

# Insurance Industry Focus

## Freeman & Co. LLC

### Inside this Issue:

|   |       |
|---|-------|
| 2009 Year in Review   | p. 2  |
| General Account Management and Insurer-Owned Asset Managers | p. 3  |
| Capital Markets Innovations: Longevity Solutions            | p. 4  |
| Insurance Technology: Electronic 'Exchange' Initiatives     | P. 5  |
| Insurance Brokerage & EB Trends                             | p. 6  |
| 2009 M&A Activity   | p. 7  |
| 2009 Private Equity Activity                                | p. 8  |
| Public Comps  | P. 9  |
| Historical Valuation Multiples                              | p. 10 |

## Back from the Brink

### Global Insurers Have Survived - No Imminent Deaths on the Horizon

2009 came to a close with what feels like the beginnings of a tailwind for life insurers, P&C insurers and reinsurers both in the U.S. and abroad. For example, insurance groups that Freeman & Co. tracks in the U.S. saw stock prices appreciate in 2009 on average by 13.2% for life insurers, 6.0% for P&C insurers and 9.6% for reinsurers (see table below). Valuations, however, remain depressed across the board as we show in our historical valuation multiples on page 10.

The U.S. life insurance industry has come a very long way since the most difficult moments of the credit crisis. A few short quarters ago the government was taking over AIG, and the ACLI had approached the TARP program in Q4 '08 with its hat in hand requesting \$90 billion in capital to be used to stave off the possibility of large scale insolvencies across the industry.

While the U.S. life insurance industry is doing much better, there are several key trends that will continue to challenge the life insurance industry in 2010 including:

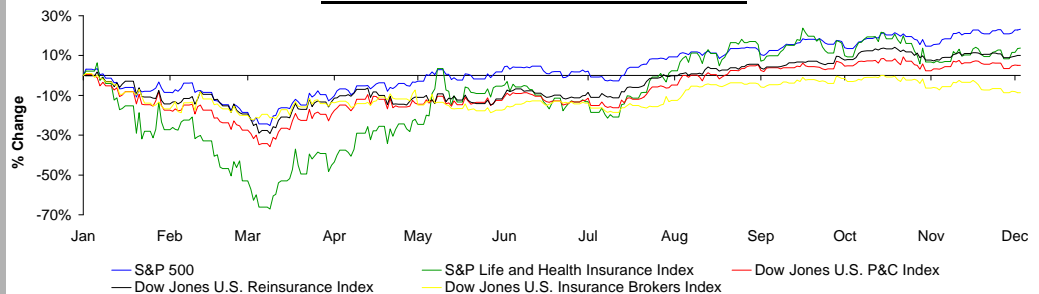
- Regulatory and Capital Requirements
- Ratings Agency Actions
- General Account portfolio management and asset performance

In this report we also review some of the key trends in insurance brokerage, insurance technology, and insurance M&A in 2009 with an eye to future developments in 2010.

### Indices at January 12, 2010

| Index / Metric               | Value  |
|------------------------------|--------|
| DJIA                         | 10,627 |
| NASDAQ                       | 2,282  |
| S&P 500                      | 1,136  |
| FTSE 100                     | 5,499  |
| Nikkei                       | 10,879 |
| DJ US Select Insurance Index | 3,067  |
| USD per GBP                  | \$1.62 |
| USD per Euro                 | \$1.45 |

### 2009 U.S. Insurer Stock Performance



|                               |                   |                       |  |
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# 2009 Year in Review: Effects on the Insurance Industry

## Regulatory and Capital Requirements

The world undoubtedly got a serious lesson in fair value accounting in 2009. The Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (FAS) 157 defines "fair value" measured according to GAAP accounting principles as, "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

In 2009, it seemed that Statutory Accounting rules saved the day by providing some runway for life carriers to deal with their balance sheet problems involving both general account assets (OTTI) as well as the treatment of liabilities (actuarial vs. mark to market).

However, in 2010 life insurers may now have to pay the "Statutory Accounting Piper" in a manner of speaking, when it comes to both AG43 and C-3 Phase II requirements.

The American Academy of Actuaries ([www.actuary.org](http://www.actuary.org)) states that AG43 applies to variable deferred annuity products subject to the Commissioner's Annuity Reserve Valuation Method (CARVM) whether or not they include Guaranteed Living Benefits (GLBs) or Guaranteed Minimum Death Benefits (GMDBs), and that C-3 Phase II applies to individual Variable Annuity products whether or not they include GLBs or GMDBs, though the C-3 phase II requirements that will be applied to equity indexed annuities (EIAs) may not be active in 2010.

The impact of these capital and reserving requirements will likely drive M&A activity for several U.S. life insurance carriers in 2010 which may include alternative capital raising activities such as selling closed blocks, divesting

non-core assets or business segments, and streamlining back office and IT functions. Finally, with AG43 increasing reserve requirements and having a "grade in" period, life insurers may be seeking surplus relief by increasingly focusing on offshore reinsurance solutions to help with their growing capital issues.

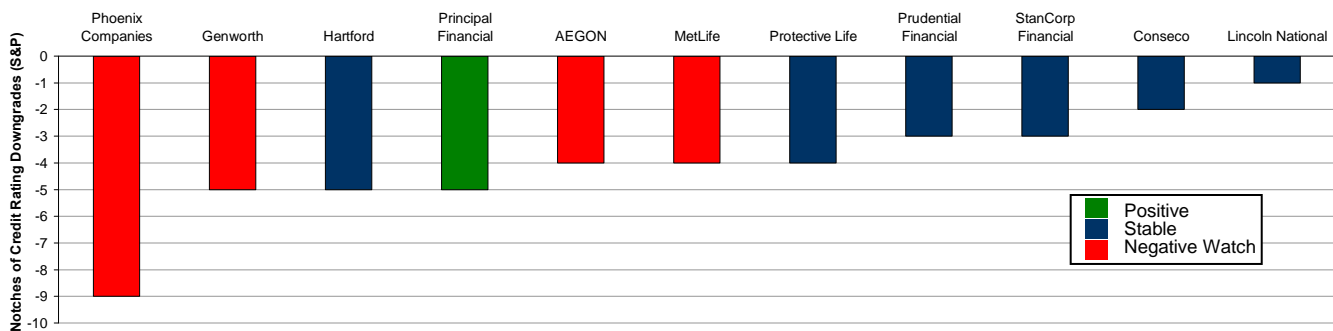
## Ratings Agency Actions

Insurance carriers have more than just capital and regulatory requirements to worry about in 2010. The chart below shows recent ratings activity through Q4 '09. The level of ratings downgrades has slowed since the peak of the credit crisis, but history has often shown the ratings agencies to be "lagging indicators."

For example, on February 14, 2008, A.M. Best reported that "domestic life and retirement services subsidiaries" of AIG have obtained a financial strength rating of A (or Superior) with negative implications. While it's fairly easy to editorialize on past insurance ratings with the benefit of hindsight, it is anyone's guess to how soon the ratings agencies will view the financial strength ratings of insurers with an eye toward positive implications and ultimately toward ratings upgrades.

Unfortunately for the many U.S. life carriers that were already struggling with balance sheet issues, they will now also have to contend with negative ratings agency actions that occurred in 2008-09. In the near term, negative ratings will continue to impact both new business volumes as well as lapse rates on existing blocks. However, our view is that as the industry continues to raise capital and market conditions improve in 2010, the ratings outlook will improve across the board.

