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## Insurance M&A scoreboard, Q3'15

By Adam Cancryn and Mohsin Azam

The insurance industry is already eyeing its next big M&A opportunity amid a record year for dealmaking: the potential breakup of [American International Group Inc.](#)

The global giant is back in the spotlight after activist investor Carl Icahn [urged](#) the company to split into three businesses. The proposed spinoffs would separate AIG's P&C and life operations into distinct units and jettison its mortgage insurance business, he wrote in an Oct. 28 letter to management. That would make the insurer simpler and, more importantly, unlock greater shareholder value from a company that has struggled to meet expectations.

AIG [rejected](#) Icahn's plan a few days later on the grounds that it "did not make financial sense" but agreed to meet with him. Speculation has swirled through the industry since, as investors and analysts puzzle out the company's strategic options and their likely ripple effects. A series of big-ticket transactions have marked 2015 as the year of the insurance megadeal, highlighted by [ACE Ltd.](#) and [Chubb Corp.](#)'s \$28.24 billion [tie-up](#). A shift now in M&A strategy for AIG could play a major role in sustaining that deal frenzy well into 2016.

"AIG's businesses offer lots of opportunity," Sanford C. Bernstein analyst Josh Stirling told SNL. "Potentially AIG can kick off this whole M&A cycle."

The consolidation across the insurance industry has tracked with the business world's broader turn toward M&A over the past year. Yet even amid the heightened activity, the third quarter represented a blowout period for dealmaking. Insurance underwriters announced 31 transactions in the quarter representing \$138.43 billion, dwarfing totals for the prior-year quarter. That included two massive managed care mergers worth about \$83.56 billion combined, as well as the ACE and Chubb transaction and a handful more reinsurance deals. Insurance brokers struck 62 deals of their own during the period.

Insurance underwriter deal statistics					
	Q3'11	Q3'12	Q3'13	Q3'14	Q3'15
Number of deals	39	28	33	14	31
Deal value (\$B)	1.89	13.28	3.30	4.62	138.43

Insurance broker deal statistics					
	Q3'11	Q3'12	Q3'13	Q3'14	Q3'15
Number of deals	62	51	42	66	62

Data compiled Nov. 3, 2015.  
Includes property and casualty, life and health and managed care deals announced during the period.  
Includes whole-company, minority and asset deals in which the target is based in the U.S., Canada or Bermuda. Excludes terminated deals.  
All metrics are as of announcement date.  
Source: SNL Financial

The emphasis on M&A comes as changing industry-specific dynamics have converged with macroeconomic factors such as near-record low interest rates, creating the ideal conditions for consolidation.

Managed care companies are taking advantage of cheap debt to merge and create economies of scale in a post-Affordable Care Act environment that promises to pressure profit margins. Reinsurers, meanwhile, have continued to pair up in response to falling demand for their products and an influx of new competition. Primary P&C insurers followed suit as their own pricing environment softens and low rates dampen investment returns. Those trends came to a head in July, when underwriters alone announced more than \$120 billion of transactions.

In the wake of that outburst, the insurance M&A chatter has calmed somewhat. The overarching need for consolidation is still present, and plenty of willing buyers and sellers are still floating through the P&C and reinsurance sectors in particular. But there is not as much urgency, analysts said, especially with many of the highest-quality properties already off the market. The deal speculation throughout 2015 drove up industry valuations, making potential targets more expensive even as their financial prospects remain the same. That makes it harder for companies to agree on fair takeout prices and lengthens the negotiation process.

"What you would have to pay to get somebody to change control has become materially more expensive than it was 10 months ago," BMO Capital Markets analyst Charles Sebaski told SNL. "There are a lot of companies still that I think probably aren't providing a particularly unique product offering to the marketplace."

Adding AIG to the mix could alter that outlook. The divestiture of even a select few assets from the insurer's massive portfolio could revitalize the market for large, high-quality transactions, Sanford C. Bernstein's Stirling said. A full breakup of the company would shake up the competitive landscape and inject new and unpredictable dynamics into the industry.

