Trend Review
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European Insurers Seek Growth and Efficiency Gains in Emerging Markets

Notable challenges exist for insurers in building market presence.

The largest European insurers are under increasing pressure to expand internationally as they encounter a difficult operating environment in their domestic markets, although growth outside core markets comes with challenges.

For the majority of European insurers, the maturity of their local insurance markets and instability within the Eurozone is resulting in stagnant development. Low investment returns, anticipated higher solvency standards as a result of Solvency II, and shareholders' demands for improved capital efficiencies are resulting in a need to focus on long-term interests outside of traditional insurance centres.

In particular, emerging markets in Asia, Eastern Europe and Latin America are considered to offer potential for growth. European insurers are aware of the fast-paced economic growth and opportunities, given the increasing wealth and the high populations of the "BRIC" countries of Brazil, Russia, India and China. However, they have tended to focus mainly on Brazil and to a lesser extent China. Some European insurers – particularly those that have required government financial assistance or have banking affiliations – are scaling back their overseas businesses.

A.M. Best has analysed the 12 largest European insurers' approaches to developing global operations in emerging markets to examine the drivers for international expansion and the key territories identified as "high-growth" that offer the greatest potential (see **Exhibit 1**).

While European insurers generally consider international growth strategies fundamental, a minority have been exiting particular markets. Some companies had capital to begin expanding but have found overseas business to be unprofitable, while others have faced government pressure to divest and concentrate on core markets.

A.M. Best has identified some notable challenges in building a presence in these markets, which include suppressed appetite for insurance offerings; limited control of joint-venture agreements; difficulties with integration; competition; and different standards of governance from those of mature insurance centres.

Key Drivers for International Expansion

European insurers are under increasing pressure to seek international expansion as they face challenges to generate profits and domestic growth. The United Kingdom, France, Germany and Italy are among the seven largest insurance markets in the world, while Spain ranks 14th based on premium volume (see **Exhibit 2**). Total premiums as a percentage of gross domestic product (GDP) are high in these five European countries compared with developing markets, with insurance penetration ranging from 5.3% to 12.8%.

In addition to European markets being mature, economic growth in the region has deteriorated – a trend that is particularly pronounced in peripheral Eurozone countries. In 2012, GDP remained flat or contracted in the United Kingdom, France, Germany, Spain and Italy. The impact in Italy was particularly severe, with a 2.4% drop in real GDP. Although the economic environment for European countries has improved, the situation remains uncertain.

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Exhibit 1
Europe Non-Life & Life – Largest European Insurers (2012)

Ranked by gross premiums written.*
(EUR Millions)

Rank	AMB Number	Company	Domicile	GPW	Key "High Growth" Focus Areas
1	85085	AXA S.A.	France	84,592.0	Southeast Asia (Singapore, Indonesia); India, China, Hong Kong; Central & Eastern Europe (Russia); Turkey, Mexico
2	85014	Allianz SE	Germany	72,086.0	Asia (Taiwan, Indonesia, Malaysia, Thailand and China); India, Central & Eastern Europe (Poland, Czech Republic, Hungary, Slovakia, Russia); Latin America (Brazil, Colombia, Argentina, Mexico); Turkey
3	85124	Assicurazioni Generali S.p.A.	Italy	65,925.0	Central & Eastern Europe (Bulgaria, Croatia, Czech Republic, Hungary, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia, and Russia); China
4	86976	Zurich Insurance Group Ltd.	Switzerland	40,843.6	Latin America (Brazil, Argentina, Mexico, Chile, Uruguay); Malaysia
5	85925	Prudential plc	U.K.	36,591.9	Southeast Asia (Singapore, Malaysia, Indonesia); Hong Kong, Taiwan
6	85909	Aviva plc	U.K.	27,825.0	Poland, Turkey, Southeast Asia, China
7	86056	CNP Assurances	France	26,439.0	Latin America (Brazil, Argentina)
8	84651	Talanx AG	Germany	25,459.0	Latin America (Brazil, Mexico), Poland, India, China, Asia, Middle East
9	85419	MAPFRE S.A.	Spain	21,579.8	Latin America (Brazil); Turkey
10	84341	Achmea B.V.	Netherlands	20,445.0	Divestments in emerging markets.
11	85143	ING Verzekeringen N.V.	Netherlands	20,277.0	Divestments in emerging markets, but maintaining some meaningful operations in Poland and Czech Republic.
12	85244	Aegon N.V.	Netherlands	19,526.0	Latin America (Brazil, Mexico); Central & Eastern Europe (Czech Republic, Hungary, Poland, Romania, Slovakia); Turkey, Ukraine, China, Japan, India, Spain, France

* Gross premiums written are based on consolidated totals.
Source: – A.M. Best research

