Global insurance M&A themes 2017

Dealing with uncertainty
When the future is fogged and ahead lays opportunity but risk, it is better to tread a careful path through the uncertainty than to wait for the mist to clear, if it ever does.”
Anonymous

2016 saw a very significant reduction in global M&A activity and deal value in the insurance industry, particularly following the “megadeal” activity of 2015. High-level numbers on global deal values and volumes only give a very limited perspective on underlying trends and drivers. Drawing conclusions from short-term trends can be dangerous, but there does appear to be a link between the reduced volume and value of deals in 2016 and the high level of uncertainty in global markets. Periods of uncertainty can be challenging for both buyers and sellers, limiting their ability to assess business outlook and valuation, and creating a logical case to defer major investment decisions. However, insurers are very aware that their industry, their relationships with their customers and the regulatory and business landscape are all going through a period of rapid evolution and disruptive innovation, which means key strategic decisions cannot be deferred definitely.

There was an increase in large deal activity toward the end of 2016: of the 10 largest deals in the year, 6 were announced in the last quarter, and we have seen increasing activity in early 2017. This increase in large deal activity could be interpreted as a sign that insurers have decided to get on with addressing their strategic priorities, despite ongoing global uncertainty.

The theme of dealing with uncertainty looks to be a key feature of 2017. So that begs the question: “How do buyers and sellers execute successful transactions during periods of uncertainty and potential volatility?” We discuss some of the responses to that question later in this document, drawing upon lessons learned during the very uncertain and volatile times following the events of 2007/2008.

One of the strategic priorities facing insurers is their response to InsurTech. Later in this document we set out a commentary on InsurTech M&A themes.

We hope you find this document informative and we would welcome the opportunity to discuss our perspectives with you.
Global insurance M&A themes 2017: dealing with uncertainty

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Methodology

► EY’s Global insurance M&A themes 2017 is based on analysis of ThomsonONE.com and Mergermarket data from 1 January 2013 to 31 December 2016.
► We included selected additional transactions that were not in the databases.
► Deals include transactions (announced or completed) in which the target is in the insurance sector.
► Deals in which less than 20% (disclosed) of the company was acquired have been excluded from this analysis.
► Equity investments were included.
► Joint ventures were not included.
► There is no minimum disclosed value deal threshold.
► US health insurance transactions have been excluded.
► The information and opinions contained in this document are derived from public and private sources that EY believes to be reliable and accurate but which, without further investigation, cannot be warranted as to their accuracy, completeness or correctness. This information is supplied on the condition that EY, its member firms, or any leader or employee of any thereof are not liable for any error or inaccuracy contained herein, whether negligently caused or otherwise, or for loss or damage suffered by any person due to such error, omission or inaccuracy as a result of such supply.
Although there was a significant fall in the value of deals compared with 2015, M&A volumes in 2016 were close to levels seen in 2013.

- **58%** decrease in the total value of deals, compared with 2015
- **16%** decrease in the total volume of deals, compared with 2015
- **12** number of deals above US$1b

In late 2016, we published our nine-month review of M&A activity from January through September 2016, in which we commented on the much lower aggregate value of deal activity in the first three quarters of the year. In fact, based on the first nine-month data, 2016 looked set to record the lowest level of deal activity in the last five years. However, the fourth quarter of the year saw a number of large transactions, with US$27.7b worth of deals announced (representing over 60% of the total value of deals for the year).

There was a significant drop in the value of deals across all regions compared to 2015. However the volume of M&A activity fell modestly, indicating a reasonably active underlying deal environment.

There were fewer cross-border deals compared with 2015, with 6 out of the top 10 deals in 2016 being domestic or intra-regional. This is in contrast with 2015 when there were only 3 intra-regional transactions in the top 10 deals.

2016 also saw a notable fall in deals with a value greater than US$5b, recording only one such transaction, compared with five in 2015. This comes as buyers remained cautious to execute “megadeals” in an environment that has been characterized by high levels of uncertainty. We discuss this environment in more detail in the following pages.

