



SOCIETY OF  
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MEETING**  
& EXHIBIT

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## Session 168: Mergers and Acquisitions: What is Happening and What are the Drivers?

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# M&A's: What is Happening & What are the Drivers?

Buy side perspective

James Keller, FSA  
Swiss Re



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- 02 Which deals to deploy resources on
- 03 Bidding process
- 04 Who wins & why
- 05 What determines price competitiveness
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# Buyers Motivation



- Synergy
- Economies of Scale
- Entrance into a new market
- Passive investment
- Core area
- Asset Spread





# Which deals to deploy resources on?



- Chase everything
- Focus on sweet spots
- Stock purchase or Reinsurance

# Bidding process



- Early bid
- Round one— limited data
- Contract mark ups
- One or two more rounds







# Who wins and why

- Price
- Financial strength
- Execution certainty
- Ease of doing business

# What determines price competitiveness



- Investment returns
- Arbitrage
  - (Admin, Excess reserves, taxes, investment options, required capital)
- Profit targets
  - (strategic, buying a platform, buying distribution)
- Assumptions





# Modelling

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## Appraisal

- Seller bias?
- Model quality?
- All product features?
- Who built

Build own model

# Due diligence & data rooms



Do all bidders see everything?



# Contracts, regulatory approval, & trusts



- Reps and Warrants
- Remedies and limits
- Trusts
- Price adjustment features and post close
- Insolvency / Termination
- Conditions to close
- Reporting information
- Asset listing
- Excluded liabilities
- Nonguaranteed elements



# Swiss Re's Process

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- Ruthless triage
- Seriatim data: mortality, lapse, and premium persistency
- Model validations
- Sensitivities
- Optimal structure
- Business management team
- Modelling
- Core team and expanded team
- Project management and project lead
- Senior sponsor
- Legal
- Celebration
- Post close work



# MERGERS AND ACQUISITIONS CURRENT LANDSCAPE AND BUYSIDE DILIGENCE PROCESS

October 30, 2019

**Esteban Paez**



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# 1

## M&A landscape

- Key activity drivers and recent transactions
- Buyer perspectives and deal considerations

