

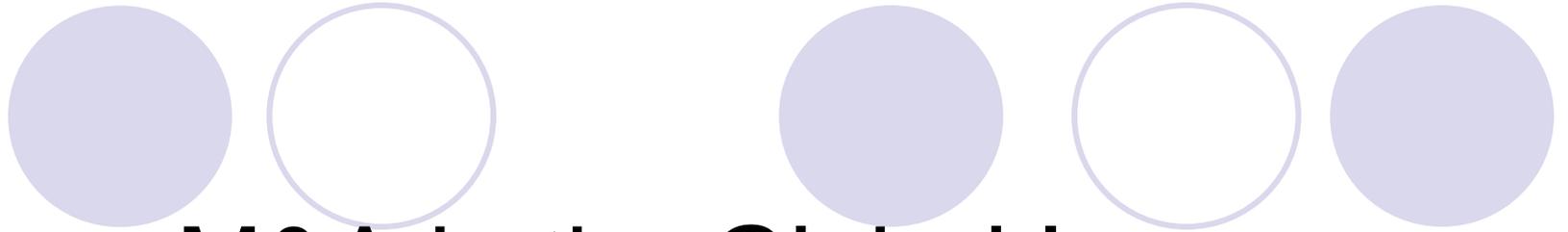
M&A in the Global Insurance Industry: Does it create value?

Paul JM Klumpes, Nottingham Business School

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Consolidation in Insurance: What is it about?

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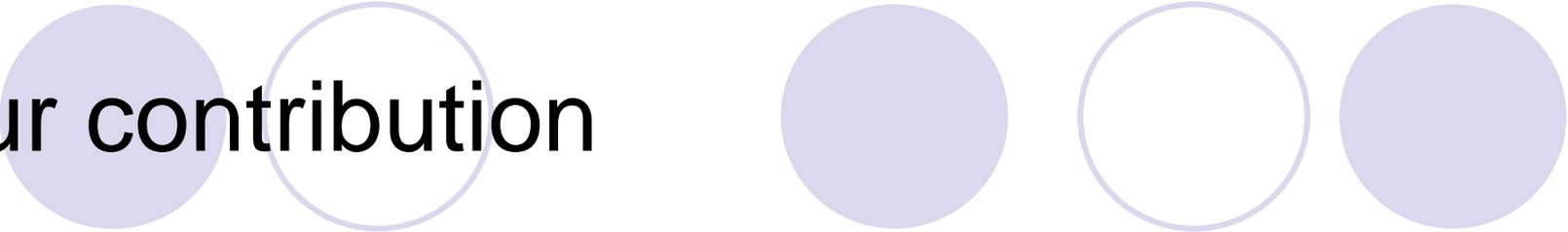
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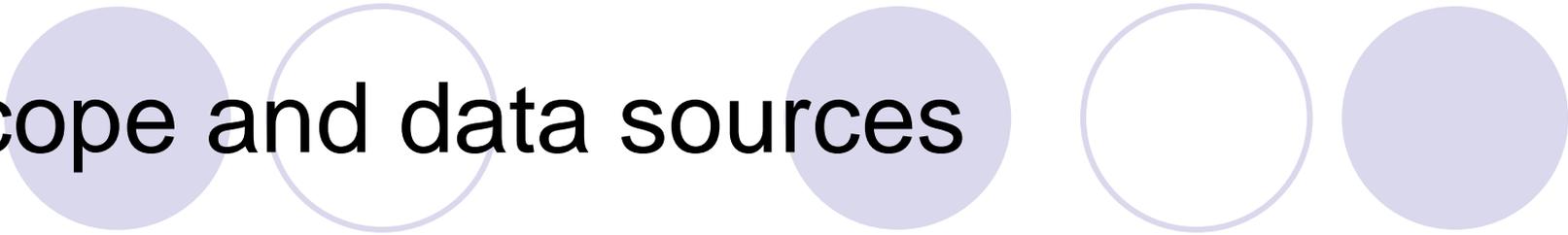
Presentation Overview

- Prior evidence on the value created by M&A deals.
- From the valuation perspective, do we believe the recent deals have featured good valuation for the buyers?
- Does the cheap funding distorted buyers from looking at the real long-term value? Some examples?

