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cutting through complexity

A year in review:
Drivers and trends that shaped insurance M&A in 2014

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Foreword

At the start of the year KPMG's global Insurance Transactions and Restructuring practice made 10 predictions around how mergers and acquisitions (M&A) would impact the insurance sector.

In this publication we take a look back through the year to see how closely our predictions aligned with market activities.

Pleasingly, many of the initial predictions were proved correct, although the pace of development in certain areas has surprised us. M&A has clearly been an important component for many in the industry in delivering their strategic ambitions.

We hope you find this 'year in review' helpful as you think about future opportunities and the shifting market dynamics in which we now operate. We are delighted to continue our annual trends series, publishing our 2015 predictions report early in the New Year.

Sam Evans

Global Insurance Transactions and Restructuring Lead

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Over a **5 year** period KPMG member firms have been the **#1** deal advisor for 3 years and never out of the **TOP 4**

Source: Worldwide full market league table, based on deal volume, Thomson Financial, January 2013

M&A activity for insurers: A look back on 2014

We expected to see a dynamic deal environment with continuing appetite for expansion into core markets and this was definitely confirmed by events. Here are our predictions and how each unfolded throughout the year.

1

Opportunities created through dramatic shifts in technology use

Step change in the use of technology is coming. We predicted that high growth markets, without constraints of legacy products and infrastructure, could lead the charge, particularly by leveraging mobile technology and expanding upon the success of telematics in motor to property. We also anticipated investment opportunities being created through partnerships, joint ventures and acquisition of innovators by traditional players.

In review

While the importance of leveraging technology to support a customer centric approach remains a key focus for many in the industry, we did not see many examples of insurers using M&A to build capability. The current approach has been on developing in-house capability (for example Axa Lab in Silicon Valley) and partnerships with companies that already provide the specific capability such as data mining and data analytics to identify consumer buying habits.

One interesting example we did see was in the US where Aetna acquired Bswift, a provider of cloud based technology that assists people shopping for heath cover on insurance exchanges. The company will spend around US$400 million in acquiring Bswift.[1] A good example of an insurer leveraging technical capability to respond to a changing market environment following the Affordable Care Act in the US.

1. Aetna to Acquire Insurance Exchange Technology Provider Bswift, Aetna.com, 03 November 2014

2

Increasing activity and competition from private equity and non corporate acquirers

We anticipated that current market incumbents would experience increasing competition from private equity, funds, and in some instances pension funds, buyers in both mature and high growth markets, building on the momentum of recent deals.

In review

This prediction was spot on. Private equity buyers have been very active, particularly in the US, Asia and European markets with a large number of acquisitions in manufacturing, distribution and service related sectors. In the US private equity players were involved in a nearly a third of deals in 2014. In the US, we saw some major deals, such as, KKR acquired Sedgwick Claims Management Services, Inc. in February 2014 for US$2.4 billion.[2] In another major deal, Onex Corporation announced in August 2014 that they have completed the sale of The Warranty Group, Inc to TPG Capital LP for an enterprise value of around US$1.5 billion.[3] In Europe there were also a number of private equity led deals, including Blackstone's acquisition of Lombard for US$610m.[4] In Asia, we have been working with a number of our private equity clients as they look to identify opportunities in the region.

In addition, we saw further activity from alternative capital providers taking direct positions in the sector. A good example being the acquisition of Wilton Re by CPPIB (the Canadian pension fund) announced in March 2014 for US$1.8 billion[5] and Greycastle's acquisition of XL Life Reinsurance business for US$570 million.[6]

2. KKR acquires majority ownership of Sedgwick, PR Newswire.com, 28 February 2014
3. Onex Completes Sale of The Warranty Group, Marketwired.com, 01 August 2014
4. Blackstone acquires Lombard, Bloomberg, 11 July 2014
5. Canada Pension Plan Investment Board Enters Into Agreement To Acquire Wilton Re, CPPIB.com, 21 March 2014
6. GreyCastle Holdings Ltd. Completes the acquisition of XL Group, Greycastle.com, 12 June 2014

3

Asia remains a competitive, heavily penetrated market but opportunities remain

We predicted more selective activity as organizations assessed which markets are core for their business and what is the best entry model and partner to capitalize on the primary opportunity. We also felt that underlying fundamentals would continue to attract interest in China, India and Indonesia, particularly as the developing regulatory environment opens up the market.

