THE GENEVA ASSOCIATION

View from Outside: What is the Logic Behind Consolidation?

Does it Create Value?

Brian Shea, Head of Europe, Willis Capital Markets & Advisory

11th Symposium on Insurance Strategies

Consolidation in Insurance: What is it about?

6 November 2015, London

Geneva Association Symposium, 6 November 2015

VIEW FROM OUTSIDE:
WHAT IS THE LOGIC BEHIND CONSOLIDATION?
DOES IT CREATE VALUE?

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Willis
Capital Markets & Advisory

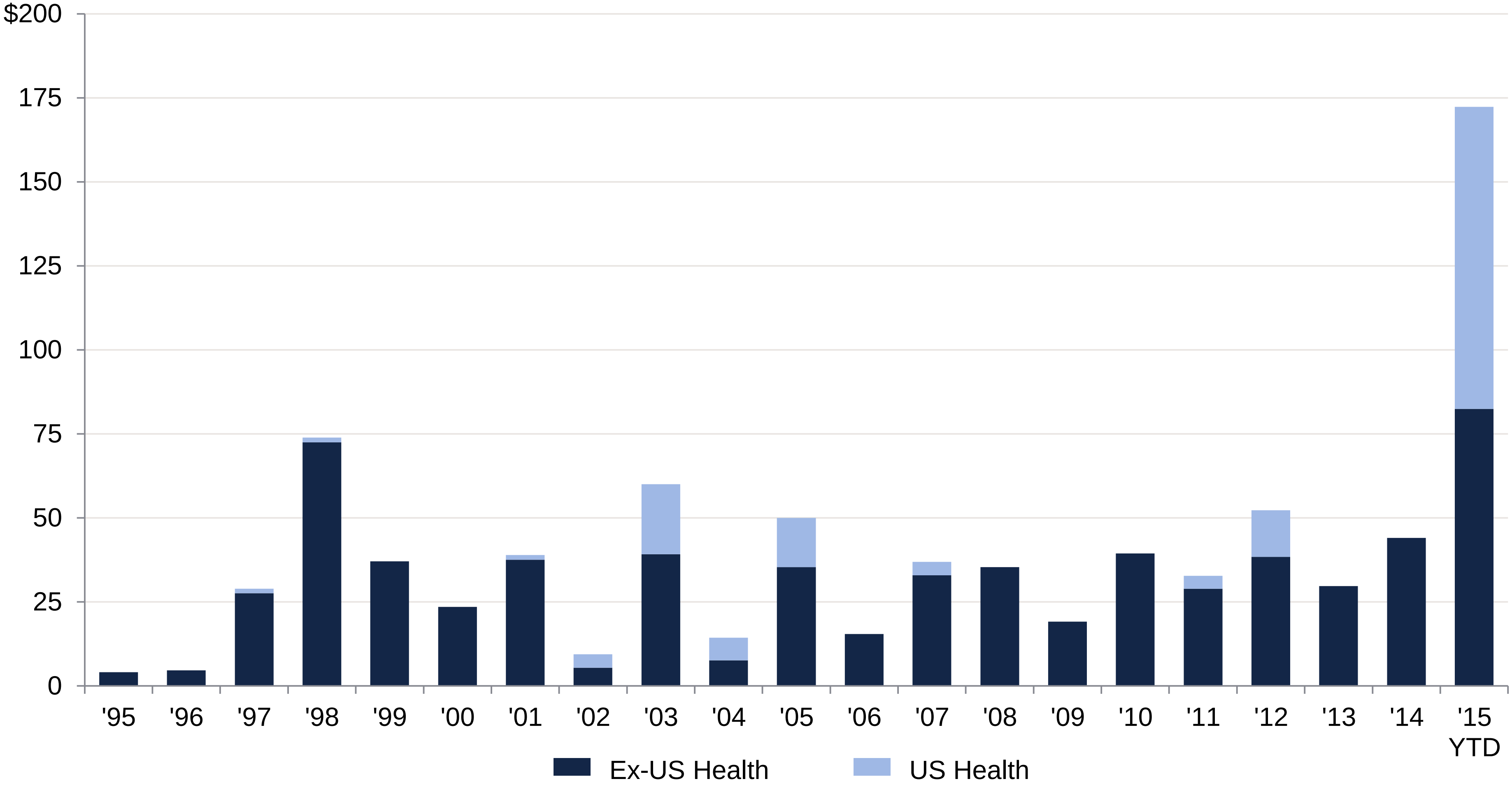
The Insurance Industry Experts
New York | London | Hong Kong | Sydney

SUMMARY

1. What has been happening?
2. Drivers – Past, Present and Future
3. Does this activity create value?
4. Conclusions

2015 ALREADY A RECORD YEAR, EVEN EXCLUDING THE LARGE US HEALTH DEALS

Global insurance M&A activity (USD b)



Source: SNL Financial and WCMA Estimates.