Exhibit 2
Europe Non-Life & Life – Key Market Statistics (2012)

Country	Penetration[1]	Change in Real GDP	Real GDP Per Capita (USD)	Population (Millions)	Market Ranking[2]	Total Premium (USD Millions)	Y/Y Change in Premium (USD)	Y/Y Change in Premium (Local Currency)
United Kingdom	12.76%	0.17%	$38,589	63.2	3	$311,418	-0.5%	0.7%
France	9.29	0.03	41,141	63.4	5	242,459	-11.1	-3.7
Italy	7.16	-2.37	33,115	60.8	7	144,218	-10.3	-2.8
Germany	6.82	0.87	41,513	81.9	6	231,908	-5.6	2.3
Spain	5.32	-1.42	29,289	46.2	14	71,991	-12.6	-5.3

1 Penetration reflects total insurance premium as a percentage of gross domestic product.
2 Ranking based on total premium volume.
Sources: International Monetary Fund, World Economic Outlook Database, April 2013; Swiss Re, *sigma* No 3/2013; A.M. Best research

A slowdown in GDP development, and especially economic contraction, brings challenges with restrained demand for insurance products. The ongoing financial uncertainty in Europe has resulted in less disposable income and reduced sales of insurance. For example, in Spain, where GDP is forecast to drop by a further 1.6% and unemployment is predicted to reach 27% in 2013, total premiums declined by more than 5% (when measured by local currency) in 2012.

In comparison, emerging markets are demonstrating strong economic development and increasing demand for insurance. The economies of Poland, Brazil, Mexico and Turkey in particular all expanded in 2012, although to varying degrees (see **Exhibit 3**).

In addition to saturated domestic insurance markets offering limited prospects for further growth, European insurers are under pressure to focus on improving underwriting margins as their investment portfolios remain under strain. The continued economic uncertainty within the Eurozone is resulting in low yields in core countries. While the Eurozone crisis has abated somewhat over the past 12 months, the fundamental structural problems of the currency remain and are unlikely to be resolved in the short term.

Exhibit 3
Global Non-Life & Life – Key Emerging Market Statistics (2012)

Country	Penetration[1]	Change in Real GDP	Real GDP Per Capita (USD)	Population (Millions)	Market Ranking[2]	Total Premium (USD Millions)	Y/Y Change in Premium (USD)	Y/Y Change in Premium (Local Currency)
Poland	3.90%	2.05%	$12,537.9	38.9	30	$19,038	-0.3%	9.5%
India	3.64	3.99	1,491.9	1,223.2	15	66,441	-8.2	4.2
Brazil	3.43	0.87	12,078.8	198.4	13	82,267	4.6	22.1
China	2.98	7.80	6,075.9	1,354.0	4	245,511	10.7	8.0
Mexico	2.04	3.95	10,247.2	114.9	27	23,982	4.9	11.2
Turkey	1.37	2.62	10,609.2	74.9	38	10,882	8.0	15.8
Russia	1.29	3.40	14,246.8	141.9	24	26,027	15.0	21.7

1 Penetration reflects total insurance premium as a percentage of gross domestic product.
2 Ranking based on total premium volume.
Sources: International Monetary Fund, World Economic Outlook Database, April 2013; Swiss Re, *sigma* No 3/2013; A.M. Best research

Consequently, the investment environment remains challenging, with either record low interest rates or increased credit exposure on peripheral Eurozone government bonds for GIIPS countries (Greece, Italy, Ireland, Portugal and Spain). Insurers with material life businesses in countries such as Italy and Spain have been the most heavily impacted in recent years by increased credit risk for domestic sovereign bonds and corporate debt, as they have larger investment portfolios to support operations. Furthermore, in more resilient economies such as Germany and the United Kingdom, life insurers have been more negatively affected by low interest rates, restricted opportunities for investments and lack of demand for new products.

Higher solvency standards under Solvency II are likely to drive insurers to expand into emerging markets to improve capital efficiencies. Many of the major European insurers have carried out extensive preparatory work on Solvency II, and from an operational point of view, A.M. Best expects them to be well-positioned for the introduction of the new regulatory framework. However, the stress conditions experienced in recent years have impacted capitalisation, a measure that can be highly sensitive to market conditions and model calibration, which is by no means final.

A.M. Best believes the delayed introduction of Solvency II until January 2016 at the earliest reflects regulators' recognition of the level of sensitivity that the capital regime can have to market conditions. In the meantime, several European insurers have made significant adjustments to their strategies to improve capital efficiency. Insurers also face increased demands from shareholders for higher returns on capital and are taking concrete actions, such as refocusing on core activities, cash-flow generation and a general rebalancing of their product mix.

