CLYDE&CO

Corporate Insurance M&A –
A global overview 2009 - 11

Contents

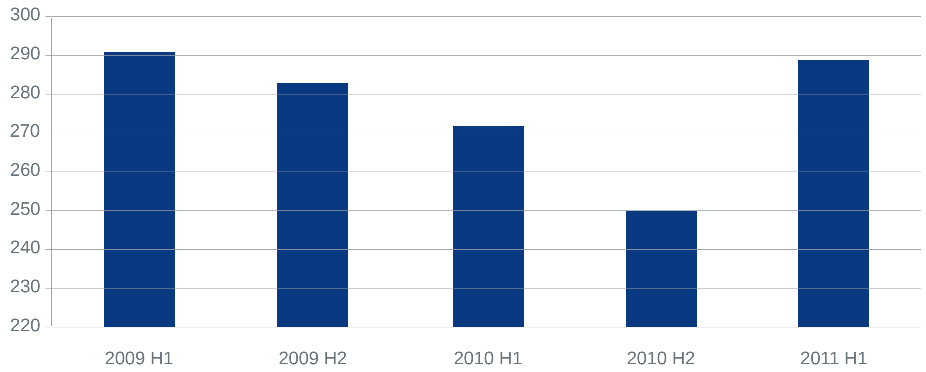
Executive Summary

Welcome to our first report on mergers and acquisitions (M&A) activity in the global insurance underwriting market. Based on data supplied for completed transactions between January 2009 and June 2011 by Thomson Reuters, our corporate insurance specialists around the world have put together a review of key trends and activity in their regions.

Overall, as with other sectors in the financial services industry, strategic M&A activity within insurance went into decline in the immediate aftermath of the financial crisis. With economies in recession and balance sheets depleted, management were keen to avoid any activity – particularly M&A – that might threaten or create uncertainty over capital positions. Even when good opportunities were identified, many fell at the first hurdle either due to a lack of available funding or a mismatch in pricing expectations between buyers and sellers.

However, after a declining trend through 2009 and 2010 (see chart below), this year has seen activity pick up sharply, albeit with some regional variations.

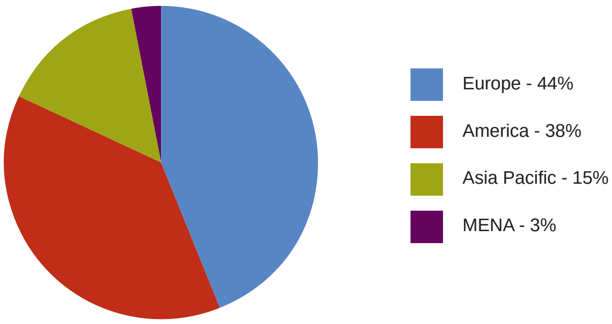
Volume of deals completed globally: 2009 - 2011



Overall, Europe accounted for 44% of the deals in the period, and had the highest volume of insurance M&A in 2009 and 2010. However, the number of deals conducted in the region has seen a sharp year-on-year decrease; down by 21% in 2010 and by 14% in the first half of 2011 compared to the same period the previous year. This has meant that Europe's dominant share of the global insurance M&A market fell from 51% in 2009 to 30% in 2011.

In terms of the volume of M&A activity taking place in Asia Pacific, levels of activity were steady in 2009 and 2010 with 69 and 66 deals respectively. As a consequence, the region accounted for around 12% of global insurance M&A activity over these two years. The first half of 2011, however, saw this number rise dramatically with more deals than the whole of 2010, representing over 23% of global M&A volume for this period.

M&A activity 2009 - 2011 by region



From 2009 to 2011 the Americas accounted for a significant proportion of global M&A activity in the insurance sector, with steady year-on-year growth as a proportion of all deals made around the world. The region's share of global M&A only increased 5% – to 43% – in 2011 as the total number of deals done globally rose sharply, although this was sufficient for the region to overtake Europe as having the largest share of all deals done.

So, what has changed? Certainly, rising financial asset values have given boards greater confidence and balance sheet flexibility. There has also been more readily available finance, including leveraged deals, which are attracting private equity firms. The final element is that buyers and sellers are more closely aligned on what the price should be.

Wherever they operate, there is a growing understanding that insurers need to build scale.

Global trends

While the credit crunch largely inhibited M&A activity, one key driver has been deals actually driven by the fallout from it, particularly disposals of assets by re/insurers looking to repay government bail-outs, shore up their balance sheets, or forced sales by regulators. The most prominent among these has been the sale by AIG of its life insurance businesses, particularly American Life Insurance Company and AIA Group Limited. This is an on-going trend, as demonstrated by the predicted sale by Royal Bank of Scotland of its insurance subsidiaries in the UK; DirectLine and Churchill.

There is also strong evidence that – almost irrespective of the geography in which they are operating – there is a growing understanding that insurers need to build scale in order to strengthen their balance sheets and sustain their margins. Examples of this trend abound: the merger of Nipponkoa and Sompo in Japan in 2010 which was designed to consolidate market position in an industry beset by stagnant premiums; the acquisition of AXA APAC by AMP to help their move into developing markets in Asia; RSA's purchase of Al Ahlia Insurance in Oman to consolidate its market position in the Middle East; and Resolution's buyout of AXA Life as another step in the consolidation of the UK's life insurance market.

Businesses with effective management and underwriting teams, which are able to deliver consistently strong returns, are well positioned in this trend, as the view of many shareholders is that they would prefer better or more focused management teams to look after bigger businesses.

There is also a desire to create an optimum size – a trend that seems particularly prevalent in the reinsurance space as cedants look to minimise their counterparty credit risk. When the class of 2001 set up their reinsurance businesses in Bermuda, typical critical mass to be taken seriously appeared to be around $500 million; by 2005, this had doubled to $1 billion. By the time of the financial crisis, a serious market player was closer to $3 billion – and now the floor appears to be rising further as the top 10 reinsurers all have total shareholder funds of more than $5 billion. The desire to increase scale further will undoubtedly drive businesses to look at strategic deals. The current discussion around the possible merger of Allied World and Transatlantic Holdings appears to be a good example of this trend. If it happens, the new entity will have $8.5 billion in total capital to support future growth and enhance revenue opportunities.

There is a consolidation trend in emerging markets as they reach new levels of maturity.

In many of the emerging markets, there is also a consolidation trend as the markets reach new levels of maturity. Earlier stages of development tended to see numerous start-ups in the insurance sector – not all of which had the critical mass to survive going forward. In many markets, therefore, a wave of merger activity is predicted to create fewer, stronger businesses.

The final component is the imminent arrival of Solvency II in Europe and its equivalents elsewhere. This will mean an increased focus on capital requirements and a review by re/insurers of both their books of business – live and in run-off – and the capital they require. This will undoubtedly trigger a range of corporate activity from capital raising to sales and purchases. Buyers will hope to apply more effective capital management techniques to companies that may have been operating relatively inefficient structures, while sellers will be looking to reduce the capital required.

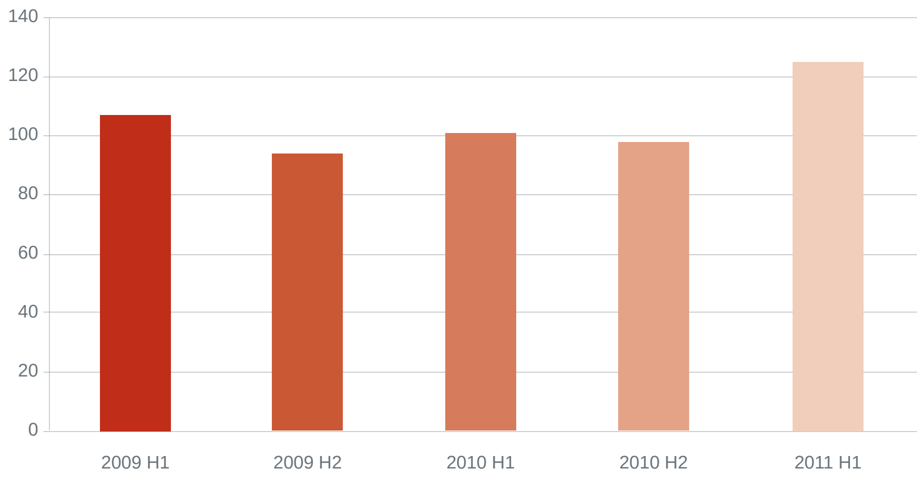
We believe that this trend for increased M&A activity is set to continue in the coming years as regulators and customers look for strength and stability in the risk transfer business. For a more in-depth local perspective, or a view on cross-border transactions, please don't hesitate to contact our regional partners listed at the back of this report.

Andrew Holderness
Global Head of Corporate Insurance

The Americas

The M&A market in the Americas has shown a consistent level of activity over the last two years, with 2009 and 2010 seeing a similar number of deals – around 200 – in each year. However, this has taken a step up with the first half of 2011 witnessing 125. Within the region the USA is by far the most active country in the insurance M&A market with 410 deals over the entire period under consideration, which accounts for 75-80% of the activity in the Americas. The USA has also seen some of the world's largest deals in recent years, such as Metlife's buyout of the American Life Insurance Company for $15.5 billion in 2010.

Volume of deals in the Americas



Other countries in the region – such as Canada and Brazil – have seen some activity, albeit at much lower levels. Similarly there has been a small but steady stream of deals in Argentina, Chile, Peru and Mexico. Bermuda saw a sharp rise in deal activity in 2010, but has since dropped back in 2011.

