

Trend Review
August 1, 2014

Interest in Asia continues as companies look to emerging markets for growth.

M&A Activity for P/C & Reinsurance Focuses on Global Diversification

Global merger and acquisition (M&A) activity in the property/casualty (P/C) and reinsurance industries continued at a steady pace in the first half of 2014. Based on A.M. Best research, 35 P/C and reinsurance deals were announced globally during the first six months of 2014. The available disclosed amount for all deals was approximately USD 5.6 billion, compared to slightly half of about USD 10 billion announced for all of 2013 (see **Exhibit 1**).

M&A Trends

Similar to that of the past few years, much of the M&A activity in the P/C industry during the first half of 2014 was driven by consolidation or companies attempting to enter new markets such as Asia and Latin America. Although not included in the six-month 2014 deal count, one example of this trend was Ace's July 4th announcement that it will be acquiring the commercial business of Itaú Seguros in Brazil, for nearly USD 700 million, to become the largest commercial insurer in Brazil. In 2013, Itaú Seguros' commercial business generated approximately USD 1 billion in premiums. ACE's announcement implied that, once the deal is completed, Latin America will represent approximately 14% of total premiums to ACE compared with about 8% of total premium in 2013 – making ACE one of the major players in the region.

From the sell side, increased competition, low interest rates and lower insurance rates have prompted many companies to downsize through the divestiture of underperforming or non-core business lines. A.M. Best has noticed that some insurers now understand that organic growth remains challenging at this stage of the cycle, making acquisitions an attractive alternative to growing the business internally.

On the buy side, M&A activity offers companies the opportunity to increase product offerings and expand their geographic footprint into relationship-focused markets, which can be challenging for newcomers not familiar with doing business in those markets. Latin America, for example, is a very relationship-driven market and companies' successes often depend on well-established relationships. Opportunities for strong global companies to tap into some of these regions have created openings for global diversification, especially at a time when growth in developed markets has become increasingly more challenging.

Both global and regional insurers are focusing on Southeast Asia as international companies now realize the potential for growth given the region's burgeoning middle class and rapidly growing market that accompanies it. According to Swiss Re Economic Research & Consulting, insurance premiums, including life, in emerging Asia – China, India, Malaysia, Thailand, and

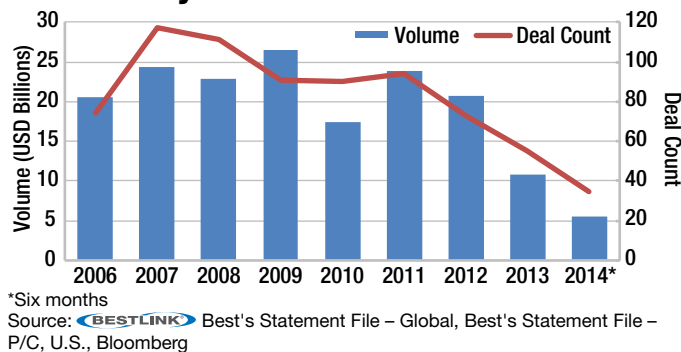
Analytical Contact

Mariza Costa, Oldwick
+1(908) 439-2200 Ext. 5308
Mariza.Costa@ambest.com

Editorial Management

Carol Demyanovich

Exhibit 1
Global Property/Casualty & Reinsurance – M&A Activity



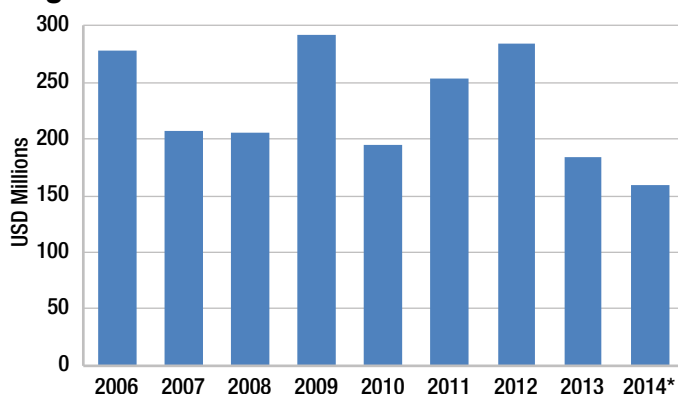
Indonesia – are projected to grow at a compounded annual rate of 8.5% through 2021 to USD 631 billion, compared with expected premium growth of only 2.9% during the same period for developed countries.

