Ready for Take-off

The Outlook for Insurance M&A in EMEA

October 2014
# Ready for Take-off
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We are delighted to introduce the second annual edition of Towers Watson’s investigation of mergers and acquisition (M&A) trends in the insurance sector across the EMEA (Europe, Middle East and Africa) region, carried out in conjunction with Mergermarket, the global proprietary M&A intelligence provider.

The title chosen for this year’s report ‘Ready for Take-off’, summarises what we see as the emerging picture; i.e. rising investor interest in insurance sector assets both from within the industry and from financial markets. Notably, 84% of respondents to this year’s survey expect capital to continue to flow into the insurance market over the coming three years, with a particularly strong involvement from private equity (PE) firms.

We see further evidence of this interest manifesting itself in the increased competitive nature of acquisition processes, resulting in respondents to the survey lowering their return on equity (ROE) expectations over the last year, reflecting a further entrenchment of the seller’s market – a trend we highlighted last year.

However as against this, this year’s survey showed that companies will be more interested in divesting than acquiring, which could alter the pattern of supply and demand once more.

**Contributing factors**

Since the publication of our 2013 report, many of the factors that have supported an upward trend in M&A activity since the trough of the 2008 financial crisis, including consolidation, cash generation, emerging market growth and capital management, have remained unchanged. Interesting to note, however, in the responses and opinions received from senior insurance executives this year, is the growing significance of distribution and technology capability in their decision-making criteria for M&A targets. This is particularly relevant in the property and casualty (P&C) sector where many companies are looking to acquire, rather than develop, their digital distribution capabilities.

This is not to say that the market is devoid of obstacles despite the generally more favourable economic picture compared to a year ago. Even after the announcement of a seemingly cast iron implementation date for Solvency II in January 2016, the uncertainties associated with regulation in the European market are still coming through as a concern for many companies, as is the spread of regulatory zeal to other, less developed markets. But while regulation may be seen as a threat by some, it is also regarded as an opportunity for others, with legacy players attracting substantial monies over the last year to fund future acquisitions of attractive opportunities.

When it comes to return on investment, expectations have dropped compared to last year. While this should potentially make deals more viable from a financial point of view, there is evidence of growing pressure on the time horizons for achieving required returns. This underlines the imperative of quickly addressing the issues impeding the successful integration of acquired assets.
Comprehensive picture

The detailed quantitative and qualitative analysis contained in this report helps throw further light on the points mentioned above as well as providing insight into how companies are approaching M&A opportunities in the short-term and the questions raised as a result. We are particularly grateful to the senior industry executives who gave up their time to be interviewed for the report and for the frank views expressed.

We hope you find this report useful and welcome the opportunity to discuss with you any of the issues raised in greater depth.

Methodology

Towers Watson canvassed the opinions of 264 senior insurance executives regarding their outlook for M&A in EMEA’s life and P&C insurance sectors as well as their own company’s plans and strategy. The interviews were conducted either by telephone or online and all responses are anonymised and presented in aggregate. Though we had non-EMEA respondents, the criteria for inclusion in the survey were EMEA domicile, or where non-EMEA domicile, the respondents had operations in EMEA or were otherwise active in the region.
The volume of insurance M&A transactions in the EMEA region has increased steadily since 2009 and our survey respondents anticipate that activity will continue to increase during 2014 and 2015. This is thanks in part to an expected influx of capital into the insurance market.

This year's survey also points to a fundamental shift in firms' M&A priorities, with more respondents now planning disposals rather than acquisitions. This reflects a push amongst major insurers in Europe to sell non-core units and consolidate where they have a leading market position.

It is also consistent with companies looking to maximise return on capital in a highly competitive market, within which an increase in regulation leads to pockets of capital inefficiencies. To this latter point, there is the continued expectation that smaller insurers will be acquired in the face of an increased regulatory burden.

The responses to this year's survey highlight three trends that we expect to be significant drivers of future M&A activity.

1. Technology spurs strategy

Over the past few years, P&C insurers have invested in technology to effect real-time pricing changes, attract customers via digital distribution and roll out 'Usage Based Insurance' to motor lines. This technological innovation is most pronounced among P&C insurers, but the growth of 'platforms' for investment-related business within life insurance can be seen as a similar directional development. For both sectors, the use of technology is set to become even more central to insurers' strategy.

Our survey shows that this trend is already impacting M&A activity, with modern technology platforms seen as one of the main valuation drivers for personal lines and an important factor for life insurers. Respondents to last year's survey identified access to new distribution channels as a key driver of acquisitions. In this edition 41% of P&C respondents and 26% of life respondents stated that digital distribution was the most attractive distribution channel for acquisitions.

New technology platforms can be developed internally, but our respondents expect major multinationals to generally forgo the necessary R&D in favour of acquiring these capabilities from smaller niche providers. This could lead to a high level of competition for these targets, as well as the growth of new technology-led businesses that develop solutions aimed at the insurance market.

2. PE appetite for insurance acquisitions

Survey respondents expect acquisitions to be increasingly funded by PE investors with 82% expecting PE to be among the top three groups of acquirers, a result that is consistent with the results from last year's survey.

PE investors have previously played only a limited role in the insurance sector due to relatively low margins and the heavily regulated nature of the industry, which can impact on capital structures. But in the current historically low interest rate environment, the cash generative elements of the insurance sector have become increasingly appealing to PE investors, and the PE industry has been steadily ramping up its involvement.
This trend has also been bolstered by the reopening of IPO markets, which has given PE investors the opportunity to liquidate previous insurance investments, with a number of PE-backed insurers moving to IPO in the last 12 months. Funds have also become more adventurous, with PE firms now active in European markets that had previously not experienced material insurance PE activity.

3. Changing definition of success

The survey indicates that insurers’ chosen measure of M&A success closely reflects the demands of shareholders, with a focus on whether a transaction is able to deliver enhanced earnings and dividends. In contrast, top line growth was infrequently cited as a measure of success. This result points to a lack of appetite to tie up capital in the hope of long-term returns, with companies now focused on ensuring that deals can be used to quickly drive enhanced earnings. The majority of respondents are evaluating deal success after one to two years, which may be supporting a more short-term view of transactions. In line with this result, survey respondents also suggest that realising expected financial synergies (for example, from operating expense efficiencies) is the main challenge they face after undertaking an acquisition.

In general, respondents tend to rate their acquisitions as very successful, with half of respondents stating that their last deal was a ‘complete success’. However, this finding is at odds with the Towers Watson’s Quarterly Deal Performance Monitor, compiled in partnership with Cass Business School. The study suggests that on average the market is not rewarding acquirers and that buyers are struggling to generate value for shareholders (as measured by share price outperformance). There is therefore a significant risk that either the deals are not delivering value, or that dealmakers are failing to communicate this value to investors (at least for stock market listed companies).

