



How can M&A be a catalyst for growth?

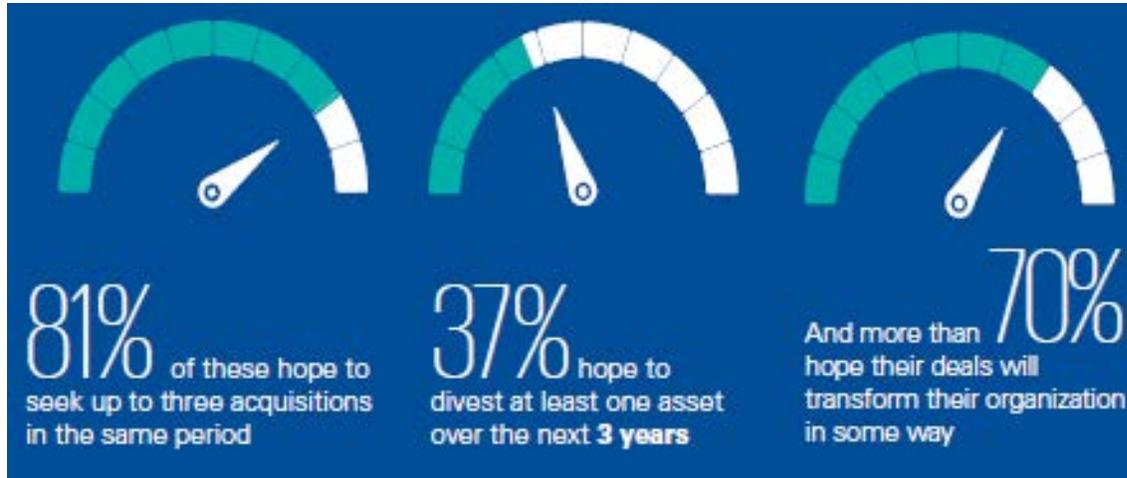
KPMG's 27th Annual Insurance Conference

Thursday, December 6, 2018 | #KPMGIC



M&A: catalyst to growth and transformation

Insurers are seeking opportunities to strategically release and deploy capital globally



Source: KPMG Innovation Lab analysis based on CB Insights data set

Appetite for deal activity

- Rapidly changing markets
- Cannot rely on organic growth alone will
- M&A is high on the insurance company agenda.
 - 75% of insurers expect to seek acquisition opportunities
 - 67% expect to seek partnership opportunities over the next 3 years

Geographical implications

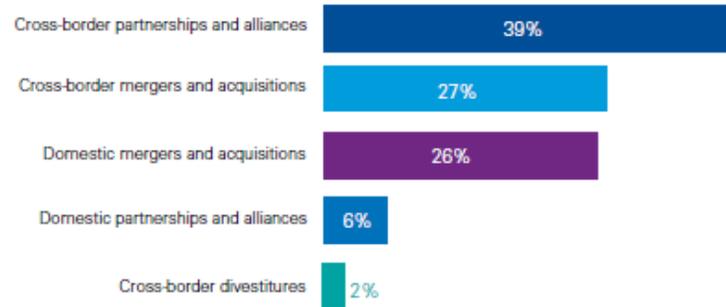
- North America is where most M&A activity is expected over next three years
- Asia activity is expected to be driven by partnerships due to regulatory restrictions
- Western Europe is expected to be comprised of divestiture activity

