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Getting together:
globals take the lead in life insurance M&A

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Summary

The life insurance industry has been consolidating for over a decade.

Over the past decade, there has been a strong consolidation trend in the global life insurance industry. Merger and acquisition (M&A) activity, a primary mode of consolidation, grew sharply in the 1990s due to rising stock prices, declining interest rates, industry deregulation and increased globalization. The life companies acquired in 1999, at the height of the M&A boom, accounted for more than 5% of the global life insurance premiums written. More than half of global life insurance M&A of the late 1990s occurred in Europe.

The global equity market decline of 2000–2002 slowed down M&A activity significantly.

The corporate landscape changed radically in the aftermath of the equity market decline of 2000–2002. Global M&A activity fell sharply in 2000 and continued to decline over the next four years. Life insurers were hard hit by capital losses, particularly in Europe where companies held large equity positions. The level of European M&A, as measured by the ratio of premiums of companies acquired to total premiums, declined from 5.6% in the period 1994–1999 to 2.5% in 2000–2004. M&A activity in North America also slowed, though less markedly, but increased in other parts of the world.

Global life insurance groups are a major force in consolidation.

Global life insurance groups have been a major force in the consolidation process. These carriers increased their share in the global market from 19.8% in 1998 to 28.2% in 2004. For many of the global groups, growth through M&A was more pronounced than organic growth.

M&A activity is expected to accelerate.

Although not likely to return to the levels seen in the late 1990s, M&A activity is expected to pick up over the next several years. Stock prices have rebounded and interest rates remain low. Meanwhile, new drivers of consolidation have become apparent, including:

- *Improved capitalization:* US life insurers have substantially boosted their capital base and European life insurers are currently rebuilding theirs as well. This increased capital stability will likely spur M&A.
- *High degree of fragmentation:* Some major markets (eg US) remain quite fragmented and have the potential to consolidate further. In this environment, global life insurance groups will continue to increase their market shares relative to medium-sized companies.
- *New regulatory and accounting requirements:* In Europe, the introduction of IFRS and the European Embedded Value Principles will make life insurers more transparent to foreign suitors and, therefore, potentially more attractive targets. The implementation of the new risk-based solvency framework (Solvency II) in the EU may also stimulate consolidation.
- *Economies of scale and scope:* Large insurers are able to distribute their fixed costs over a sizeable premium base. They have a greater ability than smaller ones to adapt to and benefit from financial innovations such as securitization and can better cope with growing product complexity.
- *Market for tradable blocks of business:* This market development makes it easier for companies to split out non-core business lines and sell their portfolios to specialized run-off providers. Companies are more inclined to make acquisitions or merge if they know that they can split out business portfolios that do not fit their strategy.

The life insurance environment has changed significantly over the last decade.

Over the last decade, the life insurance environment went through significant changes. Several trends have influenced consolidation:
- strong capitalization in the 1990s, followed by substantial depletion of capital;
- declining investment yield and pressure on business with return guarantees;
- deregulation and increased competition;
- wave of demutualizations;
- expansion of bancassurance, and
- globalization.

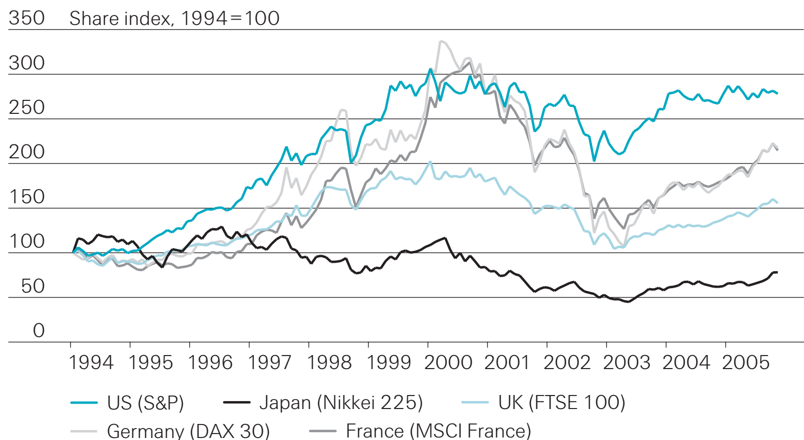
This section discusses these key developments and their impact on consolidation activity in the life sector.

Overcapitalization followed by capital depletion

In the 1990s, the stock market boom fueled M&A activity.

In the 1990s, booming stock markets created very favorable financial conditions for life insurers (Figure 1). Companies with substantial equity investments – such as British, German and Swiss insurers – enjoyed an expansion in their capital bases as stock prices rose. Increases in stock prices also provided an opportunity for companies to use their shares as a currency for takeovers, facilitating M&A activity.