The main question is whether the company can be persuaded to part with any of its businesses at all. AIG dismissed Icahn's plan on the grounds that it would tie up more capital for little operational gain. The insurer would lose at least one-third of its \$15 billion of deferred tax assets, President and CEO Peter Hancock said Nov. 3, and potentially harm its status with credit rating agencies. Analysts have largely agreed that Icahn's spinoff scenario would be difficult, especially given the struggles of AIG's P&C and life businesses.

### Top 10 insurance underwriter and broker deals announced since 2014 Ranked by deal value at announcement\*

Announcement date	Buyer (ticker)	Target (ticker)	Deal value (\$M)
07/24/15	Anthem Inc. (ANTM)	Cigna Corp. (CI)	48,089.0
07/03/15	Aetna Inc. (AET)	Humana Inc. (HUM)	35,474.9
07/01/15	ACE Ltd. (ACE)	Chubb Corp. (CB)	28,240.3
06/10/15	Tokio Marine Holdings Inc. (8766)	HCC Insurance Holdings Inc. (HCC)	7,497.1
08/03/15	Exor SpA	PartnerRe Ltd. (PRE)	6,606.0
07/02/15	Centene Corp. (CNC)	Health Net Inc. (HNT)	6,258.7
06/03/14	Dai-ichi Life Insurance Co. Ltd. (8750)	Protective Life Corp. (PL)	5,579.6
07/23/15	Meiji Yasuda Life Insurance Co.	StanCorp Financial Group Inc. (SFG)	5,001.9
01/09/15	XL Group plc (XL)	Catlin Group Ltd. (CGL)	3,791.0
08/11/15	Sumitomo Life Insurance Co.	Symetra Financial Corp. (SYA)	3,726.9

Data compiled Nov. 3, 2015.

\* Only for those deals where the deal value was available.

Includes property and casualty, life and health and managed care deals announced between Jan. 1, 2014, and Oct. 31, 2015.

Includes whole-company, minority and asset deals in which the target is based in the U.S., Canada or Bermuda.

Excludes terminated deals.

All metrics are as of announcement date.

Source: SNL Financial



"Splitting up these franchises so they can get the right multiple is a good idea," FBR Capital Markets analyst Randy Binner said in a note to clients. "However, the new P/C and life businesses would need to have good reserves, up-to-date systems, high quality earnings. ... That has always been a debate with AIG."

Yet some still see a path toward more M&A that could alter the company's fortunes to various degrees. Perhaps the simplest move would be the sale of its mortgage insurance unit, which ranks among the largest in the industry but is not part of AIG's main P&C or life businesses.

AIG has reportedly already discussed selling the segment, and analysts project that it would attract some enthusiastic potential buyers. Piper Jaffray analyst John Nadel estimated in a Nov. 1 report that the mortgage insurance business could fetch as much as \$4.8 billion on the market. The unit is already worth more on a relative basis than stand-alone competitors Radian Group Inc. and MGIC Investment Corp., he said.

During AIG's third-quarter earnings call, Hancock said the company considers its mortgage operations a core part of its business. It has also been one of AIG's better-performing segments, even if it contributes to only a small percentage of the insurer's bottom line. However, Hancock added that he

would still be open to opportunities to monetize the assets.

A more radical proposal is an extensive breakup of AIG that includes selling off chunks of its core P&C and life operations. Stirling in a Nov. 2 note to clients advocated shrinking the insurer by half and shifting it away from consumer-targeted assets and toward more corporate risks. The overhaul would carve up its U.S. life insurance into various franchises and divest valuable assets such as its specialty P&C business through a series of strategic sales. That approach evokes comparisons to The Hartford Financial Services Group Inc.'s dramatic repositioning in 2012, but on an even larger scale.

"I think the market would be very deep and competitive," Stirling said. "These things are all specialty businesses that are inherently valuable."

