
A.M. Best forecasts life insurance industry M&A

By Editorial Staff *Fri, Jan 20, 2017*

Disruption from financial technology, or fintech, companies in the industry likely will drive strategically focused M&A activity, A.M. Best predicted.

The pace of merger & acquisition (M&A) activity in the life/annuity (L/A) industry faced headwinds from low interest rates and the regulatory environment, according to a new A.M. Best briefing.

The *Best's Briefing*, titled, "Mergers and Acquisitions in the Life/Annuity Marketplace," stated that the Department of Labor (DOL) fiduciary standard had contradictory effects on the industry. It was a catalyst for distribution-centered M&A, but also reduced block transactions or whole company acquisitions.

The industry continued to grapple with DOL readiness and implementation in 2016. The DOL was a significant distraction and consumed management resources for annuity companies throughout the year.

Due to prolonged low interest rates, mega-sized pension risk transfer (PRT) deals were modest in 2016, with the exception of MetLife and MassMutual's partnership to execute a joint \$1.6 billion PRT transaction and Prudential Financial's \$2.5 billion PRT transaction with WestRock Company.

The overall pace of PRT activity through September 2016 was comparable to the prior year. The MetLife-MassMutual transaction represented the first sizable joint M&A transaction in the U.S. market for PRT, and A.M. Best believes it is "an important step in capital markets risk transfer, which will likely be necessary for the PRT marketplace to mature in the U.S. market over time."

Disruption from financial technology, or fintech, companies in the industry likely will drive strategically focused M&A activity, the report said. Companies have taken different paths, including partnering with affiliated distribution channels, incubating fintech insurance startups through seed investments or acquiring fintech insurance-focused companies.

In addition to Japanese companies entering the U.S. marketplace to increase their diversification, China-based enterprises now are beginning to invest in financial services and real estate. A.M. Best views some of these newer entrants as likely facing high

regulatory barriers, particularly if M&A shifts toward China state-owned enterprises as potential buyers.

The industry is still in the early stages of addressing the need to modernize marketing and distribution systems in an increasingly sophisticated technological economy. A.M. Best expects that strategic M&A with a focus on distribution and technology will be an important and recurring theme over the next several years.

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