

U.S. Brokerage Acquirers

From 1999 through 2006, banks outpaced every segment in overall number of publicly announced acquisitions, but this slowed dramatically over the last three years. This deceleration will continue through 2009. In 2008, independent agencies and national brokerages expanded their acquisition programs, filling some of the void left by the banking segment. In 2009, total demand for agencies is likely to decline due to the withdrawal of financial institutions from the market in response to the current economic and credit crisis. Furthermore, with the availability of credit and capital reduced, all buyer segments are faced with new challenges. The following is a brief synopsis of what is impacting each buyer segment.

Bank Buyers – Given the current state of the banking industry, banks are unlikely to allocate capital and resources to business lines that lie outside their core offerings. Bank acquisition activity will almost certainly continue to decline in 2009. We may see certain banks divesting their insurance distribution assets in an effort to strengthen their capital bases.

National and Public Brokers – Broker activity slowed in 2008 due to several factors: a drop-off in deal pricing, diluted valuations, and limited capital. With bleak organic growth prospects for 2009, broker deal volume will continue to slow. However, certain well-capitalized, well managed brokers are likely to see the reduction in competition as a unique and exciting buying opportunity.

Independent Agencies – This segment saw the biggest gain in deal volume in 2008, increasing their share of total deal volume by 9.1% to 26.9%, the highest since 1999. Agencies were the beneficiaries of lower deal pricing by brokers, fewer bank acquisitions and less overall buyer demand.

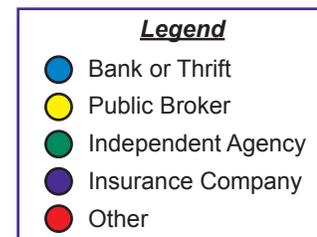
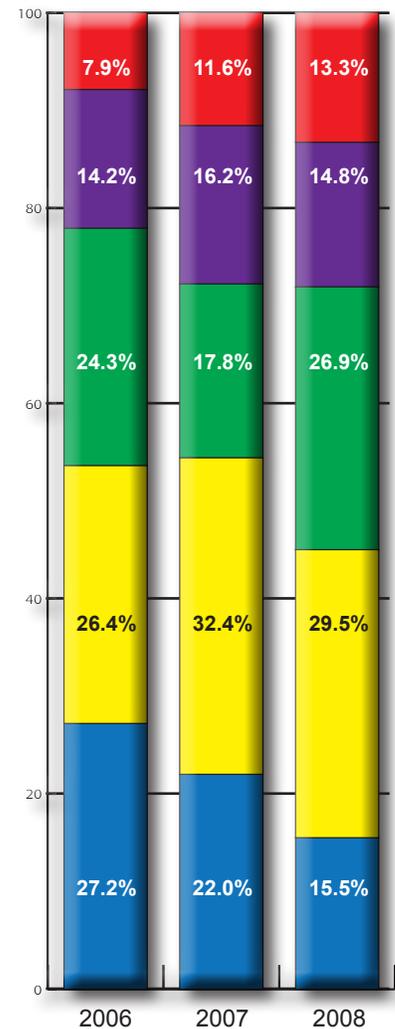
Insurance Companies – Liberty's recent divestiture of its direct sales force seems to set the tone for insurance carriers' forays into the distribution arena. We expect limited activity in 2009 with the exception of the wholesale, E&S and MGU segments, where carriers often have strong appetites.

Other Buyers - Select private equity backed firms continue to express interest in agency acquisitions. Those that are well funded with access to credit are taking advantage of what has become a buyer's market.

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Percentage of Publicly Announced Transactions by Buyer Segment



Source: SNL Financial, Charlottesville, VA