&A in the insurance sector. Let me begin with an overview of the global insurance M&A landscape.

It is widely agreed that 2023 was a sleepy year for insurance M&A activity. Many insurance companies and investors rebalanced their portfolios, leading to fewer transactions. This year, global insurance M&A activities remain marked by caution. Economic uncertainty, high inflation and high interest rates dominate the headlines. These pressures, coupled with the underlying geopolitical tensions, have largely inhibited insurance M&A activities in 2024.

Compared to the other end of the globe, the M&A market in Asia remains relatively resilient. Demand from traditional insurers, asset managers, and private equity firms remains. While deal volume slowed down year-on-year, the deal value rose. Health and life sector remains the main driver of insurance M&A across Asia. Market players look to expand distribution, gain scale and extend their reach across value chain.

[1] Mr Ted Hodgkinson, Chairperson of Asia Insurance M&A Conference 2024 & Partner, Huntington Partners LLP

In fact, some Asian insurance markets were severely impacted by COVID-related claims payout, causing stress on the solvency of local insurers. M&A activities were observed after the pandemic which helped consolidating and strengthening the financial soundness and competitiveness of those insurance markets.

Asian Insurance M&A Activities Facilitated by Regulators

Regulatory facilitation is one of the key drivers for insurance M&As in Asia. Looking at India, its initiative in 2021 to increase the foreign direct investment limit from 49% to 74% has accelerated M&A activities in the country. Recent regulatory changes that favour large market players may entice large bancassurers to increase their market share and lead to some large transactions over the next few years.

China is another major contributor to insurance M&A activities in Asia. In 2020, the restriction on foreign ownership in life insurance companies was removed. The move was welcomed by foreign investors, particularly those having a minority or 50/50 stakes in a joint-venture and planning to increase their shareholding as a means for an expansion in China.

Relaxation of entry requirements on foreign investors has speeded up foreign investment into the Chinese insurance sector. Furthermore, taking effect from March next year, the requirement for Hong Kong financial institutions to have assets of at least US$2 billion to invest in shares of Mainland insurance companies will also be removed.

Role of the IA and GWS Framework

Back to Hong Kong, the insurance M&A market was relatively quiet in the first half of 2024. Despite the absence of headline news, international insurers are looking for transaction opportunities and some others looking for disposal of non-core overseas operations.

As the regulator of Hong Kong insurance industry, the Insurance Authority plays a crucial role in both maintaining market stability and promoting sustainable development of the sector.

In 2021, the IA introduced the group-wide supervision (“GWS”) framework to regulate designated insurance holding companies (“DIHCs”). To date, the IA is the group-wide supervisor of three Internationally Active Insurance Groups (“IAIGs”) that are headquartered in Hong Kong.

Under the GWS framework, the IA has the supervisory powers over DIHC’s major acquisitions. A basket of factors would be assessed, including the company’s present and future financial condition, the risks associated with the acquisition and how that would be mitigated, the impact on the group’s risk profile and capital adequacy, management oversight, etc. The process ensures that all significant transactions are scrutinised for their potential impact to the group and policy holders.

While we are conducting vigorous supervision to protect policy holders’ interests, our transparent and facilitating regulatory regime positions us as an ideal base for large insurance groups to establish headquarters in Hong Kong and expand business here. In fact, with our facilitating role, one of our DIHCs grew through M&A and became an IAIG in 10 years. The group continued to expand its portfolio through horizontal acquisitions in Southeast Asia. These moves allow the group to provide a full-service range of insurance products across the region.

RBC Regime

The economies of scale brought over by M&A activities enable insurers to streamline their operations and transfer knowledge, enhancing the sector’s overall viability. Enhanced efficiency also provides capacity for product innovation, serving the needs of the public. Yet, risks may hide behind the more consolidated market.

On the 1st of July, we officially launched a new solvency regime, the Hong Kong Risk-based Capital (“RBC”) regime. which marked a milestone for the Hong Kong insurance industry, aligning our capital regime to international standards and solidifying our role as a global insurance hub. It was the perfect occasion to formulate the RBC regime as during the past few years, we have experienced different market scenarios from the super low-interest rate environment during COVID, to the post-epidemic interest rate spike. The resilience of the RBC regime was well tested under different market environments.

Under the RBC regime, an insurer's capital requirement levels would be more sensitive to its risk profile. The regime would incentivise insurers to enhance their risk management culture, thus strengthening their financial soundness. The new regime could potentially result in insurance companies enhancing capital efficiency and in some cases, through acquisition of business that improves its risk profiles.

<u>ESG and Fintech</u>

Another topic I would like to share today is ESG. ESG is transforming the financial landscape and influencing insurance M&A activities. ESG due diligence has emerged as an important factor affecting the pricing of M&A transactions. As investors place more emphasis on ethical practices, sustainability, and transparency, the traditional financial and operational metrics used to evaluate M&A deals are being supplemented by comprehensive ESG assessments.

Regulators around the world are tightening requirements on ESG disclosures. Being a member of the Climate Risk Steering Group of the International Association of Insurance Supervisors ("IAIS"), the IA is actively working with the industry in formulating guidance on integrating climate risks into supervisory reporting and disclosure requirements, making reference to the International Sustainability Standards Board ("ISSB") Standards.

Fintech is another area of focus. Innovative fintech solutions including AI-powered valuation, blockchain-based due diligence, and smart contract negotiation enhance the efficiency of complex M&A processes. Although AI systems bring better prediction, automated processes, timely services and cost benefits, they also come with concerns like algorithmic bias and data privacy. Specifically, AI algorithms could lead to breakdown of risk pooling and exclusion of vulnerable groups. Black box algorithms could also produce unexpected outcomes.

It is important to ensure that our regulatory framework remains robust enough to safeguard vulnerable groups but flexible enough to fulfil industry aspirations. We will launch a study next year to inform the approach that should be taken to promote fair, transparent and ethical use of AI.

Concluding remarks

Ladies and gentlemen, in the fast-paced world of M&A, regulatory requirements play a pivotal role in the approval processes, compliance requirements and overall investment strategies. As global markets become increasingly interconnected and complex, staying abreast of the latest regulations allows industry players to seize opportunities effectively.

Finally, I wish this Conference a great success. Thank you.