

Wellington Underwriting PLC – Formation of Wellington Re

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Wellington Underwriting plc

Formation of Wellington Re

and

Potential Capital Raising

Summary

- The Board of Wellington is pleased to announce:

- the raising of £448 million to fund the proposed formation of Wellington Re, a London-based, FSA authorised insurance company which will support the future growth of Wellington's underwriting capabilities; and

- its intention, subject to market conditions, to raise equity finance to increase Wellington's economic interest in the holding company of Wellington Re, strengthen Wellington's balance sheet and support its share of the future development of Syndicate 2020's underwriting.

- The key benefits to Wellington of the formation of Wellington Re include:

- a significant strategic and economic interest in a strongly capitalised business which will be ideally placed to benefit from the favourable underwriting and rating environment;
- enhanced financial returns for all capital providers to Syndicate 2020, including Wellington;
- reduced volatility of Syndicate 2020's underwriting returns; and
- permanent capital to support the expansion of Wellington's US business, Wellington Underwriting Inc.
- Wellington Re will be the largest independent reinsurance company based in the UK and will focus on property and casualty reinsurance and UK commercial insurance.
- Wellington Re has raised capital of £448 million which will be provided by an investor group led by Blackstone and Candover, and including CSFB Private Equity, Montpelier Re, 3i, Phoenix Equity Partners, Olympus Partners, Lexicon and Wellington Re Management.
- The Board of Holdings, the holding company of Wellington Re, will include Paul Myners (Chairman), Chris O'Kane (Chief Executive), Julian Cusack (Finance Director) and Heidi Hutter (Non-Executive Director). Approximately 40 Wellington employees will transfer to the new company.
- The formation of Wellington Re is subject to a number of approvals, including the consent of a majority of third party capital providers to Syndicate 2020 and the approval of Lloyd's and the FSA.
- Members' Agents representing 72 per cent. of third party capital providers to Syndicate 2020, who have been independently advised by Hawkpoint, have irrevocably committed to recommend the proposals.

Commenting on behalf of Wellington, Julian Avery, Chief Executive of Wellington, said:

"This new London-based company takes forward our strategy to exploit fully the dramatically improved rating environment. The strong support that we have received is further recognition of the quality of our underwriting track record and our prospects in this highly attractive market. This latest initiative will allow Wellington to build further on its leading position in the Lloyd's market and enhance returns to our shareholders and third party capital providers."

Commenting on behalf of Wellington Re, Chris O'Kane, Chief Executive of Holdings, said:

"The establishment of Wellington Re creates a significant new force in the London insurance market. Strongly capitalised and with a talented and experienced team of underwriters, Wellington Re will combine financial strength with responsiveness and high levels of service. We are delighted that Paul Myners and Heidi Hutter have agreed to join the Board of Holdings."

Commenting on behalf of Blackstone, Bret Pearlman, Senior Managing Director, said:

"Blackstone is extremely pleased to partner with Wellington, Paul Myners, Chris O'Kane and Chris's team in the creation of Wellington Re. The track records, reputations and capabilities of these parties are, in our view, exceptional. We further believe that Wellington Re represents a major new commitment of capital to the London insurance market, reflecting and enhancing its role as the global center for the conduct of insurance and reinsurance business."

Commenting on behalf of Candover, Marek Gumienny, Managing Director, said:

"We have had a long relationship with Wellington and we are delighted to be backing Chris O'Kane and his team. Wellington Re is a quality franchise in the London market which we believe will receive significant broker support."

An analysts' meeting will be held at the offices of Wellington (88 Leadenhall Street, London EC3A 3BA) at 9:30 a.m. today.

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Introduction

On 24 April 2002, Wellington announced a major initiative with Berkshire Hathaway to increase substantially its managed capacity to £963 million for 2002 and updated shareholders on continuing discussions with private equity providers in relation to the establishment of a new London based, FSA authorised insurance company.

Further to this announcement, the Board of Wellington is pleased to announce the raising of £448 million to fund the proposed formation of Wellington Re,

a London-based, FSA authorised insurance company which will support the future growth of Wellington's underwriting capabilities. Wellington Re will support the delivery of Wellington's ambitious business plan with significant permanent capital and will have a strong relationship with Syndicate 2020. The formation of Wellington Re is subject to a number of approvals, including the consent of a majority of third party capital providers to Syndicate 2020 and the approval of Lloyd's and the FSA.

