CONVICTION PAPER: INSURANCE

Where and how we identify pockets of value across the insurance sector

POWER BETTER GROWTH

To meet today's major challenges, businesses must embrace change, grow, innovate, expand world-wide, look beyond their core business, and anticipate the forces shaping the future of their ecosystem. To support them, they need a robust, bold, visionary, exemplary and engaged partner. Eurazeo is that partner.

In Financial Services, one of our four key sectors, Eurazeo's "investment flywheel" forms the foundation of strong investment convictions, asset sourcing and growth acceleration.

AMBITIOUS ESG STRATEGY

To Power Better Growth
A+ UN PRI score
2 flagship commitments: Climate & Inclusion

Our investment flywheel is powered by our expertise across the full lifecycle - from start-ups to SMEs, unicorns, mid-caps and international groups - our active collaboration across sector specialist teams, our exceptional network of senior advisors from across the industry and real-life feedback and insights from portfolio companies.

Eurazeo is a leading global investment group, with a diversified portfolio of over €32 billion in assets under management, including €23 billion managed on behalf of third parties, invested in more than 530 companies.

We support companies of all sizes, helping them develop through the commitment and skills of our 360+ professionals, our in-depth sector expertise, the privileged access we provide to global markets, and our identity as a responsible and sustainable investor.

With over €2.5 billion[1] invested in Financial Services ("FS") in 30 companies[1] across all stages of their lifecycle, our transverse FS team, composed of 28 global investment professionals in Venture, Growth and Buyout, is uniquely positioned to identify, finance, accelerate and support companies that invent and reinvent themselves, innovative entrepreneurs and emerging talent.

This conviction paper, focusing on the insurance industry, outlines some of our key investment convictions regarding a Financial Services subsector where we continue to identify attractive investment opportunities which we are ideally positioned to capture and transform.

With respect to deal sourcing, robust information barriers between potentially conflicting strategies are effective. The sharing of deal flow information across strategies occurs in dedicated forums for the purpose of sharing valuable deal market intelligence/trends and optimizing deal redirecting capabilities, in the best interests of all Eurazeo clients | 1. Includes all investments across Eurazeo's equity investment strategies including buyout, growth and venture

INVESTING IN INSURANCE: CONVICTIONS BUILT ON COLLABORATION

Maxime de Bentzmann
Managing Director – Mid-large buyout

Benjamin Hara
Managing Director – Small-mid buyout

Guillaume d'Audiffret
Managing Director – Growth

Tara Reeves
Managing Director - Venture

The insurance industry is a resilient, profitable and intricate industry across which we continue to identify attractive pockets of growth where we can create significant value.

The complex value chain and multiple domestic specificities make insurance a unique vertical for venture capital, growth equity and buyout strategies.

In that context, our investment approach is conviction-driven, supported by the significant expertise and networks we have built across the sector, with 28 investment professionals in Paris, London, New York, Berlin and Singapore, more than 30 deals[1] and €2.5 billion[1] invested in financial services.

It is also powered by the Eurazeo "investment flywheel**"** operating across our equity strategies, accelerating and enhancing our sourcing, due diligence and value creation activities.

OUR FIRST CONVICTION

While technology is undoubtedly reshaping insurance, we identify different impacts across segments, with technology bringing true disruption for some players versus incremental improvement for others.

Our flywheel has enabled us to define pockets of value which guide sourcing, due diligence and ongoing value creation. We identify:

- Segment leaders in commercial P&C harnessing tech to strengthen positions
- Digital distributors in personal lines offering disruptive growth opportunities
- Underwriters leveraging tech & data to augment performance and cover new risks
- B2B software and services streamlining business operations and supporting carrier and underwriter margins

OUR SECOND CONVICTION

We believe the recent trend for distributors to acquire insurance licences and become "full-stack" carriers is a risky strategy which could fail to deliver returns unless executed via an agile, capital-light approach.

Full-stack risks include a lower margin uplift than anticipated as a result of capital costs, higher expenses and loss ratios, negative valuation impacts and the need to adopt a radically different corporate culture and structure.

We do, however, see some "smart" ways to become full-stack, which diversify capacity as opposed to purely replacing it. Successful adopters must have stabilised underwriting results, retain marginal net risk exposure and ensure that the vast majority of their revenues remain commission-based in order to avoid shifting to a different valuation world.

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SECTOR SPECIALISATION

Insurance in the spotlight

The insurance industry combines resilience and good fundamental profitability with some particularly appealing pockets of growth

A HEALTHY INDUSTRY WITH A LARGE AND STEADY PROFIT POOL

The insurance industry combines resilience and good fundamental profitability with some particularly appealing pockets of growth.

DEEP, RESILIENT AND PROFITABLE SECTOR WITH VERY POSITIVE CYCLE IN P&C

The insurance industry is a significant component of the economy, representing over 7% of global GDP[1].

While in recent years Life insurance has suffered from low interest rates - the most important driver of their results - commercial Property & Casualty (P&C) has benefited from positive pricing momentum (rate hardening).

7%

INSURANCE INDUSTRY'S SHARE OF GLOBAL GDP[1]

VERY DIFFERENT COVID IMPACTS ACROSS THE VALUE CHAIN

The COVID period proved relatively positive for brokers and distributors across P&C and Wealth which posted strong organic growth in 2020 and 2021.

For P&C insurers, the pandemic did not induce the capital event many feared as losses were manageable and the industry bounced back quickly.

Reinsurance is fundamentally more challenged with return on equity often below cost of capital and increasingly volatility from natural catastrophes, pandemics and social inflation[2].

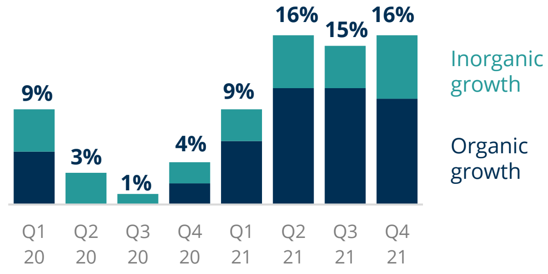
ATTRACTIVE INVESTMENT OPPORTUNITIES CONTINUE TO EMERGE

Attractive investment opportunities continue to emerge against a near-term horizon that depends on a number of factors including labour inflation and, more importantly, claims inflation. However, the industry might be able to pass these costs through to end clients.

While in the short-term, a spike in interest rates may impact both insurers' and reinsurers' balance sheets, it may prove to be a financial tailwind in the mid to long-term.

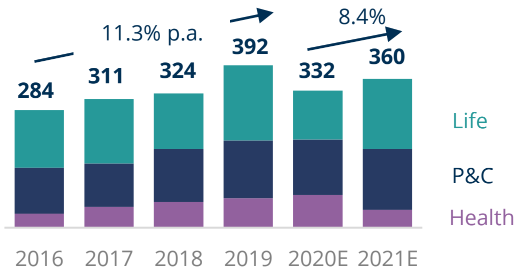
BROKERS POSTING STRONG REVENUE GROWTH

Healthy organic revenue growth of traditional large cap brokers despite COVID[3]



INSURANCE PROFITS HAVE RETURNED TO GROWTH

Global insurance post-tax profits[4] $ billions



1 Based on total premiums written in 2019; Swiss Re sigma research, World insurance: riding out the 2020 pandemic storm, No 4/2020 | 2 Social inflation refers to all the ways in which Life insurers' claims costs rise over and above general economic inflation | 3 Source: Eurazeo, Large cap broker composite median rates; revenue growth rates based on reported revenue and include insurance and non-insurance related business lines | 4 McKinsey, Creating value, finding focus: Global Insurance Report 2022, February 2022. There can be no assurance that any expected trends or developments will continue or that Eurazeo will be able to implement its investment strategy or achieve its investment objectives.

