Sharing deal insight
European Financial Services M&A news and views

This quarterly report aims to provide perspectives on the recent trends and future developments in the European Financial Services M&A market, including analysis of the latest transactions and insights into emerging investment opportunities.

February 2011
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€46bn of private sector financial services deals in Europe in 2010, up 12% from 2009

€26bn of private sector banking deals in 2010, compared with €11bn in 2009
The final quarter of 2010 was a relatively quiet one for M&A, though we believe that the longer term trend is still upwards. An overview of 2010 as a whole highlights the reduction in government-led transactions and a marked increase in private sector activity, as the focus of M&A shifted from crisis management to strategic growth. Important signs of this more buoyant environment were the growth in cross-border investment and private equity interest (see ‘Data Analysis’).

While it may be some time before we see a return to the pre-crisis M&A values in the European insurance industry, deal appetite is returning. Rising financial asset values have given boards greater confidence and balance sheet flexibility. Finance is also more readily available and the price expectations of sellers and buyers are moving closer into line, which is helping to bring more acquisitions to fruition (see ‘Capitalising on a resurgent insurance deal market’).

The increase in mid-size deals in the UK (transaction values of €50m–€150m) was one of the key M&A trends of 2010 and is set to continue in 2011. A notable feature of this activity is the high level of investment from abroad, as international groups look to extend their footprint in the UK or gain access to the specialist expertise that has been built up within many mid-size UK financial services firms (see ‘UK mid-market deal activity gathers pace’).

The results from our annual survey of the prospects for financial services M&A point to a strong rise in transaction activity in 2011. It is especially notable that more than 80% of participants believe that appetite for large deals is growing. New regulation is set to provide further impetus for restructuring and disposal of non-core businesses. This will in turn create fresh acquisition opportunities for companies looking to build scale and extend their market reach (see ‘Looking Ahead’).

We hope that you find this edition of Sharing Deal Insight interesting. Please do not hesitate to contact either of us or any of the article authors if you have any comments or questions.
2010 was a mixed year for global M&A. Hopes for a rebound in the first and second quarters of the year were thwarted by market volatility and the Greek debt crisis. Deals picked up fast over the summer, but cooled again in the fourth quarter.

European financial services M&A has followed a similar path to global deal activity. Deal values reached a high point over the summer but fell back sharply in the fourth quarter, although positive underlying sentiment should bode well for 2011. This article analyses European financial services M&A for the fourth quarter, but begins with a brief recap of deal activity for 2010 as a whole.

2010 saw European financial services M&A decline, but private sector deals recovered

During 2010 total European financial services M&A deal values fell from 2009’s figure of €80bn to €50bn.1 This decline reflected a reduction in government-led transactions from the exceptional levels seen in 2008 and 2009 (see Figure 1). Encouragingly, private sector financial services deals increased from €41bn in

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1 The source data for the deals analysed in this publication come from mergermarket, Reuters and Dealogic, unless otherwise specified. Our analysis methodology is summarised on page 18.
2009 to €46bn in 2010. This small but welcome increase gives some reason to hope that 2009 marked the bottom of the cycle for private sector financial services M&A in Europe.

Overall banking deal values fell from €49bn in 2009 to €30bn in 2010 (see Figure 2), but given the degree of government-led transactions in 2009 this is not a like-for-like comparison. With government activity stripped out, banking deal values increased from €11bn in 2009 to €26bn as the restructuring process gathered pace across the sector. Insurance deal values declined slightly from €12bn to €10bn during the year, while asset management activity fell back to €8bn from the unusually high 2009 total of €15bn – a figure boosted by BlackRock’s €9.7bn acquisition of Barclays Global Investors.

A review of 2010’s Top 20 deals (see Figure 3 overleaf) shows that banking restructuring – in many forms – was the single biggest driver of M&A in 2010. The need to raise capital was a catalyst for many deals, but most sales also represented an opportunity for buyers. Stronger banks built domestic scale and developed new distribution avenues or areas of expertise.

