

Insurance Industry Focus

Freeman & Co. LLC

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The Marriage of the Decade

Insurance Falls for Private Equity

There comes a time in every investment professional's life when the light goes off and one realizes why Warren Buffet built his investment business with the insurance industry as its foundation. The recipe is rather simple:

- Step 1: Start with a "positive float" business (take in premiums versus paying depositors);
- Step 2: Acquire long-term liabilities (permanent capital, plus time heals most wounds);
- Step 3: Operate with great care (management, underwriting, and investments).

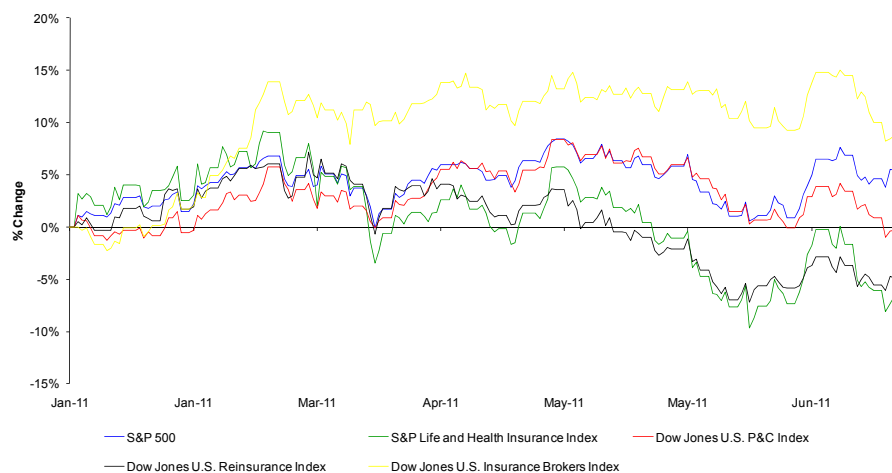
So, while it could be argued that Berkshire Hathaway spawned a generation of alternative asset managers becoming entwined with insurers, this trend has become even more prominent during the last decade. We also expect the following market forces to remain for the foreseeable future, which will lead to continued interest by private equity players into the insurance sector:

- Desire for investors to obtain permanent capital,
- Changes to both capital requirements and the regulatory landscape,
- Tax advantages,
- Low interest rates continuing.

Indices at July 22, 2011

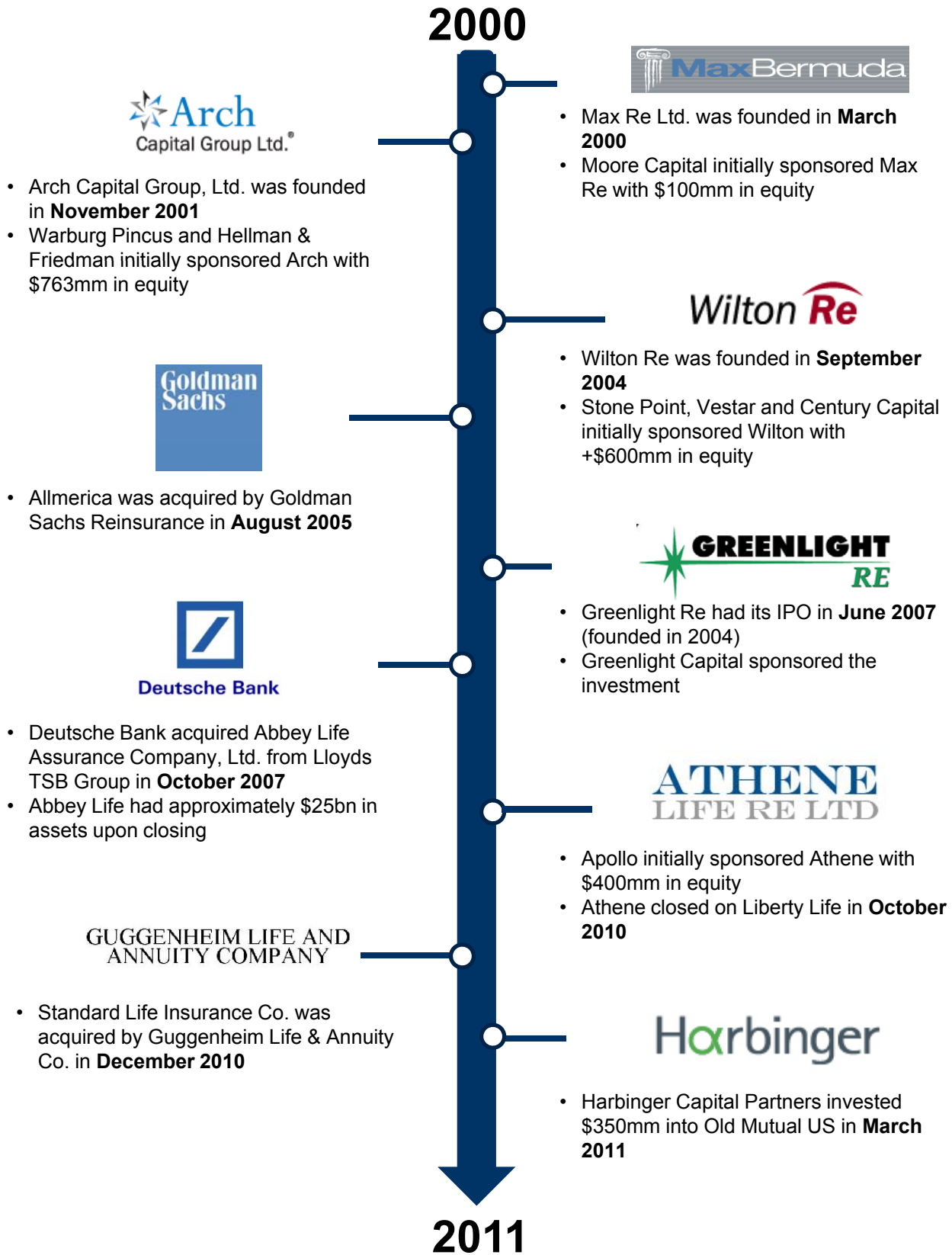
Index / Metric	Value
DJIA	\$12,681
NASDAQ	\$2,858
S&P 500	\$1,345
FTSE 100	\$5,935
10 yr Bond	2.96%
DJ U.S. Select Insurance Index	3,432
USD per GBP	\$1.63
USD per Euro	\$1.44