Figure 1
Development of stock market indices, 1994–2005

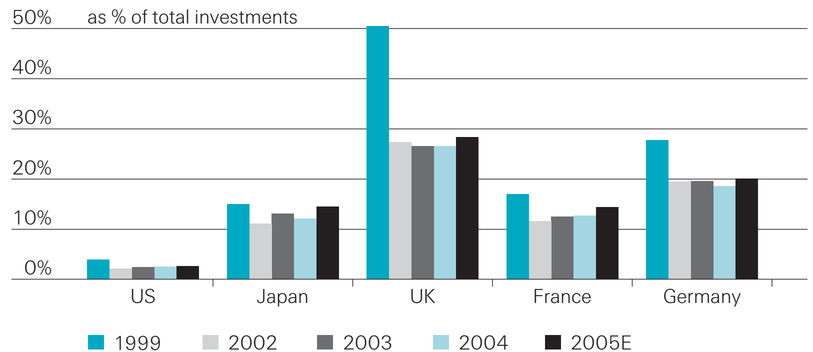


Source: Datastream

The equity market decline of 2000–2002 hit European insurers particularly hard.

But the global equity market decline of 2000–2002 abruptly changed the environment, creating challenges for life insurers. Stock price declines of 50% caused extraordinary capital losses, particularly for European life insurers, which held large equity positions (Figure 2). North American insurers were sheltered from the sharp stock market decline owing to the relatively low share of equity investments in their portfolios.

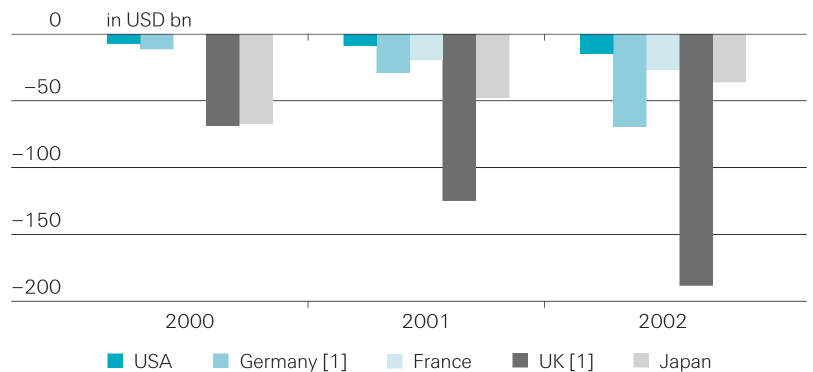
Figure 2
Life insurers' investment in equities



E: estimate

Source: Swiss Re Economic Research & Consulting

Figure 3
Losses on the equity investments of life insurers, in USD bn



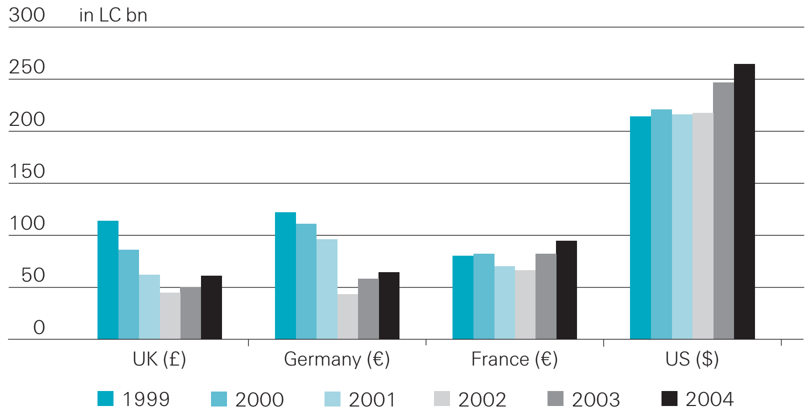
Note: Change of market value of equity portfolio. Calculated as % change in the national stock market index times the market value of equities in the previous year.
[1] Including investments in mutual funds and minority interests

Source: Insurance supervisory authorities, Swiss Re Economic Research & Consulting

Most European companies survived the stress and recapitalized.

The declines in equity holdings substantially weakened the risk capital base and damaged the solvency position of European insurers (Figure 4). The turbulence in the financial markets was a huge stress test for European companies. Corporate bankruptcies led to sizeable write-offs in life insurers' corporate bond portfolios. The sector tackled the crisis successfully, managing to recapitalize in 2003–2004, but the depletion of capital caused an appreciable slowdown in mergers and acquisitions from 1999 to 2002.

Figure 4
Risk capital of life insurers, 1999–2004



Note: Risk capital is defined as the sum of shareholder's capital, unallocated policyholder's bonus reserves, and unrealised capital gains/losses.

Source: Swiss Re Economic Research & Consulting

Japanese life insurers suffered enormous capital losses due to equity and real estate market declines.

In Japan during the 1980s, life insurers benefited from the strong rise in equity and real estate prices and were able to accumulate substantial hidden reserves.[1] The early 1990s saw the beginning of the correction of the Japanese equity and real estate markets, which brought the boom to a rapid end. Overall, the decline of the value of life insurers' equity, loan and real estate portfolios led to a massive reduction in the industry capital base.

The difficult conditions faced by Japanese life insurers have led to clients' concern about their financial stability, with many cancelling their life insurance policies prematurely in the past few years.

