



Financial Performance of European Insurers

Study

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1. Methodology

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We have analyzed the financial performance of the **TOP 30 EUROPEAN INSURERS**

Scope of analysis and methodology



Methodology

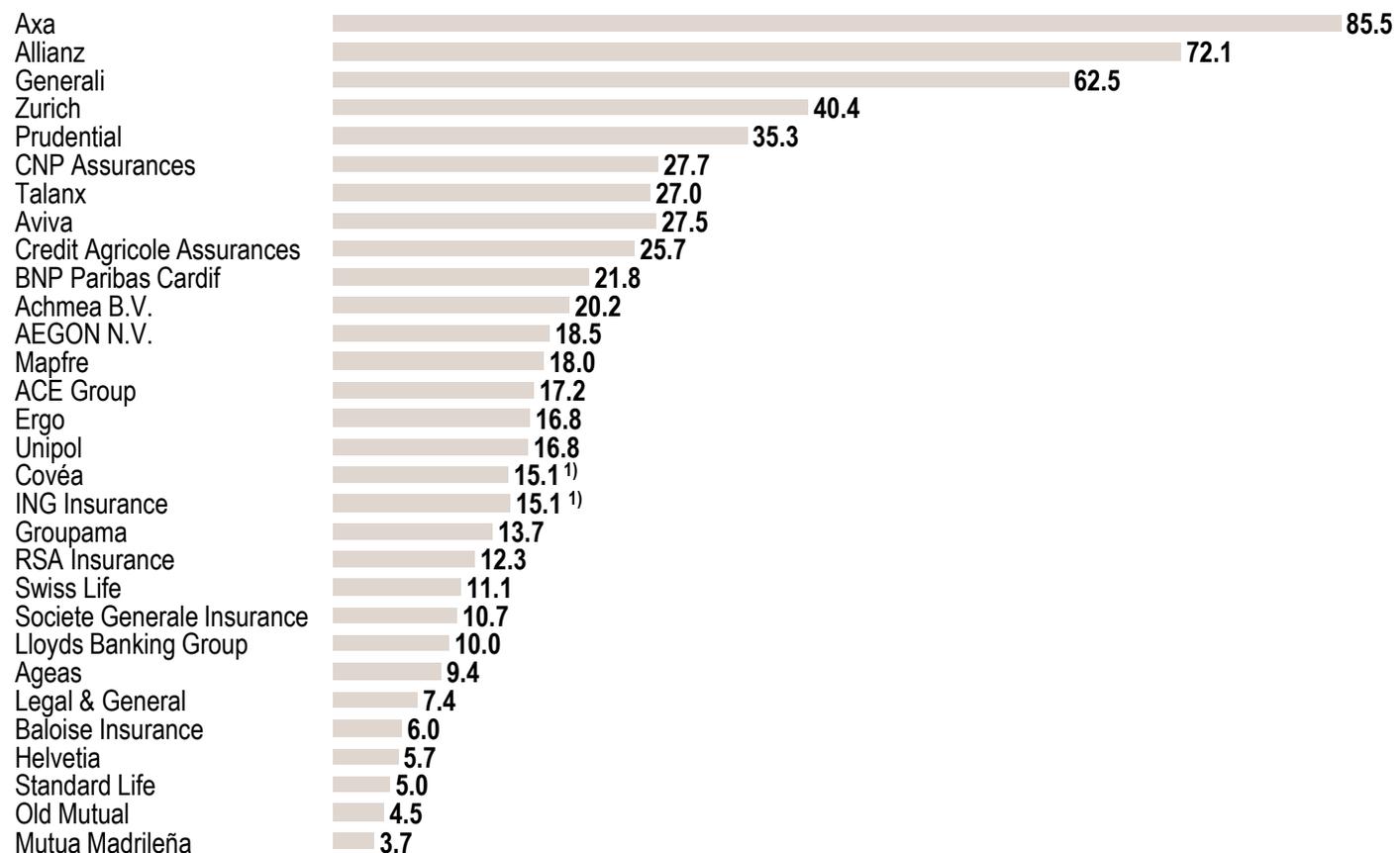
- > **Review of the performance** of the **TOP 30 EUROPEAN INSURERS...**
 - EUR ~663 Bn in GWP in 2013 (61% of European GWP)
 - From **8 European countries** (Belgium, France, Germany, Italy, Netherlands, Spain, Switzerland, UK)
 - From **2008 to 2013**
- > ...Analysis of their **financials**
 - P&L
 - Balance sheet
- > ...Segmentation in 6 clusters (Life specialists, Bank-insurers, Life predominant, Non-life predominant, Mutuels, Non-life specialists)

Note: Sferen (#22) replaced by Old Mutual (#31) due to lack of published data

Source: Roland Berger

The Top 30 players account for ~61% of the total EUROPEAN GROSS WRITTEN PREMIUMS

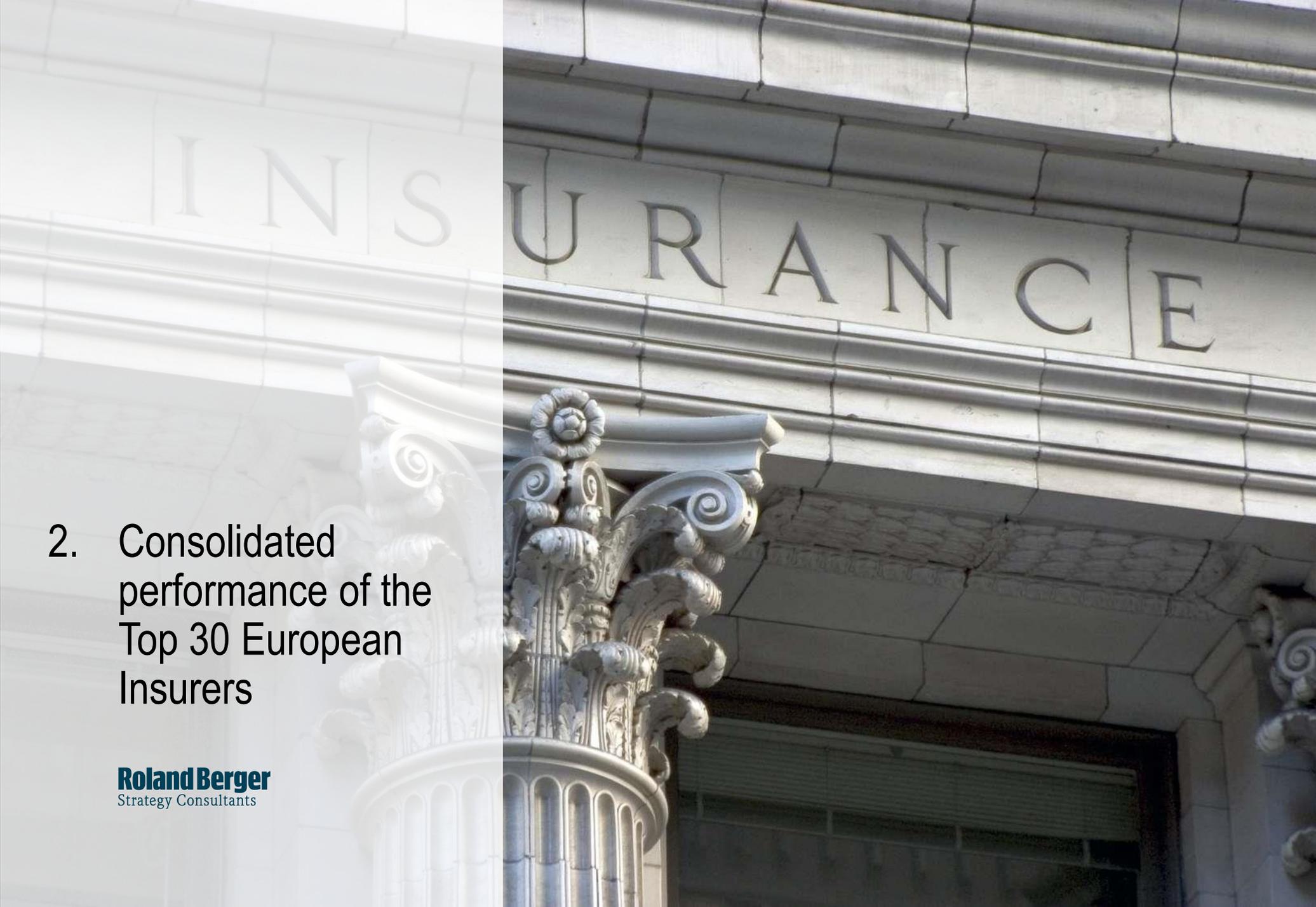
Gross Written Premiums – Top 30 European insurers ¹⁾ [2013; EUR bn]



