



2 November 2001

## **Prudential and Winterthur form long-term alliance to offer general insurance products in the UK**

### Highlights

- Prudential has agreed to transfer its UK personal lines general insurance business to Winterthur. The transaction includes the formation of a strategic alliance to offer Prudential branded general insurance products in the UK. This alliance is part of Prudential's UK insurance strategy to focus on its core medium and long-term savings businesses.
- The transaction is expected to generate value for Prudential of approximately £810 million through a combination of upfront and future payments and the release of capital from the general insurance business.
- General insurance will continue to be an important part of Prudential's branded customer offering. As a result of the transaction, Prudential will benefit from the opportunity to leverage Winterthur's market-leading expertise and capabilities in the general insurance sector.
- For Winterthur and its UK subsidiary Churchill, the transaction is expected to create considerable value through a dedicated focus on general insurance and Churchill's distinctive customer service proposition and generate a return of around 15 per cent. The transaction is broadly cash neutral at completion and is expected to be accretive to earnings for Winterthur's parent, Credit Suisse Group, in the first year.
- Winterthur and Churchill will gain the right to renew Prudential's in-force portfolio of 1.9 million general insurance policies and will actively cross-sell motor and household products to Prudential's four million individual medium and long-term savings customers.
- The addition of Prudential's general insurance business continues Churchill's strong record of profitable growth in the UK market. The transaction creates a top five position in the UK with pro-forma gross premium income of £1.9 billion in 2001, the third top five market position for Winterthur in Europe. Prudential's portfolio also continues to diversify Churchill's business mix with a strong performing household business.

- The transaction will be positive for Prudential's customers and employees. Churchill's customer service quality is widely credited as being among the best in the industry. Churchill was recently voted one of Britain's "50 Best Companies to Work For" in a survey conducted for the Sunday Times.
- As part of the transaction, Prudential will transfer all of the employees (approximately 1,200) and all of the infrastructure currently supporting its general insurance business to Churchill. There are not expected to be any operational redundancies.

This summary should be read in conjunction with the full text of this announcement.

There will be an analysts' presentation on Prudential's UK insurance business with an associated announcement at 8.30am.

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**Prudential and Winterthur form long-term alliance to offer general insurance products in the UK**

Prudential Assurance Company, a subsidiary of Prudential plc (“Prudential”), has agreed to transfer its UK general insurance business to Winterthur Insurance (“Winterthur”) and Churchill Group (“Churchill”), its UK subsidiary.

Winterthur and Churchill will gain the right to renew Prudential’s in-force portfolio of 1.9 million general insurance policies and will actively cross-sell motor and household products to Prudential’s four million individual medium and long-term savings customers under Prudential’s brand in the UK for 15 years.

The provision of Prudential branded general insurance will remain an important source of new customers to Prudential as it has retained the exclusive right to cross-sell all other financial products to existing and new customers covered by the long-term alliance.

The transaction is expected to generate value for Prudential of approximately £810 million before tax as follows:

- A cash payment to Prudential of £353 million on completion;
- The release of capital currently employed to support the general insurance business of approximately £200 million plus approximately £21 million representing the release of the net profit element in the unearned premium reserve; and
- The agreement provides that Prudential and Winterthur will cooperate in a commission and profit share arrangement which will provide future payments to Prudential based upon the volumes of general insurance business achieved over the term of the alliance. A conservative net present value at a 12 per cent. risk discount rate of these payments, which are likely to become material only from 2008, is £236 million.

Under the terms of the transaction Winterthur will assume responsibility, via a reinsurance arrangement, for all of the underwriting risk of Prudential’s general insurance business with effect from completion. Under the reinsurance arrangement, Prudential will transfer to Winterthur liabilities and corresponding cash of approximately £320 million (this asset and liability transfer is broadly value neutral for Prudential).

For Winterthur and its UK subsidiary Churchill, the transaction is expected to create considerable value through a dedicated focus on general insurance and Churchill's distinctive customer service proposition and generate a return of around 15 per cent. The transaction is broadly cash neutral at completion and is expected to be accretive to earnings for Winterthur's parent, Credit Suisse Group, in the first year.

The net cash proceeds and capital released from the transaction will be retained within the Prudential group for the future development of the group's medium and long-term savings businesses.

The principal benefits of the strategic alliance are:

### **Prudential**

- Prudential will benefit from the combination of its UK general insurance business with a partner for whom the manufacture and distribution of general insurance is a core activity.
- Prudential's general insurance customers will benefit from Winterthur's and Churchill's major and continuing investment in technology and infrastructure in the pursuit of exceptional customer service.
- The alliance will enable Prudential to maintain the Prudential brand in the general insurance market whilst pursuing its wider strategy of focusing on its core medium and long-term savings businesses.
- Prudential will release its existing capital and not be exposed to any underwriting risk arising from general insurance following completion of the transaction.