*Figures may not add up to 100% due to rounding*
Top 10 announced deals by disclosed value

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Target country</th>
<th>Acquirer</th>
<th>Acquirer country</th>
<th>Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct-16</td>
<td>Endurance Specialty</td>
<td>Bermuda</td>
<td>Sompo</td>
<td>Japan</td>
<td>6,301</td>
</tr>
<tr>
<td>Dec-16</td>
<td>Allied World Assurance</td>
<td>Switzerland</td>
<td>Fairfax Financial</td>
<td>Canada</td>
<td>4,926</td>
</tr>
<tr>
<td>Aug-16</td>
<td>United Guaranty Corporation</td>
<td>United States</td>
<td>Arch Capital Group</td>
<td>Bermuda</td>
<td>3,425</td>
</tr>
<tr>
<td>Aug-16</td>
<td>Max Financial Services</td>
<td>India</td>
<td>HDFC Standard Life Insurance</td>
<td>India</td>
<td>3,190</td>
</tr>
<tr>
<td>Dec-16</td>
<td>Ironshore</td>
<td>Bermuda</td>
<td>Liberty Mutual Insurance</td>
<td>United States</td>
<td>3,000</td>
</tr>
<tr>
<td>Dec-16</td>
<td>Delta Lloyd Group</td>
<td>Netherlands</td>
<td>NN Group</td>
<td>Netherlands</td>
<td>2,724</td>
</tr>
<tr>
<td>Oct-16</td>
<td>Genworth Financial</td>
<td>United States</td>
<td>China Oceanwide</td>
<td>China</td>
<td>2,706</td>
</tr>
<tr>
<td>Nov-16</td>
<td>SquareTrade</td>
<td>United States</td>
<td>Allstate Corporation</td>
<td>United States</td>
<td>1,400</td>
</tr>
<tr>
<td>Sep-16</td>
<td>Abbey Life</td>
<td>United Kingdom</td>
<td>Phoenix Group</td>
<td>United Kingdom</td>
<td>1,217</td>
</tr>
<tr>
<td>Sep-16</td>
<td>Ascot Underwriting</td>
<td>United Kingdom</td>
<td>Canada Pension Plan Investment</td>
<td>Canada</td>
<td>1,100</td>
</tr>
</tbody>
</table>

Deal activity by target geography

<table>
<thead>
<tr>
<th>Region</th>
<th>Value (US$m)</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Americas</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>22,791</td>
<td>278</td>
</tr>
<tr>
<td>2015</td>
<td>31,489</td>
<td>334</td>
</tr>
<tr>
<td>2014</td>
<td>16,204</td>
<td>345</td>
</tr>
<tr>
<td>2013</td>
<td>12,098</td>
<td>246</td>
</tr>
<tr>
<td><strong>Europe</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>13,151</td>
<td>121</td>
</tr>
<tr>
<td>2015</td>
<td>15,195</td>
<td>144</td>
</tr>
<tr>
<td>2014</td>
<td>25,304</td>
<td>215</td>
</tr>
<tr>
<td>2013</td>
<td>14,892</td>
<td>177</td>
</tr>
<tr>
<td><strong>Asia-Pacific</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>9,339</td>
<td>58</td>
</tr>
<tr>
<td>2015</td>
<td>19,964</td>
<td>60</td>
</tr>
<tr>
<td>2014</td>
<td>6,159</td>
<td>78</td>
</tr>
<tr>
<td>2013</td>
<td>8,323</td>
<td>62</td>
</tr>
<tr>
<td><strong>Middle East and Africa</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>1,313</td>
<td>17</td>
</tr>
<tr>
<td>2015</td>
<td>1,265</td>
<td>24</td>
</tr>
<tr>
<td>2014</td>
<td>566</td>
<td>26</td>
</tr>
<tr>
<td>2013</td>
<td>838</td>
<td>16</td>
</tr>
</tbody>
</table>
Dealing with uncertainty: treading a careful path

Political and macroeconomic factors

The UK’s EU referendum in June and the US presidential election in November clearly had a significant impact on markets and investor outlook in 2016. While the triggering of Article 50 by the UK government in March 2017 has provided some clarity over the default timing of “Brexit,” there is continuing uncertainty as to the impact of “Brexit.” This uncertainty is likely to endure for the foreseeable future as the challenging Brexit negotiations get underway between the UK and the EU, and the agenda of the Trump administration becomes clearer.

Concerns over falling growth rates in China’s economy, slow global growth, risks of terrorism and increasing global tension made uncertainty into a consistent global phenomenon in 2016. These factors persist, and upcoming elections in a number of countries in 2017 mean that political and macroeconomic uncertainty (and therefore market volatility) are likely to continue through 2017.