Current strategies also recognise the potential benefit from geographic diversification. Companies are re-allocating funds released through exiting capital-intensive or non-core business. This includes non-hedged variable annuities and general-account risks. In comparison, life business in regions such as Asia tends to be unit-linked, with low guarantees, short payback periods and therefore greater capital efficiency.

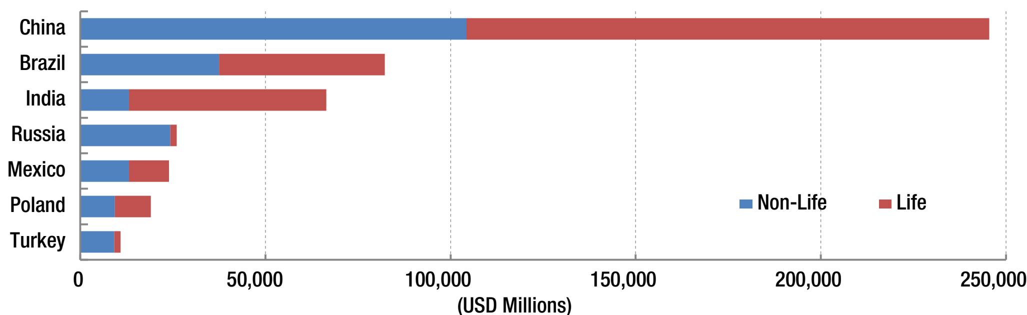
International Focus for European Insurers

European insurers have targeted different areas for potential growth, although analysis of the 12 largest companies shows some clear areas of common interest.

The life insurance sector is almost negligible in most emerging markets. However, some of the economies that major insurers have targeted for expansion – notably China, India and Brazil – have sizable life markets (see **Exhibit 4**). This reflects the rapid middle-class development in these countries.

Exhibit 4

Global Non-Life & Life – Total Premiums for Selected Countries (2012)



Source: Swiss Re *sigma* No 3/2013

Parts of Asia, particularly Southeast Asia, have seen growing demand for insurance. Drivers include the region's economic development, which results in an emerging middle class, high savings rates and the introduction of compulsory lines of business (usually beginning with motor third-party liability insurance and then extending to medical insurance). There has been innovation in Takaful offerings, with regulatory frameworks to support the development of Shari'a-compliant alternatives in some countries – for example, in Malaysia. Microinsurance is also being adopted in countries that struggle with poverty, including the Philippines, to improve awareness of the benefits of insurance and extend affordable protection to low-income segments of the population. Insurers such as Zurich Financial Services, which in 2007 launched a groupwide microinsurance initiative, aim to expand insurance coverage through products for low-income consumers.

European insurers participating in Southeast Asia include Prudential plc, which has a very high profile and a long history in the region. It has a well-balanced international presence, with roughly half of its new business sales as measured by annual premium equivalent (APE) for the first half of 2013 originating from Asia, approximately a third from the United States and the remainder from the United Kingdom. In its 2013 half-year figures, unveiled in August 2013, Prudential said its operating profit in Asia under International Financial Reporting Standards increased by 18%, while new business profits were up 20%.

AXA's high-growth markets include Southeast Asia, China and Hong Kong. Currently Europe's largest insurer by gross premium written (GPW), it is also present in India; in Central and Eastern Europe (the CEE) through its stake in Reso Garantia in Russia; and in the Czech Republic, Hungary, Poland, Slovakia, Turkey and Mexico. AXA's investments in high-growth markets include Chinese company ICBC-AXA Life Insurance; the acquisition of HSBC's general insurance businesses in Hong Kong, Singapore and Mexico; and the purchase of 50% of Tian Ping Auto Insurance Co. in China.

Other insurers have significant investments in the CEE, given their proximity. Insurers are attracted primarily to Poland, and to a lesser extent to the Czech Republic, Croatia and Romania. These countries are part of the European Union (EU), enabling ease of doing business. In addition to compulsory lines of business, economic development is resulting in greater demand for voluntary insurance. The largest European insurers consider there to be potential for growth, given that insurance markets in the CEE are relatively small compared with other countries. For example, Poland's total premiums in 2012 stood at just USD 19 billion (see **Exhibit 4**).

German and some Austrian insurers have a significant presence in the CEE, often for both historical and cultural reasons. Many insurers, such as Allianz, consider the CEE to be a growth

region, while Talanx, when it recently took over TU Europa and Warta, described Poland as a highly attractive market that proved very stable throughout the financial crisis.

In January 2013, Generali announced it was acquiring the remaining 49% stake of GPH, its joint venture with PPF Group, shareholder in some of the largest insurers in the CEE. At the same time, Generali also increased its participation in Ingosstrakh to 38.5% through a no-cash equity swap for PPF Investments' stake in PPF Beta, which indirectly held the interest in the Russian insurer. The CEE region is currently Generali's fourth-largest market, after Italy, France and Germany.

