



Impact of Consolidation in the Life Insurance Industry

A Reinsurance Perspective

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A Decade of Consolidation

- Started in Jamaica after the melt-down in financial services industry
- Next – Barbados, Bahamas, some in Trinidad and elsewhere
- Little in past few years – mostly done
- Still some potential acquisition targets, especially in Trinidad but not interested in selling, price too high or of little value to others
- Insurance industry has been transformed in a short period of time – stronger and more healthy now





Role of Reinsurers

- Assist in financing acquisitions through reinsurance
- Reinsure business of acquired company or acquiring company to free up capital
- Use the capital of the reinsurer to do a leveraged buyout
- Works best when there are mandated capital requirements (MCCSR, RBC)
- Maximum relief on Individual Life portfolios vs. Group





Role of Reinsurers

- Reinsurance is preferred method of financing – faster, lower cost, flexible, less public
- Structure the reinsurance transaction to fit the needs of the insurer e.g., early recapture provisions
- Chinese walls needed if supporting more than 1 potential bidder
- Reinsurers also help in introducing companies, due diligence, etc.





Impact of Consolidation on Acquirers

- Assimilation challenging – often on different islands, different regulatory frameworks, and different cultures. Sometimes hard to take the required tough decisions on people and processes
- As larger companies, higher profile with the public, regulators, rating agencies
- Critical mass achieved – improve ROE and/or pricing
- Rationalize staffing, product portfolios
- More focus on financial management and more opportunities for intra-company tax and capital planning





Impact on Smaller Insurers who are not Involved in M & A Activity

- Lack economy of scale to compete with the giants
- Harder to keep staff – agents and head office
- Profitability a challenge unless in a niche market
- Increasing pressure to sell or become an acquirer





Impact of Consolidation on Reinsurers

- Smaller client base, but financially stronger
- Retention levels may be increased
- Fewer opportunities for financial reinsurance to support acquisitions
- Opportunities to expand with clients in new directions
- Capital management of increasing concern and reinsurers can bring solutions





Impact of Consolidation on Reinsurers

- Relationships disrupted – new people in charge
- Uncertainty over who the new reinsurance decision makers will be
- Political minefield – use caution
- Loss of key personnel (underwriting, claims, pricing, admin) requires more vigilance by the reinsurer





Impact of Consolidation on Reinsurers

- Claims and underwriting guidelines may suddenly change
- Administration often gets messed up – delays, errors
- Win or lose proposition on existing treaties
- Everything slows down due to integration, especially product development





Will there be Another Wave of Consolidation?

Maybe, if:

- Capital requirements are strictly imposed in all jurisdictions
- Loss of market share to bigger, stronger companies
- Foreign competition (e.g., US) ramps up
- Poor results lead to owners losing patience

But:

- Unlikely to be a new wave, but continued ripples due to opportunistic acquisitions





Similar Experience in Canada

- Wave of acquisitions lasting about 10 years, accelerated by demutualizations
- Reinsurers were involved in almost all acquisitions
- Virtually no acquisition activity now – committed owners, large companies or niche players
- Focus is on international expansion and on core business improvements





How Companies will Expand in the Future

- To become a bigger player, have to grow outside Caribbean and diversify
- Geographic (South America, Central America, Mexico, US, international)
- High net worth markets
- Become a reinsurer as well as a direct writer – access new markets
- Product line expansion (e.g., CI, Group)





How Companies will Expand in the Future

- Partnerships, alliances that bring value to both parties
- New distribution channels
- Buy staff if not the company
- Back to basics – improve core business, e.g., capital and tax management, risk management, efficiencies of operation, build/acquire distribution





Conclusion

- M & A activity has resulted in a stronger Caribbean insurance marketplace
- In the future, companies must focus on basics while keeping their options open for acquisitions or other means of expansion





Thank You



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