Average Deal Size Down Slightly

According to publicly reported data – which is somewhat limited as not all announced deals include pricing – the average deal size for global P/C and reinsurance transactions was approximately USD 160 million in the first half of 2014 (see **Exhibit 2**), compared with USD 184 million in 2013, and USD 285 million in 2012.

Geographically, acquirers again focused on the following markets in the first half:

Exhibit 2
Global Property/Casualty & Reinsurance –
Avg M&A Deal Size



*Six months

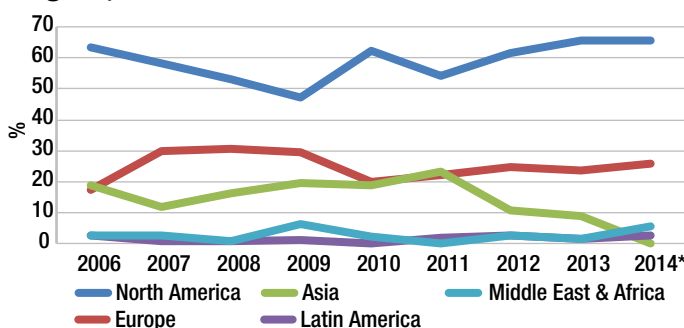
Source: **BESTLINK** Best's Statement File – Global, Best's Statement File – P/C, U.S., Bloomberg

- North America and Bermuda, accounting for about USD 2.8 billion in deal activity;
- Australia and Asia, accounting for about USD 1.7 billion in activity, and
- Europe, with deals totaling about USD 1.1 billion.

North America Remains Most Active Market

North America, including Bermuda, was once again the region with the most targets and acquirers for P/C and reinsurance transactions (see **Exhibit 3**). This coincides with the view that companies in North America and Bermuda remain focused on global diversification in order to remain competitive in the market. That, combined with the significant amount of excess capital available, makes U.S. and Bermuda companies strong acquirers in the global insurance markets. North American acquirers represented approximately 65.7% of total deals announced in the first half of 2014, while Europe represented 25.7%, Latin America 2.9%, and Middle East and Africa represented 5.7%.

Exhibit 3
Global Property/Casualty – Deals By Acquiring Region, % of Total



*Six months

Source: **BESTLINK** Best's Statement File – Global, Best's Statement File – P/C, U.S., Bloomberg

In terms of target regions, North America, including Bermuda, remains the most attractive and sought-out region, given its insurable losses, premium potential and market strength. In the first half of 2014, North America accounted for 54.3% of all target deals, while Europe represented 22.9%, Asia 20.0%, and Latin America 2.9% (see **Exhibit 4**).

2014 Transaction Multiples Mixed

In the first six months of 2014 – for the deals with disclosed financial details – P/C and reinsurance acquirers paid a median 1.42 times book value, compared to 1.71 times book value for full-year 2013, 9.79 times earnings before interest, taxes, depreciation and amortization (EBITDA) compared to 18.33 times EBITDA in full-year 2013, and 1.19 times revenue,

compared to 1.12 times revenue in full-year 2013 (see **Exhibit 5**).

Noteworthy Transactions 2014:

North America:

Desjardins Group in Canada acquired State Farm's P/C and Life business in Canada for USD 1.5 billion. With the transaction, Desjardins becomes the second largest P/C provider in Canada with gross written premium of approximately USD 3.6 billion (see **Exhibit 6**).

American Financial Group bought Liberty Mutual's Summit Holdings Southeast and its related companies for USD 250 million.

Latin America:

In February, Swiss Re announced that it would acquire 51% of Confianza of Colombia for an undisclosed amount. This transaction supports Swiss Re's efforts to expand its presence in Latin America through local representation.

Bermuda:

In Bermuda, Validus announced that it would acquire U.S. surplus lines writer Western World Insurance for USD 690 million.

