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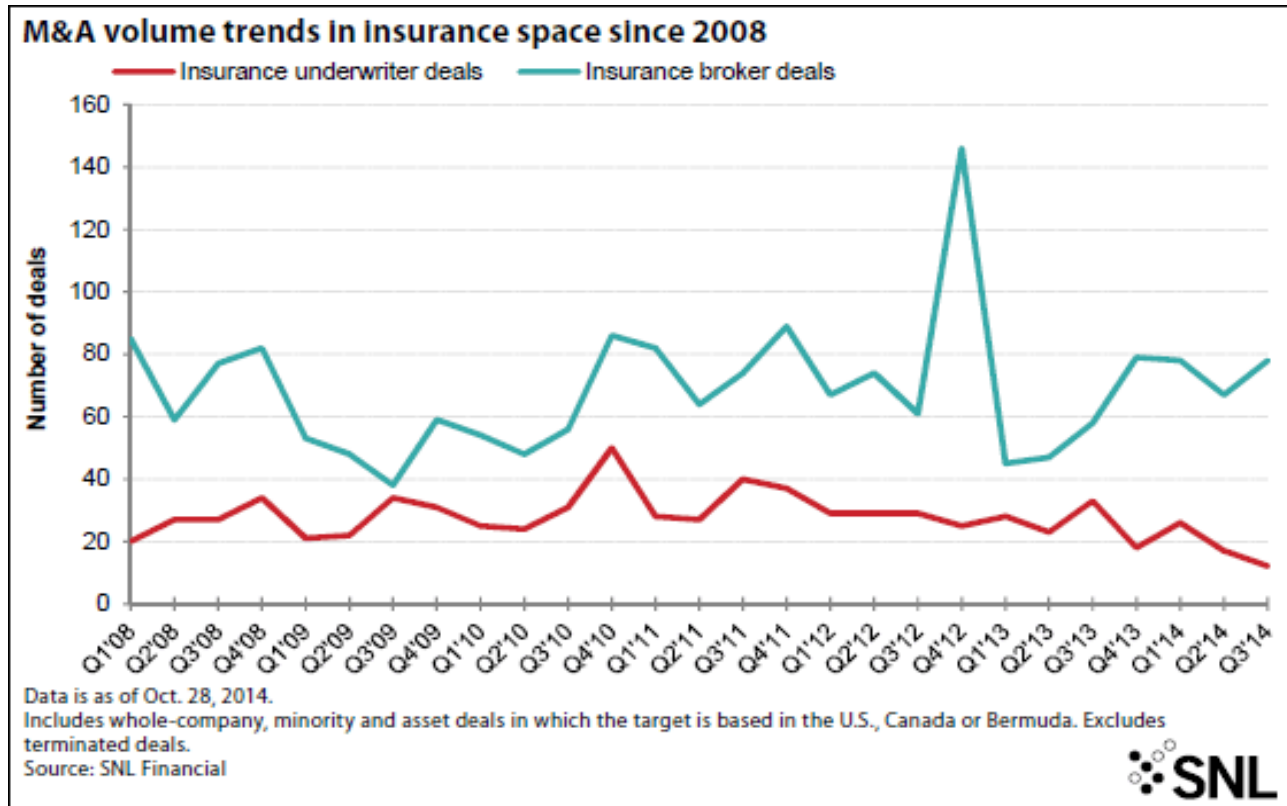
Insurance M&A scoreboard, Q3'14

By [Adam Cancryn](#) and [Muhammad Umer Shahid](#)

Activist investors, heightened regulation and lingering crisis-era memories have injected a new level of conservatism into the market for insurance deals.

Companies are taking longer to pull the trigger on acquisitions, investment bankers and M&A lawyers told SNL, wary of attracting extra scrutiny from a growing class of outspoken shareholders and regulators. The hesitancy has turned deal-making into an arduous process, cutting into the sector's overall volume. Underwriters announced just 12 transactions in the third quarter, surpassing the second quarter's 17 [deals](#) as the fewest in any period since at least 2008.