This suggests that dealmakers need to ensure the pre deal due diligence and negotiation is focused on securing a deal that enables the implementation to deliver real, observable value. In turn the implementation work needs to maintain a clear focus on the deal objectives and the logic for the transaction, assessed over an appropriate time frame. The implementation is when much of the hard work of bringing workforces and business operations together becomes real, and in practice this is where many deals ultimately succeed or fail.

Successful acquirers are well versed at this work, and are rigorous in recognising that while every deal is different, there are opportunities in every deal to learn and to improve implementation, and ultimately the realisation of incremental value.

1 Analysis of major acquisitions completed by stock market-listed insurance companies around the world between January 2008 and December 2013. Study based on Towers Watson’s Quarterly Deal Analysis compiled in partnership with Cass Business School.
Deal Activity

Bouncing Back

Deal activity is still some way below pre-crisis levels. And while deal volume is holding up well in 2014, deal value remains suppressed. But this looks set to turn around. With strong PE interest in the sector and pressures around market positioning, distribution methods and regulation, it could still be a bumper year.

Source: Thinkstock
In H1 2014, there were 48 transactions in the EMEA insurance sector, which compares to 50 deals announced in the same period of 2013. Despite a similar number of deals, deal value more than halved year-on-year. This can be partly attributed to the impact of several large one-off transactions in 2013, including the Dutch government’s bailout of SNS Reaal for €2.2bn and the Irish government’s sale of Irish Life to Great-West for €1.3bn. But it also indicates that buyers remain hesitant about making transformative acquisitions.

Despite 2014 being something of a mixed year so far, 2013 did see insurance M&A deliver the second highest level of activity by value of the last five years (see chart A), and over 80% of respondents expect 2014 to match or exceed it.

The cause of this optimism is threefold according to our research:

• New sources of capital entering the market
• Considerable consolidation opportunities
• Strong operational reasons for looking at acquisitions.

Capital influx

A major driver of transaction activity is new capital, about which respondents were overwhelmingly positive. Eighty-four per cent expect capital to enter the market over the next three years, with just 16% expecting capital outflows.

PE is expected to provide a large slice of this capital, with 82% of respondents rating PE as one of the top three sources of capital over the next 12 months and 42% rating it as the most important (see chart B, overleaf). The expectations over a three-year timeframe are even stronger, with 54% citing PE as the most important source of capital for acquisitions.

Respondents suggested that this was because the insurance sector is cash-generative and has the potential to offer good returns. “PE firms will continue to enter based on a strategy of steady profits and high returns,” suggests one director of finance.

Others also suggested that the industry has the potential to outperform other sectors of the economy. “Globally, I believe the insurance sector

A: Volume and value of EMEA insurance M&A 2005-2014
B: What do you see as the main sources of capital behind acquisitions in the insurance sector over the next 12 months?

![Bar chart showing the percentage of respondents for each source of capital.]

Most important | Second most important | Third most important
--- | --- | ---
Private equity | 42% | 26% | 14%
Existing capital/cash reserves | 24% | 18% | 19%
New equity issuance | 6% | 11% | 16%
Bond issuance | 8% | 9% | 8%
Sovereign wealth funds | 4% | 11% | 9%
Contingent loans | 2% | 3% | 6%
Hedge funds | 2% | 9% | 11%
Securitisation | 4% | 5% | 6%
Traditional reinsurance | 2% | 3% | 6%

has stronger growth features which are driving the attention of investors and PE firms," explains the head of finance at a UK-based P&C firm.

The positive expectations for PE activity are well founded: 2013 was a record year for PE-related M&A, with 23 deals surpassing the previous high of 15 seen in both 2005 and 2007. They were net buyers, too, with buyouts outnumbering exits 13 to 9 (see chart C).

It is not currently clear what kept PE-driven activity at low levels in the first half of 2014. But it is possible dealmakers are simply waiting for the right opportunity. “Things are likely to change by the end of this year as I feel the market will be in a better position next year and onwards,” suggested one director of strategy at a North American life insurance firm.

The growing role played by Sovereign Wealth Funds is also reflected in the survey, with 24% of respondents seeing sovereign wealth as one of the top three sources of capital for acquisitions in the insurance sector.

It is also notable that issuing new equity is rated as a more popular source of capital than issuing new bonds, with 33% of respondents choosing equity issuance as one of their top three sources compared to 25% for bond issuance. This represents a reversal of recent trends and could be attributed to Solvency II, which discourages firms from taking on additional leverage.

It is also interesting that the once common techniques of financial reinsurance and securitisation are now seen as the least popular sources of capital, suggesting that the flurry of securitisations seen in Spain and Portugal during 2013 was a short-term feature of the market, rather than the start of a new long-term trend.
Consolidation coming

One major shift from last year’s survey has been the type of M&A activity respondents are expecting over the next three years (see chart D, overleaf). There has been a considerable drop in the proportion of respondents expecting to acquire (69% to 42%), a big rise in intention to divest (20% to 62%) and a vast increase in the number of likely mergers (4% to 51%). The expected increase in sellers and expected decrease in potential buyers may shift the advantage away from sellers back to buyers, and could lead to downward pressure on divestment valuations.

“Despite the scope for synergy gains, limited capital will prevent many domestic rivals from acting as consolidators,” argues a CFO for an Israel-based P&C firm.

Fine-tuned operations

These broad strategic shifts toward consolidation and a focus on core activities aren’t the only driver for M&A activity. Operational issues – particularly around distribution channels and infrastructure – are also having a major influence according to our survey.

The move to digital distribution, in both life and P&C, is certainly a big consideration for potential acquirers. Twenty-six per cent of life insurance firms mark it out as the most attractive distribution channel for acquisitions, second behind bancassurance, while 41% – the highest percentage – of P&C firms rate it as the most attractive. “The insurance sector has to adopt creative and unique methods and digitise their distribution channels. This would be the most attractive factor for acquisitions and other expansion or merger projects,” explains a P&C firm CFO.

Taken together, these findings indicate that many EMEA-based firms are still focused on cost cutting and shoring up their capital position. Indeed, as one investment director noted: “...In Europe, tough market conditions and rising compliance costs are putting a premium on economies of scale. Non-core disposals by European banks and insurers will generate a stream of bolt-on targets for acquirers, but some general insurers will be prevented from making acquisitions by limited capital.”