Insurance companies and asset managers were also targets of scale-building transactions during the year, although large deals were comparatively few. Another feature of 2010 was the increasingly influential role of private equity firms in European financial services M&A, partly due to lower public sector activity and relatively subdued corporate business. Private equity firms were bidders in three of the year’s Top 20 deals (see Figure 3 overleaf).
### Figure 3: Top 20 European FS deals by value, 2010

<table>
<thead>
<tr>
<th>Month</th>
<th>Target company</th>
<th>Target country</th>
<th>Bidder company</th>
<th>Bidder country</th>
<th>Deal Value (€m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep</td>
<td>Deutsche Postbank (70%)</td>
<td>Germany</td>
<td>Deutsche Bank AG</td>
<td>Germany</td>
<td>3,882</td>
</tr>
<tr>
<td>Dec</td>
<td>Allied Irish Banks (91%)</td>
<td>Ireland</td>
<td>Government of Ireland</td>
<td>Ireland</td>
<td>3,818</td>
</tr>
<tr>
<td>Jun</td>
<td>AXA SA (UK life and pensions)</td>
<td>United Kingdom</td>
<td>Resolution Limited</td>
<td>United Kingdom</td>
<td>3,330</td>
</tr>
<tr>
<td>Sep</td>
<td>Bank Zachodni WBK (70%)</td>
<td>Poland</td>
<td>Banco Santander SA</td>
<td>Spain</td>
<td>3,088</td>
</tr>
<tr>
<td>Aug</td>
<td>RBS Global Merchant Services</td>
<td>United Kingdom</td>
<td>Advent International Corp; Bain Capital Inc</td>
<td>USA</td>
<td>2,290</td>
</tr>
<tr>
<td>Aug</td>
<td>Royal Bank of Scotland – 318 UK branches</td>
<td>United Kingdom</td>
<td>Banco Santander SA</td>
<td>Spain</td>
<td>1,992</td>
</tr>
<tr>
<td>May</td>
<td>KBL European Private Bankers SA</td>
<td>Luxembourg</td>
<td>The Hinduja Group</td>
<td>India</td>
<td>1,350</td>
</tr>
<tr>
<td>Mar</td>
<td>BNP Paribas Luxembourg SA (47%)</td>
<td>Luxembourg</td>
<td>BGL BNP Paribas</td>
<td>Luxembourg</td>
<td>1,339</td>
</tr>
<tr>
<td>Feb</td>
<td>RBS Sempra Commodities LLP (European and Asian operations)</td>
<td>United Kingdom</td>
<td>JPMorgan Chase &amp; Co</td>
<td>USA</td>
<td>1,235</td>
</tr>
<tr>
<td>Oct</td>
<td>Brit Insurance Holdings</td>
<td>United Kingdom</td>
<td>Achilles Group (Apollo Management/CVC Capital Partners)</td>
<td>Netherlands</td>
<td>965</td>
</tr>
<tr>
<td>Jul</td>
<td>Societe Marseillaise de Credit SA</td>
<td>France</td>
<td>Societe Generale</td>
<td>France</td>
<td>872</td>
</tr>
<tr>
<td>Jul</td>
<td>KBC – Bonds &amp; Equity Derivatives</td>
<td>Belgium</td>
<td>Daia Securities</td>
<td>Japan</td>
<td>797</td>
</tr>
<tr>
<td>Feb</td>
<td>Cassa di Risparmio della Spezia (80%)</td>
<td>Italy</td>
<td>Credit Agricole</td>
<td>France</td>
<td>740</td>
</tr>
<tr>
<td>Jun</td>
<td>Banco Guipuzcoano</td>
<td>Spain</td>
<td>Banco de Sabadell SA</td>
<td>Spain</td>
<td>734</td>
</tr>
<tr>
<td>Sep</td>
<td>FIH Erhvervsbank A/S</td>
<td>Denmark</td>
<td>ATP; PFA Pension; Folksamgruppen; CP Dyvig &amp; Co A/S</td>
<td>Denmark</td>
<td>671</td>
</tr>
<tr>
<td>Apr</td>
<td>Citibank International plc (Swedish operations)</td>
<td>Sweden</td>
<td>Marginalen AB</td>
<td>Sweden</td>
<td>640</td>
</tr>
<tr>
<td>Feb</td>
<td>Pantheon Ventures Limited</td>
<td>United Kingdom</td>
<td>Affiliated Managers Group Inc</td>
<td>USA</td>
<td>564</td>
</tr>
<tr>
<td>Jul</td>
<td>SEB AG – German retail banking operations</td>
<td>Germany</td>
<td>Banco Santander SA</td>
<td>Spain</td>
<td>555</td>
</tr>
<tr>
<td>Jan</td>
<td>Atradius Group (36%)</td>
<td>Germany</td>
<td>Grupo Catalana Occidente SA; INOC SA</td>
<td>Spain</td>
<td>537</td>
</tr>
</tbody>
</table>

Sub-total 30,513

Other 19,778

Grand total 50,291

Source: PricewaterhouseCoopers analysis of mergermarket, Reuters and Dealogic data
The fourth quarter of 2010 was marked by a slowdown in European financial services deal activity

The value of European financial services deal activity in the fourth quarter was €9.5bn, a 55% decline from the €21.2bn recorded in the third quarter and 35% lower than the €14.7bn seen in the fourth quarter of 2009. The quarter saw a fall in the number of large deals and a further decline in the value of small and mid-market transactions (see Figure 4), although activity in some markets was more buoyant (see ‘UK mid-market deal activity gathers pace’). Quarter-on-quarter, the total number of deals fell to 253 from 391.

