



## **Insurance Mergers & Acquisitions – Reading the Tea Leaves**

Presentation at CAS Centenary Meeting

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Conning  
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# Insurance M&A – Reading the Tea Leaves, Agenda

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**Why Care About M&A?**

**History of U.S. Insurance M&A**

**Recent U.S. P-C M&A Activity, 2013 versus 2014**

**Trends in 2014 Insurance M&A through Q3 Shaping the Future**

# Why Care About M&A?

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## **It can affect careers, positively or negatively**

Creates new product opportunities from combination

Opens new geographic expansion opportunities

Introduces potential for reductions from staff function consolidation

## **M&A as leading indicator of the industry**

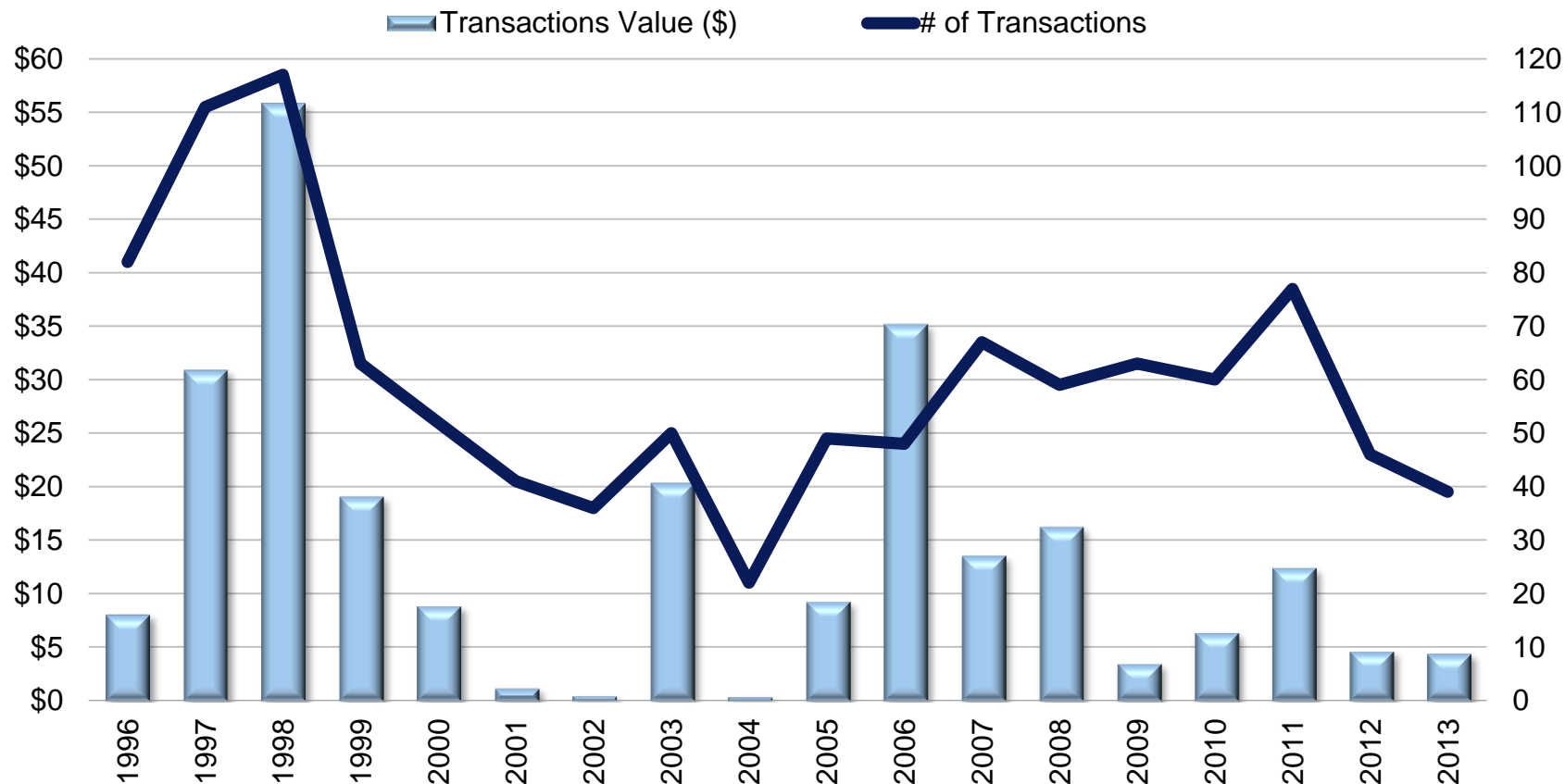
M&A builds strong companies, and takes out weaker ones

