



Episode 12: Life insurance M&A and COVID-19

NICK KOMISSAROV: The market is hot right now. Despite everyone thinking that COVID would slow things down and everyone's working from home, deals are still being made.

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CARRIE KELLEY: Hello and welcome to (Re)thinking Insurance. I'm your host, Carrie Kelley. Today I'm delighted to be joined by my guest Nick Komissarov, director out of our Chicago office and our North American Life M&A Leader at Willis Towers Watson. Welcome, Nick.

NICK KOMISSAROV: Thanks, Carrie. Hey, everyone. Glad to be here.

CARRIE KELLEY: In today's episode, we're going to be discussing current merger and acquisition market trends, specifically in the life space, and what impact, if any, COVID-19 has had on the market. Before we dive into that, Nick, one of the things we do on this podcast to learn a little bit more about our guests is we ask if you Google yourself, what comes back? And then more importantly, what would you actually like to come back when you googled yourself?

NICK KOMISSAROV: So I think if I Google myself, Willis Towers Watson comes out. You got my LinkedIn profile, probably an interview I've done, and then a video I've recorded last year. So I'm pretty happy with that. I think it's generally professional, but nothing stupid. So it's good.

CARRIE KELLEY: So talking about life M&As, what kind of activity have you been seeing in the life M&A market? And maybe to answer this, think about 2020 as a whole and what we're seeing in the beginning of 2021.

NICK KOMISSAROV: The market is hot right now. Despite everyone thinking that COVID would slow things down and everyone's working from home, deals are still being made. Management meetings are on Zoom or on Teams. They're not in person anymore. And we thought, hey, this might-- people might not feel as connected. They might not feel as trusting when they're not in person. But that didn't stop anything.

There has been quite a few very large deals, either closing this year or end of last year or being announced. Just to give you an example, Resolution Life and Voya-- they signed their deal back in the end of 2019. There has been a little bit of a slowdown. But it did get signed in the beginning of January of this year. And then, of course, this year there's two huge deals, so Sixth Street Partners acquired Talcott Resolution. So that's the second Talcott Resolution acquisition in the last two or three years. And then Blackstone bought the life business from Allstate. And I think what this speaks to is that the asset managers or private equity really

wants to get insurance, life insurance, long-tail liability, very, very stable profile and just tried to extract some yield there with their asset strategies.

CARRIE KELLEY: So how is the current economic environment, especially the historically low interest rates, impacting the activity that you see?

NICK KOMISSAROV: Yeah, that's a really good question. So I feel that some of the companies are looking at some of the legacy blocks that they have that could be unprofitable and do require additional assets to be put on, say, as part of cash flow testing or RBC, like a C3 phase-one requirement. And really what the companies are looking to do, they're looking for an answer of what's more advantageous to me? Is it to go to the market and try to sell this block and potentially expose yourself to a counterparty risk with whoever buys it or to keep it in house and kind of keep the pain in house, so to speak, over a number of years?

With that said, this year, in 2021, interest rates have been slowly increasing. So that could probably mean that some of the companies that were really uncomfortable with the counterparty risk. They might choose to stay. On the other hand, higher interest rates means that the prices that these counterparties are going to pay are going to be higher as well.

CARRIE KELLEY: So we know that the pandemic has had an impact on markets, especially looking back to March of 2020. And we know it's a contributing factor to the low interest rate environment. I'm curious if you've seen any other direct or indirect impacts from COVID-19? So have you seen companies trying to divest in relation to the liability risk associated with COVID-19?

NICK KOMISSAROV: That's a good question, Carrie. My experience has been that it's generally the market and economic environment that's the driver for transactions. We haven't seen as much of companies being worried about their mortality exposure.

CARRIE KELLEY: And did you see any change in activity before and after the March 2020 COVID-19-related market dip?

NICK KOMISSAROV: So what we originally thought and what we kind of saw for just a couple of months at the end of March, market crashed, so that kind of halted things. But almost right as the market was recovering, companies just continued on the track of trying to execute what they wanted to execute before the pandemic. The market drop was particularly scary for the life insurance industry. I think at some point, companies lost up to 50% of their value. But there was a there was a quick recovery. So that's definitely good.

CARRIE KELLEY: So how does the current activity you see in the life M&A space compared to activity over the past few years? Is it higher or lower? And what do you think are the key drivers of the activity you're seeing?

NICK KOMISSAROV: I think in general, the market activity in the life insurance space is very lumpy. So there are some years with a lot of deals, some years with just a few deals. And it seems that it's just normal. It's like as if the pandemic never happened. That volatility of deal volume is still there. And it seems that we are at a period of time where deal volume is quite high. But I wouldn't say that it's driven by the pandemic.

CARRIE KELLEY: Right. What would you say to firms that are potentially sitting on the sidelines? Maybe they're waiting or concerned about the uncertainty about COVID-19 and how that impacts markets or understanding their liability risk. What message would you have for them?

NICK KOMISSAROV: The message I would have is to hire an advisor and look and really evaluate internally, what are the COVID impacts, what they have been, what are the expectations. Chances are that right now COVID is largely behind us, with vaccines coming out rapidly. But really, the feasibility study would allow-- more generally, would allow companies to really understand what type of blocks or legal entities are good for them to move into the market, what blocks of business or legal entities are good to retain. And generally in my

experience this has been a fairly low-cost exercise as opposed to jumping into a sell-side process right away.

CARRIE KELLEY: That makes a lot of sense. Well, thank you, Nick, for joining us on the podcast today.

NICK KOMISSAROV: Thank you, Carrie, really enjoyed it. Thank you, everyone, for listening in.

CARRIE KELLEY: Thank you, everyone, for listening to (Re)thinking Insurance. Goodbye.

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