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HISTORIC M&A DRIVERS – THE USUAL SUSPECTS

- **Expand product portfolio**
- **Geographical expansion**
- **Add distribution channels**
- **Scale**
  - *Cost-cutting*
  - *Capital savings*
  - *Diversification*
  - *Better offering through bigger offering*
- **Value chain adjacency**
  - *e.g. insurer buying asset manager*
  - *e.g. bank buying insurer*
- **Outside money**
  - *Private equity*
  - *Run-off specialists*
- **Management egos**

TODAY'S DRIVERS ARE SLIGHTLY DIFFERENT

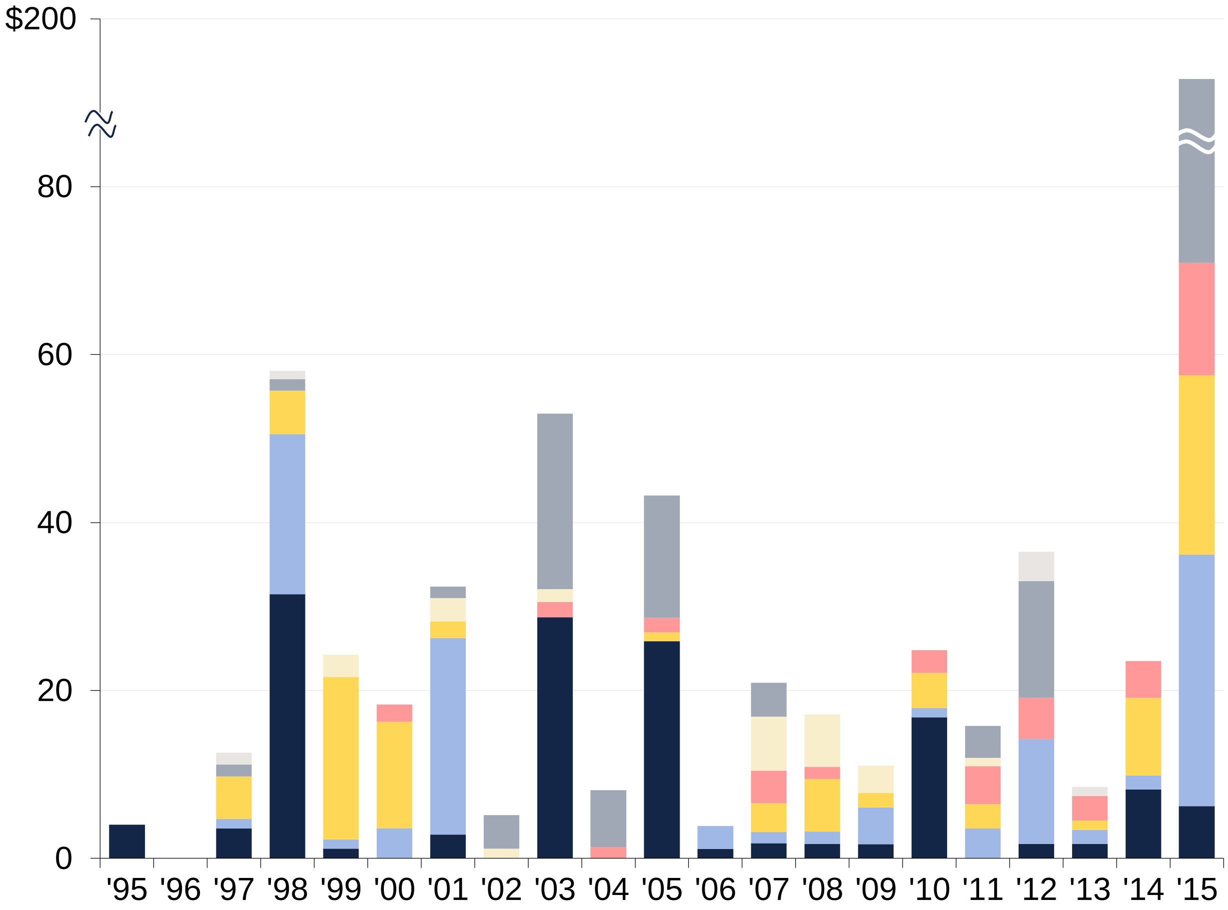
Some of the historic drivers have particular relevance today; cyclical drivers too

- **Greater impetus for scale**
  - *Solvency 2 raises fixed costs*
  - *Solvency 2 gives explicit credit for diversification*
  - *Tiering of reinsurance sector*
  - *Low interest rates drive greater need for cost efficiency*
- **Value chain adjacency**
  - *Has moved on to traditional capital / alternative capital*
- **Softening P&C market, growth harder to find**
- **A way to invest excess capital**
- **New money is attracted to the sector**
  - *e.g. a way to generate float*
  - *And/or a lower perceived cost of capital*