Total Top 30 Insurers = EUR 663 bn in GWP ~61% of total European GWP

Note: Sferen replaced by Old Mutual due to non availability of data

¹⁾ Estimations of 2013 GWP based on 2012 figures for Covéa and ING Insurance because of annual reports not published yet

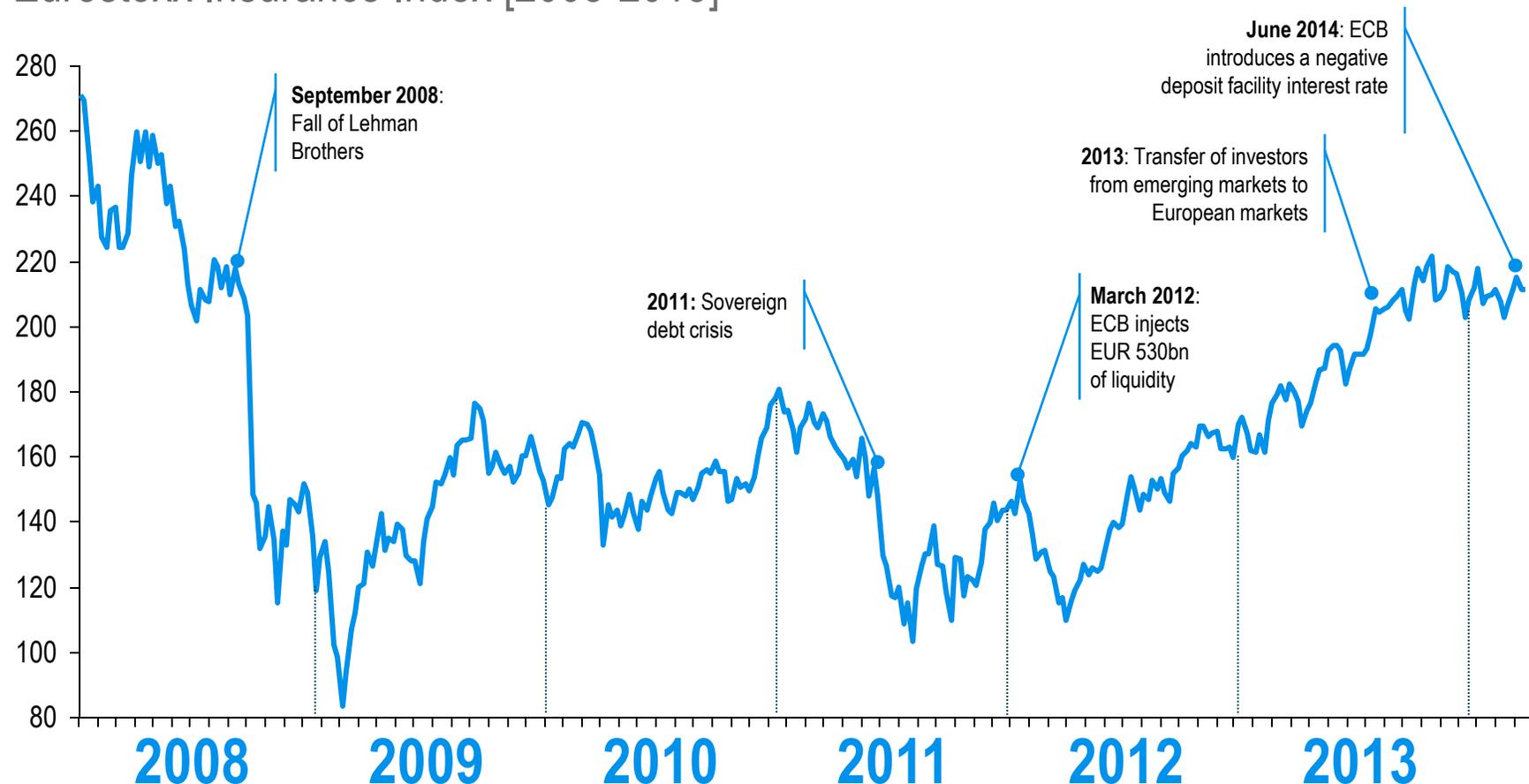


2. Consolidated performance of the Top 30 European Insurers

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The **FINANCIAL CRISIS** deeply impacted the valuation of the European insurers

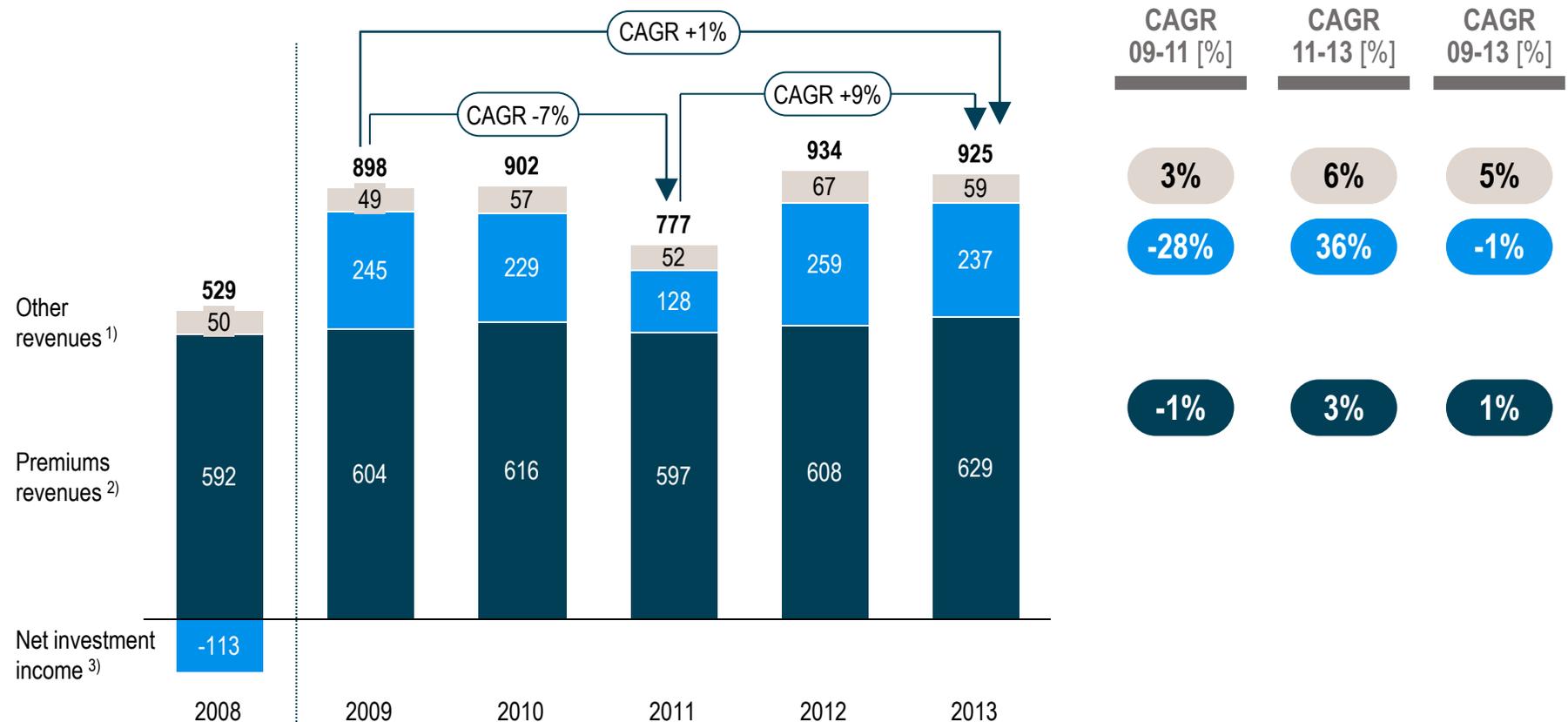
Eurostoxx Insurance Index [2008-2013]



Note: The EURO STOXX Insurance (Price) Index is a capitalization-weighted index which was developed with a base value of 100 as of December 31, 1991. It is composed of 15 companies: Aegon, Ageas, Allianz, Generali, Axa, CNP Assurances, Delta Lloyd, Hannover Rueck, ING group, Mapfre, Muenchener Rueck, Sampo, Scor, UnipolSai and Vienna Insurance