SECTOR

COMPLEXITY OF THE VALUE CHAIN CREATING SIGNIFICANT OPPORTUNITIES

> A deep understanding of the dynamics across the multiple segments of the value chain, including the risk and capital impacts, is crucial to identifying and creating value in insurance.

Chloé Giard
Investment Director – Venture

CAPITAL MARKETS

Insurance-linked securities enable carriers to transfer insurance-specific non-financial risks to reduce capital charges.

- Equity + debt related revenue streams
- Risks structured to match investor appetite
- Capital requirements based on investor profile

REINSURERS

Provide protection to carriers, enabling them to reduce volatility and capital requirements and take on more business.

- Premiums + investment returns
- Underwriting risk
- Regulatory capital requirements

CARRIERS

Provide insurance coverage. They issue and underwrite the policy and pay for covered claims.

- Premiums + investment returns
- Underwriting risk
- Regulatory capital requirements

MGAs[1]

Agents with underwriting authority. They can perform functions of carriers e.g. underwriting, pricing and claim settlement

- Commission + profit share based on loss ratio
- No underwriting risk
- No capital requirement

DISTRIBUTORS

Intermediaries who provide insurance policies, such as agents, brokers and comparison websites

- Commissions based
- No underwriting risk
- No capital requirements

1 Managing General Agents

INTENSE TRANSACTIONAL ACTIVITY ACROSS THE SECTOR

> Insurance is attracting broader investor attention on the back of a strong cycle, particularly in P&C, with emerging appetite for balance sheet investments.

Benjamin Hara
Managing Director – Small-mid buyout

1 FURTHER CONSOLIDATION IN DISTRIBUTION

Consolidation within distribution players has proved successful for PE firms owing to fragmented ecosystems, high client stickiness and low disruption risk in commercial lines. In the past two years over 70% of European PE insurance deals have involved the insurance broker space[1].

Strong and increasing valuations reaching multiples close to 15-20x EBITDA, reflect strategic interest and the relative scarcity of large assets.

2 SERVICES CREATING ATTRACTIVE TARGETS

In this context of consolidation, an enhanced need for integration and greater product velocity have increased demand for broker software.

Significant opportunities result from the fact that core software for insurance has not yet been fully adopted (a result of numerous legacy products, technological inertia and the complexity of transformations).

Finally, operational improvements via automation and data analytics are increasingly important as sources of value creation for carriers.

3 INVESTMENTS

On the balance sheet front, P&C remains the most attractive segment, with notable momentum since the beginning of a positive P&C cycle in 2018. PE activity in this space is led by specialist teams with the expertise to source and analyse opportunities.

Within Life insurance, this represents a very specialised playbook focused mostly on run-off business, driven either by an operational improvement thesis or by the objective of building permanent capital.

9x
UPLIFT IN BROKER PE DEAL VOLUME
in last 10 years[1]

$255bn
INSURANCE SECTOR SPEND ON TECH AND IT SERVICES
expected in 2022[2]

+12%
INSURANCE CARRIER M&A DEALS
in 2021[3]

INCREASING DEMAND FOR SOFTWARE AND

NEW FRONTIER OF BALANCE SHEET

1 PitchBook, Private Equity in the European Insurance Sector, April 2022 | 2 Capgemini and Efma, World InsurTech Report 2021: Providing CARE with the right partners | 3 FTI Consulting, Wrapping up the Deals: 2021 European Insurance M&A Barometer, Q1 2022. There can be no assurance that any expected trends or developments will continue or that Eurazeo will be able to implement its investment strategy or achieve its investment objectives

INSURTECH ON THE RISE: CHANGING EXPECTATIONS AND COST EFFICIENCY

Personal lines[1] have seen the bulk of insurtech activity, with most focus on go-to-market for relatively standard insurance products.

Global insurtech funding has seen a remarkable upward trajectory since 2016, buoyed by rapid digitisation and cost efficiency drives in the traditional insurance industry.[3]

INSURTECH

ɪnˈʃʊə-tɛk

Refers to both the technological innovations used to make the insurance industry more efficient and to companies which use this technology.

1 CHANGING CONSUMER BEHAVIOUR AND ACCELERATION IN DIGITISATION

Insurtech offers attractive growth prospects, supported by a large and expanding total addressable market; by 2025, insurtech is projected to account for almost 8% of total insurance premium, twice its share in 2020[2].

The pandemic period has further accelerated consumers' willingness to use digital technologies, supporting insurtech. Venture and Growth funding has focused primarily on distribution although insurance carriers (carrying risk) are starting to attract more capital[3].

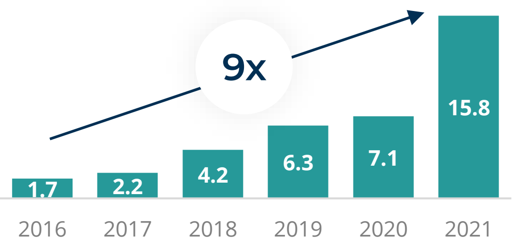
2 PRIORITISING OPERATIONAL PRODUCTIVITY

High industry cost structures and persistently low interest rates have also driven the growth of insurtech over the last five years as industry players look to streamline costs. Incumbents have increasingly embraced technology as a means to increase operational productivity.

The importance of operational value creation is reflected in the high proportion of funding directed to B2B software providers which focus on areas such as policy and claims automation.

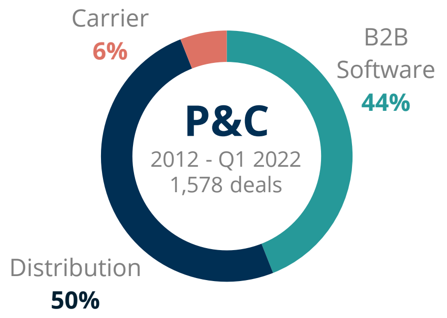
SIGNIFICANT INCREASE IN INSURTECH FUNDING

Funding volume ($m)[3]



FOCUS ON DISTRIBUTION AND B2B SOFTWARE

P&C Insurtech transactions by subsector[3]



1 Any kind of insurance that covers individuals against loss that results from death, injury, or loss of property. | 2 Juniper Research, Insurtech: Segment Analysis, Market Evolution & Forecasts 2021-2025, March 2021 | 3 Gallagher Re Global Insurtech Report, Q1 2022. April 2022. There can be no assurance that any expected trends or developments will continue or that Eurazeo will be able to implement its investment strategy or achieve its investment objectives

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EURAZEO'S FLYWHEEL

Shaping investment convictions

Collaboration at the core to accelerate sourcing and value creation

FLYWHEEL

ACCELERATING SOURCING AND VALUE CREATION THROUGH COLLABORATION

The investment flywheel operates across the entire Eurazeo Group[1], accelerating and enhancing our sourcing, due diligence and value creation activities.