A slowdown in reported banking deals and sales of equity stakes was the single largest factor behind the decrease in disclosed deal values seen during the fourth quarter (see Figure 5). It was also notable that the nationalisation of Allied Irish Bank (€3.8bn) represented 70% of the quarter’s disclosed banking deal value; without this transaction, quarterly banking deal values would have totalled less than €2bn for the first time since 2003.

Despite the suddenness of the decline in announced deal values towards the end of 2010, we see little to suggest that this quarter-on-quarter slowdown will change the positive trend of increasing M&A activity. There is no reason to think that European banking restructuring will stop with the process only part-completed, and it is worth noting that the most recent CBI/PwC Financial Services Survey recorded a seventh consecutive quarter of improving sentiment among UK firms.5

The total values of insurance and asset management deal activity declined slightly during the quarter (see Figure 5), but in both cases October produced a large, notable deal announcement. Royal Bank of Canada’s purchase of BlueBay Asset Management for €1.1bn should give it the chance to expand its asset management business significantly in Europe, while Achilles’ planned acquisition of Brit Insurance for €965m was the second large deal in 2010 to see two private equity firms joining forces (see ‘Capitalising on a resurgent insurance deal market’). In this case the two firms were Apollo Management and CVC Capital Partners; in the first, Advent and Bain joined forces to purchase Royal Bank of Scotland’s WorldPay business for €2.3bn.

During the fourth quarter, deal values fell across all sectors.

Note: The figure of €21.2bn for the third quarter of 2010 differs from the figure of €16.8bn published in the November 2010 edition of Sharing Deal Insight. Deal data for the first three quarters of 2010 has been updated to exclude transactions that have collapsed, and to include deal values that were previously undisclosed. The largest deals to have been added to our 2010 dataset in this way are Daiwa’s acquisition of KBC’s Bond & Equity Derivatives business (€797m) and Credit Agricole’s acquisition of 80% of Cassa di Risparmio della Spezia from Intesa Sanpaolo (€740m).

3  ‘Industry Sentiment – Financial Services Survey’, PwC, 10.01.11.
With corporate-driven M&A values falling fast in the fourth quarter, government-led activity was a large component of total deal value for the first time in 2010 (see Figure 6). Although private equity deal value fell in absolute terms, it retained a relative degree of importance.

Despite RBC’s €1.1bn acquisition of BlueBay – the quarter’s largest cross-border deal – total cross-border values fell from €10.9bn in the third quarter to just €2.4bn, a 25% share of total deal value (see Figure 7).

Four of the remaining seven Top 10 deals of the fourth quarter (see Figure 8) were domestic banking transactions:

- In Russia, VTB Bank agreed to acquire a controlling stake in TransCreditBank from Russian Railways for €517m, and Moscow-based NOMOS-BANK offered €296m for a majority stake in Khanty-Mansiysk Bank, based in the Siberian city of the same name;
- In Italy, savings bank, Banca Tercas announced its intention to acquire a controlling stake in local rival Banca Caripe for €228m, and Intesa Sanpaolo agreed to acquire 51% of Banca Monte Parma for €159m.

The remainder of the Top 10 announced deals of the fourth quarter were:

- MasterCard’s purchase of Travelex’s pre-paid Card Program Management business for €346m – its second deal of 2010 involving a UK-based payment specialist;
- Aegon’s acquisition of 50% of CaixaSabadell Vida of Spain for €211m; and
- The acquisition of Bupa Health Assurance by consolidation vehicle Resolution for €188m, a follow-up to the purchase of AXA’s UK life business for €3.3bn, announced in June 2010.

As already discussed, the fourth quarter of 2010 saw relatively few small and mid-market financial services deals. Even so, a few features that caught our eye further down the dataset were:

- A handful of inward European purchases by US and Indian companies;
- A number of small bank restructuring deals, including several in Italy, Scandinavia and Poland; and
- Several deals involving consumer credit, pawn broking and debt collection companies.