Capital surplus

- Capital and surplus levels at record highs across the industry

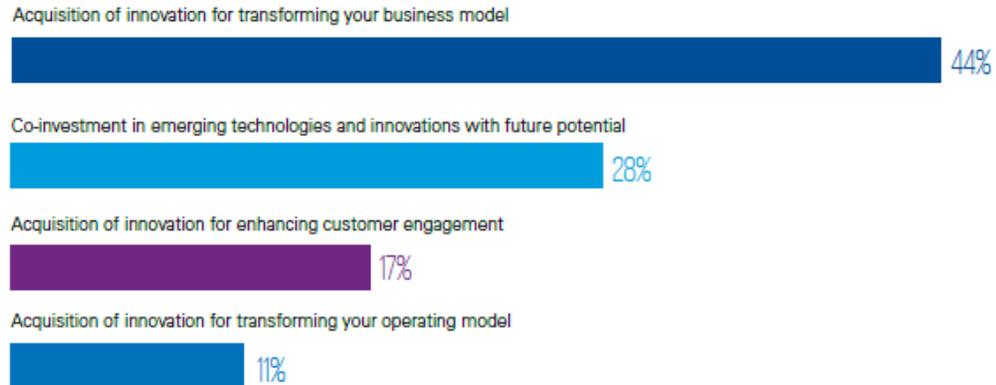
Rise of joint ventures, partnerships and alliances

Over the next 3 years, which types of M&A transactions do you expect your company to undertake?



Source: KPMG Innovation Lab analysis based on CB Insights data set

What is the primary objective of your corporate venture capital team?



Source: KPMG Innovation Lab analysis based on CB Insights data set

Industry disruption

- Traditional routes to acquisitions may not be sufficient
- Insurers now setting up dedicated innovation capabilities such as:
 - In-house innovation labs
 - Partnership teams
 - Corporate venture capital (CVC) teams with a mandate to acquire innovation.

Room for growth

- 9 of the 33 publicly-reported CVCs are based in the US
- North America has the lowest number of CVCs in proportion to the size of the overall market.

H1-18 \$42 billion of deal value, highest first half since the crisis

Mega deals continue

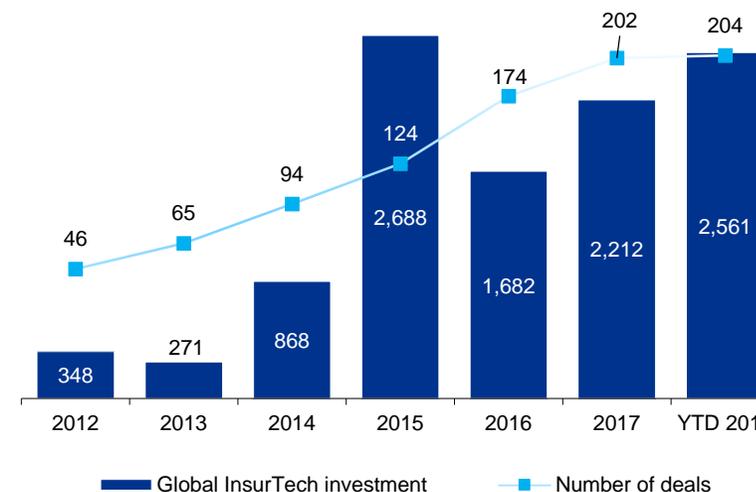
- 14 deals over \$566 million (€500 million), an increase of 18% over H1-2017
- Six deals over \$1 billion compared with eight in H2-17
- Large deals pushed total deal value to \$42 billion for H1-18

 <p>Acquired Acquisition of reinsurer and specialist insurer</p>  <p>\$5.6 billion January 2018</p>	 <p>Acquired Acquisition of global property and casualty insurer</p>  <p>\$14.1 billion March 2018</p>	 <p>Acquired Acquisition of insurance, reinsurance and employee benefits, brokerage</p>  <p>\$6.4 billion September 2018*</p>
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- Outside of H1-2018 but included for discussion due to size of transaction

Insurtech M&A growth

InsurTech historical M&A activity
(\$ in millions)



Source: CB Insights

The US and APAC showed growth

Global Trends

- Europe decline potentially due to Brexit uncertainty and heavy activity in previous years
- Increase in US and Asia driven in part by improving regulations
 - New US tax rules increasing cash flow
 - China expected regulatory improvements
- Merger of large US health insurers and pharmaceutical groups