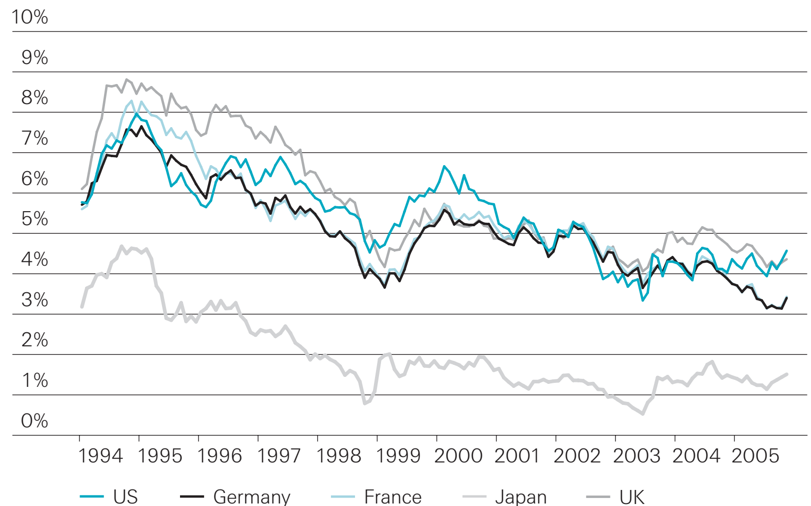
Declining investment yields

Declining interest rates have also weakened life insurers.

Over the last decade, long-term interest rates have followed a downward trend to 40-year lows (see Figure 5). This led to declining yield on fixed-return investments, further exacerbating companies' financial results in the aftermath of the 2000–2002 global equity market decline. Interest rate decreases have a dual effect on life insurers: they boost the market value of bond portfolios but reduce investment yield as reinvestments from maturing bonds and investments of premium flows are made at a lower interest rate.

[1] Hidden reserves accumulated on shares reportedly amounted to 200–300% of companies' stated holdings at the end of the 1980s. This meant that many companies had up to 50% equity exposure. Because they were mainly involved in traditional business and had only modest involvement in investment-linked business, insurers were particularly exposed to equity market risk.

Figure 5
Long-term interest rates, 1994–2005



Source: Datastream

Low interest rates are particularly stressful for guaranteed fixed-return products.

For business with fixed-return guarantees, the fall in interest rates narrowed the differential, or spread, between what insurers promised to pay to policyholders and the return on the investment portfolio. Life insurers in Japan suffered substantial losses from negative spreads (see Box: Negative interest rate spreads in Japan). Rising liabilities on business with guarantees weakened companies in markets such as Japan and the UK, making them potential takeover targets.

The stress has been alleviated by lowering fixed-return guarantees.

Narrow interest rate spreads on old books of business have also affected insurers in Continental Europe and North America, where products with fixed-return guarantees are common. The issue continues to be pressing for life insurers. For the past several years, companies have been alleviating the problem by lowering interest rate guarantees for new business. Also, many contracts written with substantially higher guarantees have matured, making negative interest rate spreads less of a threat.

Negative interest rate spreads in Japan

In the 1990s, Japanese life insurers were among the biggest and most profitable in the world. A decade later, seven of the largest Japanese life insurers had either become insolvent, been acquired, or stopped writing new business. The remaining life companies faced considerable financial problems. Three factors explain the Japanese life insurance industry's drift into crisis:

- guaranteed interest rates above prevailing interest rate levels,
- a marked erosion in the value of companies' investment portfolios, and
- loss of clients' confidence in the industry's solvency.

At the beginning of the 1990s, when Japan's long-term interest rate was about 8%, life insurers provided guaranteed returns of up to 5% on their savings policies. When long-term rates fell in subsequent years, most insurers could not generate the promised returns on their clients' investments. The result was a "negative interest rate spread", ie a gap between the guaranteed interest rate and current investment return. Though minimum return guarantees today are much lower, the problem will persist for another decade, until most high-return guarantee policies have matured. As these policies mature and capital is built up, the cumulative negative interest rate spread will decline (see Table 1).

Table 1
Cumulative negative interest rate spread in the Japanese life insurance market, 1996–2003

	Cumulative negative interest rate spread (in JPY billion)	Cumulative negative interest rate spread (in USD billion)	Cumulative negative interest rate spread as % of equity capital
1996	1434	12.7	57%
1997	1515	12.3	55%
1998	1646	12.9	41%
1999	1430	12.8	32%
2000	1395	12.6	23%
2001	1420	11.4	20%
2002	1256	10.3	23%
2003	1120	9.9	12%

Note: Data on the negative interest rate comes from the life companies. Since Japanese life insurers are not required to disclose negative spread amounts, the data do not cover all companies, but do include the major companies.
Negative interest rate spread = (investment yield on general account assets – average guaranteed interest rate) * average general account policy reserves.

Source: Swiss Re Economic Research & Consulting

Deregulation and increased competitive pressures

Deregulation in Europe caused a flurry of acquisitions.

