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STRATEGIC ALLIANCES IN EUROPE

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The year 1992 may not be the key date for financial services that it is for other goods and services. However, there has been a flurry of acquisitions, joint ventures, privatizations, cross share holdings, and other activity with European insurers. Panelists will address this phenomenon from the perspectives of: a leading investment banker; a European Commission insurance expert; an international actuarial consultant; and a U.S. actuary based in The Netherlands.

- Cross border acquisitions
- Joint ventures
- Demutualizations, privatizations and restructuring
- Rationale for activity
- Use of actuarial appraisals
- Future activity

MR. J. CHRISTOPHER HALL: Welcome to Strategic Alliances in Europe. Those of you who attended Dr. Schlesinger's speech are aware of the importance which he put on Europe in the future of the U.S. I know that Dr. Schlesinger will be pleased and relieved to know that I agree with his opinion wholeheartedly.

The past year has brought about monumental changes in Europe; however, it would appear that the "fall of the wall" and the freeing of Eastern Europe has obscured a more forceful trend in Europe. This trend is exemplified by the European Community and its march towards a common market. The European Community has 340 million people, roughly 100 million more than the U.S., and they're all working more or less in common purpose towards an economic, political, and social union. My company, Mass Mutual, established a group to study the possibility of moving into the European market. Our study group has certainly found opportunities and also potential pitfalls. There's much for an American company to gain in learning Europe. There's a huge market, but there are obstacles for the newcomer. It's not a cakewalk.

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One of the things people have to understand is the strategic alliances which exist and might be formed between American and European partners. Thus this session. This panel has been gathered together based on the belief that there's no one correct answer, and that getting various different points of view will be helpful. The panel consists of an American actuary working for a European firm in The Netherlands who will tell us what it's like "over there." The second speaker is a past advisor to the European Common Market, which is more correctly known as the European Community (EC), and he can give us an insider's view. The third speaker will be an investment banker who's participated in mergers and acquisitions (M&A) in the European insurance area. And the last speaker will be a Geneva-based actuarial consultant who can give us his perspective on the market.

The first panelist is one of a rare breed. Steve Largent is an American actuary working and living in Europe. Steve spent 13 years with Security Life of Denver, rising to Vice President of Market and Product Services. He transferred to the parent company, National Nederlanden. It's located in The Hague, Holland. He currently oversees the operations of four National Nederlanden life companies in U.K., Australia, and Ireland. Steve will discuss the reasons for going international, the different types of ventures, and the considerations relative to these ventures.

MR. STEVE M. LARGENT: A rare breed? I don't know. As Chris mentioned, I have been living for the last two years in The Netherlands, working in the international division of National Nederlanden in the city of The Hague. I've spent a bit of time learning their melodious language. Also, I've learned some of their sayings. One of the sayings that we repeat at National Nederlanden is, "It is never raining everywhere at the same time." Most of the Dutch sayings have something to do with water, but this particular saying doesn't refer to dikes or delta works. What it refers to is one of the better reasons for going international, and that is diversification. Diversification as a motivation for going international makes a lot of sense, especially for nonlife insurance, but it also makes sense for life insurance, because every country in every region is in a different state of product development, has changes in the tax laws, and has changes in the distribution systems and the general environment.

What are other reasons for going international? An obvious motivation is growth. The bad news is that you have to pay for it. The number of companies already looking into Hungary and Czechoslovakia will soon lay to rest any hopes you might have had of finding an uncompetitive and cheap market. A third reason for going international -- 1992. You've heard a lot about 1992 at this conference and you probably still don't know what it means. But, hopefully, Mr. Rabe will set that clear. One thing it does mean is that prices have gone up. The atmosphere is frenzied in Europe as companies already in Europe try to improve their foothold and companies not yet in Europe try to get in before fortress Europe becomes a reality. A fourth reason for going international, and one that many European companies have adopted, is to follow your customers. What this means is, for example, if Whirlpool were one of your customers for group insurance here in America, before they bought into Phillips Whitegood business, you would want to have been able to follow Whirlpool to Europe and provide them with their insurance needs in their various European locations. That is what's happening in

Europe as companies try to follow their customers. So, there are four motivations for going international -- diversification, 1992, growth, and following your customers.

It's important to know what your motivation is. It should have something to do with the type of venture on which you embark. The type of ventures I'd like to discuss are the following: (1) Acquisitions, and acquisitions come in three flavors: (a) 100%, (b) majority, and (c) minority ownerships; (2) Greenfields, and "greenfield" is Eurospeak for a start-up operation; and (3) Joint Venture. The target, or partner, might be an insurance company, a bank, a building society (which is Eurospeak for savings and loan) (only ones that are in good shape financially), or a brokerage operation.

You can sort of divide the considerations, when you evaluate these type of ventures, into hard considerations and soft considerations. Hard considerations would be price, cost of market share, accounting, and profit flow; and soft considerations could be management control, availability, local knowledge, and culture. If we create a matrix showing these considerations down the left hand side, and the three types of acquisitions and greenfield across the top, it would look like Table 1 that shows some of the various factors in considering this.

TABLE 1

	Acquisition of Insurer			Greenfield
	100%	Majority	Minority	
Price	High Control		Lower	No goodwill, gradual, lowest cost
Cost of Market Share	Very high	Lower investment		Difficult
Accounting	Easiest; use own method	More complicated	Consolidate or investment?	Financed through profit and loss
Profit Flow	100%	Share (recognition of control premium?)	Share	Deferred
Availability	Limited	More	More yet	Barriers to entry
Management Control	No problem	More complicated (+/-)		No problem
Local Knowledge	Subsidiary management only	Also partner		Better hire some
Culture	Difficult to impose your own corporate culture			Can develop own

Similarly, Table 2 shows the advantages and disadvantages of a joint venture with an insurance company or a distribution channel.

TABLE 2

Joint Venture

	Insurer	Distribution Channel
Advantages	o Can be inexpensive way to "follow customers" o Complementary expertise same as previous for Greenfield or partial ownership	o Lower investment for substantial reward o Access to local marketing expertise
Disadvantages	o Relationships develop with difficulty o Heavy dependence on partner o Agreements not "hard" o Dissolution difficult	o Risky o Cultural differences o Become vulnerable and dependent

I'd like to build up this matrix and go through the considerations one at a time. First of all, the first really hard consideration, and it's really the hardest, price (Table 3).

TABLE 3

Price

Acquisition	
100%	High (control)
Majority	High (still control)
Minority	Lower
Greenfield	Lowest cost, gradual, no goodwill

Starting from the bottom, a greenfield operation is the lowest-cost alternative. One of the reasons for that is you're not paying for any goodwill. It also has the advantage that the expense is paid out gradually. Unfortunately, the return is also gradual. The most expensive form of a venture is going to be an acquisition in which you get control, either 100% or a majority acquisition, because typically, then, you have to pay, on top of an already high appraisal value, a control premium, which seems to running at about 30 or 40%. The chairman of the second largest European company, Generali of Italy, said earlier this year that the prices people are paying are really quite mad.

And how are these prices established? Well, it usually starts with a document prepared by a merchant banker representing the seller. And one of the important factors is a projection of the future profitability of the target company. Interestingly enough, the projection of future profitability is always a straight line going up regardless of whether the past trend line is actually going up or going down.

So, the first thing you have to do is spend some time ascertaining why this company is going to have such a rosy future after losing money for the last 10 years and what it is you have to bring to the table to make it happen. This usually involves making a few adjustments to the projection of future profitability and calculating your own appraisal value.

The second hard consideration is cost of market share in a large country (Table 4). If your goal is 100% acquisition, it's going to be very expensive to buy much market share in a big country. For example, looking at the U.K., if you look at the stock values of some publicly quoted companies, we could estimate that it was going to cost between $500 and 900 million to buy a 1% market share. One of the advantages of a partial ownership is that you will be able to at least participate in a larger market share for a lower cost and have a better chance of survival. It's going to be nearly impossible to achieve decent market share with a greenfield operation in a large country, but it's still possible to do that in a smaller, developing country such as Portugal or Greece.

TABLE 4
Cost of Market Share (In a Large Country)

Venture Type	Cost
Acquisition	
100%	Very high
Majority	Lower
Minority	Lower yield
Greenfield	Difficult to achieve

The third hard factor, accounting (Table 5). Clearly, it's easiest with a 100% acquisition. You have no minority interest to worry about, and you can use your own methods. You do have to worry about how to incentives your local management to perform based on your accounting methods, if they're still expected to publish results on a local basis.

