THE MUTUAL FACTOR
ALIGNED FOR SUCCESS

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M&A ACTIVITY IS A PART OF THE BUSINESS ENVIRONMENT. BUT IN THE MUTUAL WORLD, IT OFTEN WORKS DIFFERENTLY.

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Mergers, acquisitions, affiliations, amalgamations, joint ventures. Whatever you call them, they are not uncommon in the business world, the mutual insurance industry included. Sometimes they are necessary for company survival. Other times, they are a means of finding new and better ways to serve policyholders. Because just like many other industries, the mutual insurance landscape is changing rapidly, calling for new products, services, and technology and the nimbleness to make it happen.

In a 2018 S&P Global Market Intelligence report, senior insurance analyst Tim Zawacki wrote, “We are in a period where insurance carriers are reevaluating what is core to their franchise and pushing for greater efficiency in both expenses and capital utilization.” He added that a variety of factors will continue to drive more activity beyond 2018. These factors include federal tax reform and strategic investment in insurtech startups.
No matter the factors, the size of the companies involved, the combined structure chosen, or the timing of the agreement, incentives and motivations for partnerships are very similar.

**Southern Mutual Insurance Company**, headquartered in Athens, Georgia, and Marietta, Pennsylvania-based **Donegal Mutual Insurance Company** formed an affiliation agreement in late 2009, with finalization in 2010. The affiliation has been successful because it has allowed both mutuels to increase their personal lines business in the Southeast, aided Southern Mutual in offering new commercial lines products across Georgia and South Carolina, and, therefore, allowed Donegal to expand its commercial lines footprint across those states.

Discussions regarding the affiliation began more than a year in advance of its finalization and centered on the need for increased efficiencies and expanded product offerings. Dan DeLamater, president of Southern Mutual, says the decision was well received by company stakeholders.

“Our policyholders did not have a tremendous amount of questions. I think that was because most of our customers are local and they trust us, our board members, and our leaders. That really helped,” he explains. “The approval was overwhelming, and I think a lot of that was also due to good communication.”

DeLamater says affiliations can make sense for a number of strategic reasons, including the ability to develop new insurance products along with the ability to spread risk and become better positioned in the reinsurance marketplace. He cites slim margins as a detriment to new product development and says today’s customers not only want new products, they want new ways to conduct business.

DeLamater also says that while most M&A activity in other industries results in major impacts on employees and leadership — often, job loss — it differs in the mutual industry. **If the partnership is successful, the companies grow and end up needing additional headcount to serve more customers and offer more product lines.**

Donegal made every effort to reinforce that this was not a takeover, and everything has gone as promised, according to DeLamater. There was no “jumping ship” and all employment contracts were honored. There was no real disruption in the workplace, and the new joint venture was seamless to policyholders.

While designees of Donegal represent the majority on Southern Mutual’s board of directors, Southern Mutual retained its mutual status, its headquarters in Georgia, and its management, employees, and agents. DeLamater stresses that reputational risk in these situations is real; however, both companies experienced successful outcomes because they had — and still have — great relationships with their respective insurance departments and regulators.

“There’s no question Southern Mutual emerged from this affiliation strengthened and refortified,” DeLamater says. “The mutual insurance industry is an ever-changing landscape, and the rate of change seems faster than ever before. There were some things our board insisted on, like we were not interested in demutualizing, and we didn’t have to. We are proud, as many mutuals are, of our company’s rich history. We are one hundred seventy years old and we were determined to keep our domicile in Georgia.”

DeLamater says Southern Mutual’s partnership with Donegal put his company on the leading edge of the industry’s affiliation activity, but he expects more small mutuals to see this as an option going forward.

“Margins are so thin and product development is so important. We need to do more than just survive,” he says. “Mutuals can be protective of their brands and their histories, but I encourage others to remain open-minded to affiliation.”

When farm mutual Frontier Mutual Insurance Company and domestic company Mt. Carroll Mutual Insurance Company came together at the beginning of 2017 to form **Frontier-Mt. Carroll Mutual**, it wasn’t because either of the Illinois-based companies was unsuccessful.