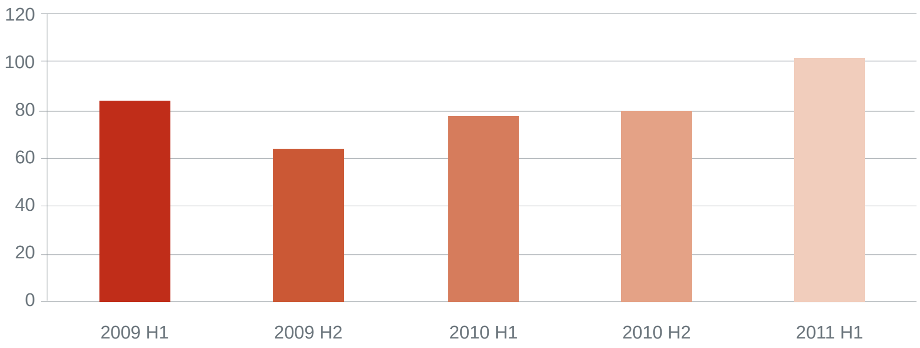
Regulation is influencing US transaction activity in both a positive and a negative way.

The United States

M&A activity in the US accelerated in 2010 – especially in the second half of the year and, even without including the potential Transamerica Re transaction, the deal momentum appears to have carried forward through the first half of 2011. There are a number of main themes particular to the insurance sector that are driving corporate activity, including: the soft property/casualty insurance and reinsurance premium levels that have reigned for the last seven years; a challenging investment climate; the imbalance of both of over- and under-capitalized companies operating in the same insurance arenas; and related concerns as to the implementation of solvency standards.

As with other regions of the world, regulation is influencing US transaction activity in both a positive and a negative way. It is casting a shadow over all aspects of the US insurance industry and bringing with it a high degree of uncertainty. We expect that this will continue to influence transactions during 2011 and beyond. As a consequence, much of the expected deal activity will not only take the form of traditional M&A transactions, but will also take the shape of alternative structures such as closed block, loss portfolio, Part VII transfers and similar such deals.

Volume of US deals by half year



The shadow of regulation

Each of the many facets of the US insurance markets; life, property, casualty, monoline (e.g., financial guaranty and title insurance), excess and surplus lines, is affected by the complex matrix of insurance regulation and oversight that overlays the industry. In addition, depending upon the individual characteristics of each particular company – the lines of business they write, their size, the geographical regions in which they are writing risks and their investment portfolios – they react very differently to the legislative environment. The sheer weight and complexity of US regulation is clearly illustrated by the laundry list of recent regulations impacting the insurance markets. For example:

- The Dodd-Frank Act of 2010 through the establishment of a Federal Insurance Office within the Treasury Department and the Nonadmitted and Reinsurance Reform Act of 2010.
- The granting of authority for the Treasury, Department and the US Trade Representative to enter into so-called 'covered agreements' that can pre-empt certain state laws.
- Oversight by the Federal Reserve if the Financial Stability Oversight Counsel determines a company to be a systemically significant entity, and regulating the use of over-the-counter swaps (to the extent the insurer is deemed a 'major swap participant').
- In addition, the National Association of Insurance Commissioners (NAIC)'s Solvency Modernization Initiative requires enhanced reporting and monitoring requirements, as well as covering capital and reserve requirements (including risked based capital), risk analysis and standards, and regulatory preventative and corrective actions and enforcement.

In recent years, there also have been numerous changes to state insurance laws and regulations – far too many to list here.

Deals are focused on lines of business where economies of scale can be achieved and efficient distribution channels built.

Solvency II also directly affects US insurers in that it requires them to increase capital standards for insurance exposures on a principal based basis. It also affects them indirectly in that companies in the EU and other relevant jurisdictions may have less capital available for reinsurance and other such transactions. Add to that new and additional issues raised by the rating agencies – particularly Standard & Poors, Moody's, Fitch and AM Best – and the resulting effect may be a cautioned drive towards a greater number of M&A transactions. The most recent investment valuation "reset" from S&P's downgrade of US treasuries has yet to completely filter through to the market and, notwithstanding public comments to the contrary, may very well drive valuations downward and transactions forward.

Market rationalisation

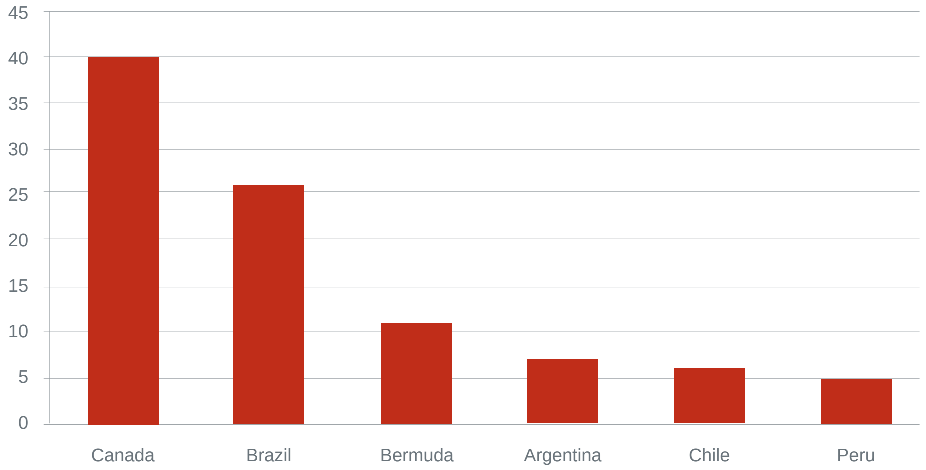
Overall, the trend has been for deals to rationalise market participants, and to create insurers and reinsurers with a more efficient allocation of capital that is strategically focused on lines of business where economies of scale can be achieved and efficient distribution channels built. Putting aside the largest transactions, the greatest volume of M&A activity has been deals such as bolt-on/bolt-off transactions. Of the $81+ billion in transactions reported thus far in 2011, in terms of size, the vast majority of such deals were $200 million or less. These deals tend to be tactically driven and are often structured to transfer lines of business that were deemed to be inefficient (or, in the buyer's case, additive to existing lines of business) and improve the parties' balance sheet strength, operating performance and business profile in front of the rating agencies.

These deals are most often a reaction to the problems of growth during a soft market, and to the fact that M&A does not always produce the desired results. Buyers have looked long and hard before signing, and often have structured deals that stop short of an outright acquisition; for example, acquiring portfolios, renewal rights, marquee underwriters or MGAs that control distribution.

In the life sector, 2010 was dominated by two very large domestic deals; American International of Group's $15.5 billion sale of its American Life Insurance Company to MetLife Inc, and its sale of other subsidiaries to Prudential Financial Inc. Thus far during 2011, all but three reported deals have transaction values less than $1 billion and only 15 with a value in excess of $100 million. A common theme in these "smaller" deals appears to be sellers looking to exit from underperforming subsidiaries and redeploy their capital to more strategic endeavours. In a search for growth, insurers need to ensure that all business lines are generating sufficient returns, or alternatively divest themselves of these businesses to build elsewhere.

With an avalanche of legal and regulatory change affecting the insurance market, combined with slow economic activity, uncertain insurance and reinsurance pricing, questionable balance sheets, and sluggish domestic organic growth, many insurers in the US will continue to focus on alternative M&A deals. These will improve their financial statements and ease the burden of US insurance legal and regulatory compliance, as well as the resulting capital changes.

Deals in the Americas by country: 2009 - 2011



Canada

Canada's insurance sector is strong in global terms. It is of sufficient size that many players can achieve economies of scale, even if they focus on particular geographic areas or product niches. The sector is completely open to foreign competition, with the result that it has access to capital and world-class products. By most metrics, the sector has remained resilient in the face of the brutal volatility in the financial markets and the recession in the US, following the global financial crisis in late 2008.

However, Canadian insurance companies are having a tough time achieving growth internally and the conditions are right for M&A deals: the market remains fragmented, investment yields are likely to remain low for some time, returns are inadequate for many companies, and there is excess capacity. In addition, there is an increasing divergence in financial results between top tier and bottom tier performers. There are a number of players that are well-positioned as potential acquirers.

RSA Insurance Group, one of Canada's largest property and casualty insurers, is expected to complete the purchase of Expert Travel Financial Services Inc, one of the country's largest travel and health insurance distributors, in a strategic acquisition intended to create a better, vertically-integrated business model. Mike Wallace, SVP of Personal Specialty Insurance & Reinsurance at RSA, said, "This is part of our long-term strategy of consolidating the Canadian insurance industry, and I would say this is not the last one we'll do".

Other recent moves include Intact Financial Corp's $2.6 billion acquisition of AXA Canada to cement its spot as the largest property and casualty insurer in the country. Acquisitions are also enabling insurers to diversify their distribution platform and embrace new methods of interacting with clients. For example, in June 2011 Vebnet – Standard Life's employee benefits consultancy and technology provider – formally announced a tie-up with Vielife, the online health solutions and wellbeing consultancy acquired by CIGNA in 2006.

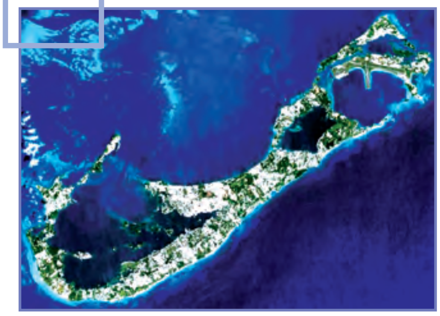
With almost 160 different companies operating in Brazil, there are ample opportunities for consolidation.