YTD 7/22/11 U.S. Insurance Company Stock Performance



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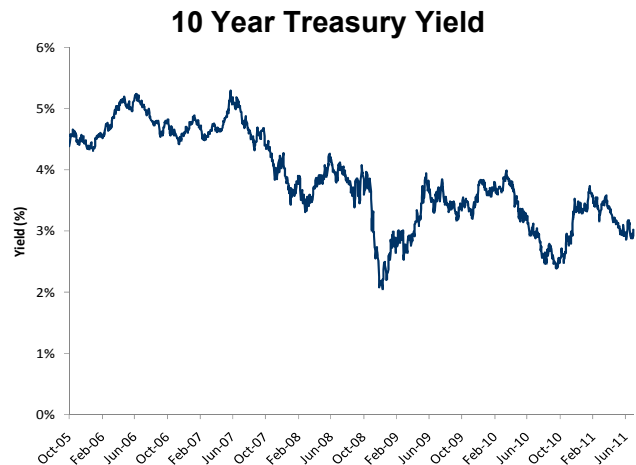
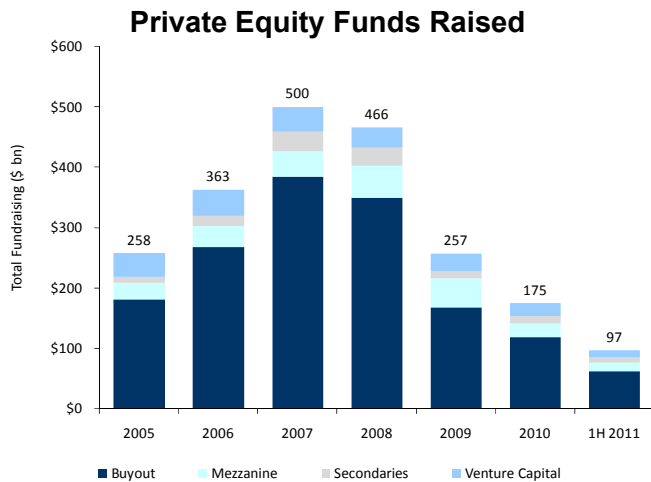
A Decade of Investments in the Insurance Industry



Case for Permanent Capital

Private equity firms and alternative asset managers alike benefit from several structural dynamics. However, one aspect of the business that these entities most certainly do not like involves LP redemptions. These days we are hearing almost as much buzz surrounding the goal to raise “permanent capital” as the negative sentiments involving Obama-care. Owning an insurance carrier can be a sure fire way to lock in long-term assets to manage in the form of policy holders versus limited partners.

The magic of the insurance company balance sheet is many-fold with policy holders often being less sensitive to numerous external events such as ratings downgrades and unrealized losses in a carriers general account portfolio. So the next time a headlining private equity firm, CDO manager, specialty credit manager or 4G cell network maven buys or attempts to buy an insurance carrier – think that the primary driver may just be permanent capital. The credit crisis obviously caused massive LP redemptions from pensions, endowments, high net worth individuals and from fund of funds. Once certain managers had difficulty either raising new funds, or when the spigot of new monthly LP deposits began to slow down, then insurance companies became natural acquisition targets for these investors.



Taxes and Interest Rates

During Freeman & Co.'s financial services conference last May we surveyed the attendees. Much to our surprise not a single participant expressed an interest in paying higher taxes. The fee structure of both the private equity and hedge fund industries has been under attack since the credit crisis. Today, the rhetoric continues from an array of politicians seeking to somehow stop the bleeding from the very sick patient known as the US economy. Ultimately the law of unintended consequences will kick in, and savvy investor groups that can either structure tax advantaged investments or raise capital in offshore insurance vehicles will certainly look to do so.

The other serious problem that insurers face involves the continuing environment of low interest rates. Cost of funds has remained a mystery for many insurance company management teams over the last four years. Furthermore, today's accounting standards discount certain liabilities at crediting rates (not swap rates). This means that insurance companies are not only going to struggle with higher capital requirements, they will need to reach for risk adjusted yield in order to meet policy holder obligations. While we wouldn't bet the farm on cell phone infrastructure plays, our projection is that many highly qualified credit managers will come forward and generate the returns needed to bolster certain insurance company balance sheets.

The Regulatory Landscape

In our last report, we highlighted some of the trends that are emerging due to the implementation of new regulatory and capital requirements across the insurance industry such as Dodd-Frank and Solvency II. As we expected, the bulk of the new capital and regulatory requirements will be pushed out into the 2013/14 timeframe. However while the timing has been slightly delayed, the underlying trends remain largely the same. The larger global insurers and reinsurers will be able to access public equity and debt markets when they need to raise capital in the future. Small and middle-market companies, mutual insurers, and those with limited suites of products will be faced with the challenging dilemma of how to raise enough regulatory capital. Simply put, the M&A landscape for many middle-market companies both in the US and in Europe will remain robust for the next several years as insurance companies continue to consolidate, shed non-core business lines or look to the reinsurance market for capital solutions.

