Demutualization in North American Life Insurance Industry: An Overview

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A Better Place For You

History of Canadian Mutuals

- 1957 – Mutualization legislation to protect against foreign takeovers
- 1957-68 – Life mutualization wave (Canada Life, Sun Life, Equitable, Confederation, Manufacturers…)
- 1960s – 7 of 32 Canadian insurers were mutuals. Two largest (Mutual of Canada, N. American Life) control 95% of total mutual assets

History of Canadian Mutuals

- 1992 – Legislation passed to allow demutualization
- 1990s – Demutualization wave, including 4 of the largest companies with 2 million policyholders: Sun Life, Clarica, Manulife, Canada Life
- Today:
  - Mutuals: 5% of the market
  - Primarily small companies
  - Wawanesa is the largest life mutual (#30 in Canada)

History of American Mutuals

- Legislation has long allowed for life company demutualization.
- 1900-1950: Demutualizations balanced by mutualizations
- 1902-1994: 37 demutualizations in 92 yrs
- 1995-2002: 31 demutualizations in 7 yrs, representing 30% of industry assets (MetLife, Prudential, John Hancock…)

History of American Mutuals

- 1996: 7 of top 10 life insurers were mutuals
- 2002: 3 of top 10 (16% of industry assets)
- The 4 largest demutualized companies had been mutuals 85-137 years.
- Average cost of demutualization:
  - $200M (up to $830M)
  - 17 months (up to 4 years)

Conning Study of Recently Demutualized U.S. Life Companies

Study period 1998-2002

- Demutualization does not necessarily lead to changes in people, processes, technology, products or distribution
- Infrequently accessed capital markets
- Minimal involvement in mergers/acquisitions
- Overall, performance of recently demutualized companies lagged that of other life insurers
- Conclusion: “organizational structure not a differentiating factor for growth and profitability.”

1992-2002: Era of Demutualization in North America

1990s:

- Globalization, increased competition
- Product innovation: more emphasis on investment products over protection products
- Industry consolidation - threat of takeover of stock companies
- Economies of scale
- Stock options increasingly important to executives
- No changes in relative performances of stocks vrs. mutuals
- US: No regulatory impetus

Why Demutualizations?

- Consolidation → increase emphasis on capital, growth
- "Mutuals grow to meet the need; stock companies need to grow to survive."
- Mutuals' mission: customer-focussed, community-minded.
- Stocks' mission: shareholder-focussed, growth-oriented.
- When mutuals' focus on policyholders switched to keeping up with competitors → perceived need to raise capital → demutualization

North American Mutuality: Present and Future

- Remaining North American mutuals are primarily small, committed to mutuality.

- Need to:
  - Reconfirm commitment to the principles and values of mutuality
  - Respect intentions and contributions of generations of policyholders
  - Reaffirm the value of mutuality for policyholders and communities