

RISK


Where Did all the M&A Go?

Southeastern Actuaries Conference Spring Meeting

John O. Nigh, F.S.A., M.A.A.A.
Managing Principal, Mergers, Acquisitions and Restructuring Practice
Leader

June 24, 2005

Tillinghast - Towers Perrin



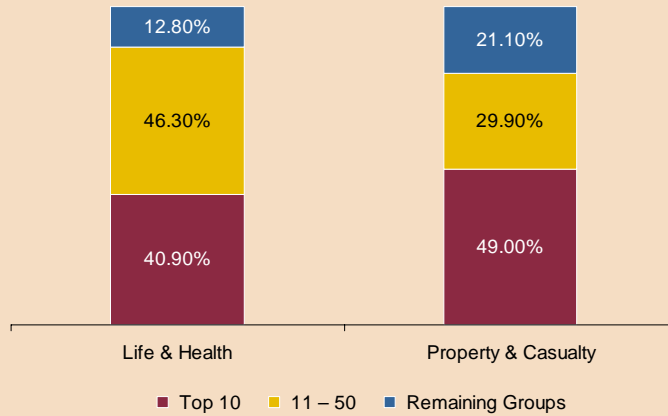
Market overview

- Concentration
- Revenue growth
- Penetration
- Non-spectacular ROEs

1



Recent M&A activity shows a slightly larger concentration of top 10 insurers by net written premium

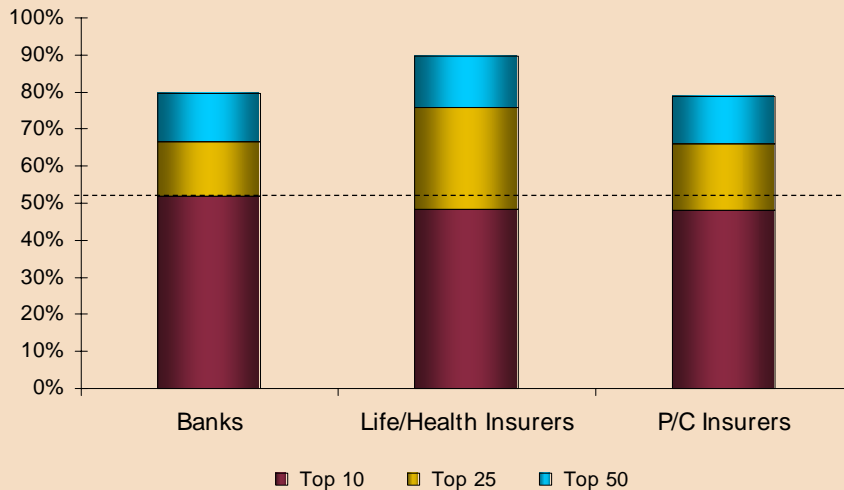


Note: Data as of December 31, 2004. Companies are ranked by net written premium.
Source: Best's Aggregates & Averages Life-Health, Property/Casualty United States & Canada, 2002 Edition.



The insurance industry is beginning to keep pace with the banks for consolidation

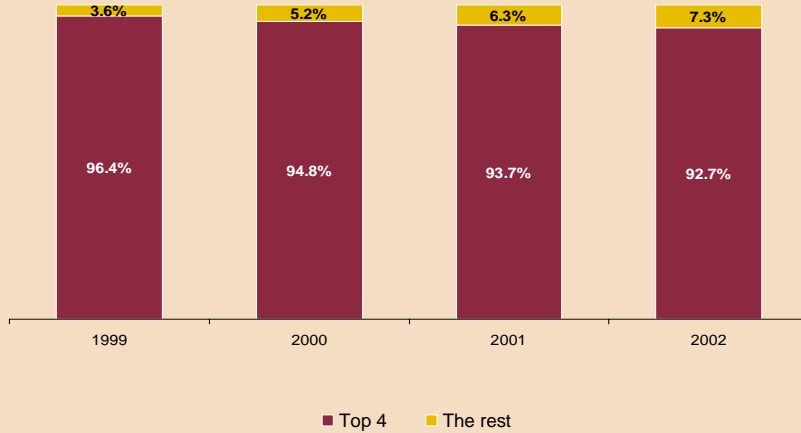
2004 Market Share by Sector



Sources: YE 2003 American Banker for banks and YE 2004 A.M. Best for insurers; based on assets.



