

Conversions, affiliations offer solutions to mutuals in challenging environment

By Tim Zawacki

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The specific rationales behind a recent set of mutual insurance company transformations may differ, but each of the corporate transformations has roots in a relatively common set of macro challenges.

From the uniquely structured subscription rights conversions of Illinois Casualty Co. and the former Nodak Mutual Insurance Co. to affiliations involving the likes of Mountain States Mutual Casualty Co., BrickStreet Mutual Insurance Co. and Concord General Mutual Insurance Co., and the landmark mutual insurance holding company conversion of American Family Mutual Insurance Co. SI, the transactions in their own ways seek to increase flexibility in terms of product offerings, geographic concentration or access to capital in a time of low interest rates, soft property and casualty pricing, evolving distribution strategies, and the emergence of more-sophisticated underwriting technologies.

Jeffrey Waldron, co-head of financial institutions and senior managing director at Griffin Financial Group LLC, said the series of transactions that resulted in Illinois Casualty's demutualization and the initial public offering of ICC Holdings stemmed from management's desire to pursue what it believes to be substantial growth opportunities in its chosen commercial lines niches. Nodak Mutual, meanwhile, opted for a new transaction structure that resulted in the formation of a mutual insurance holding company and a minority offering of shares in NI Holdings Inc. and, in so doing, allowed for the preservation of mutuality and policyholder control while also raising a reasonable amount of capital for the execution of the company's business plan, he said.

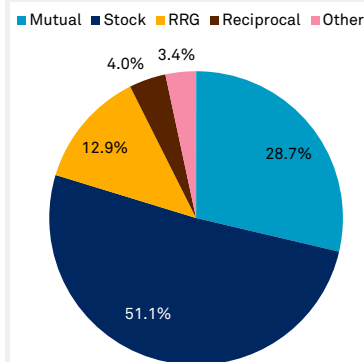
Griffin Financial Group served as financial adviser to Illinois Casualty and Nodak Mutual in their respective conversions and the underwriter for the public stock offerings of ICC Holdings and NI Holdings. It also served as exclusive financial adviser to the former Standard Mutual Insurance Co. and ARI Mutual Insurance Co. in their sponsored demutualizations through which their stock successors were sold to National General Holdings Corp. and AmTrust Financial Services Inc. in 2016.

Waldron said the Nodak Mutual deal represented the first subscription rights conversion executed by a mutual insurance holding company and the first conversion of any kind in which mutual members were able to redeem subscription rights for cash. Under a 2015 North Dakota law, companies pursuing subscription rights conversions are required to compensate policyholders who do not exercise their subscription rights. Members who exercised their subscription rights purchased stock at approximately 60% of NI Holdings' book value. Distributions linked to redemptions of subscription rights totaled \$5.7 million, Waldron said. Net proceeds raised by the company in the IPO exceeded \$93.4 million.

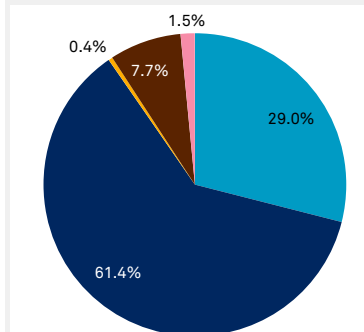
The Illinois Casualty subscription rights deal took on a more traditional form, but Waldron said it was unique in its allocation of shares to minority standby investors party to a standstill agreement designed to ensure that control of the company remains in "friendly hands."

Mutual-to-stock conversions, including subscription rights conversions, are generally dependent on enabling legislation in an insurer's domiciliary state. Redomicil-

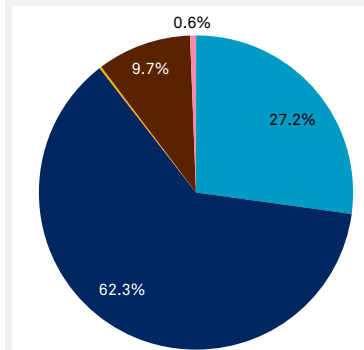
P&C groups and standalone entities by ownership structure
Number of entities



Dec. 31, 2016, surplus



2016 net premiums written



P&C = property and casualty
RRG = Risk-retention group
Data compiled May 2, 2017, from 2016 annual statements received through April 10, 2017. Ownership structure reflects disclosures on the jurat pages of annual statements by standalone P&C entities and determinations by S&P Global Market Intelligence for P&C groups.
Source: SNL Financial, an offering of S&P Global Market Intelligence
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ing to states with such a statute in place represents another option, one that Mutual of Enumclaw Insurance Co. pursued in connection with its 2015 conversion to a stock company in a mutual insurance holding company structure.

Mutuals have also opted to address concerns surrounding technology, operational efficiency, and geographic and business line concentration through affiliations. Waldron pointed out that the three aforementioned deals in which Donegal Mutual Insurance Co. will affiliate with Mountain States, Motorists Mutual Insurance Co. partnered with BrickStreet, and Auto-Owners Insurance Co. will link up with

Concord General are “very rare” in that they involve essentially healthy companies on both sides of the transactions.

The outcomes achieved by the companies that have converted or affiliated could lead some smaller mutuals facing similar sets of pressures to consider their options.

Among the nearly 1,200 active SNL P&C groups and stand-alone P&C entities, mutuals accounted for approximately 29% of the industry’s surplus at year-end 2016. More than 73% of the mutuals under current coverage had surplus of less than \$200 million, with the median amount at the group and stand-alone entity level totaling less than \$37.4 million.