FLYWHEEL SUPPORTS	FLYWHEEL SUPPORTS
>60%	**>80%**
of sourcing & DD activity[2]	of portfolio value creation[2]

1 COLLABORATION AT THE CORE

Eurazeo's expertise across the full lifecycle in Venture, Growth and Buyout and the collaboration across teams form the foundations of strong investment convictions, asset sourcing and transformation.

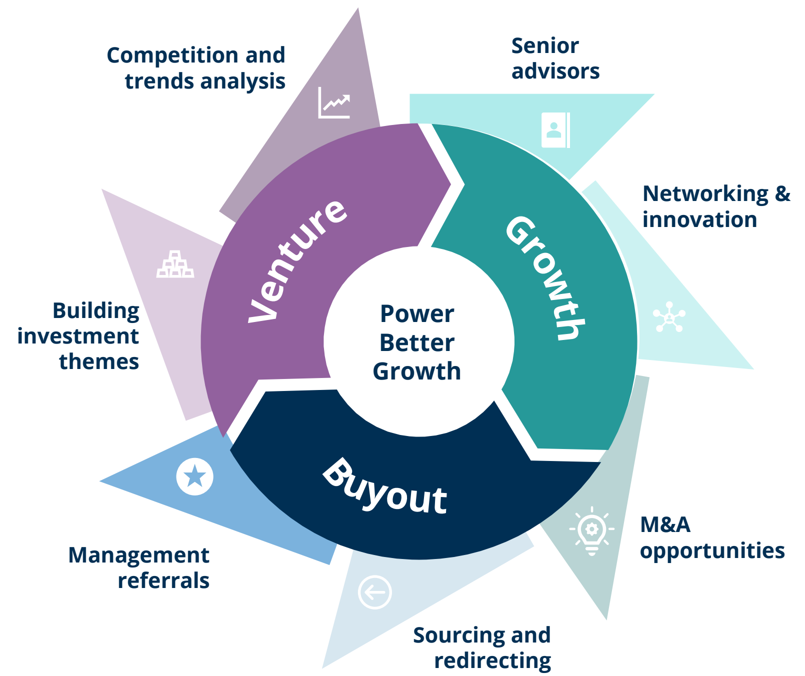
2 STRENGTH AND BREADTH OF TEAM AND SENIOR ADVISORS

Strong bench of senior advisors[3] from across the industry, with varied backgrounds and skill sets, provide valuable insights into the market which complement our sourcing, due diligence and value creation strategies.

3 LEVERAGING THE WIDER PORTFOLIO

Portfolio companies and CEOs, as critical elements of the flywheel, help challenge and build convictions through real-life feedback and provide access to their expert network.

EURAZEO INVESTMENT FLYWHEEL



1 Includes all Eurazeo strategies in the respect of any information barriers between potentially conflicting strategies | 2 Based on Mid-large buyout opportunities across all sectors presented to Investment Committee from January 2020 to the end of April 2022 | 3 Eurazeo or portfolio companies may engage and retain senior advisors, senior operating executives, advisors, consultants and other similar professionals ("Senior Advisors") who have longstanding professional relationships with Eurazeo or are senior executives with expertise in our core strategies. These Senior Advisors are not employees or affiliates of Eurazeo and are not an expense of Eurazeo funds. With respect to deal sourcing, robust information barriers between potentially conflicting strategies are effective. The sharing of deal flow information across strategies occurs in dedicated forums for the purpose of sharing valuable deal market intelligence/trends and optimizing deal redirecting capabilities, in the best interests of all Eurazeo clients

LEVERAGING THE FLYWHEEL IN FINANCIAL SERVICES

> Our investment approach is conviction-driven, supported by the significant expertise and networks we have built across the financial services sector and strategies.

Maxime de Bentzmann
Managing Director – Mid-large buyout

INSURANCE SUBSECTOR INVESTMENT THEMES

Insurance is a specific pillar of our Financial Services practice with investments across the value chain from brokers and MGAs to carriers and across subsector, from Life insurance to P&C.

Our integrated investment scope means we can identify and seize opportunities throughout the market. Our conviction today is that leading incumbents, especially in commercial lines, offer growth alongside significant opportunities for tech enhancement. In other segments, namely Life and personal P&C lines, we see opportunities to disrupt, innovate and invent different business models.

EURAZEO FINANCIAL SERVICES INVESTMENT SPECIALIST

28 PROFESSIONALS in financial services[1]

30+ DEALS in financial services[2]

€2.5bn CAPITAL invested[2]

INVESTING IN FINANCIAL SERVICES ACROSS THE LIFE CYCLE

+Simple	yu life	wefox	DESCARTES	albingia	ODEALIM	GROUPE Premium.
Insurance broker	Insurtech	Insurtech	MGA/Insurtech	P&C Carrier	Insurance broker	Broker & Wealth Management

tulipshare, Thought Machine, tink, YOUNITED, planet, Edenred, alma, swile, ppro, Qonto, iM Global Partner.

← VENTURE → ← GROWTH → ← BUYOUT →

1 Includes 10 MDs | 2 Current and exited investments of Venture–Digital, Acceleration-Growth, Mid-large buyout and Small-mid buyout funds

FLYWHEEL

Maxime de Bentzmann
Managing Director – Mid-large buyout

Tara Reeves
Managing Director – Venture

Guillaume d'Audiffret
Managing Director – Growth

INVESTMENT FLYWHEEL IN ACTION

> "We are increasingly building our sector convictions together, sharing what we see and what we know.

Q: What does Eurazeo's investment flywheel mean in practice?

MB: The flywheel refers to the momentum generated by Eurazeo's multifaceted and collaborative investment approach which accelerates sourcing and value-creation. Our end-to-end strategies, spanning all stages of a company lifecycle, and deep sector expertise are critical elements of this flywheel.

GA: Cross-fertilisation across strategies is driven by a culture of collaboration. By actively sharing our research, due diligence, contacts and learnings from specific investments and from senior advisors, we expand our collective knowledge and form strong investment convictions. These convictions guide our group-wide activities and drive further growth.

Q: How does the flywheel translate to Eurazeo's Financial Services ("FS") investments?

MB: Our transversal FS investment teams, across Venture, Growth and Buyout, and interaction between teams are integral to identifying targets or M&A opportunities, regardless of where they originated. For example, we have collaborated closely in actively diligencing cyber insurance and insurance software as opportunities arise across strategies.

The broad range of portfolio companies and senior advisors across FS and wider sector specialisms creates an invaluable pool of qualified opinions which we can consult as required.

Over 80% of the current mid-large portfolio has leveraged the flywheel for value creation. Opportunities for commercial partnerships or business development are regularly explored between portfolio companies like Albingia, Wefox and +Simple.

TR: Our "innovation lab", a platform to connect CEOs, is a key part of the flywheel which fosters partnerships and creates mutual benefits for FS players. This network also presents opportunities for cross-selling; our overarching position allow us to identify the products and services of one company which are relevant for the wider portfolio.

Furthermore, our portfolio network and relationships with management teams enable us to make appropriate talent referrals which support companies' continued growth. We actively monitor and accelerate the use of the flywheel to drive positive results.