H2 2018 insurance M&A by region

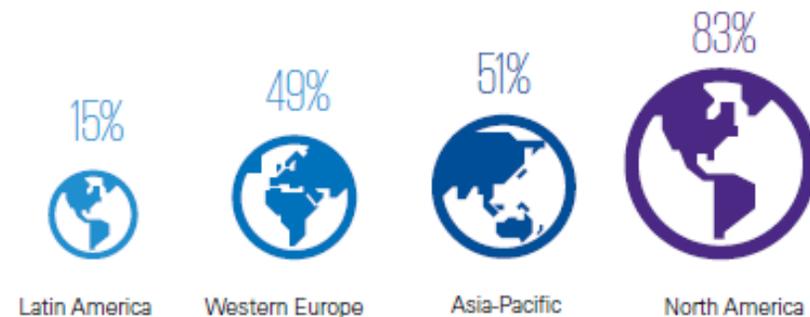
Region	H1 2018	H2 2017	% change
Global	186	180	+3.3% ▲
Americas	97	90	+7.7% ▲
Europe	59	65	-9.2% ▼
APAC	25	20	+25% ▲
MENA	4	3	+33% ▲

Source: Thompson Reuters

Increased focus on international transactions

- Significant regional, cross-border deal activities expected over the next 3 years.
- Our survey indicates that the majority of insurers expect to be involved in some sort of non-domestic deal

Which regions do you think will have the most insurance M&A activity over the next 3 years?



Source: KPMG Innovation Lab analysis based on CB Insights data set

Trends in APAC Insurance M&A

Bancassurance continues to be a driver for insurance deals in APAC

Across key markets in South East Asia, insurers have increasingly relied on bancassurance partnership to grow their business.

Long-term, exclusive agreement often command a high valuation premium

Non-FS and technology companies are investing in insurance sector

Recent Hong Kong insurance deals were fuelled by mainland Chinese non-financial services bidders.

The likes of Alibaba and Tencent have all been actively acquiring shares of existing insurance companies and co-funding new InsurTech companies

Embracing Disruptive Tech & Business Models

As insurers seek to expand outside of their traditional distribution networks in Asia, digital partnerships are

emerging as a fairly quick way to tap into new customer segments without significant upfront capital investment

Foreign investment relaxation in China financial services sector

Foreign investors will be allowed to take a 51% stake in life insurance companies after three years and the cap will be removed in five years.

China's pension, health insurance and reinsurance sectors also draw a lot of foreign interests

Regulatory changes

Asian countries are moving towards more robust capital solvency framework and IFRS 17 creating consolidation of the market.

E.g. RBC in Hong Kong, C-ROSS in China

Private equity, pension funds and family offices' interest

Private equity, pension funds and family offices have an increased appetite for financial services sector including insurance.

The 'wall of money' that is available to be deployed will increasingly find its way into the financial services sector

Driven by changing business models, financial buyers and...

Changing business models

- Companies divested non-core & high capital ratio business
 - Liberty Mutual divested life assurance to Lincoln Financial Group,
 - Aberdeen divestiture of life assurance business to Phoenix Group,
 - Prudential plc demerge and sale of UK annuity portfolio,
 - Manulife reinsurance of substantially all of its legacy U.S. individual and group pay-out annuities businesses, and a portion of Canadian Life.

