



SouthwestRe, DAC Sold to Canada's iA Financial Group

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QUEBEC CITY — One of the largest life and health insurance companies in Canada has signed an agreement to acquire shares of third-party administrator SouthwestRe and its insurance arm, Dealers Assurance Co. (DAC), for \$135 million.

iA Financial Group is one of Canada's largest publicly traded companies. Its directors reported direct written premiums of \$197 million Canadian (\$160 million USD) from its vehicle warranties business. The addition of DAC in the United States more than doubles that, bringing combined premiums on a similar basis to approximately \$405 million USD.

"Having built a solid presence in personal insurance in the U.S. and after close consideration of strategic opportunities to enlarge our U.S. footprint, we have chosen to make our next move in the automobile warranty market," said Yvon Charest, president and CEO of iA Financial Group. "This is a business where we have built tremendous know-how and experience over the last 20 years in Canada, which we now want to leverage in the larger U.S. market."

The transaction is expected to close in the fourth quarter, subject to usual regulatory approvals in Canada and the U.S.

According to iA Financial Group officials, the acquisition will be financed from cash on hand and reduce the company's solvency ratio by approximately eight percentage points. It is expected to modestly increase the company's earnings per share in 2018 and will contribute 5 cents per share in 2019.

SouthwestRe was founded in 1985 by current CEO Jim Smith, considered one of the most prominent and knowledgeable figures in the reinsurance industry. It was one of the first companies to reinsure dealer obligor business into a producer-owned reinsurance company (PORC), and launched one of the industry's first risk retention programs.

DAC has provided administrative and underwriting services to the vehicle service contract industry since 1977, when it was formed by Ohio automobile dealers and their associates. The company was officially established in March 1980 when parent company Dealers Alliance Corp. purchased the Mahoning Insurance Co., which was incorporated in Ohio in 1935, from Youngstown Sheet and Tube.

In 2004, both Dealers Alliance Corp. and DAC were purchased by DAC Financial Holdings Inc., whose business model focuses primarily on reinsurance. Smith serves as the company's chairman of the board, while Kristen Gruber has served as president since 2014.

In an exclusive interview with *F&I and Showroom*, Smith said the move made sense for both sides. "Our industry has seen a number of high-profile transactions by private equity firms, but we have always felt the best strategic move would be by an insurance company. When we started discussions with Industrial Alliance, we quickly realized that we had the infrastructure they were looking for to expand in the U.S. We feel that this is not a short-term relationship but one we are in for the long haul."

Mike Stickney, president of iA American, added: "The U.S. market for extended warranties is about \$15 billion or 10 times that of Canada. It is very fragmented with significant opportunity for growth and consolidation. With our solid

track record in the extended warranty business in Canada together with the established presence of DAC in the U.S., we look forward to this chapter in our U.S. expansion with great anticipation.”

In an April 2016 report, investment bank Colonnade estimated the F&I products market to be a \$77 billion industry, with retail sales of vehicle service contracts estimated at \$28 billion in 2014.

An earlier version of this story described iA Financial as Canada's largest publicly traded company. F&I and Showroom regrets the error.

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