In review

Throughout 2014 we have seen a number of insurers making targeted acquisitions to support their growth ambitions in the region. As expected, China and Indonesia continued to see a relatively high level of deals. Recent examples include Swiss Re's acquisition of RSA's business in China for US$122 million[7] and a number of bancassurance deals in Indonesia such as PT Bank Victoria International Tbk (Bank Victoria) partnership agreement with FWD Life Indonesia, signed in August 2014, to launch a product focused on retirement planning and protection.[8] Additionally, a strategic co-operation agreement was signed between Manulife Indonesia and Bank Victoria in October 2014 which will help the bank to develop its wealth management business and help Manulife expand its distribution network.[9]

Activity in India has been impacted by continued uncertainty around the foreign direct investment (FDI) limit with proposals to increase the limit from 26% to 49% currently with parliament. Recent commentary suggests further delays may occur before the Bill is voted on – the industry awaits with interest.

Australia is another market which has been reasonably active with a number of deals in 2014, including Munich Re and Steadfast joining forces to acquire Calliden's insurance and agency businesses.[10]

As expected, we have seen a number of insurers rationalizing their portfolio and exiting businesses, or markets that are subscale, underperforming or not considered strategically important. Good examples include Zurich's exit of its agency business in Hong Kong and RSA's sale of its Hong Kong and Singapore businesses to Allied World for around US$216 million.[12]

7. Swiss Re Will Buy RSA's Chinese Insurer Sun Alliance, Bloomberg.com, 03 July 2014
8. Bank Victoria and FWD Life Indonesia Enter Bancassurance Partnership, Asiainsurancereview.com, 19 August 2014
9. Manulife Indonesia and Bank Victoria Launch Bancassurance Product - Ensuring the value of the core investment continues to grow with VIP Lifestyle Protector, Manulife-Indonesia.com, 23 October 2014
10. Munich Re and Australian broker Steadfast to purchase Calliden Insurance business, Lifeinsuranceinternational.com, 27 August 2014
11. Zurich to discontinue using tied agents in Hong Kong, International-adviser.com,14 November 2013
12. RSA to Sell Hong Kong, Singapore Businesses for $216 Million, Bloomberg.com, 22 August 2014

4

Continued activity expected in Latin America

We anticipated increasing transaction activity in Latin America as insurers look to secure position in these rapidly growing markets.

In review

Given the continued interest in the region, we were surprised that we didn't see more activity in Latin America. The seemingly lack of activity could simply be a timing issue created by the long period to originate and close a deal. Having said that, there were a number of large deals including ACE's acquisition of Itau Seguros S.A. P&C business in Brazil for around US$685 million[13] and Swiss Re Corporate Solutions Ltd. acquisition of a 51% stake in commercial insurer Compañía Aseguradora de Fianzas S.A. Confianza in Colombia.[14] Zurich Insurance Group also announced a distribution agreement with Via Varejo for extended warranty products in Brazil. Under this distribution agreement, Zurich will pay around US$350 million for channel exclusivity and commission advancement. It is expected to generate a premium volume in excess of US$530 million in the first year.[15]

5

Where next? Markets in Africa, Turkey, the Middle East attract attention

We expected to see a new horizon of high growth markets with countries in Africa and the Middle East attracting significant interest, prompting a rapid increase in M&A and distribution related transactions.

We also predicted the continued evolution of alternative business models like micro insurance.