The Board of Wellington further announces that it intends, subject to market conditions, to raise equity finance to increase Wellington's economic interest in the holding company of Wellington Re, strengthen Wellington's balance sheet and support its share of the future development of Syndicate 2020's underwriting.

Wellington Re

Business and Underwriting

It is anticipated that Wellington Re will become operational before the end of June 2002 and will be well rated based on its excellent capital strength.

Wellington Re expects to write approximately £200 million of net premium in 2002 principally through quota share reinsurance of Berkshire Hathaway's participation in the business managed by Wellington.

From 2003, Wellington Re's key business lines will comprise mainly property and casualty reinsurance and UK commercial insurance. These lines have experienced significant rate increases and continue to have excellent prospects.

Going forward, Syndicate 2020 and Wellington Re will offer each other quota share reinsurances over up to 20 per cent. of their respective underwriting portfolios. This will diversify the underwriting portfolios of both businesses and will ensure that Wellington and third party capital providers to Syndicate 2020 have a continuing exposure to the lines of business written by Wellington Re.

Set out below is an illustrative allocation of Syndicate 2020's business for

2002 between the Wellington Re lines and the Syndicate 2020 lines (excluding the impact of reciprocal quota share arrangements):

Wellington Re		Syndicate 2020	
Casualty reinsurance	7%	Accident and Health	4%
Property reinsurance	27%	Aviation	12%
UK commercial insurance	6%	Energy	9%
		Liability	6%
		Marine	7%
		Property	23%
Total	40%	Total	60%

Over the long-term, the underwriting performance of both portfolios is expected to be broadly similar.

Board, Employees and Domicile

The Board of Holdings will have 11 directors, including Paul Myners (Chairman), Chris O'Kane (Chief Executive), Julian Cusack (Finance Director), Heidi Hutter (Non-Executive Director) and one other non-executive director to be nominated by Wellington.

Approximately 40 Wellington employees (including Chris O'Kane, Julian Cusack, Sarah Davies (Chief Operating Officer) and David May (Chief Casualty Underwriter)), the majority of whom are currently employed in Wellington's property and casualty reinsurance and UK commercial insurance teams, will join Wellington Re during the course of 2002.

Wellington will provide administration and support services to Wellington Re under a long-term service agreement which will enable Wellington to share costs with Wellington Re.

Wellington Re and its employees will be based in London. Holdings, the holding company of Wellington Re, will be domiciled in Bermuda.

Capital Structure

Holdings, a newly formed holding company to be capitalised at £448 million, will acquire City Fire, an FSA authorised insurance company for its net asset value of approximately £16 million. City Fire will be renamed Wellington Re.

Holdings' capital has been committed by an investor group led by Blackstone and Candover, and including CSFB Private Equity, Montpelier Re, 3i, Phoenix Equity Partners, Olympus Partners, Lexicon and Wellington Re Management. The capital will be drawn down in two tranches with £248 million drawn down on completion (the "first funding") and the remaining £200 million to be drawn down by Holdings on 28 November 2002 or earlier (the "second funding").

The Investor Group and Wellington Re Management will subscribe for a total of 4,480,000 ordinary shares in Holdings at a subscription price of £100 per ordinary share.

Wellington has the right, prior to 28 November 2002, to subscribe for up to £95 million of the issued share capital in Holdings. The subscription price per share would be £100 per ordinary share, increasing by 5 per cent. per annum pro rated from the first funding to the date of subscription. At the option of Holdings, any investment by Wellington may either increase Holdings' capitalisation beyond £448 million or reduce the second funding commitment of the Investor Group of £200 million.

Options will be granted over 678,788 new non-voting ordinary shares, which represents 12.5 per cent. of the fully diluted share capital in Holdings, subsequent to the second funding on the following basis:

- Wellington: 378,112 options; and
- third party capital providers to Syndicate 2020: 300,676 options

The options will have an exercise price of £100, increasing by 5 per cent. per annum (less any dividends or other distributions). The options will have an initial term of 10 years, reducing to 5 years in the event that no IPO or sale has taken place before the fifth anniversary of the first funding.