- Focusing on growth of core businesses
 - AXA / XL
 - Marsh McLennan / JLT

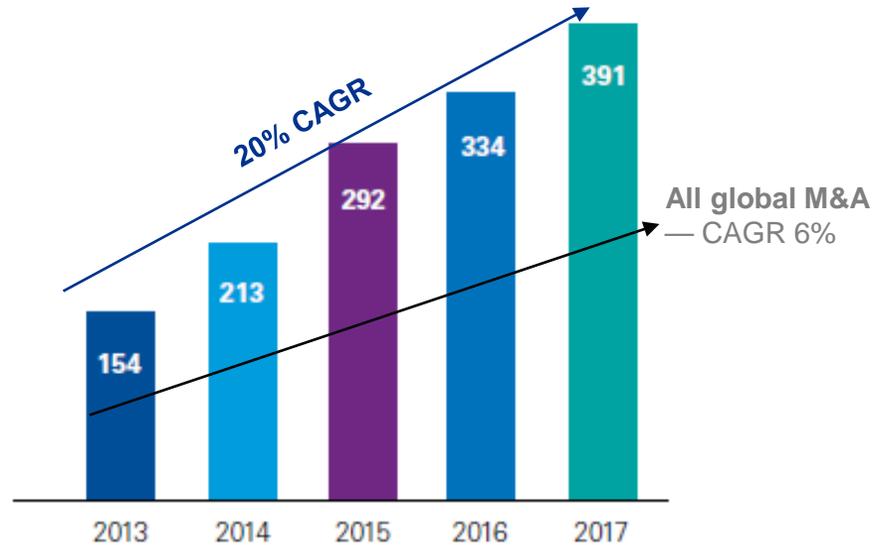
Increased activity from financial buyers

- Attraction from potential to improvement investment income
 - Trend of increased willingness for general fund investment in alternatives.

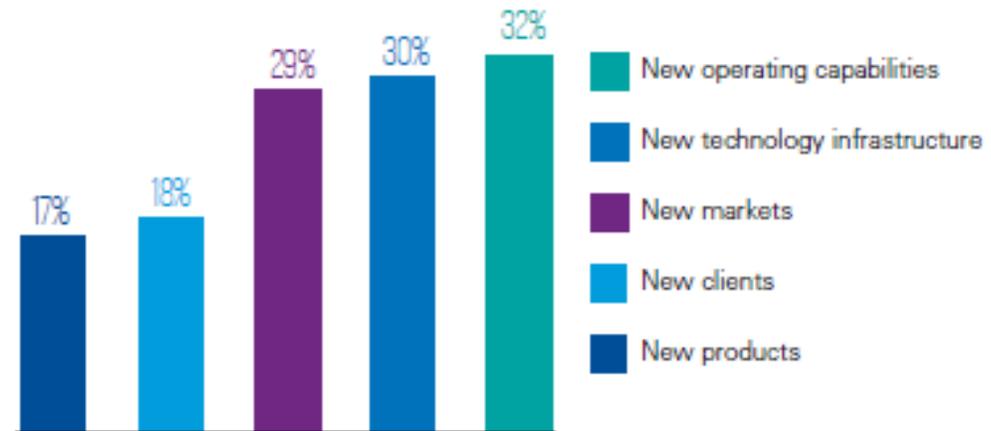
- Recent examples:
 - Apollo Global Management acquisition of Aspen Insurance Holdings for \$2.6 billion
 - Carlyle's \$6.7 billion acquisition of Sedgwick
 - Madison Dearborn acquired Navacord
 - CDPQ's investment in BFL

... and investment into innovation

M&A for emerging technology capabilities
(# of acquisitions per year)



What are the key sub-factors that will drive insurance acquisition activity in your organization over the next 3 years?



- Growth of tech-driven M&A activity has outpaced that of all global M&A over the past 5 years.
- Insurtech continues to be a highly active
- Increasing use of non-traditional M&A JV & partnerships
- *“The top factor that will drive insurance acquisitions will be the **need for emerging technologies**”*
Head of Finance at a China based P&C insurer

Source: KPMG Innovation Lab analysis based on CB Insights data set

In 2018 Canadian deals were concentrated in brokerage

- Limited Canadian carrier activity
- Brokerages looked to consolidate, add specialized capabilities or expand geographically.
 - Consolidation facilitated by ownership exit strategies.
 - Entry into new geographic markets (eg. Western Financial / Axion Insurance)
- Continued acquisition of distribution capabilities by insurance companies (eg. Industrial Alliance, Sun Life Financial)
- Continued interest from foreign buyers (i.e. The Travelers Companies and Madison Dearborn)
- Financial buyers have been active:
 - Madison Dearborn / Navacord
 - Teachers Private Capital / Kanetix Ltd
 - CDPQ / BFL Canada

