June 2019 | 20th edition | ey.com/ccb

Building a better working world

Insurance

Global Capital Confidence Barometer

David Lambert
EY Global Insurance Transaction Advisory Services Leader
+44 20 7951 9848
dlambert@uk.ey.com

A note from David Lambert, EY Global Insurance Transaction Advisory Services Leader

Robust M&A activity helps fuel double-digit growth in insurance

Strong earnings growth in 2018 and broad-based confidence in capital markets has insurance companies feeling optimistic about their growth potential, despite predictions from economists and analysts about the economic headwinds ahead.

Over 90% of insurance executives we surveyed share a view that the global economy is improving. In terms of their own growth projections, three-quarters expect revenue growth of between 6% and 15%; more than half anticipate double-digit growth rates of between 11% and 25%. They see expanding into adjacent sectors or into their domestic markets as strategic priorities in achieving these objectives.

Almost all executives plan on making major investments in technology

Almost all insurance respondents surveyed say they will be significantly increasing their investment in technology across a broad range of operational priorities, including improving financial data access and analysis, enhancing the customer experience and improving internal efficiencies.

With the competition for top talent intensifying, a third of insurance executives say they also plan on increasing the use of technology, automation and AI to give their employment strategy a boost.

M&A appetite remains strong as insurance executives look for assets to address technology, convergence and activist shareholders

Technology also features as a main strategic driver, along with sector convergence and the response to changing customer behavior, as 71% of insurance executives say they will actively pursue M&A in the coming year.

However, in addition to the opportunities M&A present for insurance executives, they also pose a host of risks. For an acquisition or merger to create value, the combination of the buyer and seller must become more than the sum of the parts. To realize the potential of their transactions, insurance executives will have to quickly address risks while seizing opportunities and synergies. To help them do this, insurance companies may want to develop leading-practice M&A playbooks and assemble dedicated M&A teams within functions.

M&A appetites expected to rise further, even as the focus shifts to organic growth

Looking ahead, a large majority of insurance executives expect M&A intentions to rise further in the next 12 months, even as 72% of insurance executives indicate they will shift their focus from M&A to organic growth. For those who are pursuing M&A, 74% say they will be looking for cross-border opportunities. However, they will continue to be selective as the gap between buyers and sellers continues to grow.

Top five investment destinations

1. UK
2. US
3. Germany
4. Brazil
5. China

Macroeconomic environment and risks to growth

Despite concerns of a slowing economy as a primary threat to growth plans, companies remain optimistic about their own performance and growth potential.

93%

of executives see the global economy as improving.

75%

of companies expect revenue growth of 6%–15% in the next year.

34%

of executives acknowledge a slowing economy as the primary risk to their business.

Portfolio reshaping and long-term value creation

Companies are building resilience into their operations and are instilling financial discipline while realigning portfolios to future-proof growth.

80%

of executives say they are compelled by activist pressure to continually assess and reshape their portfolios.

54%

of executives expect to review their portfolio at least quarterly.

67%

of executives are focused on reducing costs to free up investment capital.

M&A outlook and major themes

Executives are more bullish in their outlook and are building resilience into their operations, while at the same time focusing on integration as a key transaction risk.

80%

of companies expect the M&A market to improve in the next 12 months.

71%

of executives expect to actively pursue acquisitions in the next year – a 10-year high.

45%

of executives identify integration and achieving forecasted synergies as key transaction risks.

EYG no. 002840-19Gbl

1901 3043022

ED None

ey.com/ccb