Points to future landscape of the industry from the trends and patterns characterizing M&A transactions

# U.S. P-C Insurance M&A

## Historical U.S.\* Insurance Mergers & Acquisitions, Property-Casualty Sector

(\$ in billions)



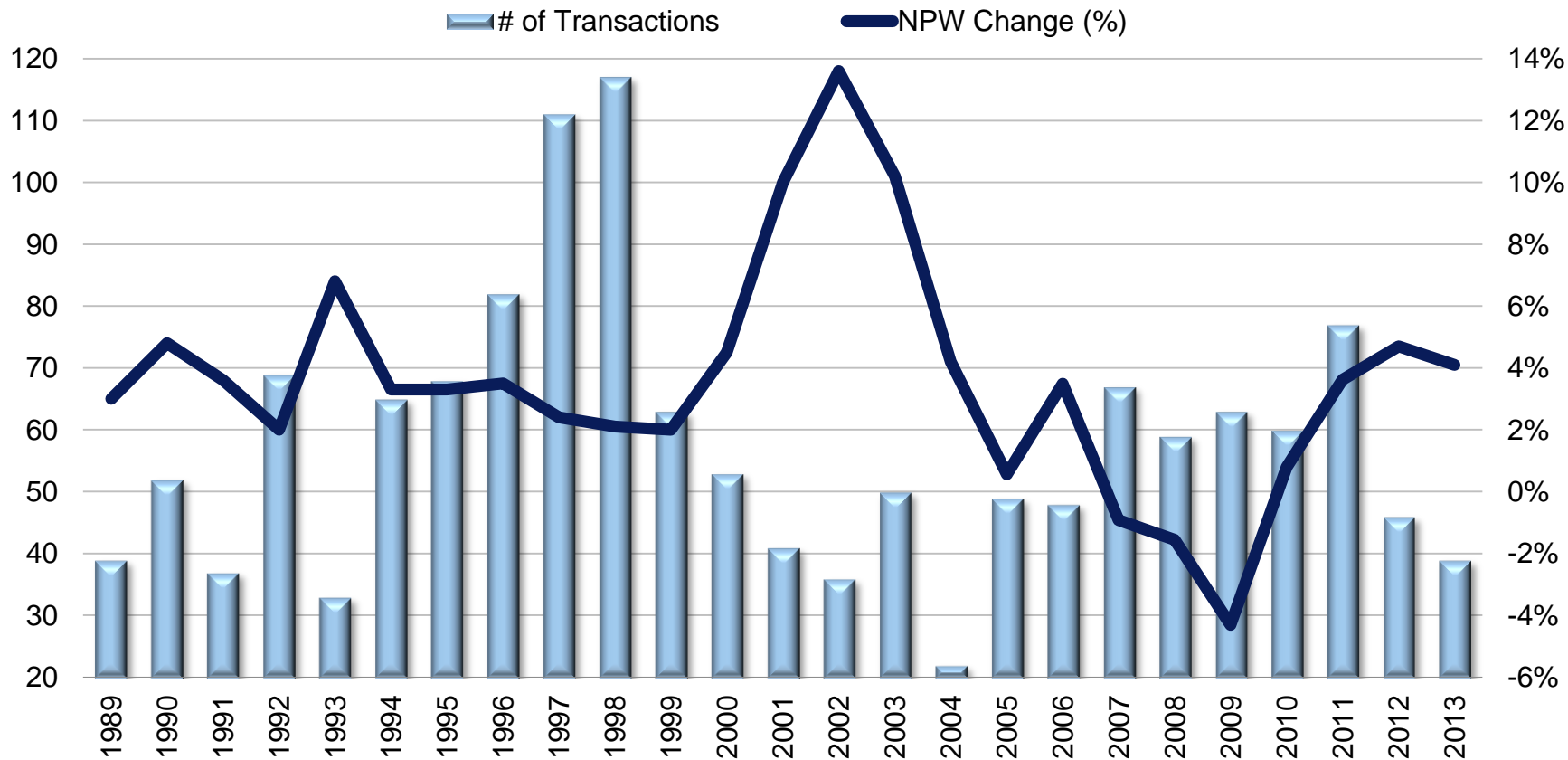
Note: This graph is adjusted to exclude Associates First Capital acquisition by Citigroup in 2000.