A number of European insurers regard Latin America as underdeveloped, with strong economic development, a young population and an expanding middle class. Brazil is considered attractive for its abundant natural resources, and because it will host the 2014 FIFA World Cup and 2016 Olympic Games, further investment in infrastructure and construction is anticipated. Brazil's insurance market has additionally been undergoing modernization since 2003. Mexico, which is Latin America's second-largest economy behind Brazil, is in transition, having recently adopted a Solvency II-type regulatory scheme that continues an effort to modernise and better align the country's industry with international standards.

Insurance markets in other Latin American countries are considerably smaller by comparison, although large and medium-sized Spanish corporate companies are also attempting to grow in Colombia, Chile, Venezuela and Peru, and Spanish insurers are seeking to support their clients and provide coverage overseas. Given the cultural similarities and Spanish companies' investment in the region, Madrid has become a hub for insurers accessing Latin American risks.

Key market participants in Latin America include MAPFRE, which has long maintained a presence in South America. In 2011, Banco Santander signed a 25-year strategic distribution arrangement under which Zurich acquired a 51% participation in Santander's life insurance, pension and general insurance operations in Brazil, Mexico, Chile, Argentina and Uruguay.

Regions Offering More Limited Growth Prospects

With the exception of Brazil, European insurers have tended to approach development in BRIC countries with caution. Russia, India and China are challenging, given the difficulties owing to regulatory hurdles and intense competition.

European insurers such as Generali, Allianz and Axa consider Russia to have potential; however, insurance penetration in Russia is low at 1.3% in 2012, reflecting the public's suspicion toward the financial sector. The Russian insurance market is competitive and overcrowded with approximately 500 insurance companies, the result of insurance policies previously being used as tax-optimisation vehicles. This number has diminished year by year, although Russia is still considered to have too many insurers.

China and India are attractive given their economic growth, vast populations and emerging middle classes, with insurance penetration of 3% and 3.6% respectively in 2012.

In India, business can be unprofitable as the market remains competitive, although European insurers, including Talanx and Aegon, are present in the country. In May 2012, HDI-Gerling Industrie Versicherung, owned by Talanx, established a joint venture with Indian financial company NBFC Magma Fincorp to underwrite property and casualty insurance. In July 2008, the pan-Indian operations of AEGON Religare Life Insurance Co. Ltd. were launched by the Dutch insurer, financial services group Religare and Bennett, Coleman & Co., India's largest media house. Most private-sector insurers in India have international partners but are limited to 26% participation of any venture.

Important drivers for potential demand in China include the strong savings culture, along with increasing awareness of insurance. Aviva, which has a 50% joint venture with COFCO Ltd. and is ranked among the top five foreign life insurers in China, has described the Asian markets' fundamentals as strong. Despite inflationary pressures, Aviva expects domestic demand and intra-regional trade to keep GDP growing, with China and India driving the overall trend. It predicts Asia will be the fastest growing region for life insurance globally, with the potential for 15%-20% average annual growth in the market over the next decade.

However, some foreign companies have exited China as it is difficult for international (re)insurers to compete against major domestic companies, which have established extensive branch networks and sales representatives. Furthermore, international insurers investing in domestic companies face challenges, including adapting to different cultural and management styles.

A.M. Best's analysis of the leading European insurers also showed a general lack of interest in the highly competitive regions of Africa and the Middle East, where relatively young companies are attempting to increase market share. Certain Middle Eastern and African countries also have Takaful operators, which often compete with conventional insurers on price. However, some European companies are offering niche business lines in the Middle East, such as Hannover ReTakaful, which is based in Bahrain.

In some African countries, such as Nigeria, there are very high political, economic and financial system risks, and high levels of outstanding receivables result in insurers commonly having to make significant write-offs and provisions for bad and doubtful accounts.

Insurers From the Netherlands Buck the Trend

While the majority of the large European insurers have made significant inroads into overseas markets and consider further expansion fundamental, a few of the biggest companies are withdrawing from overseas territories. The Dutch insurers – ING Verzekeringen, Achmea and Aegon – are instead more focused on their core domestic markets (see **Exhibit 1**). However, A.M. Best considers the Dutch insurers' strategy to be an exception.

Financial group ING has been under pressure to restructure and divest its insurance assets, focusing primarily on banking to meet the conditions imposed by the European Commission (EC) for approval of the Dutch government's rescue package. This resulted in sizable divestments in Latin America in 2011 for a total consideration of EUR 2.6 billion and the sale of its insurance operations in Hong Kong, Macau and Thailand. In August 2013, ING agreed to sell its wholly owned business ING Life Korea to MBK Partners for approximately EUR 1.2 billion, and in May 2013, the company floated its U.S.-based retirement, investment and insurance business on the New York Stock Exchange.

