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Insurance M&A in the First Half of 2019: Taking a Breather

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Property-Casualty Insurance

Compared to the first half of 2018, which saw several blockbuster property-casualty insurer M&A transactions, the first half of 2019 was quieter: there were four insurer transactions valued at over $100 million, only one of which involved a U.S. buyer or target (see Figure 1). This transaction—the only one with an announced value over $1 billion—was American Family's $1.05 billion acquisition of Ameriprise Auto & Home. By contrast, in the first half of 2018 there were 14 transactions announced that were valued over $100 million (with a cumulative valuation of $39.1 billion), six of which were valued at more than $1 billion.

American Family/Ameriprise. In April 2019, American Family Insurance announced an agreement to acquire the Wisconsin-based Ameriprise Auto & Home (AAH) for $1.05 billion. AAH wrote $1.1 billion of direct premium in 2018, 70% of which was personal automobile business. It will operate under its existing name until a new name is identified and approved by regulators. American Family's stated motivation for the acquisition is its effort to diversify distribution capabilities. AAH sells primarily through a partnership with wholesale retailer Costco. This acquisition follows other recent acquisitions by American Family, including Main Street America in 2017, Homesite in 2013, and Permanent General in 2012. The parent of AAH, Ameriprise Financial, indicated that its motivation for the sale is Ameriprise focusing on its core growth businesses, asset management and wealth management.

United Insurance/Applied Underwriters. Berkshire Hathaway announced in February that it was selling Applied Underwriters, a workers' compensation insurer. On June 28, the buyer was identified as United Insurance Co. The purchase price was not disclosed but has been estimated to be around $1 billion. Berkshire Hathaway acquired Applied in 2006 and currently owns 81% of the company. Berkshire Hathaway's stated motivation for the sale is to avoid channel conflict with other Berkshire Hathaway entities that write workers' compensation business. Other Berkshire Hathaway insurers that write workers' compensation insurance include the various Guard companies, Homestate, and biBerk (whose parent is Berkshire Hathaway Direct).

Figure 1 - Largest Property-Casualty M&A Insurer Transactions, First Half of 2019

Buyer	Target	Transaction Value (in $ Million)
American Family Insurance Group	Ameriprise Auto & Home	$1,050
Allianz SE	LV General Insurance Group	$729
NN Group NV	Vivat Schadeverzekeringen NV	$466
Allianz SE	Legal & General Group plc (general insurance business)	$305

Prepared by Conning, Inc. Source: Invesment Industry Press Releases.

Stress and Distress - Commercial Auto

Several back-to-back years of poor underwriting results (continuing combined ratio above 100%) in the commercial auto line contributed to fallout at some commercial auto specialists and may cause pain and seller-driven M&A. In June, American Financial Group announced that its National Interstate subsidiary entered into an agreement with Atlas Financial Holdings to be the exclusive underwriter of Atlas' paratransit book, which has approximately $110 million in premium. This follows adverse reserve development in 2018 and 2019, a ratings downgrade, and the announcement of a search for a buyer.

While not an M&A transaction, in February commercial auto risk retention group Spirit Commercial Auto RRG went into receivership after being found to be insolvent. Spirit wrote approximately $70 million of commercial auto premium. The troubles at Spirit began years before its insolvency. There were accounting irregularities reported in a 2013 Nevada Insurance Department examination. According to Risk Retention Reporter, Spirit under-represented its loss reserves in 2016 by $27 million, and its surplus fell from $13 million to under $1 million in 2017.

Reinsurance Focus

In recent years, the landscape of the reinsurance industry has been changing, driven by trends including an influx of alternative capital investing in the ILS market and market developments affecting Bermuda's and Lloyd's strong concentrations for reinsurers. Bermuda was affected by provisions in the new U.S. tax laws discouraging offshore cessions from related onshore entities. Lloyd's has been under pressure from operational and business improvement initiatives aimed at trimming overly high expenses and addressing poor results in some business classes.

Canopius/AmTrust at Lloyd's. In February, Canopius announced its acquisition of AmTrust at Lloyd's (which closed April 18). AmTrust at Lloyd's syndicate 1861 wrote £130 million of reinsurance business in 2018. Canopius claims the transaction will create a top-five insurer at Lloyd's with combined premiums of approximately $2.2 billion.