TABLE 5
Accounting

Venture Type	Impact
Acquisition	
100%	Easiest, use own method
Majority	More complicated
Minority	Consolidate or investment?
Greenfield	Finance through profit and loss account

With a minority interest, your interest may be so small that you're not allowed, by your own accounting rules, to consolidate. And in that case, all you've done is added a stock -- an insurance investment to your stock portfolio. And the problem with a greenfield operation is that you will have to finance it through your profit and loss account. You may have some possibility, with an acquisition, to finance it partly through capital and surplus.

And, finally, the last hard factor, profit flow (Table 6). With a majority interest, you run the risk that your share of the profit flow will not recognize the control premium that you had to pay to get in. And, with a greenfield operation, well, probably the profit is deferred into the misty future of your most optimistic projections. However, in Portugal, we did run across two companies which are managing to turn a profit in their third year, and that's a pretty good result for a greenfield, or a new, operation.

TABLE 6

Profit Flow

Venture Type	Impact
Acquisition	
100%	100%
Majority	Share (recognize control premium?)
Minority	Share
Greenfield	Deferred

Moving on to the soft factors, availability (Table 7): availability is extremely limited for a 100% acquisition in Europe; as I mentioned, the activity is at a fevered pitch due to 1992. Every company that comes on the block attracts a great deal of interest. There is at least the impression that there are more opportunities for partial ownerships. At least, everyone's willing to talk, and, of course, some companies are publicly traded. And, when we talk about availability in terms of a greenfield, we're talking about barriers to entry, and that will depend greatly on the country and the type of venture.

TABLE 7

Availability

Venture Type	Access
Acquisition	
100%	Limited
Majority	Better
Minority	Better yet
Greenfield	Barriers to entry

The second soft area, management control (Table 8). Here we have a big advantage to 100% acquisition, because management control is immensely complicated by having a

partnership. There may be times, however, when you're happy to have someone to share your problems. And, clearly, with a greenfield operation, you have no such problems.

TABLE 8

Management Control

Venture Type	Control
Acquisition	
100%	No problem
Majority	More complicated (+/-)
Minority	More complicated, less control
Greenfield	No problem

The third area is local knowledge (Table 9), and this is a very important one. The opportunity to learn from a partner. If you acquire a company 100%, your only partner is going to be your local management, so it's going to be very important to have an open and trusting relationship with your local management. With a partial ownership, you have the opportunity to have a partner who hopefully is already a local company, already has local knowledge, and can help you pick it up. With a greenfield operation, it's absolutely essential to have a partner to show you the ropes, and it's best if your local managing director is a native of that country.

TABLE 9

Local Knowledge
Potential for Learning from Partner

Venture Type	Learning Potential
Acquisition	
100%	Subsidiary management only
Majority	Also partner
Minority	Also partner
Greenfield	Important to hire some (local)

And the last soft area is corporate culture (Table 10). And here, the advantage to a greenfield operation is you will be able to grow your own corporate culture as you grow the operation. It is much more difficult to impose your corporate culture on an acquisition. You have some opportunity if it's 100%, but it's still going to be more difficult.

And, finally, we couldn't speak of these things without talking about culture of the country. And that's really a huge subject; it covers a lot of ground. It covers a broad range; it goes beyond knowing when to raise your glasses before a drink and whether to write on the back of somebody's business card. It also goes to the understanding of the business environment, and that can be quite different in these countries.

TABLE 10

Corporate Culture

Type Venture	Cultural Aspects
Acquisition	
100%	Difficult to impose your own
Majority	Difficult to impose your own
Minority	Difficult to impose your own
Greenfield	Possible to develop own

One example: it took me a while to understand the relationship that the tax authorities have with the companies in the U.K. The tax authorities seem to have a great deal of latitude in accepting the companies' tax statements, and they usually spend about five years agreeing to them. You can learn about that when you try to impose a higher management charge on your U.K. subsidiary and your company tells you that if you do that the tax authorities will probably recharacterize it as a dividend, and then there has to be withholding tax, so you better not do that. A very difficult one to argue.

Another area in the U.K. is the role of the appointed actuary. Each company in the U.K. has one appointed actuary, and it's a role that's rather unique in the European Community. They're a little bit afraid they're going to lose this role with harmonization. The appointed actuary seems to have a great deal of responsibility for the financial condition of the company, and along with that, he has an unusual degree of independence from management. And, another area is simply the corporate structures and the shareholdings. It's virtually impossible to do a hostile takeover of a company in The Netherlands, or Germany, and probably a few companies, because of the way the shares are held, and the way the boards of directors are appointed, and the way the executive boards of the companies are appointed.

Of course, there are still the social areas, and it's important to do a bit of research and don't make the mistake I made when I was having dinner with our Scottish management and I failed to distinguish between the Scottish and the English soccer team before the world cup. So, the only advice I can give you in this area is to hire somebody with some experience or to put quite a bit of effort into learning about the local culture.

MR. HALL: Our second speaker is Thomas Rabe, who currently works for the law firm of Forrester, Norrel, and Sutton in Brussels. In the past, he's served as an advisor to the European Commission on insurance matters. In addition to a bachelor's degree in economics, he holds an MBA from the University of Cologne, and his doctoral thesis was on the internal market for insurance which dealt with the market within the European Community. He's done research and published material on insurance accounting, investment, reserving, and taxation. Thomas will provide a review of current EC legislation on insurance, information of recent happenings at the EC, and perhaps some insight into what we expect to happen somewhere down the line.

STRATEGIC ALLIANCES IN EUROPE

MR. THOMAS RABE: As Chris just said in his presentation, my role in this panel discussion will be to look at strategic alliances in Europe from the perspective of a former European Commission advisor. As such, I will try to outline the regulatory framework for strategic alliances in Europe, and the practical side, as you'll see, will be dealt with by the other panelists.

Now, we are now almost three quarters of the way along the road to 1992, and much of the 1992 legislation aiming at breaking down national barriers to the free movement of persons, goods, services, and capital, and thereby reducing costs of companies and consumers, is already in place. These are the benefits of the creation of the single market. But as many companies, and principally multinational companies, are showing by their day-to-day conduct, the single market is also having dynamic effects in opening new and profitable opportunities to those companies with the right sense of initiative. In a nutshell, 1992 has had an important impact in four particular ways. First, on corporate behavior. The year 1992 has become an important element of companies' strategies. Most of the larger companies are actively reviewing internal structures and their position on the European market. Second, on the regulatory framework, including progress towards a genuine two tier, or federal, legal structure. Thus, companies doing business in EC must now look not only towards national rules, but also to EC law in an increasingly wide range of issues. This brings me to the third major impact of 1992, which is the expansion of the community's activities beyond the four fundamental freedoms laid down in the Treaty of Rome. The community's activities now cover such important things as high technology, telecommunications, environment, consumer protection, social and monetary affairs, and also defense issues. Fourth and finally, 1992 is what is usually called a geographic ripple effect. Most important are the unification of Germany and the rapid integration of united Germany into the European Community. In addition, we have seen negotiations between the European Community and the European Free Trade Association (EFTA) countries on the creation of a single European economic space, the opening of central and eastern Europe, and also the issue of new EC membership, which is actively being considered by Austria, Malta, Cyprus, and the Scandinavian countries, but also by Hungary, Poland, and Czechoslovakia.

Now, some of you may ask what all this has to do with the subject we are discussing. Well, I think that there are at least two important points. The first is that when talking about strategic alliances in Europe, Europe as a whole and not only the European Community should be considered. And the second is that EC 1992 is probably the main motivation for the increasing number of strategic alliances in Europe.

Now, turning to EC legislation on insurance, it is probably fair to say that for many years, insurance was the poor relation in the EC's activities on financial services. Slow progress was due to the need for total harmonization of national supervisory systems, which were seen as a precondition for completing the internal market and its important sector. This has now changed. Current progress in the EC institutions could never have been foreseen, even two years ago. The draft insurance legislation for 1992 is now almost complete. In June of this year, the council of ministers reached agreement on the second life insurance directive, which will facilitate cross-border provision of life insurance services. Just before the summer break, the EC commission adopted a

proposal for a third nonlife insurance framework directive. The objective of this new proposal is, quite simply, to complete the internal market in nonlife insurance. In that market, insurance companies having their head office in one member state of the European Community will have the right to supply all types of nonlife insurance products in any other member state while being supervised by their home country authorities. For life insurance and pension funds, similar proposals will be submitted by the commission before the end of this year.