**Ratings Downgrades of Major Life Insurers<sup>(1)</sup>**



| Insurer S&P Rating | Phoenix Companies | Genworth | Hartford | Principal Financial | AEGON | MetLife | Protective Life | Prudential Financial | StanCorp Financial | Conseco | Lincoln National |
|--------------------|-------------------|----------|----------|---------------------|-------|---------|-----------------|----------------------|--------------------|---------|------------------|
| 2008 Q1            | A-                | AA-      | AA-      | AA                  | AA    | AA      | AA              | AA                   | AA-                | B+      | AA-              |
| 2009 Q4            | B-                | BBB      | BBB      | BBB+                | A-    | A-      | A-              | A                    | A-                 | B-      | A-               |

(1) Each decrease of rating level is a drop of 1 point; As of 12/15/09

Sources: Bloomberg, Public filings

## General Account Management and Insurer-Owned Asset Managers

### General Account Portfolio Management and Asset Performance

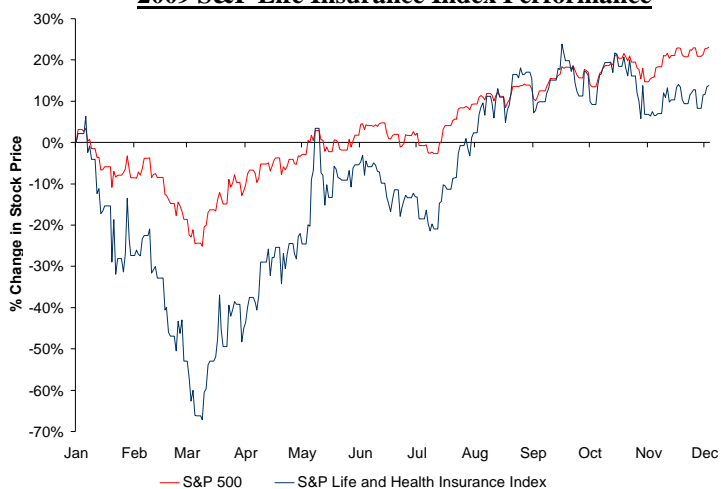
In Freeman & Co.'s Insurance Industry Focus report dated January 2009, we highlighted several asset management companies that were owned by insurance carrier parents. We believe that consolidation in the asset management segment of the insurance industry will continue in terms of both M&A mandates as well as outsourcing initiatives.

The credit crisis clearly put several insurers who were reaching for yield through structured credit plays and riskier fixed income securities on the defensive in 2008-09. A few insurance carriers, and some notable money management firms that handle general account assets for insurers, were able to side step the landmines embedded within selected CDOs, CDO-squared, emerging market debt and sub-prime mortgages.

In 2010, we believe that insurers will take a hard look at their core competencies in order to assess whether or not they are properly set up to both sell insurance products and manage their portfolios going forward.

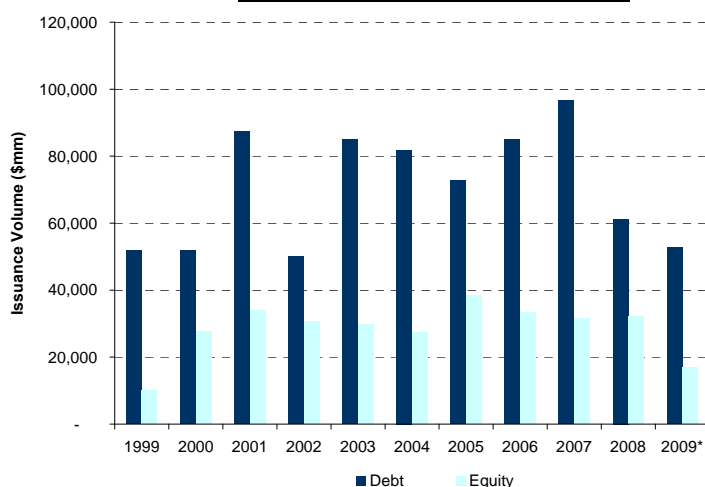
Freeman & Co. believes that an increasing number of insurance companies will outsource general account functions to specialty money management firms with deep expertise in both repositioning fixed income portfolios and asset liability matching (ALM). Additionally private equity activity in the insurance asset management sector picked up during the second half of 2009, a trend that we expect will continue in 2010.

### 2009 S&P Life Insurance Index Performance



S&P Life Index: AFL, DFG, LNC, MET, PFG, PL, PLFE, PRU, SFG, TMK, UNM

### Insurance Carrier Capital Raising



### Asset Management Affiliates of Select Life Insurance Firms

| Asset Manager                 | Parent Insurer       | 9/30/08 AUM (\$ bn) | 9/30/09 AUM (\$ bn) | % Change | Investment Product Focus             |
|-------------------------------|----------------------|---------------------|---------------------|----------|--------------------------------------|
| 40/86 Advisors                | Conseco              | 24.6                | 19.3                | -21.5%   | Fixed Income                         |
| Babson Capital Management     | MassMutual           | 99.3                | 112.5               | 13.3%    | Fixed Income, Alternatives           |
| Dwight Asset Management       | Old Mutual           | 73.5                | 69.3                | -5.7%    | Fixed Income                         |
| Fort Washington Inv. Advisors | Western & Southern   | 26.8                | 29.0                | 8.2%     | Fixed Income                         |
| Genworth Wealth Management    | Genworth Financial   | 18.7                | 18.0                | -3.6%    | Equities, Fixed Income, Alternatives |
| Hartford Inv. Management      | Hartford Financial   | 385.0               | 387.0               | 0.5%     | Equities, Fixed Income, Alternatives |
| MFC Global Inv. Management    | Manulife Financial   | 363.6               | 406.9               | 11.9%    | Equities, Fixed Income               |
| MFS Inv. Management           | Sun Life             | 156.3               | 175.0               | 12.0%    | Equities, Fixed Income, Alternatives |
| Opus Inv. Management          | Hanover              | 7.3                 | 6.7                 | -8.2%    | Fixed Income                         |
| Principal Global Investors    | Principal Financial  | 218.1               | 206.1               | -5.5%    | Equities, Fixed Income, Alternatives |
| Prudential Financial          | Prudential Insurance | 421.5               | 443.9               | 5.3%     | Fixed Income, Alternatives           |
| Transamerica Inv. Management  | AEGON                | 18.2                | 14.6                | -19.8%   | Equities, Fixed Income               |

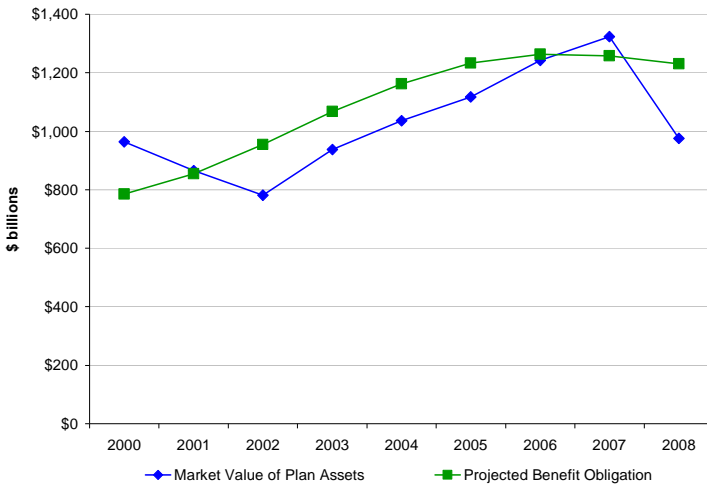
Note: Alternatives include leveraged loans, real estate, private equity, and CDOs