White Mountains/Elementum. White Mountains Insurance acquired a minority stake in Elementum Advisors, an ILS manager with approximately $4 billion of assets under management. Industry sources indicate that the stake acquired may be a 30% holding. This transaction followed other acquisitions by insurers of ILS fund managers, such as Markel's acquisition of Nephila, Markel's older acquisition of CATCo, and the more recent acquisitions by AIG and Sompo of Validus and Endurance, respectively, both of which have ILS managers. Acquisitions by insurers of ILS fund managers underscore the appeal of the ILS market, which now accounts for approximately 20% of global property catastrophe capital and has transformed the Florida property and retro markets.

Personal Lines

In addition to American Family's acquisition of Ameriprise, there were some smaller acquisitions of personal lines insurers in the first half.

Auto-Owners/Capital. In February, Auto-Owners Insurance announced an agreement to acquire Capital Insurance Group. Capital is an independent agency company that insures personal lines and a wide range of commercial and agricultural businesses in California, Washington, Oregon, Nevada, and Arizona.

FedNat/1347. In February, FedNat Holding Company announced the acquisition of 1347 PIH's homeowners insurance operations, consisting of Maison Insurance Company, Maison Managers, Inc., and ClaimCor LLC, in a cash and stock transaction valued at approximately $51 million. Maison is a property-casualty insurer focused on the coastal homeowners markets in Louisiana and Texas. This acquisition provides FedNat with geographic diversification of its predominantly Florida homeowners book.

CFM/Cornerstone. CFM Insurance, a Missouri mutual personal lines insurer, acquired Cornerstone National Insurance Co., stockholder-owned personal automobile insurer based in Missouri.

Life-Annuity Business

Through the first half of 2019, there has been no merger or acquisition in the U.S. of life insurance companies. While some companies may have operating subsidiaries they wish to sell, as in the case of Liberty Mutual selling Liberty Life Assurance to Lincoln in 2018, the more common approach is to use reinsurance to acquire a block of business.

Reinsurance is most often used by the company ceding the business to reduce risk, for example mortality or longevity. However, companies also use reinsurance as part of a broader refocusing strategy. By reinsuring blocks of business that are no longer wanted, an insurer can free up capital to invest in lines of business or areas that offer higher potential growth or returns. The reinsurance transaction also generates ceding commissions and reserve adjustments, which flow through the income statement and affect the ceding company's net operating results.

Companies acquiring the blocks are often looking to enter a new market or increase their share within a market. There were three significant reinsurance transactions in the first half of 2019 that illustrate that strategy.

Great-West Refocuses Away from Individual Life Insurance and Annuity Business

Great-West Life & Annuity Insurance Company, the U.S. subsidiary of Canadian-based Great-West Lifeco, reached an agreement to sell, via reinsurance, substantially all of its individual life insurance and annuity business to Protective Life Insurance Company, the primary subsidiary of Protective Life Corporation.

Based on the terms of the agreement, Great-West Lifeco estimates that the transaction will result in an after-tax transaction value of approximately US$1.2 billion, excluding one-time expenses and subject to contingent post-closing adjustments. The value includes a significant positive ceding commission to the company's U.S. entities and a capital release of approximately US$400 million.

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The business to be transferred, which is marketed under the Great-West Financial brand, includes bank-owned and corporate-owned life insurance, single-premium life insurance, individual annuities, and closed block life insurance and annuities. This business contributed approximately US$95 million to Great-West's net earnings for the first three quarters of 2018.

In the press release announcing the transaction, Paul Mahon, President and Chief Executive Officer, Great-West Lifeco, stated that: "This transaction allows us to focus on the retirement and asset management markets in the U.S. We continually evaluate capital deployment opportunities at Great-West Lifeco. With the strengthened capital position resulting from this transaction, we will also consider other capital management activities, including potential share repurchases, to mitigate the earnings impact of the sale."

The transaction closed in early June 2019, and Great-West Life expects to recognize an IFRS book-value loss related to this transaction of approximately US$70 million and transaction costs of US$57 million.

