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Building a better working world

Insurance
Global Capital Confidence Barometer

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A note from David Lambert, EY Global Insurance Transactions Leader

Technology and convergence continue to propel M&A activity in insurance

Global economic activity may be slowing, but insurance executives still see pockets of growth in many of the major economies. In response, they're planning to pursue M&A that will complement current business models, or help them acquire technology or new production capabilities to accelerate growth, according to the 21st edition of the EY *Capital Confidence Barometer*.

Confidence in a growing economy remains, but optimism in fundamentals begins to soften

Despite uncertainties arising from tariff and trade issues, regulatory challenges, as well as global and local political uncertainties, nearly three-quarters (73%) of insurance executives believe the global economy is continuing to grow.

With such continued optimism, fewer than one-third of insurance executives expect an economic slowdown in the near to mid term. However, as levels of confidence across macroeconomic fundamentals stabilize more than improve, now is the time for companies to reassess their portfolio vulnerabilities, and optimize their capital structures to safeguard against potential threats. Almost half (49%) of insurance executives have plans to outsource or divest a portion of their current operations.

Insurance companies increase their investment in digital and technology

As the pace of technological innovation accelerates, changes in customer behavior and intensifying competition on multiple fronts has 63% of insurance executives devoting more than 25% of their total annual investment capital on digital and technology; 41% say they will spend more than 25% of that digital investment on growth opportunities.

As the buy-versus-build discussion continues, insurance companies are considering a range of options, the majority of which are leaning more on inorganic opportunities – 63% indicate that joint ventures and alliances, M&A and external venture funds will take priority in their digital investment strategy.

M&A appetite remains above historical average as insurance companies focus on assets that complement business models or digital transformation capabilities

Fifty percent of insurance executives say they will actively pursue M&A in the coming year, which remains above the historical average, but represents a decline of 21 percentage points from six months ago. Insurance companies are primarily looking for bolt-on assets that complement current business models, or companies with capabilities that will aid in insurance companies' digital transformation or finding new routes to customers.

As they pursue their M&A agenda, three-quarters of insurance executives expect an increase in cross-sector M&A driven by technology and digitalization. Sixty-five percent anticipate increasing competition for assets in the next 12 months; 79% are bracing for a more hostile bidding environment.

Insurance companies take a more holistic view of long-term value creation

As insurance companies look ahead, they are looking beyond financial and customer value when measuring performance and long-term value creation. Eighty-five percent already

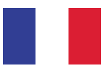
Top five investment destinations

1  UK

2  US

3  China

4  Australia

5  France

have metrics in place to measure talent value or are planning to adopt them in the next 12 months; a similar percentage (86%) already have or have plans to adopt metrics that measure social value.

The best businesses are defined by more than their short-term profitability. They drive broad-based prosperity by creating value for shareholders, customers, employees and society alike. Being able to measure and communicate long-term value creation around their people in particular may go a long way to address the challenge that 65% of insurance executives say that they have in hiring and retaining staff.

Overall, insurance companies are looking to demonstrate that they are adding value to their people, customers and society as a whole.

The C-suite remains optimistic in the near-term economic outlook.

58% are confident in the outlook for equity valuations and stock market results.

64% do not expect an economic slowdown in the near to mid term.

M&A intentions remain relatively strong and the C-suite predicts a resilient M&A market.

55% are expecting the M&A market to improve in the next 12 months.

50% are planning to actively pursue M&A in the next 12 months.

Finding the right talent and technology at speed is driving deals as executives articulate long-term value beyond traditional financial metrics.

65% of companies have difficulties securing the right talent.

86% already have or plan to have social value reporting metrics in place in the next year.