Nationwide buys Jefferson National under purported DOL duress but 'good private equity' and good planning may rule the day

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Jefferson National hired Mitch Caplan to bring some of his E*Trade CEO pizzazz to its sleepy Louisville, Ky.-based RIA-facing annuity maker and get a good return on investment for himself and other private equity investors in the bargain.

Mission accomplished. He's got Nationwide on his side after about nine months of shopping the firm.

Though terms of the sale to the Columbus, Ohio-based insurer and investment company, with revenues of $40 billion-plus, were not disclosed, the bet is that the return on investment was nothing to sniff at.

"This is a pretty classic private equity play," says **Dan Seivert,** CEO of **ECHELON Partners** of Manhattan Beach, Calif. in an email.

He explains that while Jefferson National was started in 2004, Napier Park Financial Partners, working in partnership Jefferson National's management team and co-investors, spearheaded the company's management buyout in December 2011. During the ensuing five-year period, Jefferson National more than doubled its advisor base by hiring and then leveraging the experience and contacts of industry veterans Caplan and Laurence Greenberg.

"This is what good private equity is all about," says Seivert.

Of course it never hurts to have luck on your side and it appears to have arrived in the form of a Department of Labor rule that makes the future of broker-sold annuities cloudy at best.

"VA sales have plummeted and the net sales are even worse," says Cerulli Associates analyst Donnie Ethier. "That is a real problem. The DOL rule is going to do nothing but accelerate these trends. People will move away from commission-based business and RIA channel will see even further growth. For insurance companies looking to get away from commission based products, this is a real solution and the RIA channel is the prime target. No major insurer has had tremendous success at all."

Buy, not build

Nationwide Financial president and COO Kirt Walker allows that the Labor Department exerted an influence on his company's strategic thinking.

"This little DOL thing came along and it wasn't the primary reason for doing this, but it was about the RIA and fee-based world. We needed to find a partner. Partnering with Jefferson National was better than to build something because time wasn't on our side."

But "DOL thing" was really just icing on the cake, according to Seivert.

"While some have commented that the deal was driven by the increased costs associated with complying with the DOL rule, the focus should be on what Nationwide acquires which is $4.7 billion in assets, relationships with 4,000 RIAs, and the ability to sell their flat-fee variable annuity products to those customers, which affords DOL rule compliance in the process."

"In addition," Seivert says, "after shopping the company since the beginning of the year, Jefferson National comes away with a national buyer that is a Fortune 100 company and one of the largest diversified insurance and financial services organizations in the United States. Nationwide also provides insurance and financial services, public- and private-sector retirement plans, annuities and mutual funds and banking and mortgages."

Running head start

Indeed, Jefferson National, which launched Monument Advisor, a fee-only stripped down variable annuity in 2005, has a 12-year running start.

Since then, Jefferson has grown to $4 billion in assets - still tiny for the variable annuity world. But what Nationwide needs is a ready-made VA that it can use for its wirehouse advisors seeking to comply with the new DOL rule.

"From a Nationwide standpoint, we're focused on mega-growth and one of the things we recognized is producers and customers were demanding more choice. This allows us to get in front of the trends in a way that compliments our current distribution and moves us quicker into the RIA and fee-based environment," says Walker.

Under the DOL rule, annuities will be subject to a best interest contract exemption stating that the products are in the client's best interest.

Ethier also suspects that Nationwide is angling for increased adaptability as part of a broader determination to stay abreast of change.

"I think Nationwide is trying the hardest to adapt to major trends. They didn't just do this for product. They did it for network and technology. Technology is arguably Jefferson National's biggest advantage."

Brand love

One thing that may or may not change is the wonky Jefferson National brand that seems to evoke either a national bank or a bygone IBD-like Jefferson Pilot.

Ethier thinks the name should stay the same, especially for RIAs who have no relationship with Nationwide.

"Rebranding Jefferson National would be a very bad idea. You want to allow them to appear autonomous."

"We'll do research before we make a decision," says Mitchell Caplan, Jefferson National CEO. "The vision and everything we've built is perceived as a powerful partner to RIAs. We've got a good brand in that space. We'll do market research. It's also similar to what we did with Telebank and E*Trade. When you've got the power of the brand like Nationwide it'd be silly not to look at how we turbo charge using such a powerful brand."

Jefferson National was formerly a unit of Conseco Inc. (now CNO Financial Group Inc.) It was acquired in 2002 by a group of investors and began offering flat fee VAs in 2005. Four years ago, Jefferson wrapped up an $83 million management buyout.

Change as usual

Buying Jefferson National gives Nationwide an opportunity to compete for RIAs and also offer its wirehouse and IBD advisors a VA that works under the new DOL rules, Walker says.

"This is a new horizon for us. But one of the things we'll be very careful about is change. It'll be business as usual for both firms in the immediate future. We like the way Jefferson National does business and we'll be very careful not to disrupt that," Walker adds.

Right now, Nationwide works mostly with wirehouse advisors and IBDs. Nationwide has relationships with more than 33,000 advisors and 7,000 agents at more than 1,500 firms. Nationwide reported total assets of $197.1 billion at the end of 2015.

Laurence Greenberg, president of Jefferson National, is a former chief operating officer of Telebank, and he and Caplan are staying with Nationwide along with their entire team.

"We thought if Jefferson National were embedded with the right partner, it could make all of the difference in the world. If it was the right fit, then it would allow us to both be successful," Caplan says. "We hired bankers and worked with lots of partners who participated and were interested. We think Nationwide is an incredibly powerful brand, which we can appreciate with the E*Trade side. If you think about product development and the fundamental alignment with views around an organization and a model driven by consumers, we thought it would be perfect. From an employee perspective, it was a really easy journey."

Seivert agrees. "Some might argue that Jefferson National's exit was motivated by the upcoming requirements of the DOL rule. While that indeed was likely a factor, it looks like this is a private equity investment that reached its natural liquidity event."