

Look Forward to Insurance M&A Markets in 2024

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OUTLOOKS

L.E.K. Look Forward Into 2024

Welcome to Look Forward, L.E.K. Consulting's annual analysis of the challenges and opportunities in the year ahead. In this article, insurance industry expert **Sam Halliday** reviews a turbulent last 12 months and identifies key themes for the year(s) ahead.

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2023 was a turbulent year for insurance valuations and transactions worldwide. While a small minority of markets (e.g. Germany and Australia) bucked the trend in 2023, the outlook for 2024 will be based on a somewhat more certain macro-economic environment (higher for longer) albeit with increasing geopolitical uncertainty. We see seven key themes that will help define the years ahead:

1. A more healthy awareness amongst investors of the real value being created in consolidation platforms and a growing understanding of the work required to deliver on their promise. Aggregation of businesses has been an ongoing theme for some time, but some emphasised haste and lacked a focus on cultural, technology and financial integration. The key questions here are is it a fixer upper or a new build? How much investment is required in capabilities, technology, structures, processes and the capacity to deliver it and what is the opportunity cost of taking this inward perspective?

2. A growing sense that the walls are closing in on domestic only consolidation stories in some advanced markets, except where plentiful headroom remains or for those starting something up with more trade sale exits in mind. There are now a number of platforms that are active across borders and we see this being a core feature of the next five years of investment in the space ...
3. ... However, the number of platforms addressing international consolidation is small as projecting an attractive proposition internationally requires a clear vision and the team to deliver that will continue to build domestically – success here requires a great management team and the ability to sell this vision to vendors into new markets where cultural alignment is harder to build.
4. An expansion of focus on executive team's abilities to drive organic top- and bottom-line growth and demonstrably prove this with the expectation that this is already and will become an even more important differentiator between the best and the rest. Those struggling to grow organically, or worse those struggling to demonstrate they can unpick the drivers of their growth, will find it increasingly hard to achieve the best valuations.
5. An ongoing expansion of incentive alignment up and down organisations to appropriately incentivise real value driving behaviours and ensure that entrepreneurial cultures are sustained as vendors become part of increasingly large businesses.
6. An increase in investor appetite around the insurance value chain with a focus on traditionally more niche areas such as claims management, litigation services, investigations, collision repair where structural tailwinds are supporting the ongoing digitisation and in some cases the professionalisation of providers ...
7. ... as carriers continue to face pressure on claims and look to get more value (be it price and / or service offering) out of their providers. The development of strategic partnerships to capture more volume and drive higher performance is a potential win-win for all involved and presents an ideal opportunity for investors looking to expand their exposure in the insurance space.
8. An opportunity in some markets for consolidation of the insurer layer like the UK where the superposition of regulatory change and claims inflation will drive opportunities for investors with conviction.
9. A growing focus on the ultimate end-game and exit pathway for the proliferation of broking platforms that exist across the US, UK and continental Europe with public markets appearing to remain somewhat unattractive for management teams with a growing number of platforms are bringing in/cycling through institutional shareholders

with minorities to create liquidity events. Does this structure provide enough for all involved – this is an open question? After extensive investment over the past decade and a half, the IPO market has seen relatively few insurance platforms list (barring insurtech players) but with a number of specialty insurance carriers indicating that they will look this way, will we see more activity on the brokerage side?

With an interesting year ahead for the sector, our recommendation is to focus on the core value drivers and fundamentals in an interest rate environment that is driving more of the overall returns away from the financing part of any investment and more towards operations and in particular towards demonstrated, differentiated capabilities.

About the author



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Sam Halliday, a Managing Director and Partner based in L.E.K. Consulting's London office, specialises in insurance, covering both the distribution and manufacturing layers as well as service providers in the industry, with complementary experience in specialist lending and payments. Sam has extensive experience across a wide range of strategic and operational focus areas such as business planning, commercial effectiveness and transaction support (including post-merger integration). He joined L.E.K. in 2012 and holds a Master of Engineering from the University of Oxford.



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