Implications of Recent Regulation on the Financial Services Industry	
Dodd-Frank	Solvency II
<ul style="list-style-type: none"> • Creates the Financial Stability Oversight Counsel (FSOC) to protect the financial stability of the US • Aims to build an Orderly Liquidation Regime • Alters registration requirements <ul style="list-style-type: none"> – Eliminates “private adviser” exemption – Raises minimum asset threshold from \$25mm to \$100mm in AUM • Establishes the Federal Insurance Office (FIO) <ul style="list-style-type: none"> – No regulatory powers – Can request information from financial institutions – Recommendations to US Treasury could have significant impact on insurance business framework • Limits depository institutions from proprietary trading through the Volcker Rule • Regulates that OTC derivative transactions are cleared through exchanges • Requires credit rating agencies to disclose details about rating methodologies • Creates Consumer Protection Bureau • Encourages the Federal Reserve to establish policies to ensure procedures for emergency liquidity and lending • Improves consumer access to federally insured depository institutions and their alternatives • Strengthens requirements on mortgage origination 	<ul style="list-style-type: none"> • Solvency II will apply to all insurance and reinsurance firms that operate in the European Union • New regulations aim to establish a unified insurance services market in Europe while ensuring consumer protections by: <ul style="list-style-type: none"> • Reducing risk of insurer being unable to meet all claims • Providing early warning signals to supervisors if liquidity levels are not being met • Solvency II regulations are expected to be phased in starting January 2013 • Solvency II takes a three pillar response to establishing SCR <ul style="list-style-type: none"> • Pillar 1: Quantitative Requirements <ul style="list-style-type: none"> – Technical Provisions (SCR, MCR) – Investment Rules – ALM / Capital Rules • Pillar 2: Qualitative Requirements <ul style="list-style-type: none"> – Supervisor review – Internal controls – Sound management – Supervisory intervention • Pillar 3: Disclosure Requirements <ul style="list-style-type: none"> – Frequent – Forward-looking – Relevant

Dodd-Frank applies to all financial services firms that operate in the United States, and aims to increase US financial stability, create a systematic approach in the event of a financial crisis, and provide new protections to consumers.

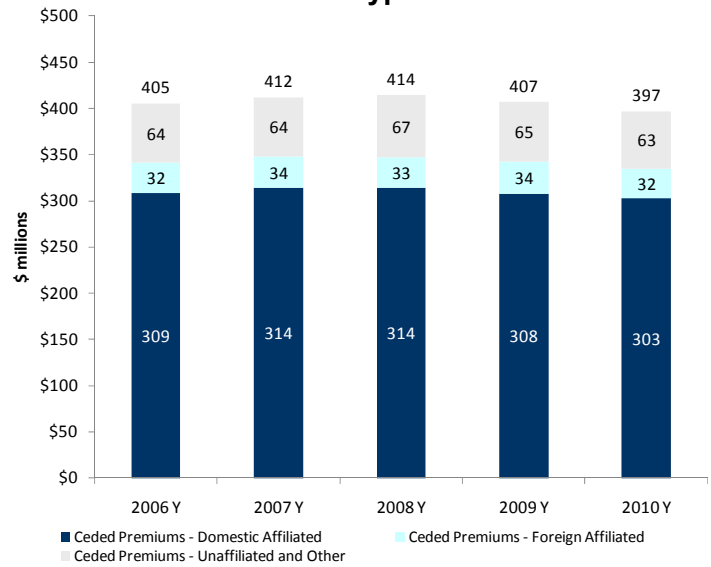
Solvency II will apply to all insurance and reinsurance firms domiciled in the EU who have gross premium income exceeding €5 mm or gross technical provisions in excess of €25 mm, and aims to create one unified insurance services market in Europe.

Insurance Industry Investment Outlook

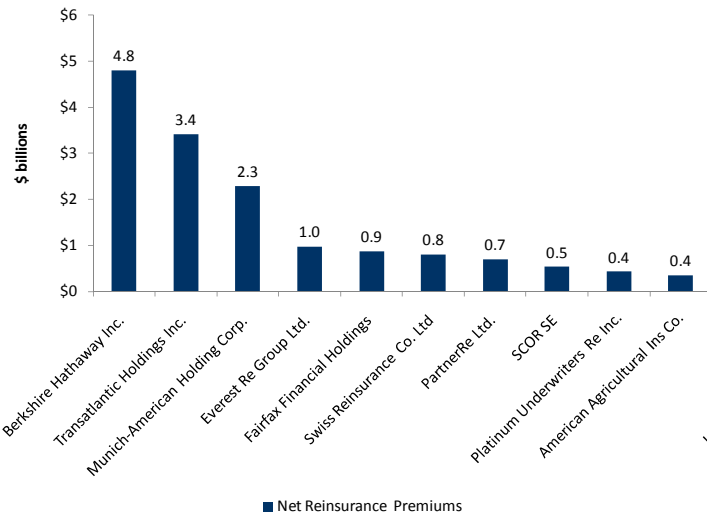
During the last decade, several private equity sponsors and hedge fund players have invested in insurance companies. Our belief is that this trend will continue at a brisk pace as regulatory and capital requirements continue to force consolidation in the industry. Additionally, those asset managers that can generate the proper risk adjusted returns will continue to be strategically important to the insurance industry as a whole. First quarter CAT losses were steep in 2011, and the hurricane season has just begun. If there are serious coastal hits during the remainder of the year, we would expect increased private equity activity in relation to both life and P&C investments.

The competitive landscape for pools of capital certainly increased after 9/11 on the P&C side of the business, and the life reinsurance industry has grown as well with the formation of Wilton Re, Athene Life Re, and Guggenheim Life and Annuity Company. However, Tables I, II, and III clearly show that the total size of the insurance industry is large enough to support many more reinsurance entities that will be needed to provide both risk management and capital solutions heading into the near future.