These results also point to an industry keen to consolidate and focus. However, to some extent this will be dependent on how quickly the new capital expected to enter the sector is put to work.
D: Please indicate any M&A activity your company is planning

Percentage of respondents

Merger 51%
Divestment 62%
Acquisition 69%

This is symptomatic of a global move to make consumers more responsible for choosing their own financial products – for example, in the UK, the government is changing the legislation so that it is no longer mandatory to buy an annuity with a pension fund on retirement, giving consumers a vast array of new options for how to fund their later years. These kinds of changes mean that consumers need to be given access to channels that allow them to more easily compare competing products – as seen widely in car insurance – and makes businesses with the right platforms highly attractive to acquirers looking to side-step their own development costs.

Deal delayers

Despite these positives, the survey also highlighted reasons to avoid being overly optimistic. The low overall value of M&A deals done in the first half of this year suggests there might be some reluctance to execute on big-ticket acquisitions, and respondents revealed there were still a number of obstacles to conducting deals in the EMEA insurance sector.
E: What do you see as the main obstacles to acquisitions in the EMEA insurance sector? (Rank top three)

Percentage of respondents

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>Most important</th>
<th>Second most important</th>
<th>Third most important</th>
</tr>
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<tbody>
<tr>
<td>Volatile economic environment</td>
<td>20%</td>
<td>12%</td>
<td>16%</td>
</tr>
<tr>
<td>Regulatory uncertainty (for example, Solvency II, Basel III, other)</td>
<td>22%</td>
<td>17%</td>
<td>8%</td>
</tr>
<tr>
<td>Difficulty getting funding</td>
<td>11%</td>
<td>9%</td>
<td>20%</td>
</tr>
<tr>
<td>Concerns about capital adequacy</td>
<td>8%</td>
<td>19%</td>
<td>13%</td>
</tr>
<tr>
<td>More attractive opportunities in other regions</td>
<td>17%</td>
<td>11%</td>
<td>6%</td>
</tr>
<tr>
<td>Low valuations</td>
<td>6%</td>
<td>16%</td>
<td>9%</td>
</tr>
<tr>
<td>Increased deal complexity (due to use of indemnities, earn outs and so on)</td>
<td>4%</td>
<td>6%</td>
<td>10%</td>
</tr>
<tr>
<td>Price expectation gap between seller and buyer</td>
<td>3%</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Soft consumer demand</td>
<td>6%</td>
<td>9%</td>
<td>2%</td>
</tr>
</tbody>
</table>

In line with last year’s survey, the volatile economic environment was seen as the main obstacle to deals, with a quarter of respondents seeing it as the most important barrier and over half seeing it as one of the top three hurdles (see chart E).

Perhaps surprisingly, regulatory uncertainty was also rated as a pressing issue in the current edition of the research, with more than one in five respondents rating it as the most important obstacle to deals. This is despite improved clarification around new regulatory requirements such as Solvency II. While regulatory uncertainty has hindered activity in the past, it is likely to be less of an impediment going forward as much of the ambiguity around the implementation of new directives will have disappeared.

Some 17% of respondents rate the greater attractiveness of opportunities in other regions as the main impediment to M&A in EMEA, and given the rapid rate of growth of the insurance sector in many emerging markets this is a salient point. A US-based director of strategy notes: “Due to regulatory constraints, dealmaking remains stagnant. Many firms have shifted their focus and are going into other regions such as India, where the currency rate is more favourable and opportunities have been created in the financial sector as the economy grows and develops.”

However, perhaps one of the most revealing findings of the survey is the way that the price expectation gap has slipped in importance as an impediment to acquisitions. In 2013, it ranked second only to the volatile economic environment. This year, just 3% of respondents rated it the most important factor (the lowest proportion) and only soft consumer demand attracted fewer respondents across their top three obstacles.

One Scandinavian-based director of investment offers a succinct analysis of the overall picture for EMEA M&A: “The market conditions make it difficult to predict easy returns, which has increased demand for low risk investment strategies. Basel III’s higher leverage ratios, along with struggles to raise capital, are major concerns faced by many firms. There is a natural correlation between the stringency of capital adequacy requirements tomorrow and the returns on today’s investment: the higher the return on today’s investment, the higher is tomorrow’s equity in the absence of any recapitalisation.”
Section 2

The Logistics of M&A in the Insurance Sector

Getting Over the Line

Doing the deal is just the start. While smart execution allied to clear M&A rationale is important, the benefits from a deal will ultimately rest on the success of the integration and an ability to deliver the targeted synergies.
Far and wide

The sector has always looked broadly for potential targets. Over the past 10 years, the data shows almost half of deals in EMEA have been cross-border, and for the first half of 2014 that proportion is even higher (see chart F) at 56%. Regional and line-of-business consolidation plays are clearly a factor, but there is also a desire by many acquirers to gain exposure to growth markets. This is exemplified in the June acquisition by Belgian insurance company Ageas of a 49.5% stake in Portugal’s Médis and Ocidental Seguros. “Portugal is a market that we know well, and is characterised by still low penetration rates,” Ageas CEO Bart De Smet said at the time.

Despite a desire to look broadly across different markets, several respondents urge caution over the handling of cultural issues relating to business practices. As one UK-based strategy director explains, “Many attractive deals have been eliminated because of cultural differences and a lack of trust between both parties.” Indeed, cultural clash is not only an issue for cross-border transactions but can also be an issue for domestic deals. For example, when a ‘traditional’ insurer buys a firm in the digital vanguard the cultural challenges are likely to be very significant and would need to be actively measured and managed.

When choosing a target, those surveyed this year indicate a substantially lower required return on capital, at around 10%. By comparison, last year’s survey indicated an equivalent required return in excess of 15% (see chart G, overleaf). This result is perhaps unsurprising in the context of the expected increase in supply of capital to the market from PE and other sources. (Indeed the results from our deeper dive into the P&C legacy market this year indicate a seller’s market with companies paying close to 100% of net asset value). This does however appear to run counter to deal supply-demand findings of the survey, wherein respondents indicated an increase in those looking to sell and fall-off in those looking to buy plus a greater number of sellers than buyers (see Graph D, page 12).

Therefore, with this year’s survey showing that companies are more interested in divesting than acquiring, the pattern of supply and demand could be set to change again, potentially putting buyers back in the driving seat. However, a counter-balance is the new level of interest in insurance assets from outside the sector.

Time is on your side

Good planning and target identification are obviously critical to a deal’s success, as is negotiating the right price and terms. Responses from the survey suggest that insurance

F: Volume of EMEA insurance M&A 2005-2014
Dealmakers tend to assess their deals over the mid- to long-term, rather than judge them based on the integration phase. Fifty-three per cent of respondents said they would take between one and two years to assess whether a deal was a success, while 40% of respondents said they would take at least two years to judge their deal. This is positive – but it means that it can be challenging to separate out the contribution of the deal from other extraneous factors that may be influencing measures of success. That said, insurance integrations are often complex and lengthy procedures with success requiring measurement over a longer period of time. It is therefore important to establish success criteria and metrics in the deal planning stages and to accurately monitor these post completion.