Deregulation in European markets created a flurry of acquisition activity. The insurance sector was deregulated in 1994 as part of EU's objective to create a common market for financial services. The Third Generation Insurance Directives allowed insurers to operate freely in all EU countries, effectively removing entry barriers and opening markets to price and product competition. The introduction of the European Monetary Union in 1999 further opened markets by eliminating exchange rate risk across member countries.

Demutualization

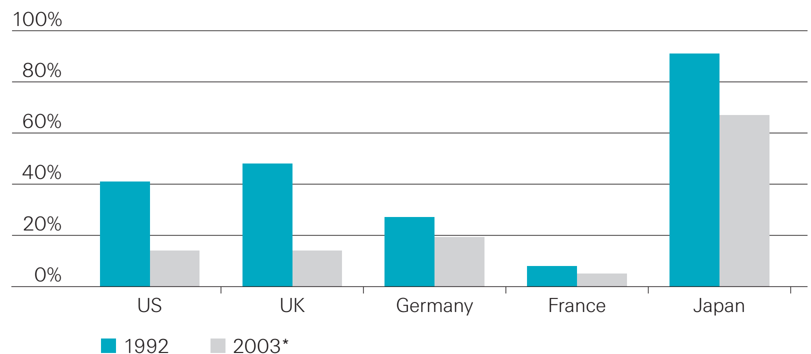
Mutuals cannot make acquisitions as easily as stock companies.

During the years of booming stock markets, mutual insurers, which are owned by their policyholders, were at a disadvantage because of limited access to capital. They lacked resources to make major acquisitions, which hurt their growth prospects and ability to compete in a consolidating market. While a stock company has the ability to use its shares to acquire another company, a mutual life insurer must usually pay cash.

Many companies have demutualized.

In the late 1990s, large life insurers in the US, Canada, and the UK – eg MetLife, Prudential, John Hancock, Clarica, Manulife, Canada Life, Sun Life – demutualized and then either made acquisitions or were themselves acquired. In Japan, mutuals hard pressed by negative spreads and equity depletion in the late 1990s sought to alleviate capital problems through consolidation and demutualized in 2002–2004 (eg Daido Life Insurance, Taiyo Mutual Life and Mitsui Mutual Life). Conversion to stock ownership has caused a substantial decline in the share of mutuals in many markets (Figure 6).

Figure 6
Market share of life mutuals, 1992 versus 2003



*UK and France: 2002

Source: ACLI, Swiss Re Economic Research & Consulting

Bancassurance gaining importance

Bancassurance expanded in the 1990s.

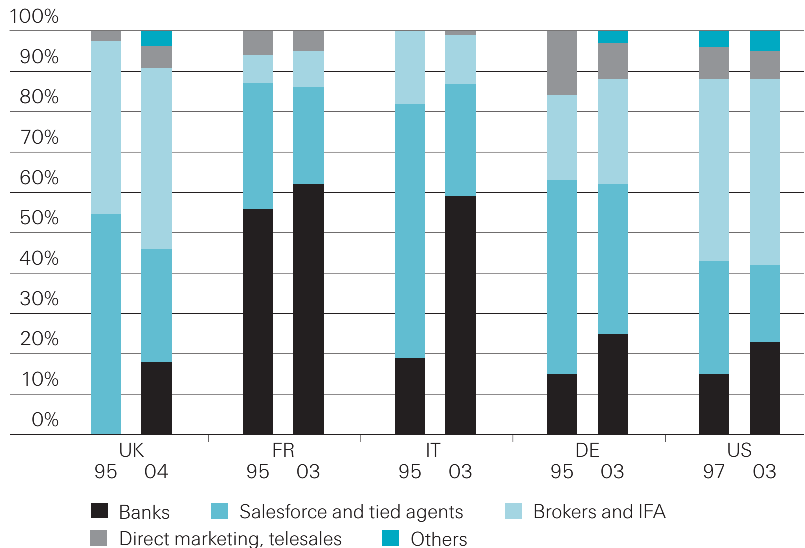
A move toward bancassurance was another 1990s development that stimulated merger activity.[2] A cause of this movement was the pursuit of cross-selling opportunities and synergies in the distribution network and in asset management. Adding life insurance activities to banking operations allowed banks to increase their assets under management substantially and to diversify their earnings.

In Europe, the focus was on financial conglomerates, while in the US it was on distribution.

The concept of creating financial conglomerates became popular in Europe and motivated several large mergers of banks with insurers. Notwithstanding the landmark Travelers–Citicorp merger, these transactions were far less popular in the US, where banks focused on insurance distribution rather than underwriting. Several major US banks including Wells Fargo, Wachovia and BB&T built large distribution systems by acquiring insurance brokerage businesses. This model of bancassurance works well in the US because consumers generally prefer to purchase policies through brokers that offer a wide range of products from competing insurers. Bancassurance has been most successful in Southern Europe. This reflects the simpler design of life insurance products in these markets, which makes distribution via banks easier.