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4 See footnote 2 regarding updated deal data.
To recap, we do not believe that the fourth quarter’s decline in European financial services deal values is a sign that the growing momentum of private sector deal-making seen in 2010 is coming to an end. In ‘Looking Ahead’ we consider how banking restructuring and other drivers of deal activity may develop during the year ahead.

Figure 8: Top 10 European FS deals by value, Q4 2010

<table>
<thead>
<tr>
<th>Month</th>
<th>Target company</th>
<th>Target country</th>
<th>Bidder company</th>
<th>Bidder country</th>
<th>Deal Value (€m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec</td>
<td>Allied Irish Banks (91%)</td>
<td>Ireland</td>
<td>Government of Ireland</td>
<td>Ireland</td>
<td>3,818</td>
</tr>
<tr>
<td>Oct</td>
<td>Bluebay Asset Management</td>
<td>United Kingdom</td>
<td>Royal Bank of Canada</td>
<td>Canada</td>
<td>1,114</td>
</tr>
<tr>
<td>Oct</td>
<td>Brit Insurance Holdings</td>
<td>United Kingdom</td>
<td>Achilles Group (Apollo Management/CVC Capital Partners)</td>
<td>Netherlands</td>
<td>965</td>
</tr>
<tr>
<td>Dec</td>
<td>TransCreditBank OJSC (43%)</td>
<td>Russia</td>
<td>VTB Bank JSC</td>
<td>Russia</td>
<td>517</td>
</tr>
<tr>
<td>Dec</td>
<td>Travelex Card Program Management</td>
<td>United Kingdom</td>
<td>MasterCard</td>
<td>United States</td>
<td>346</td>
</tr>
<tr>
<td>Dec</td>
<td>JSC Khanty-Mansiysk Bank (51%)</td>
<td>Russia</td>
<td>NOMOS Bank</td>
<td>Russia</td>
<td>296</td>
</tr>
<tr>
<td>Oct</td>
<td>Banca Carpe (95%)</td>
<td>Italy</td>
<td>Banca Tercas</td>
<td>Italy</td>
<td>228</td>
</tr>
<tr>
<td>Nov</td>
<td>Caixa Sabadell Vida (50%); Caixa Sabadell Companyia d'Assegurances Generals (50%)</td>
<td>Spain</td>
<td>Aegon NV</td>
<td>Netherlands</td>
<td>211</td>
</tr>
<tr>
<td>Oct</td>
<td>Bupa Health Assurance Limited</td>
<td>United Kingdom</td>
<td>Resolution Limited</td>
<td>United Kingdom</td>
<td>188</td>
</tr>
<tr>
<td>Oct</td>
<td>Banca Monte Parma (51%)</td>
<td>Italy</td>
<td>Intesa Sanpaolo</td>
<td>Italy</td>
<td>159</td>
</tr>
</tbody>
</table>

Sub-total: 7,842
Other: 1,617
Grand total: 9,459

Source: PricewaterhouseCoopers analysis of mergermarket, Reuters and Dealogic data
As with other financial services sectors, strategic M&A activity within the insurance industry went into significant decline in the immediate aftermath of the financial crisis. Of the some €80bn of large European financial services deals (over €2bn) completed in 2009, only 14% related to the insurance sector and none featured in the top 20. This is a fraction of the €45bn of insurance transactions carried out during 2007.

With economies in recession and balance sheets depleted in the wake of the financial crisis, management were keen to avoid any activity, particularly M&A, which might threaten or create uncertainty over capital positions. Even if opportunities were targeted, many deals fell at the first hurdle due to lack of available funding, which was often compounded by a mismatch between the pricing expectations of buyers and sellers.

Activity continued to be limited through the first half of 2010 (insurance deal values fell by €3bn to €9bn for the year overall). In the second half of the year, however, momentum began to gather again. Consolidation vehicle Resolution Plc’s €3.3bn takeover of AXA’s UK life and pension subsidiaries in June 2010 was in some respects a turning point (see Figure 1). Announcing the takeover in June 2010, John Tiner, CEO of Resolution Plc, said: ‘We see a strong pipeline of potential further consolidation steps.’ Resolution followed up the AXA deal with the €188m acquisition of BUPA Health Assurance in October 2010.

