

Major US property casualty trade groups eye merger

Monday, April 16, 2018 9:58 AM ET

By Elizabeth Festa

Major U.S. property casualty insurance trade associations have engaged in merger talks in recent months, reflecting industry consolidation and jockeying for power in debates over international and domestic policy initiatives.

Washington, D.C.-based trade group the American Insurance Association sought a merger with the Reinsurance Association of America in 2017, but those talks ultimately dissolved. Now, the AIA is in serious talks with a much larger trade group, the Property Casualty Insurers Association of America, S&P Global Market Intelligence has learned.

RAA is based in D.C. and PCI is based in Chicago, but has a large presence in Washington, where its office sits steps from the U.S. Capitol grounds.

The insurance trade associations are heavyweight lobbyists on policy matters before Congress and state and federal regulatory bodies. They make their voices heard before insurance standard-setting organizations like the National Association of Insurance Commissioners in the U.S. and the International Association of Insurance Supervisors in global forums.

The trade groups frequently weigh in before state legislatures, the Treasury Department and the Federal Reserve Board where they seek to shape issues ranging from tax reform to the covered agreement reinsurance pact between the European Union and the U.S. to autonomous vehicles.

AIA again talked with RAA last fall about a merger but the latter did not want to be folded into another organization, according to RAA CEO Frank Nutter. Nutter spoke briefly with S&P Global Market Intelligence at a March 14 conference in Washington attended by many trade group representatives.

The second time AIA made an offer to partner or merge, RAA countered with its own proposal, but the two groups ultimately did not see eye to eye and abandoned their discussions, according to sources familiar with the talks who wished to remain anonymous because they were not authorized to speak publicly on the matter.

A spokeswoman for RAA said March 21 that the two trade groups are no longer in active discussions.

AIA has since turned to the much larger PCI, according to sources in the Washington policy trade world. Talks between the two groups have been underway for months and were active as of March.

In a merger with PCI, AIA could be relieved of the financial challenges it appears to face. A combination of the groups would create a lobbying and advocacy juggernaut on key issues, representing a majority of the U.S. property casualty insurance industry.

AIA has 320 member companies representing more than \$125 billion in premiums written annually, according to its website. According to its IRS Form 990 tax filing for 2016, the group's total liabilities outstripped its total assets by nearly \$1.2 million. Total revenue was about \$20.2 million for 2016. A review of AIA's tax filings since 2011 shows negative net assets of varying amounts each year.

AIA declined to comment on its financial position.

RAA reported total revenue of \$8.8 million for tax year 2016, according to its Form 990, and had net assets or fund balances of almost \$3 million.

PCI, on the other hand, has over \$91 million in net assets, according to its 2016 IRS Form 990 filing. Total revenue stood at \$42.6 million. PCI represents \$220 billion in annual premium written, with 44% of the U.S. auto insurance market and 30% of the homeowners market, according to the group's website.

Industry consolidation has caused some membership shifts at the trade groups in recent years. For example, AIA members Chubb Corp. and ACE Ltd. combined in a 2016 deal.

AIA president and CEO John Degan, who served as COO of pre-merger Chubb, has been trying to turn the ship around through the merger talks and by courting new members since he joined the trade in November 2017, according to sources. AIA welcomed CNA Financial Corp. as a member in March, and American International Group Inc. has also joined.

Clashing member priorities have also been a factor preventing an agreement thus far, according to sources.

For example, AIA and RAA lobbied hard for the covered agreement, signing letters and meeting with officials on behalf of their global members. PCI remained neutral on the covered agreement, reflecting a membership that did not forge a collective stance on the issue.

Both AIA and PCI declined to comment on the rumored merger talks.

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