ING consequently has few remaining insurance assets in emerging markets, although it has some meaningful operations in Poland and the Czech Republic. ING has also reiterated its intention to float its European insurance operations, although the actual timing will depend on market conditions and the operation's performance. After this flotation, ING will be focused mainly on banking.

The European Commission imposed conditions on Aegon to approve the insurer's receipt of aid from the Dutch government. It is growing its U.S. direct business under its Transamerica brand but exited its life reinsurance business, Transamerica Reinsurance, in 2011. Aegon has also made divestments in Spain, having been affected by the restructuring of the "cajas" (savings banks) there. It owns 50% of Mongeral Aegon SA, the sixth-largest independent life insurer in Brazil, and 49% of Mexican life insurer Seguros Argos, although this remains a small player in the

market. Aegon is also focused on Canada, has recently made investments in Ukraine and Romania, and has joint ventures in China, India and Japan, although these markets remain a small contributor to overall revenues.

Achmea, the largest Dutch insurer offering life, health and non-life products, has not required government assistance. In 2012, Achmea derived 94% of GPW from the Netherlands, although as part of its long-term plans, the company envisages international contributions will grow to 20% of premiums by 2020. The Dutch insurer has disposed of non-core activities, namely Achmea Vitale and its non-insurance activities in Romania. In January 2013, Achmea further announced that it had agreed to transfer its Romanian life and pension businesses to Aegon. The transfer is expected to be completed in late 2013.

Leading Insurers With Strong Expansion Plans

The largest European insurers rely on overseas expansion to varying degrees. **Exhibit 5** shows the contribution of revenue from "high growth" markets for property/casualty (P/C) business and the share of new life business measured by APE from such territories. MAPFRE stood out in 2012; 40.2% of non-life revenues and 39.9% of life business originated outside its core domestic market of Spain. To a lesser but still significant extent, overseas expansion for P/C and life business is important to AXA, Allianz and Zurich. On the life side, international risks accounted for 45.2% of Prudential's life APE in 2012.

In some instances on the non-life side, high-growth regions are underperforming core markets. For example, in 2012, MAPFRE recorded a combined ratio of 97.9% in its emerging portfolio, compared with 95.4% for its total business (which includes high-growth risks). This trend was also evident for Allianz, albeit to a lesser extent. However, insurers are seeing profitability improve and are confident they can generate better margins in their overseas operations in the longer term.

In comparison, the life sector is generally enjoying better performance in high-growth regions than in traditional markets. In 2012, Prudential posted a life new business margin of 67% for its emerging territories, against 58% for its total life insurance. Similarly, Generali and AXA benefitted from stronger margins on their high-growth life business. In general, there is greater potential for better margins in emerging life markets owing to the lack of competition, lower guarantees and relative simplicity of product design offered in these countries.

There is no uniform approach to expanding outside of core markets, with Europe's largest insurers adopting a variety of means. Some companies are already present in international markets but have renewed their focus on expansion and improved profitability in selected regions.

For example, MAPFRE has suffered from high exposure to Spanish investments and a fall in domestic volumes, reflecting the country's ongoing challenging economic environment, although profit margins remain strong. MAPFRE's Spanish business has historically outperformed its Latin American operations in terms of profitability, although as margins shrink on Spanish risks, MAPFRE is attempting to take advantage of its strong market position in Latin America. MAPFRE has had a strong presence in Latin America for a number of years but is now focusing on improving profitability, cost management and capital efficiency in the region. It has made material improvements in Mexico, particularly concentrating on technical margins in motor business, and expansion has accelerated since May 2011 on the consolidation of its businesses with Banco do Brasil. Furthermore, MAPFRE is becoming more active in Turkey, with a number of new sales initiatives – especially in the health and motor lines.

Exhibit 5
Europe Non-Life & Life – Companies With Focus on High-Growth Markets (HGM)

AMB Number	Company	Share of P/C Revenues in HGM	Share of Life APE[1] in HGM	Life New Business Margin in HGM	Life New Business Margin of Total Business	HGM Combined Ratio	Total Combined Ratio	Data Based on Reporting Period
85085	AXA S.A.	14.0%	16.0%	44.0%	33.0%	97.6%	95.7%	HY 13
85014	Allianz SE[2]	11.5	12.0	3.0	2.0	96.9	96.3	4Q 12
85124	Assicurazioni Generali S.p.A.[3]	10.7	4.2	31.4	19.2	88.5	95.7	2012
86976	Zurich Insurance Group Ltd.[2]	11.8	25.8	n/a	n/a	n/a	n/a	2012
85925	Prudential plc	n/a	45.2	67.0	58.0	n/a	n/a	2012
86056	CNP Assurances[4]	n/a	11.7	35.5	11.6	n/a	n/a	2012
84651	Talanx AG	12.0	n/a	n/a	n/a	92.1	94.3	2012
85419	MAPFRE S.A.	40.2	39.9	n/a	n/a	97.9	95.4	2012

