

GIRO conference and exhibition 2011  
Peter Allen

## For sale - an update on merger and acquisition activity in the insurance sector

12 October 2011

© 2010 The Actuarial Profession • www.actuaries.org.uk

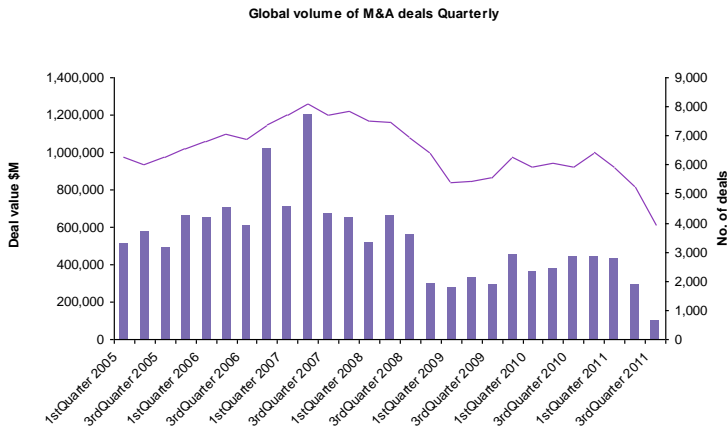
### Agenda

- trends in global M&A volume
- why deals are being done
- what are the acquisition targets
- why are deals not being done
- crystal ball

© 2010 The Actuarial Profession • www.actuaries.org.uk

1

The bottom line is: activity never recovered and is now dropping sharply



Source: Thomson

© 2010 The Actuarial Profession • www.actuaries.org.uk

2

New money coming into public markets has somewhat recovered but is volatile

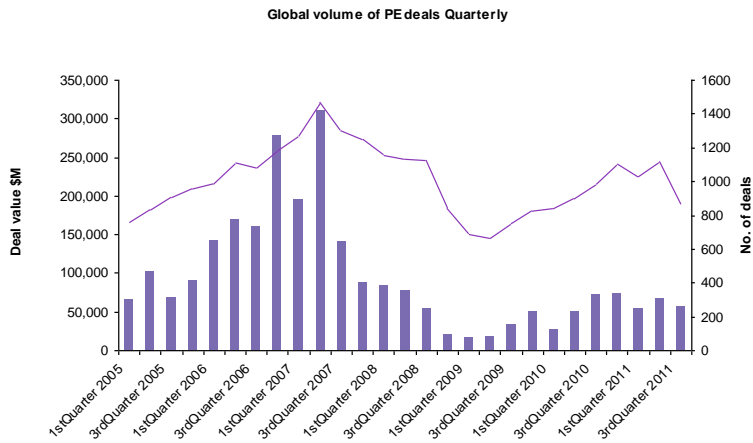


Source: Thomson

© 2010 The Actuarial Profession • www.actuaries.org.uk

3

Private equity deal flow is even more volatile: the peak was higher due to cheap credit. It is also dropping sharply

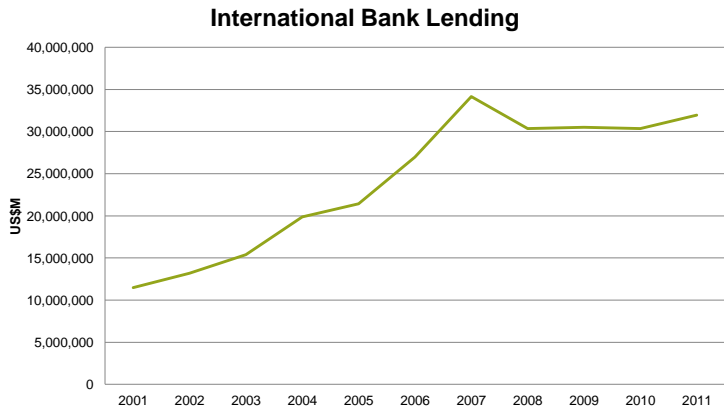


Source: Thomson

© 2010 The Actuarial Profession • www.actuaries.org.uk

4

As banks struggle to recapitalise, the supply of finance reduced and then appeared to recover