“Both companies were well positioned to succeed as separate entities, and both were well capitalized with strong brands in the market niches where we specialize,” Larry Cook, FMC’s CEO, says. “But when digging deeper, [we realized] combining the strong company balance sheets, niche markets, and unique management skills [of each company’s leader], we could bring a company that would be able to provide unique product solutions and services to Illinois policyholders, agents, and farm mutuals.”

Cook says initial merger deliberations occurred more than a year before the effective date. He describes those as high-level discussions that focused more on the theory of how the partnership could work. This included identifying obstacles that would give them reason to discontinue the process. While those obstacles were never identified, Cook does admit that the first year was difficult.
Perhaps the most recent mutual insurance merger to take place involves The Main Street America Group, based in Jacksonville, Florida, and American Family Insurance, based in Madison, Wisconsin, the nation’s 13th-largest property/casualty insurance group. The deal, which took about six months to complete from board approval to closing, was finalized October 31, 2018. It is now the largest merger of property/casualty mutual holding companies in history.

Tom Van Berkel, Main Street America’s president and CEO, says his company had the financial strength to operate “as is” for many years; however, continuing “as is” ultimately would not provide the scale necessary to rapidly deploy innovative products, advanced pricing methodologies, or leading-edge technology in an increasingly demanding environment.

“Our decision to merge with American Family derived from our long-range planning that included an assessment of the property/casualty insurance industry as well as consideration of consumer interests, purchasing behaviors, and future expectations,” Van Berkel explains. “These have escalated because of demographic shifts and transactional advancements. We believe that consumer purchasing power is paramount and that companies will be left behind if they don’t respond effectively to the new consumer-centric model.”

Van Berkel cites several key benefits coming from the merger with American Family, including more rapid deployment of products and technology; increased capabilities for analytics and pricing; enhancement of distribution and the opportunity for each company to have access to new product lines; purchasing power and economies of scale; and employee development and growth opportunities.

Because the merger occurred as recently as it did, it is too early to point to tangible gains. However, integration teams are currently identifying opportunities and the companies expect to leverage near-term benefits this year. Main Street America continues to operate and market under current leadership, brand, and operating companies. Employee benefit programs and other important items operate under the Main Street America brand, and employees remain employed by Main Street America.

“The most important considerations for us were preservation of our strong culture and unwavering customer focus,” Van Berkel says. “Therefore, we focused much of our due diligence on assuring that these were aligned between companies, which they were. We believe that with our franchise value, strong customer base, and winning products, analytics, and technology, we will remain relevant for years to come.”
While this was the first transaction of its kind for Main Street America, American Family is not new to the merger world. The company acquired Nashville, Tennessee-based Permanent General in late 2012 and Boston, Massachusetts-based Homesite Group merged with American Family in early 2014.

American Family’s strategy for this kind of activity includes enhancing its overall opportunity to grow through geographic expansion, diversifying risk, and providing agents and policyholders broader product offerings. It’s also a way to serve new markets. Such was the case when acquiring Permanent General Assurance Corporation, whose umbrella includes The General, which specializes in the nonstandard auto insurance market. The General now sells products in 46 states — with rapid expansion since being acquired by American Family — through the internet, call centers, and some independent agents who specialize in nonstandard coverage. Today, The General’s products are also available through American Family’s exclusive agents.

American Family’s acquisition of Homesite brought a different segment — direct-to-consumer homeowners, renters, and condominium insurance. This also spreads American Family’s homeowners’ insurance catastrophe risk, which is one element of preserving financial strength.

When it comes to the American Family and Main Street America relationship, Bill Westrate, president of American Family, says it will have immediate benefits for policyholders and the two companies. He says Main Street America helps extend American Family’s reach to the East Coast and American Family will help bring new products and more technology to Main Street America.

Growth has been remarkable with the other agreements, according to Westrate, with each company focused on serving its unique customer segments with limited integration of certain administrative functions. He reiterates how important it is to maintain the legacy of the companies in their respective communities. Employees and company reputations are important, and Westrate says it’s vital to be conscious of employees and cultures.

“I believe we will see more consolidation and more companies interested in strategic mergers and acquisitions, and not just for the sake of growth,” Westrate says. “Growth isn’t the primary driver for us, but scale does matter. We are making significant investment in technology and are leveraging powerful technology platforms. Consumers are really demanding flexibility. It’s easy to see some of these changes as threats, but we’ve seen opportunity and mutual benefit.”