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EURAZEO'S FLYWHEEL IN ACTION

Technology & Data: disruption versus enablement

Technology and data shaping the industry's future with different impacts across the value chain

TECH&DATA

HOW TECHNOLOGY AND DATA ARE SHAPING THE INDUSTRY'S FUTURE

More than any other industry, data is at the core of insurance. Despite the industry being relatively slow to adapt, new ways of collecting and leveraging data are accelerating the role of technology throughout the value chain and making players more relevant.

HOW MUCH CAN DISTRIBUTION BE DIGITISED?

In distribution, as for other asset light segments, data and digitisation can increase access to customers and improve risk selection. For straightforward, personal line risks there is greater threat of disruption whereas for more complex risks, where there is still need for advice, enhanced data is an enabler which adds value (especially for niche segments).

MORE AND MORE UNDERWRITING DATA

In underwriting, leaders with years of valuable data are exploiting technology to reinforce their position and build even stronger barriers to entry, as Albingia are doing. Brokers and MGAs are increasingly investing in data to differentiate themselves and offer value. For new risks, being smart in how to create and use data is also enabling new winners to emerge, such as Descartes Underwriting.

OPPORTUNITIES FOR FURTHER OPERATIONAL IMPROVEMENTS

Some digitisation of operational processes can also save costs and improve carriers' profitability. Failing to capture and analyse data, or losing ground versus upstream and downstream players in the value chain, will seriously challenge all players' relevance and long-term success.

“The impact of technology and data is radically different according to segment, risk and customer type. It could mean full disruption for one segment or incremental improvement for another.

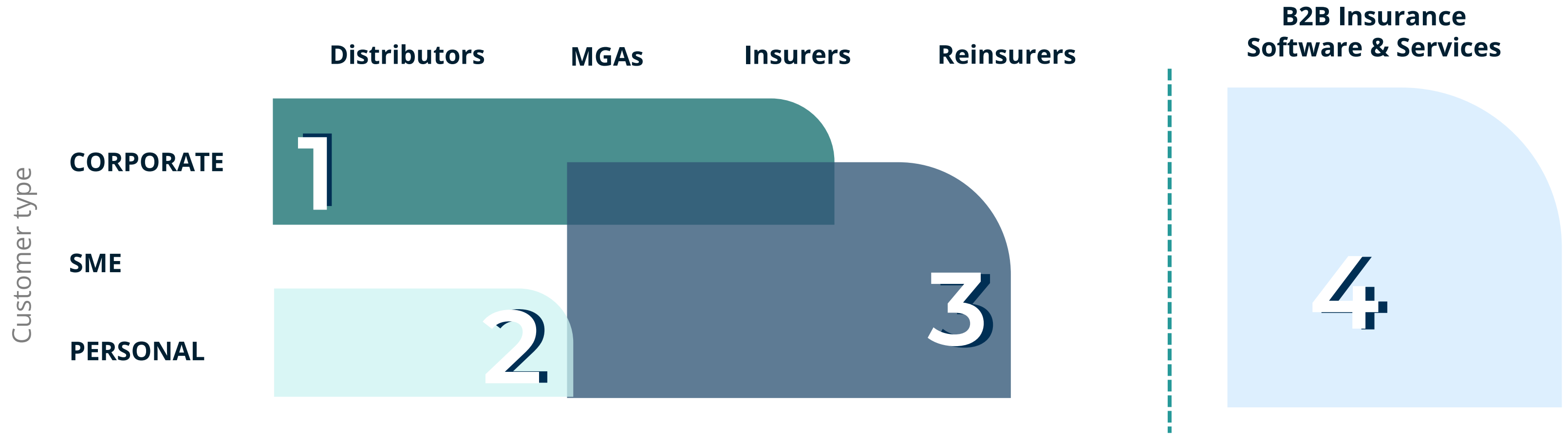
Tara Reeves
Managing Director - Venture

ATTRACTIVE RISK/RETURN PROFILES SHAPED BY DIFFERING ROLES OF TECH & DATA

WE HAVE IDENTIFIED FOUR POCKETS OF VALUE

Our investment flywheel has helped us to identify four distinct pockets of value across the insurance sector, shaped in large part by the different impact of technology and data that we see across segments.

These pockets of value guide our sourcing, due diligence and ongoing value-creation activities across industry players and their B2B software and services.



EURAZEO

POCKETS OF VALUE ACROSS THE CHAIN

POCKET 1

Segment leaders in commercial P&C harnessing tech to strengthen positions

POCKET 2

Digital distributors in personal lines offering disruptive growth opportunities

POCKET 3

Underwriters leveraging tech & data to augment performance and cover new risks

POCKET 4

B2B software and services streamlining business operations and supporting carrier and underwriter margins

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SEGMENT LEADERS IN COMMERCIAL P&C HARNESSING TECH & DATA TO STRENGTHEN POSITIONS

We see significant value in existing commercial P&C leaders who occupy well-established positions in stable value chains and have the opportunity to use technology and data as a catalyst to reinforce their strength.

NON-STANDARD RISKS DEMANDING TAILORED ADVICE

Commercial P&C risks are more complex and heterogeneous than those in personal insurance, demanding specialist advice and advanced underwriting skills. Incumbents also have the benefit of valuable historic data to drive accurate underwriting decisions.

STRONG AND STABLE CLIENT NETWORKS

Established client networks and the continuing importance of brand reputation and trust in commercial lines make it harder for new entrants to compete. The tailored nature of commercial insurance creates limited near-term risk to the traditional broker/agent and insurer relationship.

LEVERAGING TECH TO ACCELERATE LEADERSHIP

Data and technology, acquired through M&A, partnerships or internally generated, are enablers for existing players which can consolidate leadership positions and accelerate growth. Technologies can improve customer journeys, underwriting performance and operational efficiency.

ALBINGIA : COMMERCIAL P&C LEADER WITH STRONG FUNDAMENTALS

albingia
vous assurer avec talent

A Eurazeo portfolio company within the Buyout fund
EURAZEO

The only independent insurer in the French P&C insurance commercial lines which provides a range of insurance products to cover complex risks, specifically construction and property risks.

NON-STANDARD, COMPLEX RISKS

- Machines & equipment
- Construction
- Property multi-risk & Technical
- Civil liability

LONG-TERM BROKER RELATIONSHIPS AND POWERFUL NETWORK

>3,500
ACTIVE BROKERS

> Reactivity, agility and proximity are at the heart of our model and our partner relationships. Digitisation is a way to further enhance our capabilities and empower our teams even more.

Valentine de Lasteyrie
CEO, Albingia

Case studies presented herein are for illustrative purposes only, have been selected in order to provide examples of the types of investments made by Eurazeo and do not purport to be a complete list thereof. It should not be assumed that investments made in the future will be comparable in quality or performance to the investments described herein.| Source: Eurazeo

DIGITAL DISTRIBUTORS IN PERSONAL LINES OFFERING DISRUPTIVE GROWTH OPPORTUNITIES

Insurtech has greater potential to disrupt distribution in personal lines insurance. The low complexity, high volume market with limited price differentiation creates relatively low barriers to entry.

STANDARD RISKS OFFERING OPPORTUNITES FOR DIGITISATION

Standardised policies for personal lines such as motor and domestic property allow for more direct, online distribution and systematic underwriting.