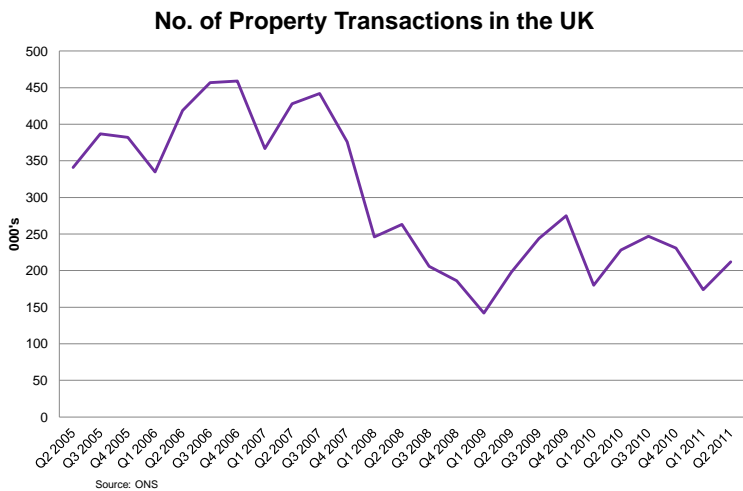


Source: Bank for International settlements

© 2010 The Actuarial Profession • www.actuaries.org.uk

5

And just in case you thought this didn't affect you

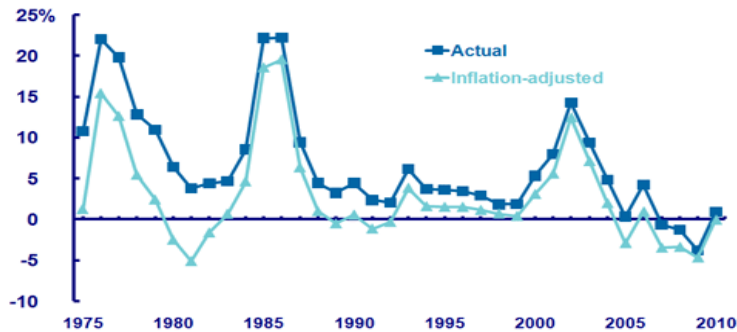


© 2010 The Actuarial Profession • www.actuaries.org.uk

6

Property and casualty insurers are bumping along the bottom of the underwriting cycle

PERCENT CHANGE FROM PRIOR YEAR, NET PREMIUMS WRITTEN, P/C INSURANCE, 1975-2010 (1)



(1) Excludes state funds.

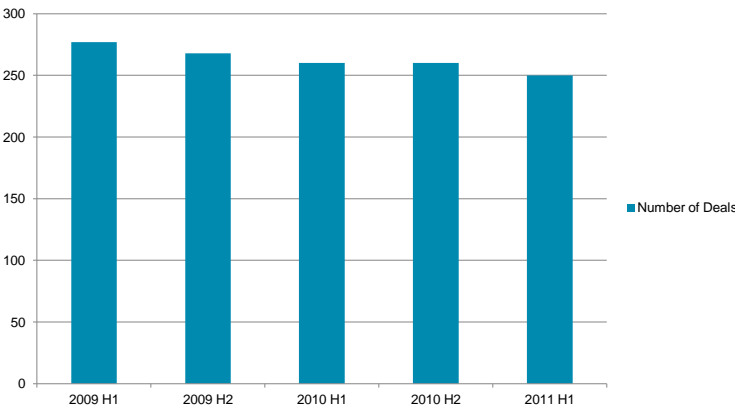
Source: ISO.

© 2010 The Actuarial Profession • www.actuaries.org.uk

7

Although insurance M&A has also dropped globally it has done so by less than the drop in the all-sector M&A

Volume of Global Insurance deals completed :  
2009-2011



Source: Clyde & Co

© 2010 The Actuarial Profession • www.actuaries.org.uk

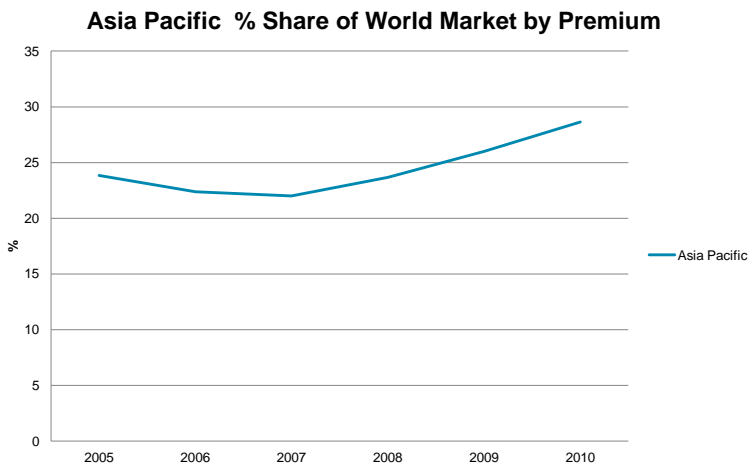
8

**The Actuarial Profession**  
making financial sense of the future



© 2010 The Actuarial Profession • www.actuaries.org.uk

..... almost certainly supported by the attraction of Asia Pacific markets to global insurers