Overall, total insurers **REVENUES** have been **STABLE** since 2009 but investment income has suffered from the 2011 sovereign debt crisis

Top 30 European insurers consolidated financials – Revenues [2008-2013; EUR bn]



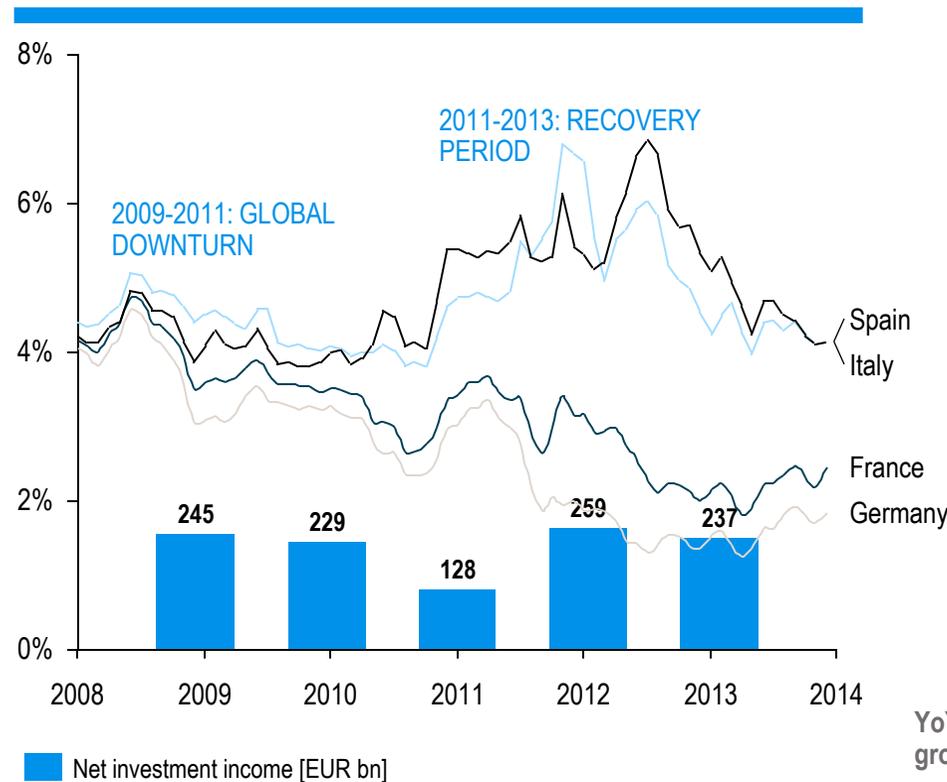
1) Including revenues from non-insurance activities (banking,...) 2) Net premiums earned

3) Including total interest and dividend income as well as realized gains/losses (net)

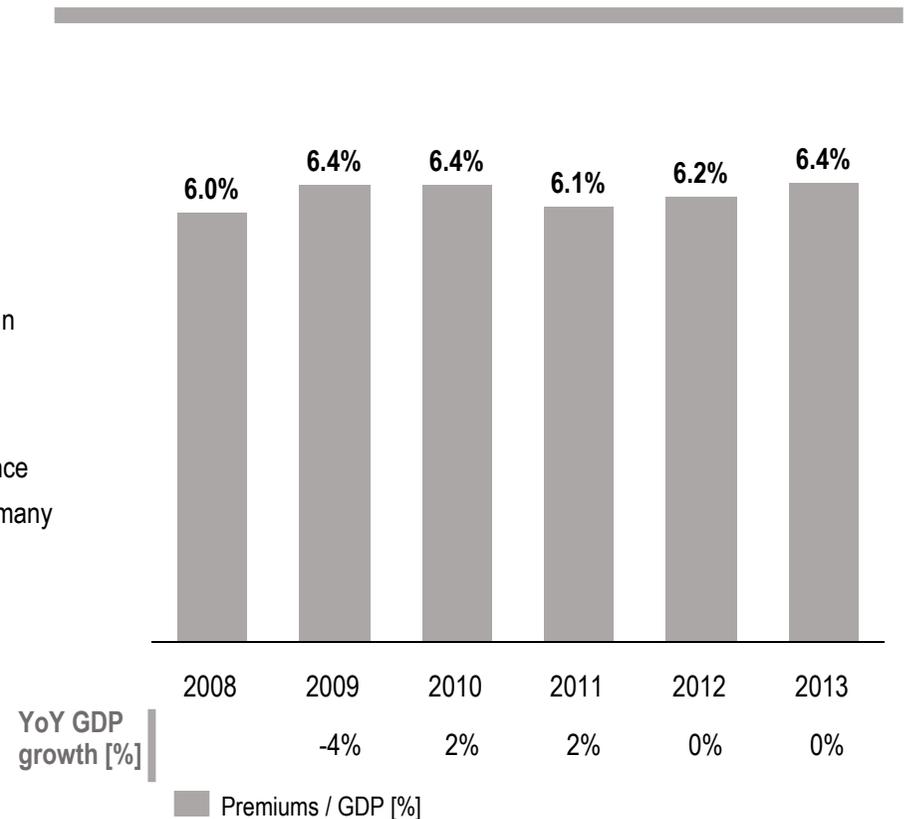
Investment income **HIGH VOLATILITY** has been driven by **FINANCIAL MARKET CONDITIONS** while premiums followed GDP trend

Correlation between revenues and macro-economic KPIs

Government bond yields & net investment income [2008-2013; %; EUR bn]



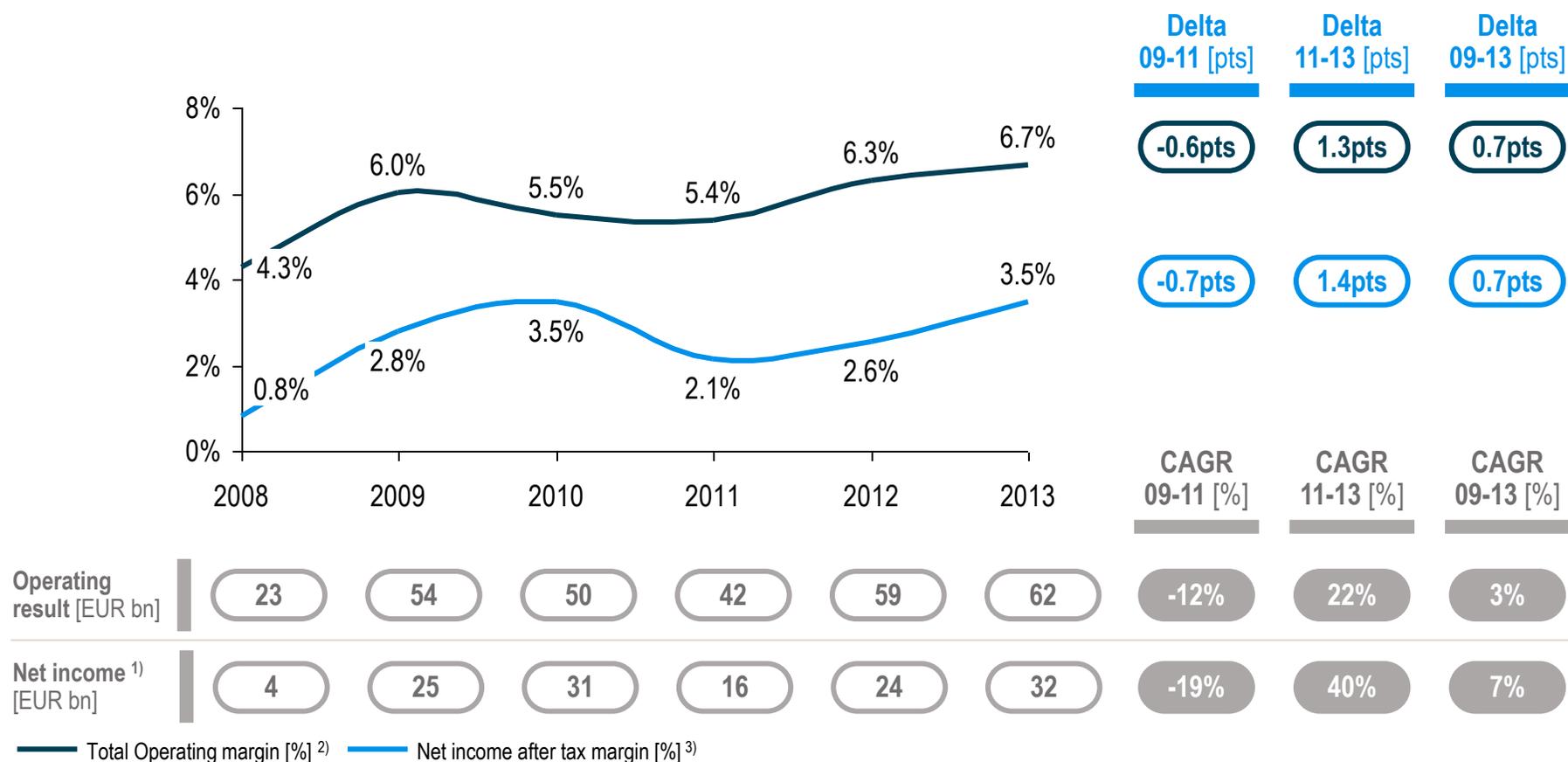
Premiums revenues as share of GDP¹⁾ & YoY GDP growth [2008-2013; %; YoY]