GREATER PREVALENCE OF INNOVATIVE DIRECT-TO-CONSUMER MODELS

The lower complexity and higher-volume market of personal lines insurance favours distribution via more direct and innovative channels such as Price Comparison Websites (PCWs) and embedded models (see next page).

WEAKENING BRAND LOYALTY TO TRADITIONAL INSURERS

Individuals are increasingly willing to purchase insurance from insurtechs and bigtech companies with technological advances driving consumers' increased demand for simplicity, transparency and speed in their insurance transactions.

$140bn

TRADITIONAL INSURANCE REVENUES
likely to be displaced by digital distribution[1]

CONSUMERS VALUE DIGITAL OFFERING AND CHOICE ABOVE HISTORIC INTERACTION

Survey shows that a digital offering and product choice overtake discounts and previous interactions as the most important factors behind insurance selection[2]

2018	2021
#1 Competitive price	#1 Competitive price
#2 Discount offers	#2 Product variety – **NEW**
#3 Prior interactions	#3 Product expertise – **NEW**
#4 Brand name	#4 Digital offering - **NEW**

CONSUMERS INCREASINGLY OPEN TO INSURANCE COVERAGE FROM NEW-AGE DIGITAL PLAYERS

17% OF CUSTOMERS in 2016 → **50%** OF CUSTOMERS in 2021[3]

open to insurance from new-age digital players

1 Accenture, Insurance Revenue Landscape 2025: Innovate for Resilience, April 2021 | 2 PwC, Next in insurance: Top insurance industry issues in 2022, PwC 2021 survey of 6,000 insurance customers | 3 Capgemini and Efma, World InsurTech Report 2021: Providing CARE with the right partners | There can be no assurance that any expected trends or developments will continue or that Eurazeo will be able to implement its investment strategy or achieve its investment objectives

DIGITAL DISTRIBUTORS IN PERSONAL LINES OFFERING DISRUPTIVE GROWTH OPPORTUNITIES

Distribution has attracted the majority of insurtech funding and it continues to represent a major priority for investors.

Investor appetite reflects the highly fragmented and high cost nature of distribution and the accelerated digitisation which has presented value-creation opportunities.

INNOVATIVE DIRECT-TO-CONSUMER MODELS

PCWs AND MOBILE APPS PROVIDING VALUABLE DATA FOR PERSONALISATION AND BEHAVIOURAL ANALYSIS

Digital distribution channels such as web-based platforms, mobile apps and PCWs prioritise user experience and provide insights which feed directly into underwriting models and performance.

Distribution disruption enables cross-selling, acquisition cost reduction and can target niche markets to drive value.

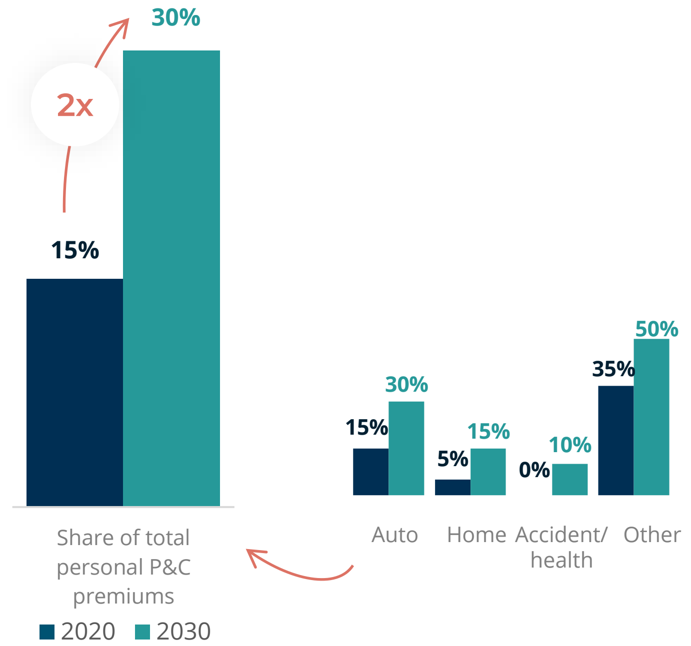
EMBEDDED INSURANCE MEETING CUSTOMERS WHERE THEY ARE, REDUCING FRICTION AND INCREASING CONVERSION RATES

By embedding insurance in a customer's buying journey e.g. travel insurance offered when purchasing flights, insurers can leverage the strength of a partner's brand identity and lower distribution costs. Such models, accelerated by digitisation, also create new revenue streams for retailers.

As this model combines the purchase of insurance with the product associated with the underlying risk, it could also help narrow the global insurance protection gap.

SHARE OF EMBEDDED INSURANCE PREMIUM EXPECTED TO DOUBLE BY 2030[1]

Percentage of Gross Written Premiums, across various lines, accounted for by McKinsey's measure of "ecosystem" premiums (from insurance policies originated via the key stakeholders or a particular sectorial ecosystem, such as auto dealers, travel agents, electronics resellers etc.)



1 McKinsey, State of property & casualty insurance 2020. McKinsey defines an ecosystem is defined as an interconnected set of services (or products) that allows users to fulfil a variety of needs in one seamless experience. | There can be no assurance that any expected trends or developments will continue or that Eurazeo will be able to implement its investment strategy or achieve its investment objectives

UNDERWRITERS LEVERAGING TECH & DATA TO AUGMENT PERFORMANCE AND COVER NEW RISKS

New technologies can act as an enabler to carriers and MGAs by improving underwriting performance.

It is estimated that front-line underwriters spend 40% of their time on manual processes[1]. Tech therefore has an enabling role where it can speed up decision making, allowing underwriters to spend more time on value-additive activities such as advisory and complex risk assessments.

Artificial intelligence (AI) and machine learning solutions, which enable computer systems to perform complex tasks such as learning, problem-solving, reasoning and perception, are refining the underwriting process for insurers.

40%

UNDERWRITER TIME SPENT ON MANUAL TASKS[1]

DESCARTES UNDERWRITING : GLOBAL MGA LEVERAGING AI TO PROVIDE TAILORED UNDERWRITING SOLUTIONS

Descartes Underwriting is a global insurtech MGA which leverages AI to provide bespoke parametric insurance solutions for climate and emerging risks to corporate and public sector clients.[2]

USE OF SATELLITE TECHNOLOGY, AI & IoT

Enabling more comprehensive assessment of the potential impact of catastrophic events and faster identification and reaction once they have occurred.

PARAMETRIC POTENTIAL

Technology has widened data sources and allowed P&C parametric insurance to expand into new risk areas, increasing the addressable market and providing premium growth.

Descartes' use of technology enhances the accuracy of risk assessment, improving P&C pricing and underwriting performance.

NO LOSS ADJUSTMENT

As payout amounts are predetermined there is no need for a loss adjustment process and administrative costs are lower than for traditional policies.

DESCARTES

A Eurazeo portfolio company within the Growth fund

EURAZEO

"For Descartes, tech-enabled parametric insurance has expanded the universe of insurable risks and provided a superior claims experience. From a distribution perspective, Descartes was able to reach clients on all continents from day one by leveraging the existing value chain.