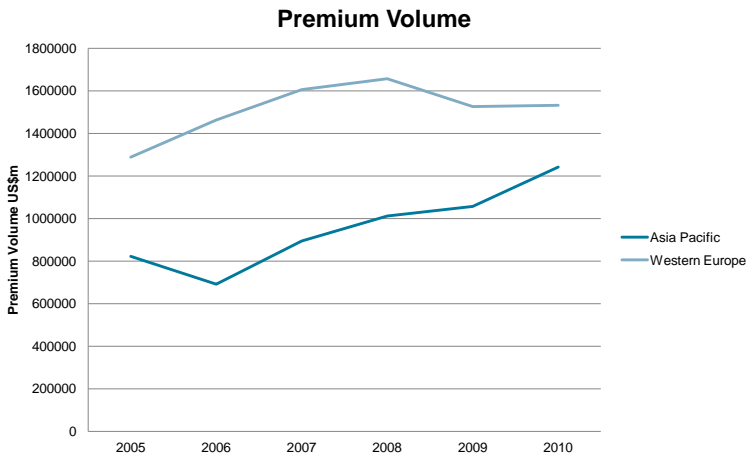


Source: Sigma

© 2010 The Actuarial Profession • www.actuaries.org.uk

10


**As Asia Pacific insurance markets converge on Europe in terms of scale**




Source: Sigma

© 2010 The Actuarial Profession • www.actuaries.org.uk


11




**The Actuarial Profession**  
making financial sense of the future



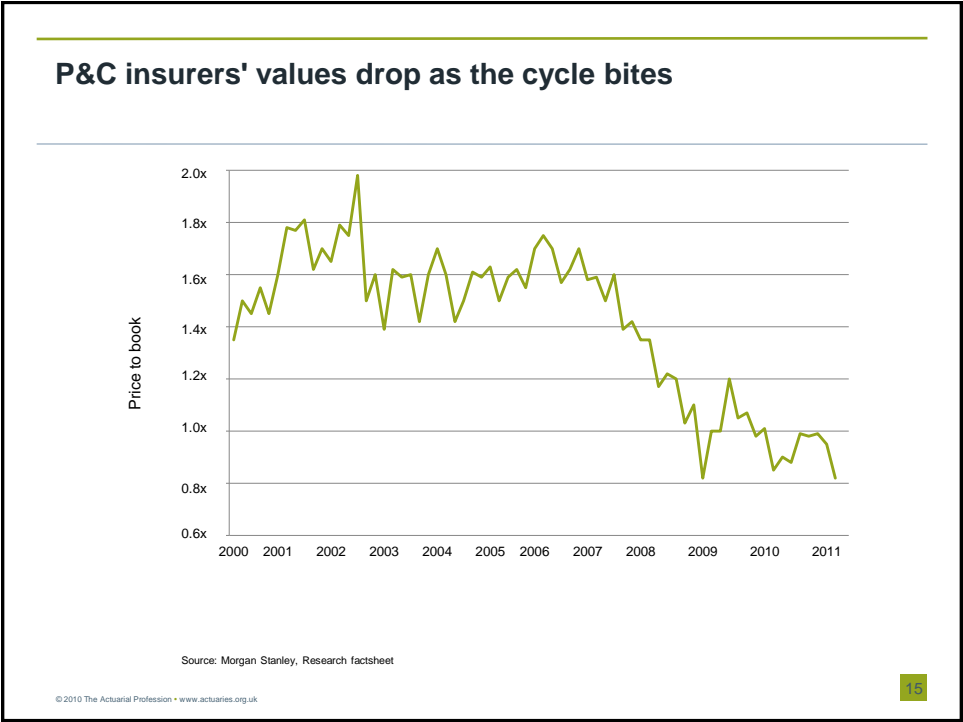
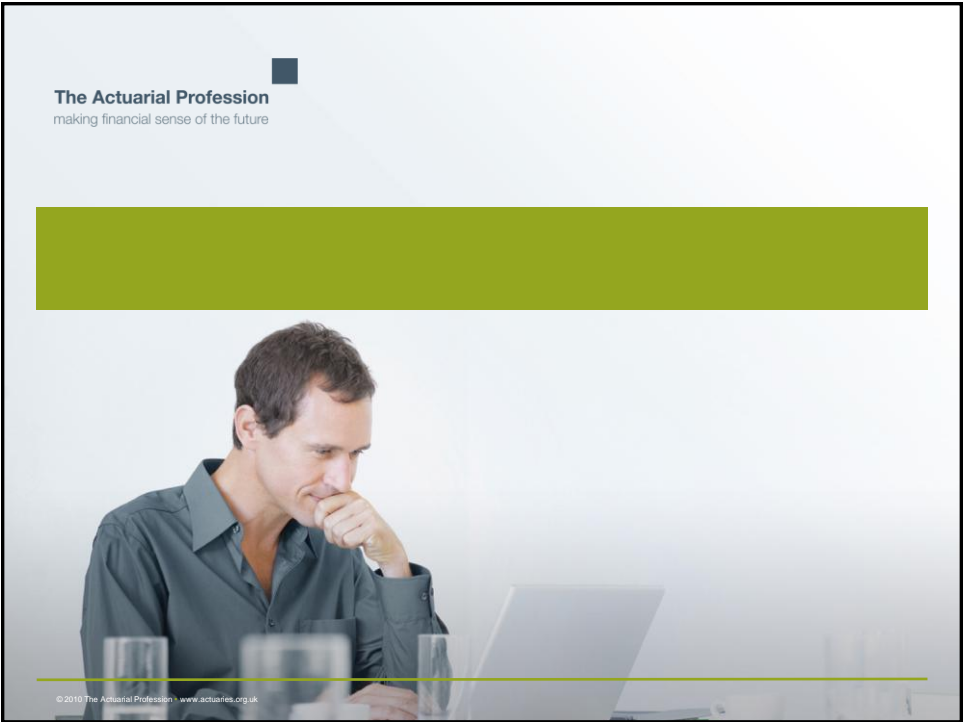
© 2010 The Actuarial Profession | [www.actuaries.org.uk](http://www.actuaries.org.uk)



