

22nd June 2008

Stakes are raised in RBS Insurance sale as Lehman Bros steps in

Independent on Sunday

By Simon Evans

Allstate, the American financial giant, has appointed Lehman Brothers to mastermind its purchase of the £6bn insurance arm of Royal Bank of Scotland (RBSi).

Allstate, the largest home and car insurer in the US, is one of four bidders left in the frame to buy RBSi, along with Allianz of Germany, the US firm Travelers and Switzerland's Zurich, which is being advised by Citigroup.

Giles Harrison, head of Lehman's Financial Institutions Group, is in charge of Allstate's attempts to buy the RBSi portfolio, which includes the Direct Line and Churchill brands. Mr Harrison previously headed up Lehman's financial advisory team in New York.

Allstate is also being advised by the City corporate finance house [Fenchurch Advisory](#). [Ian Chippendale](#), a former chairman of RBSi, is listed as an adviser to [Fenchurch](#), as is [John Tiner](#), the former chief executive of the Financial Services Authority. Allstate has no insurance operations outside of the US, having previously sold its German and Italian car units to RBS in 2001.

Reports last week suggested that Zurich has lined up financing from a number of investment banks, including Credit Suisse and Deutsche Bank. It is thought to be readying an all-cash offer.

A source close to the bidding process said: "The offers being mooted are falling way short of the valuation slapped on the business by RBS. But it's still early."

Sources close to the bidding have criticised the raft of leaks during the process, with one saying: "A lot of people have been put off by the amateurish handling. People have been afraid to put anything down in writing until the last minute for fear of reading the details in the paper."

Earlier this month RBS's beleaguered chief executive, Sir Fred Goodwin, said he "would not be holding my breath" that the RBSi unit could be sold off. Sources close to the deal have long warned that Sir Fred is prepared to walk away if the bids fall short of his lofty valuation.

Sale information packs were originally sent out to eight prospective bidders, but four groups, China's Ping An, Italy's Generali, US-based AIG and Warren Buffett's Berkshire Hathaway, have all dropped out.

Private equity bidders were excluded from making any offers amid concerns from RBS that buyout groups would find it difficult to raise financing in the current environment.

Spokesmen for both Lehman Brothers and Fenchurch declined to comment.