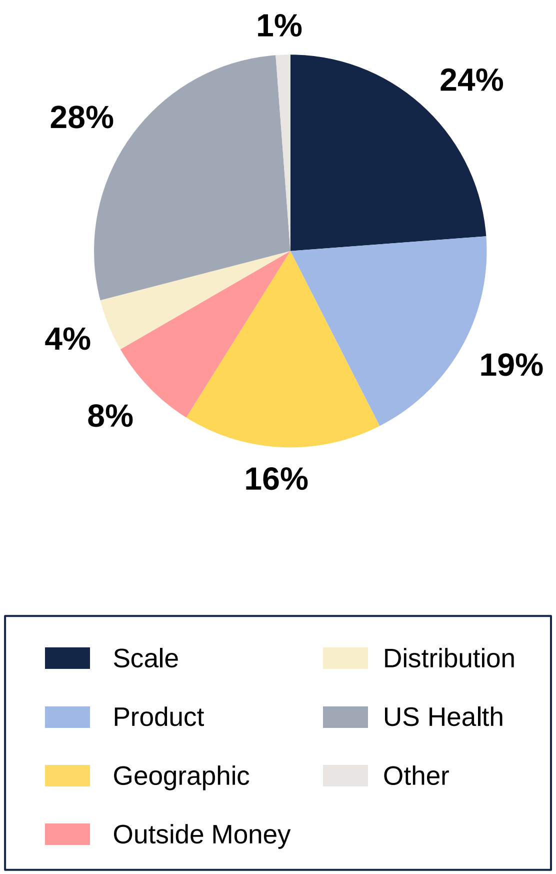
WE PUT SCALE AS THE BIGGEST DRIVER

($ in billions)

Deal Rationale by $ Amount (Transactions >$1bn)

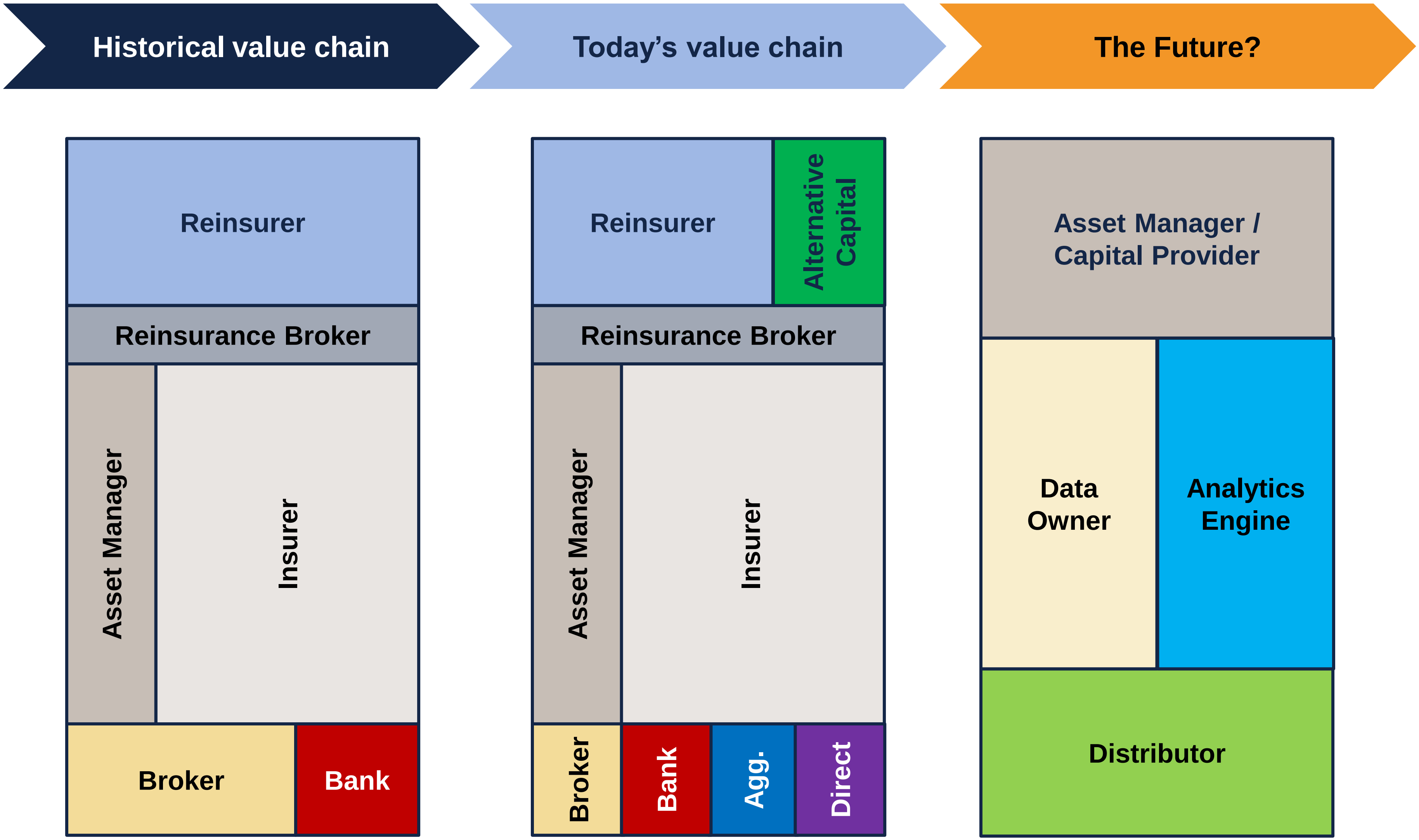


Rationale 1995-2015



Source: SNL Financial and WCMA Estimates.