Note: Numbers are not necessarily comparable between companies, owing to different assumptions used.
1 Annual premium equivalent (APE).
2 Based on revenue, not APE.
3 Central and Eastern Europe only.
4 Latin America only.
Source: A.M. Best data and research

Similarly, Prudential is continuing to grow rapidly and organically in Southeast Asia through a combination of strengthening agency networks and bancassurance partnerships. Its main markets are Indonesia, Malaysia, Vietnam, Hong Kong and Singapore. Southeast Asia is still expanding in life in particular, given the low insurance penetration in some of these countries. Margins in Southeast Asia are considerably higher than in Prudential's other two traditional markets of the United Kingdom and the United States.

Meanwhile, Allianz is present in Asia, the CEE and Latin America. It is continuing to grow organically in these regions, as well as through acquisitions. In March 2013, it announced the purchase of P/C insurer Yapı Kredi Sigorta and its life and pension subsidiary Yapı Kredi Emeklilik in Turkey for a total net consideration of EUR 684 million. Allianz said the transaction was consistent with its approach to accessing growth through strategic relationships in high-growth insurance markets. Allianz's exposure to Italian investments has contributed to the insurer's focus on developing overseas operations, and the low interest rate environment in Germany is placing companies with life businesses under increasing strain to honour costly guarantees in their existing books.

Some European insurers are looking to buy existing businesses, although emerging markets tend to be relatively concentrated, with the strongest and best performing insurers less likely to be up for sale. Opportunities tend to arise for the medium-sized companies, with the potential for improvement or mergers.

Talanx has the capital and incentive to expand internationally, given its initial public offering on the Frankfurt Stock Exchange on Oct. 2, 2012. In September 2012, Talanx said the proceeds from the capital increase would be used to finance growth and strengthen the group's capital position. The company said it aimed to expand predominantly through organic growth but would also make selective acquisitions in its strategic target markets of Latin America and the CEE.

Like Allianz, Talanx has been impacted by the low interest rate environment affecting life business in Germany. After the merger of TU Europa and Warta, the new entity will become the second-largest insurer in the Polish market after the partially state-owned Powszechny Zakład Ubezpiecze Spółka Akcyjna (PZU). Talanx also has interests in Latin America and bought Mexican company Metropolitana Compañia de Seguros in July 2011.

Joint ventures with local companies or purchasing distribution networks can also be important ways to establish a presence in new markets. Noteworthy deals have included Zurich and

Santander's life distribution arrangement in Latin America and MAPFRE's bancassurance contract with Banco do Brasil. HSBC also operates bancassurance agreements with AXA (in Hong Kong, Singapore, Mexico, China, India and Indonesia) and with Allianz in Asia.

Disposals and Strategic Reviews – but International Presence in Emerging Markets Still Important

While some insurers have been seeking international growth, others have made disposals and withdrawn from countries, increasing their focus on specific territories. Drivers for strategic change include exposures to GIIPS investments and fresh perspectives from new senior management. For example, Generali has restructured its capital and attempted to reduce leverage and increase its focus on cash (see **Exhibit 6**). The Italian insurer has rebalanced its business from life to P/C insurance and re-examined its geographical presence to optimise use of capital.

Generali is already a leader in mature European markets, including Italy, Germany and France. It has demonstrated its commitment to Eastern Europe by gaining full control of GPH, which has a mixture of positions in leading and middle-ranking domestic players in 10 CEE countries. However, Generali is also withdrawing from the smaller Commonwealth of Independent States countries by selling its consumer finance insurance operations in Russia, Ukraine, Belarus and Kazakhstan to PPF Group. Generali has also agreed to sell its U.S. life reinsurance business to SCOR and is looking to dispose of its Swiss private bank, BSI.

Aviva is restructuring capital, attempting to reduce leverage and increase its focus on cash. In the past few years, the U.K. composite insurer has disposed of its investments in Spanish insurer Aseval, Delta Lloyd of the Netherlands and vehicle recovery service RAC in the United Kingdom. In December 2012, Aviva also agreed to the sale of its U.S. life and annuities business and related asset management operations, Aviva USA, to Athene Holding. Aviva has instead highlighted growth in selected areas in Eastern Europe as an important strategic market, particularly Poland and Turkey; maintained its interest in Canada; and continued its bancassurance and independent financial adviser relationships in Southeast Asia and China.