In review

Insurers continue to expand their geographic footprint. One region that has grown in prominence over the last 12 months is Africa. We have seen a significant increase in interest levels, which is now translating into transaction activity. Prudential Plc announced a deal in late 2013 in Ghana and, in its second acquisition in Africa, the company entered the Kenyan market after buying the life insurer Shield Assurance Co.[16] Swiss Re also announced an investment in Kenya by buying 26.9 percent stake in the insurance group Apollo Investments for an undisclosed amount.[17] South African based insurers also continued to be active, for example, Metropolitan International received all the regulatory approvals to acquire majority stake in Kenyan insurer, Cannon Assurance Limited for around KSh2.4 billion.[18] Additionally, micro insurance continues to be important both to governments and the insurance community across the region.

In Asia, we see countries like Myanmar as part of the second or perhaps third horizon and ongoing developments related to special economic zones continue to attract interest from the insurance community.

13. ACE to become #1 commercial P&C insurer in Latin America's largest market, Acegroup.com, 04 July 2014
14. Swiss Re Corporate Solutions completes acquisition of 51% stake in Colombia's Seguros Confianza, Swissre.com, 05 November 2014
15. Zurich to become new market leader in Brazilian extended warranty insurance business, Zurich.com, 01 October 2014
16. Prudential Buys Kenyan Insurer in Second Africa Purchase, Bloomberg.com, 16 September 2014
17. Swiss Re enters Kenya with Apollo stake, Businessdailyafrica.com, 08 October 2014
18. SA firm gets green light for Sh2.4bn Cannon Assurance deal, Businessdailyafrica.com, 10 November 2014

6

Regulatory change continues to act as a deal catalyst

We predicted the continuing implementation of risk based capital and consumer protection initiatives will serve as a catalyst for change, creating investment opportunities. Specific initiatives like the Asset Quality Review for the banking sector will result in a more rigorous assessment of whether insurance businesses are considered core or could be sold.

In review

While we believe we have the spirit of this prediction correct, regulation has proven to be a barrier to deals, or perhaps more accurately, uncertainty around the timing and scope of regulation has created a more difficult deal environment. This is certainly true in Europe where we have seen lack of clarity around Solvency II capital structures prevent a number of transactions competing. The UK is another good example where the scale of recent change announced in relation to the pension market has caused participants to pause while they assess the fall out. However, we firmly believe both prudential and conduct regulation will be a key driver of activity over the coming years.

7

Rising inbound M&A interest into mature markets

In a reversal of recent deal flow, we expected more inbound investment to mature markets. For example, as Chinese and other investors look to capitalize on opportunities created by current economic conditions.

In review

This prediction has definitely been proven correct by events throughout the year, with a number of large deals undertaken by companies based in Asia in to both North American and European markets. Perhaps the best example is Fosun from China which has made acquisitions in Portugal and Bermuda. In Portugal, Fosun acquired a majority stake in the largest insurance group for €1 billion and later in the year, through its subsidiary, acquired a 96.07 percent interest in the Portuguese healthcare service provider Espírito Santo Saúde – SGPS, SA for around US$589.5 million.[19] Fosun also entered into an agreement with privately owned Bermuda-based Ironshore to purchase 20 percent of its shares.[20] Dai-ichi was also active with a large deal announced in the US for the acquisition of Protective Life for US$5.7 billion.[21]

19. Fosun, through Fidelidade, acquired 96.07% of ESS for EUR459.83 million, Fosun.com, 16 October 2014
20. Fosun To Make Strategic Equity Investment In Ironshore, Fosun.com, 18 August 2014
21. Japan's Dai-ichi Life agrees to buy Protective Life for $5.7 billion, Reuters.com, 04 June 2014

8

Traditional insurers exit legacy segments/sell non-core books to focus on growth and capital redeployment

We forecasted a greater focus on the management of in-force business, leading to improved internal performance, but also sales to specialist carriers that can leverage technology and scale benefits. Although the challenges are significant, we believe opportunity exists to create a pan-European platform to consolidate legacy and closed book portfolios.