Brazil

The insurance market in Brazil is the largest in South America, and offers the potential to become a more prominent international insurance market across all disciplines. Recent economic stability, positive credit trends, and the regulatory reforms that have stabilised the currency and promoted domestic savings have all contributed to continued growth across the industry. However, there are almost 160 different companies operating in the Brazilian insurance industry, the most dominant of which tend to be controlled through the big commercial banks, so there are ample opportunities for consolidation.

One fly in the ointment for the Brazilian insurance industry is the recently enacted reinsurance regulations that require 40% of all reinsurance business to be allocated to Brazilian companies, rather than the current ruling granting them the right of first refusal. The legislation would further prohibit local insurers from ceding more than 20% of premium, related to coverage provided, to affiliated intra-company reinsurers located abroad. These regulations could threaten the market and severely reduce the availability of insurance in Brazil, according to a coalition of 18 international insurance associations from Europe, Asia and the Americas, which has set out its concerns in a letter to the Brazilian government and called for the regulations to be revoked.

In spite of continued regulatory hurdles, large multinational insurers cannot ignore the market's size and growth potential and will be looking to invest themselves further in Brazil, for example New York-based Travelers entered the Brazilian market by acquiring a 43% stake in surety insurer J Malucelli Participacoes em Seguros e Resseguros for $410m.



Bermuda

Bermuda remains one of the largest and most important markets for insurance globally. With 16 of the world's top 35 reinsurers, according to ratings agency A.M. Best, the island has the world's largest property-catastrophe reinsurance market, supplying 40% of the US and EU markets, as well as more than 1,000 captive insurers.

However, one of the biggest issues currently facing the Bermudan insurance industry is the US corporate tax policy bill, which would add to the tax burden on the island's reinsurers. The proposed legislation would stop non-US insurance groups with subsidiaries ceding some of the risk to an offshore affiliate reinsurer to reduce taxes. The Association of Bermuda Insurers and Reinsurers has strongly opposed the bill, suggesting that it would be counterproductive for the US since it would raise the burden on consumers and reduce insurance coverage.

In Bermuda, one of the biggest issues currently facing the industry is the US corporate tax policy bill.

The global nature of the larger Bermudan insurance companies is such that they would be able to mitigate the impact of an adverse change in US tax law, but conditions in the reinsurance market could spark a wave of consolidation.

The past decade saw waves of start-ups entering the market to take advantage of sharply rising rates in the aftermath of different catastrophic events. The so-called 'Class of 2001' was joined in 2005 by another gaggle of entrants, following a severe hurricane season in the US. As many as 20 start-ups entered the market during these two waves, among them larger, now well-established operators such as Axis and Arch. Now, after several years of falling prices, many reinsurers may be approaching the point where they can no longer boost earnings by releasing reserves from earlier more profitable years. Organic growth has been hard to find and valuations have been in a long period of decline. The industry has been trading at a substantial discount to book value since late 2008. This has already prompted some consolidation – including Partner Re's $2 billion deal to buy Paris Re and Validus's $1.4 billion purchase of IPC – to broaden portfolios and strengthen balance sheets. In July 2011, Validus launched a hostile takeover bid for Transatlantic Re, which could herald a new round of consolidation in the reinsurance market.

Argentina

In Argentina, continued consolidation of the insurance industry is likely to be led by the biggest local and existing international players, as well as insurers linked to large banks seeking to boost their productivity, reduce costs and expand their business. The majority of M&A activity is likely to involve domestic players that are more accustomed to the multiple risks – political, legal and economic – that are present in the Argentine market, while those foreign insurance companies looking to enter will probably do so as part of a regional growth strategy rather than specifically investing in the local market.

Chile

The repercussions of the Chilean earthquake are still playing out.

Foreign investment in the insurance market in Chile is well-established, and three of the top five non-life insurers belong to foreign groups and have around 32% of the market. While some consolidation has taken place, the number of non-life companies has varied little over the past 10 years, falling only from 25 in 1997 to 20 at the end of 2009.

The major recent event for the Chilean insurance market was the 2010 earthquake, the repercussions of which are still playing out. Claims payments are putting a severe strain on local insurers' cash flow and the slowness of reinsurance payments, many of which were still outstanding at the start of 2011, is viewed as a huge potential problem by some of the domestic insurers. This may force some corporate transactions.

In addition, insurers are coming to terms with – and preparing for – the demands of new legislation. Risk-based capital and supervision and increased corporate governance requirements that are coming into effect will possibly drive some consolidation in the market as smaller players struggle to comply.

Peru

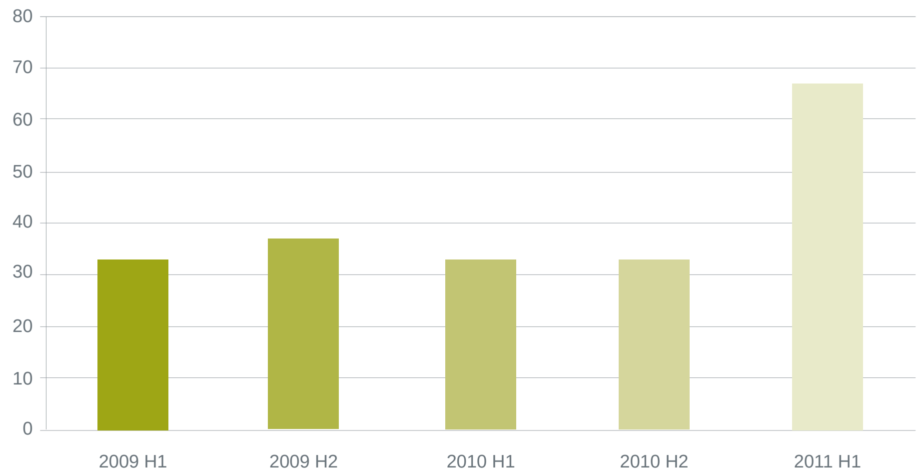
Although there are fewer than 20 registered insurance companies in Peru, the market has seen considerable M&A activity in the last decade. Rimac International, the leading insurer in all classes of business, with 42.9% of the non-life market at the end of 2009, built its dominant position through a series of acquisitions. MAPFRE Peru – part of the major Spanish group – has grown its presence in the country through a mix of acquisitions and organic growth.

In the most recent big insurance deal, in July 2009, American Life Insurance Company (Alico) acquired the 20.1% shareholding of American International Underwriting Overseas (AIU) in El Pacífico Peruano Suiza Compañía de Seguros y Reaseguros, Peru's second largest insurer. Alico already owned 38% of Pacífico Vida. Future significant deal activity in Peru is unlikely.

Asia Pacific

Unlike the Americas and Europe, Asia-Pacific was relatively unscathed by the impact of the global recession, so it is perhaps unsurprising to see a sharp upturn in insurance M&A in the first half of 2011, especially as Western markets continue to struggle to shake-off their post-crisis hangovers. The first half of 2011 saw more deals than the whole of 2010, representing 23% of all global M&A activity in the insurance underwriting sector for this period.

Volume of deals in Asia Pacific

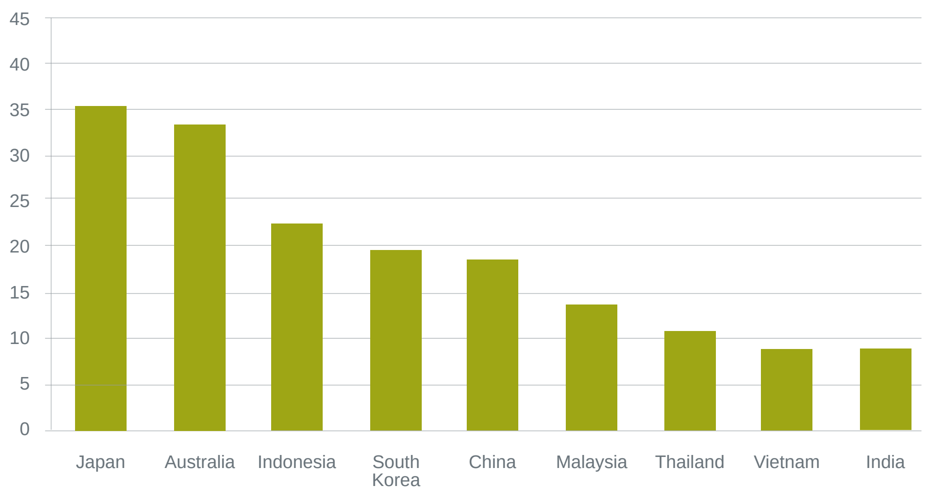


The largest increase in the volume of transactions was in China – the number of deals in the first half of 2011 was double that of the previous full years, and it accounted for 15% (up from 6%) of M&A activity in Asia-Pacific. Other countries also witnessed modest increases in activity between 2010 and 2011, including Australia, Japan, India, South Korea, Indonesia and Malaysia.

Across the region there are two distinct themes driving corporate transactions: the consolidation of local markets in order to create businesses with more robust balances sheets, and the desire of international insurers to offset stalling growth in mature home markets by expanding into these growth sectors.

Companies are looking towards M&A to create businesses with more robust balance sheets and to offset stalling growth in mature markets.

Deals in Asia Pacific by country: 2009 - 2011



Post-tsunami, there is an expectation that the leading Japanese insurers will now need to diversify their risk portfolio through the purchase of overseas assets.