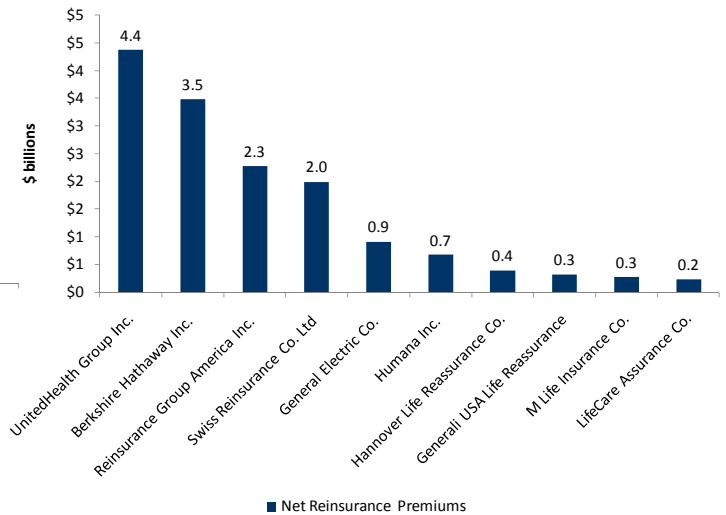
III. Annual Reinsurance Ceded Premiums by Type



I. Top Ten P&C Reinsurers by Net Reinsurance Premiums (as of 12/31/2010)

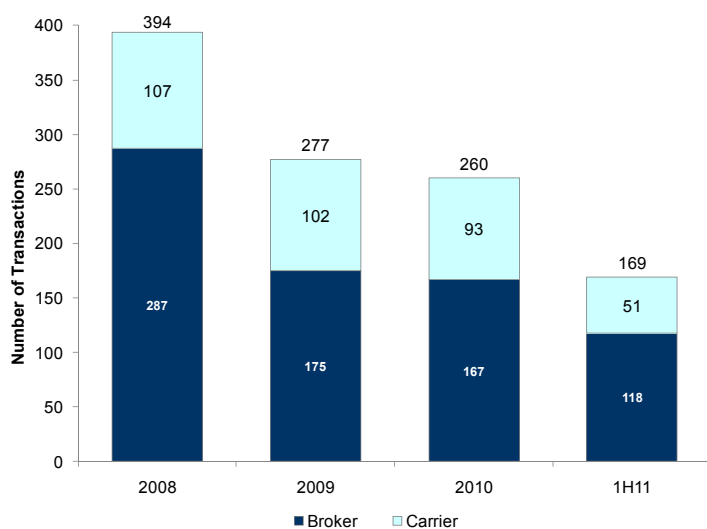


II. Top Ten Life Reinsurers by Net Reinsurance Premiums (as of 12/31/2010)

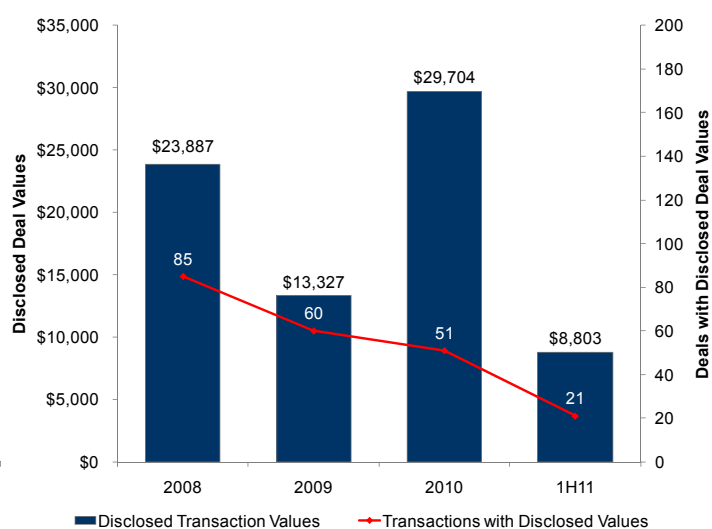


1H 2011 Insurance Carrier and Broker M&A Activity

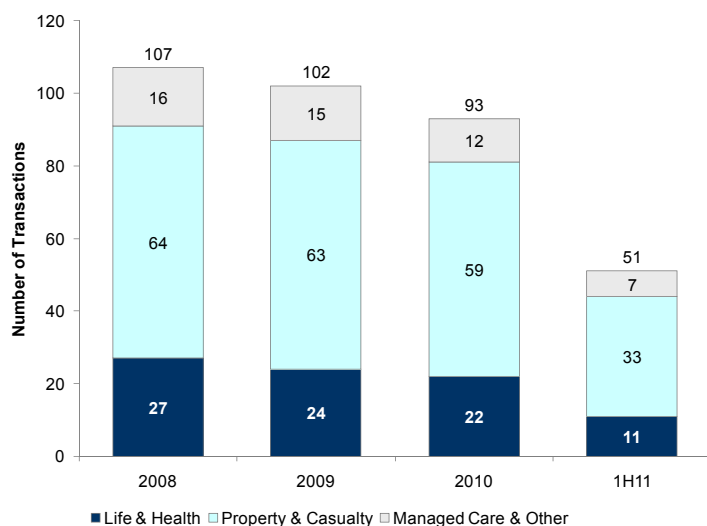
Total Number of Insurance Transactions



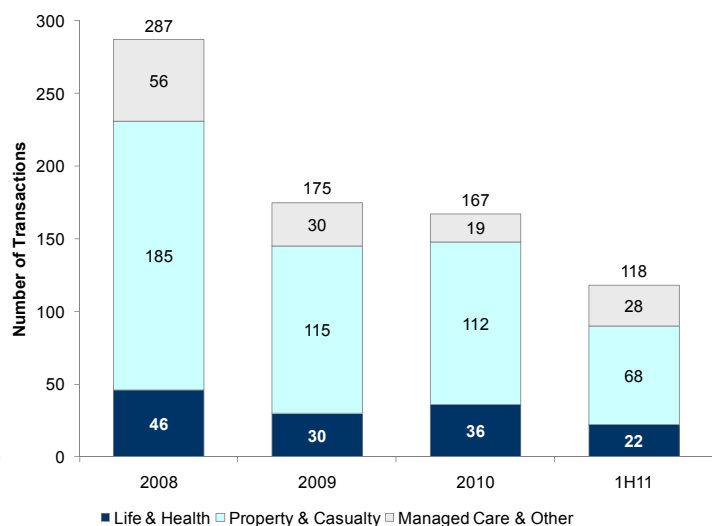
Insurance Transactions with Disclosed Deal Values