As one strategy director in Germany puts it, when his firm reaches the evaluation stage, “we focus on the reason for the transaction and find ways to check if we were able to achieve the desired outcome. If yes, we will consider development; if not, we will look for improvement. If we are left with hardly any means of modification, we may sell the asset on.”

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**G: When valuing a company, what is your minimum return required on capital?**

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<tr>
<th>Percentage of respondents</th>
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<th>5</th>
<th>10</th>
<th>15</th>
<th>20</th>
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<td>6%</td>
<td>2%</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>7%</td>
<td>8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8%</td>
<td></td>
<td>16%</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>9%</td>
<td></td>
<td>17%</td>
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<tr>
<td>10%</td>
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<td></td>
<td>25%</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>11%</td>
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<td></td>
<td></td>
<td>19%</td>
<td></td>
<td></td>
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<tr>
<td>12%</td>
<td></td>
<td></td>
<td></td>
<td>10%</td>
<td></td>
<td></td>
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<tr>
<td>13%+</td>
<td></td>
<td></td>
<td></td>
<td>3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average 9.7%</strong></td>
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When we ask interviewees how they rated their most recent acquisition, the vast majority feel that it had met their expectations, with half of respondents saying that their last deal was “a complete success” (see chart H).

This is despite other data¹ showing that in general the market is, on average, not rewarding acquirers and that buyers struggle to deliver enhanced shareholder value. This suggests that either deals are not delivering value, or that dealmakers are failing to communicate this value to the market. Either way, the results suggest a need to focus more on the post-close implementation of deals to generate the additional value required to justify deal premiums. For more on what corporates would change about their next deal, see Survey Conclusion: Lessons Learned (page 30).

Challenges

The focus on performance against intention is echoed elsewhere in the study. When we asked respondents to rank their most important challenges when closing and integrating acquisitions, realising synergies came out top, with half of respondents viewing it as one of the top three challenges. This was followed by dealing with capital management issues and gaining regulatory approval, which were ranked among the three most important challenges by 46% and 45% respectively (see chart I, overleaf).

Looking at the respondents who were less effusive about their most recent deal (who awarded it three out of five or lower), it is clear that planning around these three issues is a must.

One head of finance in Africa is clear on the need to consider regulatory hurdles before deal completion: “The overall process became time-consuming. We had not considered the regulatory mandates at the right time, so there was chaos and confusion during the transaction.”

Other respondents comment on capital management issues. An Austria-based head of finance observes: “These issues mostly arise after the transaction; we have found that pre-planning of the finances by accurately measuring the expenses and the profits is the best strategy.”

Interestingly, “retaining customers” is last on the list of challenges. Whilst insurance customers tend to be loyal, particularly on the life side, we have seen an increasing focus under the in-force management initiatives around customer retention for additional value creation. We therefore question whether customer retention is receiving enough attention during the insurance deal

¹ Analysis of major acquisitions completed by stock market-listed insurance companies around the world between January 2008 and December 2013. Study based on Towers Watson Quarterly Deal Analysis compiled in partnership with Cass Business School.
I: What do you see as the main challenges when closing and/or integrating acquisitions in the insurance sector? (Rank top three)

Percentage of respondents

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Most important</th>
<th>Second most important</th>
<th>Third most important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Realising expected financial synergies</td>
<td>19%</td>
<td>18%</td>
<td>13%</td>
</tr>
<tr>
<td>Dealing with capital management issues</td>
<td>11%</td>
<td>22%</td>
<td>9%</td>
</tr>
<tr>
<td>Gaining regulatory approval</td>
<td>15%</td>
<td>9%</td>
<td>11%</td>
</tr>
<tr>
<td>Dealing with cultural and organisational differences</td>
<td>10%</td>
<td>11%</td>
<td>15%</td>
</tr>
<tr>
<td>Negotiating terms that are acceptable to both parties</td>
<td>7%</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Retaining employees</td>
<td>11%</td>
<td>9%</td>
<td>11%</td>
</tr>
<tr>
<td>Integrating IT systems and internal processes</td>
<td>11%</td>
<td>9%</td>
<td>11%</td>
</tr>
<tr>
<td>Retaining customers</td>
<td>6%</td>
<td>6%</td>
<td>12%</td>
</tr>
</tbody>
</table>

implementation stage, and suggest that it may need a more prominent role commensurate to that observed in other industries.

Retaining employees also falls outside the top three challenges for most deal-doers. But we do hear notes of caution in comments from some respondents, such as this senior VP in Malaysia:

“Retaining customers and employees during integration is a key challenge that also directly affects the success of the acquisition. So we make it a point to understand and take care of customers’ and employees’ sentiments, so that they are not negatively surprised.”
Life Lessons

Digital distribution is starting to gain traction, but bancassurance remains a more popular M&A driver. Regulatory constraints remain an issue, although respondents expect tax advantages for life insurers to increase. And keen interest from PE, a resilient mutual sector and consolidation opportunities should underpin deal activity.
Class acts

In the life space, respondents picked protection as the product class they are most likely to prioritise in an acquisition, with 56% marking it as one of their top two choices. On the divestment side, 57% selected participating/guaranteed savings as one of their top two options, although 35% – the highest percentage – prioritised divesting protection assets above all others. Of the four key areas, retirement income is the least attractive for buyers, while unit-linked savings is the area least likely to be prioritised for disposal (see charts J and K).

However, the overall picture for how product classes are prioritised is mixed. This reflects current market conditions, in which a range of different buyers are looking for different kinds of exposure and demonstrates that long-term strategic factors are currently driving M&A rather than a rush to certain sectors or areas.

A significant number of respondents identified capital requirements as a key influence on their chosen rankings, highlighting that the anticipated entry of new capital is likely to be welcomed. Profitability and regulatory frameworks of the classes were also key considerations.

Distribution drivers

A push for consumers to take more responsibility for their own financial affairs is spurring a move into online distribution, through channels where consumers can easily compare providers. “Better outcomes can be achieved through digital distribution as it’s the channel in demand by customers,” explains a director of strategy from North America. “It allows the targeting of different types of people from different locations without being physically present.”

While a quarter of this year’s respondents agree that digital is the most attractive channel for acquisitions, 43% identified bancassurance as their number one draw (see chart L). A US CFO told us: “Bancassurance is attractive because it does well in European countries and offers flexibility, as many customers consider banks a trustworthy source.”

Both avenues offer different approaches in an increasingly multi-channel world. Bancassurance can be seen as a defensive move to protect the status quo while digital distribution is a pro-active move into new ways of distributing products.
More than two-thirds of respondents see potential for an increase in consolidation activity of closed book assets in Europe. “The increased level of demand is encouraging a number of companies to explore whether a closed book sale could be attractive,” says one US finance director. “As companies move ahead with this process there will be many firms keen to do deals and consolidation activities could rise.”