Sources: Company Websites, Nelson's

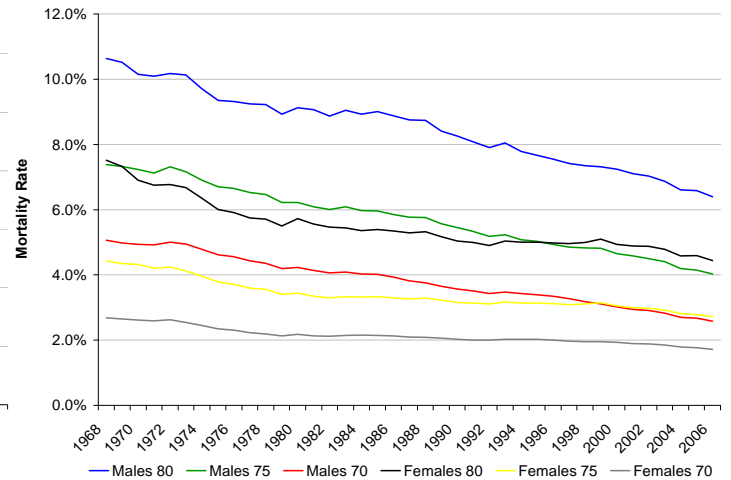
# Capital Markets Innovations: Longevity Solutions

The trend of continuously escalating life expectancies has made longevity risk increasingly important to annuity writers and defined benefit pension plan providers. Capital markets innovations are poised to expand to help these firms manage their longevity exposure.

**Plan Assets and Liabilities of 100 U.S. Public Companies with the Largest Defined Benefit Pension Assets**



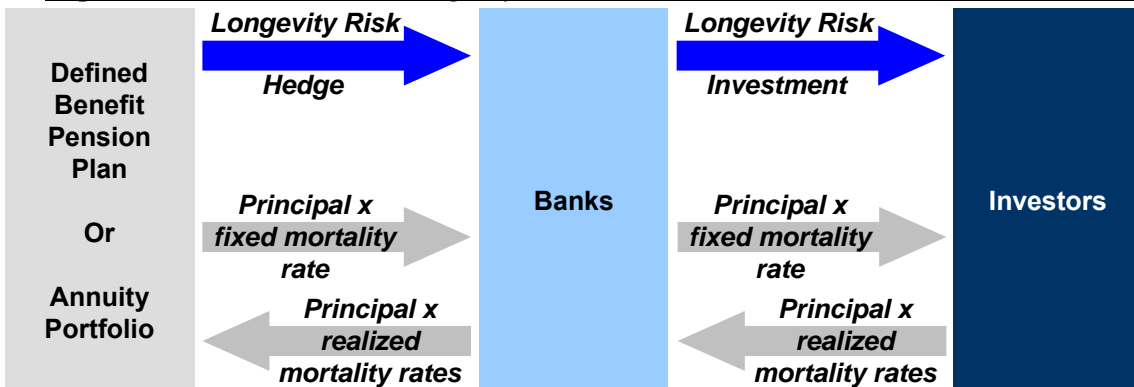
**U.S. Male and Female Mortality Rates**



Pension schemes can transfer all of their assets and liabilities to a third party in a full buy-out. Although most pension providers are considering a full buy-out in the long run, in an economy where buy-out companies have been severely impacted by the credit crisis and are reassessing risk and charging higher one time premiums, full buy-outs have become less affordable. In such a market, financial institutions may seek innovative alternatives such as longevity swaps. A longevity swap can be an alternative to, or a stepping stone for, a buy-out transaction. By entering into a longevity swap agreement, the pension schemes can manage the risk of increasing life duration by exchanging fixed longevity for realized longevity for a predetermined period of time. Pension providers pay a series of fixed defined payments and receive from the counterparty the actual floating payments to pay to the pensioners or annuitants. Longevity risk is thus transferred to the counterparty, typically a life insurer prone to mortality risk or an investor who wants to earn a premium by holding an uncorrelated risk.

Unlike buy-outs, longevity swaps do not require one-off large transfers of capital and allow the providers to retain control of scheme assets. In a market where asset values are still depressed and capital is still expensive, longevity swaps are projected to attract more interest as a complementary solution to buy-outs in managing longevity risk.

**Capital Markets Can Transfer Longevity Risk to Financial Investors in Return for a Risk Premium**



**• Pension Plans:**

- Hedge longevity risk
- Cede plan assets in return for liability insurance

**• Banks:**

- Provide liquidity
- Credit intermediation
- Structuring

**• Investors:**

- Earn a risk premium from an uncorrelated asset

Source: Milliman

## Insurance Technology: Electronic ‘Exchange’ Initiatives

Freeman & Co. has a long history of advising and consulting in the exchange space and has been watching related developments in the insurance world over the past decade focused on transitioning the industry from paper-based to electronic transactions. Real success has so far proven to be a relatively elusive goal, but Freeman believes that the potential benefits of increased efficiency<sup>1</sup> and reduced costs<sup>1</sup> will prove of increasing relevance in a post credit crisis world focused on preservation of profits. Several new impressive looking initiatives have been launched in 2009 that are focused primarily on creating a common messaging system that allows for the electronic codification of explicit, standardized information rather than the creation of an actual insurance ‘exchange’.

Historically, despite significant investment in many similar initiatives, most were unable to gain traction in the marketplace. This failure was in part due to a too narrow conceptualization of information as well as resistance to change on both firm and individual employee levels. Also early ventures challenged the broking community rather than worked with them which proved a mistake. Several of the early launch firms have however gained traction (such as CATEX, RI3K, and eReinsure.com) but primarily as back-office technology tools.

In 2009, three major initiatives – Lloyd’s Exchange, the Rüşchlikon Initiative, and Qatarlyst - were launched to help ensure that ACORD-standard messages become an industry standard for Reinsurance and Large Corporate (RLC) transactions as part of a larger push towards electronically automating the entire placement and settlement process. Each offers a promising new take on the erstwhile challenges of electronic transaction processing. We will continue to watch as these ‘exchanges’ develop and believe that there may be a strong case for outsourcing companies and traditional stock exchanges to enter this market as it develops over time.

### Timeline of Electronic Exchange Initiatives

|      |   |
|------|---|
| 1996 | CATEX launched (ISDN version)   |
| 1998 | CATEX launches internet-based exchange  |
| 1999 | EIRiX launched, dotRisk founded   |
| 2000 | Inreon launched, City3K launched (renamed RI3K Ltd.)  |
| 2001 | ReWay, eReinsure.com, Risk2Risk, Reinsurer.com, and MyReinsurance.com launched; Risk Transfer Exchange and ReWay acquired by Inreon   |
| 2002 | Lloyd’s of London launch project Blue Mountain (renamed Kinnect); dotRisk closed down   |
| 2003 | Inreon closed down  |
| 2005 | Lloyd’s Kinnect unprofitable and closed down  |
| 2006 | RI3K and Xchanging announce launch of “London Market Electronic Insurance Exchange” (FELIX)   |
| 2009 | Lloyd’s and IBM announce launch of Lloyd’s Exchange; Aon Benfield, Munich Re, Scor, Swiss Re, Willis and SWIFT announce Rüşchlikon Initiative; Qatar Insurance Services announces launch of Qatarlyst |

Source: Freeman & Co.

