ALIRT INSURANCE RESEARCH

Independent Analysis of Insurance Company Risk Trends

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Mass. Mutual Life to acquire Great American Life Insurance Company

(January 28, 2021)

Massachusetts Mutual Life Insurance Company (MML) announced yesterday (January 27, 2021) that it will be acquiring Great American Life Insurance Company (GALIC) and other subsidiaries and affiliated entities from American Financial Group (AFG). The purchase price will equal $3.5 billion (subject to adjustment at closing), and the transaction is expected to close in the second quarter 2021, subject to regulatory approvals and other customary closing conditions.

MML Chairman, President, and CEO Roger Crandall stated: "This acquisition is an excellent strategic fit for MassMutual that will broaden our product offerings, expand our distribution, and generate additional earnings."

AFG Co-Chief Executive Officer S. Craig Lindner stated that "AFG's capital and liquidity will be significantly enhanced as a result of the transaction", and "we will continue to evaluate opportunities for deploying AFG's excess capital, including the potential for healthy, profitable organic growth, expansion of our Specialty Property & Casualty niche businesses through acquisitions and start-ups that meet our (AFG's) target return thresholds, as well as share repurchases and special dividends."

Highlights from the transaction include:

- MML will be acquiring GALIC, and GALIC subsidiaries Annuity Investors Life Insurance Company (AILIC) and Manhattan National Life Insurance Company (ManNat'l). The transaction will include about $40 billion of traditional fixed and fixed indexed annuity reserves, the vast majority of which are housed at GALIC and AILIC. ManNat'l is a very small company, with the majority of its premiums and policy reserves in individual life insurance.

- MML plans to retain GALIC's Cincinnati headquarters, as well as the 600 employees which will also remain in Cincinnati.

- AFG expects to report an GAAP after-tax gain of between $620-690 million from the sale of GALIC, and prior to the transaction close will acquire approximately $500 million in real estate-related partnerships and directly-owned real estate from GALIC.

This transaction follows GALIC's reinsurance agreement announced in October 2020 with Commonwealth Annuity & Life Insurance Company (CA&L), a subsidiary of the Global Atlantic Financial Group, whereby GALIC ceded to CA&L $5.7 billion of policy reserves (88% fixed indexed annuities and 12% traditional fixed indexed annuities). This transaction resulted in about $300-325 million of capital "released" that supported the ceded business, which GALIC expected to pay up to AFG via shareholder dividends. This had not yet happened as of 9/30/2020, as the $60 million in shareholder dividends paid through that date were all paid in the first quarter 2020.

AFG reports its Fourth Quarter 2020 GAAP earnings on Wednesday, February 3, 2021, with a conference call to discuss the results on Thursday, February 4th. Additional information surrounding any dividends paid up by GALIC to AFG in the fourth quarter 2020 (or in early 2021), and/or other financial information may be available at that time.

Industry Trends

AFG's sale of GALIC is yet another transaction in a long list of companies that have sold part or all of their U.S. individual life insurance or annuity businesses, and/or altered their product strategies[1].

These groups include but are not limited to the following (and some groups executed more than one transaction):

AIG / American General Life	ING USA	Prudential U.K.
Allstate	Jackson National	Sun Life of Canada
Aviva	Liberty Mutual	Symetra
AXA	Lincoln Benefit	Talcott Resolution
Equitable	MetLife	TransAmerica
Great American	Ohio National Life	UNUM
Great-West	Phoenix	Voya
Hartford Fin'l Services Group	Prudential (U.S.)	

The long-dated liabilities associated with many life insurance and annuity contracts are under ongoing pressure from the falling investment returns, while other businesses (property/casualty insurance, group retirement and accident & health businesses, international operations, etc.) are now viewed more favorably by institutional investors in publicly-traded stocks.

Some of the dynamics behind these divestitures include:

- The steep drop in equity markets and elevated investment losses during the financial crisis,
- The multi-decade period of falling interest rates and investment returns,
- Increased regulatory activity at the point of sale,
- Tepid demand for many of the industry's products,
- Changing financial reporting and reserve requirements (both in the U.S. and internationally), especially
- Pending GAAP accounting changes related to long duration products that will likely require insurance organizations (especially publicly-traded companies) to increase policy reserves, and
- The growth of privately-owned insurance groups interested in entering the life insurance and annuity business (or growing existing businesses). Some of the reasons for the increased interest include (perceived) attractive pricing of blocks of business, asset management opportunities, and/or the greater ease for a private company in hedging equity market and/or interest rate sensitivity, compared to a public company that has to report quarterly earnings to investors.

Many if not most of these factors remain in place today and ALIRT believes that additional changes are possible in company ownership, as well as continued insurer exits from various business lines and/or the "de-risking" of current and future product offerings.

As for AFG specifically, the company has a large commercial lines property/casualty business, with an emphasis in specialty business lines. AFG's property/casualty business is substantially larger than its annuity operations, and in addition the property/casualty business is viewed much more favorably by investors in publicly-traded stocks, for many of the reasons noted above, as well as the more pronounced effect of the low interest rates on spread based businesses such as annuities. Thus, investors in AFG stock (and by extension AFG management) may prefer using capital presently allocated to GALIC (and AILIC) either to grow its core property/casualty business, and/or for shareholder remuneration.