Now, the view is widely held that, once adopted by the council of ministers and implemented by member states in national laws, this set of directives will provide insurance companies with the tools which are necessary to meet the challenges of the internal market. I personally think that this expectation is only partially justified. There are at least two other areas of European Community legislation which are equally important for the functioning of the internal market and for cross-border alliances. These are company law and tax law. In the field of company law, the EC commission has proposed several important measures which would enable companies to restructure their position on the internal market. There is only one truly European forum of cross-border cooperation, the European Economic Interest Grouping, which is commonly known as the EEIG. This is intended to facilitate joint activities between companies established in different member states without having to set up jointly owned subsidiaries or exchanging shares. But there are a number of other important proposals, such as the regulation on the European company statute and the directives on cross-border mergers and takeover bids, which are still awaiting adoption by the council of ministers.

On the tax side, important progress has been achieved in July of this year when, in fact, for the first time in the history of the Community, agreement was reached on substantive provisions of direct tax law. The first, and probably most important of the measures, provides for the tax neutral treatment of cross-border mergers, divisions, transfers of assets, and exchange of shares between companies with the head offices in different member states. The second measure abolishes the double taxation of dividend payments of a subsidiary to its foreign parent company. And, finally, agreement was reached on the elimination of double taxation arising in connection with profit adjustments of associated companies.

To complete the picture, I should briefly touch on the issue of competition law and its impact on strategic alliances. In one sentence, the message is that European competition law, which prohibits cartels and the abuse of dominant market positions, applies in full to financial services and insurance companies. Now, it is widely held that one objective of alliances between European companies is to stake out territories where they will not compete. I personally do not deny that such agreements exist; however, let me confirm that they are not acceptable to the EC commission, and Sir Leon Brittan, the commissioner responsible for financial services and competition law, has made it clear on many occasions that he will make use of the commission's powers to prevent restrictive practices and market agreements which run counter to the basic objective of the internal market, which is to increase competition for the benefit of consumers. Finally, I should mention that on September 21, 1990, the EC regulation on merger control came into

force. This regulation gives the commission the power to prohibit mergers between European companies which are not compatible with the internal market.

Now, I will just mention two other regulatory aspects of strategic alliances in Europe. A major trend on the European market is the increasing number of mergers, acquisitions, and various forms of cooperation among insurance companies, credit institutions, and other providers of financial services. This phenomenon has been called Bancassurance in France and Allfinanz in Germany, and to a certain extent it cuts across the vertical regulations for banks, investment firms, and insurance companies which are being put in place by EC directives. The commission is, of course, aware of this problem, but it will be interesting to see whether it will react accordingly once the 1992 regulation for financial services is firmly in place.

My last point concerns the role of actuaries in the internal market for insurance and, in particular, in European alliances. As I said, the objective of the EC commission is to put in place a single European license which will enable life insurance companies to offer the full range of their products throughout the community. Nevertheless, life insurers operating in different European markets will continue to take account of the specific nature of each national market. By that I mean, traditions and cultures, but also mortality rates, technical interest rates, and tax regimes. The internal market will offer new opportunities to European life insurance companies but it will also make their lives more complicated. I therefore expect an increasingly important role for actuaries who, with their qualifications, should be well-equipped to meet the challenges of 1992.

MR. HALL: Our next speaker is Hank Tillman. Hank's Director of the Financial Institutions Group at First Boston Corporation, he's responsible for mergers and acquisition activities within the insurance group. He's been involved in several international transactions within the European Community. Prior to joining First Boston, Hank had eight years of merger and acquisition experience with major investment banking firms, including Merrill Lynch and Donaldson, Lufkin, and Jenerett. Hank's been published in several leading financial services publications and has spoken at several industry conferences. Hank will provide the perspective of the investment banker.

MR. HENRY T. TILLMAN III: I'd like to give you an outsider's view of what is happening within the European Community, continental European, U.K., and Scandinavian, or Nordic insurance markets. There's so much happening and there are so many trends to cover.

There is a very large market potential and recently there has been a substantial amount of M&A activity (Table 11).

Table 12 shows a review of continental European cross-border activity, some salient points that we've seen in the last three years. (ND in all the following tables indicates not disclosed.)

TABLE 11

The Global Insurance M&A Marketplace

Continental European Market Overview

- By 1992, a common market is expected to develop among the 12-member EC countries, which could ultimately represent a market of approximately $140 billion of premiums.

- This potential common market will evolve at different stages among the various product lines.

  - Competition for large commercial lines coverage will begin in 1990.
  - The trigger dates for trans-European competition across other property/casualty lines are not expected before 1992.
  - Potential target dates for life/health lines are uncertain.

- Some of the geographic markets which are opening have very favorable future growth characteristics (France, Italy, Spain).

- Due to numerous structural changes, cross-border M&A activity in continental Europe is at an all-time high.

- There were at least 25 major cross-border transactions involving continental European-based insurers during 1987-88, up significantly from prior years.

- The acquirers in all 25 transactions were among the 5 largest insurers in their home country.

- Most of the transactions were in the $100-$700 million purchase price range.

- Some of these transactions were initiated through the efforts of catalysts acquiring substantial positions in the target's share.

Continental European Cross-Border M&A Activity

- In 1989, M&A activity involving large European insurers has continued to surge, particularly in France, Germany, Italy, and the U.K. These transactions have increased in size to now include transactions in the $1.0-5.0 billion range. Three recent transactions have been more than $2.0 billion.

- In 1989, there has also been an increase in joint venture activity among many European insurers, including some Japanese and American insurers (at least 12 to date). To date, U.S. companies have shown limited interest in European joint ventures.

TABLE 12
1987-88 Continental European Cross-Border
Insurance M&A Activity

Acquirer Transaction	Target	Approximate Value $MM
AIG (U.S.)	AB Group (Spain) 30% interest	ND
Allianz Group (Germany)	La Genevoise (Switzerland) 15% stake	ND
AMB (W. Germany) La Fondiaria (Italy)	Volksfursorge (W. Germany) 51% stake	700
AXA Group (France)	Companie du Midi (France) 29% stake	725
	Union Condal (Spain)	ND
	Minerva (Spain)	ND
Assicurazioni Generali (Italy)	Union Suisse (Switzerland)	ND
Group des Assurances Nationales (GAN) (France)	Societa Assicuratrice Industriale (SAI) (Italy) 10% stake	ND
Groupe AG (Belgium) AGF (France), others	Assubel-Vie (Belgium) 34% stake	350
Helvetia (Switzerland)	Equitativa (Spain)	ND
La Baloise (Switzerland)	Norditalia Assicurazioni (Italy)	220
	Levante (Italy)	ND
Munich Re (W. Germany)	Nouvelle Re (Switzerland)	ND
SCOR (France)	Vittoria Riassicurazioni (Italy)	110
Swiss Life (Switzerland)	La Suisse (Switzerland)	400
Swiss Reinsurance (Switzerland)	Lloyd Adriatico (Italy)	ND
Union des Assurances de Paris (UAP) (France)	Royal Belge (Belgium) 31% stake	400
	New Ireland Assurance (Ireland)	ND
	Intercontinentale Insurance Group (Italy) 37% stake	400
Winterthur (Switzerland)	Nordstern Allgemeine Versicherungs (Germany) 38% stake	230
Zürich (Switzerland)	Condal (Spain)	ND

The activity has been, and remains at, an all time high. What we're seeing now in terms of number of deals is unsurpassed historically. In the years 1987-88, we saw at least 25 major cross-border deals within Europe.

In just that two-year period, up significantly from prior years. The acquirers in all of *these transactions were one of the five largest companies in the home country.* Most of the targets in this initial wave were in the $100-700 million range, probably $100-500

million was the right size, at least in that first surge. And some of these transactions were, in fact, initiated through the efforts of catalysts, as we call them: other people call them raiders; they acquire substantial positions and target shares. We'll talk about that a little bit more as I speak a little bit about the possibilities in Europe.