That restraint comes even as the economic case for M&A strengthens. U.S. equity markets are hitting fresh highs, financing is still cheap and insurers' cash piles are stacked high. The industry appears primed for a new era of consolidation.



Yet the deal climate is as unforgiving as it is promising. Shareholders are as assertive as ever, deeply skeptical and allergic to uncertainty. Regulators too are paying closer attention and holding companies to higher and more complex standards. The combined pressure is enough to keep many insurers out of the market for big deals, advisers said, and away from any risky bets.

"Certainly caution prevails," Clyde & Co Corporate Insurance Partner Vikram Sidhu told SNL. "They continue to take a very cautious approach, which is perhaps surprising. But it is very much a mindset."


The mindset is one that developed in the wake of the financial crisis, as ambitious insurers that grew throughout the mid-2000s scrambled to unload their suddenly nonessential or underperforming businesses. Companies largely slimmed down and refocused on their core operations, prioritizing steady profitability over expansion. Investors rewarded them over time with higher valuations, and six years later, the strategy remains the same. M&A activity is driven mainly by divestitures, both to runoff specialists within the industry and private equity firms outside of it. The acquisitions that insurance companies do make tend to be smaller strategic deals aimed at adding a new product or capability.

Those transactions are efficient, and perhaps most significantly, they are safe. They do little to impact companies' broader goals and often generate an immediate and identifiable return with no regulatory hassle. The 12 transactions that underwriters struck in the third quarter equaled just \$490 million of deal value. Through Sept. 30 year-to-date, only seven of the 55 industry transactions across North America and Bermuda broke even the \$500 million threshold.

Insurance underwriter deal statistics					
	Q3'10	Q3'11	Q3'12	Q3'13	Q3'14
Number of deals	31	40	29	33	12
Deal value (\$B)	3.61	1.90	13.46	3.30	0.49

National insurance broker deal statistics					
	Q3'10	Q3'11	Q3'12	Q3'13	Q3'14
Number of deals	56	74	61	58	78

Data as of Oct. 28, 2014.
Includes property and casualty, life and health and managed care deals announced during the period.
Includes whole-company, minority and asset deals in which the target is based in the U.S., Canada or Bermuda. Excludes terminated deals.
All metrics are as of announcement date.
Source: SNL Financial



Insurers are eager to make bigger moves, advisers said. The industry dynamics that propelled companies' shares higher the last couple years are petering out, and acquisitions could serve as a new engine for growth. But they are equally worried about taking on too much risk in an environment that craves certainty. A major deal that turns sour could spook investors for years, saddle the company with costly liabilities and attract a host of regulatory attention.

"In the golden olden days, you could get return on your investment, and that glossed over a lot," White and Williams LLP Partner Robert Ansehl told SNL. "Now it's

not. These unsuccessful transactions are rebounding to shareholders, and they're voting with their pocketbooks and getting a lot of press for doing it."

Investor conflict is emerging now even before a company's strategy has a chance to play out. [American Financial Group Inc.](#)'s bid for [National Interstate Corp.](#) earlier in 2014 was derailed by National Interstate founder and shareholder Alan Spachman, who went as far as to sue American Financial to stop its tender offer. A judge initially [blocked](#) the deal, prompting American Financial to [pull](#) the \$30.00-per-share [offer](#) altogether.

Activists have similarly tried to [exercise](#) their [influence](#) in 2014 over other insurers such as [Genworth Financial Inc.](#) and [Donegal Group Inc.](#) The skirmishes take up time and money at the very least and, in the most prominent cases across the business world, targeted individual executives and radically altered companies' strategic direction. Those challenges are likely to become more frequent, too. Investors launched an average of 240 activist campaigns across all industries in each of the last three years, a March McKinsey & Co. study [found](#), more than double the amount a decade ago.

The fallout from all that is that insurance companies are spending far more time vetting deals than before. Negotiations are more intense, playing out over several months, when a similar deal before the financial crisis might have taken half that time. When an insurer does do a headline-grabbing deal, it wants to be absolutely sure every one of those headlines will be positive.