### Overview of Recent Electronic Exchange Initiatives

| Name                  | Sponsors   | Focus   | Comments  |
|-----------------------|--|---|---|
| Lloyd’s Exchange      | Lloyds of London, IBM                                  | <ul style="list-style-type: none"> <li>Initial quotation and placing phase of insurance processes</li> <li>Aimed at London market with scope to expand</li> </ul> | <ul style="list-style-type: none"> <li>Pilot launched in May 2009</li> <li>Current efforts dedicated to ‘proving the concept’ and limited to messaging</li> <li>Designed to support trading platforms such as RI3K and TIW</li> </ul> |
| Rüşchlikon Initiative | Aon Benfield, Munich Re, Scor, Swiss Re, Willis, SWIFT | <ul style="list-style-type: none"> <li>Accounting and settlement phases of reinsurance process (post-binding)</li> <li>Global in scope</li> </ul>                 | <ul style="list-style-type: none"> <li>Pilot launched in April 2009</li> <li>Initial focus on messaging envisioned to grow to include validation, matching and pairing, and netting</li> </ul>  |
| Qatarlyst             | Qatar Financial Centre Authority                       | <ul style="list-style-type: none"> <li>End-to-end process from quotation and placing through to binding transactions</li> </ul>                                   | <ul style="list-style-type: none"> <li>Pilot launched in June 2009</li> <li>Plan to incorporate claims and accounting information</li> </ul>  |

(1) It is estimated by Insurance Insider magazine that 37.5% of policies processed annually by top 10 brokers have had to be reprocessed due to keying errors

Source: Freeman & Co.

## Insurance Brokerage & EB Trends

### 2009: Year in Review

Despite a weak economy, a difficult pricing environment and global interest rate declines, the global insurance brokerage and employee benefits segments generally coped well with the challenges of 2009. What profits were earned, however, were almost always hard fought and often the result of cost cutting and/or diligent restructuring and integration initiatives. Those hit hardest by the recent credit crisis were the serial consolidators that generally languished under higher than desirable debt levels. In the UK where consolidators were particularly hyperactive players before the crisis, nearly all hit the brakes hard in 2009: Towergate's owners injected new capital as it rearranged its banking covenants with 23 lenders, Oval raised money from RSA, and Giles, Jelf, and Bluefin almost stopped buying companies altogether as they felt their way through the testing environment.

One ray of light during the year was the slight mellowing of regulatory temperament towards insurance brokerage firms. This was first seen in the FSA's decision not to introduce mandatory commission disclosures (although it did ask for more transparency over intermediary chains) and then subsequently in the state of Illinois' decision to allow Arthur J. Gallagher to once again use retail contingent commissions. While it is unclear whether other state regulators will also change their stance on contingent commissions or whether brokers will adopt them, these small steps have provided a much needed morale boost.

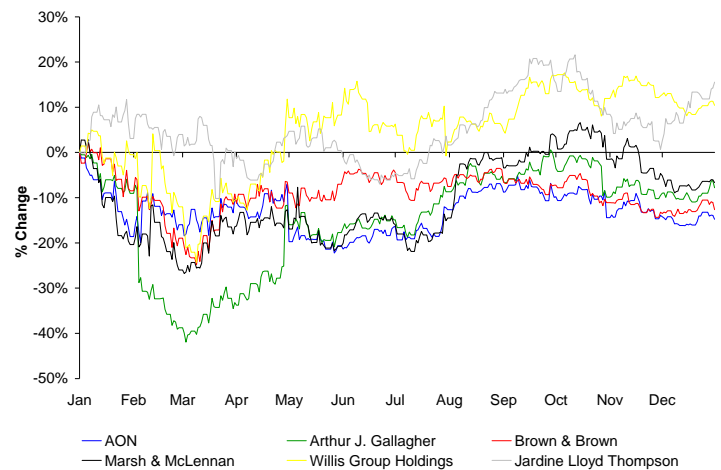
### The Trouble with Soft Market Pricing

Despite forecasts to the contrary, P&C pricing continued to soften in 2009 resulting in pressure on commissions and a challenging environment for organic growth for brokers worldwide. Worse yet, there have been few if any signs of possible hardening in 2010. Such stabilization has remained elusive in large part due to the P&C sector mostly emerging from the credit crisis in good shape (AIG excluded!) as well as the lack of any significant catastrophic events in 2009. In consequence, many insurers had to be mindful of both market share and profit rather than pure profit. Add to this a significant reduction in demand for insurance products by both corporations and individuals looking to cut back expenses and you get a market environment described by Joe Plumeri, CEO of Willis, in Willis' third quarter earnings conference call as the "worst possible circumstances, worst possible economy" for insurance pricing. Against a backdrop of diminished future reserve releases, lower investment income and the expected recessionary impact on claims costs, profitable underwriting will increasingly be the top priority for insurers in 2010, and with it should return a better commission environment for brokerages.

### Significant Consolidation in 2010 May be Led by Mega Brokers

Looking forward into 2010, there appears to be significant potential for a wave of consolidation amongst small-to-medium sized brokerages. According to Hales & Co., there are over 18,000 retail and wholesale brokerages and agencies (P&C and EB) in the U.S. alone, many of which are owned by baby boomers who will need an exit strategy yet still want to play some role in the business. Fragmentation, albeit on a smaller scale, is also an issue in the UK and Continental Europe. Many of these firms will have attractive performance as regional and specialty brokerages have selectively outperformed general full-service brokerage models over the past few years. In addition, there are a number of insurance broking subsidiaries of larger financial institutions that will come up for sale as parent companies refocus on core markets. While we certainly expect there to be a significant amount of intra-segment mergers, we also believe that while the consolidators pause there exists an excellent opportunity for the large brokers to enhance their middle-market business and compensate for the lack of organic growth. Indeed several large brokers have expressed appetite for such transactions and some believe that large insurers could purchase up to 30-40% of the independent agent market in the next three to four years.

### 2009 Insurance Brokerage Stock Performance



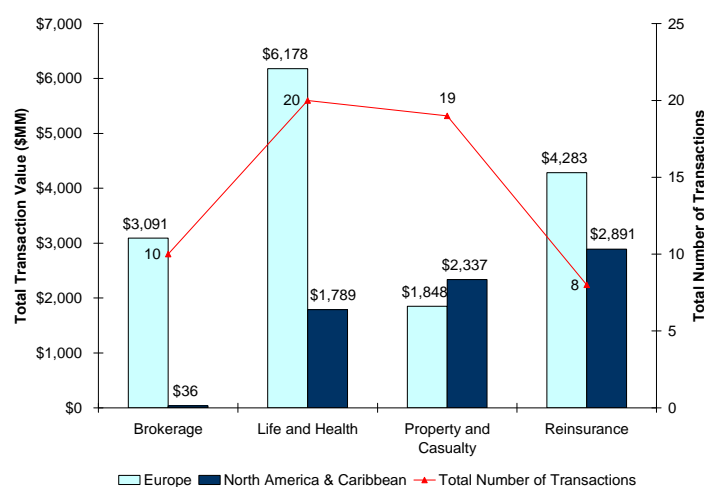
## 2009 M&A Activity

### Divestitures Galore in Q4

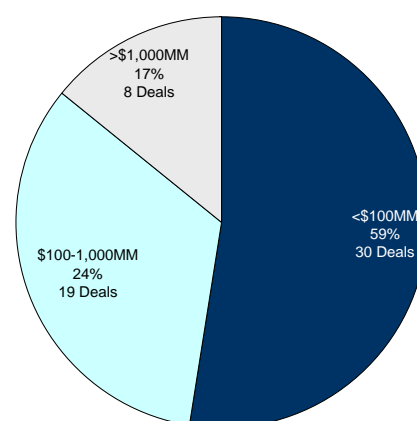
M&A activity among North American and European insurers was down markedly in 2009 as compared to 2008, and the year was characterized by a significantly higher proportion of divestitures. In fact, every major deal in Q4 involved a parent exiting businesses deemed to be non-core. Some examples of this include Rattner Mackenzie, a brokerage subsidiary of U.S.-based P&C carrier HCC, and HSBC's insurance brokerage business, that both found a home in mega-brokerage Marsh & McLennan.