[2] The bancassurance model can take various forms that allow banks and insurers to cooperate and achieve synergies: a) distribution agreement; b) strategic alliance that allows cooperation in product development and in some cases sharing customer information; c) joint venture, where both companies contribute capital and share management responsibilities; d) full integration in a financial services group. The choice of a suitable model depends on the cultural and regulatory environment in the particular market.

Figure 7
Life insurers' distribution channels, 1995 versus 2003/04



Source: ABI, Tillinghast, LIMRA

Globalization

Globalization and advances in computing power have also facilitated consolidation.

The free flow of goods and services across national borders and the growth of multinational conglomerates have increased demand for global insurance coverage. In addition, less-penetrated emerging markets in Asia and Latin America have provided attractive growth opportunities for foreign life insurers, which often gain entry by acquiring domestic carriers. Advances in computing power and IT platforms have facilitated geographical business expansion, allowing a shift toward more distributed computing environments to manage the large volume of actuarial, claims, underwriting and policyholder data.

Regional developments

Europe, North America, and Asia have different business models.

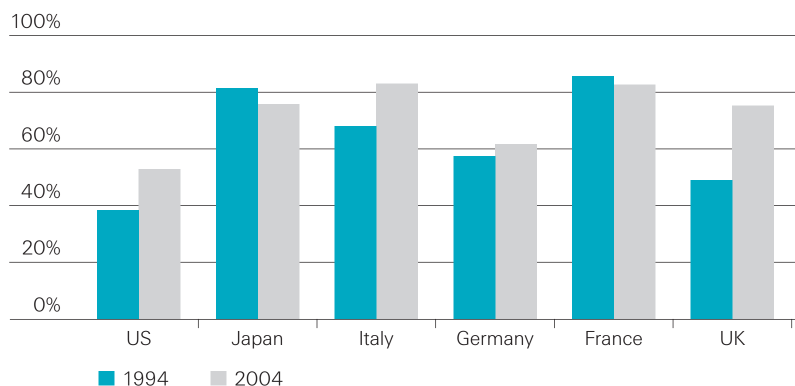
Despite the drive toward consolidation, the business models of life insurers in Western Europe, North America and Japan continue to differ in many respects. Product design, distribution networks, risk exposures and investment behavior vary substantially across markets. Many of the unique features of national insurance markets reflect regulations and tax laws.

Below, some major differences across the largest markets are highlighted.

- In the US, where the ten largest life insurers have a 53% market share (see also Appendix Table 6), more than 1 100 companies (legal entities) compete with one another. There are many specialized companies, with a focus on a certain business segment, such as annuities or term life, or region.

- The Canadian market is extremely concentrated, with the five largest companies claiming an 87% market share. This reflects government policies that encouraged demutualized mergers to help create sizeable companies that could compete in the global market.[3]
- In North America, affiliations between banks and insurance companies were prohibited for decades. This hindered the evolution of bancassurance.
- In Europe, the ten largest life insurance groups have market shares ranging from 62% in Germany to 83% in Italy and France (Figure 8). Many companies operate only in their domestic markets and provide a complete product spectrum to their clients.
- Mutual companies have a substantial position in Japan, where the market is very concentrated with only 40 companies (Appendix, Table 6).
- In North America and some European markets (eg the UK, Netherlands, Switzerland), the life insurance pension business is highly developed due to government-granted tax advantages for pension products. In other European markets, legislation has only recently started to grant extensive tax advantages for private and occupational pensions.
- Unit-linked products – with the investment risk borne by the policyholder – were very popular in Europe in the second half of the 1990s. Although this business segment has declined in importance, it retains a substantial market share.

Figure 8
Cumulative market shares on a group level for the ten largest life companies, 1994 versus 2004



Source: Swiss Re Economic Research & Consulting

[3] See Department of Finance, Canada (1999), "Reforming Canada's Financial Services Sector: A Framework for the Future".

Consolidation activity over the past decade has been characterized by:
- a wave of M&A, fueled by the booming stock markets of the 1990s, that made many life markets more concentrated, with fewer, but larger companies;
- disparate regional trends over the past five years, with a sharp slowdown in M&A in North America and Europe and accelerated activity in the rest of the world;
- global life insurers' dominance of mergers and acquisitions, and
- the emergence of a market for closed life insurance portfolios.

General consolidation trends

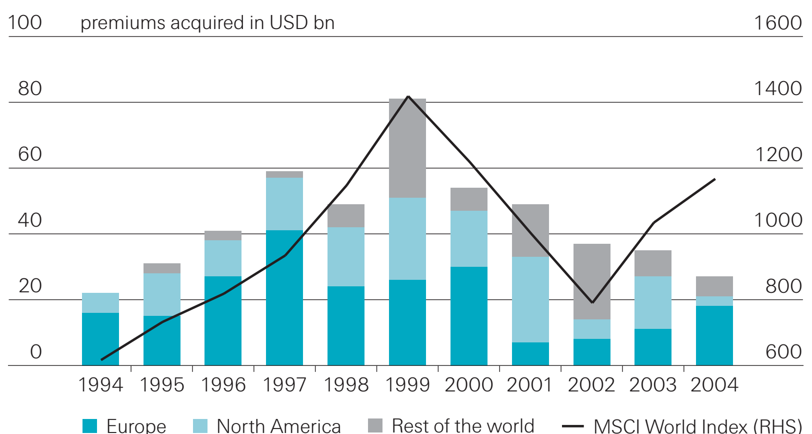
M&A activity was very strong in the 1990s, peaking in 1999.