Japan

While there has been a flurry of corporate transactions in Japan in recent years, it is unlikely that this trend will continue since the country's insurance industry is now dominated by three main insurers who between them control 70% of the market – Sompo Japan Insurance Inc., Mitsui Sumitomo Insurance Group Holdings and Tokio Marine. This dominance was strengthened in 2010 by two big domestic deals – Sompo's acquisition of Nipponkoa Insurance Company Ltd. for $4.4 billion and Mitsui's purchase of Aioi Insurance Co. Ltd. for $3.7 billion. This means that it is very difficult for new players to gain a foothold in the market – especially since the big three Japanese insurers are major shareholders in many of the country's biggest corporates giving them considerable leverage in the market. Employment legislation is another factor which has a direct impact on corporate transactions. Companies are often discouraged from entering into a merger or acquisition because employment laws mean that realising synergies and cost savings will take time.

As a result the market is relatively static; all of the major international insurers have a presence in the market but are finding it difficult to generate significant growth. Likewise, smaller Japanese insurers struggle to challenge the dominant position of the big three.

Historically, Japanese insurers have kept a significant amount of reinsurance in the domestic market – a decision whose consequences are being felt in the aftermath of the devastating earthquake and tsunami. Although the impact of this has been reduced by the Japanese government stepping in to cover losses, there is an expectation that the leading Japanese insurers will now need to diversify their risk portfolio through the purchase of overseas assets.

Australia

The markets to the south of the region are in 'wait and see' mode as the full extent of the fallout from this year's catastrophic losses work their way through the system. In Australia, while the total reported losses are significant, the amount actually retained by local companies is very low. Suncorp revealed in June 2011 that it had gross catastrophe losses of $3.69 billion in Q4 2101 and Q1 2011, but net exposures of just $429 million. The key issue now is what happens to reinsurance premiums in the next round of renewals: if rates rise by as much as 15% for catastrophe cover, this will feed through to the bottom line of primary insurers. Further catastrophe events will inevitably compound difficulties in the market and share prices for the larger insurers are already under pressure.

This pressure may be in some part alleviated by a campaign backed by the Australian government in the wake of the floods to raise awareness of the importance of insurance among the general population. This includes the temporary removal of agents' commissions for a short period. In general, Australians are under-insured and many were left without cover in the aftermath of the floods, and the government was forced to step in. If heavy catastrophe events continue at the rate of two or three a year, people are going to think closely about their choice of insurer and will likely lean towards the security of a strong brand.

The region is very much on the radar of Asian companies that would like to expand into this area, but it is already highly concentrated with Insurance Australia Group (IAG) having around 40% of the market, and Suncorp having 34%.

IAG is looking to further tighten its grip domestically and recently completed the acquisition of HBF's non-life business. In addition to its renewed expansion efforts in Australia, IAG has also proclaimed its interest in Asia with investments in China and India. IAG hopes to increase its Indian footprint further by setting its sights on the equivalent of US$1 billion of gross written premiums by 2016, and it announced in August 2011 that it had made a strategic investment in China and that it hopes its Asian investment will contribute to "ten per cent of the Group's gross written premium by 2016".

Indonesia

This is another very exciting market, currently generating a level of interest on a par with China ten years ago. There is a sense that it is a sleeping giant, offering real opportunities for those insurers that can establish a presence in the country, and conditions for corporate activity are encouraging, with permitted levels of foreign investment at 80%. However, the domestic market is very fractured and, as smaller companies encounter difficulties in complying with new regulations, this will likely generate a wave of consolidation as they seek to avoid run-off.

South Korea

While South Korea is the tenth largest insurance market in the world by premium volume, and the third largest in the region (behind Japan and China), it cannot yet be described as mature and offers excellent prospects for growth. The regulatory regime has been strengthened, which may lead to some consolidation as smaller companies in particular struggle to comply with new risk-based capital requirements. Others, meanwhile, may be encouraged to seek stock exchange listings – resulting in improved transparency overall.

The market is dominated by a handful of domestic players that have a level of scale and financial strength that would make them titans by the standards of virtually all other countries. Almost all major companies are looking to improve profitability – whether by taking steps to increase sales, develop new products, refine portfolios of products, or reduce costs and claims. They may also look for growth further afield and to diversify their risk portfolios through the purchase of overseas assets.

Many of the leading foreign insurers have taken the view that the opportunities in South Korea are too good to ignore. ACE entered the market in early 2011 with the acquisition of New York Life's operations in the country, while Manulife is looking for a suitable entrance point.

China remains a top priority for insurers, both inside and outside the region, looking for growth opportunities.

China

China remains a top priority for insurers, both inside and outside the region, looking for growth opportunities – either entering the market, increasing their existing market share, or improving profitability. While the period between 2004 and 2007 was a time of significant corporate activity in China – with a sharp increase in the number of smaller regional insurance companies – this slowed considerably during the global recession.

The appetite from foreign investors may still be strong, but barriers to entry are not insubstantial and the domestic market is dominated by a handful of former state-owned giants – all established players with huge strengths in terms of branding and branch networks. Companies looking to open an office or a subsidiary in China will discover a number of hurdles. For example, Chinese law

The slowdown in the stock market is presenting a problem for those Chinese insurers that have been compensating for weak underwriting by relying on investment income. This may create targets for consolidation.

requires that new market entrants have a 30-year operating history; foreign insurers are required to hold assets greater than US$5 billion; and the application process to obtain an insurance licence can take more than three years.

Perhaps most significantly, the maximum level of foreign equity participation in Chinese domestic insurers remains unchanged at a maximum of 20%. Despite an expectation that this would be relaxed to 49%, this increase has not yet materialised, nor seems likely to. This means that for foreign companies looking for a way in, a joint venture is the natural solution; but these opportunities are scarce. In the general insurance market, the handful of companies that dominate the market have had established relationships with their foreign partners since 1998.

Demand therefore exceeds supply, with lots of companies looking to buy but few willing to sell. When a target does become available, the competition is fierce and the price high – so companies need to decide if they are willing to pay the premium required.

However, the fragmentation of the market is of some concern to regulators, and a number of central government policies are being introduced that are designed to drive consolidation in the industry. This trend may be exacerbated by recent equity market falls. While insurers in China have been generating impressive investment returns in the last several years, the slowdown in the stock market in the first six months of 2011 (the Shanghai Stock Exchange has fallen by 20%) is presenting a problem for those insurers that have been compensating for weak underwriting by relying on investment income. This too may create additional targets for consolidation.

Malaysia

With strong prudential and regulatory frameworks, Malaysia is one of the more advanced insurance environments in the region and, as such, is attracting a lot of interest from foreign insurers. In *Routes to growth*, Clyde & Co's 2011 report on the London market looking towards the emerging economies of Asia, a straw poll of key players ranked the country second – behind China – in the list of territories where they were looking to create or expand a presence.

The Malaysian government has recently issued a new policy announcement aimed at encouraging international involvement in the country. The level of permitted foreign ownership has been increased from 30% to 40% in recent years, and then again to 70%. New lines of business may be a driver of deal activity as insurers investigate opportunities in areas such as takaful or microinsurance.

Thailand

Despite Thailand's political problems and a mixed economic outlook there was a major improvement in the fortunes of the insurance sector in 2010, which registered double-digit growth for the first time since 2006. The competitive landscape in Thailand has remained broadly unchanged in the last few years with more than 90 insurance companies active in the country, including more than 60 non-life insurers – a relatively large number considering the size of Thailand's economy.

In order to strengthen the industry, the Office of the Insurance Commission (OIC) has encouraged mergers and acquisitions. In 2008 new legislation introduced risk-based capital requirements with the expectation that this would lead to the market being awash with M&A activity as small and medium-sized insurers sought to consolidate as a survival mechanism. The resulting deal activity has in fact been limited, although in March 2011 the OIC revealed that four groups of insurance companies were actively seeking to merge.

A number of further developments could drive further consolidation. The OIC is considering a 'single presence' policy in line with the Bank of Thailand's financial master plan, which would force commercial banks from the same group to merge or amalgamate into a single entity. There has also been an increase in interest among banks in acquiring further stakes in insurance companies, for example in early 2011 Kasikornbank acquired an additional stake in Muangthai Life.

Vietnam

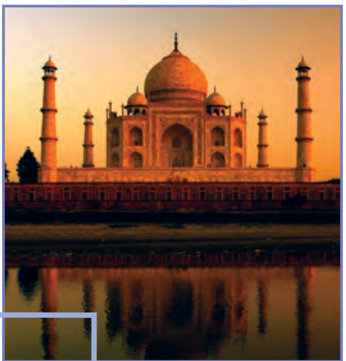
Anecdotal evidence suggests that there is a lot of interest in Vietnam. A number of large multi-national players have been establishing a presence there over the last couple of years – licences are relatively easy to obtain – however there is clearly over-capacity in the market. This too may lead to the withdrawal of less successful businesses or merger activity to create fewer, stronger players.

India

The large Indian banks are sensing an opportunity to expand into insurance and utilise their extensive infrastructure to create distribution networks.

India is widely recognised as a market with huge potential given the size of its population, the pace of economic growth, and low penetration rates for insurance (just 0.6% in the non-life and 4% in the life market). However, restrictions on the extent of foreign investment participation continue to hamper insurers looking to play a more significant role. The foreign direct investment limit currently sits at 26% and an increase to 49% has been expected for some time. A new government bill to affect this change is awaiting final approval by the Indian Parliament and, once passed into law, it is expected that foreign insurers already operating in the country through joint ventures will look to exercise their options up to the new limit. The new bill will also permit foreign re/insurance companies to set up branches in India and will likely result in an increase in corporate activity in this segment.