Protective, since joining the Dai-ichi Life Group in 2015, has completed three acquisitions, including the acquisition via reinsurance of a block of term life insurance from Genworth Financial, Inc. in 2016, the acquisition of United States Warranty Corp. in 2016, and the acquisition via reinsurance of substantially all of the individual life and annuity business from Liberty Life Assurance Company of Boston. This is the 57th and largest transaction in Protective's history, and it is expected to enhance the profitability of Protective.

Ameriprise Reinsures $1.7 Billion of Fixed Annuities to Global Atlantic

Ameriprise Financial, Inc. announced in March 2019 that its insurance subsidiary, RiverSource Life Insurance Company, had entered into an agreement with Commonwealth Annuity and Life Insurance Company, a subsidiary of Global Atlantic Financial Group, to reinsure approximately $1.7 billion of fixed annuity policies sold through third parties, which is approximately 20% of the company's in-force fixed annuity account balances.

The transaction generated approximately $200 million of deployable capital, and it is expected to be accretive to the company's adjusted operating earnings per diluted share in 2019. The transaction is effective as of January 1, 2019, and dated March 19, 2019. It will have no impact to RiverSource policyholder contractual provisions, and RiverSource will retain account administration and servicing of the fixed annuity policies. The coinsurance agreement contains investment guidelines and a trust to meet the company's enterprise risk management objectives.

In the press release announcing the transaction, Ameriprise Financial stated that it remains focused on shifting its business mix by reducing the level of capital allocated to its more capital-intensive business lines, and this transaction represented progress in executing this strategy.

We note that the Global Bankers life companies have since been placed into receivership.

Horace Mann to RGA

In late June, Horace Mann announced a reinsurance transaction with RGA to transfer a $2.9 billion block of legacy annuity business, effective April 1. Horace Mann intends to redeploy the capital released to "provide more solutions for educators."

Many insurers continue to consider acquisitions and divestment of subscale or noncore businesses to sharpen focus and support growth in their core businesses.

Looking Ahead: More of the Same

For the second half of 2019, conditions remain favorable for continued reinsurance acquisitions. Management teams are focused on identifying the best opportunities to generate growth and improve returns on capital. Organic growth is forecast to be modest, at best, for many lines, excluding annuities, which continue to rebound from the sales disruption of 2017 caused by the DOL's fiduciary rule. As a result, we would expect companies with capital to continue to look for reinsurance opportunities. At the same time, offshore consolidation platforms, such as Monument Re and Athene and new entrant Fortitude Re, provide alternative sources of reinsurance, especially for closed annuity blocks. Putting these factors together, we would not be surprised to see further reinsurance transactions in the second half.

Health Insurance

There have been multiple health insurance M&A transactions announced in the first half of 2019, the largest of which is Centene's announcement to acquire WellCare. Announced in March 2019, Centene will purchase WellCare for $17.3 billion in a cash and stock transaction. The combined company will have approximately 22 million members and will focus on Medicaid, Medicare, and individual products sold on exchanges. The transaction is expected to close in the first half of 2020. According to Michael F. Neidorff, Centene's chairman and CEO, "With the addition of WellCare, we expect to bolster and diversify our product offerings, increase our scale and have access to new markets, which will in turn, enable us to continue investing in technology and better serve members with innovative programs designed to meet their needs."

Centene also announced it will purchase QCA Health Plan and QualChoice Life and Health Insurance Company from Catholic Health Initiatives. Terms of the transaction were not released. QualChoice offers group and individual health plans, adding to Centene's business specializing in Medicare, Medicaid, Affordable Care Act plans, managed health care programs and behavioral health services to public sector employees and beneficiaries, and also correctional health care services.

In June, Anthem announced its acquisition of Beacon Health Options, a behavioral health company. Beacon is the largest independently held behavioral health organization in the country and serves more than 36 million people. The acquisition aligns with Anthem's strategy to diversify into health services and deliver integrated solutions and care delivery models that personalize care for people with complex and chronic conditions. According to Anthem, the combination creates one of the most comprehensive behavioral health networks, capable of offering more accessible and affordable care for consumers throughout the country.

Figure 2 - Insurance Distribution Acquisitions by Aggregators, First Half of 2019

Aggregator	Number of Acquisitions
Alera	9
Arthur J. Gallagher	18
Assured Partners	17
Brown & Brown	9
Hub International	23
NFP	6
The Hilb Group	9

Prepared by Conning, Inc. Source: Invesment Industry Press Releases.