AmTrust Financial Services, Inc. bought Tower Group's renewal rights for international commercial business for USD 125 million and ACP Re Ltd. bought Tower Group for USD 172 million.

Hiscox bought DirectAsia of Singapore, and Ironshore acquired Assetinsure Holdings of Australia.

Europe:

In Europe, PZU SA of Poland acquired several RSA insurance businesses in Lithuania, Latvia, Warsaw and Estonia for USD 498 million. PZU controls 30% of the Polish market but is looking outside the country for expansion.

Allianz of Germany acquired part of Unipolsai's P/C business for USD 612 million.

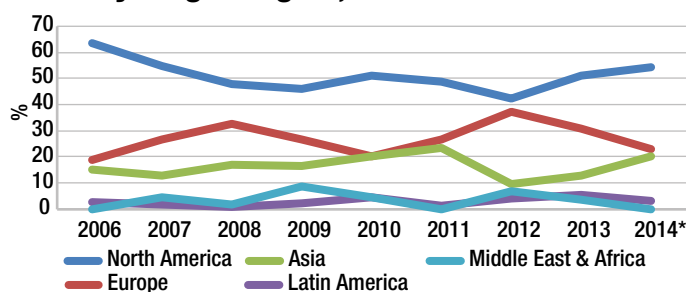
Asia:

Starr International acquired the majority ownership of Dazhong Insurance in China for USD 1.2 billion in an effort to tap into the Chinese insurance market.

Fairfax of Canada acquired an 80% share in PT Batavia Mitrata of Indonesia for an undisclosed amount. Liberty Mutual bought 98.09% ownership in Uni.Asia General of Malaysia.

Exhibit 4

Global Property/Casualty & Reinsurance – Deals By Target Region, % of Total

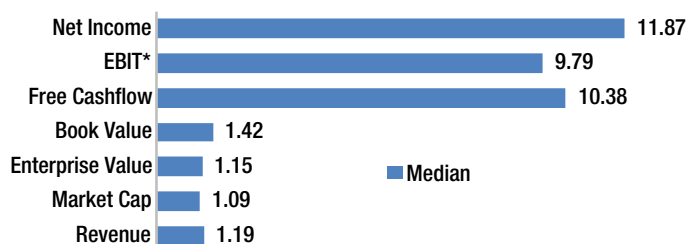


*Six months

Source: **BESTLINK** Best's Statement File – Global, Best's Statement File – P/C, U.S., Bloomberg