Other divestitures were executed by stressed or distressed parents, many of whom have received government funds but still require additional balance sheet support. Fortis exited its Luxembourg P&C business to pan-European insurance and pension solutions provider Baloise Group; GMAC exited its automotive insurance business to U.S.-based AmTrust Financial; ING sold a small reinsurance carrier to U.S.-based RGA; and HVB sold its remaining stake in multi-line carrier ERGO to Munich Re. While the credit crisis has abated, we expect the restructuring and dismantling trend to continue in 2010 as governments sort through the complexities of the financial institutions that received bailouts over the past year.

### 2009 M&A by Target Geography and Sub-sector



### 2009 M&A by Deal Value



### Notable 2009 Transactions (\$ millions)

| Announce Date | Target                              | Target Country | Acquirer                | Acquirer Country | Amount Acquired | Deal Value | Entity Value |
|---------------|-------------------------------------|----------------|-------------------------|------------------|-----------------|------------|--------------|
| 6/29/2009     | Pearl Group                         | UK             | Liberty Acquisition     | US               | 100%            | 2,631      | 2,631        |
| 2/5/2009      | Swiss Re                            | Switzerland    | Berkshire Hathaway      | US               | 20%             | 2,576      | 12,880       |
| 2/24/2009     | Alleanza Assicurazioni              | Italy          | Assicurazioni Generali  | Italy            | 50%             | 2,301      | 4,639        |
| 4/16/2009     | AIG Auto Insurance                  | US             | Farmers Insurance Group | US               | 100%            | 1,900      | 1,900        |
| 3/8/2009      | Fortis Insurance Belgium SA         | Belgium        | Fortis Bank             | Belgium          | 25%             | 1,739      | 6,956        |
| 7/5/2009      | Paris Re                            | France         | PartnerRe               | Bermuda          | 100%            | 1,986      | 1,986        |
| 9/4/2009      | Odyssey Re Holdings Corp            | US             | Fairfax Financial       | Canada           | 27%             | 1,041      | 3,801        |
| 6/25/2009     | Barclays Vida y Pensiones           | Spain          | CNP Assurances          | France           | 50%             | 822        | 1,644        |
| 7/28/2009     | AIG's premium finance operations    | US             | Wintrust Financial      | US               | 100%            | 680        | 680          |
| 4/16/2009     | Linea Directa Aseguradora           | Spain          | Bankinter               | Spain            | 50%             | 562        | 1,124        |
| 6/2/2009      | Fortis Corporate Insurance          | Netherlands    | Amlin                   | UK               | 100%            | 500        | 500          |
| 6/15/2009     | Lincoln National's UK Life Business | UK             | Sun Life Financial      | Canada           | 100%            | 318        | 318          |
| 1/13/2009     | AIG Life of Canada                  | Canada         | Bank of Montreal        | Canada           | 100%            | 305        | 305          |
| 6/21/2009     | Specialty Underwriters' Alliance    | US             | Tower Group             | US               | 100%            | 107        | 107          |

Note: Transactions include only those in which the acquired company is an insurance firm based in Europe, North America, or the Caribbean and the known deal value exceeds \$10 million. IPOs, share repurchases, and going-private/LBO/MBO transactions are not included

Source: Thomson Financial / Freeman & Co.

## 2009 Private Equity Activity

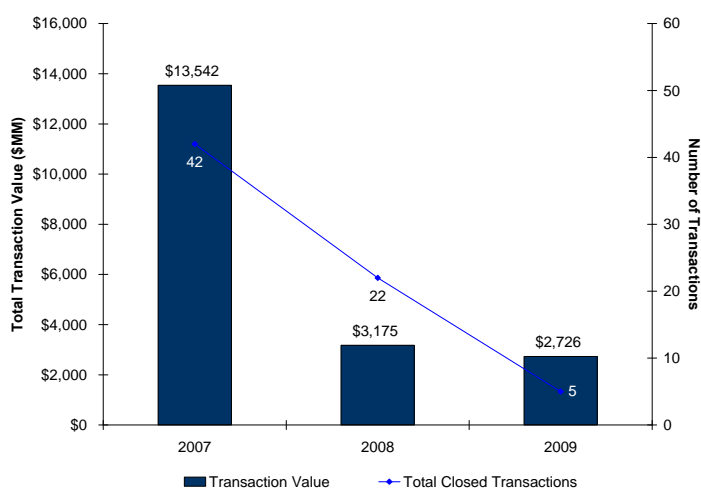
### Stagnation Continues

Insurance-related PE activity has come to a halt over the past two years as compared to the boom years of 2005-2007, when the sector averaged more than \$10 billion in total transaction value per year. The industry's largest deal in the past year was an investor group's exit from Paris Re in its sale to PartnerRe. Another notable deal saw Essent Holdings raise \$500 million in initial capital, led by Pine Brook Road Partners. The proceeds of this private placement are being used to launch a new mortgage insurance company with a clean balance sheet in order to capitalize on dislocation in the market.

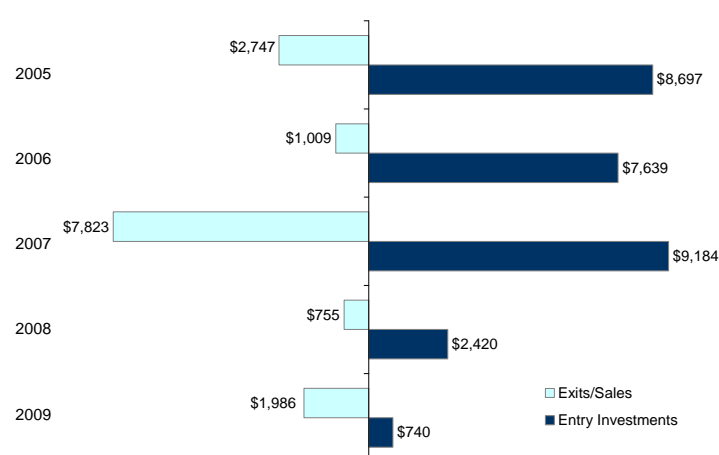
Few other significant investments were made in the past 12 months, but several PE firms managed to exit large positions despite a tough market. Phoenix Equity Partners led the way with the \$300 million sale of Partnership Life Assurance Company to management and Cinven, another private equity firm. Stone Point Capital realized two previous investments by exiting specialty insurer Signal Holdings (\$253 million) and BenefitPort (terms not disclosed). JC Flowers and Metalmark, a subsidiary of Citigroup, also exited their joint investment in auto insurance provider Direct Response Corporation for \$202 million.

PE firms may be holding out for better opportunities in the dislocated insurance sector as under-capitalized firms are forced to divest healthy insurance businesses in order to shore up their balance sheets. In addition, Aquiline's recent purchase of Conning Capital from Swiss Re suggests that PE firms may begin to take advantage of the opportunities presented by cash-hungry insurers seeking to divest their non-balance sheet intensive operations.