Insurance Carrier Transactions by Type



Insurance Broker Transactions by Type



Notable Insurance Transactions: 1H 2011

Announce Date	Target	Target Type	Target Country	Acquirer	Deal Value (\$mm)	Amount Acquired	Entity Value (\$mm)
5/5/2011	Compagnie Européenne de Prévoyance	Property & Casualty	France	J.C. Flowers & Co. LLC	\$1,235	NA	NA
5/17/2011	White Mountains' Esurance unit	Property & Casualty	USA	Allstate Corporation	\$1,000	100%	\$1,000
4/26/2011	Transamerica Re's mortality reinsurance business	Life & Health	USA	SCOR SE	\$913	100%	\$913
2/3/2011	Bank of America's Balboa insurance business	Property & Casualty	USA	QBE Insurance Group Limited	\$700	100%	\$700
2/4/2011	Wesco Financial Corporation	Property & Casualty	USA	Berkshire Hathaway Inc.	\$548	20%	\$2,752

1H 2011 Private Equity Activity in Insurance

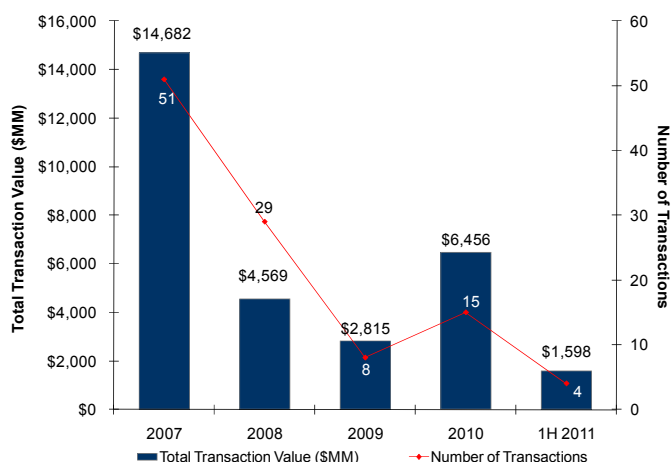
Sponsor Activity Slows Down Following Brief Pickup in 2010

After a slight pick up in private equity activity among insurance companies in 2010, 2011 began with a sluggish start in private equity activity among insurance companies and remains well off record levels of investment achieved in 2006 and 2007. While total deal volume on an annualized basis is approximately 50% below its 2010 rate, exit sales are about 95% off their annualized rate in 2010.

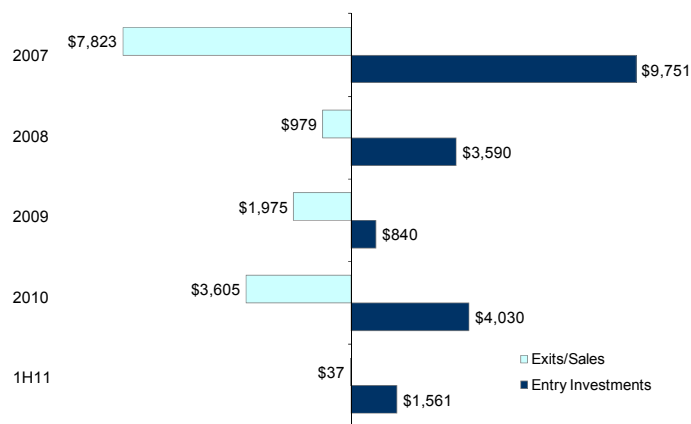
Perhaps the most notable transaction to close in the first half of 2011 was JC Flower's acquisition of an equity stake in Groupe Prévoyance from PAI partners. Groupe Prévoyance operates several subsidiaries, one of which, Compagnie Européenne de Prévoyance, specializes in providing advisory and management services to major French banks and loan insurance market participants. JC Flowers reportedly paid \$1.2 bn for the French loan insurance broker. Also prominent was Advent's investment of growth capital in Towergate Partnership Ltd, a European independent insurance intermediary that provides personal and commercial products to individuals and SMEs through its affiliates.

Despite the recent slow down, prevailing fundamentals remain supportive of private equity investments in the insurance industry due to the increasing burdens of regulatory capital, and the permanent capital source that the insurance industry provides.

Private Equity Transactions in Insurance⁽¹⁾



Private Equity Insurance Entry vs. Exit Deals⁽¹⁾



Select Private Equity Insurance Transactions: LTM 1H 2011

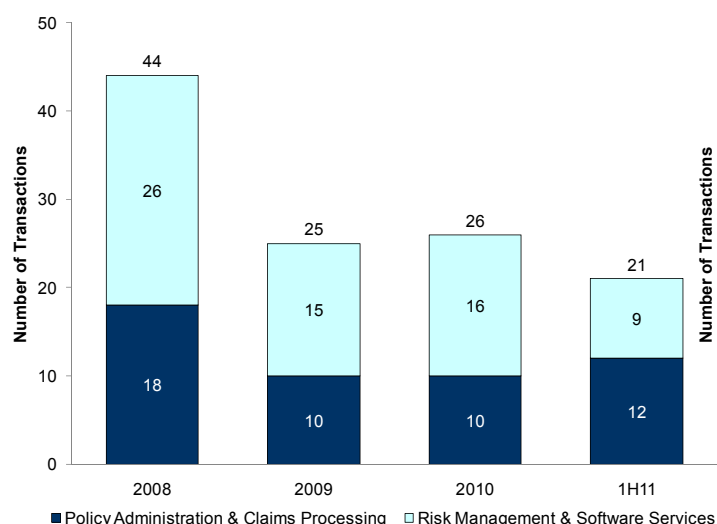
Announce Date	Target Company	Target Type	Target Country	Acquirer	Deal Value (\$mm)	Transaction Type
10/26/2010	Brit Insurance Holdings	Property and Casualty Insurance	Netherlands	Apollo, CVC Capital	\$1,558	Acquisition of Equity Stake
5/9/2011	Groupe Prevoyance	Insurance Brokers	France	JC Flowers	\$1,241	Acquisition of Equity Stake
8/31/2010	Qualicorp	Insurance Brokers	Brazil	Buyer: Carlyle; Seller: General Atlantic	\$850	Acquisition of Equity Stake
1/31/2011	Towergate Partnership	Insurance Brokers	UK	Advent	\$321	Growth Capital
3/11/2011	eReinsure.com	Reinsurance	USA	Century Capital Management	\$37	Acquisition of Equity Stake