AXA relies strongly on revenue from growth markets for both non-life and life business and has previously been quite aggressive in terms of investments overseas. However, the French insurer has slowed its current investment activity and disposed of mature entities and non-strategic participations. These include the EUR 3.3 billion partial sale of its U.K.-based traditional life and pensions operations. AXA has also sold its Australia and New Zealand businesses and its stake in China's fourth-largest life insurer, Taikang Life, and has disposed of its discontinued Canada operations.

Common Challenges Faced by International Expansion

While overseas markets offer potential, A.M. Best considers it important to note that often growth in these territories tends to be from a low base. The strong progress in developing insurance markets should not be overstated, as they may not represent a large percentage of an insurer's business in terms of the group's total size.

Emerging markets can represent opportunities, but shareholders and investors in European insurers may have different perceptions on where companies should be focused and the valuation of overseas targets. For example, while Prudential is now considered to have been successful in generating revenue from outside its traditional markets (with particularly strong growth achieved in Asia), expansion for Europe's fifth-largest insurer has had its difficulties, as was demonstrated by its thwarted attempt to buy American International Group's (AIG's) Asian arm, AIA Group, in 2010.

Exhibit 6
Europe Non-Life & Life – Key Disposals by Leading European Insurers (2012-2013)

Company	Date	Seller(s)	Buyer(s)	Details	Deal Value
Assicurazioni Generali S.p.A.	4-Jun-13	Assicurazioni Generali	SCOR	Assicurazioni Generali signs a definitive agreement to sell its U.S. life reinsurance business to SCOR.	USD 920 Million
	8-Jan-13	Assicurazioni Generali	PPF Group	GPH will sell its consumer finance insurance operations in Russia, Ukraine, Belarus and Kazakhstan to PPF Group.	EUR 80 Million
	29-Oct-12	Generali (69.13% share in Migdal Insurance and Financial Holdings)	Eliahu Insurance Co. Ltd.	Generali sold its 69.13% share in Migdal Insurance and Financial Holdings to Eliahu Insurance Co. Ltd. (Israel).	EUR 705 Million
Zurich Insurance Group Ltd.	27-Dec-12	Zurich (sole owner of Eagle Star Insurance Group)	RiverStone Insurance Ltd.	U.K.-based Eagle Star Insurance Group transferred its remaining general insurance business to RiverStone Insurance (UK) Ltd.	Not disclosed
AVIVA plc	17-Jan-13	Aviva plc	Sun Life Assurance Co. of Canada	Aviva reached an agreement to sell its 49% interest in Malaysian joint venture CIMB Aviva Assurance Berhad and CIMB Aviva Takaful Berhad to Sun Life Assurance Co. of Canada.	GBP 152 Million
	8-Jan-13	Aviva plc	Delta Lloyd NV	Aviva plc announces its intention to sell the remainder of its shareholding in Delta Lloyd NV (Netherlands).	GBP 353 Million
	21-Dec-12	Aviva USA Corp.	Athene Holding Ltd.	Aviva announced it had agreed to sell Aviva USA Corp., its U.S. life and annuities business and related asset management operations, to Athene Holding Ltd.	USD 2.6 Billion
	18-Dec-12	Aviva (transfer of its entire holdings in Spanish joint venture, Aseval)	Bankia	The transfer of Aseval shares to Bankia resulted in cash proceeds of EUR 608 million received in April 2013.	GBP 494 Million (EUR 608 Million)
	27-Sep-12	Aviva plc	American International Assurance Co., Ltd.	Aviva agreed to sell its controlling 58.44% interest in Sri Lanka joint venture Aviva NDB Holdings Lanka (Private) Ltd. to American International Assurance Co., Ltd., a subsidiary of AIA Group Ltd, for GBP 31 million in cash.	GBP 31 Million
	30-Jan-12	Aviva plc	MetLife Inc.	Aviva announced the sale of Aviva Czech Life, Aviva Hungary Life and Aviva Romania Life & Pensions to MetLife Inc. The combined net assets as of June 2011 were approximately EUR 57 million.	EUR 57 Million
ING Verzekeringen N.V.	23-Jan-13	ING Group (selling its 26% interest in ING Vysya Life Insurance Co.)	Exide Industries Ltd.	ING has agreed to sell its 26% interest in ING Vysya Life to its joint venture partner, Exide Industries Ltd. (India). Exide told the Bombay Stock Exchange that the total value of its acquisition (including the shareholdings of other partners) was RUP 550 crores.	RUP 550 Crores
	17-Dec-12	ING Group	AIA Group Ltd.	ING sold its Malaysia insurance operations for EUR 1.3 billion cash. The sale includes ING's life insurance and employee benefits business, and a 60% stake in ING Public Takaful Ehsan Berhad.	EUR 1.3 Billion
	19-Oct-12	ING Group	Pacific Century Group	ING sold its life insurance, general insurance, pension and financial planning units in Hong Kong and Macau, and its life insurance operation in Thailand, to Pacific Century Group (completed in Feb. 2013).	EUR 1.6 Billion
Aegon N.V.	3-May-13	Aegon (50% interest in partnership with Caja de Ahorros del Mediterráneo)	Banco Sabadell	Aegon has reached agreement with Banco Sabadell on the sale of Aegon's share of the life insurance partnership it originally established with Caja de Ahorros del Mediterráneo (Spain). The transaction is expected to be closed in late 2013.	EUR 449.5 Million
	4-Feb-13	Aegon (50% interest in joint venture with Unnim Banc)	Unnim Banc	Aegon has reached agreement on the sale to Unnim Banc of its share of its life, health and pension joint venture with Unnim (Spain).	EUR 353 Million
Achmea B.V.	21-Aug-13	Achmea (Bulgarian insurance companies, Interamerican Non Life and Interamerican Life)	Euroins Insurance Group	Achmea and Euroins have signed a transaction agreement concerning Achmea's Bulgarian insurance companies, Interamerican Non Life and Interamerican Life. Finalisation is subject to approval and is expected in late 2013.	Not disclosed
	29-Jan-13	Achmea (shareholder in Eureko Insurance (Romania))	Aegon	Achmea and Aegon have signed an agreement to transfer Achmea's Romanian life insurance and pensions businesses to Aegon. The transaction is expected to be finalised in late 2013.	Not disclosed
	2-Jul-12	Achmea (Achmea Vitale (Netherlands))	Zorg van de Zaak Netwerk	Achmea completed the sale of Achmea Vitale, its occupational health and safety service provider, to Zorg van de Zaak Netwerk. The transaction is consistent with Achmea's strategy of focusing on its insurance business.	Not disclosed