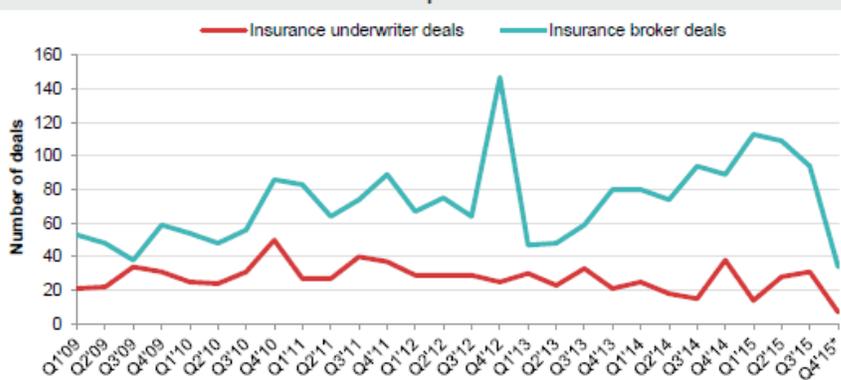
If AIG spurns Icahn and stays out of the M&A market, the dealmaking focus for insurers will likely shift to Asia.

Japanese and Chinese financial firms have snapped up U.S. insurers of late at hefty premiums, signaling a willingness to pay for high-quality companies that can serve as platforms for further expansion. The activity cuts across both the P&C and life sectors and is expected to continue even as sellers' higher valuations price domestic buyers out of the market.

The motivations for those foreign acquirers vary. Japanese insurers are hampered by an even softer interest rate environment than in the U.S. and an aging population, to the point that the government has encouraged companies to expand elsewhere. The difficulties in their home market have driven something close to a "redomestication" of the insurance industry out of Japan, Moelis & Co. Managing Director John Sipp said during October's SNL Insurance M&A Symposium.

In China, companies have largely been more opportunistic about their acquisitions, seeking out properties that can serve as a consistent source of capital for their various businesses. Anbang Insurance Group Co. is the latest to make a splash in the U.S., reaching a deal for Fidelity & Guaranty Life in what could foreshadow greater entry into the life space as regulators get more comfortable with Chinese buyers.

### M&A volume trends in insurance space since 2009



Data compiled Nov. 3, 2015.

\* Quarter-to-date through Oct. 31, 2015.

Deals announced between Jan. 1, 2009, and Oct. 31, 2015.

Includes whole-company, minority and asset deals in which the target is based in the U.S., Canada or Bermuda.

Excludes terminated deals.

Source: SNL Financial

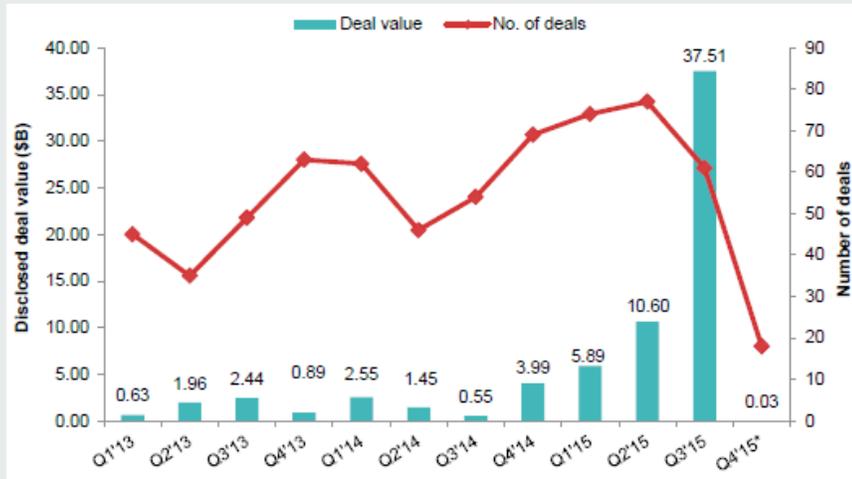


**"Precedent transactions do give foreign buyers a regulatory pathway,"** Grace Global Capital Managing Director Grace Vandecruze said during the M&A Symposium. **"The key in all of this is to make sure that the regulators are comfortable with the acquirer: who they are, their history within insurance, their track record."**

The global appetite should keep the insurance M&A market humming along well into 2016, if not at quite the pace seen this past quarter. But if AIG decides to join the party, the dealmaking landscape would change instantly.