\*This graph includes transactions where a U.S. company was the acquirer and/or the target.

Source: Public announcements (press releases or other public disclosures), Conning analysis

# P-C Insurance M&A and the Insurance Cycle

## U.S.\* Property-Casualty Insurance-Related Mergers & Acquisitions versus the Insurance Cycle



\*This graph includes transactions where a U.S. company was the acquirer and/or the target.

Source: Public announcements, Conning analysis

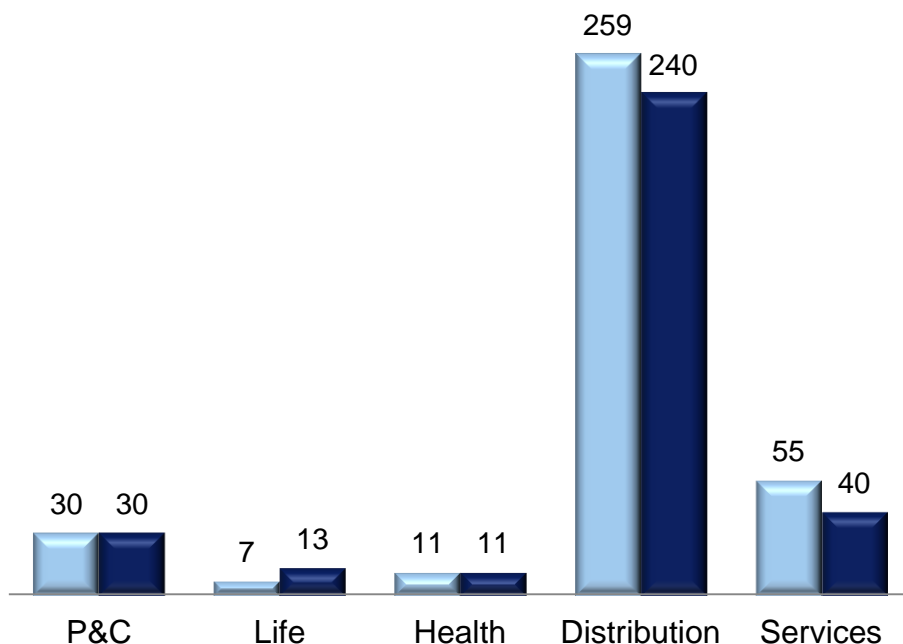
# Current Insurance M&A – YTD 2014 versus YTD 2013

## U.S.\* Insurance-Related Mergers & Acquisitions by Sector 2014 – through Q3 versus 2013 – through Q3

(\$ in billions)

