

Financial Performance of the Top 40 European-born Insurers

Study



Contents

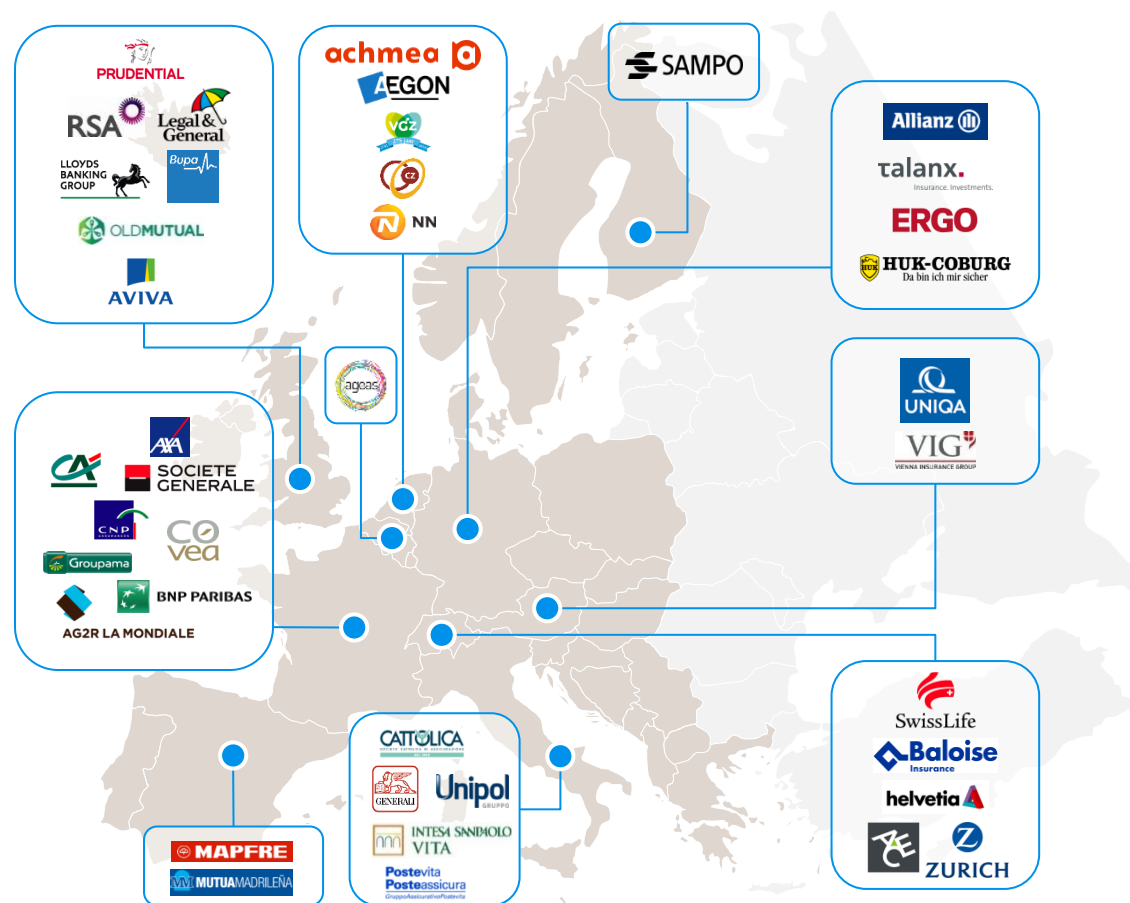
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1. Methodology



We benchmarked the financial performance of **Top 40 European-born insurers**

Scope of analysis and methodology



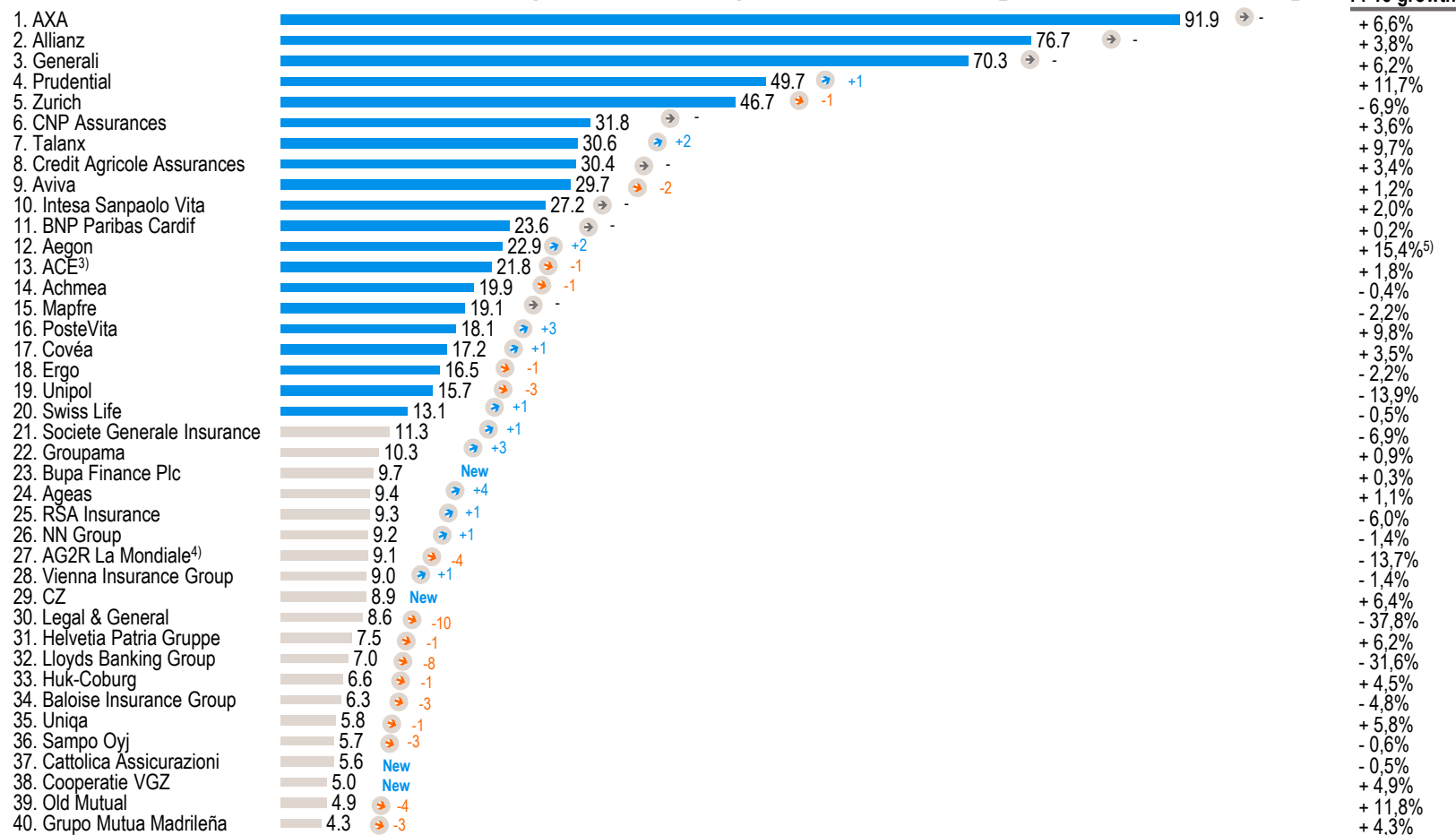
Methodology

- > **Review of the performance** of the **TOP 40 EUROPEAN-BORN INSURERS** (in terms of 2015 GWP) including, for this new study, **health and protection specialists**
 - **EUR ~798 bn in GWP** in 2015 (67% of European GWP)
 - **Western Europe countries¹⁾** – among them, **11 countries** represented by a player ranked in **Top 40**
 - Evolution studied from **2008 to 2015**
- > **Ranking in terms of RoE** based on P&L and Balance sheets analysis
- > **Segmentation in 7 clusters**: "Life specialist", "Bank-insurer", "Life predominant", "Non-life predominant", "Mutualist", "Non-life specialist" and "Health and protection specialist"

1) XL Group (headquarters in Ireland,) excluded from the study as the essential of its activity is made outside Europe
 Source: Company information, Insurance Europe, S&P Capital IQ, Oanda, L'Argus de l'Assurance, Roland Berger

As for 2014, this year's Top 40 is still dominated by AXA, Allianz and Generali – New entries mostly due to integration of health monoliners