But deals tapping into these areas face a range of hurdles. At 35%, regulation was most frequently cited as the key challenge among these hurdles. Some respondents also cite it as a reason more deals of this type had yet to emerge. A managing director in Singapore explains: “There seems to be a lot of scope and many are attracted to the idea of consolidation, but I feel few will be successful due to regulatory demands.” That said, the recent acquisition of Heidelberger Leben by Cinven suggests that these perceived regulatory barriers can be overcome.
Of course, the volatile economic environment remains a factor, with 31% pointing to this as a challenge. Meanwhile, funding (13%) and price (20%) are less commonly cited challenges, although several respondents did highlight the dangers of being drawn into deals simply because market conditions are favourable and funding is generally available.

PE is again expected to be the most active player in this market, with 70% of respondents anticipating PE buyers to be one of the top three drivers of consolidation activity. Next on the list come multinationals from within EMEA (69%) and large mutuals (53%) (see chart M). Multinationals from outside of EMEA were seen as one of the most important engines of consolidation by only 34% of respondents.

One VP of finance from China hinted at a reason for that reluctance to play in Europe: “Regulations have put restrictions on capital and business functionality, reducing the possibility of easy funding for deals for many aspiring firms. Providers expect too many details on fund allocation.” Or, as another respondent put it, operating in multiple countries means they would be “continuously under vigilance”.

In comes tax

Life insurers have traditionally relied on tax advantages and the ability to offer long-term investment guarantees to provide a competitive advantage over alternative savings services. Unexpectedly, 69% of respondents expect that these advantages will increase – with only 7% predicting a decrease.

Respondents felt that, like their own attitude to M&A, a long-term focus by investors will consolidate their competitive advantage. “As tax pressures increase for market investors,” says one head of strategy at a Greece-based life insurance firm, “they will opt to take up insurance to benefit from tax advantages. Given the current market, most will be looking at long-term investment guarantees.”

There is also optimism around the future of the mutual model, with 60% of respondents saying they think that the mutual model will continue long-term – despite pressure exerted from the decline in sales. Some 37% expect the current environment to drive consolidation among mutuals – but only 3% think that the environment will push mutuals to become privately owned (see chart N). The variation in responses by region is also insightful, suggesting
**N: The decline in sales of participating business is putting pressure on the mutual model for insurance companies. What do you see as the long-term future for the mutuals model?**

<table>
<thead>
<tr>
<th>Location</th>
<th>Mutual model will continue long-term</th>
<th>Consolidation amongst mutuals</th>
<th>Decline of mutual model to continue with move to privately owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia Pacific</td>
<td>33%</td>
<td>67%</td>
<td>0%</td>
</tr>
<tr>
<td>MEA</td>
<td>21%</td>
<td>79%</td>
<td>0%</td>
</tr>
<tr>
<td>Americas</td>
<td>5%</td>
<td>54%</td>
<td>0%</td>
</tr>
<tr>
<td>Western Europe</td>
<td>41%</td>
<td>53%</td>
<td>0%</td>
</tr>
<tr>
<td>CEE</td>
<td>20%</td>
<td>80%</td>
<td>0%</td>
</tr>
<tr>
<td>Overall</td>
<td>37%</td>
<td>60%</td>
<td>3%</td>
</tr>
</tbody>
</table>

There is a difference in the perceived challenges of the mutual sector by region. Whilst firm conclusions are difficult to draw from this result, we would suggest that this is a space to watch over the coming years.

**In-force value optimisation**

Improving the performance of in-force portfolios has been a topic of debate in the life industry for some time. Last year, Andrew Harley and Ian Farr covered the subject in an article for Towers Watson’s Emphasis. They wrote:

“In-force portfolio... margins are now under pressure, particularly as a result of the retention and return implications of low interest rates. However, because of the scale of insurers’ in-force portfolios, a relatively small incremental improvement in in-force performance can significantly impact bottom-line earnings and the value of the business as a whole.”

That, of course, means the choice of optimisation strategy will be a factor in selecting and valuing portfolios for M&A deals. So we asked which areas of in-force value optimisation buyers and sellers consider important – and respondents weigh strongly towards balance sheet optimisation and investment strategy (see chart O, overleaf). Thirty-six per cent chose balance sheet efficiency as their most important consideration, while investment strategy optimisation was chosen as the most important by more than one-fifth (21%).

This view is perfectly summarised by a CFO in the UK who told us: “Buyers will try to analyse the investment strategy and work out if it will meet their expectations. With the current market facing ups and downs, buyers and sellers will expect effective distribution management and would prefer balance sheet efficiency when it comes to in-force value optimisation.”
0: Which areas of in-force value optimisation do you think buyers and sellers consider most? 
(Rank top three)

Percentage of respondents

<table>
<thead>
<tr>
<th>Area</th>
<th>Most important</th>
<th>Second most important</th>
<th>Third most important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance sheet efficiency</td>
<td>10%</td>
<td>23%</td>
<td>36%</td>
</tr>
<tr>
<td>Investment strategy optimisation</td>
<td>16%</td>
<td>28%</td>
<td>21%</td>
</tr>
<tr>
<td>Cost management</td>
<td>28%</td>
<td>13%</td>
<td>10%</td>
</tr>
<tr>
<td>Risk retention, mitigation and transfer</td>
<td>17%</td>
<td>17%</td>
<td>13%</td>
</tr>
<tr>
<td>Customer/distribution management</td>
<td>19%</td>
<td>17%</td>
<td>5%</td>
</tr>
<tr>
<td>Liability management</td>
<td>10%</td>
<td>7%</td>
<td>11%</td>
</tr>
</tbody>
</table>

This also, perhaps, suggests that other sources of value are somewhat neglected and could be given more attention – albeit acknowledging that some, such as fairness in liability management and customer/distribution management, may be more challenging to optimise.

It also highlights the importance of strong and transparent analytics – but, as one Asia-Pacific-based respondent pointed out, in many M&A situations, all these factors are important: “Buyers and sellers will surely look at the future gains and possible risks of any business and why a firm would be willing to sell,” they said. “There can be many reasons such as a lack of analytical knowledge or stagnant development. The balance sheet of a business will help one determine over-utilisation and under-utilisation so that a balance can be achieved. Both parties should also give importance to customer management.”
It’s a seller’s market in legacy P&C M&A. But smart buyers see consolidation opportunities and access to innovative technology as acceptable ways to offset high prices and limited market upside.
Legacy business

The average Net Asset Value (NAV) that survey respondents would pay for legacy acquisitions is around 100% – with, in fact, well over a third of respondents indicating that 100% NAV is their preferred figure for pricing legacy only deals.