Exhibit 5

Global Property/Casualty & Reinsurance – First Half 2014 M&A Target Multiples




*Earnings Before Interest & Taxes

Source: Bloomberg

Exhibit 6

Global Property/Casualty – Relevant First Half 2014 M&A Deals by Region

Announced Date	Acquirer	Location	Acquiree	Location	Price (USD Millions)
North America/Bermuda Acquirers					
16-Jan-14	Desjardins Group	Canada	State Farm Canada's P/C and life businesses	Canada	1,500
21-Feb-14	Starr International Co	USA	Dazhong Insurance China	China	1,200
23-Jun-14	Validus	Bermuda	Western World Insurance	USA	690
9-Jan-14	American Financial Group	USA	Liberty Mutual's Summit Holdings Southeast and its related companies	USA	250
6-Jan-14	ACP Re Ltd	Bermuda	Tower Group	USA	172
6-Jan-14	AmTrust Financial Services, Inc	Bermuda	Tower Group renewal rights for international commercial business	USA	125
19-Feb-14	Liberty Mutual Insurance Group	USA	Uni.Asia General Insurance Berhad	Malaysia	113
23-Jun-14	HCI Group	USA	Prepared Holdings	USA	27
26-Jun-14	AmTrust Financial Services, Inc	USA	Comp Options Insurance Co, Inc	USA	NA
24-Jun-14	Ironshore Inc	Bermuda	Lenox Surety Group	USA	NA
12-Jun-14	Liberty Mutual	USA	Hughes Insurance	Ireland	NA
12-May-14	Motorists Mutual Insurance Co	USA	Consumers Insurance USA	USA	NA
24-Apr-14	Fairfax Financial Holdings Ltd	Canada	PT Batavia Mitratama Insurance	Indonesia	NA
9-Apr-14	Lennox Investments LLC	USA	Southport Re(Cayman) Ltd (SPRC)	Cayman Islands	NA
25-Mar-14	Catalina Holdings	Bermuda	SPARTA Insurance Holdings, Inc	USA	NA
19-Mar-14	Biglari Holdings Inc	USA	First Guard Insurance Co	USA	NA
3-Mar-14	Hiscox Ltd	Bermuda	DirectAsia	Singapore	NA
21-Feb-14	Intact Financial Corporation	Canada	Metro General Insurance Corporation Ltd	Newfoundland, Labrador	NA
5-Feb-14	Great American Insurance	USA	National Interstate Corporation	USA	NA
4-Feb-14	Ironshore Inc.	Bermuda	Assetinsure Holdings Pty Ltd	Australia	NA
27-Jan-14	Berkshire Hathaway	USA	MyAssist Inc., and Insure America LLC	USA	NA
23-Jan-14	Oakwood Insurance Co	USA	Central National Insurance Co of Omaha	USA	NA
12-Jan-14	Catlin Group Ltd	Bermuda	Russian Reinsurance Co	Russia	NA
Asia Acquirers					
13-Feb-14	Qatar Insurance Co SAQ	Qatar	Antares Holdings Ltd	UK	NA
Europe Acquirers					
18-Mar-14	Allianz	Germany	Part of the P/C business of UnipolSai	Italy	612
17-Apr-14	PZU SA	Poland	RSA's Lietuvos Draudimas AB in Lithuania, AAS Balta in Latvia, the Estonian branch of Codan Forsikring A/S and Warsaw-based Link4 Towarzystwo Ubezpieczen SA	Eastern Europe	498
12-Jan-14	ACE Ltd	Switzerland	Siam Commercial Samaggi Insurance	Thailand	185
20-Jun-14	ERGO Versicherungs	Germany	SHC Insurance Pte	Singapore	90
25-Mar-14	EMF Capital Partners	UK	Aviva Sigorta A.S	Turkey	NA
27-Feb-14	XL Reinsurance America	Ireland	Global Ag Insurance Services LLC	USA	NA
24-Feb-14	Swiss Re Corporate Solutions	Switzerland	Confianza	Colombia	NA
18-Feb-14	Kiln Group	UK	NAS Insurance	USA	NA
31-Jan-14	Vienna Insurance Group AG Wiener Versicherung Gruppe	Austria	Societatea de Asigurari-Reasigurari "Donaris Group" S.A.	Republic of Moldova	NA
Latin America and Africa Acquirers					
23-Apr-14	Sanlam Emerging Markets	South Africa	MCIS Zurich Insurance Berhad	Malaysia	118
19-Mar-14	Qualitas Controladora S.A.B. de C.V.	Mexico	Valley Insurance Co	USA	17

Source:  Best's Statement File – Global, Best's Statement File – P/C, U.S., Bloomberg

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A.M. BEST COMPANY
WORLD HEADQUARTERS

Ambest Road, Oldwick, NJ 08858
 Phone: +1 (908) 439-2200

WASHINGTON OFFICE

830 National Press Building
 529 14th Street N.W., Washington, DC 20045
 Phone: +1 (202) 347-3090

A.M. BEST AMÉRICA LATINA, S.A. de C.V.

Paseo de la Reforma 412
 Piso 23
 Mexico City, Mexico
 Phone: +52-55-5208-1264

A.M. BEST EUROPE RATING SERVICES LTD.
A.M. BEST EUROPE INFORMATION SERVICES LTD.

12 Arthur Street, 6th Floor, London, UK EC4R 9AB
 Phone: +44 (0)20 7626-6264

A.M. BEST ASIA-PACIFIC LTD.

Unit 4004 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
 Phone: +852 2827-3400

DUBAI OFFICE (MENA, SOUTH & CENTRAL ASIA)

Office 102, Tower 2
 Currency House, DIFC
 PO Box 506617, Dubai, UAE
 Phone: +971 43 752 780



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For press inquiries or to contact the authors, please contact James Peavy at (908) 439-2200, ext. 5644.

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