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Disclosure Changes Give Smaller Insurers a Boost

by David Pilla

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A new rule designed to make financial disclosure fairer for all investors may pose problems for larger insurers, especially those selling annuities, while it could level the playing field for smaller insurers.

The Securities and Exchange Commission recently approved a financial-disclosure rule mandating that a company must release material, market-moving information to all investors simultaneously. The rule also requires that if company officials inadvertently disclose such information, the company must publicize that information within 24 hours.

The rule was driven by SEC Chairman Arthur Levitt, who argued that market professionals held an unfair advantage over small investors because they get valuable corporate information first through selective disclosure practices.

"The rule's effect on the insurance industry depends largely on size and product offerings," said Mike Goldman, a corporate securities attorney with the Chicago firm Katten, Muchin Zavis. The larger, more sophisticated companies would tend to get the kind of advance information that securities analysts get. They would tend to be hurt by this rule.

Goldman said smaller insurers, who don't carry the same clout in the markets as the giants, may benefit from the rule change. "The smaller companies that didn't have access to the same information would be on a more equal footing," he said.

Peter Bryan, an analyst with Edward Howard & Co., a Cleveland-based investor and public relations consulting firm, said that "companies such as Prudential Insurance Company of America have the ear of that Fidelity manager, for example. But now, those big guys might be a little reluctant to open their mouths. So while the little company was always shut out in a sense, this may level the playing field a little."

Insurers must consider the implications of the regulation from several angles, both as issuers of securities and for the largest companies as institutional investors.

Bryan said insurers that issue securities offer one unique opportunity for analysts. "One thing that insurance companies have that, say, a steel manufacturer doesn't, is this huge army of distributors. And the analysts will talk with these agents and brokers and piece together a mosaic that will give them an idea of how the company is doing."

As institutional investors, Goldman said larger insurers will view it as losing a portion of their market advantage.

"Another consideration is how much a company wraps its products such as variable annuities around mutual funds," said Goldman.

Mutual fund managers are, of course, among the most important consumers of the kind of advance information the SEC is trying to curb. So mutual fund performance may be muted, with an effect on those insurance products linked to them.

Bryan agreed. "Since the fund manager and analyst will not get the benefit of advance information they've had in the past, that could have an impact," he said.

One result may be to accelerate the use of multimedia technologies such as Webcasts to disseminate information. J. David Washburn, a corporate and securities attorney with Dallas-based Arter & Hadden, said the 24-hour rule for public dissemination of information will make Webcasts and open teleconferences much more common.

"Because of the efficiency of the Internet," he said, "we expect Webcasting of these types of events to increase dramatically."

Bryan added that the rule may even force analysts to do a better job. "The rule change could influence a case such as that of life insurer Conseco Inc., which had been getting fairly positive buzz from analysts for years by growing through acquisitions until accumulated debt in part tripped the company up," Bryan said.

"The analysts had good relations with management, yes, and didn't see that. The SEC's intention, I think, is to minimize that happening. These analysts seem to be more like reporters than analysts. They don't go into the subatomic particles of companies and see how they work. This rule change may force them to do their jobs, which is to analyze."

But Washburn expects that type of scenario will reappear. "Analysts and other media will continue to decipher facts, develop theories, offer to pick the winners and losers in advance and otherwise write stories about public companies," he said. However, it should come as no surprise to anyone that some of the stories will be true, and some will be false.