Guillaume d'Audiffret
Managing Director - Growth

1 Accenture and The Institutes, 2021 P&C Underwriting Survey, October 2021 | 2 Source: Eurazeo | Case studies presented herein are for illustrative purposes only, have been selected in order to provide examples of the types of investments made by Eurazeo and do not purport to be a complete list thereof. It should not be assumed that investments made in the future will be comparable in quality or performance to the investments described herein

UNDERWRITERS LEVERAGING TECH & DATA TO AUGMENT PERFORMANCE AND COVER NEW RISKS

DATA EXPANSION FROM IoT DRIVING MORE ACCURATE RISK AND PREMIUM ALIGNMENT

Examples include motor insurers now using driver behaviour and vehicle usage data to set more precise premiums than from relying purely on indirect indicators such as the driver's age and creditworthiness.

In Life & Health, insurers may obtain a more comprehensive risk assessment by tracking predictive data variables via fitness wearables and social media than by relying on historical health records alone.

Tech-driven data expansion is arguably most beneficial for the pricing of emerging risks e.g. cyber where incumbents do not have the advantage of sizeable historic data records.

INTERNET OF THINGS (IoT)

The digitally connected universe of everyday physical devices

27 BILLION CONNECTED DEVICES FORECAST BY 2025[1]

From 12 billion in 2021

YULIFE: LIFE INSURANCE MGA REWARDING HEALTHY HABITS

YuLife, founded in 2016, is a UK-based life insurance MGA. YuLife offers policies B2B2C via employers and rewards customers for leading healthy lives. Policies are underwritten by AIG.

yu life

A Eurazeo portfolio company within the Venture fund

EURAZEO

D2C VIA YULIFE APP

YuLife creates a direct channel to customers via the YuLife app – traditionally, this relationship did not exist beyond the HR department.

GAMIFICATION

The YuLife app gamifies insurance, offering steps and meditation challenges to increase user engagement and encourage healthy habits.

The app connects to external sources such as Apple Health and Google Fit to collect activity data and rewards employees for daily challenges.

POTENTIAL TO ENHANCE UNDERWRITING RESULTS

Data from the YuLife app may ultimately improve underwriting decisions and reduce the number of critical illness claims by rewarding healthy habits.

Employee data can also feed into the development and marketing of other profitable products (as employees are the ultimate policyholder for many types of insurance).

60%

OF COVERED EMPLOYEES PARTICIPATE IN THE YULIFE APP[2]

36%

OF COVERED EMPLOYEES USE THE APP DAILY[2]

1 IoT Analytics, State of IoT 2022: Number of connected IoT devices | 2 YuLife website as of 30th June 2022 | Case studies presented herein are for illustrative purposes only, have been selected in order to provide examples of the types of investments made by Eurazeo and do not purport to be a complete list thereof. It should not be assumed that investments made in the future will be comparable in quality or performance to the investments described herein

4 B2B SOFTWARE AND SERVICES STREAMLINING BUSINESS OPERATIONS AND SUPPORTING CARRIER AND UNDERWRITER MARGINS

AI REVOLUTIONISING CLAIMS PROCESS TO SAVE TIME AND REDUCE ERROR

Whilst most claims handling in commercial lines will always require an element of human intervention (as a result of non-standard risks), some automation via digital tools will enable handlers to work more effectively and significantly reduce costs.

AI can enable almost instantaneous damage assessment of some assets, removing the need for human appraisers. It can also help combat fraudulent claims (estimated to represent 10% of claims in Europe). Anti-fraud technology is a critical part of improving insurers' efficiency and profitability.

Improving the claims management process through a hybrid approach which responds to consumers' desire for both virtual and human interaction can transform user experience and help insurers gain and retain customers.

€13bn PER YEAR

COST OF EUROPEAN INSURANCE FRAUD[1]

AI ESTIMATION TRANSFORMING CUSTOMER EXPERIENCE

TRACTABLE

Tractable: UK-based insurtech which develops AI for visual assessment, using photos to automate motor and property damage appraisal.

Computer vision can improve accuracy, reduce turnaround time and deliver a smoother customer experience.

ANTI-FRAUD TECH CUTTING COSTS

SHIFT

Shift Technology: Insurtech using AI to spot abnormalities in claims data and identify false information with high degree of accuracy.

Alerts generated by the tool supply claims handlers with key fraud indicators, enabling them to make more informed, data-driven decisions.

SMART CONTRACTS CUTTING COSTS BY TRIGGERING PAYOUT WHEN PRE-DEFINED RULES ARE MET

Additional advantages include reduced settlement times and a transparent claims pay-out mechanism which reduces disagreements between parties and could limit fraud as everyone can see changes made to a contract.

Growth in smart contracts may, however, pose problems from a legal and data privacy perspective. As records on blockchain are immutable, smart contracts may make it difficult to comply with GDPR provisions relating to the use of sensitive data, such as the right to be forgotten and data erasure[2].

> Smart contracts, enabled by blockchain, will undoubtedly transform the insurance world.

Tara Reeves
Managing Director - Venture

1 Insurance Europe, Insurance fraud: not a victimless crime, November 2019 |2 EIOPA Discussion paper on blockchain and smart contracts in insurance, 2021

EURAZEO

EURAZEO’S FLYWHEEL IN ACTION

How the Full-Stack frenzy might destroy value

Distributors should have a closer look at the downside of taking an insurance licence and associated risk

WHERE IS THIS FRENZY COMING FROM?

The full-stack trend, initiated for commercial and strategic reasons by distributors, has been enabled by capital availability in private equity as well as an increasing need for reinsurers to go direct.

ACCELERATING FULL-STACK TREND

In addition to de novo full-stack insurers, there has been growing interest among MGAs and insurtech distributors in acquiring insurance licences to become "full-stack" carriers which take risk on their balance sheets.

oscar · wefox · Seyna. · Lemonade · Acheel · luko · alan · marshmallow · hippo · cfc · FRI:DAY · Root Insurance · ZEGO · convex

UNDERSUPPLY OF INSURER CAPITAL

NEW PLAYERS IN NEED OF CAPITAL BUT TOO FEW AGILE INSURERS WILLING TO COMMIT

- New entrants need insurers' backing to support product innovation and digital distribution and fear incumbents may lack the risk appetite required and the agility to onboard new distribution platforms quickly.

ABUNDANCE OF NEW SOURCES OF CAPITAL

INCREASING APPETITE FROM PRIVATE EQUITY AND REINSURERS

- Growth equity and venture capital are supporting an increasing number of companies to move "full-stack".
- Reinsurers are more willing to go direct, put their capital at risk and push new distributors to jump in the balance sheet pool, squeezing out insurers.

"Some full-stack adopters have hoped to **secure capacity, capture margin share and gain more control and agility on product design and pricing.** Despite sustained losses, players are often supported by reinsurers keen to get closer to the original risk and get hold of extensive data sets to tip the power balance away from traditional insurers.

Eric Mignot
Chairman and Founder
+Simple

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SECURING CAPACITY, TEMPTING BUT RISKIER THAN ANTICIPATED

While the shift to full-stack has been gaining traction, many adopters have struggled with profitability. We believe there are fundamental reasons why the full-stack path could be slippery and require an agile, well-mastered model to deliver returns.

1 THE ILLUSION OF ECONOMICS

LIMITED ACTUAL MARGIN UPLIFT

While full-stack players hope to capture significant margin uplift (c.50%), the incremental gain is ultimately limited by the impact of holding additional capital, critical size and underwriting maturity (partially reflected in insurers' loss ratios).