Domestic cigarette producers' market shares



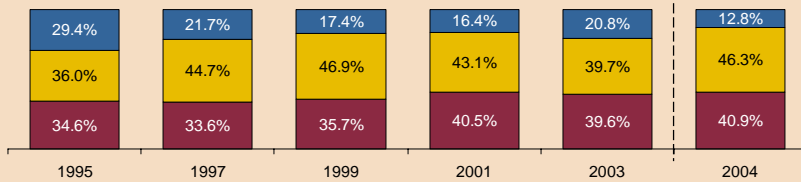
Source: Philip Morris Inc.

4

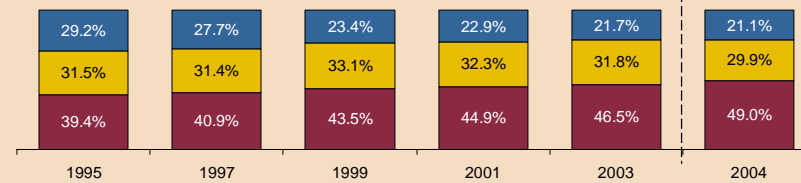


Concentration of insurance industry by premium

Life and Health Groups



Property and Casualty Groups



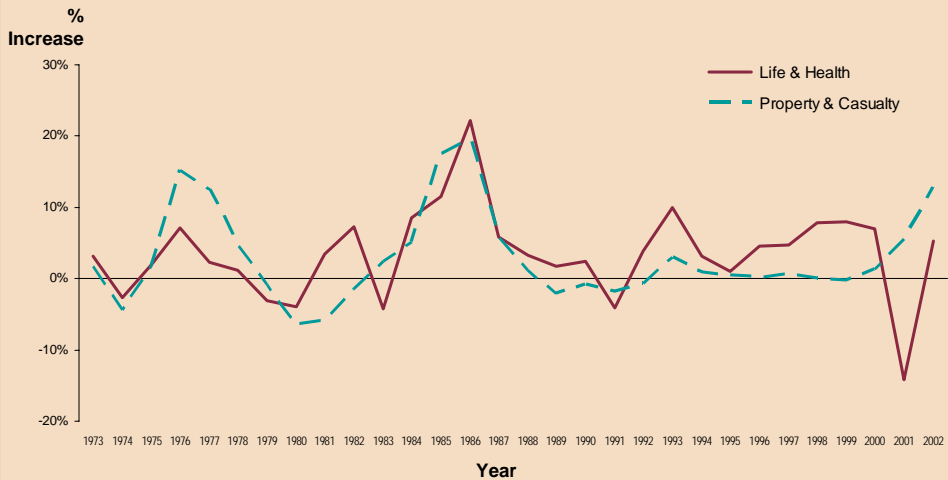
■ Top 10 Groups ■ Groups 11 - 50 ■ Remaining Groups

Note: Data as of December 31, 2004. Groups are ranked by net written premium. Source: Best's Aggregates & Averages Life-Health, Property/Casualty United States & Canada, 1995-2004 Editions.

5



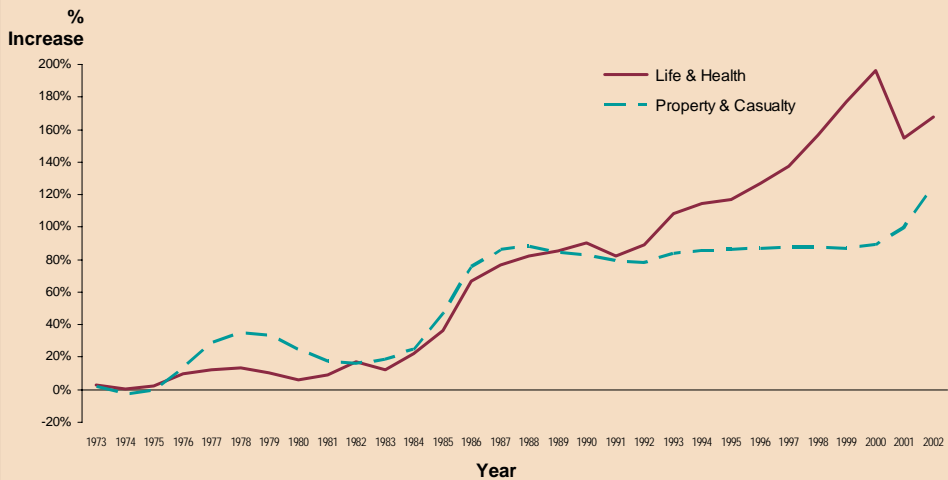
Annual premium growth adjusted for inflation