**PE Activity in Insurance<sup>(1)</sup>**



**Insurance Entry vs. Exit Deals<sup>(1)</sup>**



**2008 – 2009 PE Activity in Insurance (\$ millions)<sup>(1)</sup>**

| PE Investor   | Portfolio Company                       | Target Country | Close Date | Deal Value | % Acquired or Sold |
|---|---|----------------|------------|------------|--------------------|
| CDP Capital, Stone Point, Vestar, Hellman & Friedman* | Paris Re Holdings Ltd.                  | Switzerland    | 12/7/2009  | 1,986      | 97%                |
| Warburg Pincus  | MBIA Inc                                | US             | 2/13/2008  | 644        | 20%                |
| Pine Brook Road                                       | Essent US Holdings                      | US             | 5/27/2009  | 518        | n/a                |
| Warburg Pincus  | MBIA Inc                                | US             | 1/30/2008  | 499        | 12%                |
| Charterhouse Capital Partners                         | Giles Insurance Brokers Limited         | UK             | 3/3/2008   | 364        | 100%               |
| Phoenix Equity Partners*                              | Partnership Life Assurance Company Ltd. | UK             | 8/5/2008   | 300        | 77%                |
| Stone Point*  | Signal Holdings LLC                     | US             | 10/1/2008  | 253        | n/a                |
| Evercore  | Bollinger Inc.                          | US             | 5/15/2008  | 250        | n/a                |
| JC Flowers, Metalmark*                                | Direct Response Corporation             | US             | 8/29/2008  | 202        | 100%               |
| GTCR  | Ironshore, Inc.                         | Bermuda        | 6/23/2009  | 200        | n/a                |
| Aquiline Capital Partners                             | Conning                                 | US             | 6/16/2009  | n/a        | 100%               |

Note: Asterisks denote exits from investments

Source: (1) Thomson Financial / Freeman & Co.



# Insurance Company Public Comps

## U.S. Insurance Firms

\$ millions

### Reinsurance Company Multiples

| Company Name                  | Market Data |            |            |                  | Summary Financials |            |        | LTM 9/30/2009 Multiples |          |          | 2010E Multiples |          |       |       |
|-------------------------------|-------------|------------|------------|------------------|--------------------|------------|--------|-------------------------|----------|----------|-----------------|----------|-------|-------|
|                               | 1/11/2010   |            | Book Value | Tang. Book Value | LTM 9/30/2009      |            |        | Price / LTM             |          |          | Price / Fwd     |          |       |       |
|                               | Stock Price | Market Cap |            |                  | Revenue            | Net Income | ROE    | BV                      | Tang. BV | Dil. EPS | BV              | Dil. EPS | ROE   |       |
| ACE Limited                   | \$48.24     | \$16,151   | \$18,733   | \$14,961         | \$13,906           | \$1,616    | 10.0%  | 0.9x                    | 1.1x     | 10.0x    | 0.8x            | 6.4x     | 12.7% |       |
| Arch Capital Group Ltd.       | 70.98       | 3,970      | 4,461      | 4,461            | 3,110              | 354        | 9.1%   | 0.9x                    | 0.9x     | 12.5x    | 0.9x            | 7.7x     | 12.3% |       |
| Aspen Insurance Holdings Ltd. | 27.23       | 2,269      | 3,212      | 3,204            | 2,035              | 376        | 12.7%  | 0.7x                    | 0.7x     | 6.1x     | 0.7x            | 7.7x     | 10.0% |       |
| Everest Re Group Ltd.         | 85.32       | 5,118      | 6,085      | 6,085            | 4,040              | 361        | 6.7%   | 0.8x                    | 0.8x     | 14.4x    | 0.7x            | 7.2x     | 10.8% |       |
| RenaissanceRe Holdings Ltd.   | 54.22       | 3,385      | 3,070      | 3,001            | 1,439              | 548        | 20.5%  | 1.1x                    | 1.1x     | 6.1x     | 0.9x            | 6.8x     | 14.9% |       |
| XL Capital Ltd.               | 17.53       | 6,254      | 9,171      | 8,321            | 5,848              | (71)       | (1.0%) | 0.7x                    | 0.8x     | NM       | 0.7x            | 7.2x     | 9.5%  |       |
|                               |             |            |            |                  |                    |            |        | HIGH                    | 1.1x     | 1.1x     | 14.4x           | 0.9x     | 7.7x  | 14.9% |
|                               |             |            |            |                  |                    |            |        | LOW                     | 0.7x     | 0.7x     | 6.1x            | 0.7x     | 6.4x  | 9.5%  |
|                               |             |            |            |                  |                    |            |        | MEDIAN                  | 0.9x     | 0.9x     | 10.0x           | 0.8x     | 7.2x  | 11.6% |
|                               |             |            |            |                  |                    |            |        | MEAN                    | 0.8x     | 0.9x     | 9.8x            | 0.8x     | 7.2x  | 11.7% |

### P&C Insurance Company Multiples

| Company Name                  | Market Data |            |            |                  | Summary Financials |            |       | LTM 9/30/2009 Multiples |          |          | 2010E Multiples |          |         |       |
|-------------------------------|-------------|------------|------------|------------------|--------------------|------------|-------|-------------------------|----------|----------|-----------------|----------|---------|-------|
|                               | 1/11/2010   |            | Book Value | Tang. Book Value | LTM 9/30/2009      |            |       | Price / LTM             |          |          | Price / Fwd     |          |         |       |
|                               | Stock Price | Market Cap |            |                  | Revenue            | Net Income | ROE   | BV                      | Tang. BV | Dil. EPS | BV              | Dil. EPS | ROE     |       |
| American Financial Group Inc. | \$25.39     | \$2,954    | \$3,667    | \$3,397          | \$4,291            | \$409      | 13.9% | 0.8x                    | 0.9x     | 7.2x     | No Est.         | 7.0x     | No Est. |       |
| Assurant Inc.                 | 31.83       | 3,690      | 4,903      | 3,894            | 8,739              | 561        | 13.5% | 0.8x                    | 0.9x     | 6.7x     | 0.7x            | 7.6x     | 9.4%    |       |
| The Chubb Corporation         | 49.68       | 16,802     | 15,518     | 15,051           | 12,592             | 1,895      | 13.2% | 1.1x                    | 1.1x     | 3.1x     | 1.0x            | 9.2x     | 11.8%   |       |
| HCC Insurance Holdings Inc.   | 28.07       | 3,130      | 2,987      | 2,163            | 2,305              | 324        | 11.6% | 1.0x                    | 1.4x     | 9.8x     | 0.9x            | 9.4x     | 10.8%   |       |
| Progressive Corp.             | 17.36       | 11,618     | 5,496      | 5,496            | 14,160             | 912        | 19.3% | 2.1x                    | 2.1x     | 12.8x    | 1.9x            | 11.9x    | 16.3%   |       |
| The Travelers Companies, Inc. | 49.31       | 26,521     | 28,079     | 24,102           | 24,029             | 3,118      | 11.7% | 0.9x                    | 1.1x     | 9.2x     | 0.9x            | 8.8x     | 10.7%   |       |
|                               |             |            |            |                  |                    |            |       | HIGH                    | 2.1x     | 2.1x     | 12.8x           | 1.9x     | 11.9x   | 16.3% |
|                               |             |            |            |                  |                    |            |       | LOW                     | 0.8x     | 0.9x     | 3.1x            | 0.7x     | 7.0x    | 9.4%  |
|                               |             |            |            |                  |                    |            |       | MEDIAN                  | 1.0x     | 1.1x     | 8.2x            | 0.9x     | 9.0x    | 10.8% |
|                               |             |            |            |                  |                    |            |       | MEAN                    | 1.1x     | 1.3x     | 8.1x            | 1.1x     | 9.0x    | 11.8% |