RISK OF SHIFTING VALUATION FOCUS TO BOOK VALUE AND RETURN ON EQUITY

Increasing capital intensity - unless marginal vs. fee-related earnings - triggers a clear cash trap risk, increasing the need for capital raises (hence dilution) or reduced distribution.

We estimate shifting from a EBITDA/cash-flow type valuation to a book value/RoE valuation can reduce an asset's exit value by 30-40%[1].

2 DISTRIBUTORS VS. CARRIERS: A CLASH OF CULTURES

CORPORATE AND CULTURAL SHIFTS

Radically different corporate culture and structures required when shifting to full-stack model; carriers are risk and capital focused whereas distributors are measured on customer experience and agility.

UNDERWRITING STRENGTH AS KEY

Underwriting capacity and profitability are essential to thrive as full-stack players; for insurtech with little track record or experience the challenge is significant.

> "From consumer to capital, there is always a temptation for players to try and control a larger part of the value chain yet spreading themselves too thin.

Emmanuel Clarke
Senior advisor

c.85%

DROP IN SHARE PRICE OF SELECTED US FULL-STACK PLAYERS[2]
in last 12 months vs. -13% on NASDAQ[2]

1 Based on Eurazeo analysis assuming 100% integration of distributor margin and a change of valuation framework based on RoE and Price / Book Value regression |2 Average share price movement of selected full stack players including Lemonade, Root and Hippo insurance year to date (YTD) to 30 June 2022 vs Nasdaq over same period

FULL-STACK

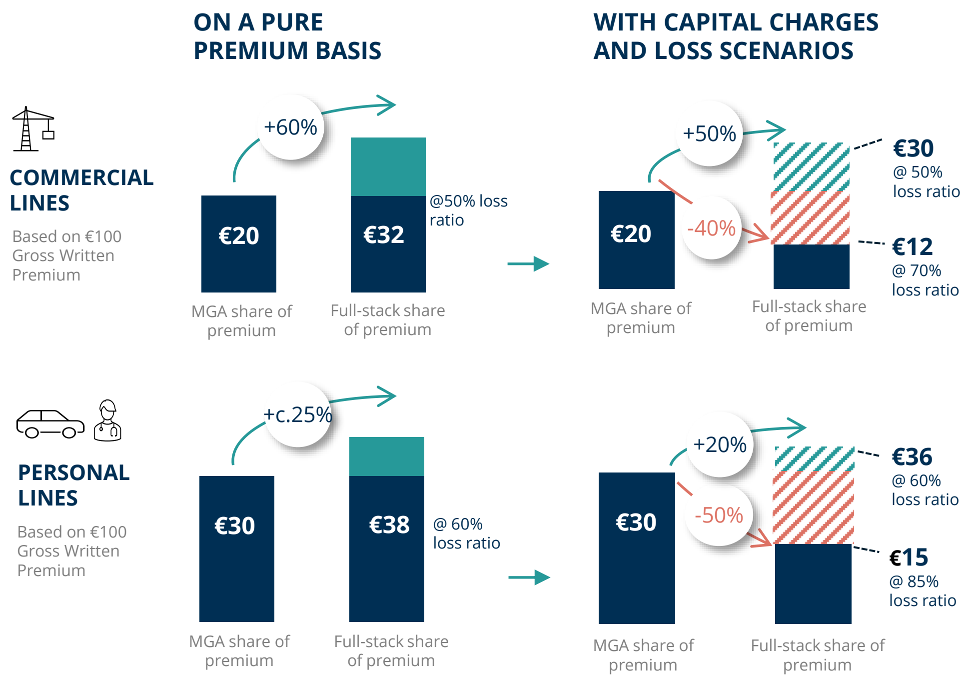
THE ILLUSION OF ECONOMICS: CAPITAL CHARGE AND UNDERWRITING PERFORMANCE LIMITING FULL-STACK RETURNS

> The promise of significant margin uplift is challenged when incorporating the cost of capital and loss ratio scenarios. Underwriting results of young full-stack companies demonstrate the difficulty of controlling loss ratios.

Maxime de Bentzmann
Managing Director – Mid-large buyout

LIMITED NET REVENUE UPLIFT ON MOVING TO FULL-STACK[1]

Premium captured by moving from a distributor/MGA model to full-stack carrier is eroded by regulatory capital costs and higher loss ratios



EURAZEO ANALYSIS OF FULL-STACK MARGIN PICK UP

An illustration of a specialty P&C insurance value chain suggests MGAs could gain over a 50% increase in premium share versus a distributor-only model.

The same example in Personal Lines would offer a 25% increase. While less significant than our Commercial Specialty example, it remains a healthy uplift.

However, when incorporating the cost of capital, lack of critical size - offering leverage and capital diversification to the largest insurers - and importantly the underwriting maturity reflected in loss ratios, this move can yield more modest benefits and even bring heavy losses.

This analysis focuses on revenue; it does not emphasise the cost of being subscale from an expense point of view. The negative valuation impact is also not reflected in this analysis.

1 Net revenue share of premium is post-claims and before insurer expenses. Loss ratios reflect typical ranges across commercial and personal lines, based on Eurazeo assumptions regarding MGA and distributor commission, expense ratio, loss ratio and capital charges

FULL-STACK

2

DISTRIBUTORS VS. CARRIERS: A CLASH OF CULTURES

CORPORATE AND CULTURAL SHIFTS REQUIRED TO BRIDGE DISTRIBUTOR AND CARRIER FUNCTION

There are significant differences in the culture, workforce and structure required to run a successful carrier vs MGA or broker.

Carriers, as heavily regulated entities, are built around risk and capital management whereas MGAs and distributors focus on customer experience and go-to-market agility.

Operational processes vary greatly between the two functions as do the skills profile and incentive structure associated with sales-oriented versus risk-focused teams. The key role of the Chief Risk Officer (CRO) and the increasing importance of risk as a discipline, prompted by the financial crisis and growth in risk-based capital regimes, demonstrate the disparity between the two functions.

UNDERWRITING STRENGTH AND CAPACITY AS PRE-REQUISITES

Insurtechs founded on distribution must be confident of being able to underwrite business profitably before contemplating a full-stack model if they hope to capture meaningful margin.

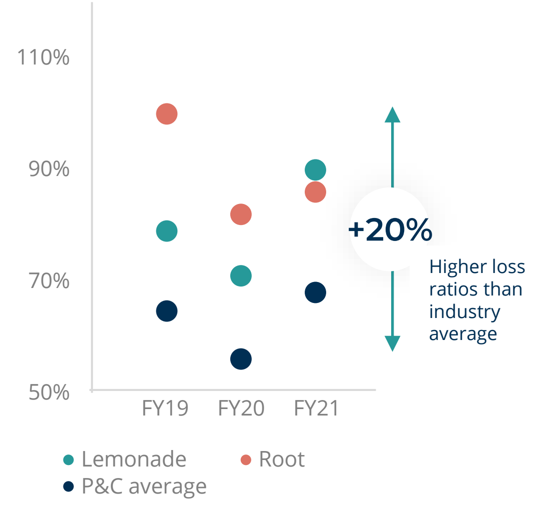
Well-known insurtech carriers have yet to deliver robust loss and combined ratios. Lemonade and Root's loss ratios remain stubbornly high and well above the wider US P&C industry.