1) GDP of the 8 European countries covered by the Top 30 insurers

Insurers have managed to keep a **STEADY OPERATING MARGIN**

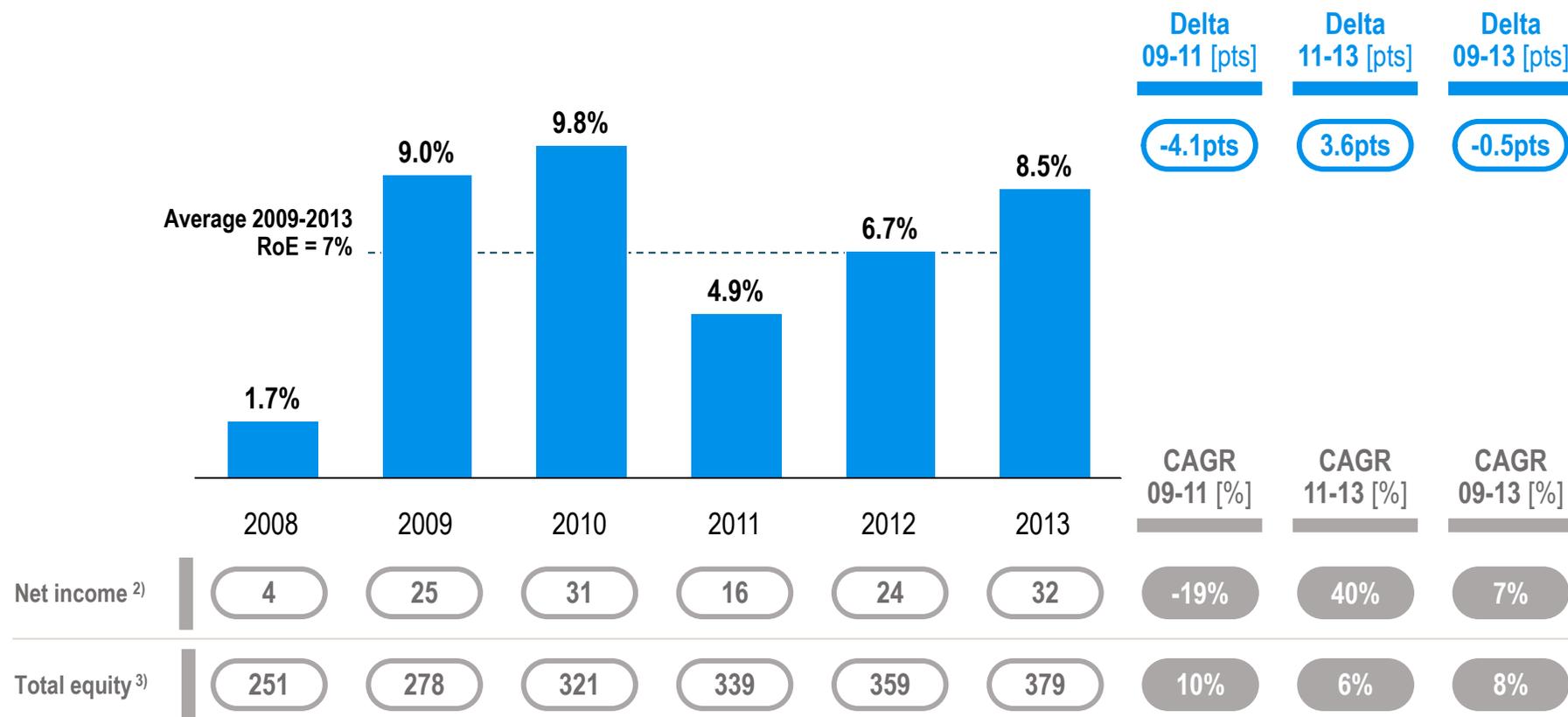
Top 30 European insurers consolidated financials – Operating & Net Income [08-13;%]



1) After tax and interest 2) Total operating margin = (Total revenues incl. financial revenues – total costs) / total revenues 3) Net income margin = Net income after tax / total revenues

After a drop in 2011 resulting from lower net income, **RETURN ON EQUITY** ratios almost **RECOVERED** to their 2009 level

Top 30 European Insurers consolidated financials – Return on Equity ¹⁾ [2008-2013;%]



1) Return on equity calculated as net income after tax (excluding minority interest) divided by total equity (excluding minority interests)

2) After tax and interest

3) Average Equity $Y(N) = [YE(N-1) + YE(N)] / 2$

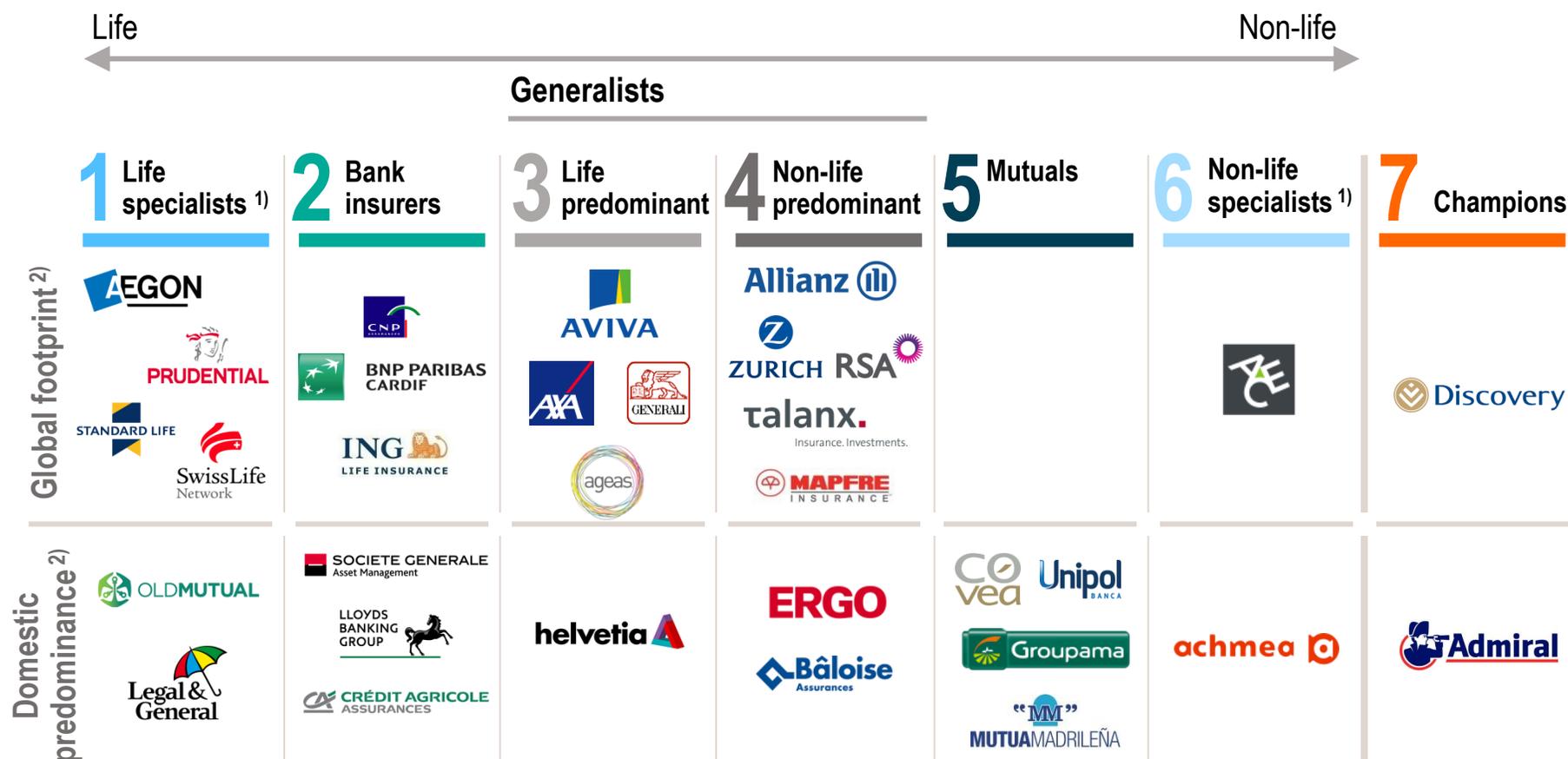
3. Vision by type of insurer

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The TOP 30 PLAYERS have been classified into 6 CLUSTERS and compared to global champions