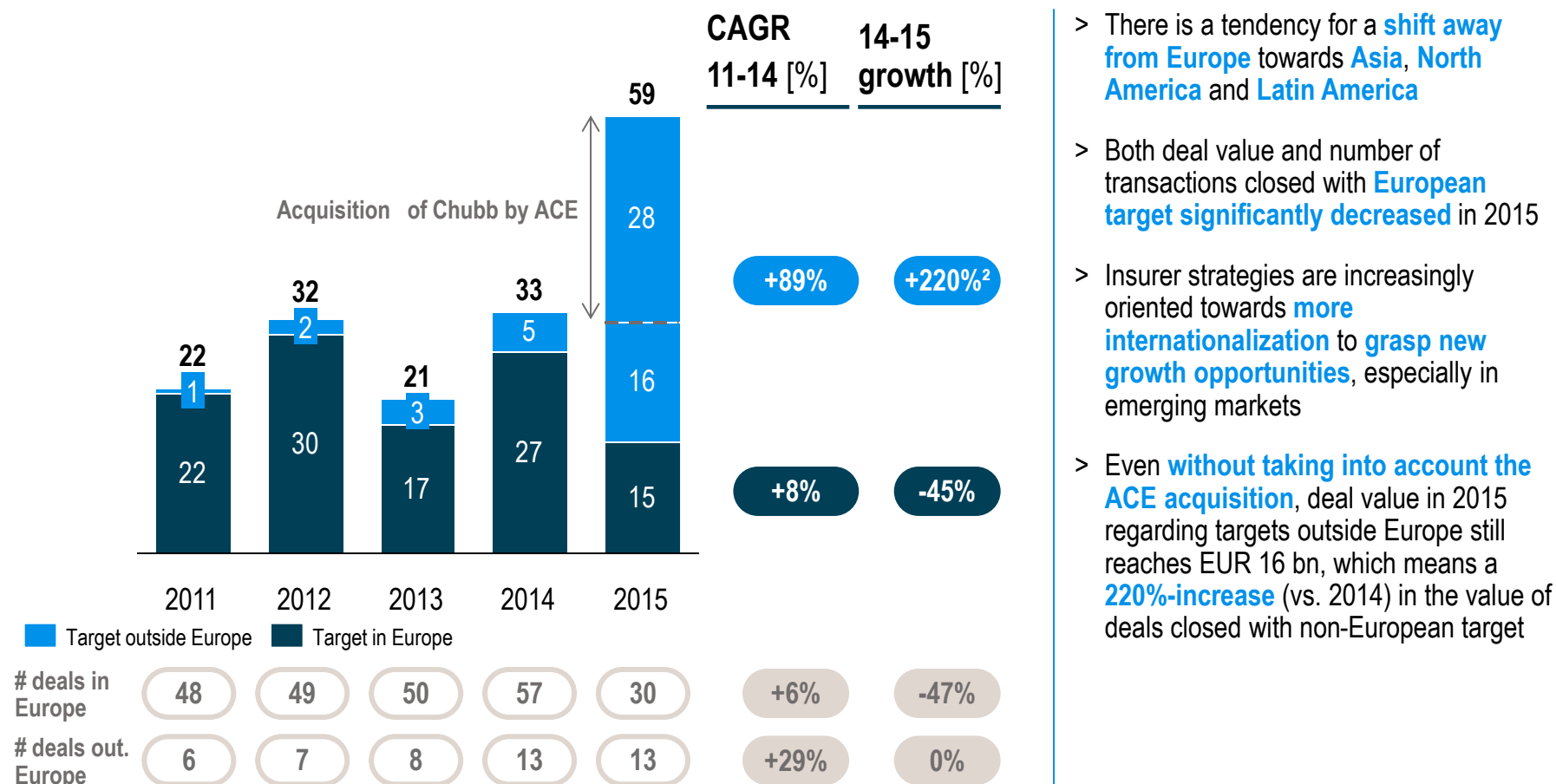
Gross Written Premiums – Top 40¹⁾ European insurers [2015; EUR²⁾ bn]



1) PZU (EUR 4.3 bn), Direct Line (EUR 4.3 bn), Delta Lloyd (EUR 4.0 bn) & Standard Life (EUR 3.1 bn) left the ranking after scope evolution due to methodology adjustments; 2) Dec 31, 2015 forex rates; 3) ACE is rebranded as Chubb since January 2016; 4) AG2R GWP calculated based on La Mondiale 14-15 growth rate and AG2R La Mondiale 2014 consolidated GWP due to lack of data for 2015 consolidated GWP; 5) Aegon high growth mostly artificial due to change in accounting reporting
 Source: Company information, Insurance Europe, S&P Capital IQ, Oanda, L'Argus de l'Assurance, Roland Berger

European insurers' M&A activity is stagnant (Ace-Chubb deal put aside) but increasingly oriented towards targets outside Europe

Value of deals¹⁾ made by European insurers by target location [2011-2015; EUR bn]

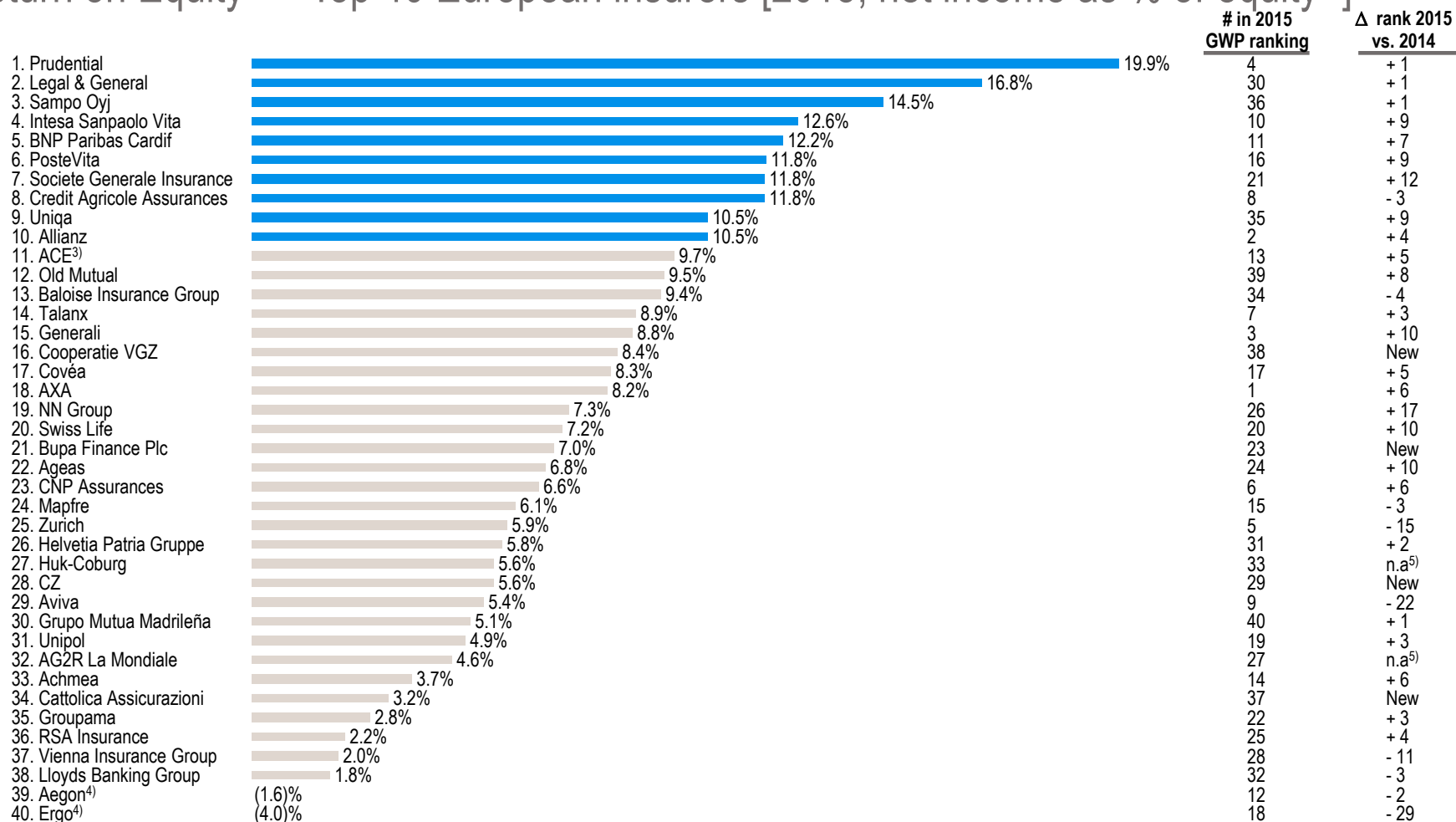


- > There is a tendency for a **shift away from Europe** towards **Asia, North America** and **Latin America**
- > Both deal value and number of transactions closed with **European target significantly decreased** in 2015
- > Insurer strategies are increasingly oriented towards **more internationalization** to **grasp new growth opportunities**, especially in emerging markets
- > Even **without taking into account the ACE acquisition**, deal value in 2015 regarding targets outside Europe still reaches EUR 16 bn, which means a **220%-increase** (vs. 2014) in the value of deals closed with non-European target

1) Only closed/effective deals with a transaction value exceeding EUR 50 m were taken into account 2) excluding Acquisition of Chubb by ACE

Among the Top 40 players in terms of GWP, 10 insurers generated above 10% ROE in 2015

Return on Equity¹⁾ – Top 40 European insurers [2015; net income as % of equity²⁾]