Before 2000, merger and acquisition activity accelerated rapidly across most major markets. The volume of premiums acquired globally increased from USD 23 billion in 1994, or 1.6% of global life premiums, to USD 81 billion in 1999, or 5.0% of global life premiums.[4] After peaking in 1999, global M&A slowed sharply in 2000 and continued to decline for the next four years. By 2004, acquisition activity was down 66% from its peak, and roughly equal to its level of a decade earlier. Life companies changing ownership in 2004 accounted for 1.4% of the global premiums.

M&A activity declined after stock markets collapsed.

In recent years, a number of factors have substantially slowed down M&A activity: falling stock prices, low interest rates, heightened solvency concerns, stronger corporate oversight and growing shareholder skepticism about merger activity. In this environment, sales of blocks of business and operations in run-off have become more common. The weakened capital base and damaged solvency position forced life insurers to retrench and cut back on acquisitions. M&A activity, particularly in Europe, has been extremely sensitive to stock prices (Figure 9).

Figure 9
Global life M&A activity and stock prices, 1994–2004



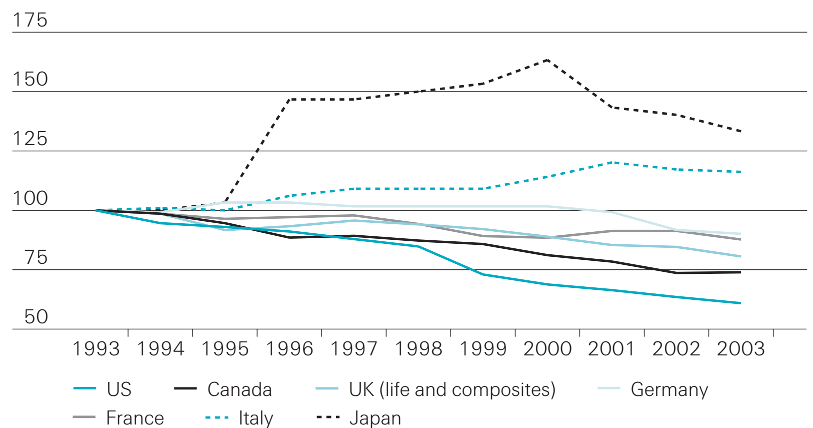
Sources: Morgan Stanley Capital International Inc. (MSCI), Swiss Re Economic Research & Consulting

[4] All premium figures are stated at 2004 prices.

The number of life insurers has declined in many markets.

The life industry has consolidated in many markets. On a legal entity basis, the number of life insurance companies operating in the US, Canada, the UK, Germany and France has declined over the last decade (Figure 10). This decline was most pronounced in the US, Canada and the UK. In Japan, the number of companies increased after a revision of the insurance business law in April 1996, which allowed non-life insurance companies to enter the market through stock subsidiaries.[5] Since 2000 however, the number of life companies has begun to decline in Japan as well.

Figure 10
Indexed number of life insurance companies (on a legal entity basis), 1993 = 100



Source: Swiss Re Economic Research & Consulting

The global life insurance industry is less concentrated than other industries...

In some industries, large corporations dominate global markets. For example, the top ten banks generate 38% of global revenues in the banking sector.[6] The pharmaceutical industry is even more concentrated, with the top ten firms generating 46% of the global revenues.[7] In contrast, the top ten life insurance groups account for just 28% of the global premium volume. This lower level of concentration reflects unique aspects of the life industry:

- There are substantial differences in national life insurance laws and regulations. Products must conform to national legislation. This generally makes multinational distribution of uniform products infeasible. Worldwide life companies therefore often operate with local legal entities rather than distribute uniformly designed products worldwide.
- Market entry into life insurance is easy, with relatively low capital requirements.
- Although there is clear evidence for economies of scale in life insurance, the scale benefits may be more pronounced in other industries. In life insurance, there are many national producers, with market-specific products.
- The scope for product differentiation is small in life insurance, since many products are close substitutes without compelling advantages.

[5] Source: Life Insurance Association of Japan
[6] Sample: Diversified Financial Institutions, market shares based on revenues. Source: Swiss Re Economic Research & Consulting
[7] Source: *The Economist*, Survey: Pharmaceuticals, 16 June 2005

...but might become more concentrated in the future.