Insurance Servicing & Processing Review

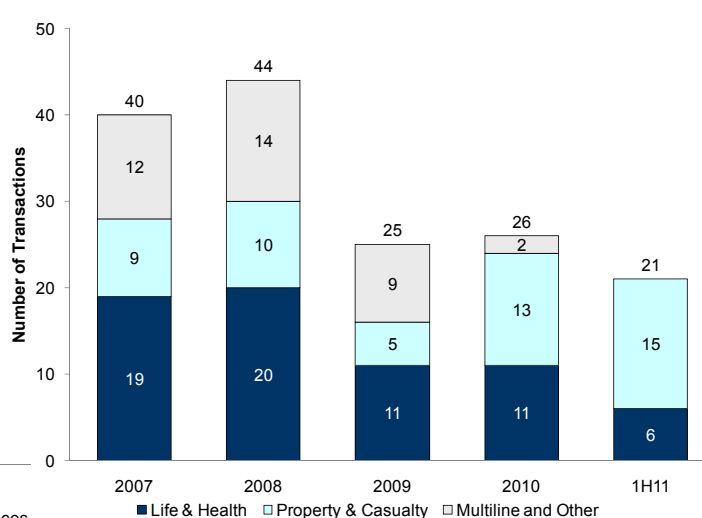
Insurance Servicing and Processing M&A increased in 1H 2011

M&A among technology providers for insurance carriers and brokers gathered momentum in the first half of 2011 as compared to the first half of 2010 and was dominated by a handful of market participants. M&A activity increased by nine transactions as compared to the first half of 2010 and by seven transactions as compared to the second half of 2010. In the first half of 2011, Private Equity acquisitions in insurance servicing and processing accounted for a significantly larger portion of M&A activity than in 2010 increasing from 15% for full year 2010 to 48% in the first half of 2011. On the strategic side, Verisk Analytics, Inc. made two acquisitions, in the first half of 2011 following up 2010 in which it made one acquisition over the course of the whole year. Verisk's acquisitions were Bloodhound Technologies, a provider of real-time pre-adjudication claims editing for healthcare payers, and Health Risk Partners, a provider of solutions to optimize revenue, ensure compliance and improve quality of care for Medicare Advantage and Medicaid health plans. Private equity firm Stone Point Capital also continued to be active in the first half of 2011 acquiring GAB Robin's loss adjusting business for an undisclosed amount, following up two acquisitions during 2010.

Insurance Technology M&A by Type of Company



Insurance Technology M&A by Sector Focus



Select Recent Insurance Servicing & Processing Transactions

Announced Date	Target	Target Type	Acquirer	Deal Value (\$mm)	% Acquired	Entity Value (\$mm)
4/23/2011	Explore Information Services LLC	Property & Casualty	Solera Holdings, Inc.	\$520	100%	\$520
4/28/2011	Prodigy Health Group, Inc.	Life & Health	Aetna Inc.	\$600	100%	\$600
12/1/2010	Crowe Paradis Services Corporation	Life & Health	Verisk Analytics, Inc.	\$90	100%	\$90
4/27/2011	Bloodhound Technologies, Inc.	Life & Health	Verisk Analytics, Inc.	\$82	100%	\$82
8/29/2010	A.D.A.M., Inc.	Life & Health	Ebix, Inc.	\$66	100%	\$66

Insurance Company Public Comparables

Life Insurance Company Multiples

Company Name	Ticker	Market Data		LTM 3/31/11			2011E			2012E		
		Stock Price	Market Cap	BV	Tang. BV	Dil. EPS	Price / Fwd	Dil. EPS	ROE	Price / Fwd	Dil. EPS	ROE
Aflac Incorporated	AFL	\$46.21	\$21,613	1.96 x	1.96 x	10.4 x	1.83 x	7.4 x	27.2%	1.66 x	7.2 x	25.5%
Genworth Financial, Inc.	GNW	\$8.93	\$4,381	0.31 x	0.36 x	NM	0.30 x	12.2 x	3.5%	0.28 x	6.0 x	5.5%
Lincoln National Corporation	LNC	\$27.79	\$8,711	0.67 x	0.87 x	10.2 x	0.62 x	7.0 x	9.5%	0.55 x	6.6 x	9.3%
MetLife, Inc.	MET	\$41.74	\$44,121	0.92 x	1.23 x	14.0 x	0.90 x	8.2 x	11.5%	0.81 x	7.2 x	12.0%
Principal Financial Group, Inc.	PFJ	\$28.99	\$9,315	0.97 x	1.10 x	13.9 x	0.87 x	9.7 x	9.9%	0.78 x	8.6 x	10.2%
Protective Life Corporation	PL	\$22.87	\$1,960	0.57 x	0.59 x	7.8 x	0.56 x	7.3 x	8.7%	0.50 x	6.6 x	8.8%
Average				0.90 x	1.02 x	11.2 x	0.85 x	8.7 x	11.7%	0.76 x	7.0 x	11.9%
Median				0.79 x	0.98 x	10.4 x	0.75 x	7.8 x	9.7%	0.66 x	6.9 x	9.8%