Industry regulation and government policy

From a regulatory and accounting perspective, insurers are faced with increasing and changing industry regulation.

Solvency II came into force for European insurers on 1 January 2016, requiring management teams to set strategy and allocate capital in a very different way than under previous regulatory regimes. The market volatility during 2016 was a very effective “test” of the new capital requirements, with Solvency II balance sheets proving to be more complex and volatile than many observers had expected. Solvency II, and similar mark-to-market and market consistent approaches being implemented in other jurisdictions, will clearly affect how insurers assess M&A decisions within their wider capital management frameworks.

Government policy in areas such as pensions and health care reform will have a massive impact on insurers, defining the role of governments, individuals and insurers in the provision of social care in a number of countries. Business models will need to adapt rapidly in light of emerging changes.

Investment (and divestment) decisions need to be based upon a view of the future. Ideally, that view is based upon predictable market conditions, a clear set of emerging trends and clarity on “the rules of the game” in terms of regulatory compliance, capital requirements and consumer behavior. Needless to say, very few of those factors applied throughout 2016 and there is every reason to believe that uncertainty will continue to be a feature of 2017.
3 Innovation and customer behaviors (digital disruption)

The digital revolution is not only leading to changes in customer behaviors: how customers interact with providers; what customers want from their insurance products and the type of products a customer needs (e.g., cybersecurity; climate change; digital health and life insurance), but it is also affecting every aspect of the insurance value chain.

Insurance companies are heavily reliant on technology and there is huge potential for insurers to achieve operational and expense benefits from the latest advances. Effective use of data analytics ("big data"), blockchain, robotic process automation and other advances are set to revolutionize the operational processes of many insurers. The impact of this on the value proposition for ongoing and legacy insurance businesses is yet to be fully assessed, and such operational advances will create the basis for M&A transactions, potentially leading to consolidation and new ways of addressing the growing challenge of large legacy insurance businesses and portfolios.

4 Demographics and the need for insurance

Linked to the political, macroeconomic, regulatory and technological challenges facing insurers, there are significant questions about the profile and needs of future customers. Aging populations, rapid shifts in global demographics, technology and shifts in social policy as governments assess the true extent of their “off balance sheet liabilities” will all affect insurance business models. Addressing these longer-term trends may appear peripheral when compared to very immediate market and regulatory drivers, but longer-term success will be based upon adapting business models to be relevant to future global customer needs.

With so many uncertainties to assess, it is not surprising that many insurance executives and investors alike stepped back from large scale M&A in 2016. However, critical strategic decisions cannot be deferred indefinitely, and insurers are building M&A plans into their overall strategic response to the daunting series of opportunities and challenges facing the sector.
Dealing with uncertainty: treading a careful path

Transacting during periods of uncertainty and volatility

The insurance market experienced high levels of volatility during and after the Financial Crisis. A key feature that was noted as the sector came out of the crisis was the gradual reduction in “the value gap” in terms of the price expectations of sellers and buyers. For obvious reasons, sellers were much quicker to see positive future trends and to apply pricing multiples based on improving market conditions and longer-term “norms.” Buyers were left trying to figure out valuations that reflected known conditions while also recognizing future actions and upside. Many of the lessons learned from transacting through that volatile period can be applied to current deal processes, including:

► Taking the long view: A number of insurance transactions in the period from 2008 to 2011 were carried out based on a clear set of assumptions about macro conditions anticipated to apply several years into the future. That macro, longer-term view may not provide a full underpin to a competitive valuation, but it should at least limit the downside risk by supporting the assessment that market conditions will favor the achievement of core elements of the business plan. Examples of taking the longer-term view obviously include assessing local market trends, but also much wider considerations including the direction and quantum of capital flows between Asia and Western insurance markets and the impact of technology on products, consumer propositions and operational efficiency.

► Buyers and sellers need to think about “windows of opportunity”: During uncertain and potentially volatile periods, market conditions can improve rapidly, enabling transactions to go ahead. However, “windows of opportunity” can close just as rapidly as they open, so buyers and sellers need to be ready to move quickly, and they need to prepare in advance in order to execute within short timeframes.

► Sellers need to “prove” their view of value to bidders: When sellers’ value expectations are based upon looking beyond current market conditions, then their assessment of future margins and markets needs to be set out very clearly and substantiated with as much objective data as possible. In the absence of such information, uncertainty will drive buyers to consider “worst case” options and price accordingly.