In the meantime, state-owned insurers continue to dominate. The four largest state-owned insurance companies (New India, National Insurance, United India and Oriental Insurance) account for about 60% of the premiums written in the non-life segment. Life Insurance Corporation of India (LIC) accounts for nearly 75% of life premiums, with ICICI Prudential and Bajaj Allianz the next largest players.



As foreign insurers wait in the wings for a more substantial role, the large Indian banks are sensing an opportunity to expand into insurance and utilise their extensive infrastructure to create distribution networks. Both the Punjab National Bank and the State Bank of India, one of the most recognised brands on the sub-continent, have been in widely reported negotiations with a number of foreign insurers. They have been encouraged by recent speculation that India's Insurance Regulatory and Development Authority (IRDA) is considering relaxing the bancassurance rules by allowing banks acting as corporate agents to distribute the products for more than one insurance company.

In total, India currently has fewer than 50 insurers, compared to around 400 in China. However, a number of large Indian corporates from outside the financial sector, attuned to the possible scale of investment returns, have entered the market in partnership with insurers. Recent draft guidelines issued by IRDA will allow insurers to list publicly for the first time; up to this point, all non-state owned insurers have been privately-owned. Once insurers begin to list, corporate activity will increase as companies look to monetise their investments and pursue new opportunities.

Cross-border activity

There are a number of insurers in the region, especially in China, which have the scale and the intention to become truly global players.

There are a number of insurers in the region, especially in China, which have the scale and the intention – certainly in the long-term – to become truly global players. Historically, Chinese companies have not always met with success as they have pursued opportunities overseas – Ping An's acquisition of Fortis in 2006 being perhaps the most notable example, resulting as it did in write downs of around US$5 billion.

Asian insurers may well then remain wary, perhaps not yet considering themselves to have the market expertise to compete effectively in the international market. Looking at the catastrophe markets in general, they will be seeing a real level of risk and will likely proceed quite cautiously. Anecdotal evidence seems to back this up, suggesting that Asian insurers are looking to dip a toe in the water and limit themselves to taking strategic international investments of around 5-10%.

Attention in the short-term may be focused more closely on opportunities closer to home. The suggestion that Shanghai could be gearing up to launch an international insurance exchange has been well trailed and a clearer view of where this is heading is likely by the end of 2011.

Europe

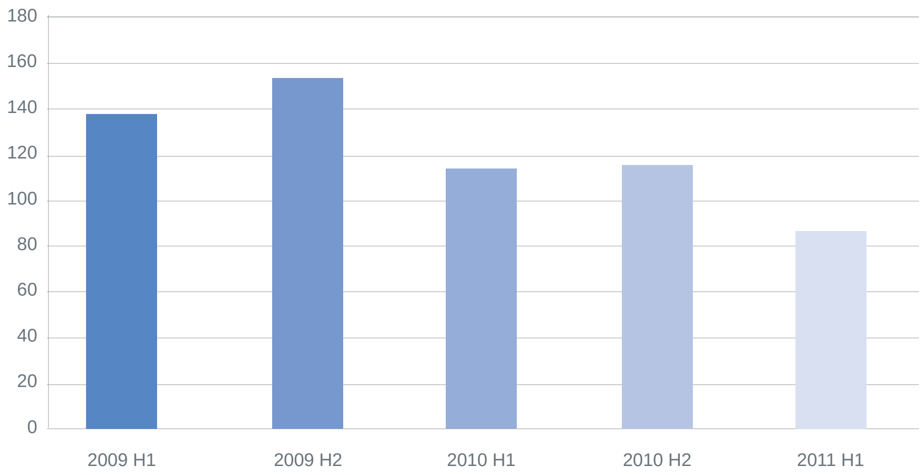
Although Europe accounted for just under half of all M&A activity between 2009 and the first half of 2011, the flow of transactions has been decreasing over the period. Within the region, the UK set the pace in 2010 with two of the largest deals (the takeovers of Brit and AXA's UK life insurance business) and has dominated the picture overall. The UK and Russia saw most deals by some margin, accounting for 45% of those taking place in Europe between 2009 and 2011. Other countries have generally generated less than 10% of deal flow although there have been peaks of activity in particular countries: for example the Ukraine saw 45 deals – or nearly 16% of European activity – in 2009, and Spain accounted for 10% of all deals in the first half of 2011.

The issue of pricing is a key driver for corporate transactions of all kinds.

With the current soft market now in its seventh year, the issue of pricing is a key driver for corporate transactions of all kinds – either because an on-going lack of profitability causes investors to take a hard look at their business models, or because when premiums start to increase, companies become more attractive to acquirers. This, combined with the significant disruption to the industry expected from the introduction of Solvency II, means the number of transactions in the underwriting space is only going to increase.

However, the spectre of acquisition mistakes made during the last soft cycle may act as a deterrent – or at least a cautionary tale – for businesses looking to do deals.

Volume of deals in Europe



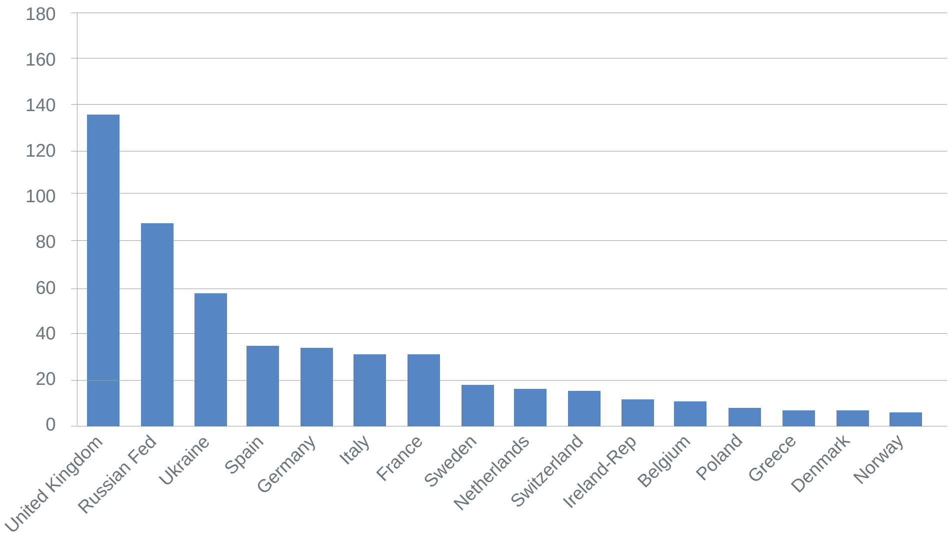
Responding to regulatory changes

The changes being made to prepare for Solvency II are making European insurers look carefully at the composition of their portfolios – both live and in run-off – and the capital that these require. This is creating a fertile environment for many types of corporate activity, including disposals, acquisitions and restructurings. Businesses may look to add on something different in terms of risk to diversify their profile, both through the acquisitions of shares and business swaps or reinsurance-type deals with an effective exchanging of risk in order to diversify. There will a lot more of these innovative deals driven by a need for capital efficiency.

There are also a number of conversations taking place between re/insurers and investment banks about how to achieve portfolio diversity using derivative products. It is expected that, while these do have some potential, they may not be the panacea that some financial advisers expect and there is some nervousness within the regulatory community. Nevertheless, some businesses will try this route – and if it does not deliver the right solution – they still have time to look at disposals or portfolio rebalancing.

For historic reasons, some insurance groups have also created underwriting platforms in a number of different jurisdictions (all affected by Solvency II) and to continue with all of them will lead to capital inefficiencies. Therefore, there are a number of restructurings taking place where aspects of regulatory, tax and capital regimes are being assessed to find the most efficient single platform. The almost inevitable result of this is that a disposal programme to achieve the optimal capital position – so that renewal rights or individual books of business are put up for sale.

Deals in Europe by country: 2009 - 2011



United Kingdom

In the personal lines market in the UK, there are a number of underlying difficulties on the retail side that might cause businesses to seriously consider mergers and acquisitions. RSA's move for Aviva's UK and Irish business last year was an example of exactly this trend. Pricing in the retail markets remains very soft, with excess capital and buyers reducing their spend on insurance or deciding that they don't have as many possessions to insure. So, retail insurers are struggling with high costs, expensive distribution, lower demand and low investment returns on capital – and a deteriorating claims picture partly driven by the recession.

However, while consolidation may seem an attractive option to acquire economies of scale and reduce costs, there are other transactions that are being pursued. For example, the bigger businesses are still looking to acquire new forms of distribution to increase their market penetration. Since their claims handling costs are broadly fixed, adding premiums without having to add much 'insurance manufacturing' resource is an attractive option. Those businesses with the best distribution models will have the most value in terms of M&A; simply acquiring liabilities is not seen to benefit anyone.

Expanding into different lines of business is also an increasing trend. For some, this means expanding into new products within the retail sector – for example, pet insurance. For bigger players, it may mean creating presence in the commercial lines – for example, Aviva has re-entered the London market after exiting it in 2000.

In the life sector, further consolidation is likely, particularly at the smaller end of the market. This, combined with the fact that there are already relatively few larger players in the sector, means that it is attractive to new entrants. This may come from two different areas: either international insurers with life expertise that can start business in the UK with a clean slate, or businesses that can design new products to deal with increased longevity or impaired lives.