# 2

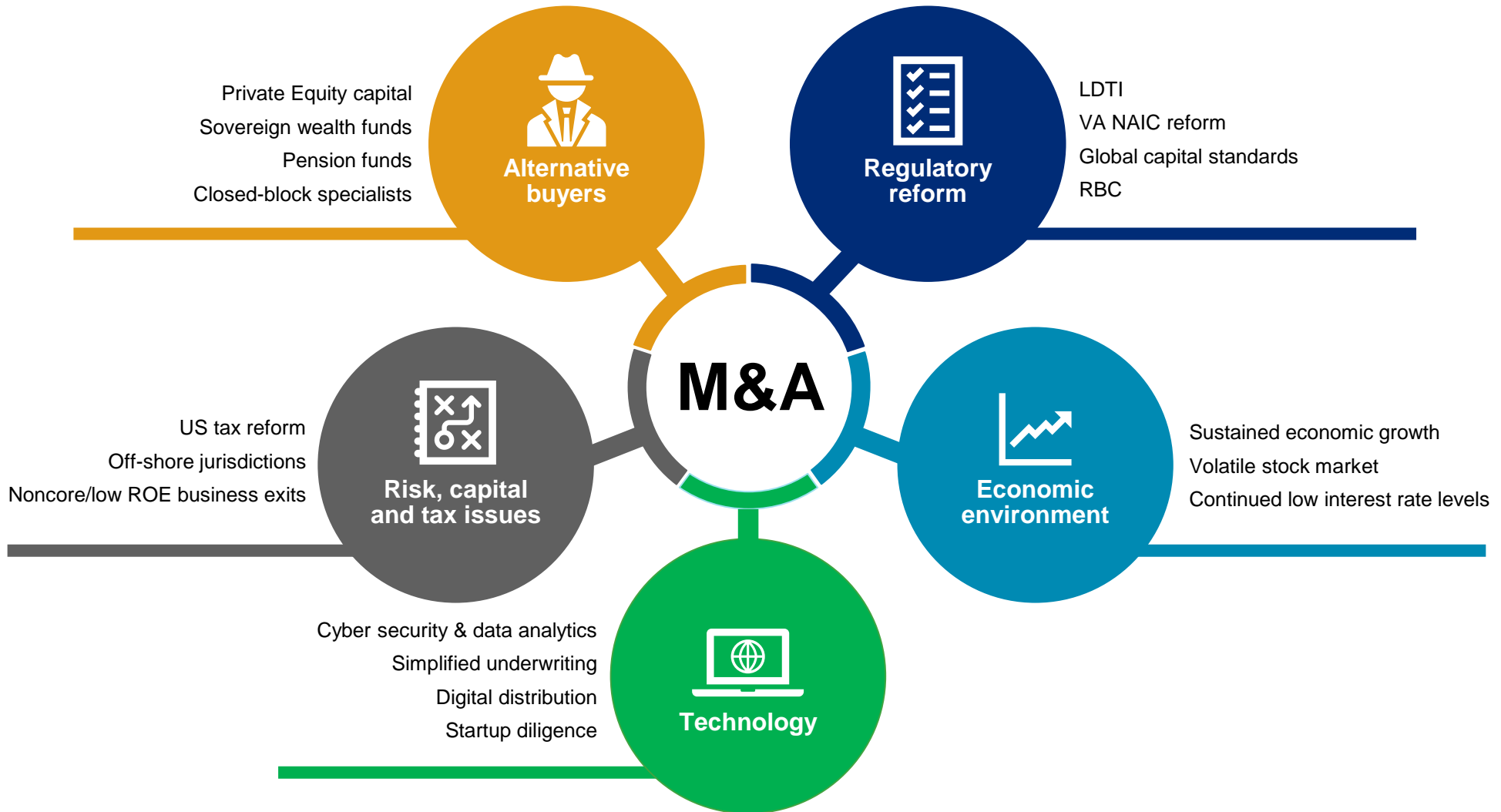
## Buy-side due diligence process

- Typical M&A process flow
- Buy-side due diligence activities

# 1 | M&A landscape

# Key drivers of M&A activity












Recent M&A activity has been driven by alternative capital sources looking to enter the US life insurance space