Table 13 shows 1989 continental European cross-border insurance M&A activity. In 1989, there was a surge of activity, and it really has gone into much larger transactions. It started with the $100-500 million range, it's now gone up to a $1-5 billion, and three of those were more than $2 billion. Some argue that the reason that has happened is because many of the smaller companies, as Steve said, have been what people call "picked over." And many of the private companies that were held by private individuals have said this is a great time to sell into the markets, so that many of the transactions in that first wave tended to disappear fairly quickly, and there weren't many left behind. There are still some that are behind, and they're figuring, in fact, another wave, if you will, the smaller deals, as people say, "Gee, the prices are even stronger now than they were then."

In 1989, and it's continuing through to 1990 (Table 14), there's been a major surge in joint venture, or even strategic alliances, among many European companies, and this actually includes some Japanese and American companies for the first time. To date, in general, U.S. companies have shown limited interest in European joint ventures. And I'm going to talk about that a little bit later.

The deal chart back in Table 12 shows that the transaction values are again in the $100-700 million range. The acquirers on the left hand side are virtually all European. There is only one U.S. company and that is AIG and the company they bought was really a Spanish stock brokerage, not so much an insurance company. The reason that many of the stakes in the center of the targets are not necessarily 100% stakes is because in many of these cases you can't get 100%. So, you'll see 10-35% stakes in some cases. Also, the most attractive markets back in 1987-88, when they were still reasonably inexpensive, included Spain, Italy, and many of the southern markets where there's very strong premium growth and profit margins are still holding relatively well. Some other countries that were included were Switzerland and Germany, but that was more the exception rather than the rule. The initial surge was to the south, Spain, Italy, and I'm sure Richard Batty will speak about that later. More of the same in 1989, except a little bit more of a shift northward, in terms of targets. You'll see there are still some Spanish targets, but it's shifted back. Navigation Mixte was a major transaction by Allianz. It was $1 billion deal, and it was a French company. There was a company bought by Generali in Belgium last year; there was a Netherlands transaction with Suez Victoire. So, again, in 1989 there was a shift in terms of overall corporate transactions northward in Europe.

In 1990, the overall M&A transactions, in terms of control, have declined markedly in number. This was through mid-June, and you'll see there are only three actual 100% changes, if you will, of control. One of those is of significance. They are still in the process of sorting through this transaction and deciding who's going to do what, going forward here, but it's something that a number of companies have thought about in Europe, and it's a way around the difficulty, if you will, of paying these enormous prices.

TABLE 13

1989 Continental European Cross-Border Insurance M&A Activity

Acquirer Transaction	Target	Approximate Value $MM
Allianz (West Germany)	Navigation Mixte Insurance Unis (France) 50% stake	1,025
	Hungarian Bistosio (Hungary) 49% stake	45
Assicurazioni Generali (Italy)	Les Patros Reunis (Belgium) 70% stake	ND
Colonia-Victoire (Financiere de Suez) (France)	Nieuw Rotterdam (Netherlands)	ND
Corporación Mapfre (Spain)	Invterbank (Spain)	120
Financiere de Suez (France)	Cie. Industriale (Victoire)(France)	4,080
Financiere de Suez (Fr.) Baltica Holding AS (Den) UAP (France) Dai-ichi Mutual Life Insurance Co. (Japan)	Groupe Victoire 44% stake	3,200
GMF (France)	Nueva Mutual (Spain) Mutua Alianza (Spain)	ND
Group Victoire (France)	Colonia Viescherung AG (West Germany) (Oppenheim family)	2,370
Guardian Royal (GRE) (U.K.)	Sipea, Cidas, Polaris Vita (Italy) GRE acquired 51%, 51%, 49% respective stakes Turin Bank (Italy)	90
Gaic SpA Camillo de Benedetti (Italy)	La Fondiaria SpA (Fenuzzi) (Italy) 51% stake	1,740
Marsh & McLennan (U.S.)	Gradmann & Holler (West Germany) 51% stake	ND
Norwich Union (U.K.)	Onelo Apuzzo SpA (Italy)	20
SCOR (France)	Deutsche Continental (W. Germany) (Continental Corp. U.S.)	ND
	UAP Reassurance (UAP) (France)	ND
Royal Group (U.K.)	Lloyd Italico (Fondiaria Group) (Italy)	165
Tipovich Family (Italy)	Assurances Rhone Nediteranee (Niasco Group) (France)	ND
UAP (France)	Allsecures (Toro) (Italy)	235
Winterthur Insurance Group (Switzerland)	Transatlantische/Telcon (W. Germany) (ITT/Hartford Fire) (U.S)	60

TABLE 14

1990 Continental European Cross-Border Insurance M&A Activity

Acquirer Transaction	Target	Approximate Value $MM
AMEV (Netherlands)	Groupe AG (Belgium)	2,000
GAN (France)	Alianza/GMF (Spain)	ND
Norwich Union (U.K.)	Plus Ultra (Spain)	340

What Steve has told you, it's extraordinarily difficult to buy something on an economic basis. The activity has shifted to joint ventures and minority stakes. If you can't afford the whole company, you find a way to work together somehow, in smaller stakes.

Table 15 shows 1989 European joint ventures and minority stakes. Most of these are sort of 5-20% stakes, and they involve French, some U.S., and some Japanese companies taking stakes in U.K., French, and even an eastern European company -- it was a cooperation agreement, actually, between Chubb and Ingostraak, it's not so much at stake. Third on the list in Table 15 is what we call a catalyst transaction. Athena is a French group taking a stake in Refuge, a U.K. company. While we haven't seen so much of that in the states here, except the Torchmark/American General situation, that's certainly something that's in vogue in Europe, and it would be much more in vogue if the financing markets were still intact.

More stakes in Table 16 show, again, Japanese, U.K., German and French companies going into various markets within Europe. Also, if you look at the bottom, you'll see a bank in Finland taking a stake in a Finnish insurance company. Recently, a major bank in Stockholm took a stake in Skandia, which is Sweden's largest insurance company. So, as Thomas has said, there is much more activity involving banks going into the insurance business in Europe also. You compete with them if you're about European markets.

I suppose Table 17 really shows a couple more transactions -- just to point out, the Japanese here, this is the third and fourth transaction, involve both Japanese companies with some kind of operational ties with a U.K. company and a Netherlands company. The Japanese, so far in these ventures, have been very small stake holders, in the 3-4% range, or have discussed operational tie-ups. We think that they'll show much more interest in the next 12-18 months, but so far their interest has been along the lines of operational tie-ups.

The same situation in Table 18, again, with Taisho from Japan. It's an alliance, and an operational tie-up, and there's a small cross stake between UAP and Kemper and another bank in France.

In 1990 it shows a shift again, only on the minority investments and joint ventures -- again, a shift northward outside of southern Europe and also a shift eastward (Table 19). You'll see the first few transactions here are Polish -- they involve Polish companies, East German companies, Hungarian companies, and, as Steve has told you, many of those tend to be disappearing fairly quickly.

TABLE 15

1989 European Joint Ventures and Minority Stakes

Acquirer	Target	Approximate Trans. Value $MM	Comments
AGF (France)	MAA Assicirazioni (Italy)	ND	Acquired 48% of Italy's 12th largest Insurer
Asashi Mutual Life (Japan)	Groupe AG (Belgium)	80	Acquired 5% stake
Athena (France)	Refuge Group (U.K.)	--	Acquired 8% stake
Axion Group (U.S.)	Sampo (Finland)	220	Acquired 21% stake
Baltica (Denmark)	Hambros (U.K.)	55	Acquired 10% stake
Banco de Santander (Spain)	Colonia Victoire NV (France)	245	Acquired partial interest
Chiyoda Mutual Life (Japan)	Norwich Union (U.K.)	40	Joint venture in funds management
	Financiere de Suez (France)	ND	Acquired 1.0% stake
Chubb Corporation (U.S.)	Ingostraak (USSR)	ND	Signed coinsurance agreement, joining AIG which signed a 1988 continuance agreement