► Pick targets that have a relative advantage compared to peers: All insurers will be affected by market volatility, regulatory change and rapid evolution in customer behavior. Some insurers, based on their scale in their chosen markets, the products in which they specialize or the relative efficiency of their operations, will deal with that volatility better than others.

► Completion mechanics can be critically important to value: During periods of volatility, effective completion mechanics will protect against unintended loss of value. Failure to fully think through completion mechanics, and/or lack of clarity over the basis of preparation of key information can have a very negative impact.

View from the Americas

“To cope with ongoing low interest rates, shrinking returns and other market strains, US insurers will continue to explore M&A opportunities to strategically reposition their businesses in 2017. However, product and portfolio valuation and reinvestment risk could be challenging, particularly for life and annuity firms.”

Mike Brosnan, EY Americas Insurance Transactions Leader
Can this period of uncertainty and volatility also be a driver of M&A activity?

Ongoing uncertainty and volatility is one of the factors encouraging insurers to move ahead with identifying and disposing of non-core businesses. Portfolio optimization and simplification options remain high on the agenda for shareholders and boards. As shareholders and boards define their long-term strategy and operating model, portfolio review exercises are planned or underway to identify, non-core, legacy and under-performing entities and portfolios. For those businesses, there is then the decision to be made as to whether to retain and fix, or to exit.

In the ongoing low growth environment, with insurers struggling to generate returns via traditional insurance business models, expense levels (including necessary project spend) are becoming unsustainable across many parts of the sector. Insurers and investors continue to look to acquisitions as a route to achieve inorganic growth and benefit from scale and synergies.

While some buyers may be deterred by uncertainty, others may see an opportunity to capitalize. In particular, currency movements may encourage capital flows between regions. Depending on the buyers’ risk appetite and investment return criteria, investors may also seek opportunities to capitalize on reduced competition for certain assets and snap up targets at a “good” price.

View from Asia

“Insurers continue to seek expansion opportunities across Southeast Asia where the economic growth and future profit potential remain promising. Valuations remain high with access to distribution commanding particularly high prices. On the other hand, the increased capital controls in China have resulted in a significant decline in outbound M&A from China, particularly from insurers buying into non-core assets such as real estate and hospitality.”

Dustin Ball, EY Asia-Pacific Insurance Transactions Leader
Global capital flows

Fall in global capital flows, driven by uncertainty in the dealmaking environment

2016 saw a significant fall in global capital flows across all regions, with a notable absence of large transaction flows from Asia-Pacific into Europe and the Americas compared with 2015. In particular, deal activity from Chinese and Japanese buyers slowed down, as acquirers digested the large acquisitions made in 2015, and assessed their next steps in terms of global ambition. However, this slowdown is likely to be temporary as the underlying rationale for Chinese and Japanese acquirers to execute deals into wider markets still exists:

- Chinese companies continue to seek investment opportunities, particularly overseas, to diversify their portfolios, protect against RMB devaluation and gain access to profit pools in mature markets. The Chinese buyer pool for insurance assets will continue to expand, and will include conglomerates and state-owned enterprises, some of which may not currently own insurance assets. However the capital controls introduced in Beijing in November 2016 will put increased scrutiny on non-core transactions and large scale deals in general.
- Japanese insurers are still experiencing low growth in their home market, and will continue to seek opportunities for inorganic growth in Europe and the US, in particular.

Significant fall in the value of private equity-led acquisitions

The value of private equity (PE) acquisitions continued to drop in 2016, recording the lowest value in the last four years. This is indicative of the cautious stance that PE investors are displaying in the uncertain dealmaking environment. The fall in activity by PE buyers is also reflective of the perceived increase in the gap between sellers' and buyers' valuation expectations. According to EY’s Global Capital Confidence Barometer (Oct 2016) 68% of insurance executives see a 10%+ gap in valuation expectations between buyers and sellers.

<table>
<thead>
<tr>
<th>Year</th>
<th>Value of PE-led insurance deals (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>8,806</td>
</tr>
<tr>
<td>2014</td>
<td>4,534</td>
</tr>
<tr>
<td>2015</td>
<td>2,447</td>
</tr>
<tr>
<td>2016</td>
<td>640</td>
</tr>
</tbody>
</table>

Fundamentals continue to support insurers’ rationale to engage in M&A activity, but insurance executives are more prepared to walk away from deals.