# We've observed sizeable transactions from both strategic and financial buyers in the last 3 years

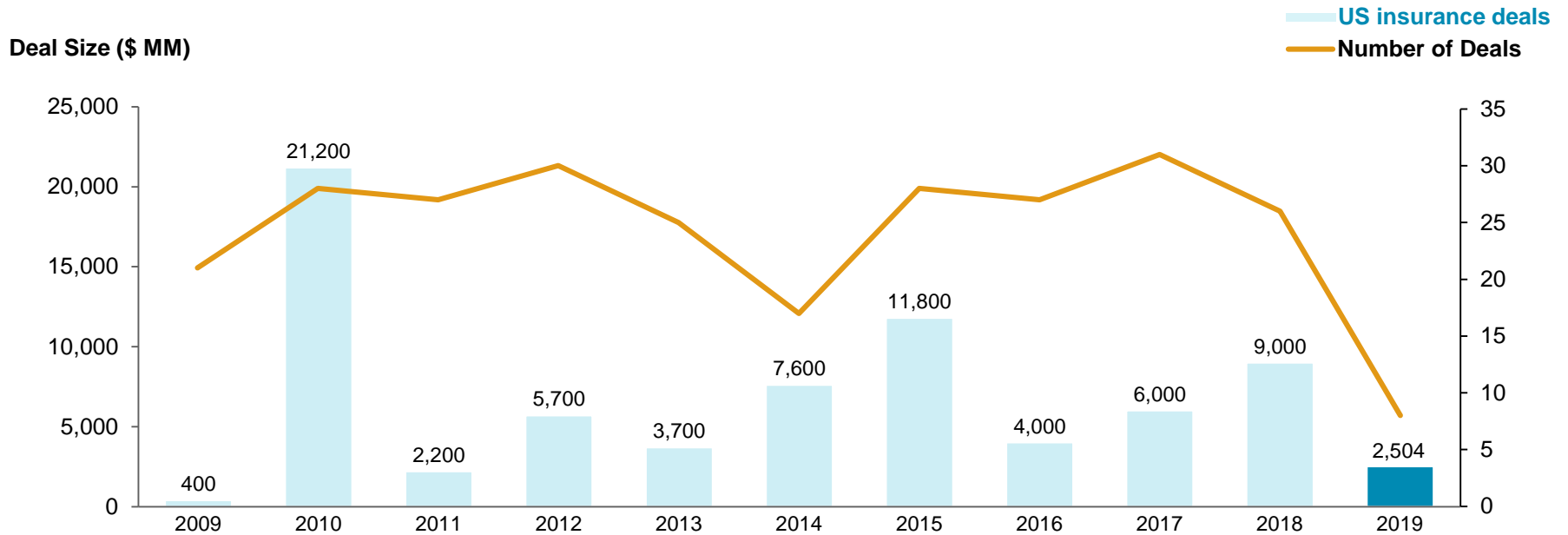
## Recent US life, annuity, and health transactions

2017 – 2019 deals in excess of \$0.5 BN

Buyer	Seller	Deal value	Year	Type	Products
		\$1.20BN	2019		COLI/BOLI, single premium life, and other life and annuities
		\$700MM	2018		Fixed and indexed annuities
		\$1.55BN	2018		Juvenile and family life insurance
		\$825MM	2018		LTC
		\$3.30BN	2018		Individual life and annuities; group benefits
		\$1.10BN	2017		Variable, fixed and indexed annuities
		\$1.61BN	2017		Variable, fixed, payout, and structured settlement annuities
		\$1.45BN	2017		Group life and disability
		\$1.84BN	2017		Life and indexed annuities

 Strategic  Financial  Strategic & financial

# Despite heightened market activity in recent years, only four transactions have closed in 2019



## 2019 publicly announced life and annuity transactions

**Protective** **THE Great-West Life**  
ASSURANCE COMPANY

Protective Life reinsures Great-West Life's individual life and annuity business for **\$1.2BN**

**GLOBAL ATLANTIC** **Ameriprise**  
FINANCIAL GROUP **Financial**

Ameriprise announces **\$200MM** fixed annuity reinsurance deal with Global Atlantic

**Global Bankers** **ARES**  
INSURANCE GROUP

Ares Management acquires "Pavonia Life" from Global Bankers for **\$75MM**

**RGA** **Horace Mann**  
Founded by Educators for Educators

RGA reinsures a **\$2.9BN** block of annuities for Horace Mann, freeing up **\$185MM** of capital

**K U V A R E** **LINCOLN BENEFIT LIFE**

Kuvare US enters into a definitive agreement to acquire Lincoln Benefit Life and affiliates