Our contribution



- First comprehensive study of global M&A
- Do M&A deals add value to shareholders?
- Examine acquirer and target characteristic
- Analyse post-M&A effects
 - Change in efficiency over time
 - Survivorship characteristics
 - Effect of 'depreciation' and multiple takeovers

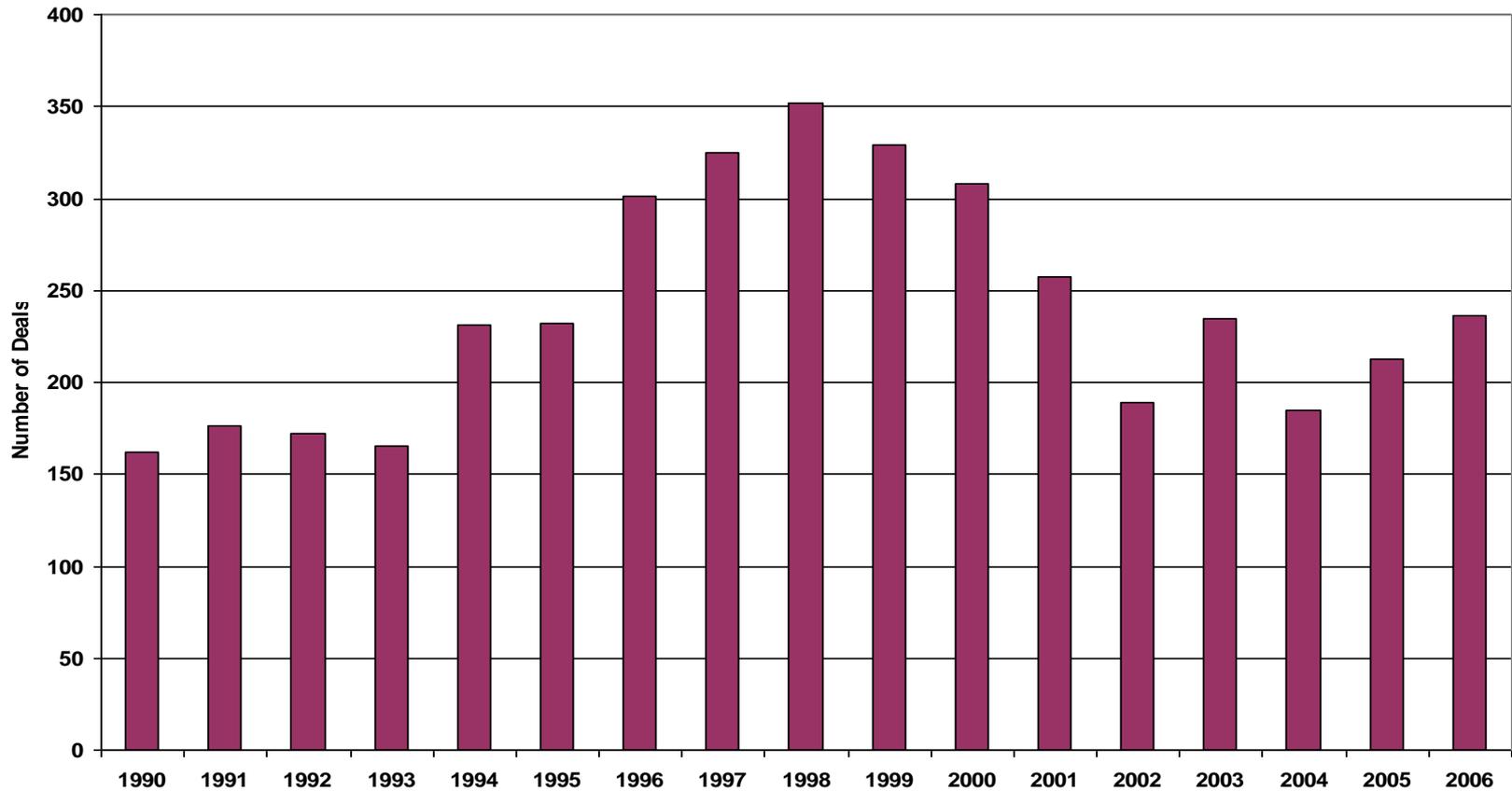


Scope and data sources

- All recent deals: 1990 to 2007
- Global:
 - North America (Canada, US)
 - Europe (mature markets)
 - Asia and Pacific
- M&A transactions identified using Thomson Financial SDC Platinum: match with Datastream
- Survivorship analysis: ISIS, Compustat

Deal count by year - 1

Figure 1: Insurance Mergers and Acquisitions
Total Deal Count By Year for Europe, Asia, and the Americas



Deal Count - 2

Table 1

Insurance M&A Deal Count By Region: Transactions Resulting in > 50% Control

	Americas	Asia (Except- Japan)	Europe	Japan	Total
Americas	2,149	9	100	4	2,262
Asia (Except-Japan)	21	342	44	9	416
Europe	78	16	1,152		1,246
Japan	15		5	69	89
Grand Total	2,263	367	1,301	82	4,013

Discussion – overall deals

- Deals:

- There are at least 150 deals in each year of the sample period with a total of 4,068 deals over the entire sample period
- The number of deals peaked during the mid-1990s with more than 300 transactions taking place each year from 1996 through 2000.