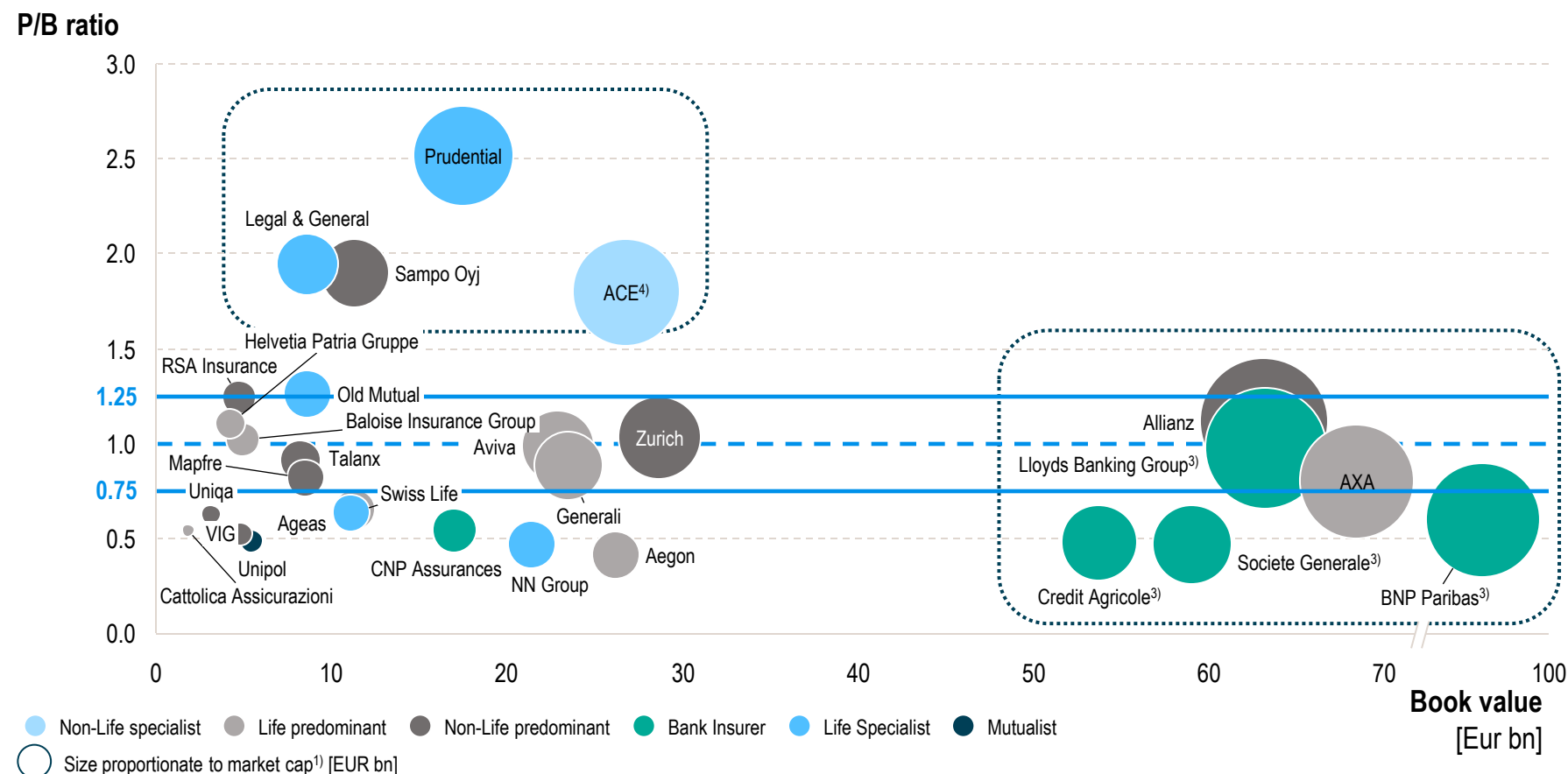
1) Return on equity calculated as net income after tax (excluding minority interest) divided by total equity (including year N income to the company and excluding minority interests); 2) Dec 31, 2015 forex rates;

3) ACE is rebranded as Chubb since January 2016; 4) Negative profit in 2015; 5) AG2R La Mondiale & Huk-Coburg not included in 2014 RoE ranking

Source: Company information, Insurance Europe, S&P Capital IQ, Oanda, Roland Berger

There are significant differences in terms of P/B level with some Top 40 insurers reaching market capitalization of twice their book value

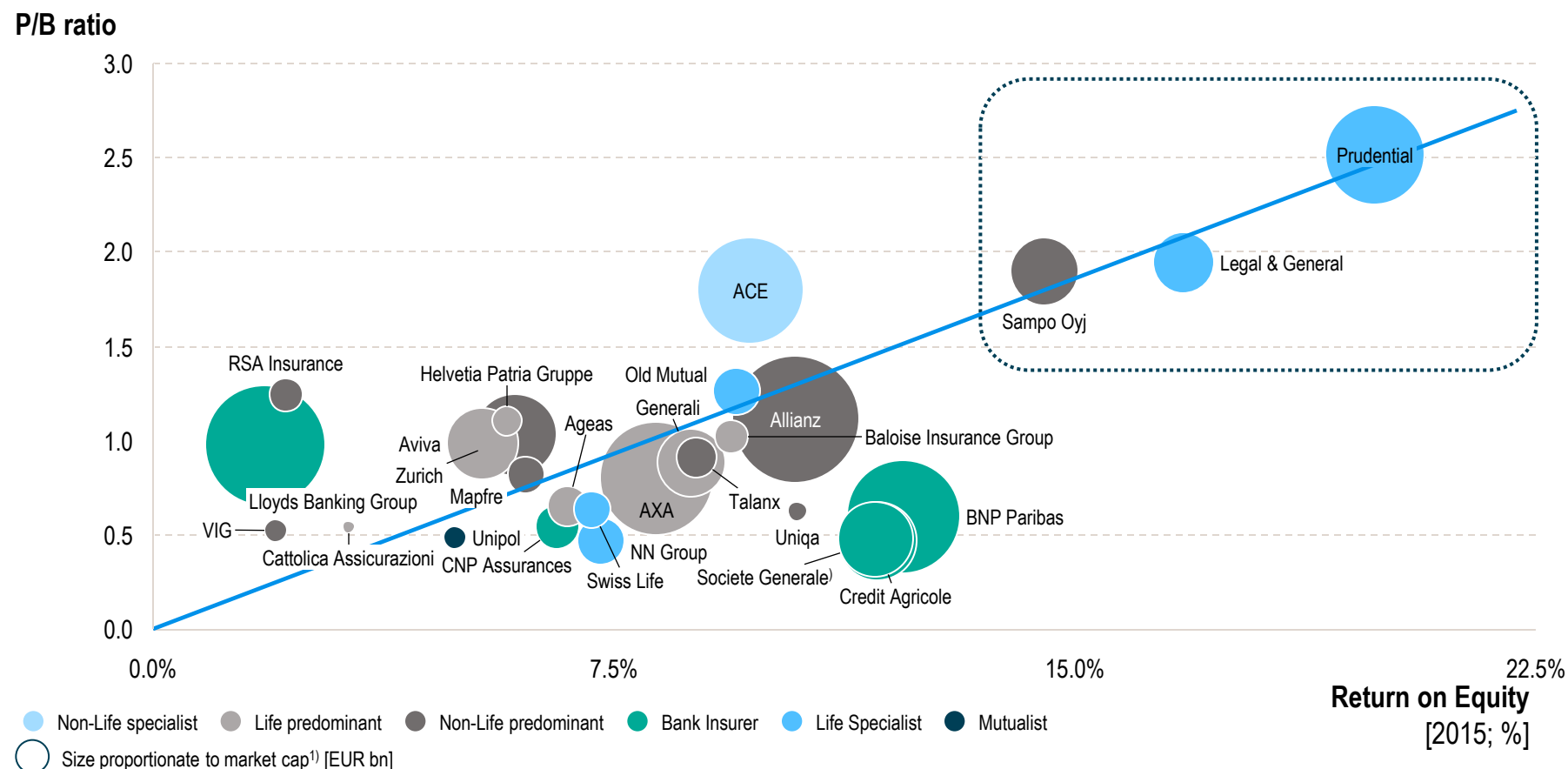
P/B ratio vs. Book value¹⁾ [2015/2016; EUR bn; %]²⁾



1) Market cap as of 03/05/2016; 2) Not included (non public companies): Achmea, AG2R La Mondiale, Covéa, Ergo, Groupama, Grupo Mutua Madrilená, Huk-Coburg, Intesa Sanpaolo Vita, Poste Vita, Bupa, CZ & Cooperatie VGZ; 3) P/B ratio, market cap and book value of the group; 4) ACE only, without Chubb incorporation

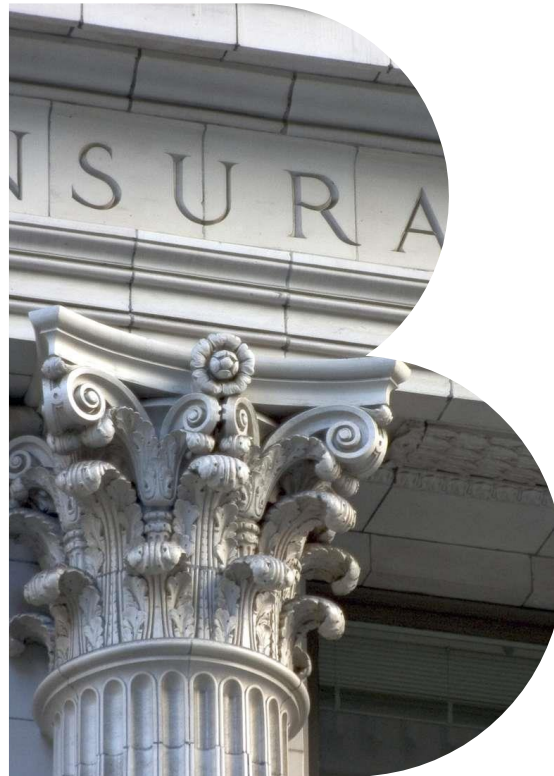
Return on Equity is a key driver of superior P/B – Prudential, L&G and Sampo have the highest P/B and RoE

P/B ratio¹⁾ vs. Return on Equity²⁾ [2015; EUR bn; %]