**NASSAU RE** **Foresters**  
**Financial**

Nassau Financial Group announces agreement to acquire Foresters Financial



# Buyer perspectives

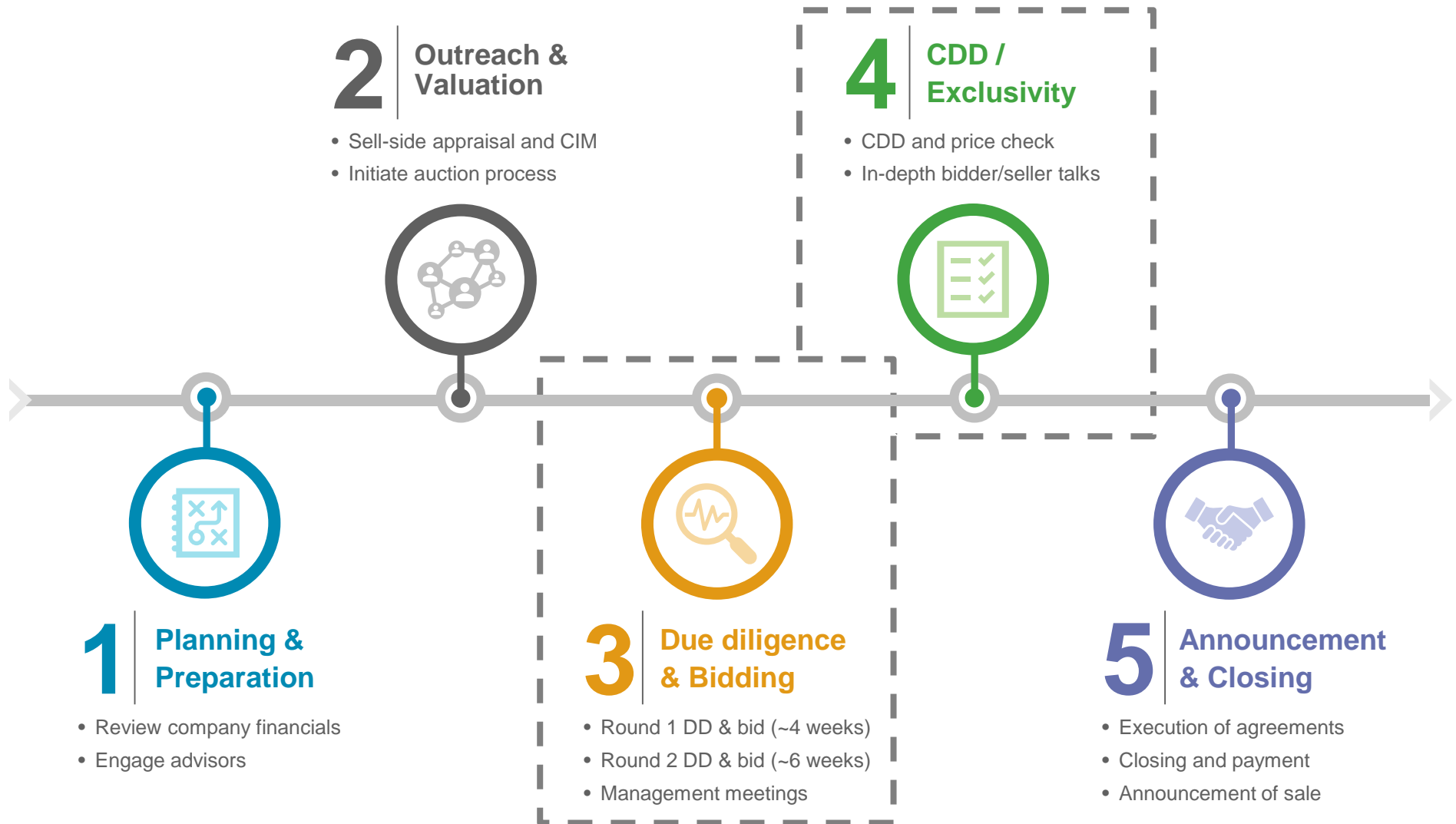
## Traditional insurance companies (“TIC”) vs private equity (“PE”) buyers

