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# Small Talk



## A Mixed M&A Bag In The First Half of 2004: A Look At Insurance Company Activity

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### Insurance Transactions Through Mid-Year

In the first half of 2004, the life insurance industry produced 14 transactions, including a handful of significant deals:

- Acquisition of Forethought Financial Services by the Devlin Group (\$280 million).
- Acquisition of CNA's individual life business by Swiss Re (\$690 million).
- Acquisition of Safeco Life by a Berkshire Hathaway and White Mountain investor group (\$1,350 million).

- Great American's purchase of *National Health's* fixed annuity block (\$38.0 million).
- *Health Care Service Corp.'s* acquisition of Omaha Life Insurance Company.
- *Madison National's* acquisition of a block of annuity business from an undisclosed seller.
- Undisclosed buyer's acquisition of *American Founders Life* (\$83.5 million).

These 2004 deals are instructive in creating a better picture of the broader small life company participation in M&A.

1. There are a handful of smaller organizations that are growing through acquisitions of small life companies and blocks of business. Examples include:

- *Citizens Inc.*, its 2004 acquisition of Security Plan Life represents its sixth announced deal since 1999.
- *Madison National Life*, its 2004 annuity block acquisition continues a string of life and annuity block deals consummated over recent years.
- *Universal American Financial Corp* has grown its senior market specialty business through a series of acquisitions over the past three to five years.
- *National Guardian Life* (a mutual) has grown substantially through a combination of acquisitions (of stock companies and blocks of business) and mutual mergers.
- World Insurance (now merged with American Republic Insurance Group) has grown in size and strength over the past decade through a series of acquisitions and mutual mergers involving health insurance business.

In addition, although announced in 2003, the AXA's acquisition of MONY (\$1,500 million) and Prudential's acquisition of CIGNA's retirement business (\$2,100 million) closed in 2004.

On the other hand, property/casualty deals were few and far between, with no major transactions in view. Through six months of 2004 we tracked only seven P/C deals, compared to 62 tracked P/C deals for the full 12 months of 2003. One reason for this decline is buyer concern that the cycle is turning.

Tables I and II provide details on life and property/casualty transactions tracked during the first six months of 2004.

### Small Life Company M&A Activity

Small life company M&A activity continues to represent a significant proportion of announced life M&A transactions. For example, of the 14 life transactions that we tracked in Table I, at least five involved smaller company buyers and/or sellers:

- *Citizens Inc.'s* acquisition of Security Plan Life (\$85 million).

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2. Many small company deals, particularly sales of blocks of business or acquisitions of servicing or marketing companies, are not made public, so they are not “counted” in M&A analyses such as this.

3. Many smaller mutual companies (e.g., assets under \$1 billion) have merged with other mutual entities. Examples of such transactions over the past several years include:

- World Insurance’s merger with American Republic
- Protected Life’s merger with National Guardian
- National Travelers merger with EMC’s life operations

This trend in mutual company consolidation is expected to continue as: (a) most smaller mutuals are finding it increasingly difficult to compete in today’s marketplace, and; (b) in most cases, alternatives such as demutualization are too burdensome to pursue for reasons of cost, time and effectiveness.

We expect a high level of small company activity to continue as it has in the past, even during the slowdown in announced transactions early in the millennium (often in deals “under the screen”). Small organizations considering M&A as a growth engine need to establish a focused, disciplined process. Successful buyers (such as some of the buyer organizations mentioned above) are

characterized by their clear acquisition rationale, their disciplined and well-oiled process and their strong post-purchase management execution.

Successful small company sellers need a comparable level of focus and discipline, particularly in establishing the groundwork for the sale process, executing the process with the proper sense of urgency and following through in a thorough manner. ●

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**TABLE 1**  
**2004 INSURANCE M&A ACTIVITY ANNOUNCED LIFE TRANSACTIONS**

BUYER	UNIT TO BE BOUGHT	PRICE (IN \$ MILLIONS)	GAAP P/E	GAAP P/B
Berkshire Hath. & White Mtns. (Investor Group)	Safeco Corp. (life and investment operations)	1350.0	0.525	
Ceridian Corp.	COBRA contracts and other assets from Cigna Group			
Citizens Inc.	Security Plan Life sub of Alderwoods Group	85.0		
Devlin Group LLC	Forethought Financial Services	280.0		
Great American	Fixed annuity block from National Health	38.0		
Hartford Life Insurance Co.	London Pacific Life & Annuity Co. (immediate & deferred annuities).			
Health Care Service Corp.	Omaha Life Insurance Co.			
Independence Holdings sub. Madison Nat'l.	Block of annuities from undisclosed seller			
Jefferson-Pilot Corp.	U.S. group business of Canada Life sub of Great-West Life	200.0		
Ohio National Mutual Holdings, Inc.	Security Mutual Life Insurance Co. of New York			
Security Benefit Group of Companies	Mutual of Omaha (variable annuity and variable life blocks of business)			
Swiss Re	CNA Individual Life Business	690.0		
Undisclosed buyer	American Founders Life, sub. of Vesta Corp.	63.5		
Western-Southern Mutual	Lafayette Life MHIC			

**TABLE 2**  
**2004 INSURANCE M&A ACTIVITY ANNOUNCED P/C TRANSACTIONS**

BUYER	UNIT TO BE BOUGHT	PRICE (IN \$ MILLIONS)	GAAP P/E	GAAP P/B
Frontenac Co.	WNC Insurance Services	50.0		
Odyssey Re Holdings	U.S. Reinsurance Co. sub of Overseas Partners	43.0	NM	0.617
ProAssure Corp.	OHIC Insurance Co. (renewal rights)			
QualSure Holding Corp.	Sunshine State Insurance Co.			
TD Bank Financial Group	Canadian personal property & casualty operations from Liberty Mutual Holding Co.			
White Mountains	Renewal rights from Provident Washington sub. of Securitas Capital			
W. R. Berkley	Renewal rights from St. Paul Cos.			