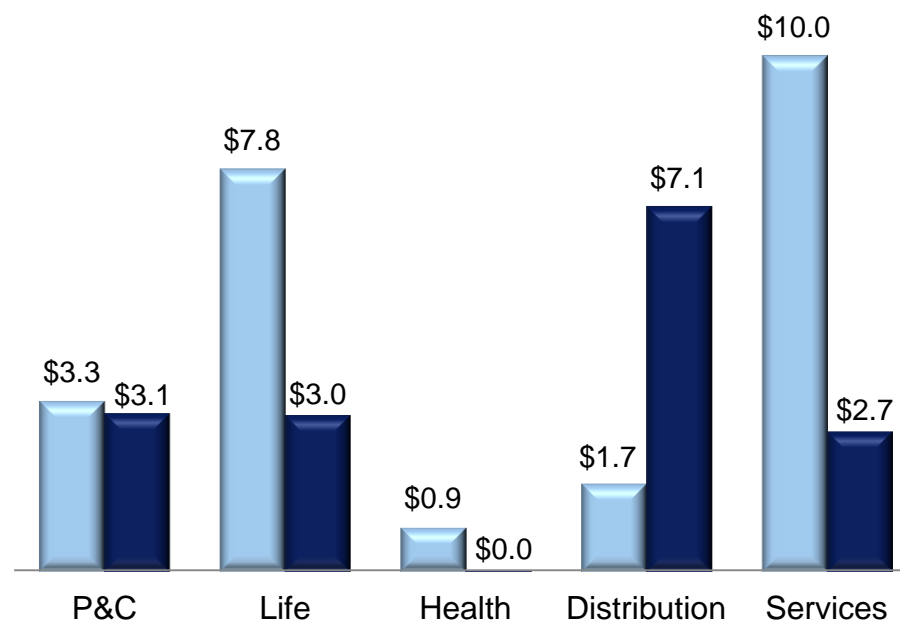
### Number of Transactions

■ 2014 - through Q3 ■ 2013 - through Q3



### Aggregate Announced Value

■ 2014 - through Q3 ■ 2013 - through Q3



\*This graph includes transactions where a U.S. company was the acquirer and/or the target.

Source: Public announcements, Conning analysis

# Six Trends in Insurance M&A -- CANDID

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**C**ustomer

**A**nalytics

**N**iche

**D**istribution

**I**nternational

**D**ivestiture

# Customer

**Three of the five \$1 billion + insurance M&A transactions in 2014 through Q3 were of claims adjusting firms. The claims function is the closest link to the customer in the insurance value chain**

<b>Acquirer</b>	<b>Target</b>	<b>Target Description</b>	<b>Transaction Value</b> <i>(\$ in millions)</i>
Kohlberg Kravis Roberts & Co. LLP	Sedgwick Claims Management Services, Inc.	Loss adjuster	\$2,400
Starr International Co. and Partners Group AG	MultiPlan, Inc.	Health claims	4,400
Onex Corp.	York Risk Services Group, Inc.	Loss adjuster	1,325
Kohlberg Kravis Roberts & Co.	T&H Global Holdings LLC	Third-party administrator	N/A
Stone Point Capital LLC	LTCG	Health claims	N/A
York Risk Services Group, Inc.	CareWorks Ltd.	Third-party administrator	N/A
	American Claims Services, Inc.	Loss adjuster	N/A
	Bickmore and Associates, Inc.	Third-party administrator	N/A
	Donald K. Sams & Associates, Inc.	Loss adjuster	N/A

Source: Public announcements, Conning analysis



# Analytics

**Analytics and technology have been identified as the number one concern at both mutual insurers (Conning Survey of Mutual Insurers) as well as reinsurers (PWC survey 2014)**

<b>Acquirer</b>	<b>Target</b>	<b>Target Description</b>	<b>Transaction Value (<i>\$ in millions</i>)</b>
Verisk Analytics, Inc.	EagleView Technology Corp.	IT	\$650
Summit Partners LP	ABILITY Network Inc.	IT	550
Solera Holdings, Inc.	Insurance and services division of Pittsburgh Glass Works LLC	IT	280
	Autosoft Srl.	Claims Software (Italy)	N/A
Xerox Corp.	ISG Holdings, Inc.	BPO	230
First American Financial Corp.	Interthinx, Inc.	Data analytics	155