Two transactions announced in the same week in December 2017 have continued to move forward. While the CVS and Aetna transaction initially closed in November 2018, it is still facing legal hurdles. After the deal closed, a federal judge decided to conduct a Tunney Act review of the transaction, despite the Justice Department's approval in October. After two days of hearings in which experts on both sides spoke, the judge told attorneys to prepare for oral arguments in mid-July. The second transaction between UnitedHealth Group's Optum and DaVita Inc.'s DaVita Medical Group was completed on June 19, after receiving federal approval from the Federal Trade Commission. As part of the approval, UnitedHealth has agreed to divest one of DaVita's primary care practices in Nevada to Intermountain Healthcare due to monopolistic concerns in the Las Vegas area. This transaction is also under legal scrutiny; hours before the FTC vote, the Colorado Attorney General filed a complaint to address anti-competitive concerns in the Colorado Springs area.

Insurance Distribution

Acquisition of insurance agents continued its recent strong pace in the first half of 2019. Seven aggregators announced nearly 100 combined acquisitions (see Figure 2). Specialty targets, including MGAs, MGUs, program administrators, and wholesalers were in hot demand, accounting for 38 of the insurance distribution deals.

Some of the most significant transactions in the insurance distribution sector are:

- **Willis Towers Watson/TRANZACT.** In March, Willis Towers Watson announced its $1.2 billion acquisition of TRANZACT, a direct-to-consumer health care organization that links individuals to U.S. insurers. TRANZACT was acquired by its current majority owner, Clayton, Dubilier & Rice, in 2016. TRANZACT will operate as an integral part of Willis Towers Watson's Benefits Delivery and Administration business, which focuses on the development and delivery of administrative solutions for employers, employees, and retirees.

- **Safety National/Midlands Management.** Safety National Casualty Corporation, a multiline specialty insurance insurer, acquired Midlands Management Corporation, an MGA, wholesale broker, and program administrator. Both Safety National and Midlands Management specialize in excess workers' compensation business. Midlands wrote $138 million in 2018, with $122 million placed with ProSight and $17 million placed with Markel.

- **Tokio Marine HCC/NAS.** Tokio Marine HCC acquired NAS Insurance Services LLC, an MGA that wrote $176 million of premium in 2018. Tokio Marine HCC and its sister company, Tokio Marine Kiln, have worked with NAS since 1975, and Tokio Marine Kiln had owned 49% of NAS since 2014. Terms of the deal were not disclosed.

Insurance Services

There was strong interest in the first half to acquire insurance service providers, with a focus on TPAs, claims adjusting firms, and various types of InsurTech firms. Some of the more notable InsurTech acquisitions are:

- **Applied Systems/TechCanary.** Agency technology firm Applied Systems acquired TechCanary, an insurance customer relationship management system built on the Salesforce.com platform. Terms were not disclosed. Applied Systems said TechCanary's insurance CRM will be integrated with the Applied Epic agency management system to enable agencies, insurers, and MGAs to use the Salesforce.com platform. This acquisition follows Google's minority investment in Applied in 2018.

- **Avinew/Betterdrive.** InsurTech company Avinew acquired Betterdrive, also known as Pear Technology. Betterdrive developed technology to predict the probability of accidents based on the route, time of day, traffic, and weather conditions. Avinew focuses on telematics for use in autonomous vehicles.

- **GI/Insurity.** In June, private equity firm GI Partners acquired Hartford-based Insurity from TA Associates, General Atlantic, and Genstar Capital. Insurity provides policy administration, claims, billing, and data analytics software.

Summary

The dearth of large, transformational deals involving insurers in the first half does not reflect a reduction in interest in M&A. Leaders and strategy teams at many insurers continue to consider potential acquisitions and divestment of subscale or noncore businesses as a vehicle to sharpen focus and support growth in their core businesses. We may see more activity on the M&A front in the second half.

Jerry Theodorou is a Vice President responsible for research for the property-casualty insurance market. He joined Conning in 2009 after two decades with AIG, most of which were with its international property-casualty division and with which he had multiple assignments in Europe and the Middle East. Mr. Theodorou earned a BA in physical anthropology from Cornell University and an MS in political science and public policy from the Massachusetts Institute of Technology.

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