TABLE 16

1989 European Joint Ventures and Minority Stakes

Acquirer	Target	Approximate Trans. Value $MM	Comments
Commercial Union (U.K.)	Credit Italiano (Italy)	ND	Joint venture with bank to sell life insurance through 500 branches and captive sales force
Commerzbank (West Germany)	DBV (West Germany)	75	Acquired 50% of holding company for Germany's 12th largest insurer
Dai-ichi Mutual Life (Japan)	Financiere de Suez (France)	110	Acquired 2% stake as part of overall 44% stake acquired by various parties
Financiere de Paritas (France)	Navigation Midi (France)	2,100	Acquired 40% stake after tendering for for majority
Financiere de Paritas (France)	Drouot (Axa-Midi) (France)	105	Acquired 10% stake
Finansallatos (Bank of Finland) (Finland)	Sampo (Finland)	300	Acquired 25% stake

TABLE 17

1989 European Joint Ventures and Minority Stakes

Acquirer	Target	Approximate Trans. Value $MM	Comments
GAN (France)	SAI (Italy)	ND	Cross-investments representing 10% stakes in each other
Kyoei Mutual Fire & Marine (Japan)	Legal & General	ND	"Operational tie-up"
Meiji Mutual (Japan)	Amev (Netherlands)	ND	Agreed to provide each other's employee insurance cover in Europe and Japan
Sampo (Finland)	Finansallatos (Finland)	ND	Raised stake to 20% from 10%
Sumitomo Fire & Marine (Japan)	La Fondiaria (Italy)	ND	Cooperation agreement to open branch offices in each other's base countries

TABLE 18

1989 European Joint Ventures and Minority Stakes

Acquirer	Target	Approximate Trans. Value $MM	Comments
Sun Alliance (U.K.)	Commercial Union (U.K.)	420	Acquired 13% stake through purchase of Adstam block
Taisho (Japan)	Sun Alliance (U.K.)	--	Cooperation agreement
UAP (France)	Kemper Corp. (U.S.)	ND	Joint marketing agreement
	Banque Nationale de (Paris, France)	ND	Cross-marketing agreement, cross investments

TABLE 19

1990 Continental European Cross-Border Insurance
Joint Ventures and Minority Investments

Acquirer	Target	Approximate Trans. Value $MM
AGF (France)	PZU (Poland)	ND
Allianz (West Germany)	Stalliche Viescherung (E. Germany)	180
	Hugaria Bztosllo (Hungary)	ND
Generali (Italy)	Erste Allgemeine (Hungary)	ND
	Alliani Bztosllo (Austria)	ND
Groupama (France)	La Fondiaria (Italy)	445
Minet (St. Paul) (U.S.)	Essar Insurance Brokers (Norway)	ND
Prudential (U.K.)	Bennetton Financial Services (Italy)	80
	Groupe Victoire (France)	
Trygg Hansa (Sweden)	Estil Kinduluste (Estonia)	ND
UAP (France)	Allianca (Portugal)	ND
	Brundesladen (Austria)	ND
	General Europa (Spain)	25
	Kemper U.S. (Spanish Operation)	ND
WASA (Sweden)	Topdarmark (Sweden)	25

The U.K. markets have also shown increased activity (Table 20). Due to the changes relating to continental Europe as well as the interests of financial institutions, we've seen very strong activity over the last three years in the U.K. In the early to mid-1980s, the activity saw a strong interest from some U.S. companies, when the dollar was relatively strong. Included are Lincoln National and the Met, as well as other U.K. companies that decided to buy those and consolidate. The acquisitions of the last three years have included companies from all over the world who have said, "The U.K. is a strategic market where I need to be." It is a good way to position yourself for the rest of Europe.

TABLE 20
U.K. Cross-Border M&A Activity

- o Due to all the changes relating to continental Europe, as well as the entrance of financial institutions, M&A activity in the U.K. is currently very strong.
- o During the early mid-1980s, U.K. M&A activity saw strong interest from U.S. (Lincoln National, Metropolitan Life) and other U.K. insurers interested in consolidation.
- o Acquisitions since late 1987 have involved Australian, European, North American, Scandinavian, and South African insurers.
- o Two major life transactions have been completed by financial institutions, one of these for more than $2.0 billion.
- o This is expected to become an even more active M&A market over the next few years as European activity shifts northward and involves large companies.
- o AMP/Pearl transaction may also be interpreted as sending a signal to markets that the U.K. will permit unfriendly transactions to be completed.

The activity here in the mid-1980s was more along the lines of smallish transactions that shifted again towards larger transactions in the $500 million range (Table 21).

It shifted even further in 1989 with transactions -- two of them more than $1 billion -- and one more than $2 billion. It's going to become even more active as continental European companies look to the north and see the U.K. as a market where they really would like to be. Many of them have said to us, that, "We want to preserve the integrity of our balance sheets, so that the next transaction we do will in fact be a major U.K. transaction." We believe the AMP/Pearl transaction may be interpreted as sending a signal to the markets that the U.K. will permit unfriendly transactions to be completed. I will add that it is difficult in Holland (and some of the other markets), to do an unfriendly transaction, but I would argue that the fiduciary responsibilities have not yet been tested, with an all cash, fully financed offer, that will probably test it a little bit, and that's what happened with AMP/Pearl, it was an all cash bid and clearly in the range of fairness, and the institutions that said, "Gee, we'll support you," for so long a period of time, eventually caved and sold into that strong offer. It is possible that not only will big transactions occur in the U.K., they'll also be on an unfriendly basis.

TABLE 21

1987-88 United Kingdom Insurance M&A Activity

Acquirer	Target	Approximate Trans. Value $MM
Australian Mutual (AMP) (Australia)	Provident London Life Assurance (Mutual) (U.K.)	100
Assurances Generales de France (AGF) (France)	Security (Security Mutual) (U.S.)	ND
Companie du Midi (France)	Equity and Law PLC (U.K.)	745
Groupe A.G. (Belgium)	Sun Life Assurance PLC (U.K.) 23% of stake	160
Lloyds Bank (U.K.)	Abbey Life	2,010
St. Paul Companies (U.S.)	Minet Holdings PLC (U.K.)	720
Transatlantic Holdings (South Africa)	Sun Life Assurance PLC (U.K.) 29% stake	180
Trustee Savings Bank (U.K.)	Target Group PLC (U.K.)	355

When many companies in the U.S. think about going into Europe, they think of U.K. as the starting point, so here is some of your -- competition for entry (Table 22).

TABLE 22

1989 United Kingdom Cross-Border Insurance M&A Activity

Acquirer	Target	Approximate Trans. Value $MM
Assurances Generales de France (France)	National Employees' Mutual U.K. Portfolio (130M £ Premium) (NEM) (U.K.)	ND
Australia Mutual (AMP) (Australia)	Pearl Group (U.K.)	1,905
Britannia Building Society (U.K.)	F.S. Assurance (Mutual) (Scotland)	25
Group des Assurances Nationales (GAN) (France)	General Portfolio (U.K.) 51% stake	370
Guardian Royal (GRE) (U.K.)	PMPA (Ireland)	125
Hafnia Holding (Denmark)	Prollic Group (U.K.)	150
John Head & Partners LP (U.S.)	Anglo American Insurance Co. (U.K.) (Calfed, Inc. -- U.S.)	100
New York Life (U.S.)	Windsor Life (U.K.)	35
Skandia Group (Sweden)	National Insurance Group (U.K.)	260
Swiss Life (Switzerland)	Pioneer Mutual (U.K.)	ND

You'll see the acquirers include Australian AMP, the French, Belgian, and a couple of U.S. companies; and a savings bank, TSB, purchased a company and eventually spun it off, actually, I should say it is in the process of spinning it off now. This was in the 1987-88 period. In 1989, again, there was an increased number of transactions and increased size. The second one is the AMP/Pearl deal we talked about. But if you look at the various parties entering, you'll see the acquirers -- in this case, two are U.S., one includes New York Life with its Windsor Life transaction -- and some, also, additional movement from the French and the Swedes, the Nordic countries, as they come in here also. Transactions here in general have increased in size, but if you look at the U.S. entrance, they've been relatively small. Even last year, the New York Life transaction, the entry level was only a $35 million deal. The thought here is that it's so expensive that you might as well buy relatively small and fund the growth over a period of years rather than buy something at a major price. For example, the Pearl transaction was done at 35 times earnings, and it takes quite a while to earn some reasonable return on a 35 earnings multiple. So, again, as U.S. companies look into this, many of them have thought in the range of, sort of, below $100 million, so you could buy something with some earnings, an ongoing operation, and fund it over some period of time to build, if you will, that inforce block of business. The problem with that is there aren't many companies who meet that profile, and many of those have been picked over by the continental Europeans, so it's not easy to do.