Category	TIC view	PE view
1 <b>Regulatory relationships</b>	<ul style="list-style-type: none"><li>• Typically have strong relationships with state regulators</li><li>• Favorably viewed by rating agencies</li></ul>	<ul style="list-style-type: none"><li>• Require “buy-in” from regulators</li></ul>
2 <b>Deal motivation</b>	<ul style="list-style-type: none"><li>• Financial: viewed as inforce run-off block</li></ul>	<ul style="list-style-type: none"><li>• Strategic: potentially valued as inforce + new business platform</li></ul>
3 <b>Ability to close</b>	<ul style="list-style-type: none"><li>• Successful deal execution</li></ul>	<ul style="list-style-type: none"><li>• High execution risk if no prior track record of insurance acquisitions</li><li>• May need to line-up 3<sup>rd</sup> party investors</li></ul>
4 <b>Off-shore leverage</b>	<ul style="list-style-type: none"><li>• Minimal to none</li></ul>	<ul style="list-style-type: none"><li>• Aggressively pursue tax and capital friendly jurisdictions (Bermuda, Cayman, Barbados)</li></ul>
5 <b>Desired return</b>	<ul style="list-style-type: none"><li>• High single digits</li></ul>	<ul style="list-style-type: none"><li>• Mid teens</li></ul>
6 <b>Capital level &amp; diversification</b>	<ul style="list-style-type: none"><li>• Increased capital diversification by offsetting with other risks/LOBs (i.e. mortality)</li></ul>	<ul style="list-style-type: none"><li>• Regulators may impose additional capital requirements</li><li>• Limited use of covariance</li></ul>
7 <b>Value “lens”</b>	<ul style="list-style-type: none"><li>• Free cash flow / distributable earnings</li><li>• Strong liability management</li></ul>	<ul style="list-style-type: none"><li>• Liability cost of funds</li><li>• Strong asset management</li></ul>
8 <b>Investment approach</b>	<ul style="list-style-type: none"><li>• Conservative</li></ul>	<ul style="list-style-type: none"><li>• Aggressive</li></ul>

## 2 | Buy-side due diligence process

# M&A process overview

Core buy-side  
due diligence  
activities



# Buy-side due diligence activities

## 3 Due diligence & Bidding



### Assumptions

- Experience studies
- Benchmarking
- Buyer perspective



### Modeling

- Liabilities
- Assets
- Corporate (deal model)



### Transaction structure planning

- Valuation and tax basis
- Reinsurance
- Leverage analysis
- Offshore jurisdictions