IN FUTURE, THE DISRUPTION OF VALUE CHAIN . . .



Source: WCMA Estimates.

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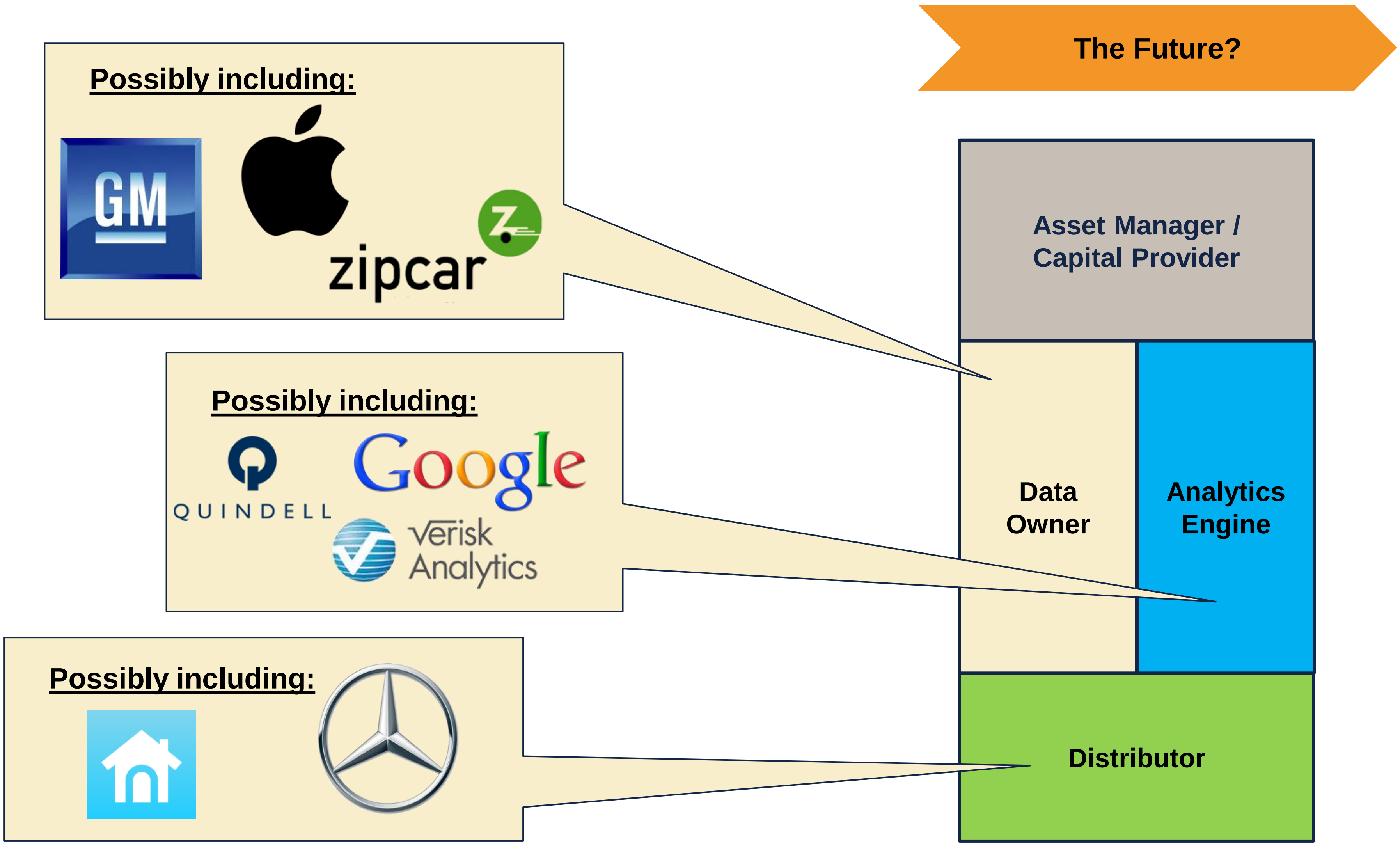

Source: FactSet and WCMA Estimates.

