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Recent Trends in Mergers and Acquisitions

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Agenda

- Intermediary sector
- Underwriting sector
- Run-Off sector
- Investors

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Many deals, less value

- Most active sector in terms of transaction volumes: reflects unconsolidated market
- There was a gradual decline in the value of transactions and brokerage multiples until 2005
- Then a significant upward shift in multiples
- High transactional activity is expected

Intermediary Sector Underwriting Sector Run-Off Sector Investors

Current level of activity

- 3,500 broking firms remain in the UK
- Many owners are ageing and looking for an exit
- Published transaction volumes for 2001-2006 represented less than 2% of this total

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Main drivers of corporate activity

- Well capitalised consolidators in a hurry
- Insurers buying distribution
- Regulatory pressure
- Cost and commission drivers

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Barriers to corporate activity

- Pipeline in consolidators
- Difficulty in merging cultures
- Regulatory challenges

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Fewer but larger transactions

- Significantly lower volumes than intermediaries
- Aggregated value of deals is much higher

Intermediary Sector | Underwriting Sector | Run-Off Sector | Investors

Main drivers of corporate activity

- Softening market
- Pressure to cut costs
- The search for diversification
- London and Bermuda: the dumb-bell model
- Geographical and portfolio expansion
- Specialism vs scale

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Barriers to corporate activity

- Capital constraints
- Legacy Issues
  - Reserving uncertainty and long tail business
  - Technology
  - Pensions, staff and occupancy costs

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A growth area for M&A

- Increasing value of transactions
- US$2.5 billion of transactions in 2005
- Substantial market: total liabilities just for Lloyd's syndicates in run-off post 1993 > £7billion
- Closed life funds: the two models
- Non-life run-off: the two models

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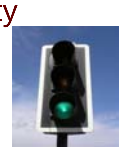
Main drivers of corporate activity



- Increasing asset returns
- Pressure on cost base
- Regulatory pressure
- Diversification
- …. and geographical spread just starting

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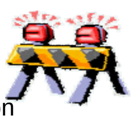
Barriers to corporate activity



- Demonstrating value from consolidation
- Exit solutions technology
- Difficulties for start-ups

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What attracts private equity and non-trade capital into the insurance sector?

- Stable earnings
- Strong management (when it is!)
- Non-transparency
- Non-correlation of earnings with other sectors

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What are the deterrents to private equity and non-trade investment in the insurance sector?

- Earnings volatility in the underwriting sector
- Limited growth opportunities
- A lack of exit routes

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Buyers

- Non-trade buyers have been showing increasing interest in the sector
- Trade deals remain substantially in the majority
- Is credit squeeze impacting?

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Questions and discussion

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