## 4 CDD / Exclusivity



Single cell testing and validation



Future regulatory changes



Time zero strain and leverage analysis



Purchase price adjustments



Non-modeled items



Closing docs

# Questions





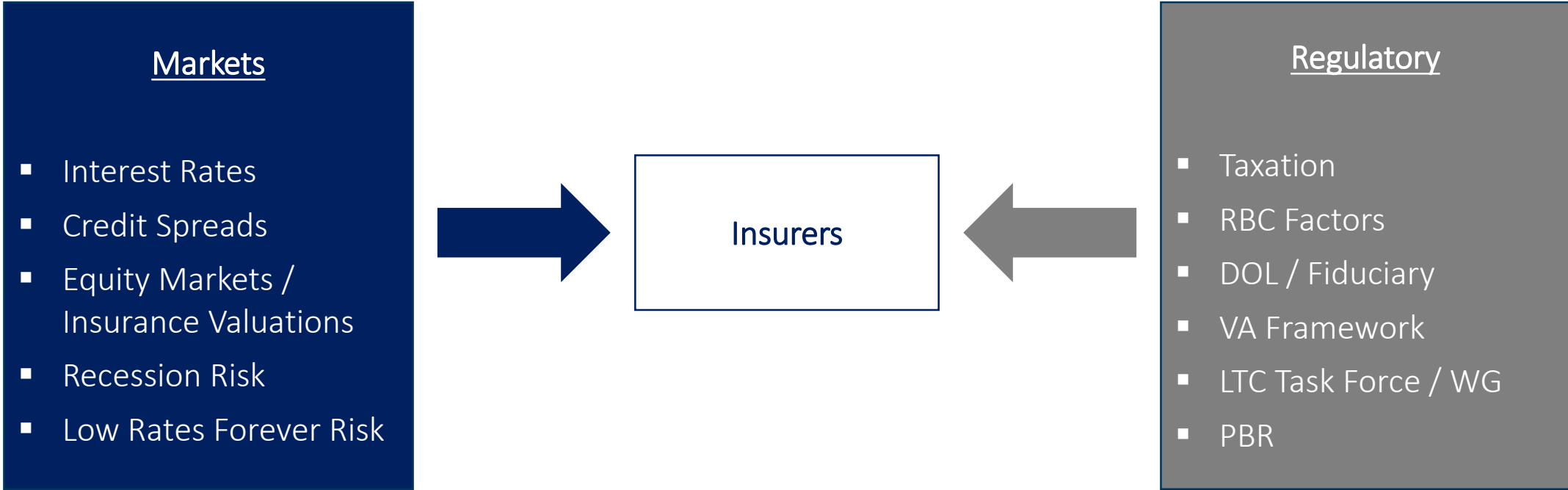


# Mergers and Acquisitions: What is Happening and What are the Drivers?

Jeremy Vessels  
Head of Deal Execution  
Global Atlantic



# Current Environmental Factors



# Environmental Impacts on Sellers

Many of the environmental factors previously listed are constant influences in our industry.

Here are examples of how they may be directly impacting insurance companies today:

<b>Lower Profits</b>	<ul style="list-style-type: none"><li>▪ Lower Interest Rates, Compressed Spreads</li><li>▪ Impairments &amp; Write-downs</li><li>▪ Reserve Increases</li></ul>
<b>ITM Guarantees</b>	<ul style="list-style-type: none"><li>▪ Minimum Guaranteed Interest Rates</li><li>▪ In-the-Money Equity Guarantees</li><li>▪ In-the-Money WB / IB / LB Guarantees From Low Crediting Rates or Index Credits</li></ul>
<b>Asset-Liability Management</b>	<ul style="list-style-type: none"><li>▪ Tough Market for Long-Duration Investors</li><li>▪ ALM Solutions May Carry Significant Cost, Collateral, and Volatility Implications</li></ul>
<b>Capital</b>	<ul style="list-style-type: none"><li>▪ Lower Capital Ratios</li><li>▪ Higher Capital Standards Due to Elevated Market / Analyst / Investor Apprehension</li></ul>

# A Seller's Market Despite Headwinds?



# Seller Motivations

**Seller motivations and objectives often span multiple categories. Below are common seller motivations, several of which can be found explicitly referenced in recent deal press releases**

## RISK MANAGEMENT

- Reduce investment and policyholder behavior risk
- Mitigate interest rate and/or equity market exposure
- Manage business mix and capital allocation

## RELEASE CAPITAL

- Release capital backing blocks of business to buy back shares or fund organic growth, acquisitions, or new ventures
- Monetize embedded value and realize capital gains

## EXIT NON-CORE BUSINESSES

- Shift focus, capital and resources to core lines
- Downsize run-off blocks
- Transfer admin and/or cut expenses and overhead

## OPPORTUNISTIC

- Take advantage of hungry market supporting attractive valuations
- Follow blueprint from recent successful transactions
- Shed non-core blocks associated with share price overhang

# So.... Why Not More Deals?

Despite all the apparent positive factors, there are still obstacles to deal execution:

<b>Timing Risk</b>	<ul style="list-style-type: none"><li>▪ Rarely want to generate excess capital without deployment plan</li><li>▪ Tough to coordinate a Buy/Sell in close proximity</li><li>▪ Excess capital creates drag on ROE</li><li>▪ Smaller, cleaner company might become target itself – management usually avoids</li></ul>
<b>Alignment</b>	<ul style="list-style-type: none"><li>▪ Seller's most obvious de-risking blocks might not align with buyer's preferences or strengths</li><li>▪ Price might be fair / competitive, but still not palatable</li></ul>
<b>Stalled Momentum</b>	<ul style="list-style-type: none"><li>▪ When tough markets motivate sellers, market recoveries can stall deal momentum</li><li>▪ Industry sometimes demonstrates a short memory</li></ul>
<b>The "Rule of 1"</b>	<ul style="list-style-type: none"><li>▪ It may take lots of "yes" votes to get a deal done, but sometimes only takes one dissenting voice to kill a deal</li><li>▪ Could be due to little deal experience or a different view of optimal actions</li></ul>