This is effectively paying above value and suggests that there is a strong seller’s market and active demand for run-off entities. However, buyers are still not keen to buy long-tailed uncertain business – in particular, UK deafness, US APH and Asbestos (see chart P). When asked which liability types would be an acceptable part of a portfolio of risks, there was near-universal acceptance of mortgage indemnity/creditor construction (86%) and casualty business on an occurrence basis (83%) – after which, respondents as a whole became pickier.

A vast majority (87%) of respondents felt regulators understood and were supportive of legacy business transactions. This may suggest that, unlike the life sector, any lack of M&A momentum in this area should be attributed to other factors. Despite the low importance afforded to price differentials by respondents identifying obstacles to deals, it might be inferred that the high NAV in P&C markets makes pricing a factor in causing lower completion levels.

Personal lines

Lack of economic growth is still seen as a key difficulty in Europe and the major threat to personal lines. For example, in personal motor insurance a quarter of respondents cited this as the industry’s greatest threat – a far bigger factor than regulatory issues or competitive pressure (see chart Q).

On top of a lack of growth, a further 16% said that the entrance of motor makers into the insurance space is the major risk. As one US-based director of strategy says, “The entrance of manufacturers is a serious threat because demand is already slack and now customers’ attention is being diverted towards them.”

A common response to these threats has been to drive down operating costs through system transformation programmes. One CFO in Ireland told us: “It is critical that insurers reduce losses and leakage to retain profitability. For example, using advanced tools to analyse data and identify false claims in real time.”

P: Which of the following liability types would you consider accepting as part of portfolio of risks? (Select as many as appropriate)

<table>
<thead>
<tr>
<th>Liability Type</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage Indemnity/Creditor Construction</td>
<td>86%</td>
</tr>
<tr>
<td>Casualty business on an occurrence basis</td>
<td>83%</td>
</tr>
<tr>
<td>Defect/Decennial Liability</td>
<td>45%</td>
</tr>
<tr>
<td>Unearned exposures (that is, exposures still on risk)</td>
<td>39%</td>
</tr>
<tr>
<td>Motor Third Party Liability (MTPL)</td>
<td>33%</td>
</tr>
<tr>
<td>Life insurance</td>
<td>25%</td>
</tr>
<tr>
<td>Asbestos – reinsurance and retro</td>
<td>20%</td>
</tr>
<tr>
<td>UK Asbestos – direct via EL or PL UK</td>
<td>17%</td>
</tr>
<tr>
<td>US APH</td>
<td>12%</td>
</tr>
<tr>
<td>UK NIHL (deafness)</td>
<td>4%</td>
</tr>
</tbody>
</table>
Q: What is the greatest threat to personal motor insurance?

Percentage of respondents

- Lack of economic growth: 25%
- Increased competition via aggregator/price comparison sites: 17%
- Entrance of motor manufacturers into the insurance space: 16%
- Propensity to claim and other ‘soft’ fraud: 15%
- Regulatory pressure on ancillary income: 11%
- Increase in claim frequency as the economy emerges from the recession: 11%
- ‘Driverless cars’ and/or other technological advances: 5%

R: What is the most likely to drive the valuation of future personal lines transactions?

Percentage of respondents

- The target’s market share: 28%
- Modern technology platforms: 28%
- Cost base of the target: 18%
- Analytics capability: 11%
- Unique distributional arrangements: 10%
- Data assets: 5%
And more could be done to drive profitability through consolidation via M&A; unsurprisingly, market share is seen as a key driver of M&A in personal lines. But equally important is modern technology platforms (see chart R, page 27). In other words, efficient, profitable businesses that offer clear strategic rationale to would-be buyers and upside on revenues are always going to be attractive for M&A.

These points were neatly summarised by a director of strategy in the Netherlands: “The cost base of the target will always be considered in personal lines transactions. If the company has performed well in the past and is currently not doing so well, an acquisition could increase the possibilities of upside in the long-term. Modern technology platforms will also drive transactions but the most important factor will always be the target’s market share.”

Towers Watson’s 2014 UK Motor Market report considers some of the challenges associated with innovative behaviour and, interestingly, from the evidence gathered during the survey it appears that companies are increasingly looking at “reverse integration”, whereby a large player buys a smaller, nimble player with the systems capabilities to run a profitable personal lines insurer and cannibalise their systems.

Back office systems are one thing – but buyers are also on the lookout for targets that have addressed internet-based client recruitment and retention. Digital distribution is rated as the most attractive channel for acquisitions (by 41% of respondents), above bancassurance, which is still seen as the right option by around a quarter (see chart S). Note that this is the inverse of life, where bancassurance was rated as more attractive.

Of course, the technology needs to be robust and there are a host of other issues that acquirers have to consider when making a play for a target with strong digital distribution. And several respondents also expressed their appreciation for third-party channels in personal lines, such as this Australian head of strategy: “Independent agencies that already have the client database and connections would be attractive for acquisitions as their market knowledge and expertise can prove fruitful.”

S: In our previous survey, access to new distribution capability was identified as a key driver for acquisitions. Which distribution channel do you think is most attractive for acquisitions?

Percentage of respondents

<table>
<thead>
<tr>
<th>Distribution Channel</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital distribution</td>
<td>41%</td>
</tr>
<tr>
<td>Bancassurance</td>
<td>27%</td>
</tr>
<tr>
<td>Independent/tied agency</td>
<td>17%</td>
</tr>
<tr>
<td>Direct sales force</td>
<td>15%</td>
</tr>
</tbody>
</table>
**Lloyd’s Spotlight: London Calling**

Lloyd’s remains the gravitational centre of the insurance system, a position further endorsed by the entry of Asian insurers. Middle East competition is emerging – but security, trust and market access remain compelling reasons for doing business in London.

Lloyd’s of London is having a good year. New entrants, strong capitalisation and falling cross-cycle earnings volatility are all contributing to its robust position, which was recently endorsed by an upgrade by ratings agency Fitch.

“The Lloyd’s market has a great credit rating,” explained one director of investment in China. “They offer much better fund growth along with performance.” Indeed, the principal attraction of the Lloyd’s market is seen as its credit rating and security followed by access to a centralised marketplace (see chart T).

It also continues to exert gravitational pull across the world, and in general respondents to our survey view the entry of Asian insurance companies into the Lloyd’s market as positive, by 76% to 24%. While this means that there is more competition within the market, it also indicates that there is a less compelling case for alternative exchanges.

The benefits for both the market and for the new entrants were summed up by a director of finance and investment based in Singapore: “Asian insurance companies have been doing well – and could do even better with a little more guidance and underwriting managed by Lloyd’s. This will help them to adapt and facilitate growth which is a plus point for the Lloyd’s market overall.”