Briefly, just a little bit about Scandinavia (Table 23). The Scandinavian market's pretty much been isolated up by itself for a number of years. It's now becoming more integrated into continental Europe, and many Europeans see a way to bridge themselves through Denmark up into the Nordic countries. We're currently working on a Danish transaction of significant size, and we actually see a lot of interest among Europeans moving up to Scandinavia. We see very little interest from the U.S. companies in Scandinavia, however. In this case, smallish transactions, and what's interesting here is many of the Scandinavians have said, "we know the world's changing so much, we need to get together ourselves, to protect ourselves, if you will, against the rest of the world." Most of these transactions are really intra-Scandinavian, to get to, again, a sufficient size.

TABLE 23

1989 Scandinavian Insurance M&A Activity

Acquirer	Target	Approximate Trans. Value $MM
Financiere de Suez (France)	Baltica Holding A.S. (Denmark) 23% stake	355
Hafnia (Denmark)	Forende Assurandores (FLS) (Denmark)	45
Skandia (Sweden)	Vesta (Norway)	120
UNI (Norway)	Polaris (Vesta Group) (Norway)	20

There are a couple of things to think about as you think about those markets. One is, you are competing head to head with well-financed European companies with very strong

balance sheets and understated real estate. Their balance sheets are very, very strong and tough to compete against. And they are looking at franchises where they need to get much bigger. So, it's very difficult to compete with them head to head on larger transactions. Our recommendation is to pick your spots, pick your countries, and pick companies which are of decent enough size to help you get started, but not so big that you have to compete head to head or not so small that you don't get some return over some period of time. Also be very thoughtful and careful in your search process before you ever involve us or one of our competitors. And think about which of those markets are really the most important to you, and take a long-term perspective on those markets. Because if you don't, you're not going to be very successful in competing with the others who are already there.

MR. HALL: The last speaker is Richard Batty, who's a principal of Tillinghast and is currently overseeing the firm's expansion into southern Europe. Recently, he set up the expansion offices in Milan and Madrid, and Richard's background truly is international in that he began as a fellow in the U.K., but got his MBA through a French school at Fontainebleau, France. In the mid-1980s, Richard began the French office for Tillinghast in Paris. He currently lives in Geneva with his wife. Richard will discuss the context for joint ventures, types of alliances, and he'll give some actual case examples in Italy.

MR. RICHARD BATTY: When I was reviewing my presentation, I bumped into a colleague from Tillinghast, and he said, "Oh yes, you're doing a presentation there," and I said, "Sure." He said, "What's it about?" And I said, "Strategic alliances in Europe." To which his response was, "Well, that's going to be an easy presentation, because there's no such thing as a strategic alliance." Despite that comment, I still want to make this presentation. First, I want to review some material that we've covered already in the session.

WHAT ARE THE FORCES LEADING COMPANIES TO LOOK FOR STRATEGIC ALLIANCES?

I believe there are five forces leading companies to look for strategic alliances:

- "1992"
- Establishment directive
- Attractive markets
- Emergence of Pan-European companies
- "Bancassurance"

The year 1992 is clearly a factor. With respect to the life insurance industry, however, there's a lot of noise about 1992 but not that much substance. It's clearly a big factor psychologically, but it does not really permit insurers to do much which is new. Really, 1995 is more of a significant date for life insurance than 1992. The establishment directives, so-called, the first EC life directive of 1979, was the instrument which really began to open things up. That directive established common solvency margins for life insurance companies in Europe and essentially created the right of entry to all companies within the EC, providing that they met the local conditions. However, there was no option for an application for authorization to be refused on other than objective grounds. The third reason is that life insurance markets in Europe are very attractive at

the moment, especially those in southern Europe, Italy, Spain, and to some extent Greece and Portugal as they begin to grow. And the general belief there is, these are fast-growing markets with relatively unsophisticated products, and companies from further north in Europe have some belief that they can bring something to those southern markets. The process, of course, has been going on for some time, as Hank has just been making clear. And, indeed, there are several pan-European insurance companies or groupings which have now appeared which, I think, lead to a belief on the part of people who maybe don't have that spread of activity yet, that maybe they'd better start looking for some way to try and get it. Companies which I would describe as pan-European are companies like Generali, Allianz, the three big Swiss companies, Winterthur, Zurich and Swiss Life Internanstelt, UAP, certainly and indeed Nationale Nederlanden. So, I think the emergence of these groups has some sort of a galvanizing effect on other companies. The last point here is Bancassurance, as they call it in French, there's never been a good real translation of that into English, but in Italian they call it Bancassicurazioni; Allfinanz, of course, in German as well. One of the interesting things about this is that as the banks have been trying to get into insurance, they are an obvious partner for people looking for strategic alliances.

WHAT TYPES OF STRATEGIC ALLIANCES ARE BEING FORMED?
My definition of strategic alliance is somewhat narrower, I think, than those of the other speakers. I'm going to limit myself to cross-border alliances, mergers and acquisitions, and narrow the definition from that of Steve and Hank.

- Supplier/distributor relationship
- Joint venture company
- Shareholding (may be reciprocal)
- "Cooperation agreement"

With this definition of strategic alliance, I've tried to identify four types of alliances. And, in general, I'm concentrating on cross-border alliances. The first one listed is the supplier/distributor relationship, where, essentially, a foreign life insurance company is looking for a local distributor, which could typically be a bank or a financial network of some sort. The second type of alliance is a joint venture company, typically involving a foreign life insurer with a local entity, not necessarily a local insurance company; they may get together to set up a new insurance company together. Third type of alliance is a shareholding, which may or may not be reciprocal; that's usually between insurers, to qualify on my definition. And the fourth type is a cooperation agreement, a vague term for some pretty vague sorts of agreements, as we'll see, and that, by definition, is between insurers.

EXAMPLE: LIFE INSURANCE IN ITALY
Now, instead of trying to cover a lot of countries and a lot of companies, I'd like to just give some examples of these types of alliance in Italy, which is a country where I spend about 40% of my time. So, here I'm going to concentrate on alliances involving life insurance companies, and, indeed, foreign insurers going into Italy, not Italian insurers looking outside of Italy. And, in general, I'm talking about operations where the share of the foreign company is no more than 50% in any joint venture.

First, though, quickly, why is Italy attractive for foreign life insurers? Several reasons are indicated below.

WHY IS ITALY ATTRACTIVE FOR FOREIGN LIFE INSURERS?

- o Recent boom in life market
- o High margins
- o Established companies have some handicaps
- o Group pensions underdeveloped

There's been a boom in the life market in the last five years, very largely in individual business, where we've seen growth rates of premium income (that's not new business that's premium income) up to 40% in 1987. The rate's down somewhat now, but it's expected to stay very strongly positive for the next five or 10 years. Second reason why it's attractive; there are very high margins available on life products in Europe. In my opinion, the highest margins in Europe are in Italy. The established Italian life companies have some handicaps as their market changes and grows very dramatically. I'd characterize those as twofold: first, distribution, where the typical Italian company distributes through multi-line agents who have territorial exclusivity; and the second, linked to the lack of competition that there has been in the past in the Italian industry, most Italian insurance companies have pretty high expenses. In what's essentially a tariff market, they don't really have to compete on expense performance. Fourth reason is that group business, group pensions particularly, is underdeveloped, and companies see Italy as attractive because there's a belief that this is a market that is going to come to Italy, and this is a time to be positioned there when it does start to grow. At the moment, there's been a pension law in the offing for years, it's gone through several variations as a draft, and it's nowhere near being passed at the moment. And, indeed, Social Security was increased very dramatically in Italy about two years ago, which really meant that the immediate market almost went to zero. There's a belief that it has to change sometime and the Italian Social Security system will go bankrupt one day.

BUT --

- o Little left to purchase
- o Difficult to set up alone
- o Emergence of banks

However, it's all very well to say Italy's attractive. The problem, if you want to get into Italy, is that there is little left to purchase. More than 80 of the 200 plus insurance companies in that country have changed hands in the last three or four years. Many of them are now consolidated into groups. It's difficult to set up a loan in Italy; there's a long lead time for a license, authorization, and it clearly takes a long time to set up your own distribution network. The emergence of banks has meant that there's a potentially new and powerful force in the distribution of life insurance, which is where the Italian banks unanimously want to be. So, these factors have really meant that people going into Italy recently have had to look for alliances.

