

2025 Checklist for Insurance Businesses

January 21, 2025

KEY TAKEAWAYS:

We expect regulatory changes, climate-related challenges, the ongoing effects of social inflation and the potential for significant M&A deals to be among the key items for boards and management of insurance businesses to have on the radar for 2025. These items are discussed in more detail below, and we are happy to talk about any or all of them (or any other topics) with our clients and friends as the year unfolds.

FEDERAL AND STATE REGULATORY DEVELOPMENTS

- *Overall Deregulatory Agenda.* We expect the incoming administration to pursue its stated goals of broadly deregulating many sectors of the economy. Specifically, we anticipate:
 - A reprieve from heightened scrutiny on, for example, private equity and the credit industry, which may lead to an increased role for private equity sponsors in the private credit markets and, as a knock-on, the insurance sector.
 - For example, an increased role for private equity firms in the pension risk transfer, life insurance and retirement industries would be consistent with a deregulatory approach to private equity in general.
 - This trend towards deregulation at the federal level may be tempered by the actions of state regulators and attorneys general, as they continue to pressure-test the role of private equity in the insurance industry, particularly the life and retirement sectors, and react to recent events impacting public opinion of insurers such as the California wildfires.

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- The deregulatory environment should be favorable for M&A as, for example, the FTC and DOJ may accept more divestiture remedies rather than blocking mergers altogether.

M&A

Expect an Active M&A Market. We expect this will be a strong year for M&A in the insurance industry (and across financial services more broadly, as we expect a scaling back of the impact of Dodd-Frank), and as is often the case, consolidation will drive more consolidation.

- Much of the M&A activity in 2024 centered on sizeable reinsurance transactions in the life and annuity sector, as well as cross-border activity. We also saw a significant amount of M&A activity in the broker and producer sectors, and in the asset management sector.
- While we expect reinsurance transactions to continue, we also believe that 2025 holds the prospect of increasing activity in public company M&A, and the sale of legal entities and whole businesses, as the strategic need to execute those transactions is aided by greater stability in the capital markets. We expect this to be an active year for M&A across the P&C, life and annuity and reinsurance sectors.
- We expect cross-border activity to continue, particularly from Japanese insurers looking to make investments in the United States and in asset management businesses.
- The publicly traded P&C and life insurance companies will look hard at opportunities for inorganic growth, particularly if interest rates trend down and the overall cost of capital is lower.
- One impediment to the M&A market may be the potential for increased politicization of the CFIUS process, where we expect to see a continued focus on China (blocking deals and preventing investment in certain industries; and new data transfer rules prohibiting sending bulk data to China), but also potentially other jurisdictions, depending on the sensitivity of the target company.
- As noted in our [article on activism](#) we continue to see activists play an important role in the insurance sector, and that is likely to be yet another factor driving companies to pursue M&A strategies or restructuring of businesses.

CAPITAL MARKETS

Expect a strong year in the IPO market, as PE-backed companies look for a public exit and technology-driven companies look to tap the capital markets for growth capital.

- From a disclosure perspective, we expect notably less (positive) focus on ESG initiatives, and significantly more focus on the risks associated with social inflation and other emerging risks, particularly in casualty lines of business. The use of AI and cybersecurity will continue to be a focus of disclosures.
- The horrific fires in Los Angeles and Ventura counties highlight the growing risks from climate change-driven catastrophes. We expect that insurance companies will seek to access the capital markets in innovative ways to address these risks, and that there will be heightened focus on exposure to climate risks.
- As interest rates stabilize and even decrease, we expect to see continue debt financing, both in senior debt and hybrid securities. Life insurers continue to see the benefits of spread lending businesses, with funding agreement-backed note programs continuing to be popular.

ARTIFICIAL INTELLIGENCE

Use of AI in Underwriting. The many issues arising from the growth of artificial intelligence continued to make headlines in 2024, and as anticipated we have now started to see state regulatory and attorney general activity targeting the use of AI in underwriting.

- While we expect to see state regulatory concerns continue with regard to the use of AI as it impacts consumer facing businesses such as insurance and banking, we also believe the new administration will be generally supportive of the development of the US as a leader in AI, including by promoting AI innovation (repealing the Biden Executive Order on AI).

TAX LAW CHANGES

Unified Republican control of the presidency and Congress raises new prospects for U.S. tax reform legislation. We expect the primary focus to be on extending the tax cuts of the Tax Cuts and Jobs Act of 2017, many of which expire at the end of 2025. The budget reconciliation process will require offsetting revenue raisers for extensions of rate cuts

and other Republican campaign priorities—insurance companies will be focused on ensuring that insurance-specific tax rules are not targeted for revenue, as they were in 2017.

We also expect the ongoing implementation of tax regimes imposing minimum taxes on book income, including the U.S. corporate alternative minimum tax, the OECD Pillar 2 initiative and the Bermuda Corporate Income Tax, to continue to cause complexity in insurance company tax compliance, group structuring and transaction pricing. Biden Administration proposed tax regulations on CAMT will likely be put on hold, as the incoming administration determines whether to take a different tack on CAMT implementation.

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