2018 distribution transactions

Bidder	Target	
Brokerage		
Hub International Limited	Tri-Line Agencies Inc.	Nov-18
Hub International Limited	Kuokoa Enterprises Inc.	Nov-18
Hub International Limited	Frontier Business Centre Ltd.	Sep-18
Hub International Limited	Access Insurance Brokers Inc.	Sep-18
The Co-operators	Robert Poirier & Associés	Oct-18
Archway Insurance	J.H. Deveau Insurance	Aug-18
The Travelers Companies, Inc.	Zensurance Inc. (60% stake)	Aug-18
Hub International Limited	Cypher Systems Group	Aug-18
Madison Dearborn Partners, LLC	Navacord Inc.	Jul-18
La Caisse de dépôt et placement du Québec	BFL Canada (20% stake)	Jun-18
Western Financial Group Inc.	Axion Insurance Services Inc.	Jun-18
Onex Corporation	Ryan Specialty Group (\$175m investment)	Jun-18
Archway Insurance	Bay Insurance & Financial	May-18
April Group	Benecaid	Apr-18
iA Financial Group	ABEX Brokerage Services Inc.	Apr-18
Hub International Limited	GMS Insurance Inc.	Mar-18
Industrial Alliance Insurance	PPI Management Inc.	Feb-18
Financial Horizons Group	ABEX Central Financial Services	Feb-18
Acrisure, LLC	Beach & Associates Limited	Jan-18
Group Benefits		
Arthur J. Gallagher & Co.	Leystone Insurance & Financial, Inc.	Aug-18
Sun Life Financial	Maxwell Health	Jun-18
Hub International Limited	Les Avantages Sociaux Delta Inc.	May-18
Hub International Limited	The Benefits Company, Inc.	Apr-18

Source: Mergermarket

Insurtech investment continued to be a focus in Canada

— Insurers continue to invest into Insurtech to:

- access digital distribution and product capabilities;
- accelerate innovation initiatives.

— Financial investors are making investments

— Other notable transaction:

- RGAX acquired LOGiQ3

Access to or enhancement of online brokerage capabilities

- Totten Insurance Group acquisition of Belyer Insurance.
- Saskatchewan Government Insurance acquired 15% of Nuera Insurance Inc.
- The Travelers Companies, Inc. acquired 60% of Zensurance Inc. (JV).
- The Cooperators partnership with Slice Labs

Corporate strategic capital investment, joint ventures and partnerships

- Intact Financial invested C\$3.9 million in San Diego-based self-driving vehicle startup Voyage
- Aviva Canada and venture capital firm OneEleven are investing in five insurtech startups
- Aviva & DMZ accelerator investment
- Mnuvo C\$16.5 million venture financing & partnership with Munich Re's HSB Ventures

Financial investors: private equity, and pension investment

- OTTP acquired Kanetix Ltd.
- Fineqia International purchased a stake in Blockchain insurance company Black Insurance.
- League Inc. raised C\$62 million in venture financing deal led by Telus Corp.'s venture capital arm

Utilized to further innovation initiatives

Recent examples include:

Insurtech JV - Lifestyle risk management / data analytics

- Self described as “biggest joint venture in insurtech history”
- Launch of “ONE Coach” which anonymously examines factors like working time, sleep, and movements to allow users to monitor how their risk assessment scores are impacted by lifestyle choices
- “allows for usage of data entirely unknown to the insurance industry as yet” Munich Re executive director Tobias Sonndorfer

Insurtech partnerships group benefits

- Partnered with a roster of carriers across Canada and the U.S.
- The strategic move expands League's insurance offering and provides consumers with greater choice and flexibility, which now include fully insured.

Insurtech accelerator investment

- Aviva Canada and the DMZ at Ryerson University have launched an accelerator program for Canadian startups that require rapid development.

Partnership- digital product development

- Create solutions that address client insurance needs in the fast-evolving digital economy and to launch The Co-operators new digital insurance brand in Canada.

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Thank you



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