So why is M&A back on the agenda? Rising financial asset values have given boards greater confidence and balance sheet flexibility. In turn, finance is now more readily available. This includes renewed opportunities for leveraged deals, which are attracting fresh interest from private equity firms. Finally, the price expectations of sellers and buyers are now moving closer into line. Recent activity includes the takeover of Brit Insurance by Achilles, a private equity consortium formed by Apollo Global Management and CVC Capital Partners. Achilles’ initial offer of £10 per share in June 2010, which valued the company at £785m, was rejected. The parties eventually agreed on a valuation of £11 per share in October, which valued the company at £888m. The agreement represented a premium of nearly 50% on the share price when Achilles made its initial offer.
Building scale

Consolidation will help insurers to build scale and sustain margins in a slow-growing and still generally fragmented sector. The mutual sector will continue to be a particular focus as firms struggle to compete with larger, better resourced and more diversified incorporated competitors. In France, a spate of mergers has seen the number of mutuals fall dramatically in recent years. Key deals finalised in 2010 include the union of Matmut, Maïf and Macif, with the merged group becoming the market leader in vehicle insurance. As we examined in an article last year, Solvency II looks set to reinforce the pressure for consolidation among smaller and monoline insurers. In particular, many will seek mergers to help diversify their risks and so reduce their capital requirements (see ‘Waking up to new realities – The impact of Solvency II on strategy and M&A activity in the insurance industry’ in our February 2010 edition).

Significant future M&A opportunities include the insurance arms of ING and the Royal Bank of Scotland (RBS), which need to be divested following agreements with the European Commission over state funding. ING’s European insurance business is particularly sizeable, combining significant operations in the Benelux with strong growth positions in a number of developing Southern and Eastern European markets. In November 2010, ING’s Board announced that it would be exploring the option of a separate IPO for its US and European insurance businesses. RBS Insurance is a UK-focused business which brings together some of the country’s leading brands including Churchill and Direct Line. RBS Insurance had previously been the subject of an unsuccessful auction. However, the uplift in bid prices and more positive market sentiment seen in 2010 suggest that a more successful outcome may be possible when RBS Insurance eventually comes back on to the market.

Figure 1: Top ten European insurance deals in 2010

<table>
<thead>
<tr>
<th>Month</th>
<th>Target company</th>
<th>Acquirer company</th>
<th>Deal Value (€m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun</td>
<td>AXA SA (UK life and pensions businesses)</td>
<td>Resolution Plc</td>
<td>3,330</td>
</tr>
<tr>
<td>Oct</td>
<td>BRIT Insurance Holdings N.V (formerly BRIT Insurance Holdings Plc)</td>
<td>Achilles</td>
<td>965</td>
</tr>
<tr>
<td>Jan</td>
<td>Atradius Group (36% stake)</td>
<td>Grupo Catalana Occidente SA; INOC SA</td>
<td>537</td>
</tr>
<tr>
<td>May</td>
<td>Ascot Seguros Generales (50% stake); Ascot Vida (50% stake)</td>
<td>Mapfre SA</td>
<td>447</td>
</tr>
<tr>
<td>Aug</td>
<td>Nykredit Forsikring A/S</td>
<td>Gjensidige Forsikring BA</td>
<td>336</td>
</tr>
<tr>
<td>May</td>
<td>Secura NV</td>
<td>QBE Insurance Group Ltd</td>
<td>267</td>
</tr>
<tr>
<td>Jul</td>
<td>Kwik Fit Insurance Services</td>
<td>Fortis (UK) Limited</td>
<td>260</td>
</tr>
<tr>
<td>Jun</td>
<td>Fiba Sigorta AS</td>
<td>Sompo Japan Insurance Inc</td>
<td>253</td>
</tr>
<tr>
<td>Sep</td>
<td>Allianz Allgemeine Versicherungs-Gesellschaft AG; Phenix Lebensversicherungsgesellschaft AG; Phenix Versicherungsgesellschaft AG</td>
<td>Helvetia Group</td>
<td>230</td>
</tr>
<tr>
<td>Feb</td>
<td>Aegon NabestaandenZorg NV</td>
<td>Egeria BV</td>
<td>212</td>
</tr>
</tbody>
</table>

Source: mergermarket, Reuters and Dealogic

10 Libération, 24.03.09.
11 ING media release, 26.10.09 and RBS General Meeting Statement, 15.12.09.
12 ING media release, 10.11.10.
Growth opportunities
As insurers look to offset stalling growth in mature home markets, there is likely to be renewed focus on the relatively under-penetrated South Eastern European markets. The Turkish life insurance sector could prove especially attractive, with increased demand for pensions and term life products fuelling growth of more than 7% in 2009. With premiums making up just 1.3% of GDP in Turkey, the lowest rate in Europe, the potential for further market expansion is evident (this compares to 3.8% in Poland and 10.3% in France). 13 Notable deals in 2010 included Vienna Insurance Group’s (VIG) takeover of TBIH, a Dutch business with insurance operations in Turkey, Georgia and the Ukraine. 14 VIG subsequently reaffirmed its commitment to cross-border expansion with the acquisition of InterAlbanian, which has made the Austrian group the largest vehicle insurer in Albania. 15