Table 24 shows some examples of who's doing what in the types of alliance that I set out earlier. Supplier/distributor relationships: Commercial Union set up its own insurance company and life insurance company and entered into an agreement with Credito

Italiano, which is a major bank in Italy. Credito Italiano distributes commercial union products, also through its mutual fund sales network. The second footnote says that Credito Italiano now owns 30% of the Commercial Union Life Insurance Company, and I think that's an indicator of the way things will happen.

TABLE 24

Supplier/Distributor Relationship*

o	Commercial Union/Credito Italiano†
o	AXA-MIDI/ICCRI

* There are many cases of Italian insurers supplying products to Italian banks.

† Credito Italiano now owns 30% of Cu Vita.

The second case is Axa-Midi, the French company which is going to supply products to a new life insurance company, which is probably authorized now. It's certainly on the verge of being authorized. ICCRI is the central savings institution; it's the central institution of a group of Italian savings banks, and Axa-Midi is going to supply products. There's some question that Axa-Midi may, in fact, take a participation in that new company.

As regards joint ventures, there are four examples in Table 25 and in each case, I've listed the foreign company first and then the Italian entity. The first one is between Predica, which is the life insurance subsidiary of a French company. It's the second biggest life insurance company in France and it recently has gone into a venture with Monte dei Paschi, which is an Italian bank, Monte dei Paschi owning 51% of the life insurance company that's been set up. Actually, they just sold 49% to Predica. The second one is a triple joint venture between CNP of France, TSB of the U.K., and Cariplo, which is the biggest Italian savings bank; I think it's right to say it's the biggest savings bank in the world, certainly in Europe. That's a greenfields operation that's not yet been authorized, but the shareholding structure is agreed at 20-20-60%. The third venture is between GRE and San Paolo de Torino, that's another bank. Together, those two organizations bought three companies in southern Italy a year or two ago: one life company and two nonlife companies. San Paulo owns the life company 51%, Guardian Royal Exchange owns the nonlife companies 51%. And the fourth example was a venture life insurance company set up by Prudential of the U.K. in association with Benetton, or rather, a financial services subsidiary of Benetton, which, as the footnote says, has now been sold; the Benetton side has been sold to Abeille Victoire, because Benetton wanted cash, I think the story was, to buy Nordica ski boots. Anyway, Benetton's pulled out of that, largely, I think, because they realized it was going to cost money to develop a life insurance organization, it wasn't something that was going to give any immediate payback.

TABLE 25

Joint Venture Companies

o	Predica/Monte dei Paschi (49-51%)
o	CNP/TSB/Cariplo (20-20-60%)
o	GRE/San Paolo di Torino (49-51%)
o	Prudential/Benetton (50-50%)*

* Now Prudential/Abeille.

Table 26 shows some examples of shareholdings -- I think Hank showed this -- Group AMA, the French company, took 20% of La Fondiaria earlier this year. Volksfursorge, in Germany, owns 14% of Unipol, GAN International and SAI, have a share exchange whereby GAN owns 10% of SAI and SAI owns 90% of GAN, that's a reciprocal exchange, therefore. And the last example here is Friends Provident of the U.K., which owns a very small proportion of SAI, and some of that indirectly. As we mentioned earlier, some Italian companies do have shareholdings in foreign companies, BINA, Fondiaria, and Unipol being examples of that.

TABLE 26

Shareholding

o	Group AMA/La Fondiaria (20%)
o	Volksfursorge/UNIPOL (14%)
o	GAN International/SAI (10-90%)*
o	Friends Provident/SAI (4%)†

* Reciprocal shareholdings.

† Also collaborating in Spain

Finally, cooperation agreements (Table 27). Just two examples -- there's an organization called NEXO, which is built up of a series of companies who have in common that they are either publicly owned or have a history of being publicly owned. The U.K. representative of that is TSB, which is not publicly owned anymore. And the Italian representative is INA. Curiously enough, though, TSB and CNP are collaborating with Cariplo in Italy, and not with INA. INA is a state-owned insurance company which has the enviable position, you might agree, of having a compulsory session of 30% of life insurance business to it from any companies writing business in Italy. The second organization which has a loose sort of cooperation agreement is called EURESA, which is a small group of mutual insurance companies, of which Unipol is the Italian representative -- actually, Unipol, I don't believe is technically a mutual, but never mind.

TABLE 27

Cooperation Agreements

o NEXO:	TSB CNP INA CGER POSTAL VIDA	Irish Life Pension Varma Statsanstalten VLH
o EURESA:	MACIF FOLKSAM	Prevoyance Sociale UNIPOL

Well, after all that whistle stop tour of Italy, remember that was just one very small part of activity, that was foreign companies going into Italy, not Italians going out or anybody else going anywhere else, so, that's a small sample to show you the level of activity.

In particular, do strategic alliances exist, was my colleague right or was he wrong? Are we talking about tactical alliances, alliances of convenience, or maybe even marriages of convenience?

Well, if we go back to Italy, adopt the analytical approach, I think we can say, number one, companies from certain countries prefer alliances.

From what we have seen, the foreign companies on the end of strategic alliances in Italy have been U.K. companies and French companies (Table 28). The Germans and the Swiss don't figure. There are two U.S.-owned companies in Italy that have been set up recently, and neither of those have shown any propensity to go into joint ventures with Italian organizations.

TABLE 28

Strategic Alliances

Like	Don't Like
U.K. France	Germany Switzerland U.S.

- o Companies from certain countries prefer alliances
- o Alliances are for latecomers

So, there seems to be some national tendency at play; the second point is that alliances are for latecomers. Hank said this as well.

The problem has been, and in fact the real reason, I think, why the U.K. and France figure so strongly in the list of alliances, is that the Germans and the Swiss and some

French companies have got there already, as, indeed, we can see in Table 29. Note the penetration of the Italian life market in 1988 by foreign-controlled companies. The first foreign company shown is Alliance, which bought 51% of RAS in 1984, I think it was, and they have a 10.7% market share. You see underneath, all the other companies listed are either French or Swiss. And all those companies got in there in the mid-1980s -- 1985-88 -- when perhaps the prices were lower than they are today. But, more importantly, there is no supply anymore. As I mentioned, the latest French incursions into Italy, are in fact by alliance, basically, because there's no other option.

TABLE 29

Penetration of the Life Market by Foreign-Controlled Companies in 1988

	Market Share
Alliance	10.7%
Zurich	1.9
Swiss Re	1.4
Baloise	1.1
Winterthur	1.0
AGF	1.0
Mutuelle du Mans	0.5
Victoire	0.5
Elvia	0.4
AXA-MIDI	0.4
UAP	0.4
	19.3%

The success, indeed, of the alliances so far, can be measured. If I add the premium income of all those joint ventures that we've just seen, the market share was less than .1%.

I think it's undeniable that alliances of the nature of those that we've seen, or most of them, anyway, are defensive. The aim is to limit cost or exposure. However, just bear in mind the recent salutary experience of GRE with its joint venture with Banco San Paolo de Torino. As I said, they jointly bought three companies, one of which was a life company, very small, two of which were nonlife. Since they made the purchase, they have had nothing but losses; I think they've now put in about three times the purchase prices for the nonlife companies. Horrendous problems with the motor portfolio, and we're talking now into the three figures of millions of dollars that they've had to pump back in. The second advantage of alliances is that they reduce time frames. Certainly, getting a life license in Italy is a long process; it's been speeded up in the last two or three years, but even so, it's by no means straightforward. And going into business with somebody else who already has a license clearly helps you on that side. It also helps to build up, on the distribution side, and in fact basically all the alliances illustrated here, arguably, were to gain distribution rather than anything else. A further factor that I didn't mention here is that -- some alliances seem to be there to reduce competition, for instance, the SAI/Friends Provident agreement, I mean, I can't really understand why

those two would take a small share of each other unless it were just to establish a hands-off position. And, I think that's not unusual. I'd agree with Thomas, I think it's not unusual that the real reason for some of the shareholdings, such as UAP and Sunlife, for instance, a French company and a U.K. company, is really a standoff position being established.