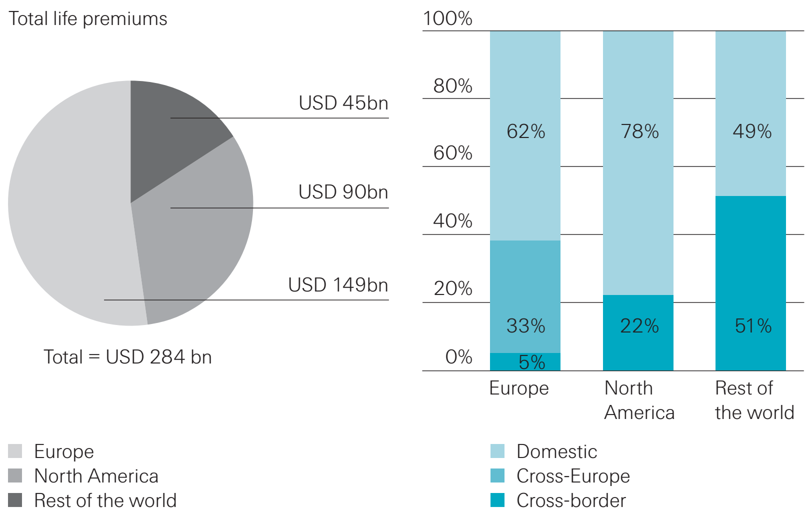
Nevertheless, there are indications for a higher life insurance concentration in the decades to come. The example of automotive manufacturers is instructive. In the early 1900s there were more than 100 car producers. Today, the top 10 company alliances account for roughly 90% of global production.[8]

Regional patterns of consolidation

The 1994–1999 consolidation phase was most pronounced in Europe.

In 1994–1999, consolidation activity was most pronounced in Europe, where deregulation and the relatively small size of domestic markets stimulated a flurry of acquisitions. In Europe, premiums acquired during this period amounted to USD 149 billion, or more than half of global life M&A. Ninety-five percent of acquisitions in Europe were done by other European companies: 62% of these domestic and 33% cross-border (Figure 11).

Figure 11
Life insurance premiums acquired by target region, 1994–1999 (at 2004 USD prices)



Source: Swiss Re Economic Research & Consulting

Domestic transactions dominated M&A activity in North America.

North American M&A was predominantly domestic. Less than a quarter of premiums acquired went to foreign insurers. This is explained by the large size of the US market and its high degree of fragmentation. The largest transaction in the US market was the bancassurance merger of Travelers and Citibank in 1998.

[8] Source: *The Economist*, Survey: The global car industry, 8 September 2005

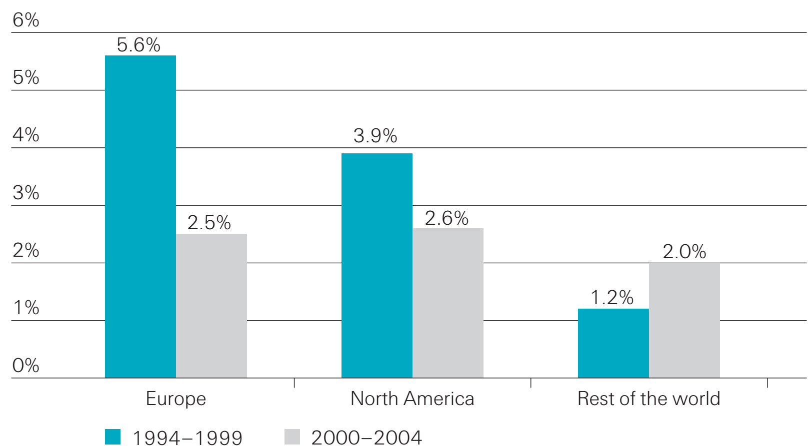
Foreign firms acquired several Japanese life companies.

Outside Europe and North America, M&A activity gained significance only after 1998 (Figure 9). In 1999, M&A jumped sharply in Japan. After many Japanese insurers suffered an erosion of their capital base, some companies – such as the holding companies Taiyo and Daido – merged to gain capital stability. Foreign companies took the opportunity to establish or enlarge their presence in Japan: eg AXA purchased Nippon Dantai, GE Capital bought Toho Mutual, Manulife acquired Daihyaku Mutual Life and AIG assumed the operations of Chiyoda Life. Other foreign entrants included Winterthur (Nicos Life Insurance) and Prudential UK (Orico Life Insurance). Cross-border acquisitions accounted for half of M&A activity outside of Europe and North America.

European M&A activity experienced a sharp downturn.

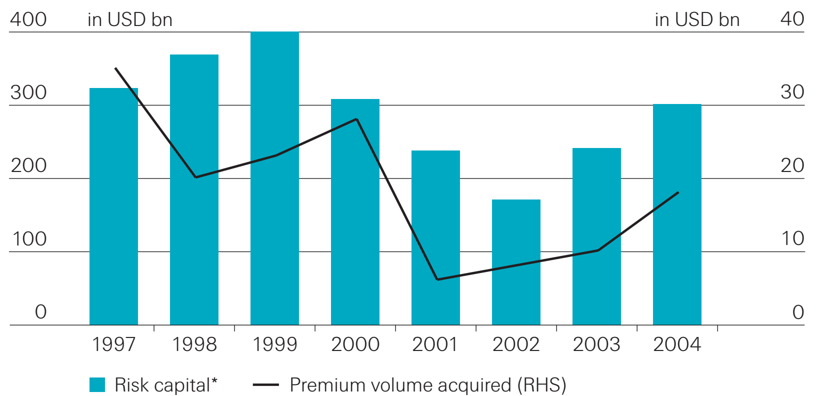
M&A activity declined most dramatically in Europe, where life insurers suffered the biggest losses of capital and some companies were pushed to the brink of insolvency. The ratio of premiums acquired to total premiums declined from 5.6% in 1994–1999 to 2.5% in 2000–2004 (Figure 12). The substantial depletion of capital that the life sector suffered in 2001–2002 also dampened M&A activity in North America, but not in the rest of the world.