Clustering of Top 30 European Insurers and Champions

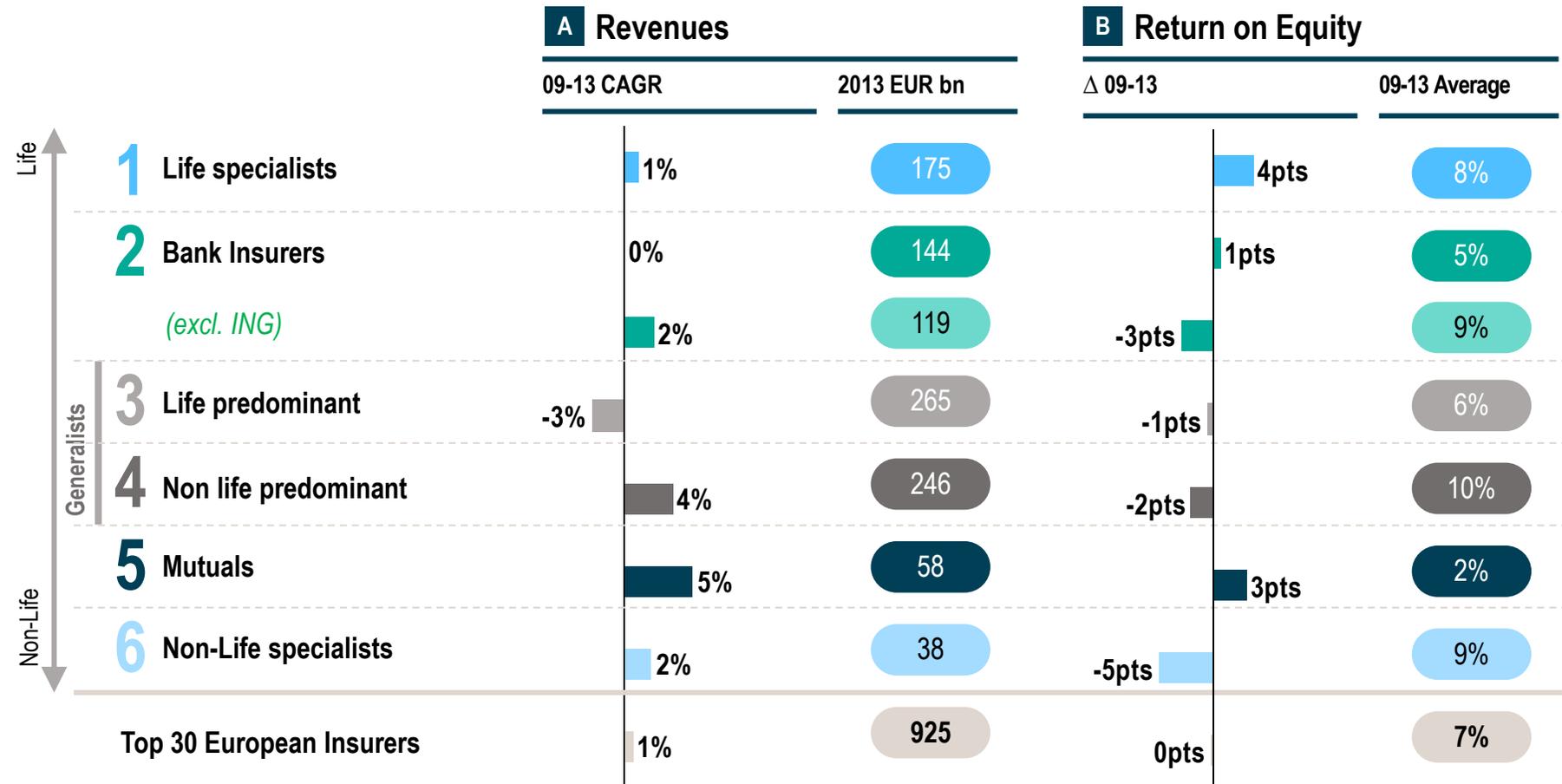


1) Life specialists when share of life premiums is above 80%; Non-life specialists when share of life premiums is below 20%

2) Domestic predominance when share of business in domestic market is above 50%

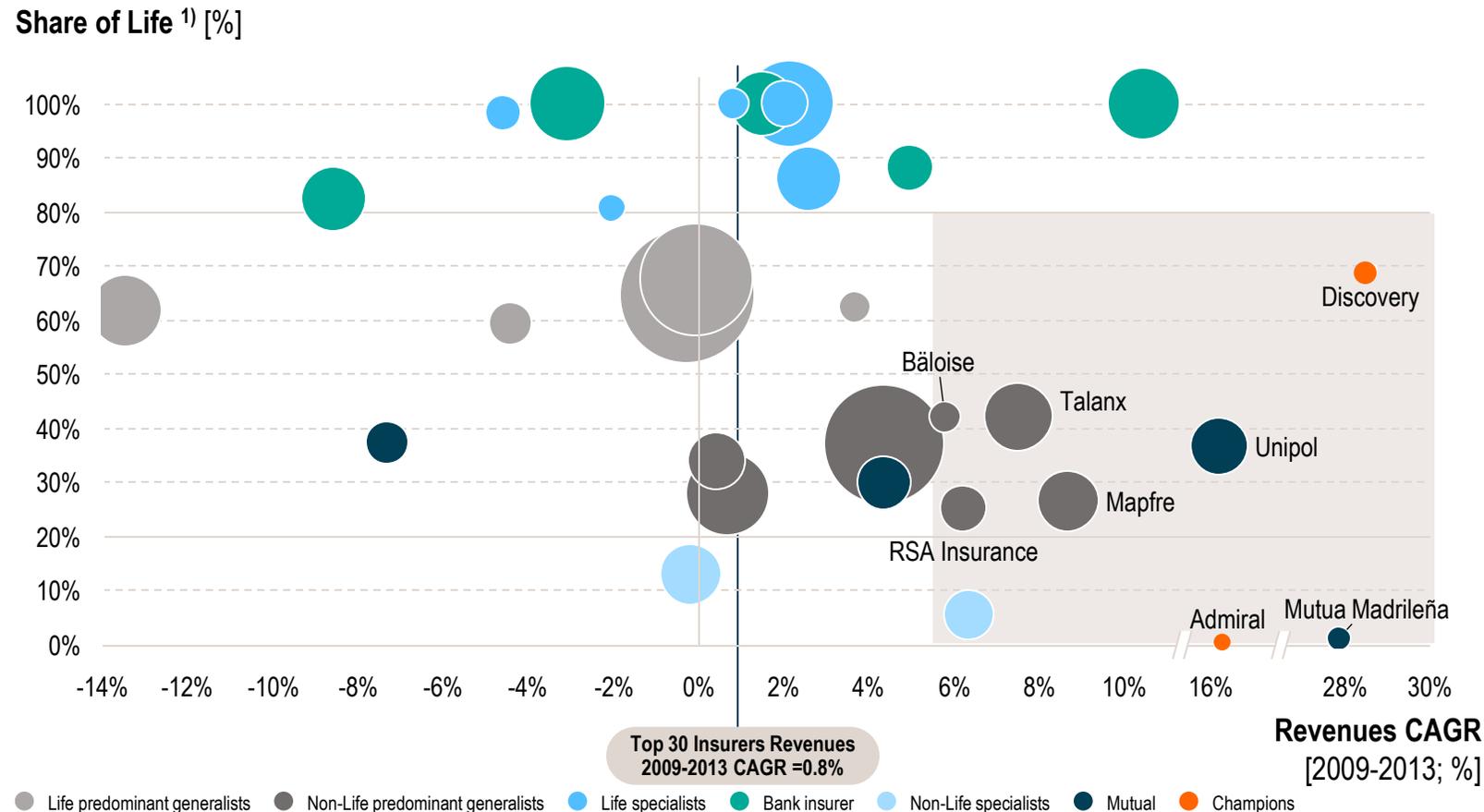
MUTUALS & NON-LIFE PREDOMINANT GENERALISTS increased revenues while LIFE SPECIALISTS improved their RoE