Note: Total premium receipts include life insurance premiums, annuity considerations, and health insurance premiums. Data as of 12/31/02.
Sources: Bureau of Labor Statistics, ACLI Life Insurer Fact Book, 2003; 2003 Best's Statement File Supplement — Insurance Expense Exhibit — P/C, U.S.



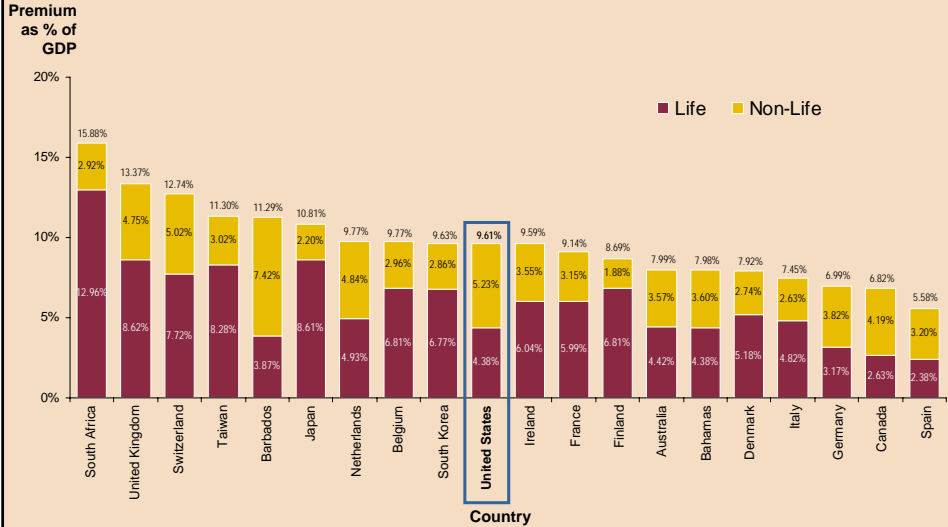
Cumulative premium growth adjusted for inflation



Note: Total premium receipts include life insurance premiums, annuity considerations, and health insurance premiums. Data as of 12/31/02.
Sources: Bureau of Labor Statistics, ACLI Life Insurer Fact Book, 2003; 2003 Best's Statement File Supplement — Insurance Expense Exhibit — P/C, U.S.



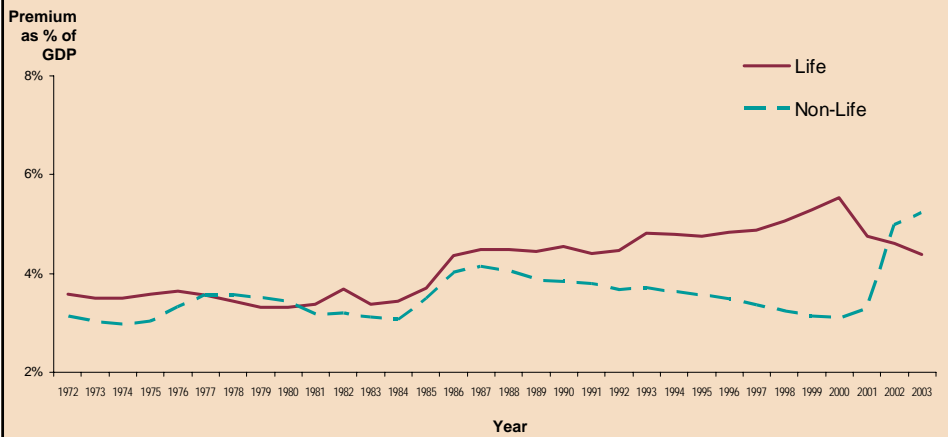
Penetration of insurance industry, U.S. vs. world



Note: All figures are in % of GDP 2003.
 Source: Swiss Re, sigma No. 3/2004.



