

# Q2 2021 Life Insurance Market Update

## Market Commentary

- 📌 Credit markets have fully recovered from the COVID plunge, but not as life insurers would have them. Investment grade yields are below pre-crisis levels with Treasury rate rallies being offset by tightening yield spreads.
- 📌 The shares of publicly traded life insurers have exceeded pre-COVID levels. While still below January 2020 levels, price/book ratios have been recovering steadily, leaving share repurchases less attractive and inorganic growth more attractive on the margin for many buyers.
- 📌 The Allstate Corp. (NYSE: ALL) announced the divestiture of its individual life insurance businesses in two transactions, selling Allstate Life Insurance Company (“ALIC”) to The Blackstone Group Inc. (NYSE: BX) and Allstate Life Insurance Company of NY (“ALNY”) to Wilton Re. The company’s “capital light” group/worksites business, Allstate Benefits, remains.
- 📌 Sherman & Company expects more P&C insurance companies to sell their life business thanks to strong valuation multiples and little impact on distribution force. Capital intensive spread businesses are a challenge in this low rate, tight spread environment. Public companies in this sector will carry the added burden of earnings volatility, and in ALL’s case, a GAAP Equity deduction under upcoming accounting requirements for long duration contracts (see “Deal Commentary” below).
- 📌 We are continuing to see deals in the space announced at multiples of **2-4x** STAT C&S.



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- We recommend that annuity blocks be evaluated for selective divestitures to specialty reinsurers who enjoy higher asset yields and lower capital attraction. There are numerous players available and eager to grow their respective books. The alternatives on offer are diverse and may be complex. Sherman & Company can assist ceding companies with evaluating the many trade-offs between pricing, structure, and collateralization.
- Private owners of both individual and group businesses can expect high prices in a true seller’s market with diverse and aggressive buyers. In addition to peak cycle pricing and accommodative capital markets, the likelihood of adverse capital gains impacts under tax reform increases with each stimulus package making 2021 an ideal time to consider a sale.

## Notable Recent Transactions

Announcement Date	Acquirer	Target	Deal Value (\$MM)	Deal Commentary
04/15/21	Reliance Standard Life Insurance Co.	Standard Security Life Insurance Co. of NY	\$180.0	Reliance Standard agreed to pay \$180.0 million in cash to acquire Standard Security, implying multiples of 2.8x and 14.0x on 2020 STAT C&S and earnings, respectfully. Significant synergies exist between the two entities, as both place an emphasis on A&H lines, specifically short-term disability.
03/29/21	Wilton Re U.S. Holdings, Inc.	Allstate Life Insurance Co. of NY	220.0	Allstate’s sale of both ALIC and ALNY completes its strategic departure from individual life and annuities. These non-core, capital-intensive LOBs were dilutive to Allstate’s consolidated earnings. Allstate estimated that the \$3.1 billion ALIC book loss would be less than the impact of Long Duration Targeted Improvement accounting standard. We also note that Allstate will contribute \$660.0 million to ALNY <b>prior</b> to closing the sale to Wilton Re. <sup>1</sup>
01/26/21	The Blackstone Group, Inc. (NYSE: BX)	Allstate Life Insurance Co.	3,050.0	
03/23/21	Constellation Insurance Holdings, Inc.	Ohio National Mutual Holdings, Inc.	NA	While detailed terms were not disclosed, the transaction is a sponsored demutualization whereby Constellation will: i) pay \$500 million in cash and policy benefits to members to extinguish their interests, and ii) infuse \$500 million of capital over four years to strengthen capital and support growth. <sup>2</sup>
03/09/21	CUNA Mutual Holding Co.	Assurant, Inc. Global Preneed	1,250.0	Assurant divested its preneed and final expense business at a handsome price for a non-core LOB. The reported \$1.3 billion, paid by CUNA Mutual, implies multiples of 3.9x and 16.8x on 2020 STAT C&S and earnings, respectfully.

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Sources: Sherman & Company, S&P Market Intelligence, and S&P Capital IQ

1. The Allstate Corp. Investor Presentation, 01/27/21

2. Ohio National Financial Services Press Release, 03/23/21