Limited geographic diversity and demographics of most insurtechs can limit profitability, making it difficult for new full-stacks to achieve any real margin uplift.

While insurtechs argue that their results can be improved through innovative technologies and data analysis, the top performing and most proactive incumbents are arguably as well positioned as insurtechs to achieve this.

PERSISTENTLY HIGH INSURTECH LOSS RATIOS

Gross loss ratios for insurtech carriers Lemonade and Root remain high compared with the wider market[1]



1 Source: Lemonade and Root public filings used as benchmark based on Eurazeo assumptions. P&C average source: S&P Global Market Intelligence, Insurtech rooting out causes of high loss ratio, 29 March 2022

HOW TO PLAY FULL-STACK: THE CASE FOR AGILE BALANCE SHEET MODELS

Despite the challenges, there are some "smart" ways of adopting a risk carrier role.

Going full-stack can be a viable method of diversifying capacity rather than purely replacing it. First and foremost, however, it requires stabilised underwriting results both to avoid realising further material losses and to attract capital. Furthermore, net risk exposure must remain marginal (<10%) and commission-based revenues must still represent the vast majority (>80%) of business models in order to avoid shifting to a different valuation world.

The greatest benefits of this move are undoubtedly smart capacity management and the ability to support growth in a cost-effective way as opposed to purely integrating margin.

SUCCESSFUL STRATEGIES COULD CAPITALISE CARRIERS WITH THIRD-PARTY FUNDS AND MAKE THE FULL-STACK ROUTE AN OPPORTUNITY TO SOURCE DIFFERENT FORMS OF CAPITAL

REINSURANCE TO MAXIMISE BALANCE SHEET ROTATION

A mixture of reinsurance solutions can enable top-line growth without a commensurate increase in regulatory capital requirements, easing the "capital drag" effect which is particularly punitive to high growth insurers.

CAPITAL-LIGHT MODELS TO ALLEVIATE COSTS

One model is Lloyd's "Syndicate in a Box" (SiaB), for insurers offering new business, which has lower barriers to entry than traditional syndicates. Advantages include less onerous reporting requirements and a lower initial capital charge relative to risks written.

CAPITAL MARKETS AS ALTERNATIVE SOURCE OF CAPITAL

Alternative/non-insurance capital e.g. catastrophe bonds and insurance-linked securities (ILS) enable insurers to benefit from investor appetite for insurance risk, providing capacity for ongoing underwriting and growth investments.

"Wefox's partial integration model has afforded us control of underwriting terms, speed and a testing ground for new products. We are able to cede a large portion of the risk to reinsurers driven by our smart underwriting to stay capital light

Julian Teicke
CEO, Wefox
wefox

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EURAZEO’S FLYWHEEL IN ACTION

Senior advisor interview

Deep senior advisor network supporting the flywheel

Emmanuel Clarke

DEEP SENIOR ADVISOR NETWORK SUPPORTING THE FLYWHEEL

Emmanuel Clarke

Mr. Clarke has had a long and distinguished career in the insurance industry, having spent more than twenty-five years at PartnerRe, most recently serving as President and Chief Executive Officer.

Mr. Clarke serves on various boards, including the Board of Directors of Compre Group, Intact Financial Corporation, Wakam and Tremor Technologies.

Q: Given your breadth of experience across the industry, which trends excite you most regarding the future of insurance?

A: There are three trends that I find fascinating and that I believe will shape the insurance industry going forward:

Firstly, I am absolutely convinced that data and technology will become key differentiators between outperformers and the rest, driving value through enhanced and new forms of distribution, superior underwriting and operational efficiency. Digitisation will enable the sector to respond to evolving consumer expectations and make insurance more efficient. This next decade in insurance will be about data and technology and small, agile players may have a real advantage over large, global corporate insurers with heavy legacy and distribution challenges.

Secondly, I see a growing fragmentation of the insurance value chain, with players focusing on specific parts along the chain, from digital distribution all the way down to legacy portfolio writing. There is real value in focusing on one part and being the best at it, as opposed to trying to control as many parts of the chain as possible yet not being good at any of them. From consumer to capital, there is always a temptation for players to try and control a larger part of the chain, providing this illusion of greater control, yet spreading themselves thin across the value chain. I see some digital distributors trying to set up insurance licences to better control their capacity, or reinsurers trying to go down the chain by becoming insurers. Such a bridge is always more complex that it first looks, and its complexity is largely underestimated. Instead, I believe being outstanding in your own specific piece of the value chain will give you full control of your destiny.

Finally, I believe Embedded insurance, enabled by tech, is the model which is gaining real momentum. This is the corollary of the transition from a society of ownership to one of usage. In addition, increased digitisation of consumers and expectations for seamless customer experience makes the insurance purchase one that needs to "form part" of the consumers' experience.

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SENIOR ADVISOR INTERVIEW

Emmanuel Clarke

"Achieving success across the value chain is far more difficult than excelling in one area alone.

Q: There is an emerging trend for distributors to adopt a "full-stack" balance sheet integration model - is this a good idea?

A: It may look a good idea – at least on paper – to provide better control of their capacity and protect them against a potential capacity contraction that would be critical to their business. However my view is that there are a number of challenges that are often underestimated: first, the complexity of running a regulated entity requires resources, experience and expenses; second, it will ultimately lead to more onerous cost of capital than what carriers or reinsurers can provide thanks to their well-diversified portfolios; third, it brings management complexity by trying to bring under the same roof such different cultures as distribution and risk management; and finally it brings significant additional operational and assumed risk.

Ultimately, I would argue that distributing insurance or developing supporting technology require a very different mindset, culture and skills base than those needed to manage an insurance company with the associated compliance, governance and risk capital pressures.

Achieving success across the value chain is far more difficult than excelling in one area alone.

Q: Of all the reasons to move full-stack, which is the most compelling?

A: Relevant reasons include greater control of underwriting terms, enhanced speed in product development and new market launches and the derisking of external carrier relationships.

I think that the success stories will largely come from those players with proven superiority in underwriting who are growing quickly and need flexible and responsive capacity.

The winners will undoubtedly be those who can leverage tech and data effectively to drive profitable underwriting and reduce operating costs.

Q: Do you see any smart methods of full-stack integration?

A: Players can certainly capitalise on new forms of capital entering the insurance space providing alternative capacity.

Some MGAs are establishing their own syndicate, backed partly by their own capital alongside pension, asset management, insurance-linked securities funds and reinsurers. Such vehicle creates optionality around access to capital and greater security over long-term capacity.

The credit industry is an interesting example where some fintechs such as Younited, the leader in instant credit, have been early developers of asset-light models which insurers can look to adopt.

Partial integration may be appropriate for some agents, namely those which have proven underwriting ability, data analysis capabilities and advanced capital management skills.

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EURAZEO FINANCIAL SERVICES FLYWHEEL

EXPERTISE ACROSS THE COMPANY LIFECYCLE

5 GLOBAL
INVESTMENT OFFICES


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Managing Director


Eric Sondag
Managing Director


Pierre Meignen
Managing Director


Benjamin Hara
Managing Director


Guillaume d'Audiffret
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Tara Reeves
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Nicolas Debock
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Justin Schlegel
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Fabian Piira
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Félicité du Pasquier
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Mid-large buyout | Small-mid buyout | Growth | Venture

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