
Principal buys Wells Fargo's retirement business

By Editorial Staff Thu, Apr 11, 2019

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Wells Fargo agreed to sell its \$827 billion retirement plan services unit to Principal Financial Group for \$1.2 billion as the bank retrenches in the wake of scandals, according to a report in *Bloomberg News* this week and other releases.

By acquiring Wells Fargo's Institutional Retirement & Trust business, Principal will assume ownership of Wells Fargo's defined contribution, defined benefit, executive deferred compensation, employee stock ownership plans, institutional trust and custody and institutional asset advisory businesses and serve a combined 7.5 million U.S. retirement customers, a Principal release said.

The acquisition will double the size of Principal's U.S. retirement business by the number of total recordkeeping assets. More than two-thirds of Wells Fargo's institutional retirement assets are in plans ranging from \$10 million to \$1 billion. The transaction is expected to close in the third quarter of 2019, pending regulatory approval.

In a release, AM Best commented that the credit ratings of De Moines, IA-based Principal Financial Group, Inc., and its insurance subsidiaries remain unchanged following the announcement of the acquisition, which has a purchase price is \$1.2 billion in cash, with up to an additional \$150 million payable in two years based on revenue retention.

The transaction increases Principal's U.S. retirement business' assets under administration by approximately \$820 billion from almost four million plan participants across retirement and non-retirement trust and custody, defined benefit and defined contribution accounts.

AM Best notes that the acquired business will be held outside Principal's domestic insurance operations upon transaction close with the expectation that this business will be transitioned through its domestic insurance entities over time. The immediate impact on the ratings of Principal's insurance operations are modest, but support improving diversification, scale and profitability over the long-term.

On Feb. 21, 2019, AM Best revised the outlook to positive from stable for the Long-Term Issuer Credit Rating and affirmed the Financial Strength Rating of A+ (Superior) and the

Long-Term Issuer Credit Rating of "aa-" of Principal Life Insurance Company and Principal National Life Insurance Company.

The outlook of the Financial Strength Rating remains stable. The ratings reflect Principal's balance sheet strength, which AM Best categorizes as very strong, as well as its strong operating performance, favorable business profile and appropriate enterprise risk management (ERM). The positive outlook reflects the continued strength and evolution of the organization's ERM capabilities.

As of December 31, 2018, the respective Wells Fargo retirement businesses had \$827 billion in assets under administration served by approximately 2,500 employees in locations across the U.S., Philippines and India. There are four major employee centers in: Charlotte, N.C.; Minneapolis/Roseville, Minn.; Waco, Texas; and Manila, Philippines.

The bank has undergone a leadership change in recent weeks, announcing in March that it would replace Tim Sloan as chief executive officer after the leader faced calls for his ouster from politicians. C. Allen Parker, Wells Fargo's general counsel, was named Sloan's replacement on an interim basis.

"Wells Fargo, the fourth-largest U.S. bank by assets, has been paring smaller business lines since scandals began erupting from its branch network in 2016. Problems have since emerged in more units, prompting the Federal Reserve to ban Wells Fargo from growing until regulators are confident in executives' ability to oversee their operations. That's added to pressure on the firm to shed some units and concentrate on those where it can earn the best returns," the *Bloomberg News* report said.

"This sale reflects Wells Fargo's strategy to focus our resources on areas where we can grow and maximize opportunities within wealth, brokerage and asset management," Jon Weiss, head of Wells Fargo's wealth and investment-management business, said in a separate statement.

According to Bloomberg News, "At the bank's 2018 investor day, he said he's targeting \$600 million in savings by 2020. Earlier this year, Weiss hired Nyron Latif from Goldman Sachs Group Inc. as head of operations to review the unit's efficiency.

"The Fed barred Wells Fargo in February last year from increasing assets beyond their level at the end of 2017, citing concerns about a variety of customer abuses, including the revelation that employees had opened millions of accounts without consumers' permission. The bank told analysts and investors at the start of this year that it's planning to operate

under the cap through the end of 2019, rather than just the first half.”

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