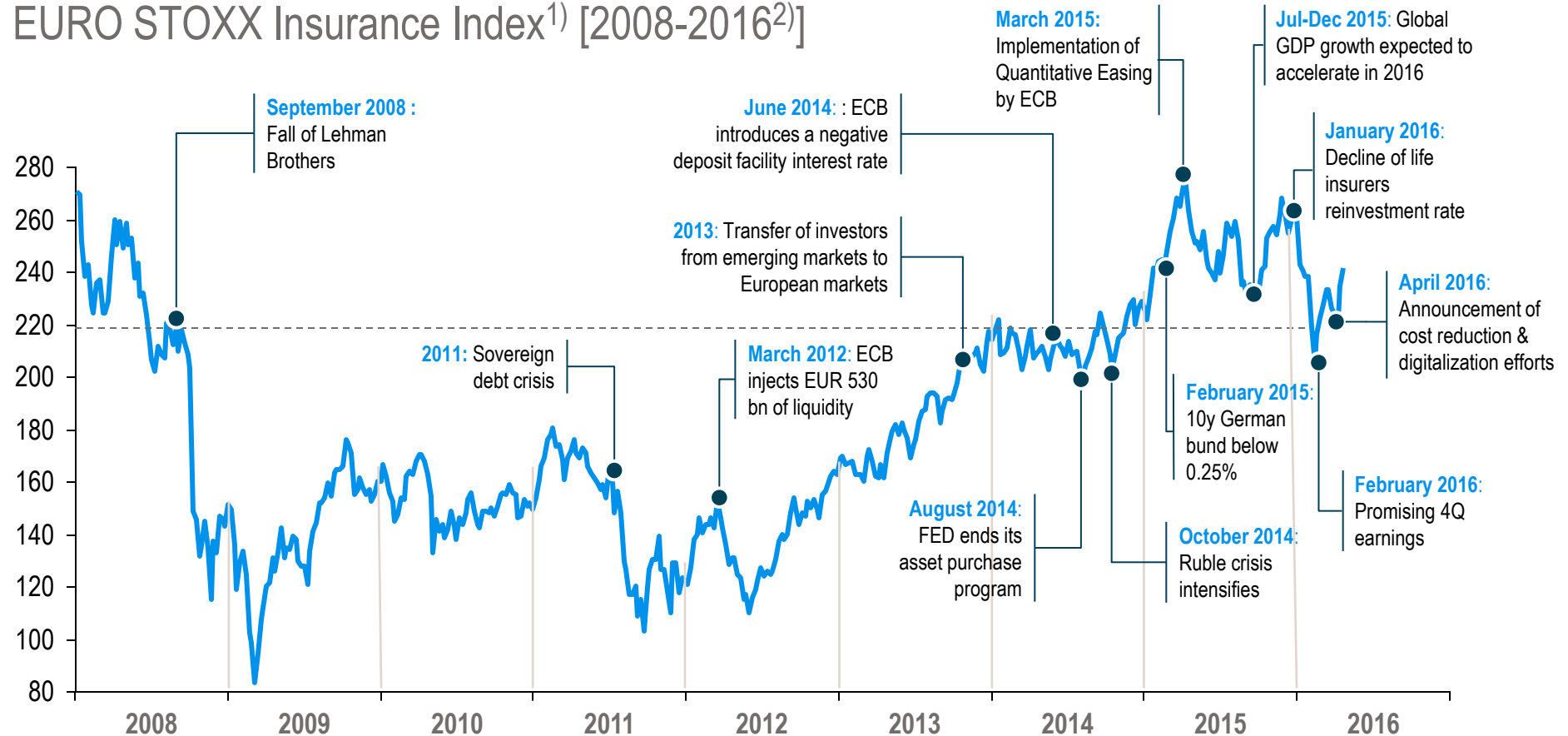
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2. Consolidated performance of the Top 40 European-born Insurers



After reaching its pre-crisis level in the beginning of 2015, valuation of European insurers dropped in part due to ECB quantitative easing

EURO STOXX Insurance Index¹⁾ [2008-2016²⁾]

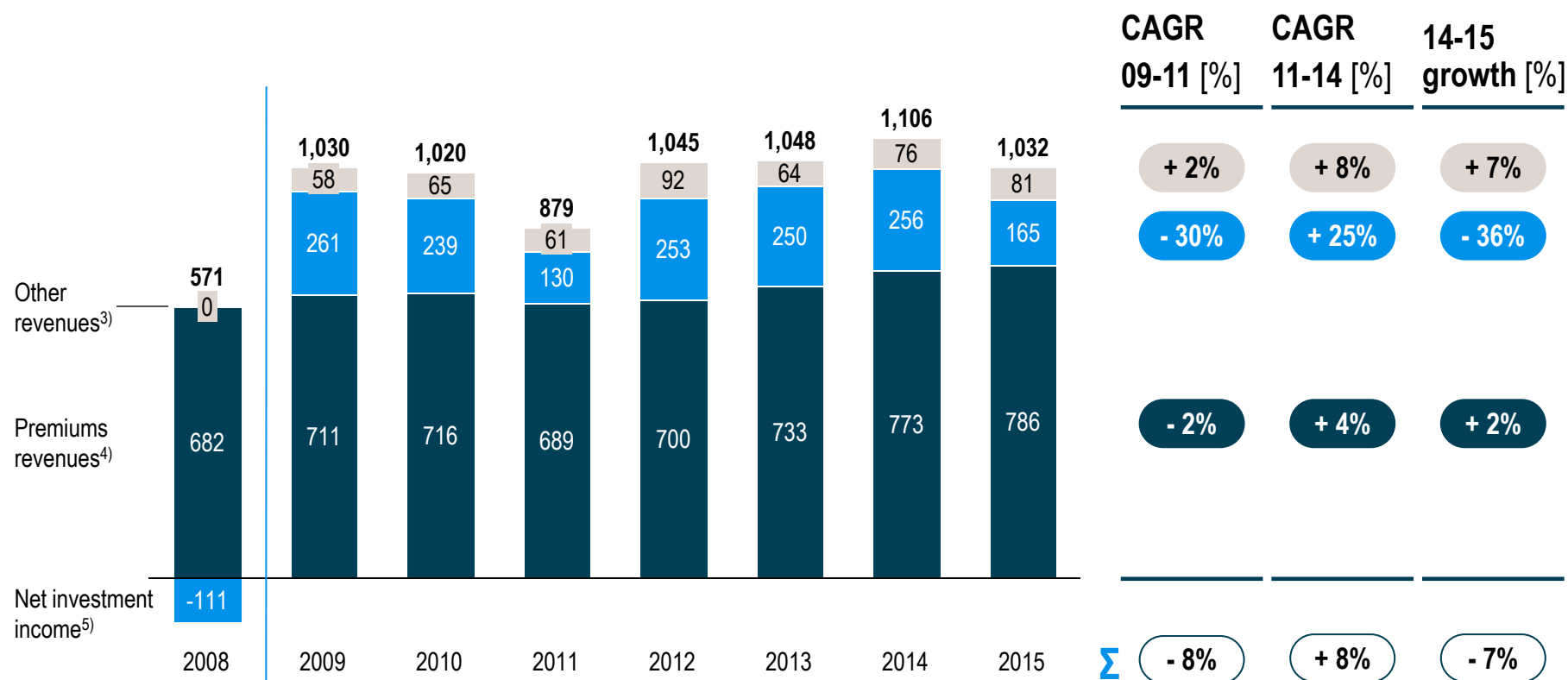


1) The EURO STOXX Insurance (Price) Index is a capitalization-weighted index which was developed with a base value of 100 as of December 31, 1991

2) From January 2008 to April 2016

While premium revenues growth slowed down in 2015, drop in net investment income in 2015 pushed total revenues down (by 7%)

Top 40¹⁾ European insurers consolidated financials – Revenues [2008-2015; EUR²⁾ bn]



1) 2008 & 2009 financials for Intesa Sanpaolo Vita, AG2R La Mondiale, Cooperatie VGZ & Huk-Coburg extrapolated from 2010 figures;