Announcement date	Buyer (ticker)	Target (ticker)	Deal value (\$M)
06/03/14	Dai-ichi Life Insurance Co. Ltd. (8750)	Protective Life Corp. (PL)	5,579.6
03/21/14	Investor group	Wilton Re Holdings Ltd.	1,800.0
04/15/13	Madison Dearborn Partners LLC	National Financial Partners Corp. (NFP)	1,283.8
03/21/14	TPG Capital Management LP	Warranty Group Inc.	1,225.0
06/10/13	Travelers Cos. Inc. (TRV)	Dominion of Canada General Insurance Co.	1,101.9
04/10/13	Protective Life Corp. (PL)	MONY Life Insurance Co.	1,056.0
06/03/13	SCOR SE (SCR)	US life reinsurance business	920.0
06/23/14	Validus Holdings Ltd. (VR)	Western World Insurance Group Inc.	690.0
07/09/13	Investor group	Torus Insurance Holdings Ltd. (Bermuda)	652.0
09/26/13	Global Atlantic Financial Group	Forethought Financial Group Inc.	650.0

Data as of Oct. 28, 2014.
* Only for those deals where the deal value was available.
Includes property and casualty, life and health and managed care deals announced between Jan. 1, 2013, and Sept. 30, 2014.
Includes whole-company, minority and asset deals in which the target is based in the U.S., Canada or Bermuda. Excludes terminated deals.
All metrics are as of announcement date.
Source: SNL Financial

"There's more diligence than there has been in the last few years," Ansehl said. "It's how acquirers are trying to make this look, feel and smell a lot better for shareholders."

A major part of that is ensuring a smooth path through the regulatory approval process. Ongoing reforms have kept larger insurers on the sidelines, advisers said, content to wait out new rules stemming from the Dodd-Frank Act in the U.S. and Solvency II in Europe.

Others are paying closer attention to how regulators handle competitors' transactions before making a decision on their own opportunities. When the New York Department of Financial Services [held up Athene Holding Ltd.'s acquisition](#) of [Aviva USA Corp.](#), it interrupted a frenzy of private equity deals for life insurers' annuity businesses. Buyout firms are just now moving back into the market but far more cautiously than before.

Acquirer (ticker)	Number of deals	
	Q3'14	2013
Arthur J. Gallagher & Co. (AJG)	9	15
Acrisure LLC	7	5
Hub International Ltd.	6	26
Fidelity National Financial Inc. (FNF)	5	8
AssuredPartners Inc.	4	20
National Financial Partners Corp. (NFP)	3	6
Confie Seguros Insurance Services	3	18

Data as of Oct. 28, 2014.
Buyers with three or more deals are included.
Includes whole-company, minority and asset deals in which the target is based in the U.S., Canada or Bermuda. Excludes terminated deals.
Source: SNL Financial

"It's misleading to read into low activity in the third quarter as a sign that no activity means no interest," Grace Global Capital Managing Director Grace Vandecruze told SNL. "I think it's actually quite the opposite, but there's a longer gestation period, and insurance executives are looking very closely not only for a strategic fit but also at regulatory and integration issues."

That deliberate pace is expected to continue even as M&A chatter intensifies. The rate increases that buoyed property and casualty insurers' valuations have peaked, and on the life insurance side,

persistently low interest rates continue to limit investment returns. Reinsurers, meanwhile, are wrangling with industry upheaval that some executives already [admit](#) will force companies to consolidate for the sake of survival. Those factors should conspire to produce more transformative deals during the next couple years. But they will likely not come in a wave of activity. At least for now, shareholders and regulators are watching too closely for companies to roll the dice on risky acquisitions.

"I'm seeing discussions about potential acquisitions that will not be anything immediate, but rather ... if these are pursued, it'll be a little bit more in the six months to 12 months range," Sidhu said. "The deal teams are thinking long and hard about every step in a way that maybe you didn't necessarily see prior to the crisis."

