



## I. STRONG PERFORMANCE IN INSURANCE SECTOR

Global transaction value increased 170% from \$47.4bn in 2016 to \$128.2bn in 2017, its highest level over the past five years. The largest share of 2017 transaction value (73%) originated in the United States and Canada, a significant increase over the United States and Canada's 31.0% share of global deal value in 2016. The increase was the result of the \$69bn announced acquisition of Aetna by CVS Corporation in December 2017. Europe and the Asia/Pacific region accounted for 10% and 13% of total deal value, respectively.

Global insurance M&A activity was strong through 2017, with 955 total transactions completed compared to 824 in 2016 (+16%). Insurance Brokerage M&A was the most active sub-sector overall with 527 announced deals, followed by the Property & Casualty segment with 183 deals and the Life & Health segment with 147 deals.

Over the past three years, Europe and North America have witnessed more robust insurance M&A activity in the lower middle market (<\$250m). Comparatively, activity in the Asia/Pacific region has been driven by a small number of +\$1bn transactions. In 2017, the Asia/Pacific region accounted for only 12.9% of deal volume while Europe and North America saw 27.8% and 51.7% of originations, respectively.

Chart I: *Global Insurance M&A Activity 2013-2017*

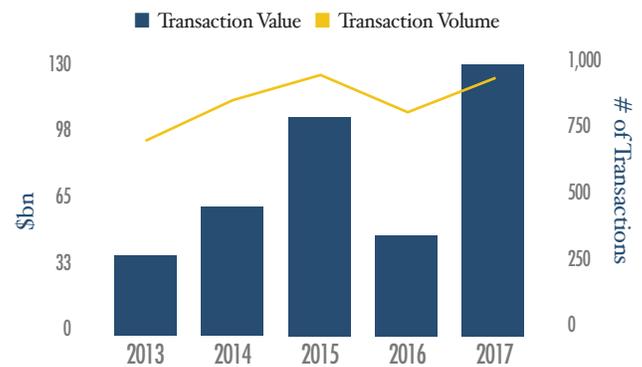


Chart II: *Transaction Volume by Insurance Industry Segment 2017*

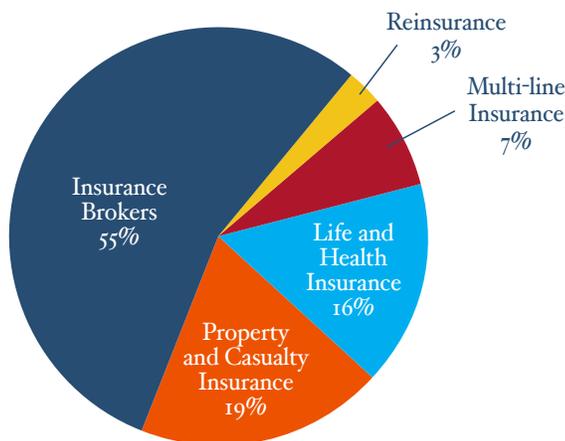
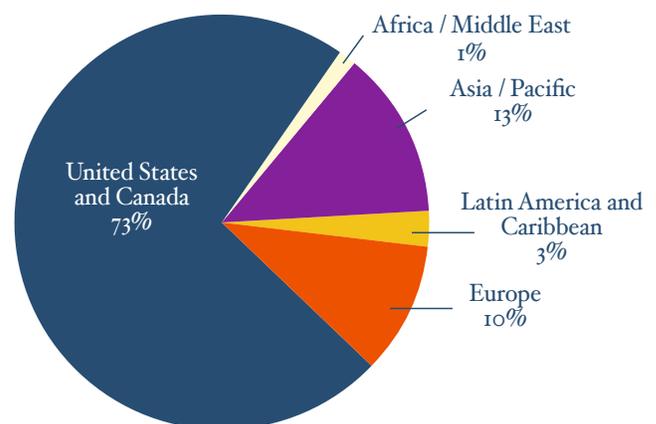


Chart III: *Global Insurance Transaction Value by Region 2017*





## II: GLOBAL INSURANCE TRANSACTIONS

The global M&A Market has been active with a number of high profile insurance industry mergers and acquisitions over the last 18 months. The ten largest insurance transactions represented approximately \$116bn in transaction value, of which four originated in the United States, two in the United Kingdom, two in China, two in Bermuda, and one in Australia.

In December 2017, CVS Corporation, which operates more than 9,700 retail pharmacies throughout the United States, Puerto Rico and Brazil, as well as more than 1,100 Minute Clinic locations throughout the U.S., announced its intent to acquire health insurer Aetna, which operates commercial health plans for employers and administers health benefits for state Medicaid and Medicare programs. Post-merger, the combined firm will have access to a complete set of data for each patient in its system, from their medical history to their pharmacy utilization and adherence, all of which will be used to deliver better and more cost effective care while reducing operating costs.

In March 2018 it was announced that AXA, Europe's second largest insurer, had submitted an offer to purchase XL Group (Bermuda/US) for \$57.60 per share (\$15.3bn) and planned to finance the deal with debt, cash and the proceeds of the IPO of its U.S. business. Six other parties were rumored to have been interested, including Allianz and Hartford Financial Services Group, however the second highest bid of \$50 per share fell about \$2bn short.

AXA's acquisition of XL follows on the heels of AIG's January acquisition of reinsurer Validus for \$68 per share or \$5.6bn in cash. Analysts have praised the Validus deal, which is expected to be immediately accretive to AIG's earnings and return on equity. Insurers have increasingly turned to M&A to grow their businesses as financial market returns and increasing regulation slows organic growth.