Performance by cluster of Top 30 European Insurers [2009-2013 CAGR; EUR bn]



Between 2009 and 2013, some players achieved to **GROW** their **REVENUES** at a **RAPID PACE**, mainly in Non-life

Share of life vs. Revenues CAGR [2009-2013; EUR bn; %]



Size represents volume of premiums [EUR bn; 2013] 1) As % of premiums

Source: company information, Roland Berger analysis

Growth champions relied on 3 SUCCESSFUL STRATEGIES: acquisitions, focused internationalization and specialized innovative models

Acquisitions



2012: Merger by incorporation of Unipol Assicurazioni with:



→ Opportunity to grow in size, especially in **Non-Life**



2010: Acquisition of Canadian non-life **GCAN Insurance Company** (+11% in GWP following acquisition)

2011: Acquisition of **Oak Underwriting**

2012: Acquisition of **online company 123 Money** (premiums +16% at RSA's Irish unit) and **Argentinian Insurer El Comercio**



2011: Takeover of 2 Belgian insurance companies **Nateus SA/NV and Nateus Life SA/NV**

2014: Acquisition of the Luxembourg business of Belgian insurance company **P&V Assurances**

→ Consistently continuing its growth in the **international business** and in **non-life**



2011: Acquisition of **50% SegurCaixa Adelsas**, the **non-life** insurance company of "La Caixa" and commercial agreement for the **exclusive distribution of the products** of the new company through the **retail branch network of "La Caixa"**

Focused internationalization



Strategic move to a **global footprint**

- > Strong growth of local international operations¹⁾: **+ 35% GWP increase** since 2009 in Industrial lines
- > Targeted attractive regions: **Latin America, South/east Asia & Arabian Peninsula**



Dominant position in domestic market and sustained international expansion mainly in Latam

- > Start of operations in **Colombia in 1984**
- > **1987-1994**: Entry in Portugal, Latam, Tunisia, USA
- > **1994-2013**: Development of Europe, Latin Am., S-E Asia and North Am.
- > **Now**: Presence in more than **40 countries** worldwide

Specialized innovative models



Development through innovation with a **strong focus on digitalization**

- > First UK company with **online insurance distribution**

- > First car insurance price comparison



Capacity to partner in strategic countries to develop offer

- > **Successful partnerships** in the UK with **PRUDENTIAL** and in China through **中国平安 PING AN**

- > Joint venture with US healthcare group Humana to offer Vitality wellness program to health plan members

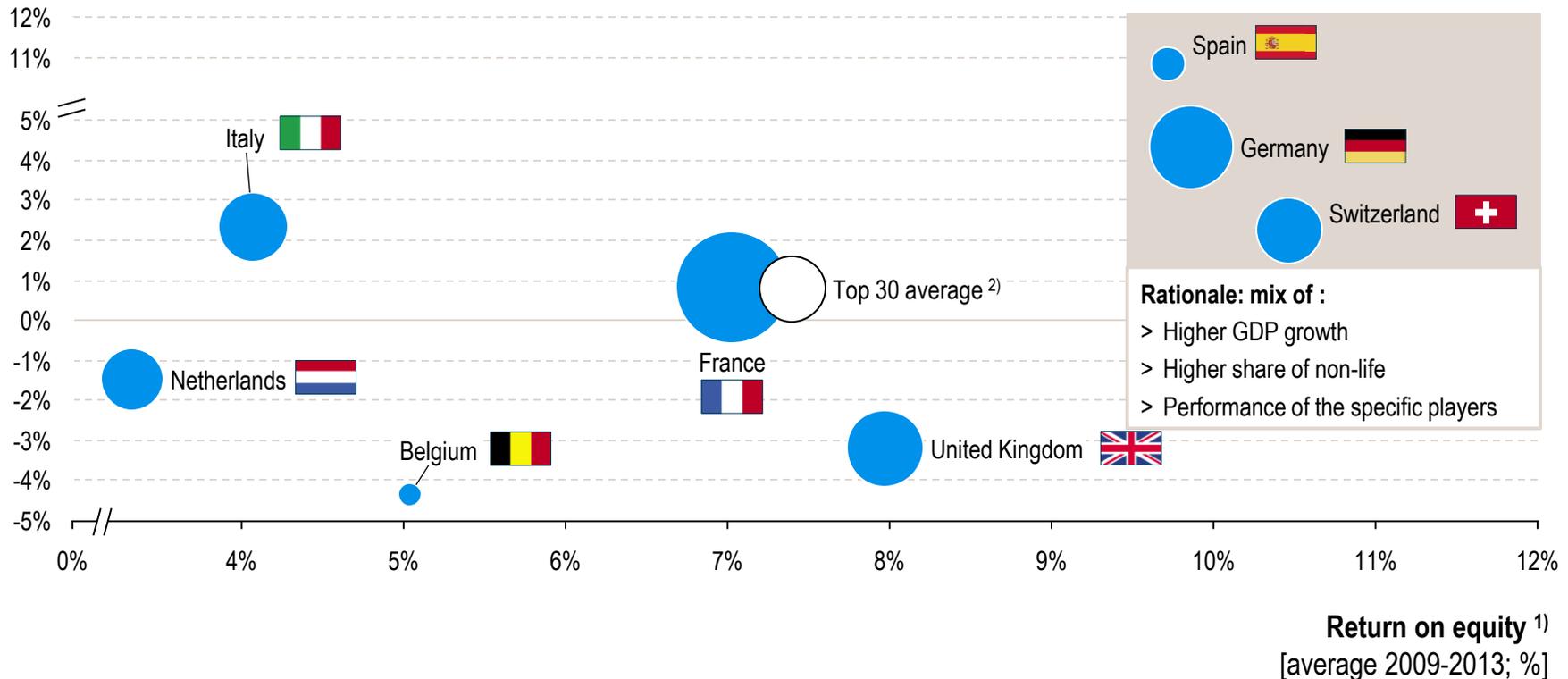


1) From 23 countries in 2010 to 37 in 2013 for Industrial lines division

Players from Spain, Germany and Switzerland have achieved to both strongly increase their premiums with an above average RoE

Revenue growth vs. average Return on Equity [2009-2013; %]

Revenues CAGR
[2009-2013; %]



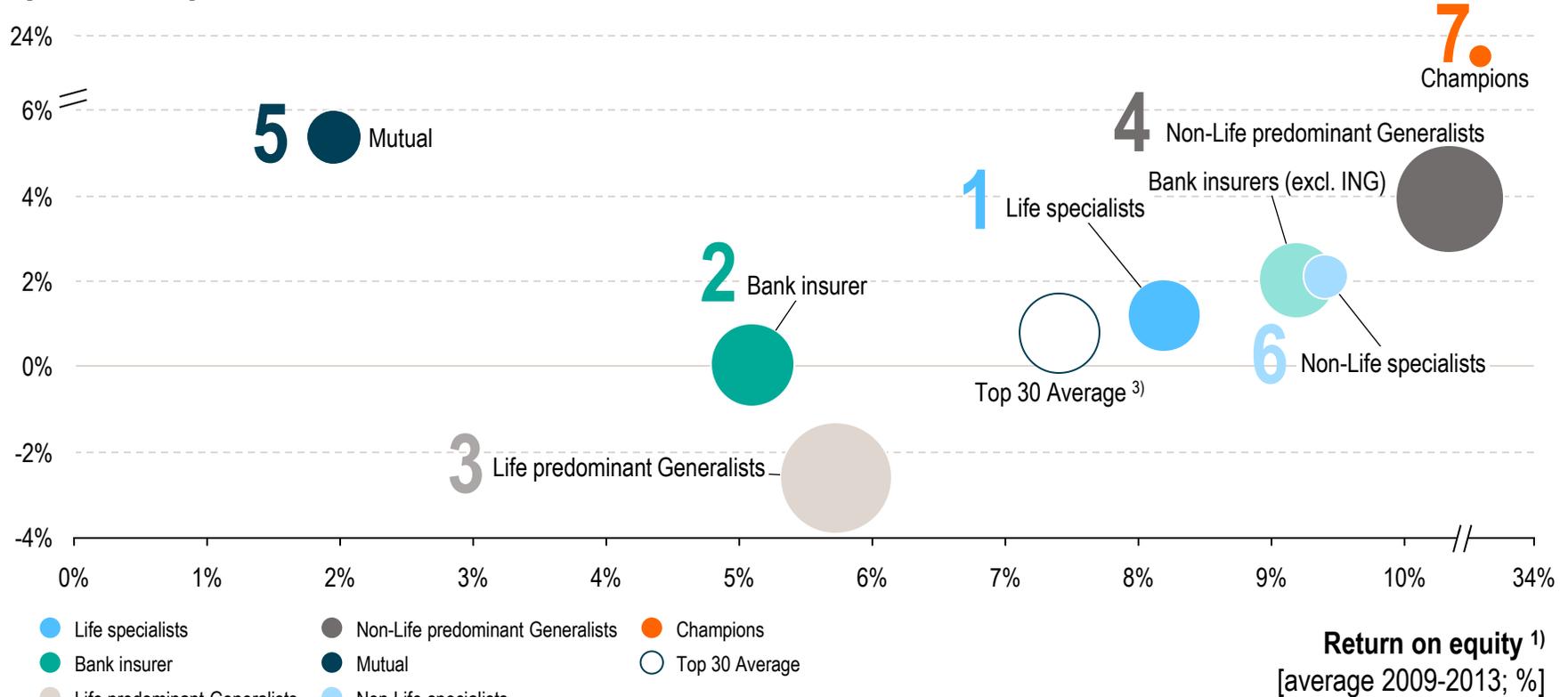
○ Size represents volume of premiums [EUR bn; 2013]