- Companies from certain countries prefer alliances
- Alliances are for latecomers
- Alliances are defensive
  - Limit cost or exposure
  - Reduce time frames
- Alliances with banks are the most promising

My conclusion, from Italy, is that really only alliances with banks are at all promising. I don't think any of the other alliances that we've mentioned have any discernible impact at all. If we go back to the general case, having looked at Italy quite specifically, I'd summarize my mixture of observations and opinions as follows:

- Cross-border activity is intensifying
- Some companies are significantly better positioned than others
- Major players tend to acquire or build alone
- Being left behind may not be bad

Cross-border activity is clearly intensifying -- all the examples that I've given you are less than three years old. Some companies in the new, expanded, freer Europe are significantly better positioned than others. In particular, the three Swiss companies that I've mentioned, and any of the others, Generali, Alliance, and Nationale Nederlanden, they have been quietly getting on with it for years, and those major players, third point, don't go into alliances, they acquire or they build alone, in general. In all this, my personal belief is that being left behind in the rush may not be bad. I think GRE might have been happier if it had got left behind in the rush to buy those companies in Rome. Not everybody can be a major player, that's clear.

SO . . .

- Strategic alliances are no panacea
- Do rather than talk
- Beware the five-year rule

If you do go into strategic alliance, I think it's important to bear in mind that such alliances are no panacea. They may save some time and some money, but you still need to invest in learning, in management time, and, indeed, in capital as well. It's important to do rather than talk. I think that only joint venture companies created or purchased jointly, with management contributed from both sides, set up to carry out a well-defined mission -- I think only that sort of joint venture can make sense. All the rest are, indeed, hot air and not really worthy of the name strategic alliance.

Finally, beware the five-year rule: that's the often used rule of thumb that no alliance lasts for more than five years. We haven't got to this point yet in the Italian market. As

I said, all the examples are less than three years old. But even so, even though a life venture typically does not turn around before five years, it is a crucial point, and those companies which have alliances, they're there for distribution. The problem that they then have to face is, what happens when your distributor decides that he's going to make rather than buy. So, my general prognosis -- not exactly that I agree with my colleague, but, to a certain extent, I do.

MR. HALL: One of the more interesting components of European markets, in terms of acquisitions, at least to me, has been the price that people seem to be willing to pay for acquisitions. In Hank's example of a company being bought for 35 times earnings, one has to either anticipate a strong growth rate or one has to have some other strategic reasons for doing that type of thing. At least from my perspective, I've looked at acquisitions, and some of them don't seem to make any sense, except maybe from the perspective of gaining a critical mass in a full European community. I was wondering who'd like to address that. Are people buying rationally?

MR. LARGENT: No. In fact, at Nationale Nederlanden, one of our key strategic or operational goals is not to pay too much, and one of the results of that is, we haven't bought much in Europe for quite a while. And we still see the U.S. as the best market.

MR. HALL: Do you see or do you anticipate that prices will get better in the next two or three or four years, as people start thinking about how they're going to make a profit from these?

MR. LARGENT: Well, actually, no. No, I don't see that happening. I see there's still a lot of activity and companies are going for very high prices. And I think when it comes time to resell them, companies are going to want to get back a return consistent with what they paid. OK. But isn't the story that AMP really got a pretty good deal on Pearl? There's a little more to it.

MR. TILLMAN: I was going to comment -- 35 times earnings is, in fact, the correct number on the deal multiple, but the deal was done at actuarial values, actually, and not so much future production, but value of the in force. As you know, Pearl was less than aggressively managed, I think is a fair way to describe it, wouldn't you say? And so, the logic here is at 35 times earnings, the deal still worked for AMP. Number two, it really was a franchise which you could do a lot with. And AMP recognized that and there was a lot of upside for AMP in the transaction. But, let me just also comment on my perceptions, it may be a little different from Steve's. I happen to think, and First Boston believes, that 1993-95, after all this activity, this frenzy, that it'll look a lot like the U.K. after big boom in the securities brokerage industry. And we've already seen some rumblings from some of these prior deals starting to not work as people had said already. So, we think there'll be a little more softness, years out, if you choose to wait that long, but that's kind of a high risk strategy, too, to wait to pick them off. It's possible, we believe, that there'll be some price softness a few years out, if you can wait that long.

MR. BATTY: Well, there's been some price softness already, I think, in the case of Target, which was purchased by TSB about two years ago for 200 and something million

pounds, and is for sale now, reported at least to be at a price less than half that. I myself think there will be a softening, as you see the prices being asked for some tin pot little companies in Spain today, you really cannot believe them. And somebody's going to have to back off sometime.

MR. HALL: In terms of European cartels, I think that Germany is fairly well known for having an insurance industry which is almost impossible to enter. Do people really believe that the European common market is going to be able to break down that cartel arrangement? And, if they will be able to, can you give us an idea of how many years it might take? I mean, we just have the U.S. experience, where even when you decide to do something and legislation is passed, it takes maybe five, 10 years for things to go through the courts and actually happen. Do you want to address that, Thomas?

MR. RABE: Yes. Well, I think looking at the German market, I don't think there's really a market agreement between the companies, if you look at products or tariffs. It's much more imposed, in fact, by the supervisory authorities, which would require prior approval of policy conditions with the objective of arriving at some sort of uniformity in order to allow consumers to compare products. This seems to be the concept. And, it's not so much market agreements; I think it's much more market agreements on other markets. The objective of the commission is to get rid of prior approval of policy conditions and tariffs, both in nonlife insurance and life insurance, and then I guess there will be much more room for, let's say, competition based on both products and tariffs in Germany.

MR. HALL: Would panelists care to offer the three best countries and the three worst countries to go into right now in Europe?

MR. BATTY: Well, I have to go for Italy and Spain, certainly, as the two best.

MR. LARGENT: And if you could get in, France.

MR. BATTY: Yes, France.

MR. LARGENT: It's very difficult. The worst? Germany, in terms of competitive, just trying to break through.

MR. RABE: Well, I'm not sure about that.

MR. BATTY: Well, some people have gotten into Germany, in fact, in a small way. I don't think it's quite as tough a market as has been commonly made out, and I don't think it's quite as restrictive as has been commonly made out. But it's not the one that I'd be trying at first right now, although I think anybody with any sense should be beginning to take a position on Germany, and looking at Germany very carefully to understand it, because I think it will change quite significantly in the next two or three years.

MR. RABE: Well, another aspect, of course, in Germany is German unification, and new market opportunities in the east. It's quite clear that demand for life insurance will

be enormous in the next years and Germany is now a single market, I mean, there's freedom of establishment, the freedom to provide services into Germany and into East Germany and I think there's a huge growth potential. The thing is, of course, that the same supervisory regime which applied to West Germany so far, now applies to East Germany as well. But, it's quite clear that, with East Germany being integrated in the community, EC law will be applied and, as I say, if the commission manages to get rid of policy conditions, prior approval, and tariff authorization, there's room for competition, I think, certainly on the German market and it will undergo dramatic changes.

MR. HALL: OK. I'd like to open the floor to any questions. I've obviously put the panelists on the spot, so here's your chance to do so.

FROM THE FLOOR: I would just like to bring a little bit of more recent information that I received, last week, an advance copy of the *Life Framework Directive,* which has just been published. I received it as a member of the International Committee of the Society of Actuaries in Ireland. It is quite clearly postulating home country control within the European Community in future, which means that any European insurer can sell products in any other market without being authorized in that market, and just in relation to the German situation, that could be the opportunity to blow open the German market and the cartel system that operates there through innovative products, which they do not have at present. And I think that they're going to have a lot of difficulty in preventing that happening in Germany.

MR. RABE: Well, I don't think you've seen the life insurance framework directive, because it's not yet published, that's for sure. You've seen working papers, I guess, which were discussed last week. And, you're quite right; the commission for nonlife insurance, the proposal is already on the table, and the objective is to have home country control, which means that with one base in the community, one license, you can operate throughout the community. You can do it via provisional services across borders, you can do it via brokers, agents, branches, whatever. So, this will be the freedom, but, I mean, of course, the life insurance framework directive will only be proposed at the end of this year, and I don't know how long it will take to negotiate it, but I think it will take at least five to seven years until this directive really comes into force and will provide the opportunities. I think that's for sure.