### Life Insurance Company Multiples

| Company Name                        | Market Data |            |            |                  | Summary Financials |            |         | LTM 9/30/2009 Multiples |          |          | 2010E Multiples |          |       |       |
|-------------------------------------|-------------|------------|------------|------------------|--------------------|------------|---------|-------------------------|----------|----------|-----------------|----------|-------|-------|
|                                     | 1/11/2010   |            | Book Value | Tang. Book Value | LTM 9/30/2009      |            |         | Price / LTM             |          |          | Price / Fwd     |          |       |       |
|                                     | Stock Price | Market Cap |            |                  | Revenue            | Net Income | ROE     | BV                      | Tang. BV | Dil. EPS | BV              | Dil. EPS | ROE   |       |
| Conseco Inc.                        | \$5.62      | \$1,381    | \$3,334    | \$3,334          | \$4,329            | \$87       | 3.9%    | 0.4x                    | 0.4x     | 11.9x    | 0.4x            | 8.5x     | 4.8%  |       |
| Genworth Financial Inc.             | 13.54       | 6,429      | 12,417     | 10,132           | 9,237              | (821)      | (8.3%)  | 0.5x                    | 0.6x     | NM       | 0.5x            | 12.7x    | 4.1%  |       |
| Hartford Financial Services Group I | 28.16       | 10,023     | 14,516     | 13,312           | 18,826             | (2,323)    | (22.0%) | 0.7x                    | 0.8x     | NM       | 0.7x            | 7.5x     | 9.0%  |       |
| MetLife, Inc.                       | 38.86       | 31,523     | 34,267     | 29,234           | 42,863             | (1,703)    | (6.3%)  | 0.9x                    | 1.1x     | NM       | 0.9x            | 9.3x     | 10.1% |       |
| Principal Financial Group Inc.      | 26.72       | 8,226      | 7,509      | 6,261            | 8,896              | 402        | 8.8%    | 1.1x                    | 1.3x     | 18.8x    | 1.0x            | 9.7x     | 10.7% |       |
| Protective Life Corp.               | 18.75       | 1,599      | 2,303      | 2,184            | 2,775              | 117        | 8.5%    | 0.7x                    | 0.7x     | 12.4x    | 0.5x            | 6.8x     | 9.1%  |       |
| Phoenix Companies Inc.              | 2.89        | 338        | 1,185      | 1,182            | 1,908              | (637)      | (66.4%) | 0.3x                    | 0.3x     | NM       | 0.3x            | 3.9x     | 6.8%  |       |
| Prudential Financial, Inc.          | 53.99       | 24,819     | 24,298     | 23,588           | 30,995             | (380)      | (2.2%)  | 1.0x                    | 1.1x     | NM       | 0.9x            | 9.7x     | 10.2% |       |
| StanCorp Financial Group Inc.       | 41.20       | 2,040      | 1,801      | 1,712            | 2,720              | 186        | 12.0%   | 1.1x                    | 1.2x     | 10.9x    | 1.0x            | 8.2x     | 13.8% |       |
|                                     |             |            |            |                  |                    |            |         | HIGH                    | 1.1x     | 1.3x     | 18.8x           | 1.0x     | 12.7x | 13.8% |
|                                     |             |            |            |                  |                    |            |         | LOW                     | 0.3x     | 0.3x     | 10.9x           | 0.3x     | 3.9x  | 4.1%  |
|                                     |             |            |            |                  |                    |            |         | MEDIAN                  | 0.7x     | 0.8x     | 12.1x           | 0.7x     | 8.5x  | 9.1%  |
|                                     |             |            |            |                  |                    |            |         | MEAN                    | 0.8x     | 0.8x     | 13.5x           | 0.7x     | 8.5x  | 8.7%  |

## U.S. Brokerage Firms

\$ millions

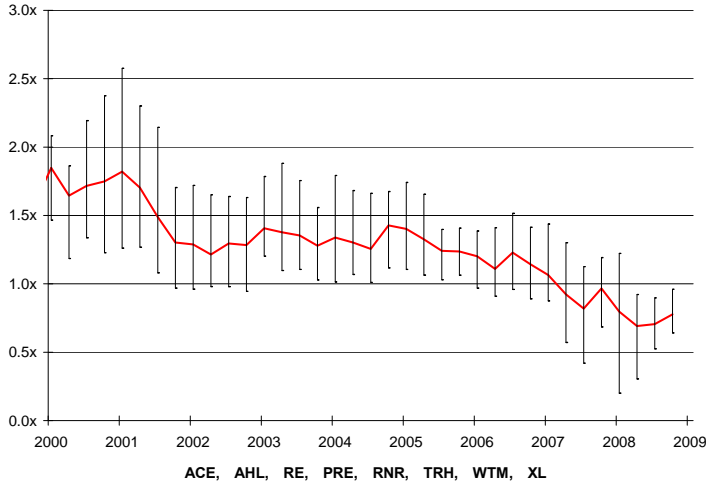
| Company Name                      | Market Data |            |          | Summary Financials |         |            | LTM 9/30/2009 Multiples |        |          | 2010E Forward Multiples |         |          |       |
|-----------------------------------|-------------|------------|----------|--------------------|---------|------------|-------------------------|--------|----------|-------------------------|---------|----------|-------|
|                                   | 1/11/2010   |            |          | LTM 9/30/2009      |         |            | Enterprise Value/       |        |          | Enterprise Value/       |         |          |       |
|                                   | Stock Price | Market Cap | EV       | Revenue            | EBITDA  | Net Income | Revenue                 | EBITDA | Earnings | Revenue                 | EBITDA  | Earnings |       |
| Aon Corporation                   | \$38.13     | \$10,423   | \$11,853 | \$7,467            | \$1,636 | \$910      | 1.6x                    | 7.2x   | 12.1x    | 1.5x                    | 7.5x    | 11.6x    |       |
| Arthur J Gallagher & Co.          | 22.12       | 2,262      | 2,555    | 1,683              | 310     | 125        | 1.5x                    | 8.3x   | 17.5x    | 1.4x                    | 6.9x    | 14.3x    |       |
| Brown & Brown Inc.                | 17.70       | 2,515      | 2,591    | 983                | 347     | 163        | 2.6x                    | 7.5x   | 15.4x    | 2.6x                    | 7.3x    | 14.5x    |       |
| Marsh & McLennan Companies, Inc.  | 21.77       | 11,647     | 13,429   | 10,423             | 1,616   | 675        | 1.3x                    | 8.3x   | 16.8x    | 1.3x                    | 7.2x    | 12.5x    |       |
| National Financial Partners Corp. | 9.26        | 385        | 602      | 970                | 134     | 47         | 0.6x                    | 4.5x   | 8.0x     | 0.6x                    | No Est. | 4.7x     |       |
| Willis Group                      | 27.23       | 4,596      | 6,999    | 3,235              | 866     | 404        | 2.2x                    | 8.1x   | 11.3x    | 2.1x                    | 7.5x    | 10.0x    |       |
|                                   |             |            |          |                    |         |            | HIGH                    | 2.6x   | 8.3x     | 17.5x                   | 2.6x    | 7.5x     | 14.5x |
|                                   |             |            |          |                    |         |            | LOW                     | 0.6x   | 4.5x     | 8.0x                    | 0.6x    | 6.9x     | 4.7x  |
|                                   |             |            |          |                    |         |            | MEDIAN                  | 1.6x   | 7.8x     | 13.8x                   | 1.5x    | 7.3x     | 12.1x |
|                                   |             |            |          |                    |         |            | MEAN                    | 1.6x   | 7.3x     | 13.5x                   | 1.6x    | 7.3x     | 11.3x |

Notes: LTM financials are adjusted for extraordinary and non-recurring items. In cases where a company has an adjusted pre-tax loss, GAAP net income is shown without adjustments.