Penetration of insurance industry, U.S.

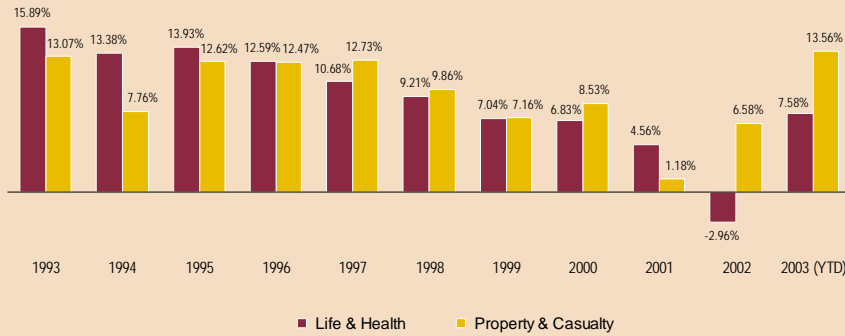


Source: Bureau of Economic Analysis (10/31/2003); Swiss Re, sigma No. 3/2004 for 2003



Insurance industry Return on Equity (ROE)

Needs to be Updated



Note: 2003 data as of September 30, 2003.
Source: SNL Financial.

10



Summary

U.S. insurance market has characteristics that make sustained organic growth difficult

- High market penetration
- Low growth in industry premiums
- Relatively non-spectacular ROEs

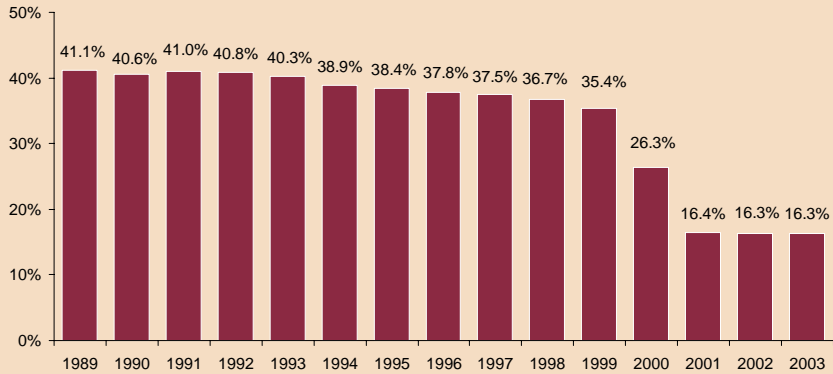
M&A is the logical outcome...

11



Market share of mutual life insurers has dropped significantly

Percentage of Total Admitted Assets for U.S. Life-Health Insurers Attributable to Mutual Organizations*



*Mutual holding company groups included with mutuals.
Source: Best's Aggregates & Averages Life-Health.



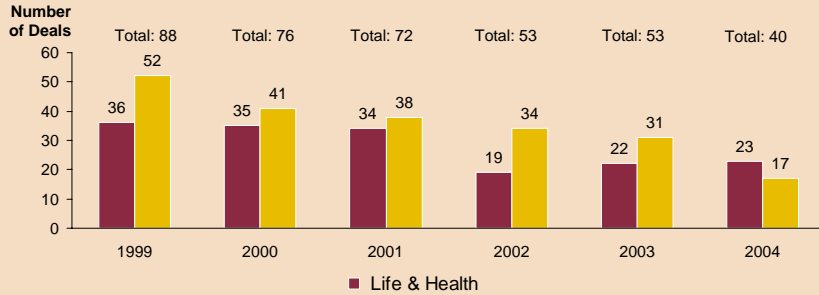
Disincentives to property & casualty M&A

- Legacy systems
- Legacy personnel
- Legacy thought processes
and, of course...
- Legacy LIABILITIES

These create incentives for "renewal rights only" deals and "virgin" startups, particularly in reinsurance...



Number of announced M&A deals by sector



Note: Insurance company whole deals only
Source: SNL Financial Data.