1) Return on equity calculated as net income after tax (excluding minority interest) divided by total equity excluding minority interests
2) Bubble size not reflecting total volume of premiums

NON-LIFE players have been growing faster with higher RoE – In LIFE, BANK-INSURERS have been the most profitable players

Evolution of revenues vs. average Return on Equity [2009-2013; %]

Revenues CAGR
[2009-2013; %]



- Life specialists
- Bank insurer
- Life predominant Generalists
- Non-Life predominant Generalists
- Mutual
- Champions
- Top 30 Average
- Non-Life specialists

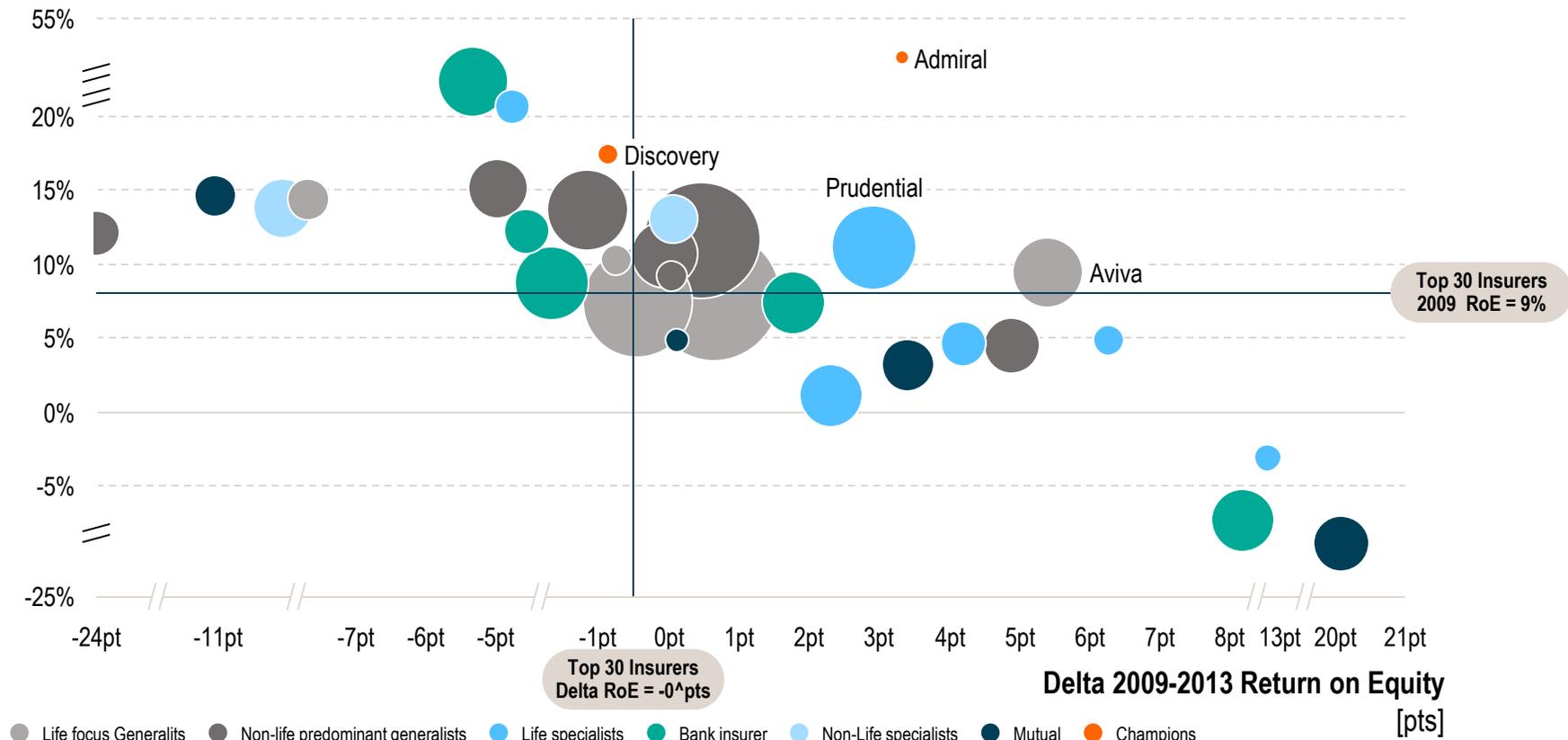
○ Size represents volume of premiums [EUR bn; 2013]

1) Return on equity calculated as net income after tax (excluding minority interest) divided by total equity excluding minority interests
 2) Bubble size not reflecting total volume of premiums

While below average RoE players managed to improve their profitability, above average players tended to decline towards **INDUSTRY AVERAGE**

Return on Equity

Return on Equity [2009; %]



4. And the Champions
are...

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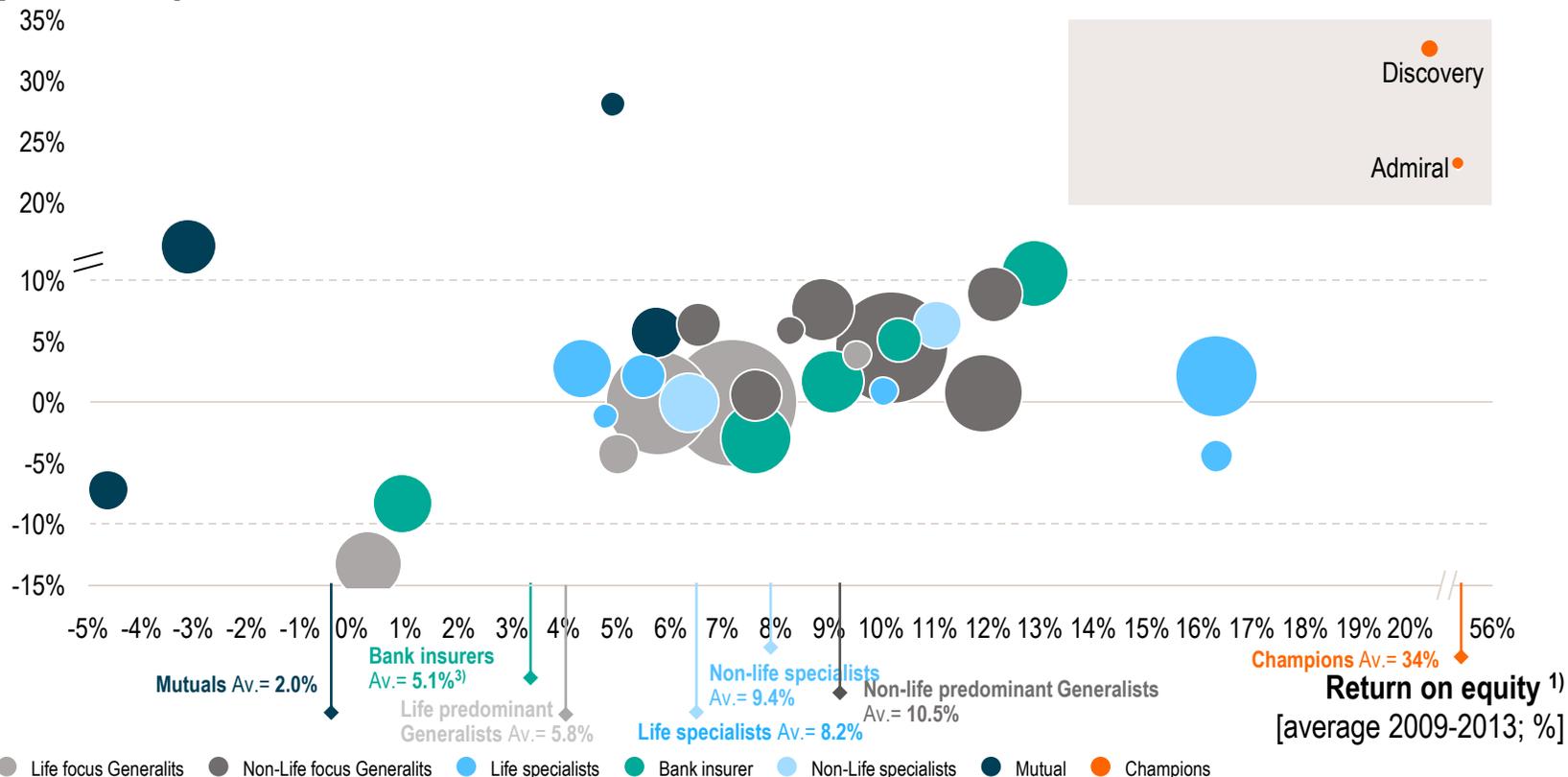