P&C Insurance Company Multiples

Company Name	Ticker	Market Data		LTM 3/31/11			2011E			2012E		
		Stock Price	Market Cap	BV	Tang. BV	Dil. EPS	Price / Fwd	Dil. EPS	ROE	Price / Fwd	Dil. EPS	ROE
ACE Limited	ACE	\$65.78	\$22,194	0.95 x	1.19 x	8.6 x	0.89 x	10.7 x	9.0%	0.83 x	8.8 x	9.7%
Arch Capital Group Ltd.	ACGL	\$32.72	\$4,318	1.08 x	1.08 x	8.1 x	1.04 x	20.8 x	5.8%	0.96 x	11.6 x	8.8%
CNA Financial Corporation	CNA	\$28.02	\$7,546	0.67 x	0.68 x	12.2 x	NA	10.8 x	NA	NA	10.5 x	NA
HCC Insurance Holdings, Inc.	HCC	\$31.57	\$3,590	1.09 x	1.47 x	11.4 x	1.02 x	11.6 x	9.2%	0.95 x	10.2 x	9.9%
Progressive Corporation	PGR	\$20.47	\$13,156	2.07 x	2.07 x	11.5 x	2.08 x	13.1 x	16.9%	1.96 x	12.3 x	16.2%
Travelers Companies, Inc.	TRV	\$57.58	\$24,111	0.97 x	1.14 x	11.3 x	0.95 x	14.2 x	7.1%	0.89 x	9.7 x	9.7%
W.R. Berkley Corporation	WRB	\$32.50	\$4,603	1.21 x	1.24 x	11.0 x	1.15 x	13.7 x	10.0%	1.06 x	12.5 x	10.0%
White Mountains Insurance Group, Ltd.	WTM	\$426.83	\$3,365	0.94 x	0.94 x	36.8 x	NA	NM	NA	NA	28.0 x	NA
Average				1.12 x	1.23 x	13.9 x	1.19 x	13.6 x	9.6%	1.11 x	13.0 x	10.7%
Median				1.02 x	1.16 x	11.3 x	1.03 x	13.1 x	9.1%	0.96 x	11.1 x	9.8%

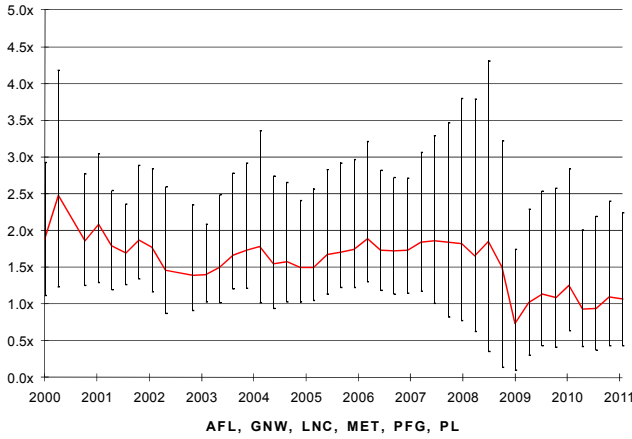
Reinsurance Company Multiples

Company Name	Ticker	Market Data		LTM 3/31/11			2011E			2012E		
		Stock Price	Market Cap	BV	Tang. BV	Dil. EPS	Price / Fwd	Dil. EPS	ROE	Price / Fwd	Dil. EPS	ROE
Alterra Capital Holdings Limited	ALTE	\$22.69	\$2,402	0.88 x	0.90 x	10.9 x	0.86 x	16.9 x	4.7%	0.80 x	9.1 x	9.0%
Everest Re Group, Ltd.	RE	\$81.50	\$4,425	0.75 x	0.76 x	14.8 x	0.70 x	50.6 x	2.6%	0.64 x	7.1 x	10.2%
Greenlight Capital Re, Ltd.	GLRE	\$25.59	\$935	1.24 x	1.24 x	16.3 x	NA	18.7 x	7.8%	NA	6.7 x	18.4%
Montpelier Re Holdings Ltd.	MRH	\$18.43	\$1,149	0.78 x	0.78 x	15.5 x	0.75 x	NA	-1.2%	0.69 x	8.2 x	10.0%
PartnerRe Ltd.	PRE	\$68.78	\$4,644	0.82 x	0.92 x	NM	0.79 x	NA	-4.3%	0.73 x	8.4 x	9.6%
RenaissanceRe Holdings Ltd.	RNR	\$69.85	\$3,614	1.23 x	1.23 x	14.3 x	0.93 x	NM	1.5%	0.84 x	8.5 x	11.8%
Average				0.95 x	0.97 x	14.3 x	0.81 x	28.7 x	1.9%	0.74 x	8.0 x	11.5%
Median				0.85 x	0.91 x	14.8 x	0.79 x	18.7 x	2.0%	0.73 x	8.3 x	10.1%

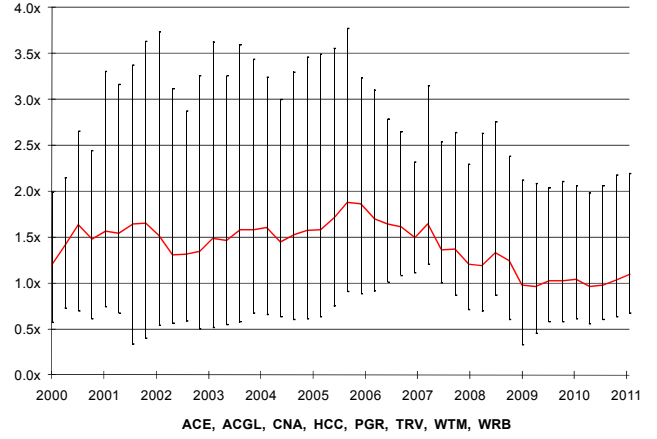
Notes: LTM financials are adjusted for extraordinary and non-recurring items. IN cases where a company has a pre-tax loss, GAAP net income is shown without adjustments.