. . . WILL ALSO DRIVE M&A

- **M&A is not the main panacea. More important is to:**
  - *Not be held back by legacy data stores and IT systems*
  - *Be open-minded about using external data sources*

- **. . . But M&A can:**
  - *Provide technology and/or proprietary data*
  - *Seed the organisation with a change agent*

- **A few technology-drive acquisitions already**
  - *MS&AD / Insure the Box; Generali / MyDrive*
  - *Private equity has been more active in the space than insurers*
  - *So have other ‘value chain adjacency’ players – eg Tom Tom, Vodafone, Verizon*

- **If disruptive technology works, and claim costs fall, could also drive more traditional ‘scale’ M&A**
  - *Shrinking premium income encourages acquisitive growth*
  - *Shrinking capital requirement produces ample funding ability*

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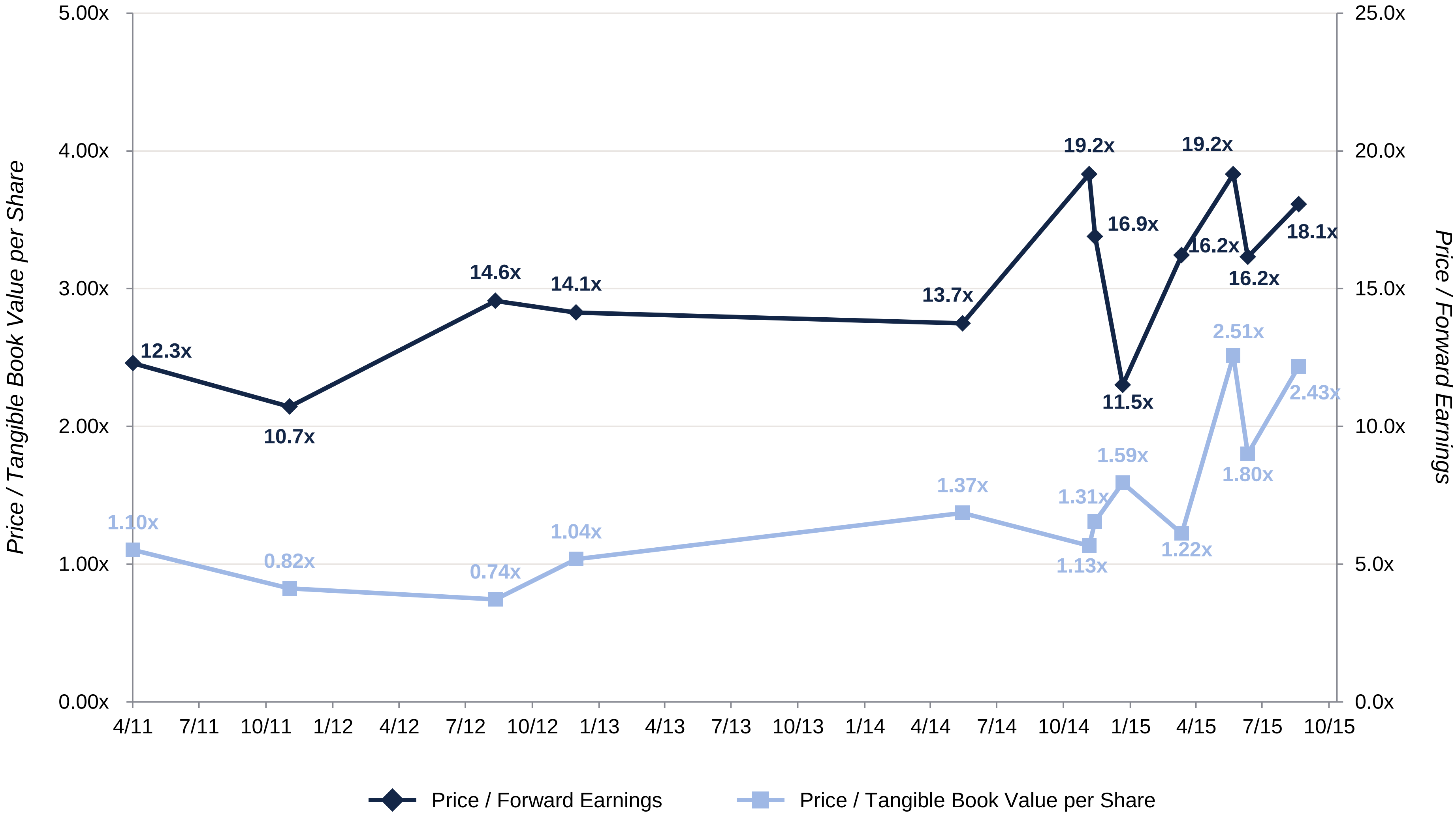
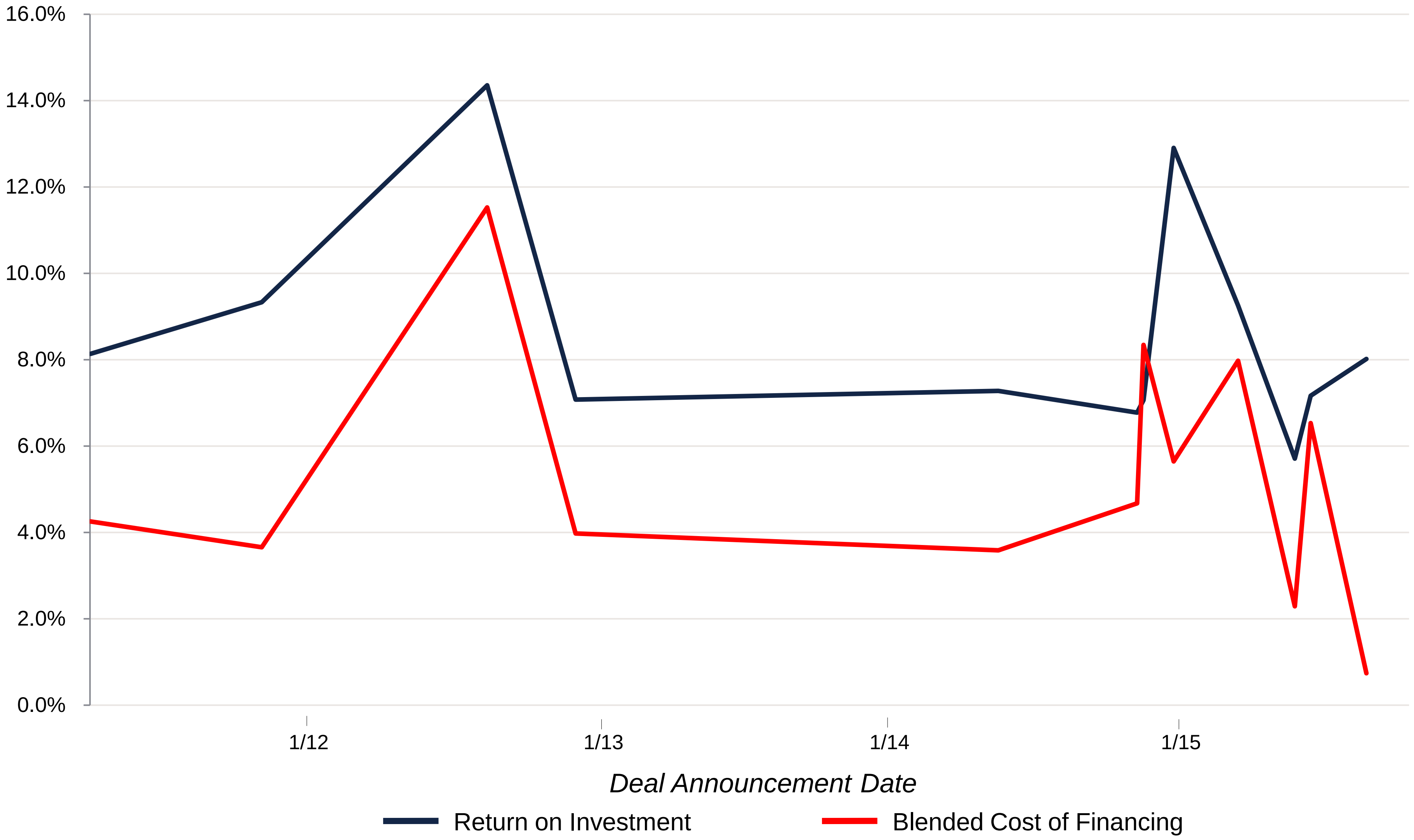
DEAL MULTIPLES HAVE BEEN GOING UP . . .