CHAMPIONS like DISCOVERY and ADMIRAL manage to combine DOUBLE-DIGIT GROWTH with STRONG RoE

Evolution of revenues vs. average Return on Equity [2009-2013; %]

Revenues CAGR

[2009-2013; %]

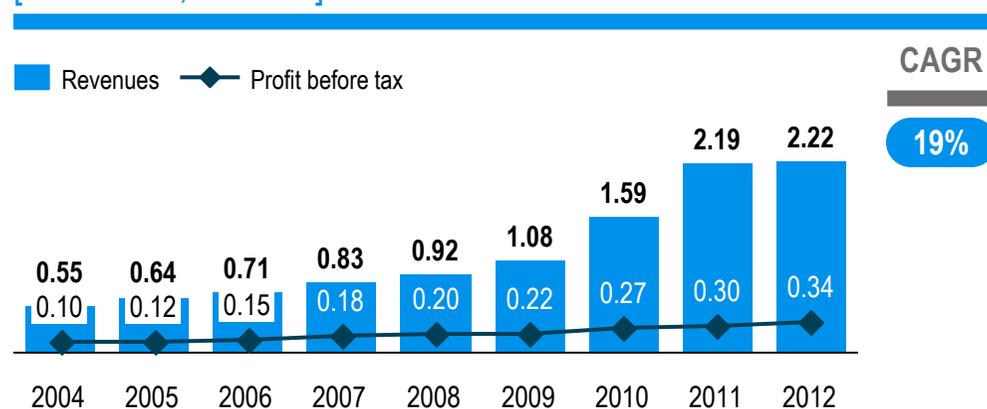


1) Return on equity calculated as net income after tax (excluding minority interest) divided by total equity excluding minority interests

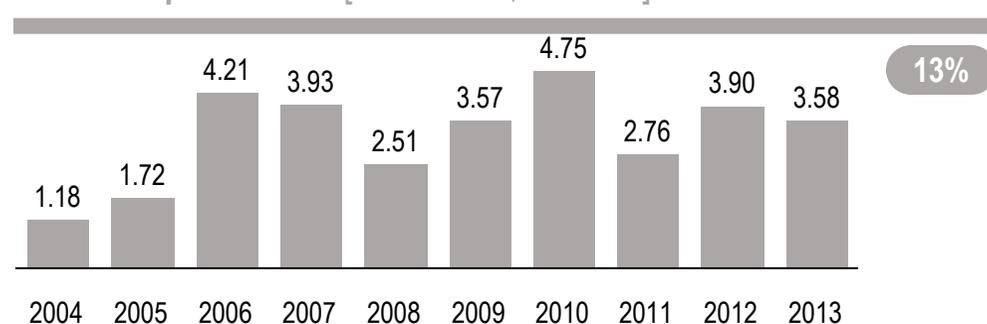
ADMIRAL has grown rapidly since its creation in 1993 through technology innovation in motor insurance

New winners: Admiral

Admiral PLC: development through innovation [2004-2012; GBP Bn]



Market capitalization [2004-2013, GBP bn]

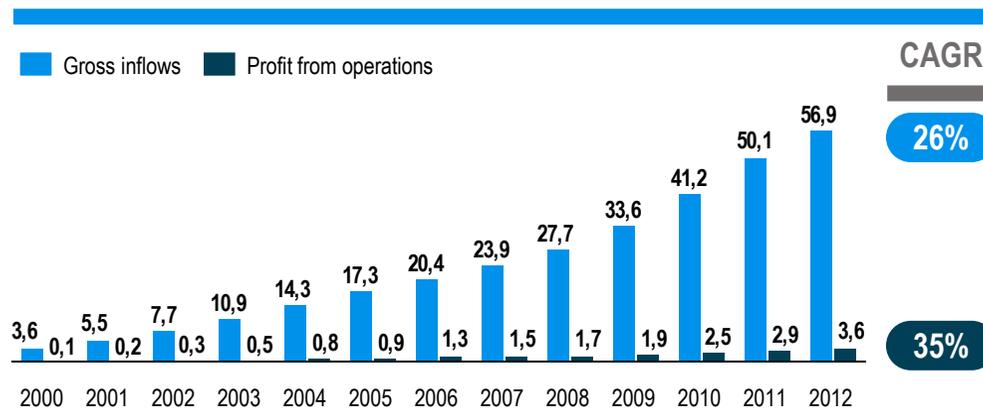


- > Private motor insurance and price comparison group launched in 1993
- > Constant innovation
 - First UK company to offer insurance solely via the internet
 - First car insurance price comparison site
 - First car insurance company to offer customer product segment dedicated brands (Bell Direct, Diamond, Gladiator,...)
- > Named in 2012 "Best large place to work for in the UK"

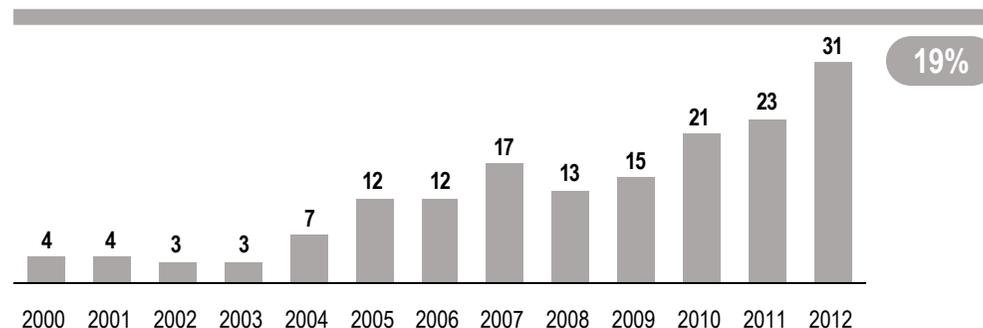
DISCOVERY, a South African health insurer, has grown internationally through partnership with leading International Insurance groups

New winners: Discovery

Gross inflows and Profit from Operations [2000-2012, R bn]



Market capitalization [2000-2012, R bn]



- > Started in 93 as a Health Insurance Provider
Key positioning: **adaptation of insurance policy to customer behavior**
- > 2000: after a rapid success in South Africa in 2000, introduction on the Stock Exchange
- > 2001: diversification with development of Life Insurance products (protection)
- > 2002: launch in the US
- > 2004: launch in the UK, through a partnership with  (PruHealth)
- > 2010: launch in China through a partnership with 



5. Key learnings

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KEY LEARNINGS from our study



- ✓ European insurers' premiums have kept stable but financial performance remains strongly linked to financial markets
- ✓ Players with non-life orientation have been growing faster and more profitably (except for mutuals)
- ✓ In life, only specialists and bank-insurers have been able to secure higher than average profitability
- ✓ Overall, return on Equity tends to normalize between 8% and 10%, except in financial market turmoil
- ✓ Many insurers managed to outperform their peers on growth thanks to acquisitions or focused geographic expansion...
- ✓ ...but their performance still lags behind the one of small innovative champions who managed to combine double-digit growth and double-digit Return on Equity

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It's character that
creates impact !

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