UK leads the way
With the two largest European insurance deals in 2010 (the takeovers of Brit and AXA’s UK life insurance businesses), the UK is setting the pace for M&A. Figure 2 sets out the top five deals in the UK in 2010. The popularity of price comparison sites has driven down premiums and added to the pressure to either consolidate or buy intermediaries to help sustain margins. Further impetus for acquisitive growth comes from the fact that the market capitalisation of the biggest UK insurers, Prudential (€19bn) and Aviva (€14bn), is still dwarfed by the giants of European insurance, Allianz (€45bn), AXA (€35bn) and Generali (€24bn). 16 Some groups may also be looking to switch their primary focus to faster growing emerging markets, which may open up divestment opportunities at home. Prudential’s global ambitions were highlighted by its €25bn bid for AIA. 17 A further focus is the London Market, with a number of companies attracting interest from both within the market and abroad. As the Brit takeover highlights, potential buyers include private equity firms (the bulk of Brit’s ongoing business comes from its Lloyd’s operations). 18 Other mooted deals have included Beazley’s bid for smaller rival Hardy Underwriting. 19

Figure 2: Top five deals in the UK in 2010

<table>
<thead>
<tr>
<th>No</th>
<th>Month</th>
<th>Target company</th>
<th>Acquirer company</th>
<th>Deal Value (€m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Jun</td>
<td>AXA SA (UK life and pensions businesses)</td>
<td>Resolution Plc</td>
<td>3,330</td>
</tr>
<tr>
<td>2</td>
<td>Oct</td>
<td>BRIT Insurance Holdings N.V (formerly BRIT Insurance Holdings Plc)</td>
<td>Achilles</td>
<td>965</td>
</tr>
<tr>
<td>3</td>
<td>Jul</td>
<td>Kwik Fit Insurance Services</td>
<td>Fortis (UK) Limited</td>
<td>260</td>
</tr>
<tr>
<td>4</td>
<td>Oct</td>
<td>Bupa Health Assurance Limited</td>
<td>Resolution Plc</td>
<td>188</td>
</tr>
<tr>
<td>5</td>
<td>May</td>
<td>Standard Life Healthcare Limited</td>
<td>Discovery Holdings Limited</td>
<td>163</td>
</tr>
</tbody>
</table>

*Source: mergemarket, Reuters and Dealogic*

13 World Insurance in 2009, published by Swiss Re Sigma on 29.06.10.
14 VIG media release, 23.07.10.
15 VIG media release, 06.12.10.
16 Valuations as of 03.02.11 (Reuters).
17 Daily Telegraph, 02.06.10.
18 Brit Insurance group fact sheet, as at 31.12.09.
19 Daily Telegraph, 16.12.10.
As insurers look to offset stalling growth in mature home markets, there is likely to be renewed focus on the relatively under-penetrated South Eastern European markets.

**Editorial eye**

While it may be some time before we see a return to the pre-crisis M&A levels in the European insurance industry, deal appetite is returning. The strong underlying rationale for consolidation can only increase in Western European markets that are fragmented and struggling to sustain growth. In turn, a greater meeting of minds between buyers and sellers on pricing is helping to bring more acquisitions to fruition. However, investors will have no hesitation about pulling the plug on any deal they believe is over-priced. They also want assurance that the target’s risks and the balance sheet impact are understood and factored into the bid.
UK mid-market deal activity gathers pace

The increase in UK mid-market deal activity is set to be one of the key M&A trends of 2011, as a combination of greater confidence and the growing impetus for consolidation spur renewed interest in acquisition.

There were just a handful of financial services acquisitions worth more than a billion euros in the UK in 2010. Away from the headlines, in the mid-market deal arena (transaction value of €50m–€150m), activity was much more buoyant. As Figure 1 highlights, the leading deals in this area of the market span broking, insurance, asset management and fast growth niche segments. A high proportion of the buyers have come from overseas.

Consolidation has been a key factor as companies look to build scale and extend their market reach. Deal appetite is growing as confidence improves and access to finance increases. In turn, the range of targets on offer has been bolstered by the divestment of non-core assets by larger corporations.

