

Insurance: Cowdrey buys, but who is selling?

Clive Cowdrey has acquired Friends Provident for his Resolution II vehicle. BRAVE Partners joins the debate on what next for Resolution. It looks like the UK life insurance consolidation trade is over for now.

April 10, 2010

Bloomberg is reporting that “Clive Cowdrey ‘missed his chance’ to buy UK insurers after prices jumped”. BRAVE Partners sees this as the macros scale version of a perennial problem for insurers. The issue is that the price of small sales of assets by distressed players is confused for the price at which a large undistressed party would also sell.

Fire sale is over

There was a time when it looked as if there was going to be a huge insurance fire sale. All of AIG’s units seemed to be on the block. The Hartford was melting down and rumours were rife that their life business had to go. Even in the UK, a major newspaper ran a headline stating that Legal and General needed to raise £3bn in fresh capital.

A few businesses were sold in this environment, but not at really low prices. Moreover, AIG’s large life businesses did not sell. Despite persistent M&A rumours, AIA and ALICO remained with AIG. Clearly price was an issue in the discussions.

Sale of the Century

As prices have recovered, so has M&A activity. AIG has recently announced the sale of AIA to Prudential plc for \$35bn, the largest life insurance acquisition ever. ALICO is also being sold to Met Life for \$15bn. These deals are unique. They are a part of the reorganisation of AIG and are unlikely to be repeated in the short term. Both deals significantly changed the industry landscape.

What next for Resolution

The original Resolution strategy involved rolling up the closed life insurance businesses of a number of larger financial services groups. The current targets are all pure life insurance businesses and those still writing business.

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The sale of both of the AIG businesses changed the landscape of the market. This firm does not see any other deals of this size and significance on the horizon. It is unlikely that Legal and General would be sold to Resolution as rumoured during the financial crisis.

That said, there was gossip that Prudential would sell its UK business to pay for AIA. BRAVE Partners is sure that Resolution would want to be at the front of the queue for that sale.

So, for Resolution there is possibly a single large deal on the horizon; but there will be many issues to reaching a deal – not least the Prudential policy holders themselves. Many Prudential policies are bought for the security of the brand and a change of ownership to a single investor might well cause concern.

Where Resolution might be better served is in consolidating a number of smaller players and even looking outside the UK. Royal Liver is in the process of being acquired by Royal London and Ergo, Munich Re's primary business in Germany, has just announced the closure of its Victoria brand. Neither of these deals changes the insurance landscape as would the acquisition of Prudential plc's UK business or the acquisition of L&G, but both would be a solid addition to the Friends Provident business already owned by Resolution.

Added value

Resolution is unlikely to succeed by buying businesses really cheap. The AIG situation has demonstrated that the sellers just don't sell at really distressed levels. However, there is plenty of scope for operational gains in many life insurance businesses which can still allow a life insurance roll up strategy to produce attractive returns for investors.

BRAVE Partners services

BRAVE Partners can advise companies on their business and capital strategy to enhance their position in the M&A market. The firm believes that 2010 will be an active M&A year, but not as active as some might hope. The firm believes that the most significant activity will be between mid-tier firms seeking to increase their size and business diversification ahead of Solvency II.

Interaction

If you enjoyed this commentary and would like to receive a weekly update by E-Mail, then please contact BRAVE Partners on commentary@bravepartners.com

- Bloomberg reports that Resolution has missed the boat for buying life insurance businesses cheap.
- BRAVE Partners is not convinced that there ever was a boat. AIG was a forced seller and AIA and ALICO did not end up in a fire sale.
- Whilst it is unlikely that Resolution will be able to acquire any of the major UK life businesses, especially not cheaply, BRAVE Partners believes that there are still attractive deals for it to do.
- BRAVE Partners LLP can advise life insurance businesses on their capital and business strategy to maximise their position within the current M&A activity.

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