**The Actuarial Profession**  
making financial sense of the future

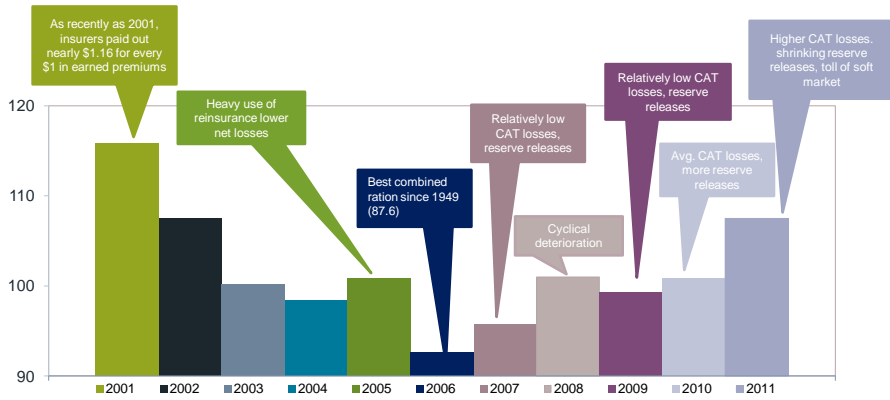


© 2010 The Actuarial Profession | [www.actuaries.org.uk](http://www.actuaries.org.uk)





Just when you think they've got the hang of it....

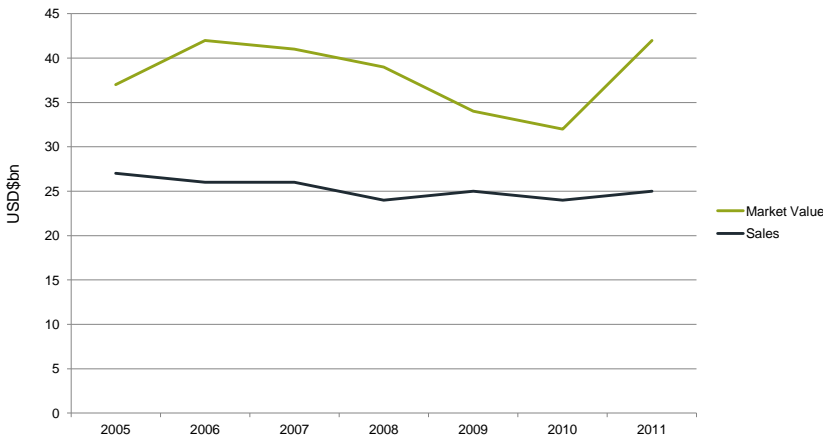


Source: Aegis

© 2010 The Actuarial Profession • www.actuaries.org.uk

16

Insurance broker public valuations are rising, probably on expectations of a hardening market