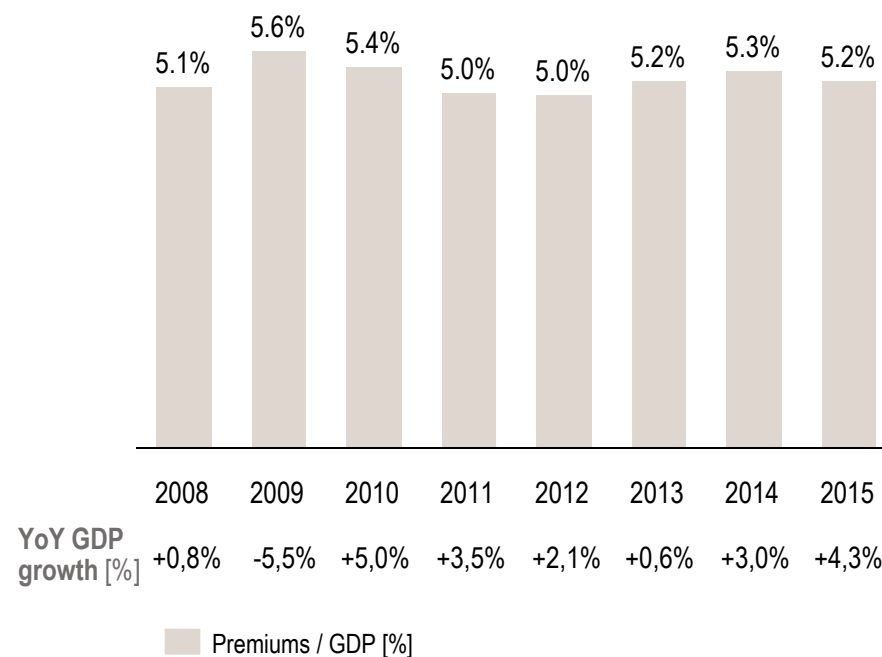
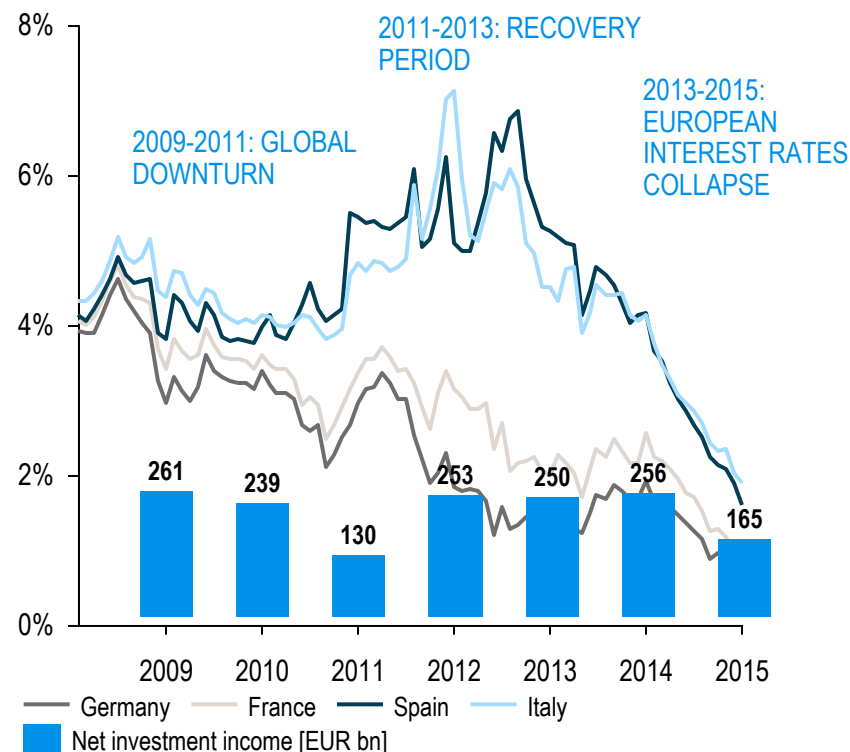
2) Dec 31, 2015 forex rates; 3) Including revenues from non-insurance activities (banking, ...); 4) Net premiums earned; 5) Including total interest and dividend income as well as realized gains/losses (net)

The investment income dropped alongside bond yields in 2015 while premium revenue penetration in GDP is stable

Correlation between revenues and macro-economic KPIs

10-Y Government bond yields & net investment income [2008-2015; %; EUR bn]

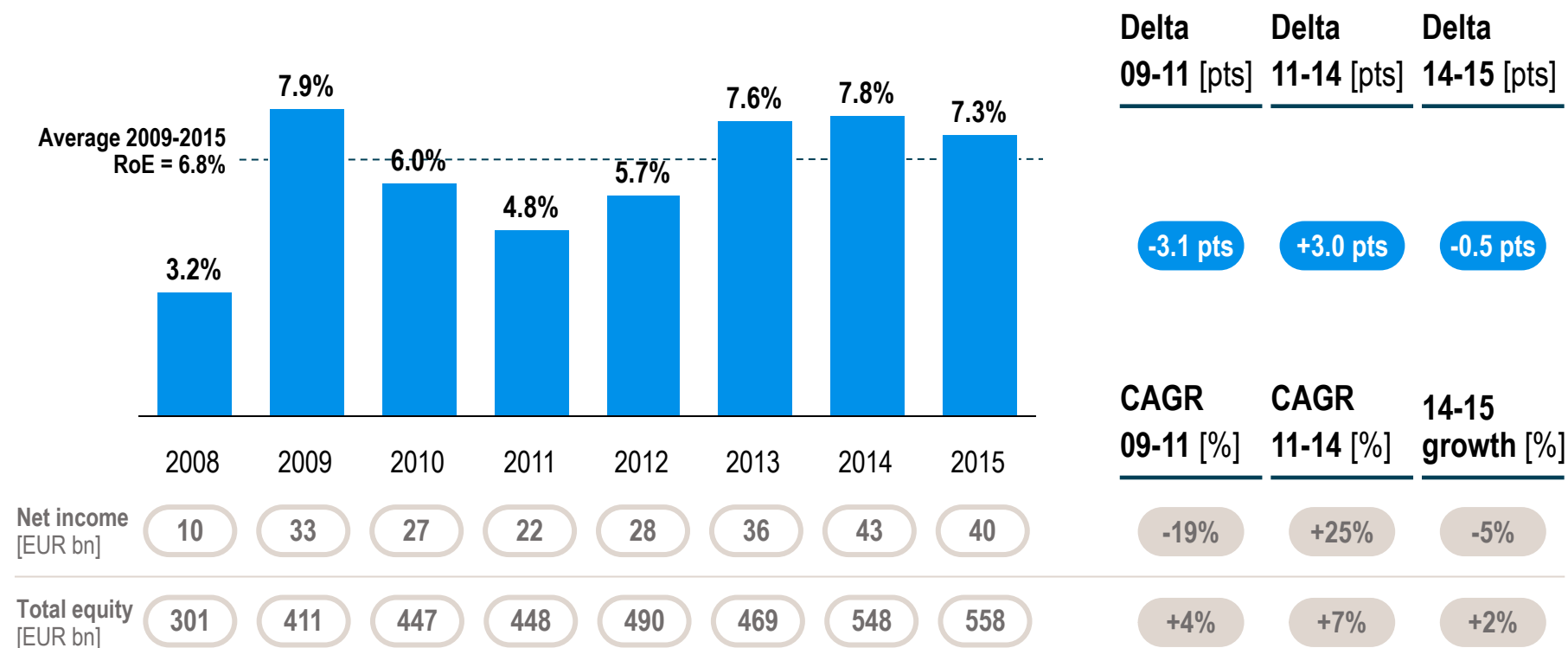
Premium revenues as share of GDP¹⁾ & YoY GDP growth [2008-2015; %; YoY]



1) GDP of the European countries covered by the geographical scope used in the Top 40 establishment
Source: ECB, Eurostat, Company information, S&P Capital IQ, Oanda, Roland Berger

After recovering their 2009 level in 2013, **ROE** ratios have been **stagnating** (-0.3pts between 2013 and 2015)

Top 40¹⁾ European Insurers consolidated financials – Return on Equity²⁾ [2008-2015;%]



1) 2008 & 2009 financials for Intesa Sanpaolo Vita, AG2R La Mondiale, Cooperatie VGZ & Huk-Coburg extrapolated from 2010 figures

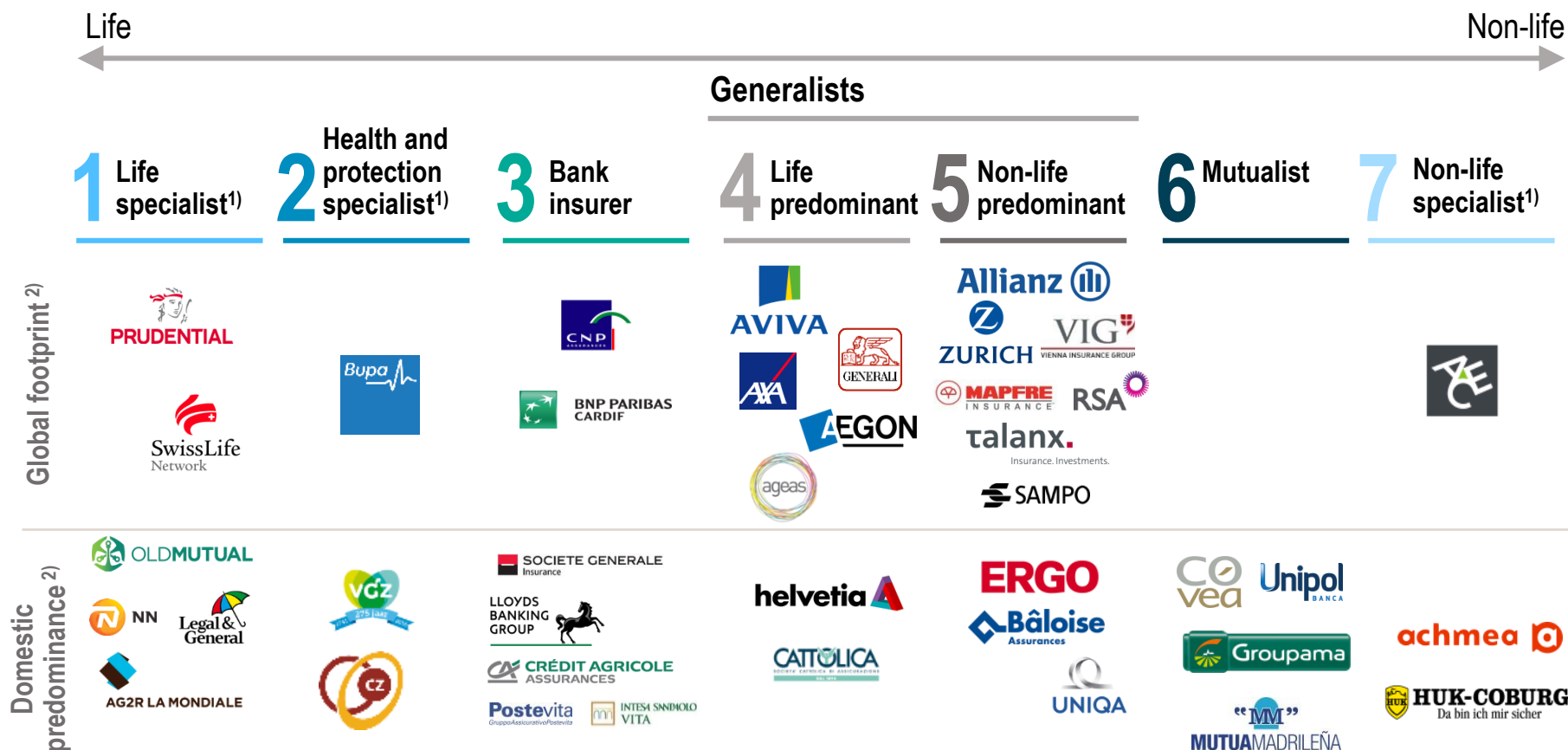
2) Return on equity calculated as net income after tax (excluding minority interest) divided by total equity (including year N income to the company and excluding minority interests)