According to EY’s Global Capital Confidence Barometer (Oct 2016), insurance executives remain positive about dealmaking in 2017, with an increasing proportion of insurers expecting to pursue M&A in the next 12 months. However, there has been a general fall in confidence, with fewer insurance companies expecting to complete acquisitions. Eighty-six percent of insurance companies cancelled or failed to complete a planned acquisition in the last 12 months, with regulatory concerns being a key driver, and economic and political instability a contributing factor.
M&A transaction flows in 2016 (US$b)

<table>
<thead>
<tr>
<th>Acquirer region</th>
<th>Americas</th>
<th>Europe</th>
<th>Asia-Pacific</th>
<th>Middle East and Africa</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>12.9</td>
<td>0.4</td>
<td>9.5</td>
<td>-</td>
<td>22.8</td>
</tr>
<tr>
<td>Europe</td>
<td>5.3</td>
<td>6.7</td>
<td>0.5</td>
<td>0.6</td>
<td>13.1</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>0.5</td>
<td>0.8</td>
<td>8.0</td>
<td>-</td>
<td>9.3</td>
</tr>
<tr>
<td>Middle East and Africa</td>
<td>-</td>
<td>0.3</td>
<td>0.5</td>
<td>0.6</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18.7</strong></td>
<td><strong>8.2</strong></td>
<td><strong>18.5</strong></td>
<td><strong>1.2</strong></td>
<td><strong>46.6</strong></td>
</tr>
</tbody>
</table>

*Figures have been rounded*
Focus on InsurTech

InsurTech is now growing at a rapid pace, despite the insurance sector having been slow to embrace the rise of FinTech. As InsurTech gains traction across insurance lines and the value chain, the focus is increasingly on enablement rather than disruption. The onus is on established insurance providers to partner with new start-ups and leverage tech-based innovation in order to navigate changing consumer and competitive forces and achieve their strategic objectives.

The insurance sector has historically been resistant to tech-driven innovation and change

The insurance sector historically has lagged other financial services sectors in embracing FinTech. This resistance likely relates to the readiness, or otherwise, of both consumers and insurance providers to pursue technology-based innovation and change.

From a provider perspective, large insurers have historically demonstrated a risk-averse culture. This is partly due to a strong emphasis on trust and brand reputation, and reliance on historical data and rigid legacy systems. As a result, providers have been slow to explore and adopt disruptive technologies.

From a consumer perspective, engagement with insurance products and providers is low relative to other types of financial services. For many insurance lines, consumers tend to choose a provider infrequently and at milestone events. Typically, there is limited ongoing communication and proactive consideration of products and their benefits. Instead, consumer engagement tends to occur in a “negative” context, when a problem or adverse life event has occurred. At this time, the consumer has to navigate often complicated legal and claims processes, and meaningful engagement or the pursuit of innovation is a low priority.

However, a combination of consumer and competitive forces has helped to mobilize the insurance sector

As FinTech gains traction across financial services globally, a number of factors have helped facilitate change in the insurance sector, compelling established providers to explore new tech-based propositions.

1 The Protection Review’s The Syndicate 2016 Insurance Report found that two-thirds of policyholders said that they had not heard from their insurer in the past two years and that, of this group, over three-quarters were happy not to have been contacted preferring, to forget about their purchase.

1 Shift in consumer expectations and behaviors

Consumers have become increasingly demanding and now expect real-time support and 24/7 customer interaction from their insurers. This includes a seamless omni-channel consumer experience, meaningful online engagement, faster sign-up and processing, and real-time support. The popularity of price comparison websites has also made consumers more conscious of price and the availability of sophisticated, transparent pricing options. New players are filling market gaps with less traditional product offerings. For example, New York-based P2P InsurTech, Lemonade, points to its instant and paperless processes, high-speed claims payout (recently reported to have paid a claim in a record time of three seconds), ease of switching and low, transparent prices.

2 Declining insurer profitability

Insurers’ profitability is under pressure as increasing competition and the low interest rate environment have hit underwriters’ bottom lines across domains and countries. Insurers are having to pursue multiple avenues to improve bottom-line performance. Pricing sophistication has become key to improving underwriting profitability in a highly competitive market. Likewise, the rationalization of legacy systems and adoption of cloud-based solutions underpin cost optimization strategies.