14



Selected recent M&A deals

Life & Health Sector

Date	Acquirer	Target	Deal Value (\$mm)
9/17/2003	AXA Financial	MONY Group	\$1,508
9/28/2003	Manulife Financial	John Hancock Financial Services	\$10,423
1/31/05	MetLife Inc.	Travelers L&A and CitilInsurance Intl.	\$11,500
2/05/2004	Swiss Reinsurance Corp.	Valley Forge Life Insurance Co.	\$690
3/15/2004	White Mountain/Berkshire	Safeco Life and Investments	\$1,350

Property & Casualty Sector

Date	Acquirer	Target	Deal Value (\$mm)
5/22/2003	Liberty Mutual Group	Prudential Financial's national P&C business	\$413
5/29/2003	Investor Greg Shepard	State Auto Financial Corporation	\$316
5/22/2003	Palisades Group	Prudential Financial's NJ P&C business	\$260
6/25/2003	American International Group, Inc.	GE Insurance (auto and home unit)	\$250
3/28/2003	Nationwide Mutual Insurance, Co.	THI Holdings, Inc.	\$138
5/12/2003	Wand Partners, et al.	Republic Group of Insurance Companies	\$127
11/17/2003	Travelers Property Casualty Corp.	St. Paul	\$16,138

Source: SNL Financial Data; Thomson Financial Solutions.

15



The drivers of M&A in the insurance industry remain unchanged

External Drivers

Changing demographics and customer demands

Globalization

Deregulation

Rating agency/stock analyst pressure

Internal Drivers

Access to capital, customers and markets

Need for critical mass

Economies of scale

Continuing M&A Activity



16



Other trends/events also point to increased insurance M&A activity over the longer term

- Insurance executives continue to believe M&A is important
- Cataclysmic events occurring in the market could force mergers and acquisitions
- There is also the potential for further spin-off activity
- European insurers continue to show interest in acquiring U.S. companies
- Cost and complexity of compliance with Sarbanes-Oxley and other regulatory entities may force smaller companies to merge

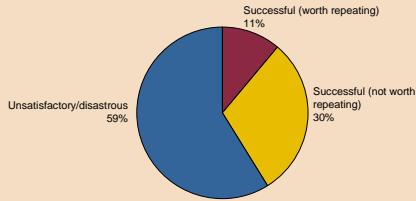
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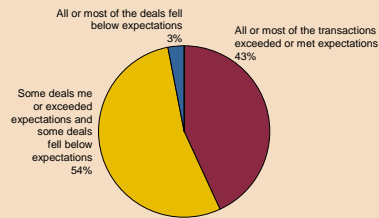
Challenges to acquisition success

Companies have had varying degrees of success with the acquisition process...

Source: 1996 Economist Intelligence Unit Survey of 150 Company Senior Executives



Source: 2003 Tillinghast Survey of 30 Insurance CFOs

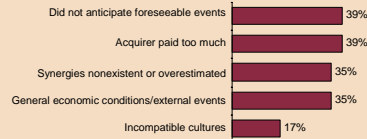


...Due to a range of potential reasons

Rank	Top Ten Pitfalls	Negative Impact
1	Incompatible cultures	5.60
2	Inability to manage target	5.39
3	Unable to implement change	5.34
4	Synergy nonexistent or overestimated	5.22
5	Did not anticipate foreseeable events	5.14
6	Clash of management styles/egos	5.11
7	Acquirer paid too much	5.00
8	Acquired firm too unhealthy	4.58
9	Need to spin off or liquidate too much	4.05
10	Incompatible marketing systems	4.01

Source: Survey of Forbes 500 CEOs, assessed on a scale of 1 to 7, where 7 is high.

Problems Encountered in M&A Transactions That Did Not Fully Meet Expectations



Source: Tillinghast Life Insurance CFO Survey #4, 2003.

18



These pitfalls result from failures or omissions at key stages in the acquisition process

Strategy

- Incompatible cultures
- Nonexistent or overestimated synergies
- Incompatible marketing systems

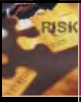
Due Diligence

- Overly high acquisition premium
- Did not anticipate foreseeable events
- Unhealthy acquisition target
- Need to spin off or liquidate too much

Implementation

- Inability to manage targets
- Inability to implement change
- Clash of management styles

19



The keys to implementation success are often people related

- Keep key talent
- Ensure good understanding and communication of objectives and synergies
- Be able to manage and implement change
- Build a new culture that incorporates “best of both”
- Align people’s incentives with the successful implementation of the merger/acquisition