# Public Deal Commentary (Sellers)

(Underling added to highlight certain aspects and was not present in source documents)

- ***“Ameriprise Financial remains focused on shifting its business mix by reducing the level of capital allocated to its more capital-intensive business lines and this transaction represents progress in executing this strategy.”***
  - Ameriprise press release following fixed annuity reinsurance deal with Global Atlantic, March 2019 <sup>(1)</sup>
- ***“With the completion of this transaction, we have significantly reduced market and insurance risk for Voya and its shareholders .... Voya is now a simpler, more focused company that is well positioned for accelerated growth. Our business mix .... is now largely focused on our higher-growth, higher-return, capital-light Retirement, Investment Management and Employee Benefits businesses.”***
  - Voya’s Chairman and CEO, Rodney O. Martin, Jr., following the sale of VIAC and divestiture of substantially all of its fixed, fixed index, and variable annuity business, June 2018 <sup>(2)</sup>
- ***“The capital generated from the transaction .... will predominantly be used to fund share repurchases up to \$500 million .... The transaction is expected to be accretive to Lincoln Financial’s earnings per share in 2019.”***
  - Lincoln Financial Group press release following fixed and fixed index annuity reinsurance deal, December 2018 <sup>(3)</sup>
- ***“The transaction is consistent with the company’s stated strategic objective to reduce the amount of capital allocated to its run-off businesses.”***
  - AEGON press release following agreement to reinsure its payout annuity and BOLI/COLI businesses, May 2017 <sup>(4)</sup>
- ***“This completes our exit from the run-off life and annuity businesses and significantly reduces our capital markets exposure”***
  - The Hartford’s Chairman and CEO Christopher Swift following the closing of The Hartford’s sale of Talcott Resolution to a group of investors including Global Atlantic, May 2018 <sup>(5)</sup>

(1) <https://newsroom.ameriprise.com/news/ameriprise-financial-announces-fixed-annuity-reinsurance-transaction-with-global-atlantic.htm>

(2) <https://corporate.voya.com/newsroom/news-releases/voya-financial-completes-annuities-transaction>

(3) <https://newsroom.lfg.com/press-release/financial/lincoln-financial-group-announces-reinsurance-transaction-athene-and-acceler>

(4) <https://www.aegon.com/investors/press-releases/2017/aegon-to-divest-majority-of-us-run-off-businesses/>

(5) <https://newsroom.thehartford.com/press-release/corporate/hartford-closes-sale-talcott-resolution>

# Mergers and Acquisitions: What is Happening and What are the Drivers?

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Head of Deal Execution  
Global Atlantic