In addition, a management incentive scheme will be put in place for Wellington Re Management to receive 271,515 options, which represents 5 per cent. of the fully diluted share capital in Holdings, following the second funding.

Wellington's shareholding will represent a meaningful strategic and economic interest in Holdings, enabling Wellington to participate in the attractive returns which Wellington Re is expected to generate.

Wellington Going Forward

Wellington will continue to have an excellent business at Lloyd's following the formation of Wellington Re and proposed capital raising:

- Syndicate 2020 will refocus its capital to enhance further its underwriting capabilities on its key aviation, marine, liability, property and accident and health business lines. All of these classes have benefited from significant rate increases and continue to have excellent prospects.

- Four out of Wellington's six executive directors and six out of eight members of Wellington's underwriting executive will stay with the Wellington group. The remaining executive directors comprise Julian Avery (Chief Executive), David Foreman (who will become Chief Underwriting Officer), David Ibeson (Group Actuary) and Peter Williams (Lead Aviation Underwriter). Wellington will recruit a new finance director with Chris O'Brien (Assistant Finance Director) acting as finance director in the interim. This represents a highly experienced team to drive the business forward.

- Wellington believes that there is a significant opportunity to write more profitable business on its chosen ongoing business lines and currently anticipates that its capacity may increase for the 2003 year of account. A successful capital raising would enable Wellington to support its share of such an increase.

Key Benefits

The formation of Wellington Re and proposed capital raising represent a major initiative by Wellington to diversify its business and provide the

scope for Wellington to progress its longer term strategic objectives. The key benefits of the formation of Wellington Re include:

- enables Wellington and third party capital providers to Syndicate 2020 to benefit from the favourable underwriting and rating environment and to meet the increased demands for coverage and capacity from brokers and clients;
- a meaningful strategic and economic interest in Holdings with the prospect of generating attractive returns from this investment;
- provides exposure to a strongly capitalised business with a high quality senior management and underwriting team with excellent credentials;
- provides enhanced financial returns for Syndicate 2020 through the spreading of Wellington's costs over the combined premium base of Syndicate 2020 and Wellington Re;
- reduces the volatility of Syndicate 2020's underwriting returns; and
- provides permanent capital to support the expansion of Wellington's US subsidiary, Wellington Underwriting Inc.

Capital Raising

Wellington will, subject to market conditions, seek to raise additional equity financing to exercise its right to subscribe for ordinary shares in Holdings, to strengthen Wellington's financial base and to support Syndicate 2020's capacity for the 2003 year of account. It is anticipated that any capital raised would be allocated such that two thirds would be utilised to exercise its subscription right in Holdings and one third to support Syndicate 2020.

Third Party Capital Providers to Syndicate 2020

Third party capital providers currently provide 54 per cent. of Syndicate 2020's capacity, of which 72 per cent. is represented by three members' agents; Anton Private Capital, CBS Private Capital and SOC Private Capital (the Members' Agents).

The Members' Agents, who have been independently advised by Hawkpoint, have irrevocably committed to recommend the proposals to third party capital providers that they represent on Syndicate 2020 and to vote in favour of the proposals approximately 26 per cent. of the capacity entitled to vote.

The proposals to third party capital providers to Syndicate 2020 include:

- third party capital providers to Syndicate 2020 will be granted 300,676 options in Holdings. The split of the options between Wellington and third party capital providers is based upon the respective economic interests of the parties in Syndicate 2020's 2002 year of account;
- third party capital providers will receive a profit commission of £10 million from the Investor Group in the event that their internal rate of return exceeds 30 per cent.;
- Wellington will offer third party capital providers to Syndicate 2020 the right to subscribe for up to £15 million of its entitlement to subscribe for up to £95 million of the issued share capital in Holdings (subject to a minimum aggregate subscription of £1 million). Wellington will have the right to utilise any part of the entitlement not taken up by third party capital providers; and
- the capacity rights of third party capital providers to Syndicate 2020 remain unchanged under the proposals.

Members' Agents will also have the right to nominate a director to the Board of Wellington Underwriting Agencies Limited, subject to the necessary regulatory approvals.

Third party capital providers will also benefit from enhanced financial returns for Syndicate 2020 due to the spreading of Wellington's costs over

the combined premium base of Syndicate 2020 and Wellington Re and from the reduced volatility of Syndicate 2020's underwriting returns.