Significant future opportunities are likely to result from the sale of the insurance arms of ING and RBS following agreements with the European Commission over state funding. ING's European insurance business combines significant operations in the Benelux countries with strong positions in a number of markets in Southern and Eastern Europe. In November 2010, ING's board announced that it would be exploring the option of a separate IPO with its US and European insurance businesses.

RBS Insurance has previously been the subject of an unsuccessful auction. However, a more positive market sentiment should help when it does come back on the market. In the interim, a great deal of restructuring will take place to make it as attractive as possible – although with a fixed end date and tough market conditions to contend with – this may not be a simple process.

Lloyd's

There are three key areas to corporate activity at Lloyd's. The first is transactions between companies that are already operating in the market; the second is start-ups; and finally, there is incoming investment by acquisition.

Mergers between equals in the market have always had a tricky path and have generally seen more talk than action. Start-ups too have been hard to achieve with the doorway to the market increasingly narrow. With on-going excess capital and a soft market, the Franchise Board is setting tough criteria for new entrants, who have to clear some substantial hurdles to gain entrance to the market. The stiffer requirements for entry mean that those aspiring to underwrite at Lloyd's are left with buying smaller managing agencies as the most likely route in.

The vast majority of M&A activity has been the acquisition of Lloyd's vehicles by external investors and other insurers. This first emerged about a year ago with Apollo's interest in Brit Insurance, and has been followed by the sale of Chaucer to US insurer The Hanover, and Jubilee's sale to Ryan Speciality. The last 12 months has seen almost all the small-cap quoted vehicles rumoured to be 'in play' – some with a number of possible suitors being mooted.

Market watchers are increasingly of the opinion that there is a drive to increase the scale of the operations in the market, and this means that Lloyd's businesses with a market cap of less than £500 million will find it hard to survive in their current form. Some attribute this perceived need for scale to the compliance demands of Solvency II, while others say staying competitive means having technical sophistication around subjects such as modelling that smaller players find hard to achieve. As part of a larger multinational operation, businesses can achieve back-office efficiencies and reduced capital requirements through diversification.

Those aspiring to underwrite at Lloyd's are left with buying smaller managing agencies as the most likely route in.

With price and personality being two of the key axis on which most deals turn, the fact that an external buyer is more likely to leave the executive team in place removes one of the significant hurdles to deal completion.

For other businesses, the external interest in acquiring a Lloyd's business provides a timely exit from the market. In some cases, this is driven by a desire to expand into new markets, while for other loss-making businesses, for example motor underwriters, the owners are looking to squeeze a premium while pricing remains strong. However, this does not mean that buyers are looking for entry at any price – a number of 'For Sale' signs have gone up and come down again, with very little interest being shown.

The success that Lloyd's has achieved in managing down its legacy liabilities has also meant that there is almost no activity predicted in the RITC arena. In 2005, there were 102 open year syndicates at Lloyd's with around £7 billion of gross reserves; by the end of 2010, this had been reduced to just ten open years, with gross liabilities of £1 billion.

Run-off

Another area in which consolidation is attracting more interest is the run-off market, both life and property and casualty, as books of business become more mature and organisations become more comfortable with the risk profile. As with areas of the live market, it makes sense to amalgamate small books of business to achieve capital and/or operational efficiencies.

There have been a number of examples of this increased level of activity focussed on individual books of business. For example, in June 2011 Swiss Re completed two major deals to acquire non-life exposures. In the first transaction, Swiss Re acquired the UK-based property and casualty run-off business of Zurich Financial Services. This transaction freed up $360 million of capital for Zurich and is part of a strategy to divest non-core assets and release up to $1.5 billion of capital. In the second deal, Swiss Re agreed to take on all the property and casualty run-off businesses of Interinco NV, the former reinsurance captive of the Fortis Group. Swiss Re is on the record as saying: "We are interested in and are present in this area, and in this sort of property and casualty run-off deal", suggesting that these may not be the only deals at which they are looking. Bermuda-based Catalina also completed its acquisition of Glacier Re in 2011 – its fourth deal in two years – and has said it is "actively exploring a strong pipeline of opportunities in the run-off sector".

Russia

Prior to the financial crisis in 2008, M&A activity in Russia was focussed primarily on large foreign investors – such as AXA and Allianz – investing in local insurers. In the last two years this focus has shifted dramatically and, while the number of deals remains high, they have been driven by a trend of local consolidation with the number of active insurers dropping significantly from 918 in 2006 to 648 in March 2010.

This trend has been fuelled by increased capital requirements being imposed by the Federal Service for Insurance Supervision (FSSN) – the local insurance supervisor – that began to cancel the licences of companies who could not meet the increases and to impose new regulations to replace some of the financial instruments used in the past to satisfy these requirements.

M&A activity is likely to continue as doubts remain about the sufficiency of the capital base of many insurers, particularly regarding the mid to smaller companies. In March 2010 the financial market committee of the Duma (Parliament) approved a fourfold increase in insurers' minimum capital requirements to RUR120M. This figure will be doubled for life insurers and quadrupled for reinsurers. There are also concerns that those with weaker balance sheets are cutting rates to uneconomic levels to generate cashflow and to buy time. All of this should drive further consolidation going forward.

Insurers will look to less developed parts of Europe to seek out relatively under-penetrated markets.

Continental Europe

Solvency II will continue to drive corporate activity in Europe. For example, the mutual sector (particularly strong in countries like France) may struggle as firms try to compete with larger, more diversified incorporated competitors. In France, merger activity has seen the number of mutuals fall sharply – in 2010 the union of Matmut, Maif and Macif created a market leader in vehicle insurance. Smaller and monoline insurers will also seek diversification benefits through mergers to reduce their capital requirements.

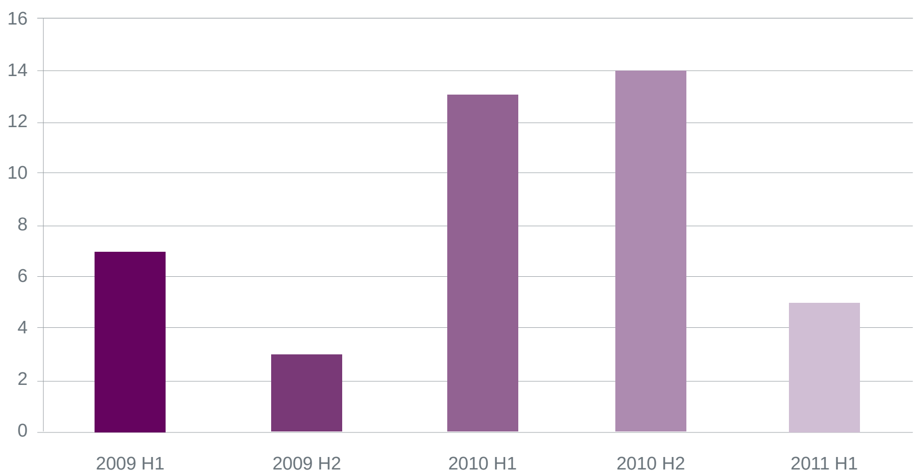
Insurers will also look to less developed parts of the region to seek out relatively under-penetrated markets – particularly in the South East. For example, the Turkish life insurance sector could be attractive as demand for pensions and short term life products grew 7% in 2009. With premiums only accounting for 1.3% of GDP, the lowest rate in Europe, the potential for further expansion is clear. Examples of this type of cross-border interest are seen in Vienna Insurance Group's acquisition of InterAlbanian, making the Austrian group the largest vehicle insurer in Albania.

Middle East

Given the developing status of many of the states across the Middle East, corporate transactions in the insurance market have historically not followed any clear pattern. However, the region is ripe for M&A activity and, in certain quarters, this is beginning to be actively encouraged by the regulators. This is good news for global insurers who, over the last ten years, have increasingly seen the Middle East as an important region for extending their global footprint given its young and relatively affluent population and historically low insurance penetration.

This appetite amongst foreign investors to increase their presence – either through acquisition, increasing their share in existing joint ventures or entering new markets – is still strong. However, despite the overhaul and continued development in the region's regulatory regimes, in many territories the ability of the international insurance industry to expand its operations remains limited. A key challenge for the region's regulators over the years to come will be how best to accommodate this international interest through regulatory and legal reforms, whilst balancing the needs of local stakeholders. It remains the case that a homogenous regional market with passporting rights across the region is still some way off and establishing a regional hub does not provide access to all markets, so that it is necessary to establish licensed operations in each individual country.

Volume of deals in the Middle East

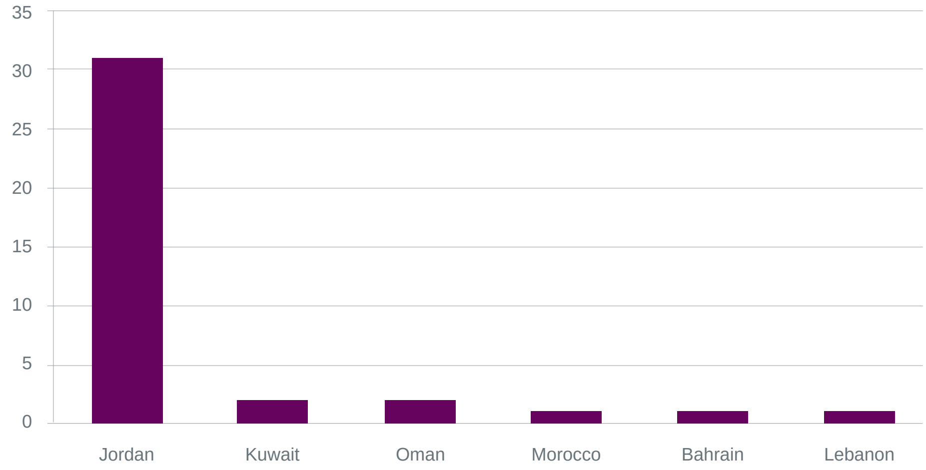


The Middle East is ripe for M&A activity and, in certain quarters, this is beginning to be actively encouraged by the regulators.