Source: A.M. Best research

Suppressed insurance demand in new markets can be a major challenge. In many emerging markets, people are unaccustomed to buying insurance, and affordability can be an issue, for example in Southeast Asia.

Regulatory developments, or anticipated changes, can prove problematic or frustrating for European insurers. The long-awaited lifting of foreign direct investment rules in India from the current level of 26% to 49% has been under discussion for decades but has yet to occur. In many cases, insurers expanding in emerging markets require a partner to conform to regulatory requirements in that country. Therefore, the European company does not necessarily have full control of the subsidiary. Problems can arise in partnerships with governance and integrating companies as part of the general strategy, or even with cultural differences as in China. The ease of doing business can also be an issue. In Russia there has been a concerted effort to shake off the image that the insurance market is a cloak for tax-avoidance schemes, and non-payment of premiums in Africa is more common than in other, more mature insurance markets.

Insurers that underwrite business in new territories may be exposing themselves to additional risks such as natural catastrophes. For instance, Mexico is prone to earthquakes and also hurricanes on each of its coastlines, where tourism is an economic driver, and reinsurers have consequently suffered substantial losses on catastrophic events. The extent of damage caused by the 2011 floods in Thailand surprised the insurance industry and particularly foreign (re)insurers, as the region was not previously considered highly exposed to natural catastrophes. In many instances, claims were related to Japanese clients with losses in Thailand.

While new territories can represent potential growth, European insurers compete against domestic carriers (some of which may be supported by their governments), international participants and different types of insurance offerings such as Takaful. Frequently, domestic insurers are family owned and unwilling to participate in consolidation. Some local insurers also seek to increase or protect their market shares, often at the expense of disciplined underwriting.

What Lies Ahead

International expansion in emerging markets will likely continue be important to the leading European insurers, although companies need to remain focused on underwriting in their core markets. In general, A.M. Best regards the realignment of most major insurance groups' international strategies as a positive development. This demonstrates focus on potentially higher profit margins and capital efficiency. Overseas expansion not only offers higher potential growth, but also increases diversification.

However, some challenges exist for companies that rely on international expansion as a source of revenue and profit. Overseas companies for sale are not always market leaders. In the case of joint ventures or investments in foreign insurers, European companies may lack full control of their subsidiaries. In some instances, synergies and group integration may be low, and European insurers can lack scale in their identified growth territories.

Furthermore, the leading European insurers may expose themselves to additional political and regulatory risks. Often these companies face regulatory requirements to invest locally, but high-quality assets can be limited, given that stock and fixed-income markets are not necessarily as mature as those in Europe. Insurers may also encounter emerging risks and less sophisticated risk modelling and pricing tools than those used in their core markets. Catastrophe exposures are typically more challenging to assess, whilst sufficiently granular data to underwrite newly launched personal lines products may not always be readily available.

A.M. Best expects that for European insurers, the more mature economies and core markets will remain the main drivers of growth, given their long-established track records, expertise, consistency of results and political stability. However, despite the challenges of overseas expansion, creating an international presence will remain fundamental to European insurers as part of their long-term strategies.

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