Respondents from the Middle East were the least positive, perhaps due to the possible threat that this trend has on the future establishment of a competing exchange in Dubai.

And there are other variations of opinion based on the region of the respondent, with those from the Americas attracted by Lloyd’s ability to pay claims (which feeds into the scores for credit rating and security) and those from the Middle East and Africa attracted to the access to worldwide licences.

So how are those new entrants looking to access Lloyd’s? This was tighter: 60% of respondents think that acquiring a syndicate is easier than setting up a syndicate, although a significant minority (40%) think that entering as a start-up is the better option.

A UK-based head of investment offered this neat rationale for the M&A route: “Acquiring a syndicate is often an easier method to gain access to the marketplace. This is especially the case for foreign firms as they are less burdened with the regulatory norms and their capital requirement – or, let’s say, expenditure – is lower in comparison to a start-up.”

The counterview? It’s all about control, said a director of finance and strategy in the US: “We would prefer a start-up to avoid the possible loss of operational decision-making independence.”

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**T: In your opinion, what is the principle attraction of a Lloyd’s syndicate or domicile?**

<table>
<thead>
<tr>
<th>Percentage of respondents</th>
<th>0</th>
<th>5</th>
<th>10</th>
<th>15</th>
<th>20</th>
<th>25</th>
<th>30</th>
<th>35</th>
<th>40</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lloyd’s credit rating and security</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>37%</td>
</tr>
<tr>
<td>Access to a centralised marketplace</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>36%</td>
</tr>
<tr>
<td>Worldwide licences</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>18%</td>
</tr>
<tr>
<td>Flexible capital arrangement (that is, letters of credit)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8%</td>
</tr>
<tr>
<td>International growth and diversification</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>1%</td>
</tr>
</tbody>
</table>
The insurance industry in EMEA has weathered the storms created by a mix of low interest rates, increasingly onerous regulations and a general economic malaise. It now looks like finally, after an uncertain period post-crisis, the sector is set to reap the benefits of staying resilient.

To fully realise the potential to be gained, insurance companies need to ensure they maximise the opportunities presented to them and minimise the risks.

Here are key steps they can take to ensure this is the case:

- Greater global economic stability, new capital entering the market and increased certainty around regulations means that there is expected to be an increase in M&A activity. Insurers need to be ready for this round of consolidation, with a clear view of the role that acquisitions and divestments will play in optimising their current business.

- Companies should not take customer loyalty for granted as changes to the industry are creating more active and responsible consumers. While bancassurance is still the most popular distribution channel overall, insurers need to be ready to invest in their digital distribution platform, including through acquisitions when necessary. Companies that can offer an existing digital distribution platform are likely to sell for a premium.

- More companies are now planning to dispose of non-core assets. Insurers must ensure that they make these assets as attractive as possible for potential buyers. In particular, assets need to appeal to PE buyers to ensure that the abundance of capital entering the market from this source flows in their direction.

- It is important to establish and communicate success factors and how these will translate into shareholder value. External and internal stakeholders need a clear understanding of the longer-term strategic fit of a target and the drivers that will underpin the value realised by a deal. That is not to say this isn’t happening today, but there is clearly an opportunity to improve the link between stated success criteria for a deal and how this is reflected in shareholder value in the longer term.
Overview

After a volatile few years for M&A in the global insurance sector following the financial crisis, so far in 2014 the picture looks more encouraging. The resurgence of activity in North America and continued stability in EMEA has meant that volumes for the first half of the year are up by 9%, while the value of deals is up by 17% in comparison with H1 2013.

These figures coincide with an improved economic outlook for the US and Europe, as well as more certainty around the direction of future regulatory demands. Together these trends should bring stability to the market and create an improved landscape for dealmaking. When combined with the expected influx of capital entering the market, this could pave the way for a new period of sustained global consolidation.

This is good news for a sector which had previously been faced with greater uncertainty. The swings in activity post-2008 pointed to a substantial variation in deal flow across different geographies, discounting a batch of crisis-induced M&A in 2010, such as AIG’s €36bn bailout by the US government. This sentiment was underpinned by concerns around depressed premiums, changing regulations and low interest rates.

Individually, these factors can be seen as a spur to potential activity, with depressed premiums hurting margins and pushing firms to seek profitable growth through acquisitions, low interest rates making financing for acquisitions less expensive and changing regulatory demands pushing firms to divest to shore up their capital position. However, the combined effect of the different influences has been to create uncertainty, including with respect to valuations. This means that many companies have chosen to wait and see how the market develops while focusing on cost cutting and investing in their existing operations.

This led to sporadic flurries of regional activity but limited signs of a return to the sustained global consolidation seen pre-crisis. In 2013 this continued, with robust dealmaking in the EMEA region not enough to offset lulls in both North America and Asia. Deal volumes for the year fell 11%, with a total of 188 deals compared to 212 in 2012. Meanwhile the total value of M&A more than halved, falling from €59.8bn in 2012 to €27.3bn in 2013.

North America returns

In 2013 dealmakers in North America sat somewhat on the sidelines – while the number of deals was comparable to prior years, deal sizes were relatively small. However, this has changed in 2014, with a sharp pick up in aggregate deal value across the region. Insurance deals with a North American target were worth €10bn during the first half of the year, with the region accounting for 58% of all announced activity.

In the US P&C sector a lot of activity has been concentrated on workers’ compensation and specialty lines. This is expected to continue and, along with a steady supply of distressed transactions, is likely to continue to fuel small-to-midsize deals.
There have also been an increasing number of first-time US entrants looking for new opportunities, including continued interest from Asian investors exploring entry into the US market. The largest deal of 2014 so far saw Japan’s Dai-ichi Life agree to acquire US-based Protective Life for €4.2bn, a transaction which gives the Japanese firm significant exposure to the US and underlines a renewed confidence in this market. This can also be seen as part of a round of global consolidation. For instance, in the previous year, Protective Life itself acquired domestic competitor MONY Life in one of the top five global deals. With limited opportunities for expansion in the saturated Japanese market, Dai-ichi has said that it expects to use the acquisition as a springboard into the faster growing US market.

The second largest North American deal saw the management of Wilton Re Holdings agree to acquire the company in a management buyout, backed by the Canada Pension Plan Investment Board (CPPIB). CPPIB, a state-owned pension fund sponsor and PE firm, said that it sees Wilton Re as an ideal platform to “deploy significant follow-on capital at scale in the US life insurance sector”, and that closed-block life insurance represents an “asset class with attractive risk-adjusted returns” well-suited to its long-term investment horizons.

The movement of run-off operators into live businesses is a notable development and is a potential M&A game changer that brings new, aggressive entrants into the market and provides robust competition for existing targets as well as multiple ways to deal with liabilities of the target firm.