[1] Over the last three months, ALIRT published releases on substantial transactions by AIG/American General, Allstate, Equitable Financial, Great American, Prudential (U.S.), and TransAmerica. Please visit the ALIRT web portal site to access our thoughts on these.

Great American Life Insurance Company Financial Profile and Possible Outlook

- Great American Life is primarily focused on selling individual fixed and indexed annuities through financial institutions in addition to a strong niche position selling annuities to the public education market (403b).

- Great American Life's ALIRT Scores have been very strong historically, which reflect solid profitability, strong investment returns, minimal insurance underwriting leverage, and the strong financial profile of parent AFG.

- Great American Life's strong profitability helped to offset $692 million of net shareholder dividends paid to AFG since 2015, including $60 million paid in the first nine months of 2020. These payouts have contributed to somewhat higher asset leverage and investment risk exposures for the company.

- As mentioned earlier in this release, AFG management stated that it expected GALIC's reinsurance transaction with CA&L to "free up" $300-325 million of capital, which AFG anticipated GALIC would pay up to AFG. This had not happened as of 9/30/2020, and thus GALIC may have paid additional shareholder dividends in the fourth quarter 2020 or in early 2021.

- AFG reports its Fourth Quarter 2020 GAAP financial results on February 3, 2021, and GALIC files its year end 2020 financial statement on March 1, 2021, at which point information will become available as to GALIC's current capitalization and financial results (including any shareholder dividends paid in the fourth quarter 2020).

- Prior to the transaction close, GALIC will transfer to AFG approximately $500 million of real estate-related partnerships and directly owned real estate. Though this is not a large percentage of GALIC's total invested assets of about $35 billion on 9/30/2020 (net of policy reserves and assets ceded to CA&L in October 2020), it will result in some modest changes in GALIC's investment portfolio.

- As for the proposed acquisition of GALIC by MML, as is the case when any insurance company changes ownership, no existing policy terms and conditions change, and the acquired insurer remains under state insurance regulation and subject to limits on shareholder dividend payments and other regulatory constraints.

- At present, MML has not announced any planned changes to the financial, operational, or business profile of GALIC. MML plans to retain GALIC as a distinct subsidiary in its present Cincinnati Ohio headquarters, with GALIC's existing 600 employees.

- In a press release, MML recognized GALIC's market leadership in annuities, characterized by competitive products, excellent customer service, and deep distribution relationships with banks, independent agents, and independent broker/dealers. MML believes that paired with MML's strong financial strength and investment capabilities that it can continue to build on GALIC's already solid market position, and augment MML's individual annuity business capabilities.

- Thus, it is reasonable to expect continued growth for GALIC in its core fixed indexed and fixed annuity businesses, which may lead to changes in GALIC's size, investment portfolio, business mix, and capitalization.

- GALIC's public rating agency ratings may also change as a result of the change in ownership (once it occurs), as MML receives higher public ratings than AFG.

ALIRT's Thoughts

- The sale of Great American Life Insurance Company (GALIC) by American Financial Group (AFG) to Massachusetts Mutual Life Insurance Company (MML) is the latest in a large list of organizations that have either sold life insurance and annuity businesses (entire insurance companies and/or blocks of business), or greatly reduced or exited various business lines or distribution channels.

- This has been especially pronounced of late for publicly-traded companies, as a result of increased reserve requirements for various businesses (which will intensify with the enactment in 2022 of new GAAP accounting guidelines for long duration products), reduced profitability related to the decline in interest rates over the last three decades.

- In addition, many publicly-traded parent companies have faced increased pressure from investors for activities such as public share buybacks and stockholder dividends, and this transaction increases AFG's flexibility for such actions, as well as to invest in growth in AFG's core property/casualty insurance operations.

- As a mutual insurer, MML is not subject to the need to report GAAP earnings to unaffiliated investors every quarter, and also does not face demands for share buybacks. The acquisition of GALIC greatly enhances MML's individual annuity business capabilities, as GALIC has a substantial market position especially in fixed indexed annuities, across a number of distribution partners.

- GALIC is a strong company on a stand alone basis, and the acquisition of the company by MML (or any other entity) does not result in any automatic changes to GALIC's financial or operational profile, and there is no change to any existing GALIC policy contacts.

- Immediate changes to GALIC's investment portfolio will be modest as a result of the sale of the company (transfer of real estate related investments to AFG), and though GALIC may have paid additional shareholder dividends to AFG in the fourth quarter 2020 or early 2021, GALIC's total capitalization is not likely to be significantly impacted.

- In a press release MML stated that it will be looking to build on GALIC's success in individual annuities, which may lead to changes in GALIC's financial profile. This could include increased size, a changing investment mix (due to business growth and MML becoming the investment manager), and/or changes in capitalization. It is not possible at this time to anticipate exactly what changes may occur, and over what time horizon.

- In summary, GALIC is a strong company and the sale to MML by AFG is largely a reflection of the different views of annuity business for publicly-traded companies and mutual or private organizations. GALIC may benefit from MML's capitalization and strong public rating agency ratings, while the acquisition significantly bolsters MML's individual annuity business capabilities.

ALIRT will monitor the sale of GALIC from AFG to MML, as well as the Fourth Quarter and Full Year 2020 financial results for AFG which are released in early February 2021. We will report to clients on any relevant information, and as always feel free to contact us at any time to discuss or with any questions.

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