

Insurance Industry Mergers & Acquisitions

Edited by Jim Toole and Tom Herget

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EVEN THOUGH the insurance industry has experienced significant consolidation over the past 10 years or so, resulting in the disappearance of some old and familiar names, the industry is still quite fragmented compared with many other industries. More than 2,000 life and health insurance companies and 3,100 property/casualty insurance companies are licensed to operate in the United States, and these numbers are actually higher than the corresponding figures in 1995. Over the same period, the number of commercial banks has dropped from 10,000 to 7,700. In addition, the insurance industry's concentration is decreasing. The top 10 life insurers' market share dropped from 35 percent in 1997 to 31 percent in 2003. In contrast, the top 10 banks' market share rose from 29 percent to 46 percent.

The U.S. Justice Department's anti-trust division has shown little interest in the mergers of even very large insurance companies, suggesting a lack of concern about any company becoming large or powerful enough to distort or manipulate the insurance market. Thus, one might expect to see continuing merger-and-acquisition (M&A) activity in the insurance industry for many years to come.

While countless books have been written on M&As in general, this book is the first to focus specifically on the insurance industry. Casual observers might believe that the general principles of M&A apply equally to all industries, but the insurance industry does have certain distinguishing characteristics.

Insurance in the United States is regulated by 50 states rather than by one federal government (which still plays a role, even if not a primary one). Multiple



jurisdictions necessarily get involved in approving M&A activity, and simultaneously satisfying all these jurisdictions' sometimes divergent concerns can be difficult. Insurers almost always have large long-term obligations that are sensitive to the valuation assumptions selected. Some insurers are mutual companies—owned by their policyholders rather than by stockholders—and that corporate structure complicates or even prohibits certain types of M&A transactions. Finally, insurance companies operate within an unusual tax regime—with respect to both federal and state taxation—that doesn't apply to other industries.

Insurance Industry Mergers & Acquisitions covers all aspects of M&A, from general principles that apply everywhere to narrow issues that apply specifically to insurance. The book focuses on the United States but discusses M&A in other contexts where appropriate. Part of this material is (or soon will be) familiar to some younger actuaries (and students) because most of the first four chapters is

required reading for the finance track of the Society of Actuaries' eighth actuarial examination.

The two editors, Jim Toole and Tom Herget, deserve high praise for bringing together such an accomplished group of authors from all actuarial (and some non-actuarial) disciplines and merging their various contributions into a seamless whole. Readers can't identify which authors wrote which sections. This was both intentional and desirable. The editors worked to ensure that both life and casualty actuaries worked on every chapter. The expertise of the authors is evident on every page.

In addition to the main train of thought, which flows along very naturally, the authors and editors provided (anonymously, to protect the innocent) about a hundred extremely interesting and illustrative stories from their own personal experiences and those of numerous collaborators and reviewers. (In fact, more than a hundred insurance professionals were involved in preparing this book. The editors' success at smoothing out all the differing writing styles, terminology, nomenclature, etc., is truly amazing.)

Most of the stories are in text boxes labeled "crypts" (an allusion to *Tales From the Crypt*). As I paged through the dense, dry material of the main text, I found that these side stories provided welcome and refreshing breaks. And I probably learned as much from the stories as from the academic exposition of material. Each aspect of the presentation reinforces the other.

Insurance Industry Mergers & Acquisitions is both interesting reading and an excellent reference book for any actuary.

—Bruce D. Schobel