3. Vision by type of insurer



The Top 40 players have been classified into 7 clusters and then analyzed by cluster

Clustering of the Top 40 European Insurers



1) Life specialist when share of 2015 life premiums is above 80%; Non-life specialist when share of 2015 life premiums is below 20%; Health and protection specialist when share of 2015 health premiums is above 80%

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

Source: Roland Berger

2015 has been difficult (compared to 2014) for the Top 40 European insurers both in terms of revenues (excl. "Bank insurers") and RoE

Performance by cluster of Top 40¹⁾ European Insurers [2015 vs. 2014; EUR bn; %]

		A Revenues			B Return on Equity ²⁾	
		# players	14-15 growth [%]	2015 [EUR bn]	Δ 14-15 ²⁾ [pts]	2015 [%]
Life	1 Life specialist	6	-22%	138	2pts	12%
	2 Health and protection specialist	3	1%	33	-3pts	7%
	3 Bank Insurer	7	6%	188	0pts	5%
Generalists	4 Life predominant	7	-10%	303	-1pts	6%
	5 Non life predominant	10	-3%	265	-2pts	8%
	6 Mutualist	4	-2%	58	1pts	6%
Non-Life	7 Non-Life specialist	3	-7%	48	1pts	8%
Top 40 European Insurers			-7%	1,032	-1pts	7%

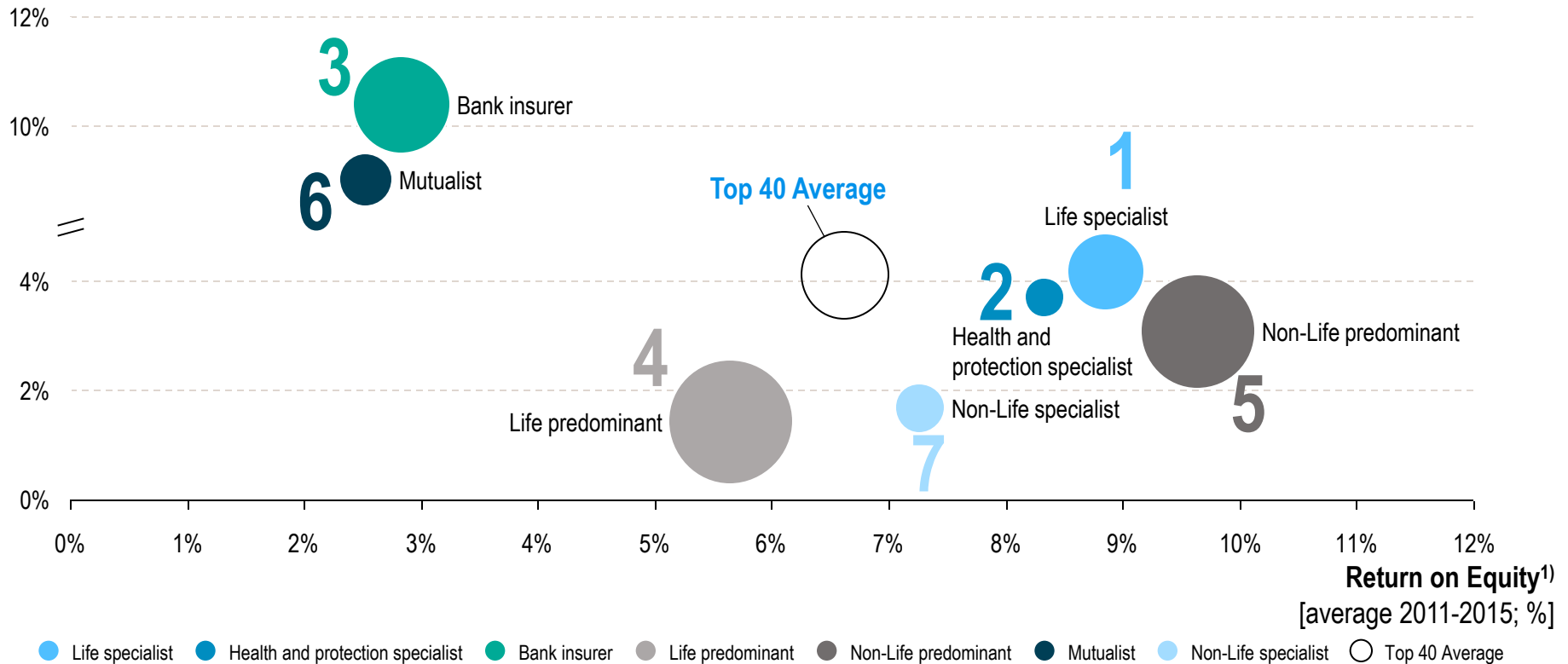
1) 2008 & 2009 financials for Intesa Sanpaolo Vita, AG2R La Mondiale, Cooperatie VGZ & Huk-Coburg extrapolated from 2010 figures

2) Return on equity calculated as net income after tax (excluding minority interest) divided by total equity (including year N income to the company and excluding minority interests) and Δ 14-15 [pts] = RoE 2015 - RoE 2014

The "Non-life predominant" have generated higher RoE levels – "Bank insurers" & "Mutualists" showed strong growth over 2011-15

Evolution of revenues vs. average Return on Equity [2011-2015; %]

Revenues CAGR
[2011-2015; %]



● Life specialist ● Health and protection specialist ● Bank insurer ● Life predominant ● Non-Life predominant ● Mutualist ● Non-Life specialist ○ Top 40 Average

○ Size proportionate to volume of net premiums [EUR bn; 2015]

1) Return on equity calculated as net income after tax (excluding minority interests) divided by total equity (including year N income to the company and excluding minority interests)

Source: Company information, S&P Capital IQ, Oanda, Roland Berger

However, **all segments** have generated **revenue growth** and **almost all of them** have **improved their RoE** over 2011-2015

Performance by cluster of Top 40¹⁾ European Insurers [2011-2015; EUR bn; %]

		A Revenues			B Return on Equity ²⁾	
		# players	CAGR 11-15 [%]	2015 [EUR bn]	Δ 11-15 ²⁾ [pts]	11-15 Average [%]
Life	1 Life specialist	6	4%	138	4pts	9%
	2 Health and protection specialist	3	4%	33	2pts	8%
	3 Bank Insurer	7	10%	188	4pts	3%
Generalists	4 Life predominant	7	1%	303	1pts	6%
	5 Non life predominant	10	3%	265	0pts	10%
Non-Life	6 Mutualist	4	9%	58	2pts ³⁾	5% ³⁾
	7 Non-Life specialist	3	2%	48	4pts	7%
Top 40 European Insurers			4%	1,032	2pts	7%

1) 2008 & 2009 financials for Intesa Sanpaolo Vita, AG2R La Mondiale, Cooperatie VGZ & Huk-Coburg extrapolated from 2010 figures

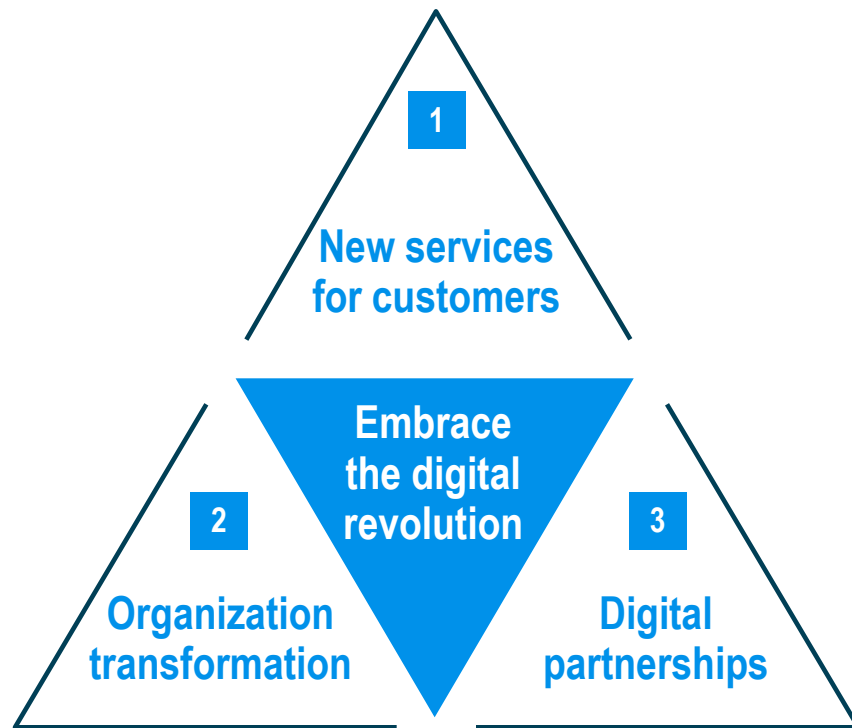
2) Return on equity calculated as net income after tax (excluding minority interest) divided by total equity (including year N income to the company and excluding minority interests) and Δ 11-15 [pts] = RoE 2015 - RoE 2011; 3) Δ 12-15 [pts] and 12-15 ROE average as mutualists in this top 40 generate as a whole negative net income in 2011