Source: Thomson

© 2010 The Actuarial Profession • www.actuaries.org.uk

17

Reasons for deals - Top 50 global insurance deals

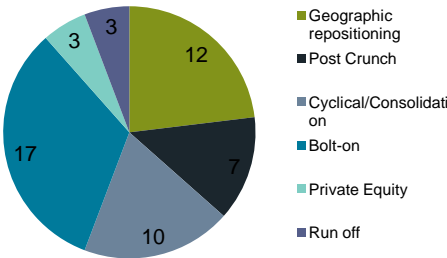
- post crunch
- geographic repositioning
- cyclical/consolidation
- bolt-on
- private equity
- run-off

© 2010 The Actuarial Profession • www.actuaries.org.uk

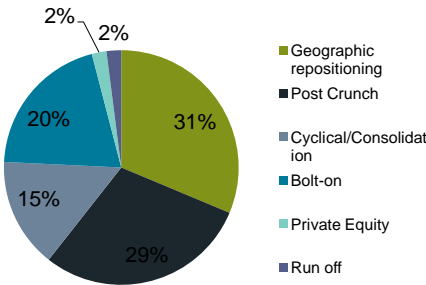
18

Geographic repositioning and the forced sale of insurance assets are major drivers of deals

By number



By value

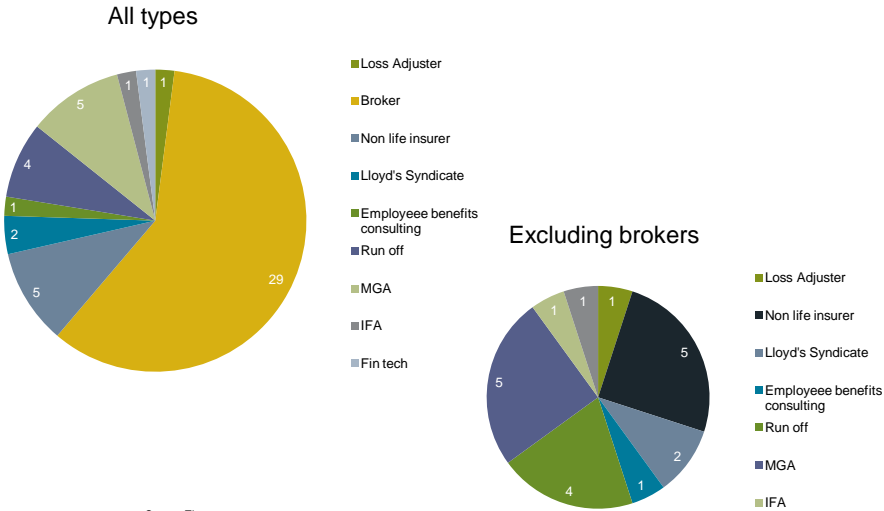


Source: Thomson

© 2010 The Actuarial Profession • www.actuaries.org.uk

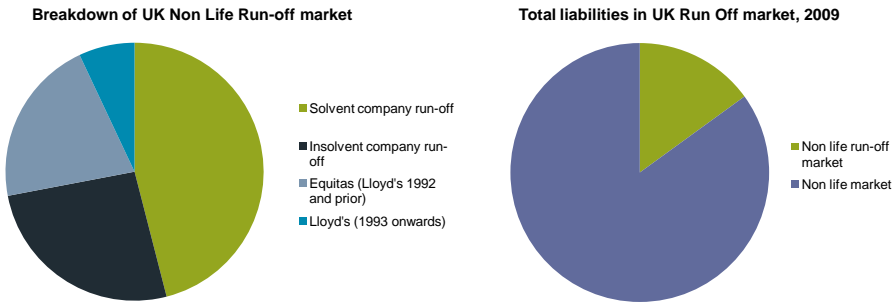
19

# UK transactional activity is dominated by the purchase of intermediaries



20

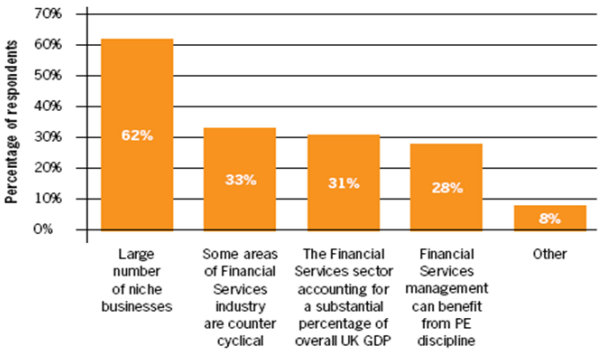
# Run-off is a measurable segment of the UK insurance market



21

# Private equity is attracted by the deconsolidated nature of the insurance market

What specific factors have drawn you to the Financial Services sector?