Chart IV: *Percentage of Deal Volume by Deal Size 2013-2017*

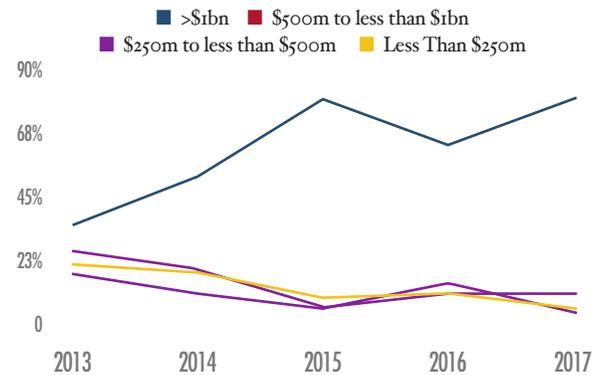


Table I: *Largest Announced Insurance Transactions 2017-2018 H1*

Announcement	M&A Closed Date	Target	Buyers	Total Transaction Value (\$m)	Sector
12/03/2017	Pending Completion	Aetna Corporation (NYSE:AET)	CVS Health Corporation (NYSE:CVS)	69,031	Life and Health Insurance
03/05/2018	Pending Completion	XL Group Ltd (NYSE:XL)	AXA SA (ENXTPA:CS)	15,443	Property and Casualty Insurance
01/22/2018	Pending Completion	Validus Holdings, Ltd. (NYSE:VR)	American International Group, Inc. (NYSE:AIG)	5,564	Reinsurance
11/21/2017	Pending Completion	Huaxia Life Insurance Co., Ltd.	Zhongtian Financial Group Company Limited (SZSE:000540)	4,676	Life and Health Insurance
03/17/2017	05/16/2017	USI Insurance Services, LLC	KKR & Co. L.P. (NYSE:KKR); Caisse de dépôt et placement du Québec	4,300	Insurance Brokers
02/23/2018	Pending Completion	Standard Life Assurance Limited	Phoenix Group Holdings (LSE:PHNX)	4,286	Life and Health Insurance
09/12/2017	Pending Completion	The New York State Catholic Health Plan, Inc.	Centene Corporation (NYSE:CNC)	3,750	Life and Health Insurance
01/19/2018	05/01/2018	Liberty Life Assurance Company of Boston	The Lincoln National Life Insurance Company	3,300	Life and Health Insurance
09/21/2017	Pending Completion	The Colonial Mutual Life Assurance Society Limited and ASB Group (Life) Ltd	AIA International Limited	3,015	Life and Health Insurance
10/18/2017	05/31/2018	The Warranty Group, Inc.	Assurant, Inc. (NYSE:AIZ)	2,528	Property and Casualty Insurance
<b>Total:</b>				<b>\$115,892</b>	



### III. LIFE AND HEALTH INSURANCE SECTOR

Total transaction value and deal volume in the life and health insurance sector grew significantly in 2017. Transaction value rose 724% to \$98.8bn while deal volume increased 5% from 174 in 2016 to 183 in 2017. The large increase in transaction value was the result of several large transactions including the \$69bn announced transaction of Aetna (United States) by CVS (United States), \$4.6bn acquisition of Huaxia Life Insurance (China) by Zhongtian Financial Group Company Limited (China) and the \$3.8bn announced acquisition of The New York State Catholic Health Plan, Inc (United States) by Centene Corporation (United States).

### IV. PROPERTY & CASUALTY INSURANCE SECTOR

Total transaction value in the property and casualty insurance sector grew 148% from 2016 to 2017, while deal volume grew 9.4%. The increase was largely due to AXA's acquisition of XL Group, part of AXA's strategy to establish itself as the largest player in the P&C sector.

### V. INSURTECH SECTOR

From an operational standpoint, we believe the insurance industry is at an inflection point, with the traditional pooled risk model coming under pressure due to: (i) new technologies entering the market, (ii) continued low interest rates, and (iii) a challenging regulatory environment. From a consumer's perspective, wearable technology (Apple Watch, Fitbit, etc.) will continue to reshape the industry by providing up-to-date health data, allowing life insurers to regularly adjust mortality charges. In the P&C sector, we see a similar trend with connected cars that allow insurers to track a driver's individual risk and overall car usage, reducing average premiums. Blockchain technology has also been harnessed to create peer-to-peer insurance systems. While the technology is still in its early stages and has yet to gain widespread social acceptance, the so-called "Digital Social Proof" insurance model represents a wholesale challenge to traditional insurance business model that could prove especially disruptive over the next three-to-five years.

### VI. CONCLUSION

We expect the momentum to continue in the Insurance M&A market through 2018-2019:

**Global Activity:** M&A will increase as insurers seek to grow their businesses in the face of reduced investment incomes, escalating claims costs and more stringent regulations.

**Portfolio Optimization:** Insurance companies will continue to divest underperforming and non-core legacy businesses. Run-off transactions, the sale of long-tail legacy liabilities for companies that are no longer writing a type of policy, will continue to be an impactful part of the M&A marketplace.

**Insurtech Investment:** As large insurance companies seek a strategic advantage, insurtech investments will continue to rise. Disruptive technologies such as machine learning, drone technology, sensors for data usage, and blockchain are examples of sectors that will likely see increased demand.

### ABOUT WINCHESTER CAPITAL

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