In Bermuda, deal activity was muted during the first half of 2014, contributing much less to North America’s M&A figures than in previous years. The most notable development was the €2.4bn attempted hostile takeover of Aspen Insurance Holdings by Endurance Specialty Holdings. First announced in June 2014, a successful deal would have continued a trend for consolidation within the island’s reinsurers. However, the offer was terminated at the end of July after Aspen adopted a one-year shareholder rights plan, which Endurance described as a ‘poison pill’ defence.

Despite this particular deal breaking down, consolidation among the region’s large insurers is well established, as firms seek out economies of scale in a sector with limited strategic differentiation. This rare attempt at a hostile takeover could be a precursor to more aggressive consolidation efforts in the future.
Latin beats

M&A in Latin America proved resilient during the subdued market of 2013, accounting for 8% of all announced activity by value. The region’s insurance sector is one of the world’s fastest growing, for two key reasons. First, it is attracting increased attention from global acquirers looking to provide insurance products to a growing base of middle-income consumers. This is reflected in two notable deals in the first half of 2014, with US PE firm Bain Capital agreeing to acquire Brazilian health insurer Intermédica Saúde for €624m and reinsurance specialist Swiss Re agreeing to acquire a 51% stake in Colombia’s Compañía Aseguradora de Fianzas. The latter deal fits with Swiss Re’s stated strategy of broadening its product portfolio and expanding its business across Latin America. This follows the similarly growth motivated 2012 additions by ACE to its Mexico portfolio of the personal lines provider ABA Seguros for €660m and surety provider Fianzas Monterrey for €227m and the 2013 acquisition by AXA of a 51% stake in Colombia’s Colpatria Seguros for €259m.

A second key driver of activity in the region has been a move for financial conglomerates to add insurance operations to their portfolio through acquisitions. Mexico’s Grupo Financiero Banorte, for instance, agreed to buy out Generali’s 49% stake in the local JV between the insurers for €643m. Chile’s LarrainVial agreed to acquire local health insurer Colmena Golden Cross, from a group of private investors for €383m. This trend again highlights the attractiveness of the region’s fast-growing insurance sector, and should act as a spur to growth with more consumers able to access insurance products via the bancassurance distribution model.

Meanwhile, ACE’s agreement to buy Itaú Unibanco’s corporate property and marine insurance business for €506m (expected to complete in 2015) may signal a more nuanced disposal strategy by the region’s insurance property owners. Itaú, Latin America’s largest bank by market value, decided to sell the unit because it is focusing on selling insurance to retail-banking customers. The high-risk and capital intensive nature of the portfolio also makes it less attractive to a bank owner, with government sources forecasting that underwriting in the high-risk and reinsurance segments will outpace the country’s growth in the near term. This may signal an emerging trend for the disposal of high-risk and capital intensive portfolios.
A tale of two Asias

Continuing ambitions to secure or grow a footprint in the fast-growing Asian region has led to an active M&A market over recent years. However, a slowdown in some key markets (notably India) together with the lack of quality assets for sale has reduced the volume of completed deals, with deals in 2013 worth a total of €5.9bn, compared with €17.7bn in 2012 (although the 2012 figure was inflated by the €7.2bn sale by HSBC of its 15% share in Ping An to the Charoen Pokphand Group).

One common trend is the increasing participation of Japanese insurers in regional M&A activity, with an eagerness to diversify from their mature domestic market being the driving force behind dealmaking (though, as we noted above in our North America commentary, the diversification strategy has not been limited to the region as evidenced by Dai-ichi Life’s acquisition of US-based Protective Life).

Indonesia has been the focus of much of this recent activity in Asia with a flurry of deals focused on the acquisition of minority stakes in Indonesian insurers (over 90% by value of M&A in Indonesia since 2010 has been by Japanese insurers). In May 2014, Japan’s Nippon Life agreed to acquire a 20% stake in Asuransi Jiwa Sequis Life for a consideration of €313m. This came after Japan’s Sumitomo Life agreed in December 2013 to acquire a 40% stake in Indonesia’s BNI Life for a consideration of €265m, while in June 2013 Japan’s Dai-ichi Life agreed to acquire a 40% stake in Panin Life for a consideration of €259m. This followed Mitsui Sumitomo’s acquisition of a 50% stake in Asuransi Jiwa Sinarmas for €558m in 2011 and Meiji Yasuda’s phased buy into Avrist between 2010 and 2014.

Thailand is also a market that has interested many buyers, though completed transactions have been hampered by an insufficient supply of willing sellers. Completed deals have averaged just a deal a year over the period 2010 to 2014 and the most notable deals over this period have been the 2014 acquisition by Meiji Yasuda of a 15% stake in Thai Life for €538m and the 2013 acquisition of Thanachart Life by the UK’s Prudential.

Bancassurance distribution agreements (rather than outright company/portfolio sale plus distribution agreement) have also been prominent during the latter part of 2013 and into 2014 with the AIA-Citigroup and Prudential-Standard Chartered tie-ups being the most notable examples in recent months.
At Towers Watson we know and understand our clients’ need to identify, evaluate and execute M&A and other corporate transactions quickly, effectively and rigorously. We know that your strategic and financial objectives need to be clearly defined, understood and met at every stage of the process.

Our expertise spans the complete deal cycle

1. Before the deal
   Strategy and planning
   - Strategy formulation and international/regional market understanding
   - Initial assessment and review of alternative options
   - Robust and documented windshield appraisals of potential targets
   - Managing stakeholders
   - Team and process organisation/education

2. During the deal
   Due diligence
   - Financial and risk due diligence
   - Investment/ALM due diligence
   - Distribution and strategic due diligence
   - Reserve adequacy and claims
   - Pricing and underwriting capability
   - Capital management and modelling
   - Operational efficiency
   - Transaction structuring
   - Negotiation support

3. After the deal
   Implementation
   - Regulatory support
   - Integration planning
   - Post-merger integration/execution
   - Financial modeling
   - Distribution
   - Restructuring
   - Underwriting strategy
   - Deal debrief – what went well?
   - Post deal evaluation
   - Purchase accounting

Our expertise is deep and truly global

We have advised on M&A assignments (both buy-side and sell-side) in over 50 countries – some of these include:

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<th>Argentina</th>
<th>Australia</th>
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About Mergermarket

Mergermarket is an unparalleled, independent mergers & acquisitions (M&A) proprietary intelligence tool. Unlike any other service of its kind, Mergermarket provides a complete overview of the M&A market by offering both a forward-looking intelligence database and a historical deals database, achieving real revenues for Mergermarket clients.

For more information, please visit www.mergermarket.com

About Towers Watson

Towers Watson is a leading global professional services company that helps organisations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management.