Deal volume rose considerably in 2010 with 27 transactions compared to ten the previous year. This gave the region a 5% share of global insurance M&A activity. The upsurge in activity was seen in Jordan – the region's biggest player in terms of insurance M&A. While this is a limited market, it has the regulatory and corporate frameworks in place to facilitate such transactions.

There have also been acquisitions in other territories. In February, 2010 RSA Insurance Group plc (RSA) announced the acquisition of Al Ahlia Insurance Company SAOC – the third largest insurer in Oman. Paul Whittaker, CEO of Emerging Markets at RSA, commented, "The acquisition of Al Ahlia creates a market leading insurer in Oman and enhances our Emerging Markets platform in the Middle East." The transaction was expected to create the largest insurance group in Oman by net written premium.

Deals in the Middle East by country: 2009 - 2011



A developing market

Historically, insurers have used a variety of corporate structures in different parts of the region to establish a local presence. These include establishing branches, joint ventures with local insurers, historic 'grandfathered' licenses, and setting up in newly-established financial centres in the Middle East such as the Dubai International Financial Centre (DIFC) or the Qatar Financial Centre (QFC).

Significant steps have been taken in the region to overhaul creaking regulatory regimes, in order to bring them in line with other progressive steps across the regional economies. In Saudi Arabia, for example, an intensive regulatory overhaul begun in 2004 is finally beginning to show signs of achieving the goal of a structured insurance industry within the Kingdom. Similar reforms have been underway in the United Arab Emirates (UAE) since 2007. However, in common with many local regimes, the regulatory developments remain a work in progress, and are often accompanied by the attendant teething pains of a new system. Regulatory reforms aside, the underlying legal framework across the region has tended to lag behind the industry reforms being implemented and, as a result, corporate activity in the region is still challenging.

Notwithstanding the inherent difficulties, there is a growing sense in the region that some consolidation in the insurance industry is to be encouraged – to have fewer companies with stronger balance sheets and greater market presence. Speaking about the development of the insurance sector in the Middle East, Ashraf Bseisu, CEO of the Bahrain-based Solidarity Group said: "With more than 400 insurers in the Mena region, we need to see some consolidation. Unfortunately, while the considerable pent-up demand for corporate activity is apparent on all sides, there are a number of legislative and regulatory issues that need to be resolved to actually make it happen."

There is a growing sense in the region that some consolidation in the insurance industry is to be encouraged - to have fewer companies with stronger balance sheets and greater market presence.

The challenge for the region's regulators will be to allow consolidation within the market, alongside an improvement in standards, while accommodating local interests. A key factor to take into consideration is the high number of family-owned insurance companies and banks in the region, which will inevitably present political challenges to consolidation. From the international perspective, foreign insurers will be looking to ensure they are part of this consolidation process, and in doing so are able to enhance their presence across the region.

A realistic timetable to see a significant increase in M&A activity is likely to be in the next three to five years.

As with the rest of the world, the region has not been immune to the global financial crisis, and in some countries steps have been taken to limit new entrants, which directly impacts on the prospects for further foreign investment. For example, in December 2008, a moratorium was imposed by the Insurance Authority in the UAE on the licensing of new branches of foreign insurers. Saudi Arabia has also indicated that no new participants will be permitted.

The establishment of specialised financial centres in the Gulf Cooperation Council, most notably in Qatar, Bahrain and Dubai, has allowed international insurers to establish a foothold in the region. The ability of these players to participate in local markets, in particular at the direct level, does remain restricted. However, the financial centres do continue to lead the way in the level of world-class regulation they have introduced to the region. They are also responsible for introducing new forms of risk management (e.g. captive insurers) to the region.

Steps in the right direction

Different countries have been looking at the steps they need to take – either through insurance regulation or changes to corporate structures – to remove the roadblocks to transactional activity. However, in most cases it is still very much work in progress. Bahrain has actually implemented changes to allow growth, although recent political unrest is likely to have moved the island further down foreign investors' priorities. In Saudi Arabia, regulators have limited the number of entrants and are actively encouraging the development of a healthy market-place which will encourage consolidation and the weeding out of poorer performing companies.

The UAE has also indicated it is giving careful consideration to the structure of the corporate market – and appears to be rethinking current restrictions on foreign ownership, and taking steps to redressing the lack of liquidity in the public stock of insurance companies. New legislation currently scheduled to come into effect in 2012 will require all composite insurers to split their life and non-life interests into separately capitalised businesses. It may be that divestment of parts of their operations will encourage M&A activity and see a realignment of players in the market. Foreign insurers will be eagerly awaiting any opportunities that these developments will present.

All of these steps however are likely to take time, and therefore a realistic timetable to see a significant increase in M&A activity is likely to be in the next three to five years.

Intra–regional activity

Given the challenging regulatory and legal framework, aside from start-ups in the financial centres and within the structured environment created by the Saudi Arabian reforms, the only deals that have been done have been in recent years have been relatively opportunistic. As well as RSA's acquisition of Al Ahlia Insurance Company in 2010, in another significant deal for the regional market in the same year, Zurich Insurance Co. Ltd., a subsidiary of Zurich Financial Services AG, the Swiss insurer, acquired Compagnie Libanaise D'Assurances (CLA), a privately-owned Lebanese insurance company founded in 1951 and located in Beirut. While that market by itself might be relatively limited, the company did have onshore licenses in six other regional jurisdictions, and branches in the UAE, Kuwait and Oman. The transaction is notable since it will

allow Zurich to make available its full range of insurance products to customers and distribution partners in the new Middle East markets where CLA is already operating, complementing Zurich's existing branch operations in Bahrain and the Dubai International Financial Centre.

From a local participant perspective, there have been various initiatives to expand local insurance interests across the region. The Qatar Insurance Group has a regional footprint which extends across Kuwait, the UAE and Oman and has set up QIC International and Q-Re in the Qatar Financial Centre to consolidate its international activities. The Dubai Insurance Group also has interests in Turkey and Oman.

On the burgeoning health insurance front, Munich Re is using its successful joint venture with the Abu Dhabi government and the National Health Insurance Company (Daman) to access other regional markets.

Regional political developments have also recently encouraged a degree of regional re-shuffling as companies who are headquartered in Bahrain look to move their operations to the UAE – seeking greater political stability. These ongoing developments could give rise to some changes in the local markets.

Takaful

Takaful continues to present an enormous potential opportunity for the insurance industry: 23% of the world's population is Muslim and the worldwide takaful insurance market is projected to grow by 31% in 2011, up to a possible value of US$12 billion. This represents an important potential market for multinational insurance companies searching for new sectors and continued opportunities for growth. The Middle East presents significant opportunities for the takaful market as penetration amongst the local population will likely only be improved through the availability of insurance products that reflect local cultural and religious requirements.

However, establishing a takaful operator in the Middle East is not without its own regulatory and legal challenges for example:

- the level of structuring required for an insurance operation to be sharia-compliant is not insignificant;
- there is a talent issue: overcoming a chronic skills shortage, given the limited number of Islamic scholars and insurance professionals experienced in insurance;
- there remains a lack of well rated retakaful operators to support the nascent takaful industry; and
- the diversity of Islamic investments remains limited, with concerns about the lack of an Islamic equivalent to a long-term bond being of particular concern for the family takaful (life insurance) sector.

Despite this, there have been a plethora of takaful operators set up across the Middle East markets in recent years, competing for a slice of what remains a relatively small (albeit fast growing) market at present. How many of these players will succeed remains to be seen. There undoubtedly is scope for consolidation amongst the smaller players in order to achieve economies of scale to offset start-up costs.

From an M&A perspective, takaful operations do present some unique challenges for potential investors compared to other forms of insurance operations.

The larger international insurers are continuing to look at takaful opportunities, keen to establish first mover advantage and get their brands into the market to build a position of strength. This is evidenced by the establishment by Allianz, Hannover Re and Chartis of takaful operations in Bahrain.

From an M&A perspective, takaful operations do present some unique challenges for potential investors compared to other forms of insurance operations. These challenges principally arise out of the need to ensure that the operations of the target company have been conducted in a Shari'a compliant manner and will typically require the assistance of Islamic scholars to review the rulings of the operator's existing Shari'a advisory board, the operations of its internal Shari'a compliance officer and the existing policies and procedures.

Careful review of the investments of the takaful operator to ensure compliance with Shari'a and also with local investment regulations is required – the lack of diversification of such investments frequently being an issue for takaful operators. In addition, issues of regulatory compliance are becoming more prominent as regional regulators begin to establish rules and regulations specifically for the takaful sector (for example, in the UAE takaful regulations were issued at the end of 2010).

However, the distinctions between a takaful operation and a conventional insurer should not be overstated. The similarities between them are far greater than the distinctions and, provided that due recognition is given to the above issues, M&A transactions in the takaful sector ought to be possible.