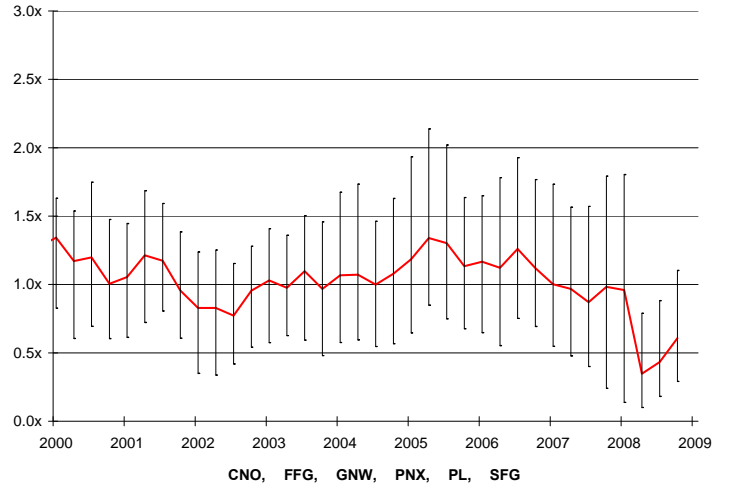
Sources: SEC Filings, Company Presentations, Bloomberg Estimates

# Historical Valuation Multiples

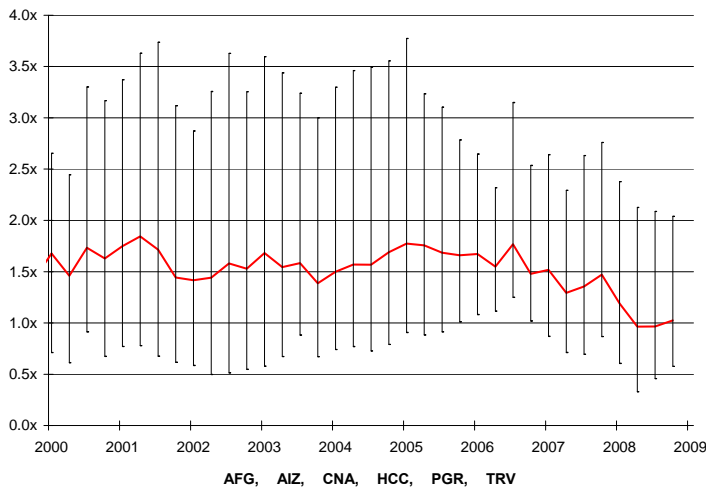
**U.S. Reinsurers' Price/Book Multiples**



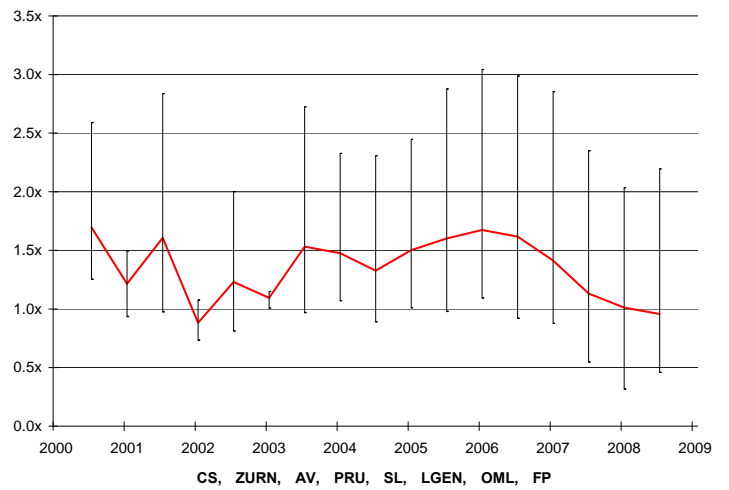
**U.S. Life Insurers' Price/Book Multiples**



**U.S. P&C Insurers' Price/Book Multiples**



**European Multi-Line Insurers' Price/Book Multiples**



Sources: SEC Filings, Company Presentations, Bloomberg Estimates

# Select Freeman & Co. Asset Management and Insurance Deals

US \$4.0 billion AUM



has outsourced the management of its general account to




The undersigned acted as financial advisor to Security Benefit Corporation  
Signed June 2, 2009

Freeman & Co. Securities LLC

GUGGENHEIM

has acquired the U.S. High Yield Fixed Income assets of




HSBC Global Asset Management


The undersigned acted as financial advisor to Guggenheim Partners, LLC  
May 18, 2009

Freeman & Co. Securities LLC

\$30,000,000



has completed a combined \$30,000,000 senior debt and reinsurance transaction with




The undersigned acted as financial advisor to Ullico, Inc.  
December 31, 2008

Freeman & Co. Securities LLC


US \$700 million AUM

**KBC Alpha Asset Management**

A hedge fund of funds division



has been acquired by



The undersigned acted as financial advisor to KBC Financial Products  
Announced December 2, 2008

Freeman & Co. Int. LLP



A wholly owned subsidiary of



has been acquired by



The undersigned acted as financial advisor to The Bank of New York Mellon  
October 2, 2008

Freeman & Co. Securities LLC

US \$8.0 billion AUM



has been acquired for US\$625 million by




The undersigned acted as financial advisor to Lighthouse Investment Partners, LLC  
Signed November 1, 2007

Freeman & Co. Securities LLC


VALUE ASSET MANAGEMENT

has sold its minority stake in Grosvenor Capital Management back to the company




The undersigned acted as financial advisor to Value Asset Management  
October 26, 2007

Freeman & Co. Securities LLC



has acquired



The undersigned acted as financial advisor to KBC Financial Products  
signed June 9, 2007

Freeman & Co. Securities LLC

\$5.5 billion AUM



has sold a minority interest to



Acted as financial advisor to K2 Advisors LLC  
April 30, 2007

Freeman & Co. Securities LLC

\$24 billion AUM




has completed an equity recapitalization sponsored by an undisclosed

**Financial Sponsor**

as provider of financing

The undersigned acted as financial advisor to Ceres Capital Partners  
January 31, 2007

Freeman & Co. Securities LLC



has acquired the assets of

**Mutual Credit Corp.**

The undersigned acted as financial advisor to KBC Financial Products  
November 13, 2006

Freeman & Co. Securities LLC

\$1.7 billion AUM



its holding company



have been acquired by



Acted as financial advisor to Ursa Capital  
September 14, 2006

Freeman & Co. Securities LLC

\$2.8 billion AUM



has acquired



Acted as financial advisor to The Bank of New York  
February 28, 2006

Freeman & Co. Securities LLC

The \$2.8 billion AUM hedge fund of funds




has been acquired by




Acted as financial advisor to Guggenheim Capital  
January 31, 2006

Freeman & Co. Securities LLC


\$1.5 billion AUM acquired



has acquired a controlling interest in



from



Acted as financial advisor to Hamilton Lane  
December 3, 2004

Freeman & Co. Securities LLC

Javelin Fund Limited

The \$890 million AUM hedge fund of funds of




has been acquired by



Acted as financial advisor to Zurich Capital Markets, Inc.  
July 1, 2004

Freeman & Co. Securities LLC


\$1.3 billion AUM



has completed the management buyout of

Zurich Benchmark Series

from



Acted as financial advisor to Zurich Capital Markets, Inc.  
October 16, 2003

Freeman & Co. Securities LLC

The structured products business of



has been acquired by




Acted as financial advisor to Zurich Capital Markets, Inc.  
July 11, 2003

Freeman & Co. Securities LLC

\$800 million AUM



has been acquired by



Acted as financial advisor to Volaris Advisors  
June 6, 2003

Freeman & Co. Securities LLC

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“Independent Financial Services Advice”

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