In review

Effective management of in-force remains a focus for the industry both from a cost and efficiency perspective but also for those looking to enhance revenue through up-sell and cross-sell opportunities. While transaction activity has been limited, good examples include Cinven's completion of the Heidelberger Leben deal and subsequent acquisition of Skandia's business in Germany and Austria. Cinven have created the first closed life platform in Germany and now administer over one million policies.[22] In the UK, Admin Re continues to be active and has entered into an agreement to acquire over 400,000 policies and GBP4.2 billion in unit-linked assets from HSBC Life (UK).[23]

9

Opportunities to create core infrastructure in high growth markets

With many of the high growth markets lacking the core infrastructure to support ongoing sectorial development, including central clearing houses and data availability and integrity, we anticipated the development of this infrastructure would create investment opportunities.

In review

While we have not seen this play out yet, the opportunity remains. Perhaps the development of this type of infrastructure will ultimately be driven by government and other investors rather than the insurance community.

22. Cinven completes acquisition of Heidelberger Leben, Privateequitywire.co.uk, 02 April 2014
23. HSBC Sells U.K. Pensions Business to Swiss Re Unit, Online.wsj.com, 11 June 2014

10

Access to data changes results in new partnerships and business models

We expected to see another step change for the industry with partnerships being established to capitalize on data driven business models (eg. Google, Amazon, Apple, retailers), resulting in a fundamental change in the way insurance is bought and sold. Traditional incumbents must react.

In review

As previously mentioned, leveraging technology is a critical part of many insurer's growth strategy and a key enabler to how they interact and engage with their clients. At this point in time we haven't seen the transformational impact of new entrants but we believe its coming and the industry needs to prepare for a new way of doing business with the next generation of consumers. Examples include the continued development of the driverless car and initiatives such as the health kit launched by Apple. Google has also launched Google Fit, which is a fitness centered app for Android users.[24]