Insurance Company Valuation Spreads

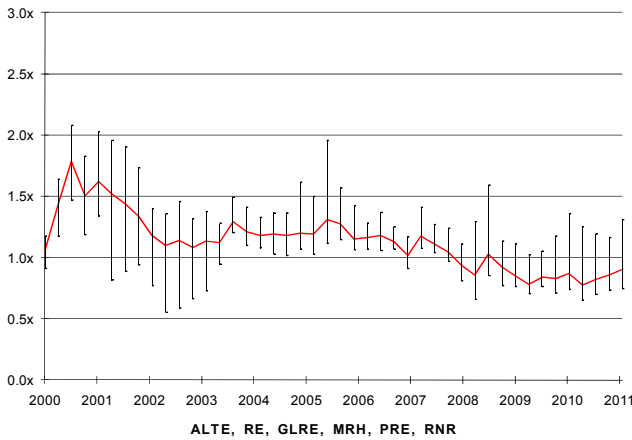
U.S. Life Insurers' Price/Book Multiples



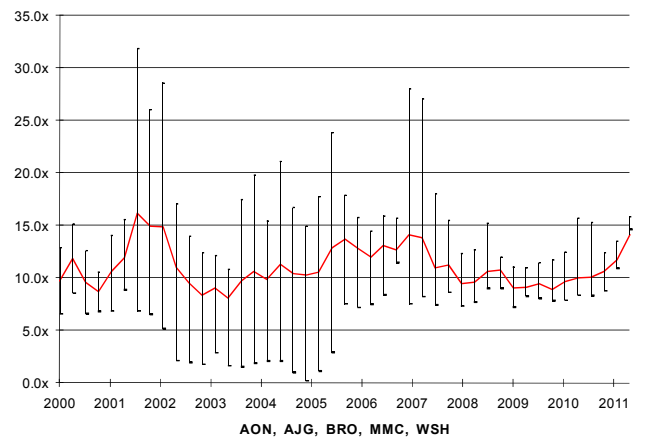
U.S. P&C Insurers' Price/Book Multiples



U.S. Reinsurers' Price/Book Multiples



U.S. Insurance Broker's TEV/EBITDA



Select Freeman & Co. Insurance and Mortality-linked Transactions

\$344,499,000

The Life Settlements Portfolio of



has been sold to an affiliate of




Financial advisor to Fifth Third Bank
June 2011

Freeman & Co. Securities LLC

\$1,738,551,000

The Life Settlements and Premium Finance Portfolio of




Has been acquired at auction

The undersigned acted as financial advisor to KBC Financial Products
April 28, 2010

Freeman & Co. Securities LLC

\$840,000,000

The Reverse Mortgage Portfolio of



has been acquired by an undisclosed
Investment Bank

Financial advisor to KBC Group Products
February 2010

Freeman & Co. Securities LLC

700,000 policies administered
\$30 billion AUM

GUGGENHEIM

led investor group has acquired



Financial advisor to Security Benefit Corporation, parent of se²
July 2010

Freeman & Co. Securities LLC

\$400 million investment

GUGGENHEIM

led investor group has acquired



Financial advisor to Security Benefit
July 2010

Freeman & Co. Securities LLC

\$30,000,000




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




Financial advisor to Ullico, Inc.
December 2008

Freeman & Co. Securities LLC



has acquired



Financial advisor to KBC Financial Products
June 9, 2007

Freeman & Co. Securities LLC



has acquired the assets of

Mutual Credit Corp.

Financial advisor to KBC Financial Products
November 2006

Freeman & Co. Securities LLC

Other Recent Freeman & Co. Transactions

The Institutional Sales & Trading Business of




has been acquired by




Financial advisor to Braver Stern Securities LLC
June 2011

Freeman & Co. Securities LLC

\$2 billion AUM



has been acquired by



Financial advisor to Altegris Investments
December 2010

Freeman & Co. Securities LLC



has raised \$225,000,000 from



Financial advisor to CRT Capital Group, LLC
August 2010

Freeman & Co. Securities LLC



has obtained \$75,000,000 of structured settlement warehouse financing from an undisclosed

Hedge Fund

Financial advisor to Peach Holdings
July 2010

Freeman & Co. Securities LLC

\$210,000,000




Senior Debt Restructuring

Financial advisor to the Creditor Committee
2009 – 2010

Freeman & Co. Securities LLC

\$32,000,000



NYSE Alternext: HNB

has received a \$32,000,000 investment from an

Investor Group

Co-manager for Herald National Bank
March 2010

Freeman & Co. Securities LLC

€350,000,000




has acquired the CLO business of




Financial advisor to Avoca Capital
December 2009

Freeman & Co. Int. LLP



has been acquired by



Financial advisor to TORC Financial, LLC
August 2009

Freeman & Co. Securities LLC

Other Recent Publications by Freeman & Co.

Asset Management Focus

- *Slowly but Surely Coming Back (April 2011)*
- *Slogging Through the Mud (September 2010)*
- *Putting the Pieces Back Together (April 2010)*
- *Humpty Dumpty had a Big Fall (September 2009)*

Financial Technology Focus

- *Convergence: Servicing the Trader, PM and Back Office (April 2011)*
- *Out of the Frying Pan and into Regulatory Reform (September 2010)*
- *Happy to Have No Balance Sheet (September 2009)*

Insurance Focus

- *Is A Terrorist Lurking in Your Investment Portfolio? (January 2011)*
- *Damned if You Don't (January 2011)*
- *To Arms, To Arms: The Regulators are Coming! (July 2010)*
- *Back from the Brink (January 2010)*

Private Equity Focus

- *Show Me the Money (September 2010)*
- *Waiting for the Turn (September 2009)*

Securities Industry Focus

- *Filling the Void in the Middle Market (January 2011)*
- *Focus Shifts from Survival Mode to Strategic Mode (October 2009)*
- *Securities Industry at Major Inflection Point (March 2009)*

Specialty Finance

- *Special Education (March 2011)*

Freeman & Co. LLC

“Independent Financial Services Advice”

New York

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