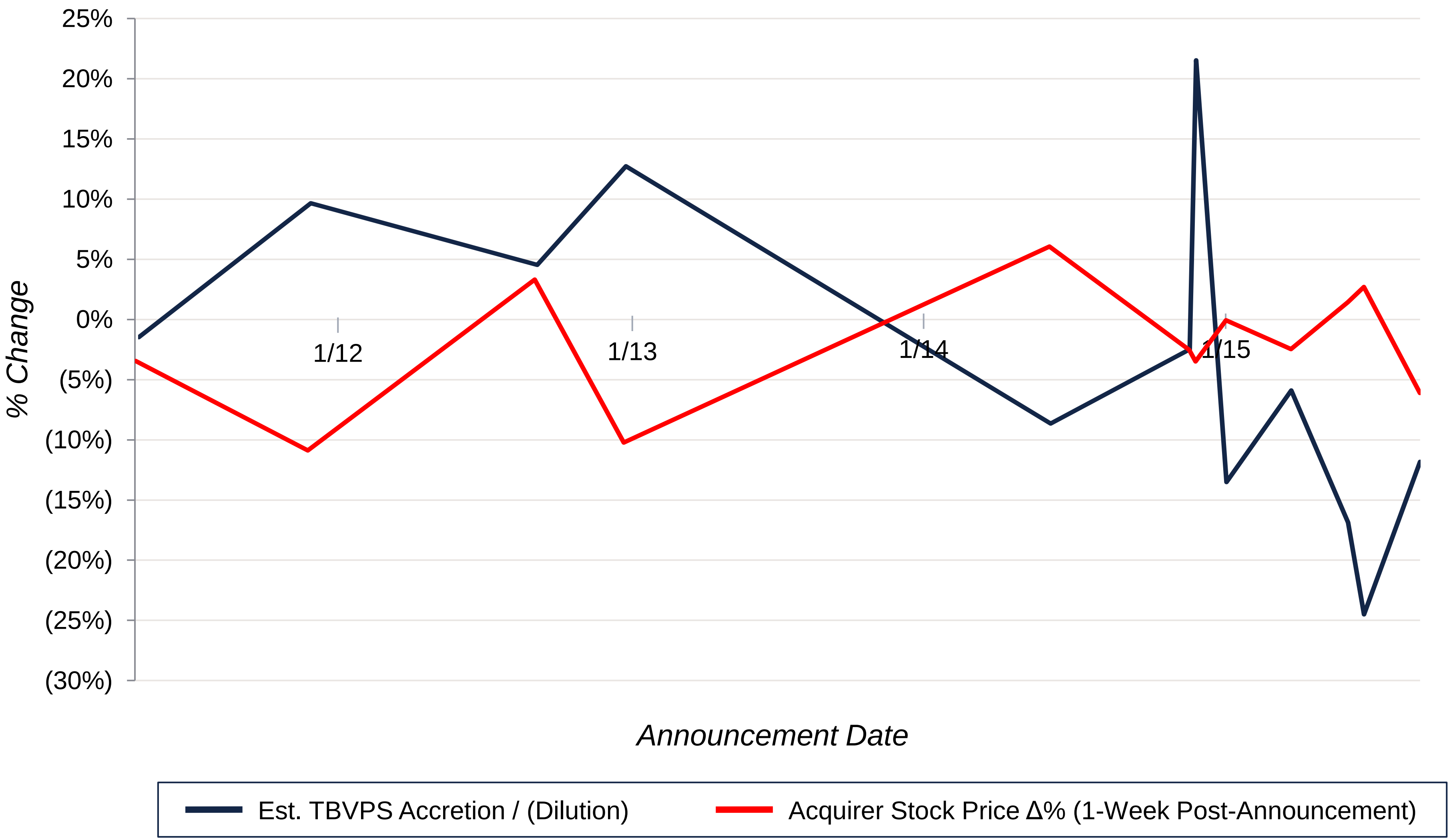
Source: WCMA Estimates

. . . BUT LOW COST OF FINANCING IS STILL GENERATING EPS ACCRETION . . .