The acquisition of certain parts of RBS Asset Management by Aberdeen Asset Management in January 2010 encapsulates a number of the trends that have been propelling the growing momentum in the mid-market. Building on Aberdeen’s acquisition of £50bn of assets under management (AUM) from Credit Suisse in 2009, the RBS deal added a further £13.5bn of AUM. The RBS transaction also provided entry into the fund of hedge funds market and an opportunity to become exclusive provider of investment products to Coutts, RBS’ private bank.20

Other targets that have come onto the market as a result of rationalisation by larger groups include Peel Hunt, the London stockbroking arm of Belgian bank KBC. Although the broker was thought to have attracted interest from a number of its peers, the company was eventually sold to a management-led consortium.21 The purchase price of £89m is less than half of the figure paid by KBC when it acquired Peel Hunt in 2000, highlighting the reassessment of market values following the financial crisis.

Inbound investment

Renewed interest from abroad is another key feature of mid-market activity, as international groups look to build their footprint in the UK. One of the key drivers for foreign acquisition within the broking sector is a desire to gain access to the specialist expertise and international reach that has been built up within many mid-size UK firms. Examples include the Portuguese Banco Espirito Santo’s (BES) purchase of a majority stake in broker Execution Noble, which is part of BES’ plan to develop a leading presence in emerging market investment banking.

Key attractions of the deal for BES include Execution Noble’s ‘critical mass in differentiated emerging markets including Brazil, India, Poland and increasingly Africa,’ along with its ‘highly rated Indian equity research product’.22 While just below the €50m threshold, this trend can also be seen in Religare Capital Markets’ acquisition of the UK operations of Barnard Jacobs Mellet, which is aimed at adding ‘market leading distribution and execution for South African equities’ to Religare’s rapidly expanding emerging market franchise.23 The acquisition will also enable Religare to extend its presence in the UK, following its purchase of UK Broker Hichens, Harrison in 2008.24

A number of niche areas are also attracting foreign interest, including sub-prime lending. Examples include US-based Dollar Financial Corporation’s acquisition of Purpose UK, a company which provides short-term, small sum loans under the brand Payday UK.25 As PwC’s latest Precious Plastic consumer finance study highlights, small ticket lending is primed for further growth as funding constraints put pressure on mainstream credit and increasing numbers of consumers find themselves
unable to access finance from traditional sources. Further acquisition within sub- and near-prime lending could be on the cards as the segment adjusts to the post-crisis environment.

In turn, the past year has seen increased private equity interest in mid-size companies, especially the London Insurance Market. Examples include US-based Corsair Capital’s €111m investment in Torus, a specialty insurer. A further €25m has come from First Reserve Corporation, Torus’ majority shareholder. ‘We are extremely pleased to receive this endorsement of Torus from Corsair, an experienced investor in the financial services industry with a long and successful track record of supporting high growth insurance companies,’ said Torus Chief Executive Clive Tobin.

Looking ahead
Looking ahead to 2011, consolidation and inbound investment will continue to increase. Regulation will provide a further catalyst for activity in a number of sectors. As we outline in ‘Capitalising on a resurgent insurance deal market’ on pages 10 –13, smaller and monoline insurers may seek mergers to help diversify their risks and so reduce their capital requirements under Solvency II. The Retail Distribution Review (RDR) will provide further impetus for consolidation among independent financial advisors and asset managers. As advisor remuneration moves to a fee basis, some IFAs may seek to join forces or buy companies with specialist wealth management expertise to broaden their advisory and service capabilities. As greater transparency and competition put further pressure on charges, asset managers may also look to offer more value-adding advice and services to make up for potentially lower fee income.

Another focus of activity will be loan portfolios as banking groups look to improve liquidity and de-risk their balance sheets in the lead up to Basel III. As the UK banking regulatory landscape continues to be reshaped, we expect to see more mid-sized deals in loan portfolios and other non-core assets.

Realising deal value
The evaluation principles and execution strategies of M&A in the mid-market are no different to higher value deals, including effective due diligence and post-merger integration. However, realising the value of mid-market acquisition places a number of additional demands on the buyer. Smaller companies are likely to have less experience of preparing for transactions and therefore some of the key information may not be readily available. It is therefore important to liaise closely with the target company or seek out alternative sources of data and analysis.

The management team is also particularly crucial to the success and value of the firm. It is therefore important to discern whether their continued presence is part of the deal and to build in appropriate incentives to encourage their support and retention.
Looking Ahead

We expect European private sector financial services M&A to increase again in 2011. Restructuring in the banking sector will remain the central driver of activity, but we expect the need for growth, the impact of regulation and the role of private equity to exert increasing influence on deal-making during the year.