A circular setting out the key terms of the proposals and seeking approval for the proposals will be sent to third party capital providers shortly. The 21 day approval process will commence on the date of posting of the circular.

Conditions and Approvals

The proposed formation of Wellington Re is subject to a number of regulatory approvals (including Lloyd's and the FSA), the consent of a majority of third party capital providers to Syndicate 2020, the confirmation of acceptable indicative financial strength ratings for Wellington Re, the completion of the purchase of City Fire and various other arrangements between the parties.

Notes to Editors

Blackstone

The Blackstone Group, a private investment bank with offices in New York and London, was founded in 1985. The firm has raised a total of approximately \$23 billion for alternative asset investing since its formation, \$14 billion of which has been for private equity investing. The Blackstone Group's six core businesses are Mergers and Acquisitions Advisory, Restructuring and Reorganization Advisory, Private Equity Investing, Private Real Estate Investing, Private Mezzanine Investing, and Liquid Alternative Asset Management.

Candover

Candover is a leading European private equity fund. Established in 1980 to invest in buyouts, Candover has a 21 year track record of investing in 112 buyouts worth over e16 billion, acting as lead or co-lead investor on 91 occasions. Candover has a long track record of investing in the insurance

market, including Lambert Fenchurch, Fishers Loss Adjusters, Economic Insurance and Heath Lambert Fenchurch. This is the second transaction to be completed by the Candover 2001 Fund which has raised e2.3 billion to date and is targeted to close at e2.5 billion shortly. This will bring Candover's total funds managed since inception to over e5 billion.

Earlier this year Candover led the CHF580 million acquisition of Swissport, a global ground handling business, from Swissair Group AG. Recent exits achieved by Candover during the year to date include the sales of PII to GE Power Systems, Regional Independent Media to Johnston Press plc and Diamant Boart to Electrolux AG; and the flotation on the London Stock Exchange of Detica Group plc.

Paul Myners

Paul Myners retired as Chairman of Gartmore Investment Management last year having spent 16 years with the company. He is currently a non-executive director of Marks & Spencer plc and the Bank of New York. He was a member of the Lloyd's Market Board from 1991 to 1993 and currently chairs the Lloyd's of London Investment Committee which oversees the management of the assets supporting the Lloyd's Central Fund.

Heidi Hutter

Heidi E. Hutter, Chief Executive of Black Diamond, has twenty years of experience in property/casualty reinsurance. She began her career in 1979 with Swiss Reinsurance Company in New York, where she specialised in the then new field of finite reinsurance. From 1993 to 1995, she was Project Director for the Equitas project at Lloyd's of London, which became the largest run-off reinsurer in the world. From 1996 to 1999, she served as Chief Executive of Swiss Re America and was a member of the Executive Board of Swiss Re in Zurich.

Definitions

3i
Anton Private Capital
Blackstone

Candover

CBS Private Capital

3i Group plc
Anton Private Capital Limited
The Blackstone Group and affiliated
funds
Candover Partners Limited and affiliated
funds
CBS Private Capital Limited

City Fire	The City Fire Insurance Company Limited
CSFB Private Equity	Affiliates of DLJ Merchant Banking Partners III, L.P.
Hawkpoint Holdings Investor Group	Hawkpoint Partners Limited the holding company of Wellington Re the investors in Holdings, led by Blackstone and Candover, and including CSFB Private Equity, Montpelier Re, 3i, Phoenix Equity Partners, Olympus Partners and Lexicon
Lexicon Members' Agents	The Lexicon Partnership LLP Lexicon Partners Limited the members' agents comprising Anton Private Capital, CBS Private Capital and SOC Private Capital
Montpelier Re Olympus Partners	Montpelier Reinsurance Limited Olympus Growth Fund III LP and affiliated funds
Phoenix Equity Partners	Phoenix Equity Partners Limited and affiliated funds
SOC Private Capital Wellington Wellington Re	SOC Private Capital Limited Wellington Underwriting plc City Fire, to be renamed Wellington Reinsurance Limited
Wellington Re Management	the management of Wellington Re, including Paul Myners, Chris O'Kane, Julian Cusack, Sarah Davies and others

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