3 The changing regulatory landscape

The insurance sector remains highly regulated and the changing policy landscape provides both opportunities and challenges. For example, the UK’s FCA’s “regulatory sandbox” initiative can be expected to support innovation and growth of consumer-centric models. The General Data Protection Regulation (to come into force in 2018) will increase regulatory scrutiny of how European insurers’ collect, store and use customer data. While this presents challenges for data-driven innovations, it will improve data access and portability, and present opportunities for InsurTechs to help established providers transform their data management.
Global insurance M&A themes 2017: dealing with uncertainty

Source: CB Insights, January 2017

### Volume of InsurTech deals (number)

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>207</td>
</tr>
<tr>
<td>2015</td>
<td>122</td>
</tr>
<tr>
<td>2014</td>
<td>91</td>
</tr>
<tr>
<td>2013</td>
<td>63</td>
</tr>
</tbody>
</table>

### Value of InsurTech deals (US$b)

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1.7</td>
<td>2.8</td>
</tr>
<tr>
<td>2015</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>2014</td>
<td>0.9</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>0.3</td>
<td></td>
</tr>
</tbody>
</table>

*Two very large deals (Zenefits and Zhong An Insurance)*

### InsurTech deals by stage

<table>
<thead>
<tr>
<th>Volume</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>38%</td>
<td>6%</td>
</tr>
<tr>
<td>14%</td>
<td>23%</td>
</tr>
<tr>
<td>9%</td>
<td>16%</td>
</tr>
<tr>
<td>5%</td>
<td>42%</td>
</tr>
<tr>
<td>32%</td>
<td>8%</td>
</tr>
</tbody>
</table>

*Seed* | *Series A* | *Series B* | *Series C* | *Series D* | *Other*

### InsurTech deals by geography

<table>
<thead>
<tr>
<th>Volume</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>58%</td>
<td>81%</td>
</tr>
<tr>
<td>6%</td>
<td>1%</td>
</tr>
<tr>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>22%</td>
<td>8%</td>
</tr>
</tbody>
</table>

*US* | *UK* | *China* | *India* | *Other* |

### Top 10 InsurTech deals in 2016

<table>
<thead>
<tr>
<th>Date</th>
<th>Company</th>
<th>Amount (US$m)</th>
<th>Description</th>
<th>Geography</th>
<th>Investment round</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb-16</td>
<td>Oscar Health</td>
<td>400</td>
<td>Tech-enabled health insurance carrier</td>
<td>New York, US</td>
<td>Series C</td>
</tr>
<tr>
<td>May-16</td>
<td>Clover Health</td>
<td>160</td>
<td>Data-driven health insurance start-up</td>
<td>California, US</td>
<td>Series C</td>
</tr>
<tr>
<td>Feb-16</td>
<td>Metromile</td>
<td>103</td>
<td>Per-mile car insurance</td>
<td>California, US</td>
<td>Series D</td>
</tr>
<tr>
<td>Apr-16</td>
<td>Bright Health</td>
<td>80</td>
<td>Data-driven health insurance start-up</td>
<td>Minnesota, US</td>
<td>Series A</td>
</tr>
<tr>
<td>Aug-16</td>
<td>Rabbit Internet</td>
<td>57</td>
<td>Finance and digital insurance brokerage portal</td>
<td>Bangkok, Thailand</td>
<td>Corporate majority</td>
</tr>
<tr>
<td>Sep-16</td>
<td>Metromile</td>
<td>50</td>
<td>Per-mile car insurance</td>
<td>California, US</td>
<td>Corporate minority</td>
</tr>
<tr>
<td>Sep-16</td>
<td>Cyence</td>
<td>40</td>
<td>Economic cyber risk modelling</td>
<td>California, US</td>
<td>Series A</td>
</tr>
<tr>
<td>Dec-16</td>
<td>Lemonade</td>
<td>34</td>
<td>Online insurance carrier offering homeowners' and renters' insurance</td>
<td>New York, US</td>
<td>Series B</td>
</tr>
<tr>
<td>Mar-16</td>
<td>Justworks</td>
<td>33</td>
<td>Payroll, benefits and compliance services</td>
<td>New York, US</td>
<td>Series C</td>
</tr>
<tr>
<td>Mar-16</td>
<td>Huize Insurance</td>
<td>31</td>
<td>Chinese online insurance agency</td>
<td>China</td>
<td>Series B</td>
</tr>
</tbody>
</table>

Source: CB Insights, January 2017
Data-driven innovation underpins a number of established and future InsurTech disruptions

The insurance industry is dependent on data to make critical decisions, including product design, customer identification, risk pricing, loss estimation and fraud minimization. The use of advanced analytics to draw insights from data plays a paramount role in insurance and is a key means of gaining competitive advantage.