If crisis management was the driving force behind European financial services M&A during 2008 and 2009, then restructuring – particularly in the banking sector – was the dominant theme of 2010. As discussed in 'Data Analysis', private sector deal-making recovered some of its momentum during the year, suggesting that 2009 may have marked the bottom of the M&A downturn. We are also encouraged by the fact that much of the growth in deal values in 2010 was driven by mid-market deals, rather than by a handful of very large transactions.

Despite the abrupt slowdown in deals during the fourth quarter of 2010, we see several reasons to be optimistic about the prospects for European financial services M&A in 2011. At a high level, the process of restructuring in European banking has a considerable distance to run. A number of banks still need to make disposals in order to comply with EU state aid conditions, and the prospect of Basel III will further encourage some banks to divest businesses which are sub-scale, remote from their home markets or poorly aligned with core activities. Respondents to our annual survey of the prospects for financial services M&A seem to agree, with more than half predicting that non-core sales will be the most dominant theme of M&A in 2011 and 2012 (see Figure 1).

We also see further scope for consolidation in relatively fragmented banking markets such as Italy, Spain and Germany. In this context, it is interesting to note that 82% of those responding to our survey expect to see appetite for large deals increasing during the coming year (see Figure 2).

More specifically, we identify three factors that we expect to see playing an influential role on European financial
services M&A during 2011. These are growth, regulation and private equity.

- **Growth**: In a world of low interest rates and low returns on invested capital, financial services companies with surplus capital will be keen to develop new growth avenues. Rationales for acquisition will include accessing new customers, developing new product expertise and entering faster-growing markets. As a result, we expect the recovery in cross-border deals seen during the third quarter of 2010 to pick up again during the year.

- **Regulation**: 2010 saw a wave of national, European, US and global regulation unleashed on the financial services sector. The resulting uncertainty was seen by some commentators as having put a brake on deal-making during the year. We now feel that regulation will emerge as a factor behind M&A during 2011. Regulation is rarely a primary driver of transactions, but as the requirements of new initiatives become clearer we expect them to have an increasing influence on strategic decision-making. As more firms make decisions about the markets they want to be in for the medium to longer term, restructuring will naturally follow.

- **Private equity**: In ‘Data Analysis’ we examined the increasing influence of private equity capital on European financial services M&A during 2010. Private equity activity across all sectors has begun to recover from its 2009 low, but the pick-up has been relatively strong in the financial services arena, with arguably more sponsors looking to invest in financial services than during the boom years.

We expect 2011 to see a further increase in deal announcements involving private equity firms, whether as direct bidders, as providers of finance or via secondary buyouts. It is notable that our survey respondents expect private equity firms to be relatively prominent investors in financial services during 2011 and 2012 (see Figure 3).

Only time will tell what impact these factors will have on financial services deal activity during 2011. Even so, we are hopeful that the lull in M&A during the fourth quarter of 2010 will prove to be the calm before the storm, not a sign of things to come.

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**Figure 2: How respondents expect appetite for large deals to develop over the coming year**

Source: European FS M&A online survey, Dec ‘10 – Jan ‘11

**Figure 3: Percentage of respondents rating each type of investor as ‘most prominent’ for M&A during 2011 & 2012**

Source: European FS M&A online survey, Dec ‘10 – Jan ‘11

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29 Refer to article ‘Regulatory overhaul in European asset management set to drive M&A’, European Financial Services M&A Insight, September 2010, published by PwC.
The ‘Data Analysis’ and ‘Looking Ahead’ sections in this issue include financial services deals:

- Reported by mergermarket, Reuters and Dealogic;
- Announced during 2010, and expected to complete;
- Involving the acquisition of a >30% stake (or significant stake giving effective control to the acquirer);
- Acquisitions of Europe-based financial services targets where a deal value has been publicly disclosed.

Since 2009, our data coverage has included Dealogic information. However, comparative figures for previous years have not been restated.

Our analysis also excludes deals that, in our view, are not ‘pure’ financial services deals involving corporate entities or entire operations, e.g. real estate deals and sales/purchases of asset portfolios where the disclosed deal value represents the value of assets sold.
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About the survey conducted for this study
Between December 2010 and January 2011, PricewaterhouseCoopers (UK) conducted an online survey of a sample of its European financial services clients, gathering their responses to key questions about the development of M&A activity during 2011 and 2012. There was a spread of respondents from banking, insurance, asset management, private equity and other sub-sectors of financial services.