"A lot of these guys who have low cost of capital for various reasons, they also feel pressure to diversify," Stirling said. "I think there still remains a ton of interest."

### Quarterly property & casualty deal statistics



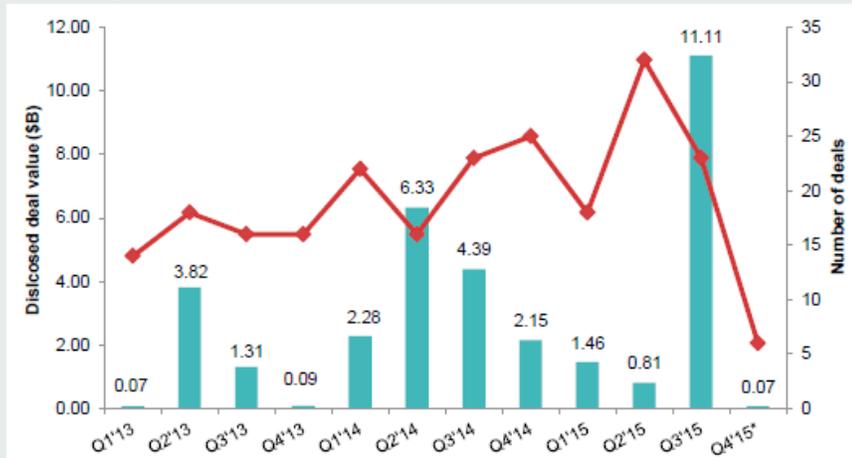
### Most acquisitive insurance broker and agency buyers in Q3'15

Buyer (ticker)	Number of deals	
	Q3'15	FY'14
Hub International Ltd.	14	29
AssuredPartners Inc.	8	24
Acrisure LLC	7	16
Marsh & McLennan Cos. Inc. (MMC)	4	12
Confie Seguros California Inc.	3	13

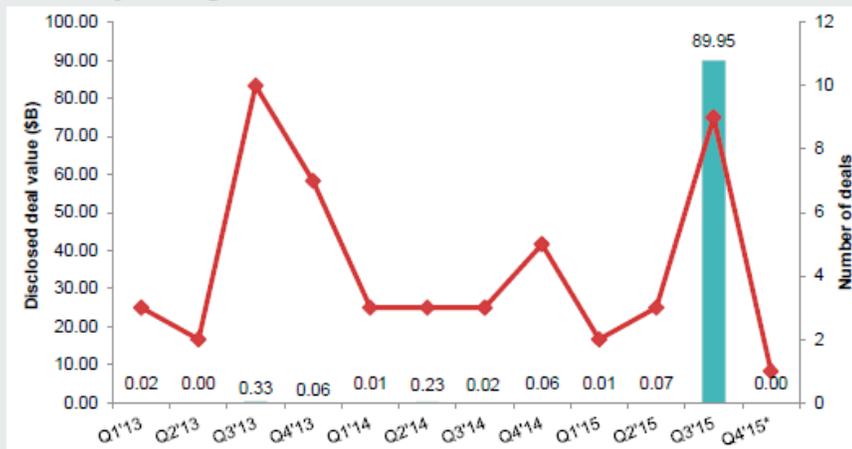
Data compiled Nov. 3, 2015.  
Buyers with three or more deals are included.  
Includes whole-company, minority and asset deals in which the target is based in the U.S., Canada or Bermuda. Excludes terminated deals.  
Source: SNL Financial



### Quarterly life and health deal statistics



### Quarterly managed care deal statistics



Data compiled Nov. 3, 2015.  
\* Quarter-to-date through Oct. 31, 2015.  
Deal values, when available, are as of announcement.  
Includes whole-company, minority and asset deals in which the target is based in the U.S., Canada or Bermuda.  
Excludes terminated deals.  
Source: SNL Financial