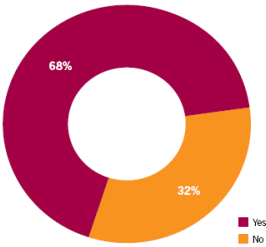
Source: Grant Thornton - Smart Money

© 2010 The Actuarial Profession • www.actuaries.org.uk

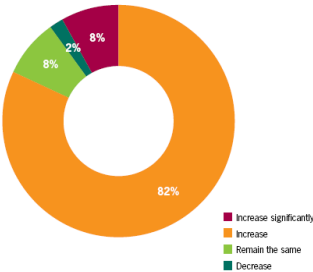
22

# Private equity is keen to transact, but as we have seen there are strong headwinds

Does your firm plan to make an investment in the UK Financial Services sector over the next 12 months?



How do you expect private equity activity (ie deals) in the UK Financial Services industry to develop over the next 12 to 24 months?



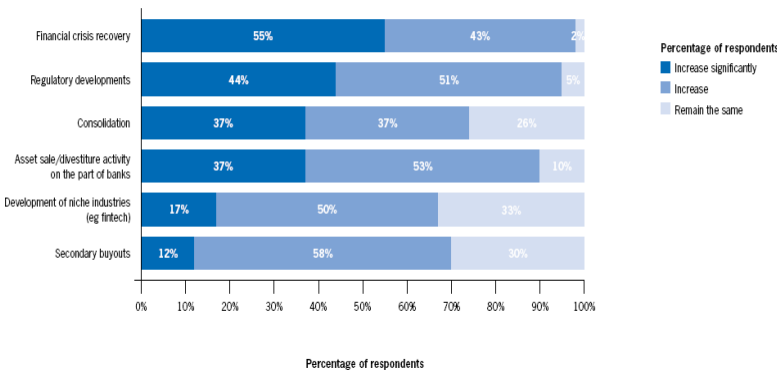
Source: Grant Thornton - Smart Money

© 2010 The Actuarial Profession • www.actuaries.org.uk

23

# Investors agree that post crunch deal flow will remain significant

How important will the following factors be in driving private equity activity in the UK Financial Services sector?



Source: Grant Thornton - Smart Money

© 2010 The Actuarial Profession • www.actuaries.org.uk

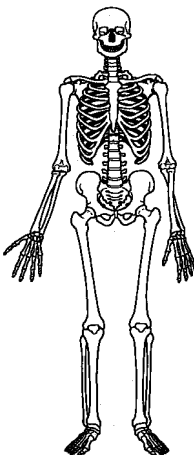
24

# Transaction risk - anatomy of an uncompleted deal

Urgent requirement for financial due diligence completed in three weeks

Valuation disagreements result in complex deferred consideration structure

Deal is discretionary for both parties



Due diligence uncovers PI risk and major client uncertainty

Vendor not willing to pay for top up PI cover

Deal remains uncompleted

© 2010 The Actuarial Profession • www.actuaries.org.uk

25

## And I have no explanation for this

Withdrawn deals as a percentage of total deals 2005-2011



Source: Thomson

© 2010 The Actuarial Profession • www.actuaries.org.uk

26

## Regulation may increase deal flow

- Solvency II
  - sale or merger of smaller entities
  - portfolio rebalancing: return of composite
  - internal restructuring
- post crunch
  - disposal of non-core assets
  - Vickers
- RDR
  - distribution merger

© 2010 The Actuarial Profession • www.actuaries.org.uk

27

---

## Summary

---

- global all-sector M&A is probably at a (recent) historic low
- but insurance deals have not declined so dramatically
- this is (probably) due to the P&C cycle, the disposal of non-core banking assets, and growth in Asia-Pacific markets
- UK insurance M&A is dominated by intermediary and service company deals
- transaction risk remains significant
- regulation may increasingly drive deal flow