### **Winterthur and Churchill**

- The transaction creates a top five general insurer in the UK with 2001 pro-forma gross premium income of £1.9 billion. Prudential's portfolio also continues to diversify Churchill's business mix with a strong performing household business.
- The alliance enables Winterthur and Churchill actively to cross-sell motor and household insurance products to four million individual Prudential branded medium and long-term savings customers.
- The sale to Winterthur of Prudential's in-force portfolio of 1.9 million policies which has generated an underwriting profit before investment income in every year since 1991.

- The potential to generate attractive financial returns on capital through the application of Churchill's management expertise, market leading service capabilities, information technology solutions and claims management expertise.

### **Prudential Customers and Employees**

- Prudential's general insurance customers will not be affected by the sale of the business except that they will benefit from Churchill's strong customer service culture and capability which is widely credited as being among the best in the industry.
- All the operational employees (approximately 1,200) currently supporting Prudential's general insurance business will transfer to Churchill which was recently voted one of Britain's "50 Best Companies to Work For" in a survey conducted for the Sunday Times.

The transaction remains subject to the satisfaction of certain conditions, including the receipt of the necessary regulatory approvals. Completion is expected to take place in January 2002.

Commenting on the announcement, Mark Wood, Chief Executive of Prudential's UK & European Insurance Operations said:

*"We are delighted to announce this major strategic alliance with Winterthur and Churchill which will ensure that general insurance remains an integral part of Prudential's product offering to its customers."*

*"Winterthur and Churchill were chosen as our partners because of their excellent track record in the UK insurance industry of providing value for money products coupled with first class customer service. The transaction is good news for shareholders, customers and employees alike."*

Commenting on the announcement, Manfred Broska, Chief Executive of Winterthur Insurance said:

*"This transaction reinforces Winterthur's strong presence in Europe. It creates Winterthur's third top five market position in Europe in the strategically important UK general insurance market. By leveraging our core competence, this transaction*

*progresses our strategy of profitable long-term growth. We expect the transaction to achieve attractive financial returns for the Credit Suisse Group.”*

There will be an analysts' presentation on Prudential's UK insurance business with an associated announcement at 8.30am.

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## **Notes to Editors:**

### **Prudential Group**

Prudential is a leading retail international financial services group. In the UK, it is one of the largest life insurance companies and pension annuity providers. Its operations also include the UK and European investment manager, M&G, and internet financial services brand Egg. In the US, Prudential owns Jackson National Life, a top 20 life insurance company. Prudential is also the largest UK insurer in Asia with operations in 12 countries and, in Europe, it currently has operations in France and Germany where it has established strong strategic alliances with local partners.

Prudential's general insurance business in the UK comprises predominantly household and motor business. It does not include any commercial insurance business.

Prudential's general insurance business is currently one of the largest UK household and motor insurers with £333 million of gross premium income in 2000. It generated pre-tax operating profit of £33 million in the year to 31 December 2000.

Prudential's general insurance business is the UK's fifth largest household insurer with 1.6 million household customers and a market share of approximately 6 per cent.

Prudential can be visited on the net at [www.prudential.co.uk](http://www.prudential.co.uk)

Prudential has been advised by Lexicon Partners, the independent corporate advisory firm focussed on the financial institutions sector.

### **Winterthur Group**

Winterthur is part of the Credit Suisse Group, one of the world's leading global financial services companies with current assets under management of over £615 billion and 80,000 staff worldwide.

The Churchill Group, which includes NIG (National Insurance and Guarantee), Devitt Insurance Services Limited and Inter Group Insurance Services, is currently ranked as the UK's 6<sup>th</sup> largest general insurer with a customer base of 3.8 million and over 6,000 staff. Previous acquisitions by Churchill have included the household portfolio of Refuge Assurance Company, the CGA Group and the telebroker Anglia Countrywide.

Alliances – with blue chip companies such as Lloyds TSB, Alliance & Leicester, Nationwide Building Society, Standard Life Bank, The Co-operative Bank, United Friendly and AA Insurance Services Limited – have positioned Churchill as the industry's leading corporate partnerships company.

In June 2001, Churchill entered into a partnership deal with AMP of Australia to become the sole provider for their UK subsidiary Pearl Assurance's general insurance business.

Credit Suisse Group, Winterthur and Churchill can be visited on the net at [www.creditsuisse.com](http://www.creditsuisse.com), [www.winterthur.com](http://www.winterthur.com) and [www.churchill.com](http://www.churchill.com)