- Deal value:

- Deal volume exceeded \$120 billion per year from 1997-2001 and exceeded \$100 billion in 2003, 2005, & 2006.
- total deal value for the entire period covered by the study is more than \$1.3 trillion

Discussion – regional breakdown

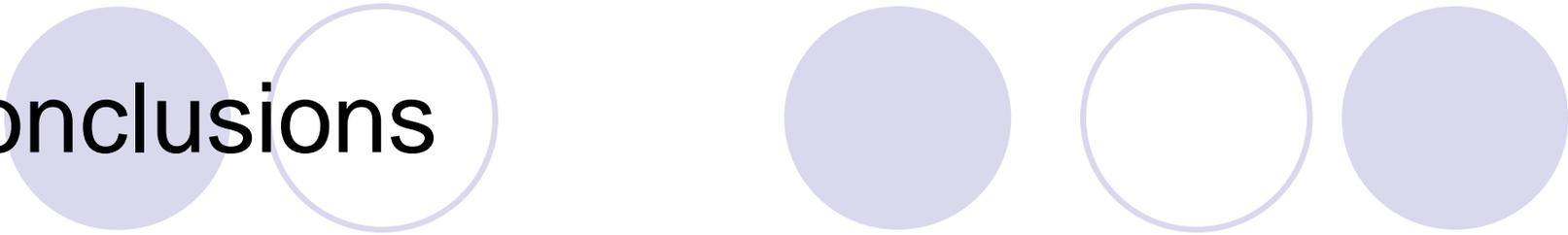
- M&As tend to destroy value for acquirers in Asia, when Japan and Australia are excluded from the analysis.
- M&As create value for Japanese acquirers, although the results are based on only a few transactions.
- For Canada, the U.S., Continental Europe, and the U.K., there are small, statistically significant value gains in short windows surrounding the events, but these gains are not sustained in the wider windows.

7.4. Discussion – within sector results (1)

- Intra-insurance-industry transactions generate significant market value gains for acquiring insurance companies, reinforcing the conclusion that product focusing transactions are better than diversifying transactions for insurers.
- Transactions between non-life insurers are more likely to create value for the acquirer than transactions between life insurers.
- The results for insurance agent-to-agent transactions are much weaker than for insurance companies and are negative for several windows.

7.4. Discussion – cross sector results (1)

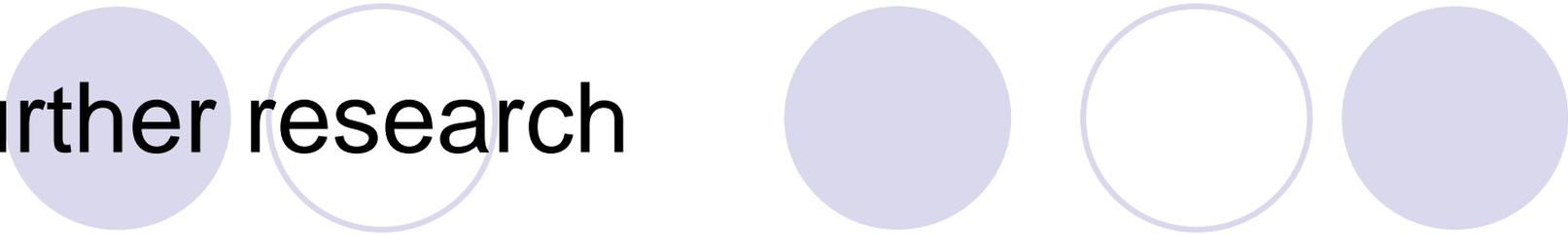
- All types of intra-insurance-industry M&A transactions generate significant market value gains for targets.
- However, market value gains to targets are generally larger for life-to-life insurance transactions than for non-life-to-non-life transactions.



Conclusions

- M&A activity primarily benefits target firms
- Some variation in results:
 - Across country/domestic
 - Within/across industry and sector
- Caveats to analysis:
 - Sample selection procedure (matching)
 - Arbitrary classification of industry/sector
 - Limitations of methodology

Further research



- Examine more closely sources of ‘real’ versus ‘illusory’ value creation in M&A
- Further analysis of explanatory variables:
 - Managerial incentives and corporate governance
 - Derivative exposure+risk management
 - Cost of capital variations
 - Cross-regional variations: cultural, corporate governance, management compensation variables