

# Griffin Financial insurance group head and demutualization specialist Jeffrey Waldron

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By Adam Cancryn

*Jeffrey Waldron helped launch Griffin Financial Group LLC's financial institutions group in 1999. Now, more than a decade later, he is leading a group within the bank focused solely on insurance. A specialist in the niche mutual-to-stock conversion field, Waldron has advised on more than \$10 billion in transactions and played a role in establishing demutualization legislation in Pennsylvania and Delaware.*

*In an exclusive interview with SNL Financial, Waldron discussed the demutualization process and its benefits, the soft market's effect on capital raises and how Griffin has differentiated itself from other investment banking firms.*

*The following is an edited transcript of that conversation.*



**Jeffrey Waldron**

Head of insurance group at  
Griffin Financial Group LLC  
Source: Griffin Financial Group LLC

## SNL Financial: Does your group specialize in certain aspects of the insurance sector?

**Jeffrey Waldron:** We've always had this niche where we were involved in most of the mutual-to-stock conversions of P&C companies that have occurred in the last 10 years. We've continued to work on that niche, but since then have added capabilities beyond that. We have capital markets capabilities and M&A, and while we still focus on the mutual segment, we serve the whole industry now. Before, it was a much more niche play.

## How does working with mutual insurers differ from normal investment banking activities, and why is it such a niche?

It's not something that a lot of people pay a lot of attention to because, frankly, they have a very long sale cycle. You've got to build relationships with people, and a lot of people have no desire to demutualize and that's fine. We understand that, and we recognize that it's a long-term relationship and they might need other things in the meantime. They might never need to demutualize and that's OK; it's not the right thing for everybody.

## What factors go into an insurer's decision to demutualize and become a stock company?

There are a number of things that could motivate companies to demutualize. One, they need capital either because they're doing very well and they're growing, or they've had some financial setbacks and need to replenish their capital.

Number two, there is the phenomenon of some guys who have spent their whole career with a company, building surplus from X to Y, and recognized, "I've got all this capital and I've got nothing to show for it. I've got no equity participation." This gives them a way to monetize that.

Third, sometimes you've got companies that decide they need to affiliate with a larger company for a lot of different reasons. Their choices could be to just do a mutual-to-mutual merger with somebody, which can work out but tend to be one of the harder things to accomplish. A lot of times they don't get done. Whereas, if they did a sponsored demutualization to a stock company, they would have the capability to confer benefit on their policyholders as well as affiliate the company with a larger institution.

## So a company could demutualize and then put that new cash straight toward a transaction?

If you demutualize, you're going to raise capital. And the first question you've got to ask yourself is, "What am I going to do with this capital?"

Sometimes the answer is make an acquisition, so you can raise a lot of money and buy somebody at the same time. We've done that. That was the Educators Mutual Life Insurance Co. and Eastern Holding Co. Ltd. transaction [that formed Eastern Insurance Holdings Inc.] in 2006. The company demutualized and bought a stock company.

## I would imagine that, in the midst of a soft market cycle, it becomes more difficult for companies to justify these capital raises.

The industry has probably been overcapitalized for 25 or 30 years. As a whole, the industry does not need capital. But on a discrete basis, there are a lot of companies that do need capital now. What the market does change is the dynamics of a company that's doing very well and growing rapidly needing to support that growth. In a soft market, that doesn't happen very often. So in that respect, it can have a chilling effect on the desire to raise capital.

## How does that industry atmosphere affect your ability to do your job when it comes to M&A?

It's not so much that there aren't buyers, there are just not a whole lot of willing sellers at current valuations. Right now, there's not a lot of sale activity because pricing is weak. So there, you'll probably have a few more distressed situations.

## Has the market bottomed out? Are insurers seeing pricing improvement at all?

If I go by anecdotal information from people I talk to, the trend I'm seeing is that personal lines have steadied and, in some cases, people get rate increases.

Commercial lines, less so. People are generally feeling that there's not a whole lot of erosion in pricing, but they're not sure they see the leg up either. And they're very segmented by the type of line they're in. In general, I'd say the commercial side is softer than the personal lines side, and it's probably going to continue that way for a while.

**A number of P&C insurers have said that they are willing to walk away from business if they cannot get adequate rates. Are companies actually doing that?**

If that were really true, pricing would not soften further. But it continues to soften in some lines, so the actual actions do not always follow the words.

It sounds like it is easy to talk tough but a little harder to follow through.

It is, for good and valid reasons. You have longtime clients you want to keep happy, and you shorten up a little bit to keep the business.

**You have been involved in demutualization legislation in Pennsylvania and Delaware. What was your role in getting those statutes passed?**

We wrote the legislation and helped get it enacted in Pennsylvania, and we wrote legislation for Delaware, which was basically the same but with the following twist: There are about 10 states that have what we call the subscription rights conversion model, with Delaware being one of them. Delaware only has two mutuals chartered in the state, but they are actively courting mutuals to come and set up shop there, so that they can have the flexibility of using their statute. Delaware would just like to become the home to a lot more insurance companies, just like it is to Fortune 500 companies.

**Are there any plans to push similar legislation in other states?**

Around the country we've got a patchwork quilt of law and governance of stock conditions, and frankly a lot of them are just com-

pletely not workable for most companies. We've talked to companies that expressed some interest in seeing legislation enacted in their states, but I wouldn't say there's anything imminent or even likely at this point.

**What is the benefit to companies of establishing these demutualization acts?**

Flexibility, mostly. The most amazing thing to me when I go talk to mutual insurance companies throughout the country is that, one, they don't get a lot of attention from investment bankers, and two, they generally tend not to realize all the options they do have. These companies do have some capital options, and a great deal of them don't even realize they have those options. So when you go through that with them and they recognize there are at least possibilities out there, some of which could be even more available if there was a different law on the books in their state, they express some interest in it. But that's a long way from saying, "I'm going to talk to my state commissioner and push this kind of legislation."

**It seems like Griffin is a little different from most firms in terms of its goals and activities, would you say that is true?**

There is a difference in our model, being affiliated with a law firm and coming from a different tradition. We are not as transaction driven as a lot of i-bankers, we are much more relationship driven. That's almost a cliché, but in our case, it's pretty true. There are 40 people with Griffin and only six or seven are ex-lawyers, but I think [the lawyers] were the genesis of the company, and that tradition has been maintained. *i*