As such, the ability to collect more data, or improve how it is used to make better decisions or enhance the customer journey, underpins a number of tech disruptions transforming the industry. Connected devices and wearables, telematics and automated underwriting are disruptions that are developing at speed. Although well-established, these areas are not expected to remain static in the coming years – innovators are looking to cultivate the next frontier in each. For example, telematics used in auto insurance is moving into home telematics, and interest in wearables has progressed from simple activity trackers to next-generation devices which monitor multiple facets of mental and physical health.

Meanwhile, less-established areas of innovation are emerging, including the Internet of Things and blockchain. These innovations will only further enhance existing technologies (e.g., wearables, telematics and microinsurance). Insurance-based use cases of such technologies were largely conceptual in 2016, but their transformative potential and strategic interest to insurers is now widely recognized.

A partnership approach between established insurers and new tech players is one avenue to deliver mutual gains

The InsurTech ecosystem, consisting of established providers, new start-ups, investors, consumers and regulators, is evolving at a rapid pace.

InsurTechs are increasingly focused on enablement, rather than disruption, particularly in customer-facing areas. Established providers stand to gain considerably here – it is an opportunity for firms to re-engage with their customers, build trust and raise customer service standards. As such, established providers need not see InsurTechs as threats but as potential partners, recognizing the mutual gains from an emerging ecosystem.

Key collaborative mechanisms available to established providers include:

► **Investment in InsurTech and strategic acquisition:** For example, ACE Group invested US$33m in a digital insurance innovator, Coverhound, taking a 24% stake. Likewise, the InsurTech Policygroup attracted investment from the venture arms of AXA, Transamerica and MassMutual.

► **Partnerships between InsurTechs and reinsurers:** For example, London-based InsurTech, Bought by Many, raised £7.5m in Series A funding in January 2017, with Munich Re a key investor. Likewise, P2P InsurTech, Lemonade, has signed on numerous global reinsurers including Lloyds of London, XL Catlin and Munich Re.

► **Sponsorships of InsurTech accelerators and incubators:** For example, London’s “Startupbootcamp InsurTech” is supported by over 20 insurers and Aviva has its own dedicated innovation space (Digital Garage). MetLife also launched Collab, an incubator attached to its innovation center.

Mechanisms for collaboration do not come without challenges, especially as relationships progress and formalize. From an insurer’s perspective, these include navigating concerns about IT security and compatibility, differences in management style and culture (for example, risk appetite) and regulatory uncertainty.

Despite these challenges, the ongoing benefits are well recognized. A partnership approach helps established insurers champion innovation and ecosystem development more broadly. It also enables them to better understand and access nascent technologies to shape their own digital strategy. The immediate need for this is clear: despite acknowledging the importance of the tech disruptions listed above, many large insurers acknowledge that they are not yet equipped to fully understand and action opportunities.
Investor interest has helped InsurTech gain widespread traction – across insurance lines, the value chain and customer segments

InsurTech is increasing in prominence across all major lines of personal insurance including health, auto, travel, life and pensions. Initial activity has been most pronounced in health insurance (health InsurTechs accounted for almost half of total VC funding raised in 2015). Health activity is expected to remain strong as providers look to integrate wearables and other connected devices for improved customer experiences. Likewise, activity and investment in auto InsurTechs are expected to rise as telematics and the Internet of Things attract interest (for example, allowing for usage-based insurance that could dynamically adjust premiums).

Consistent with increasing presence across the value chain, InsurTech solutions now pervade both B2C and B2B solutions. While, initially, InsurTech solutions focused on B2C retail propositions (e.g., P2P insurance, price comparison websites and pay-per-use), recently B2B plays have gained traction (e.g., infrastructure/backend, quotation and pricing tools and user acquisition solutions). In this way, FinTech development in the insurance sector is following a similar pattern to the retail banking sector.