4. Status on digital transformation



Developing new services for customers triggers digital transformation of insurers and leads to organizational adjustments

Key levers of Digital Transformation



1 New services for customers

- > **Customers** are rapidly:
 - Adopting **digital channels and tools** to interact with providers
 - Expecting more convenience and **seamless processes**
- > Breakthroughs in **data analytics** offer new opportunities (increase cross-selling, earn greater loyalty, customize premiums)

2 Organization transformation

- > **New equipment** has become necessary – especially to analyse **increased amount of data**
- > The right people (e.g. **CDOs, data scientists**) are increasingly hunted and **agile teams** are set up
- > Some **processes** are **automated** and facilitated with a proper use of digital resources, leading to **cost savings**

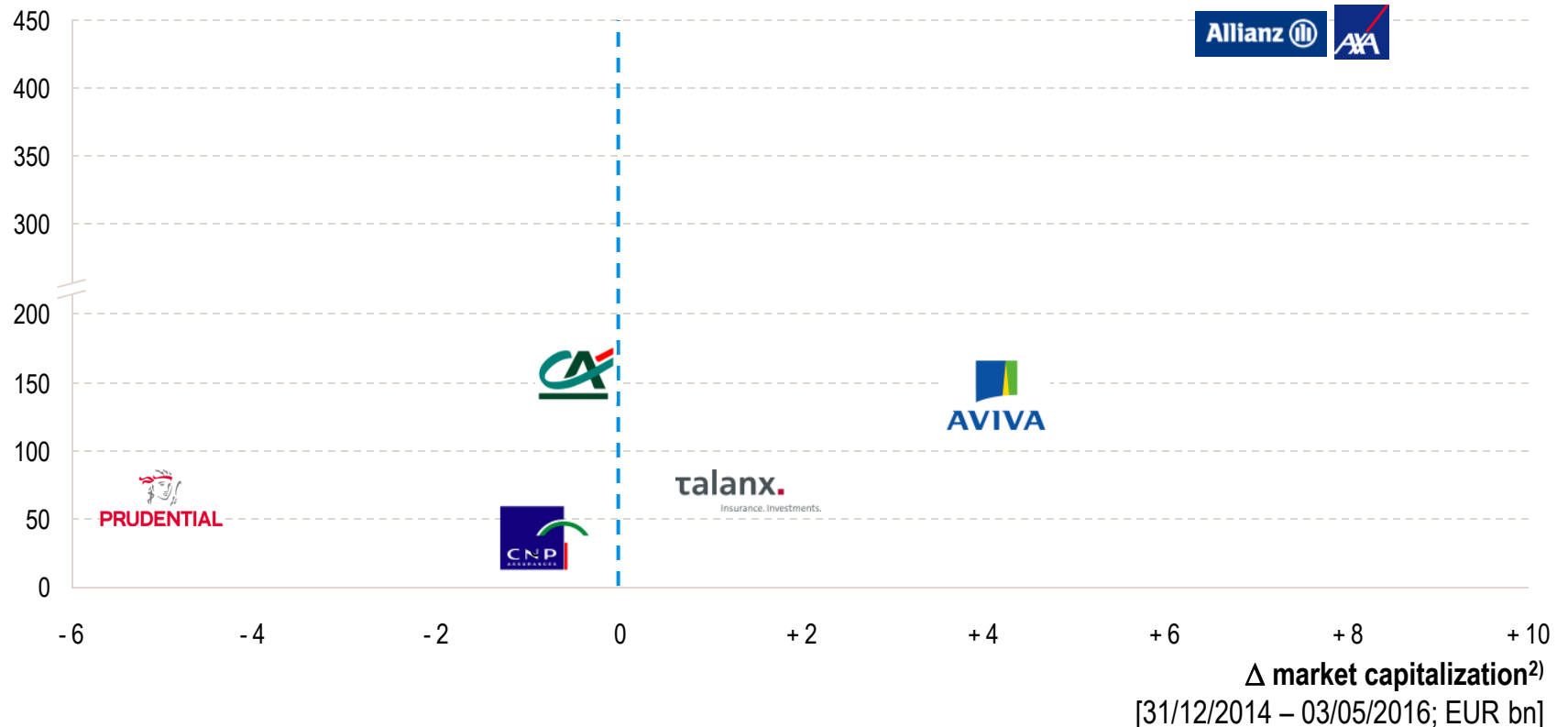
3 Digital partnerships

- > Insurers look for partnerships to **accelerate digital transformation**
- > Some of them also set up **venture funds** to invest in start-ups

Digital investments are well perceived by the market and could be increasingly fostered to boost market capitalization

Digital investment as share of net profit (2015) vs. 14-15 Delta in Market Cap [EUR bn; %]

Digital investment¹⁾ [EUR m]



1) For Prudential (Digital investment to revamp its UK business), Talanx and Credit Agricole (insurance share calculated from group figures), was assumed an equal year-to-year distribution of the announced investments (covering a period wider than the single 2015 year); 2) Δ market capitalization = Market cap as of 03/05/2016 – Market cap 2014 as of 31/12/2014

AXA is striving to grasp the digital revolution by increasingly offering seamless processes to customers and hiring data scientists

Overview of AXA digital transformation initiatives



New services for customers

- > **New mobile applications:** Axa Drive, My Axa, My Switch, Check Risk, Soon, My Axa Health,...
- > **Testezvotreassurance.com** (Nov. 2014)
 - Comparison of car insurance contracts
 - Selection of appropriate warranty
- > Tariffs **obtained in less than a minute** and **fully digitalized claims management** process for car insurance contracts
- > All insurance contracts can be **subscribed directly online**
- > Increased contacts of customers via **LinkedIn** after pilot success (~115 agents)

~35% of budget (digital marketing)

Organization transformation



- > New back-office platform (**Contract'In**) allowing dematerialized communication with suppliers
- > **Test and learn** algorithms developed



- > **Start'in program** (collaborative innovation)
- > **Data Innovation Lab**, specialized in Big Data (~40 engineers and EUR 20 m budget per year)
- > **Digital Agency** (~EUR 15m per year) – devises / tests new tools

~50% of budget

Digital partnerships

- > **AXA Strategic Ventures** – a venture capital Unit with EUR 200 m (Feb. 2015)
- > **AXA Lab**, Silicon Valley – work with startups
- > **Axa Seed Factory** (launched in 2014) – a start-up accelerator
- > First **Hackathon AXA** in January 2014
- > **Partnership with Blablacar**, a leader in car sharing (May 2015)
- > **Partnership with Samsung** for connected car platform (Feb. 2016)

~15% of budget

AXA invested EUR 450 m in 2015 (8% of net profit) for accelerating digital transformation (out of EUR 950 m invested over the 2013-2015 period)

Allianz is embracing digitalization, offers well-designed online services and optimizes internal processes

Overview of Allianz digital transformation initiatives



New services for customers

- > **Connected boxes in cars** to reward good drivers – 9,000 boxes sold since November 2015 in France
- > **Online research, quote, purchasing and servicing** offered for a large range of products categories
- > **"OneWeb"**: unique web portal as a basis for the different countries, consistent across platforms (Web, Mobile, Tablets)
- > **"My Allianz" mobile app** (in partnership with Amazon): customer service incl. contract subscription, claims reporting, CRM, etc.
- > **2016 Target**: reach 20% to 25% share of business generated via digital channels

Organization transformation



- > Cross business lines **digitalized servicing** through a **centralized digital platform**
- > On-going building of **SaaS tools for CRM**



- > **Digital transformation governance** (~100 people in the central team + additional teams in BUs)
- > **Social medial enablement of agents** – e.g. 1500 agents use Facebook as a channel
- > **Digital Academy** (> 30k trainings consulted)
- > **Cost-cutting** (target: EUR 1 bn per year) thanks to digitalization