# Mergers and Acquisitions: What is Happening and What are the Drivers? Seller Perspective

Linyi Zhang

SOA 2019 Fall Annual Meeting - Toronto

 Milliman

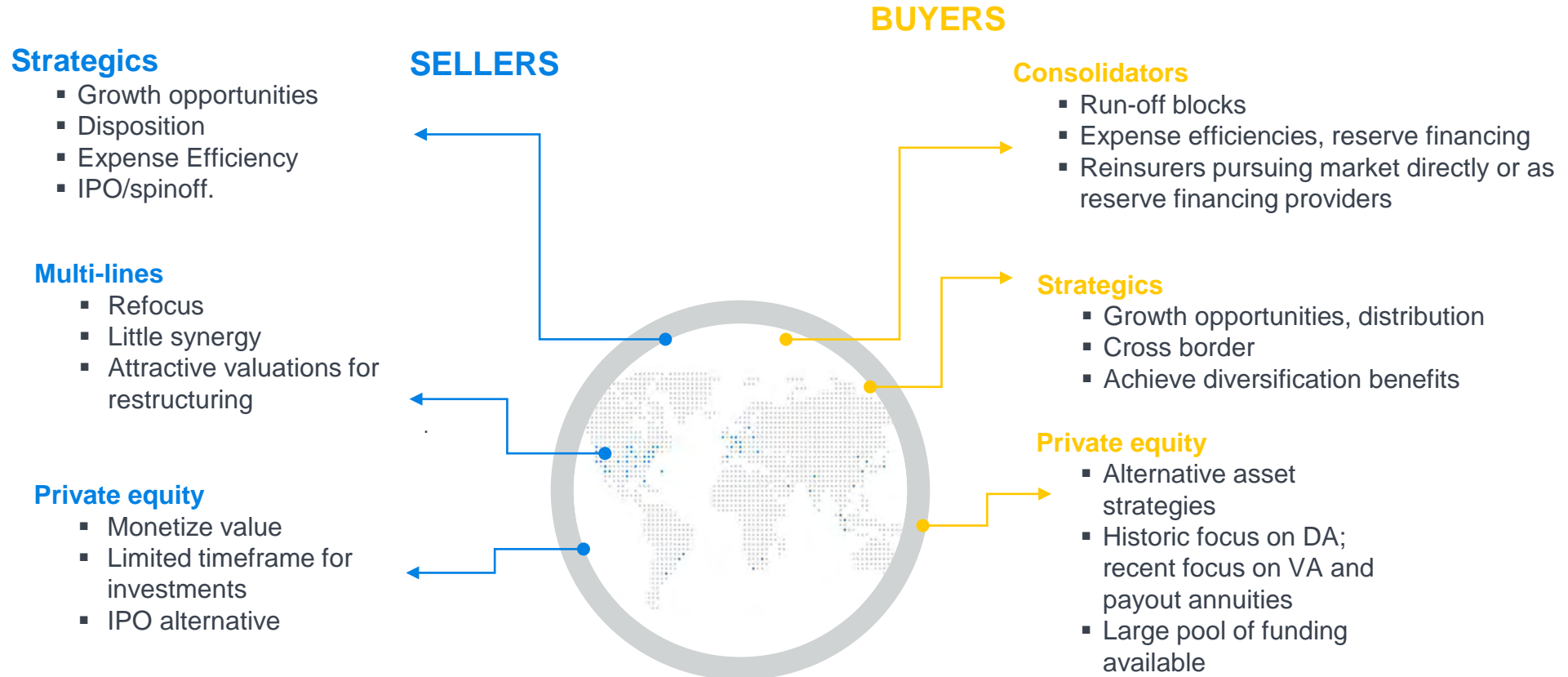
# Low Interest Rate Impact on Life Insurance M&A

- Fewer blocks on the market temporarily
- Gradually picked up activities
- Type of the business on market

# Drivers – “Changes”

- Regulatory Environment
- Tax Regime
- Interest and Capital Market Environment
- Seller Own Unique Circumstance
- Competition Landscape
- Technology Evolution

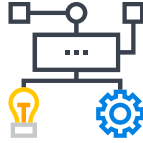
# Current Trends in Life M&A Market



## Seller Consideration in M&A

- Tax Consequence
- Counterparty Risk/Residual Risk
- Ability to Absorb Existing System/Staff
- Buyer Past Experience and Future Business Plan





## Modeling

- Assumption: Realistically optimistic
- Liability Model: Major Profit/Risk Driver
- Asset Model: Reinvestment Strategy in the Low Rate Environment



## Optimization

- Reinvestment
- Capital Relief
- Reserve Financing
- Potential Management Action: Post Level Term, COI Increase (Credibility?)
- Transaction Structure Tax Effect



**Thank you**