Functionality enhancements across the insurance value chain

<table>
<thead>
<tr>
<th>One-size-fits-all policies, high deductibles</th>
<th>Limited data and based on historical regression analysis</th>
<th>In-person agents, call centers, basic online functionality</th>
<th>Manual, on-premise admin and claims processing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product design</td>
<td>Pricing and underwriting</td>
<td>Distribution</td>
<td>Admin and claim management</td>
</tr>
<tr>
<td>Product specs, rate calculation, market launch</td>
<td>Actuarial analysis, risk selection, reinsurance</td>
<td>Marketing, sales, distribution, channel management</td>
<td>Customer management, billing/collection, claims</td>
</tr>
<tr>
<td>Customized, connected, low deductible, per-use</td>
<td>Big data, machine learning/predictive analysis, automated</td>
<td>Online, mobile, social, quick comparison shop</td>
<td>Cloud-based, automatic, instantaneous management and billing</td>
</tr>
</tbody>
</table>

Disruptive technologies

- One-size-fits-all policies, high deductibles
- Limited data and based on historical regression analysis
- In-person agents, call centers, basic online functionality
- Manual, on-premise admin and claims processing
- Product specs, rate calculation, market launch
- Actuarial analysis, risk selection, reinsurance
- Marketing, sales, distribution, channel management
- Online, mobile, social, quick comparison shop
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- Customized, connected, low deductible, per-use
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- Cloud-based, automatic, instantaneous management and billing

- Product design
- Pricing and underwriting
- Distribution
- Admin and claim management

- Disruptive technologies
  - Blockchain
  - Telematics
  - Internet of Things
  - Artificial intelligence
  - Connected devices and wearables
  - Big data
We continue to see a clear outlook for insurance sector transformation

We introduced the arc of insurance sector transformation in our 2016 publication, and we still see the underlying fundamentals driving ongoing sector transformation, with M&A likely to be an important feature of that transformation.

Our top three predictions for 2017

We see insurers focusing down to core business lines, but investing to expand and enhance core operations through technology and inorganic growth activity.

1 Portfolio optimization

We expect to see large insurers continue to divest of non-core businesses, driven by reassessment of capital requirements, expense simplification and rationalization, and a realization that management time is better focused on future, core businesses.

On a more general and large scale, the gap will continue to widen between legacy long-term insurance businesses and portfolios, with complex and expensive administration systems, and new digitally enabled, often direct-to-customer propositions.

Over time, the entire sector is developing solutions to legacy, based upon consolidation of legacy businesses to enhance returns and reduce expense risk.

Critical success factors

Potential sellers of non-core businesses need to focus on:

- Clear portfolio analysis, taking account of stress scenarios and alternative actions
- Carve-out implications, including the delivery of credible stand-alone operating platforms
- Clarity and consistency of data on the businesses being assessed and divested — both to ensure that portfolio decisions are based upon reliable information, but also that information provided to bidders is robust
- Clarity on stranded costs
- The value story, tied to clear, validated data
2 Technology-driven investment

We expect continued acceleration in established (re)insurance providers investing and partnering with new start-ups both to support development of and to leverage tech-based innovation.

Going forward, in addition to data-related investments, we expect further focus and investment in advanced analytics (e.g. Internet of Things and artificial intelligence) and pricing tools, robotics, and blockchain. The prospect of further investment by insurers into technology businesses raises the obvious reciprocal point of technology investors investing to take a larger part of the insurance value chain. Such activity appears inevitable at some point.

3 Ongoing consolidation

Clear challenges in protecting and improving margins, achieving cost efficiencies and investing into future technology and capabilities continue to make a compelling case for large-scale insurance consolidation. We anticipate mergers of insurance groups to achieve greater scale and to position for ongoing transformation.

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**Critical success factors**

**Technology-driven investment**

- Insurers investing into technology need to consider:
  - Clarity on buy vs. build economics
  - Clarity that the buyer’s business strategy is driving the investments (not the other way around)
  - Valuation basis (often on metrics that are unfamiliar to insurers)
  - Risk of obsolescence
  - Integration, including cultural challenges and the risk of losing the entrepreneurial spirit of InsurTech start-ups
  - Relative merits of buying vs. partnering with InsurTech acquisition or partnership targets

**Ongoing consolidation**

- Consolidators need to assess:
  - Enlarged group strategy, including which elements potentially become non-core (see portfolio optimization above)
  - Clarity of synergy case, including the reliability of data and assumptions
  - Realistic assessment of dis-synergies
  - Stakeholder messaging – difficult in the context of uncertain market conditions
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