

Activists Target Insurance Industry

January 8, 2025

Activism has become a constant presence and growing force that publicly traded insurance groups need to be aware of and focused on.

Activist campaigns in recent years fall into two broad categories: institutional investors holding long-term positions and often seeking board seats and transactional-focused investors such as hedge funds and special situation funds. The former tend to focus on longer-term and often complex strategies for increasing the value of their investments; the latter are more likely to build sizeable but short-term positions (long or short) and pressure companies to respond to negative news, take steps to deliver short-term value or engage in strategic transactions.

The insurance industry is, as is well known, primarily subject to state insurance regulation. The conventional wisdom has been that state regulation is a barrier to activism, mainly because activists, acting alone or in concert, cannot take a “control” position without going through a state approval process. Based on recent experience, however, state insurance law should not be viewed as a complete shield against the influence of activists, and companies cannot expect that insurance regulators will “take sides” in an activist campaign. A campaign can test the strength of the relationship between an insurance company and its regulators, and prior investment in those relationships, before an activist arrives on the scene, will always benefit the company.

Accordingly, insurance group boards should regularly consider, and take advice on, the potential exposure of their companies to activist pressure, and companies should continuously invest in the intangible asset represented by their relationship with insurance regulators with transparency and regular engagement. These steps will help position companies to address activist campaigns effectively should they arise.

2024 Campaigns. Insurance companies were subject to 24 campaigns in 2024—the highest number of campaigns since 2019. The themes from 2024 include: short sellers taking positions and publishing negative news; longer-term investors looking to pressure companies to pursue new strategies; some diminishing activity around ESG;

and even hostile takeover proposals. A few of those 2024 activist campaigns are highlighted below.

Globe Life, Inc. Life insurer Globe Life was subject to persistent campaigning from short sellers Fuzzy Panda Research and Viceroy Research. In April, Globe Life's shares plunged to their lowest level in over a decade after both short sellers disclosed short positions in the company within the same month. In its report, Fuzzy Panda alleged widespread insurance fraud involving policies written for dead and fictitious people, forged signatures and funds withdrawn from consumers' bank accounts without approval, as well as a "toxic culture" of harassment. Viceroy also alleged that it had uncovered widespread insurance fraud, dishonest and misleading sales practices and a workplace culture of sexual harassment, assault and discrimination. Viceroy Research continued to agitate through late 2024, issuing a new caution against Globe Life in December. Globe Life issued statements refuting the allegations by both short sellers and the price of its stock recovered over the course of the year.

Markel Group Inc. In December, Jana Partners confirmed that it had built a stake in Markel and urged the company to improve its insurance operations and consider the sale of its private investments business, which Jana considered a non-core business. Markel's core business is specialty insurance, while its private investments business owns controlling interests in a diverse portfolio of companies that operate in a variety of industries, including healthcare, construction and luxury goods. Markel has not commented on the campaign. Jana also reportedly noted that Markel presents an attractive acquisition target for larger insurers.

Baloise Holding AG. In September, Swedish activist Cevian Capital announced that it had increased its stake in Swiss insurer Baloise to 9.4%, becoming the company's largest shareholder. The campaign followed a period in which Baloise's stock price had lagged behind that of its competitors, including Swiss Life, Zurich Insurance and AXA. Cevian—which had previously waged campaigns at other European insurance companies, reportedly campaigned for Baloise to divest underperforming assets and increase the payout ratio to shareholders. In December 2024, Baloise announced that it would nominate Robert Schuchna, a representative of Cevian, to its board at its 2025 annual general meeting, but it has not yet taken any strategic actions.

Cevian is not new to taking activist actions in the insurance industry. In 2020, Cevian supported the takeover of British insurer RSA Insurance Group Plc, which was sold to Intact Financial Corp. and Tryg A/S in 2020. Cevian was RSA's largest shareholder at the time. In 2021, the activist built up its position in Aviva plc to above 5% and campaigned for higher shareholder returns. In 2023, Cevian sold its entire position in Aviva after the insurer achieved Cevian's desired outcome for Aviva to return £5 billion to shareholders.

Direct Line Insurance Group PLC. In December 2024, Aviva announced that it had agreed to acquire home and motor insurer Direct Line in a £3.7 billion cash-and-stock deal. Direct Line had rejected Aviva’s initial bid of £3.28 billion a month earlier, describing the offer as “highly opportunistic.” The combined business will be the United Kingdom’s largest home and motor insurer.

Earlier in 2024, Direct Line rejected two offers from Belgian insurance company Ageas SA/NV to acquire the entire issued and to-be-issued share capital of Direct Line on the grounds that the offers “significantly undervalued” the company. At the time, Ageas stated that the proposed transaction was aligned with its strategic plans because it would “further strengthen Ageas’ position in a European market where it already operates, whilst rebalancing Ageas’ business profile towards controlled entities and Non-Life business.”

Aviva’s and Ageas’ offers followed the cancellation of Direct Line’s final 2022 dividend, after it reported a solvency ratio of 145%—at the low end of its 140% to 180% target—which it attributed to winter weather claims, increased motor claims and a drop in the valuation of its commercial property investments.

The Baldwin Insurance Group, Inc. In October, short seller Blue Orca Capital issued a short report on insurance distributor The Baldwin Insurance Group, alleging “questionable financial engineering” intended to inflate the company’s adjusted EBITDA and operating cash flows. The report also alleged heavy insider selling and financial instability due to high leverage and persistent unprofitability. The company has not responded to the allegations in the report publicly.

Chubb Limited and The Travelers Companies, Inc. Despite insurance companies not typically being high contributors of direct greenhouse gas emissions, they remain subject to environmental activism campaigns. Both Chubb and The Travelers Companies have been the subject of a campaign by activist investor As You Sow in recent years.

In 2024, As You Sow’s proposal that Chubb issue a report disclosing the greenhouse emissions from its underwriting, insuring and investment activities received support from 28.3% of Chubb’s shareholders. As You Sow reports having submitted an identical proposal to Chubb for the company’s 2025 annual meeting.

As You Sow submitted a similar proposal to The Travelers Companies in 2024, requesting that the company measure and disclose the greenhouse gas emissions associated with its underwriting and insuring activities in high-carbon sectors, including oil and gas. The proposal received 15.5% support. As You Sow reports having submitted a similar proposal for the company’s 2025 general meeting.

The relatively low levels of support for As You Sow’s proposals in 2024 is consistent with declining support for “traditional” ESG proposals across a range of industries.

Preparing for Activism. The rapid technological, regulatory, economic, political and demographic changes affecting the insurance industry make it difficult to predict what companies activists will target, and on what grounds.

Insurance companies, like all other companies, should prepare for activist campaigns “on a clear day.” In addition to evaluating a company’s performance relative to its peers, boards of directors and senior management should articulate and execute a business strategy that is understood by the market; prepare clear communications that address the interests of key shareholders; have in place a program for consistent engagement with shareholders; and review their bylaws and other constituent documents to ensure that the company is well-positioned to respond to activists.

Companies should also have advisors that know the company well and can be called upon quickly if and when needed.

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Please do not hesitate to contact us with any questions.



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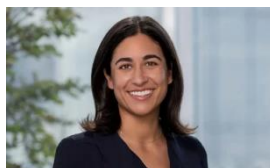
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