Regional Contacts

Global Head of Corporate Insurance Group

Andrew Holderness
Tel: +44 20 7876 5000
andrew.holderness@clydeco.com

Regional Heads of Corporate Insurance

Asia Pacific
Michael Cripps
Tel: +86 21 5877 5128
michael.cripps@clydeco.com.cn

Europe
Ivor Edwards
Tel: +44 20 7876 4162
ivor.edwards@clydeco.com

Middle East / GCC
James O'Shea
Tel: ++971 4 384 4108
james.o'shea@clydeco.com

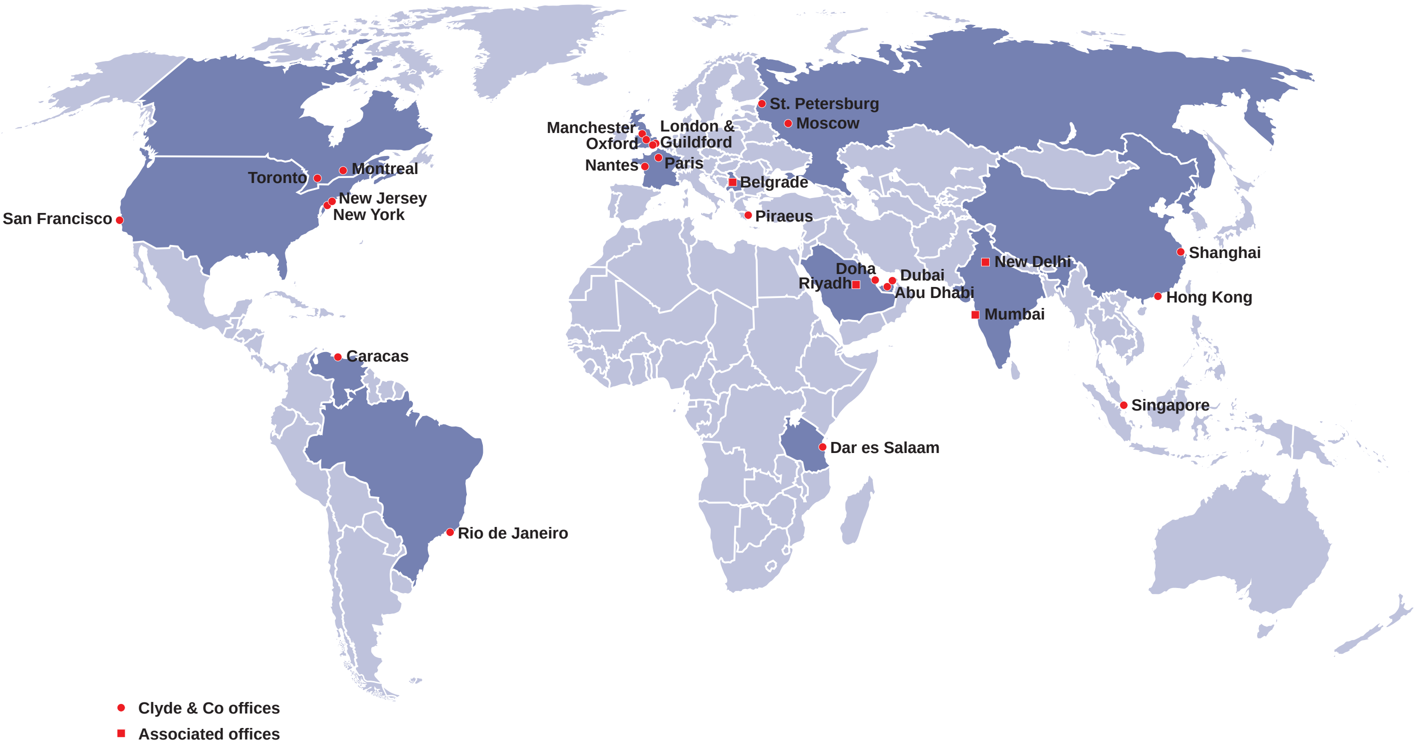
India
Sakate Khaitan
Tel: +44 20 7876 4841
sakate.khaitan@clasislaw.com

Latin America
Stirling Leech
Tel: +55 21 2217 7700
stirling.leech@clydeco.com

Russia
Oleg Shvander
Tel: +44 20 7876 4899
oleg.shvander@clydeco.com

USA
Robert Ansehl
Tel: +1 212 710 3970
robert.ansehl@clydeco.us

Global Reach



CLYDE&CO

Global Offices

Abu Dhabi
PO Box 54204
7th Floor West Tower
Abu Dhabi Mall
Abu Dhabi, United Arab Emirates
Tel: +971 2 644 6633
Fax: +971 2 644 2422
mero@clydeco.ae

Belgrade*
Baklaja Igrić Mujezinović
Gospodar Jevremova 47/12
11000 Belgrade
Serbia
Tel: +381 11 303 88 22
Fax: +381 11 303 83 09
clyde@clyde.co.rs

Caracas
Tercera Avenida
Entre Sexta y Séptima
Transversal
Quinta RR
Urbanización Los Palos
Grandes, Chacao Caracas
Venezuela
Tel: +58 212 2855411/2857118
Fax: +58 212 2856670/2855098
clyde.co@cantv.net

Dar es Salaam*
11th Floor, Exim Tower
Ghana Avenue
PO Box 80512
Dar es Salaam, Tanzania
Tel: +255 767 302 200
Fax: +255 774 303 060
info@akolaw.com

Doha
Qatar Financial Centre
9th Floor, Office 902
West Bay
PO Box 31453
Doha, Qatar
Tel: +974 4496 7434
Fax: +974 4496 7412
mero@clydeco.com.qa

Dubai
PO Box 7001
Rolex Tower
Sheikh Zayed Road
Dubai
United Arab Emirates
Tel: +971 4 384 4000
Fax: +971 4 384 4004
mero@clydeco.ae

Guildford
1 Stoke Road
Guildford GU1 4HW
United Kingdom
Tel: +44 1483 55 55 55
Fax: +44 1483 56 73 30
info@clydeco.com

Hong Kong
58th Floor
Central Plaza
18 Harbour Road
Hong Kong
Tel: +852 2878 8600
Fax: +852 2522 5907
clyde@clyde.com.hk

London
The St Botolph Building
138 Houndsditch
London EC3A 7AR
Tel: +44 20 7876 5000
Fax: +44 20 7876 5111
info@clydeco.com

Montreal*
630 René-Lévesque Blvd. West
Suite 1700
Montreal, Quebec H3B 1S6
Tel: (514) 843-3777
Fax: (514) 843-6110

Moscow
Clyde & Co (CIS) LLP
Khlebniy pereulok, Building 26
121 069 Moscow
Russian Federation
Tel: +7 495 601 9006
Fax: +7 495 601 9005
clyde.co@mail.ru

Mumbai*
Clasis Law
The Hub, One Indiabulls Centre, Tower 2B,
10th Floor, 841 Senapati Bapat Marg,
Elphinstone Road, Mumbai, 400 013, India.
Tel: +91 22 4332 7536
mumbai@clasislaw.com

Nantes
11 Place Royale
44000 Nantes
France
Tel: +33 2 40 47 00 71
Fax: +33 2 40 35 84 82
nantes.office@clydeco.fr

New Delhi*
Clasis Law
Incube
18 Nehru Place
New Delhi 110 019
India
Tel: +91 11 4662 9000
Fax: +91 11 4662 9001
delhi@clasislaw.com

New Jersey
200 Campus Drive
Suite 300
Florham Park
New Jersey 07932
Tel: +1 973 210 6700
Fax: +1 973 210 6701
info@clydeco.us

New York
The Chrysler Building
405 Lexington Avenue
New York 10174
United States
Tel: +1 212 710 3900
Fax: +1 212 710 3950
info@clydeco.us

Paris
134 Boulevard Haussmann
75008, Paris
France
Tel: +33 1 44 43 88 88
Fax: +33 1 44 43 88 77
paris.office@clydeco.fr

Piraeus
10 Akti Poseidonos
185 31 Piraeus
Greece
Tel: +30 210 417 0001
Fax: +30 210 417 0002
info@clyde.gr

Rio de Janeiro
Av. Rio Branco No 257-808
Centro, Rio de Janeiro
CEP 20040-009
Brazil
Tel: +55 21 2217 7700
Fax: +55 21 2217 7720
enquiries@beaumont.com.br

Riyadh*
Abdulaziz A. Al-Bosaily
321, Arch Tower
King Fahad Road
Riyadh, 12214
Kingdom of Saudi Arabia
PO Box 8953
Tel: +966 1 279 5212
Fax: +966 1 279 5101
enquiry@albosailylawoffice.com
www.albosailylawoffice.com

San Francisco
101 Second Street
24th Floor
San Francisco, CA 94105
United States
Tel: +1 415 365 9800
Fax: +1 415 365 9801
info@clydeco.us

Shanghai
23rd Floor
Two International Finance Centre
8 Century Avenue
Shanghai 200120
China
T: +86 21 6035 6188
F: +86 21 6035 6199
clyde@clydeco.com.cn

Singapore
21st Floor
Springleaf Tower
3 Anson Road
Singapore 079909
Tel: +65 6544 6500
Fax: +65 6544 6501
post@clyde.com.sg

St. Petersburg*
Musin & Partners
Apt. 2, 23 Roentgena Street
St. Petersburg 197101
Russia
Tel: +7 812 232 2297
Fax: +7 812 233 8109
mp@musinandpartners.ru

Toronto*
390 Bay Street
Suite 800
Toronto, Ontario M5H 2Y2
Tel: (416) 366-4555
Fax: (416) 366-6110

Clyde & Co LLP offices and associated* offices

www.clydeco.com

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