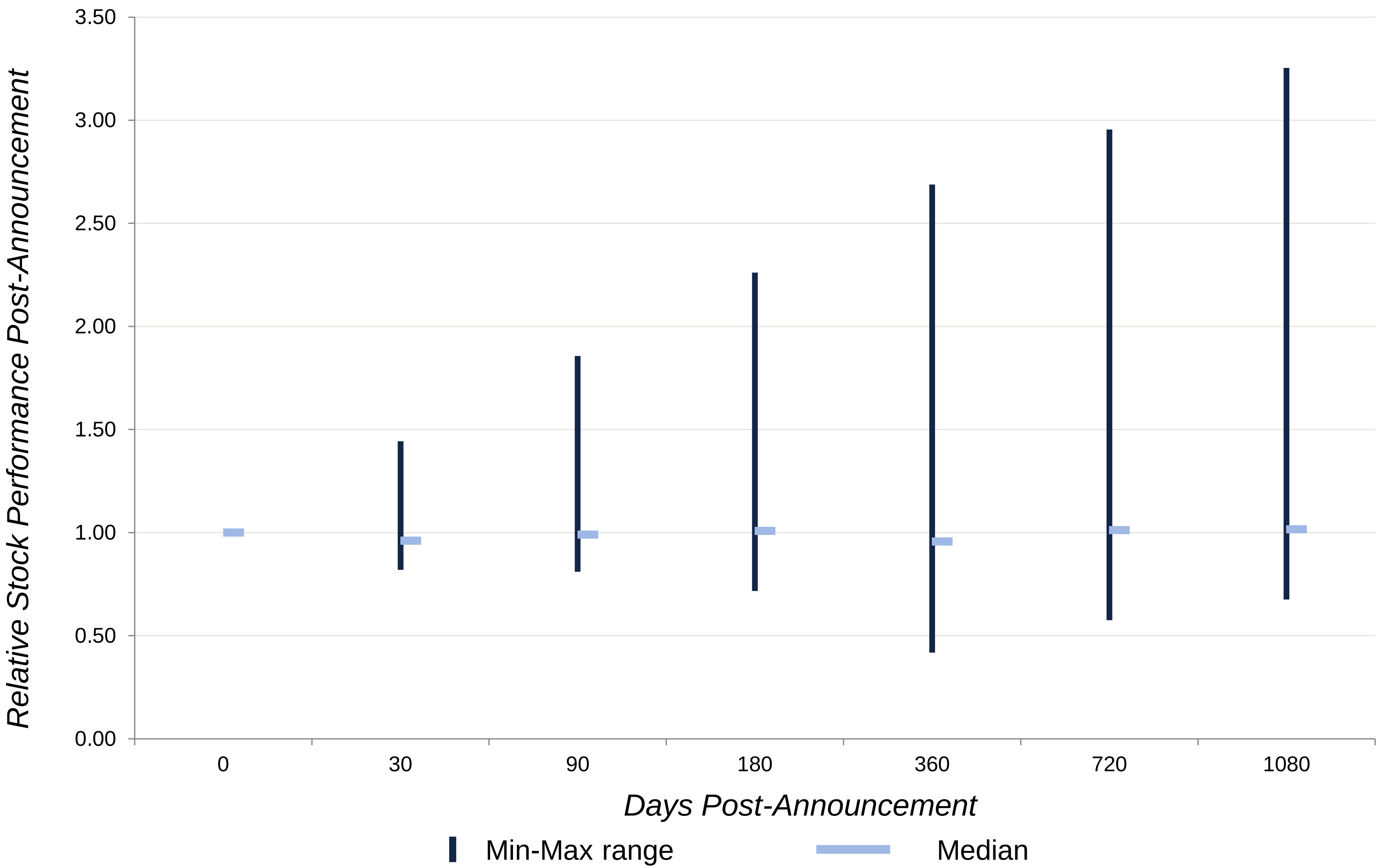
Source: WCMA Estimates

. . . AND EVEN THOUGH BV DILUTION IS INCREASING, SHARE PRICE REACTIONS HAVE BEEN FORGIVING



Source: SNL Financial and WCMA Estimates.

LONGER TERM, EVIDENCE DOESN'T SUPPORT THE VIEW THAT M&A DESTROYS VALUE



Note: Average across insurance M&A since 1995 where deal size ≥ $1bn and deal size ≥ 20% of acquirer's market cap.
Source: SNL Financial and WCMA Estimates.

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CONCLUSIONS

1. The current hump of M&A activity has not yet run its course
2. Disruption of the value chain will drive future M&A
3. Deal multiples have been increasing
4. The EPS impact is being softened by cheap financing, but higher multiples are driving up book value dilution
5. Still, the short-term perception of value creation has become more forgiving
6. And the traditional view that M&A destroys value is not supported by longer-term share performance
7. Investment bankers need to be industry experts

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5 Appendix

TRANSACTION ANALYSES

($ in millions)

Announce Date	Acquirer / Target	Deal Value	Acquirer Market Cap	Consideration % of Acquirer Market Cap	Purchase Price / Target TBV	Acquirer P / TBVPS Pre-Deal	Acquirer Est. TBVPS Acc. / (Dil.)	Acquirer Est. EPS Acc. / (Dil.)	Acquirer Stock Price D 1-Day	Acquirer Stock Price D 1-Week	Acquirer Stock Price D 1-Month
4/20/11	Hanover / Chaucer	$503	$1,981	25.4%	1.10x	0.81x	(1.9%)	11%	(5.4%)	(4.4%)	(3.7%)
11/21/11	Alleghany / Transatlantic	3,534	2,692	131.3%	0.82x	0.92x	9.4%	90%	(6.8%)	(11.8%)	(8.5%)
8/30/12	Validus / Flagstone	623	3,124	19.9%	0.74x	0.93x	4.2%	3%	0.1%	2.3%	2.0%
12/19/12	Markel / Alterra	2,973	4,678	63.6%	1.04x	1.50x	12.5%	32%	(10.2%)	(11.2%)	(3.8%)
6/3/14	Dai-ichi / Protective	5,708	14,026	40.7%	1.37x	0.83x	(9.2%)	15%	0.7%	5.1%	7.7%
11/24/14	RenRe / Platinum	1,925	3,909	49.2%	1.13x	1.17x	(2.9%)	11%	(2.7%)	(3.5%)	(3.1%)
12/2/14	Aviva / Friends Life	10,192	24,645	41.4%	1.31x	2.52x	21.5%	(4%)	1.1%	(4.5%)	(7.4%)
1/9/15	XL / Catlin	4,206	9,140	46.0%	1.59x	0.92x	(14.1%)	9%	1.3%	(1.0%)	1.1%
3/31/15	Endurance / Montpelier Re	1,831	2,879	63.6%	1.22x	1.05x	(6.4%)	6%	(4.9%)	(3.4%)	(5.3%)
6/10/15	Tokio Marine / HCC	7,500	30,134	24.9%	2.51x	1.17x	(17.5%)	11%	0.5%	0.5%	2.1%
6/30/15	ACE / Chubb	28,252	33,182	85.1%	1.80x	1.38x	(25.3%)	4%	0.1%	1.7%	6.3%
9/8/15	MSI / Amlin	5,328	19,443	27.4%	2.43x	0.74x	(12.4%)	26%	(2.9%)	(7.1%)	(8.1%)

Source: FactSet, company filings and WCMA estimates.

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