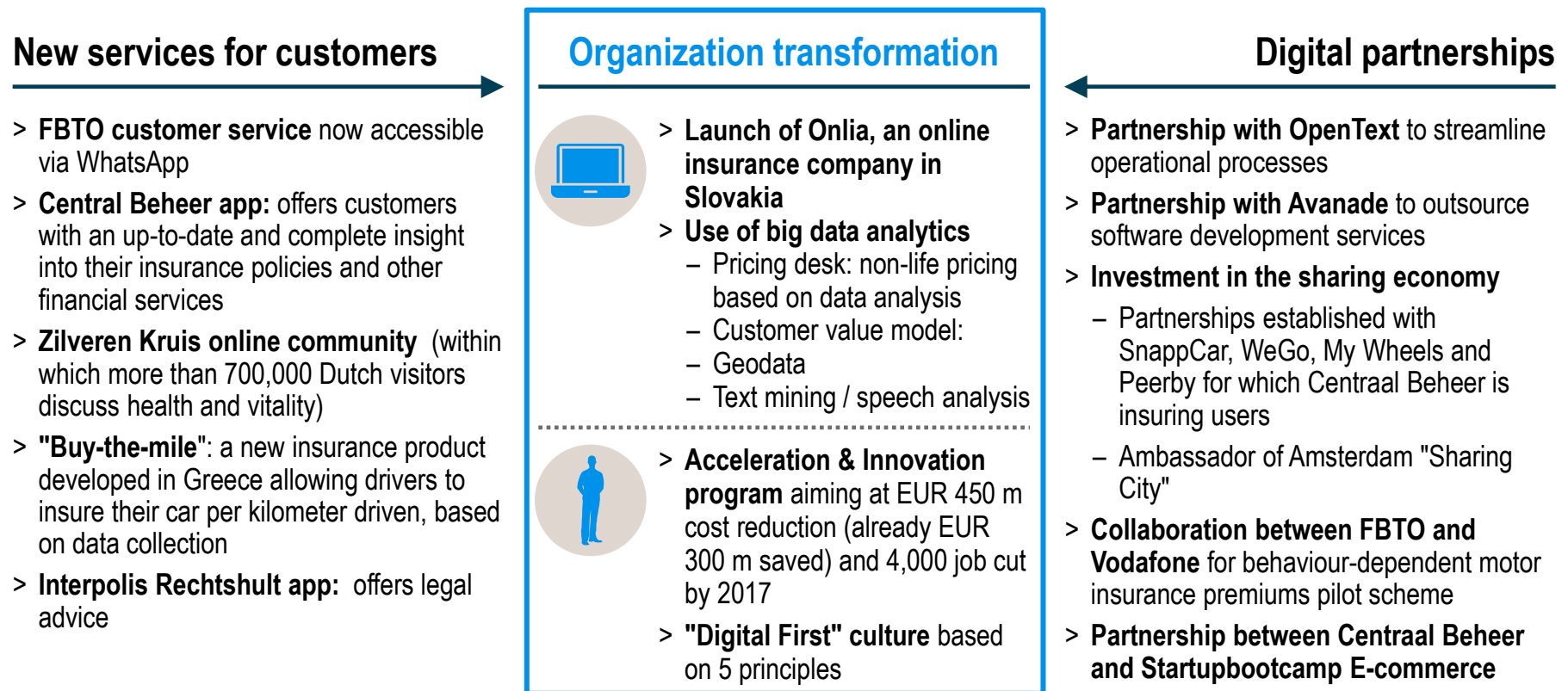
Digital partnerships

- > **Joint-venture in China** with search giant **Baidu** and Asian Hillhouse Capital Group to offer insurance products online (Nov 2015)
- > **Allianz Digital Corporate Ventures** – invest in startups (Fintech, Connected Car/Smart Home, Data & Analytics, Cybersecurity, Digital Health) that could bring value to Allianz (~ 7 investments per year)
- > **Allianz Digital Accelerator** for startups
- > **"One Allianz" network** based on new partnership model

Allianz invested EUR 400-500 m in 2015 (~7% of net profit) for fostering digital transformation

Achmea aims to develop innovative services to customers and cut costs, mainly through its Acceleration & Innovation program

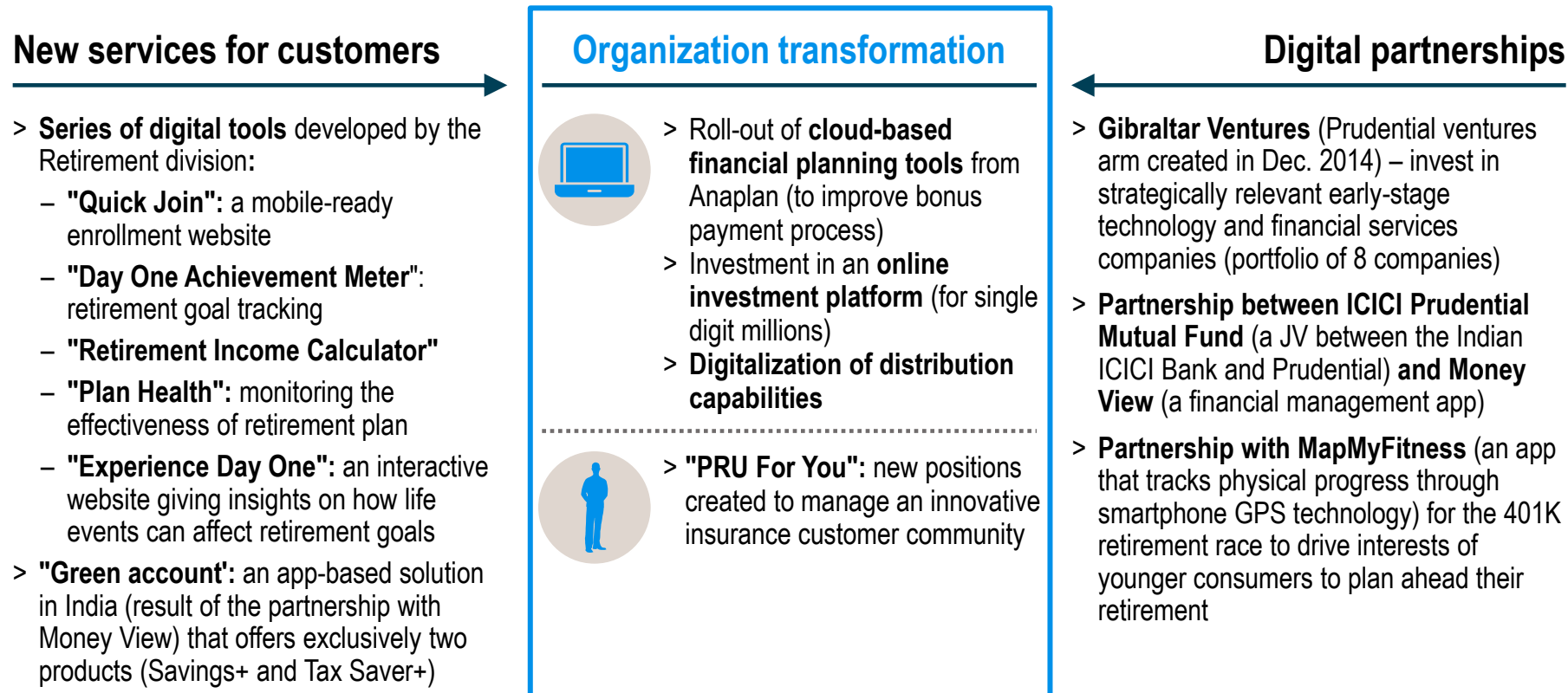
Overview of Achmea digital transformation initiatives



Achmea aims to achieve enhanced customer satisfaction and lower operational costs

Prudential has significantly invested in digital, especially to **revamp its UK business**, by investing in software and developing new tools

Overview of Prudential digital transformation initiatives



Prudential invested ~EUR 135 m¹⁾ (~ 2% of net profit) over the 2014-2015 period for revamping its business (especially in the UK)

1) Dec, 31 2015 forex rates
 Source: Company websites & annual reports, press research, Roland Berger

Sampo, especially through its subsidiary If P&C aims to be the leader of insurance digital services in the Nordics

Overview of Sampo digital transformation initiatives



New services for customers

- > **Websites revamped** with clearer structure, streamlined appearance and notification centres (Sampo and Mandatum Life websites)
- > **Online private claims report** (today representing 38% of total claims report at If P&C)
- > Online sales channel improvement with **customer centric webshops** (74%-sales increase at If P&C; 40% of website visits from mobile)
- > **Self-service pages** developed (e.g. "My Pages") at If P&C
- > As of today, 30% of total customers are e-customers for If

Organization transformation



- > Implementation of a state of the art **Nordic IT core system** by If
- > Development of **If's mainframe based business applications** in Norway and Finland



- > **Digital culture promoted** (If received the award of best online service in Sweden in the InternetWorld ranking)
- > **Hiring of digital talents** Web analysts, usability designers, etc.

Digital partnerships

- > **Partnership between If P&C and TCS** (a provider of consulting-led, integrated portfolio of IT, BPS, infrastructure, engineering services)

If dedicates ~20% of its investments to Digital and IT developments

5. Key takeaways



KEY TAKEAWAYS from our 2015 study



INSURERS ARE ENCOUNTERING DIFFICULTIES TO GROW AND IMPROVE PROFIT

- Premium revenues **growth slowed down** in 2015 (+2% vs. +4% over the 11-14 period)
- **Drop in net investment income** in 2015 pushed total revenues down (by 7%)
- ROE-wise, **European Insurers performance dropped slightly in 2015** (7.3% vs. 7.9% in 2014)
- Only **Bank Insurers** managed to really **increase their revenues in 2015: +6% vs. -7% for the top 40 European Insurers**, even if they didn't improve their ROE (flat performance)



THE BATTLE OF DIGITAL IS FULLY ENGAGED

- Three main battlefields: **New services for customers, Organization transformation and Digital partnerships**
- Increase **of related investment amounts** and engagement of **cost reduction programs**
- Financial markets **clearly value digital efforts**



GROWING RESOURCE ARE ENGAGED IN M&A OUTSIDE EUROPE

- European Insurers looking for **growth outside of Europe**
- Deal value in 2015 of targets outside Europe reaches EUR 16 bn, a **220% increase** vs 2014



IMPROVING GROWTH OF ROE IS CRUCIAL AND GENERATES SUPERIOR PRICE TO BOOK VALUE

- **Highest P/B levels** for Prudential, L&G and Sampo which are also the **top 3 of ROE ranking**

Contacts



**Christophe
Angoulvant**

Senior Partner
+33 (0) 6 87 76 75 71
christophe.angoulvant@rolandberger.com



**Youssef
Zniber**

Project Manager
+33 (0) 6 83 20 22 93
youssef.zniber@rolandberger.com

Roland
Berger