In conclusion

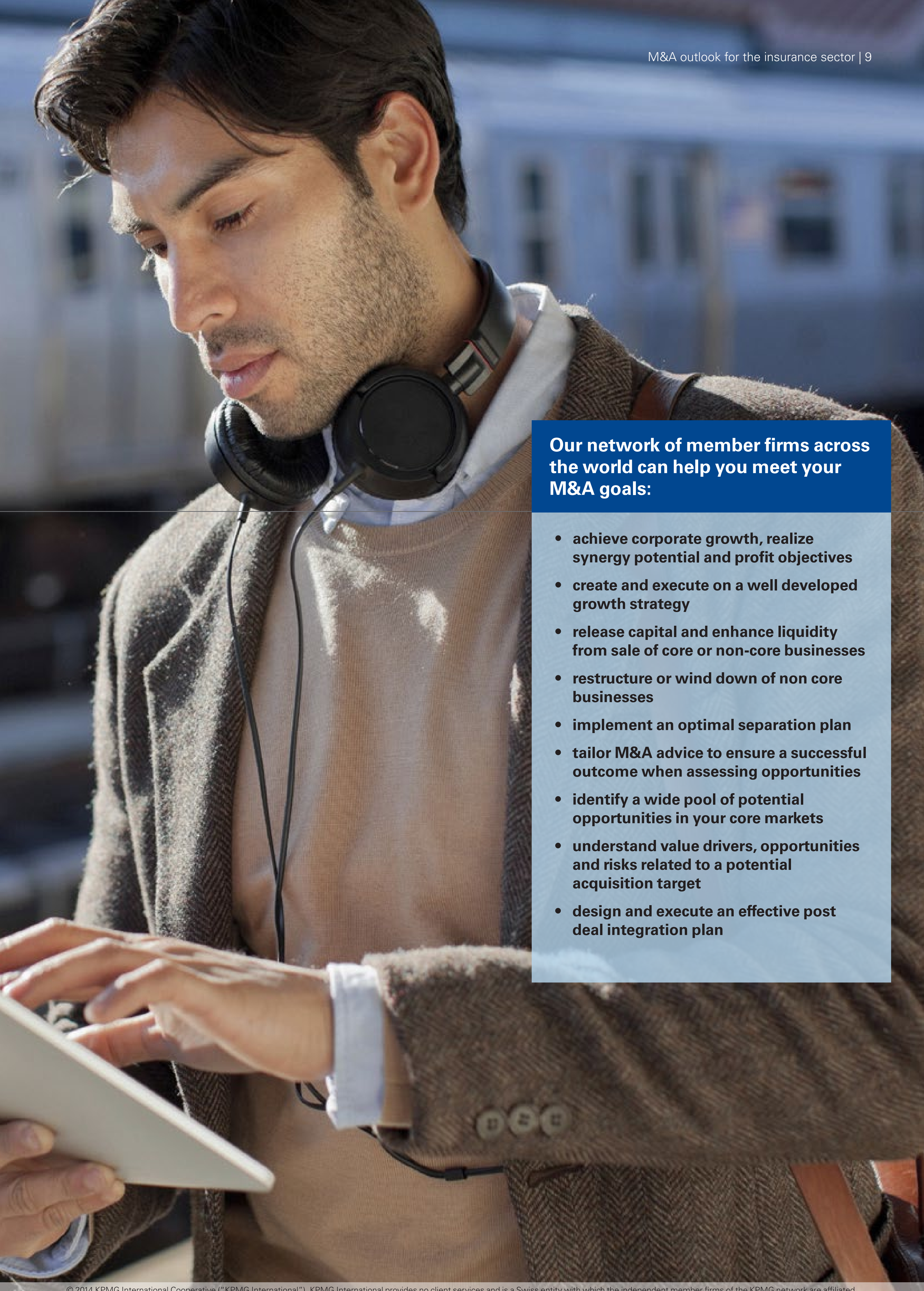
As predicted, 2014 turned out to be a very energetic year for M&A activity globally. It is our belief that, challenging market dynamics, a rapidly evolving regulatory environment and disruptive forces will ensure that M&A remains a key part of many insurers and reinsurers strategy as they look to expand or rationalize their geographic footprint, access new customers and leverage technology to secure new and innovative distribution channels as well as build new capability to enhance customer engagement.

Watch for our 2015 predictions due early in the New Year.

24. Google rolls out Google Fit for Android. Hello, Apple HealthKit, Techtimes.com, 30 October 2014

KPMG’s global insurance M&A platform is positioned to help you achieve your objectives

To help ensure we have the highest level of support to satisfy our clients’ M&A planning and execution requirements, we have established an integrated global network of multidisciplinary M&A professionals focused on the insurance sector. Our dedicated insurance teams provide strategy, market entry, due diligence, restructuring, valuation, separation and integration and M&A advice across mature and high growth markets. Our approach helps to ensure in-depth local market experience is complemented with global deal experience, customized to individual assignment requirements. The result is an impressive track-record of M&A deal support and a roster of leading global insurers who have turned to us to help ensure their transaction ambitions and activities achieve their strategic business objectives.



Our network of member firms across the world can help you meet your M&A goals:

- **achieve corporate growth, realize synergy potential and profit objectives**
- **create and execute on a well developed growth strategy**
- **release capital and enhance liquidity from sale of core or non-core businesses**
- **restructure or wind down of non core businesses**
- **implement an optimal separation plan**
- **tailor M&A advice to ensure a successful outcome when assessing opportunities**
- **identify a wide pool of potential opportunities in your core markets**
- **understand value drivers, opportunities and risks related to a potential acquisition target**
- **design and execute an effective post deal integration plan**

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