Source: Public announcements, Conning analysis

# Value in Analytics

The potential of advanced analytics to bring significant improvement to the insurance industry is reflected in the profit margins of publicly-traded insurance technology firms

Company	2013 Revenue Growth	EBIDTA Margin
Solera Holdings, Inc.	6%	37%
Verisk Analytics, Inc.	13%	47%
Ebix, Inc.	3%	42%
<b>Average</b>	<b>7%</b>	<b>42%</b>

Source: Public announcements, Conning analysis

**Close to three quarters of outperforming property-casualty insurers (those with long-term combined ratio  $\geq$  10 points better than industry average) are specialists**

<b>Acquirer</b>	<b>Target</b>	<b>Target Description</b>	<b>Transaction Value</b> <i>(\$ in millions)</i>
TPG Capital LP	The Warranty Group, Inc.	Warranty/Surety	\$1,500
Validus Holdings Ltd. (Bermuda)	Western World Insurance Group, Inc.	E&S	690
Fairfax Financial Holdings Ltd. (Canada)	Pethealth, Inc.	Pet insurance	92
Randall & Quilter Investment Holdings plc (U.K.)	Accredited Holding Corp.	Bail and surety bonds	25

Source: Public announcements, Conning analysis

# Distribution

One way for insurers to get closer to the customer is to control the distribution, a strategy exemplified by insurers acquiring program managers, MGAs and MGUs

Acquirer	Target	Target Description	Transaction Value ( <i>\$ in millions</i> )
Fairfax Financial Holdings Ltd. (Canada)	Motor Transport Underwriters, Inc.	Program manager	N/A
Houston International Insurance Group Ltd.	The Compass Group, Inc.	MGU	N/A
Liberty Mutual Insurance Group	Hughes Insurance	MGA	N/A
State Automobile Mutual Insurance Co.	Partners General Insurance Agency, LLC	MGU	N/A

Source: Public announcements, Conning analysis

# International

Many of the largest transactions of 2014 YTD (and 2013) were cross-border, reflecting insurers' recognition of the premium growth potential outside the U.S.

Acquirer	Target	Target Description	Transaction Value ( <i>\$ in millions</i> )
ACE Ltd.	P&C business from Itaú Seguros S.A. Brazil	Brazil	\$685
	The Siam Commercial Samaggi Insurance Public Co. Ltd.	Thailand	185
Allied World Assurance Co. Holdings AG	RSA Hong Kong Ltd. and RSA Singapore	Hong Kong/Singapore	215
Liberty Mutual Insurance Group	Uni.Asia General Insurance Bhd.	Malaysia	113
Fairfax Financial Holdings Ltd. (Canada)	PT Batavia Mitratama Insurance	Indonesia	N/A
Starr International Co. (Bermuda)	Dazhong Insurance Co. Ltd.	China	N/A

Source: Public announcements, Conning analysis

# Divestiture/Distress

## Reserve increases and operating losses drive motivated sellers to seek acquirers

<b>Acquirer</b>	<b>Target</b>	<b>Target Description</b>	<b>Transaction Value</b> <i>(\$ in millions)</i>
American Financial Group, Inc.	Summit Holdings Southeast, Inc.	Workers Comp	\$250
Enstar Group, Inc.	Companion Property & Casualty Insurance Group	Commercial & residential	218
ACP Re Ltd.	Tower Group International Ltd.	Insurance/Reinsurance	172
Catalina Holdings Ltd.	SPARTA Insurance Holdings, Inc.	Specialty programs	N/A
The Motorists Insurance Group, Inc.	Consumers Insurance USA, Inc.	Personal & commercial auto	N/A

Source: Public announcements, Conning analysis

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