Figure 12
Life insurance premiums acquired in percent of total premiums by region



Source: Swiss Re Economic Research & Consulting

Figure 13
Life insurers' risk capital and premium volume acquired in Europe, in USD bn



*Risk capital of insurers in the UK, Germany and France

Source: Swiss Re Economic Research & Consulting

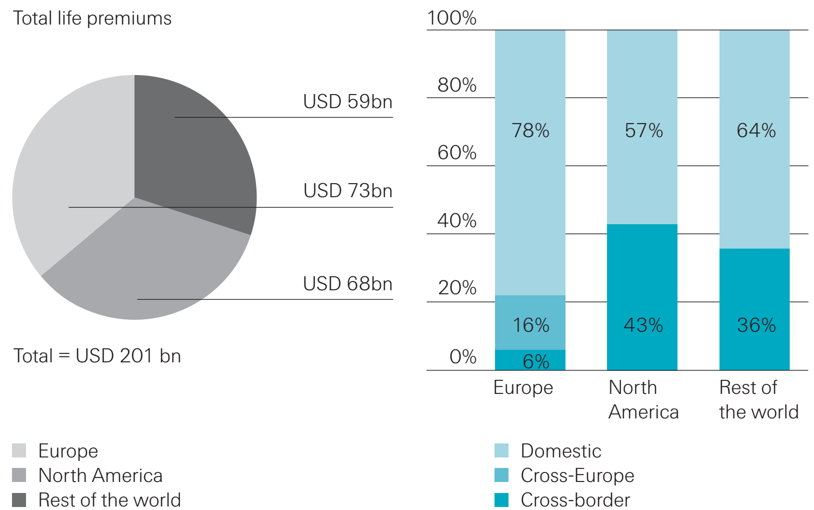
North America's M&A activity slowed.

M&A activity has also slowed in North America, though less markedly, since life insurers' loss of capital from the decline in global financial markets was less marked. The ratio of premiums acquired to total premiums declined from 3.9% in 1994–1999 to 2.6% in 2000–2004. Several large acquisitions took place during the latter period, most of whose targets were former mutuals: ING acquired Aetna and ReliaStar, Sun Life bought Clarica, AIG purchased American General, Manulife acquired John Hancock and AXA acquired MONY.

Outside Europe and North America, M&A activity strengthened.

Outside Europe and North America, M&A activity strengthened. The ratio of premiums acquired to total premiums increased from 1.2% in 1994–1999 to 2.0% in 2000–2004. Activity was concentrated in domestic markets: 63% of acquisitions involved a buyer from the home market. The largest deals took place in Japan. Meiji Life merged with Yasuda Mutual Life; Prudential US acquired Kyoei Life; Tokyo Mutual Life merged with Daido Mutual Life and Taiyo Mutual Life.

Figure 14
Life insurance premiums acquired by target region, 2000–2004



Source: Swiss Re Economic Research & Consulting

The Globals

The largest 40 life insurance groups accounted for 55.9% of the global market in 2004.

In 2004, the world's 40 largest life insurance groups accounted for 55.9% of the market.[9] Half of these 40 groups are located in Japan, the UK or the US. Among the top 40, many companies are active only in one market, such as most of the Asian and some of the US life companies.

This *sigma* focuses on 12 global companies.

The following analysis focuses on 12 companies that can be regarded as Globals (highlighted in Table 2). Each of these companies has substantial operations outside its home market and a global market share of at least 1% (ie premium volume of more than USD 19 billion).

[9] For the US life companies and companies reporting under IFRS, deposit-type business (such as unit-linked business, variable and fixed annuity business) is treated as life premium income. This allows for a better comparison between companies.

Table 2
Companies with a global market share of more than 1% in 2004

Rank	Group	Home market	Global market share in 1998	Premiums in USD m, 2004	Global market share in 2004
1	AIG	USA	1.8%	66 837	3.6%
2	Metropolitan Life	USA	2.4%	58 732	3.2%
3	AXA	France	3.3%	58 422	3.2%
4	Allianz	Germany	1.8%	56 178	3.0%
5	ING	Netherlands	1.5%	45 978	2.5%
6	Generali	Italy	1.7%	45 936	2.5%
7	Nippon Life	Japan	3.8%	45 515	2.5%
8	Aegon	Benelux	1.7%	42 080	2.3%
9	Aviva	UK	0.9%	37 612	2.0%
10	Great Western Life	Canada	1.5%	34 090	1.8%
11	Manulife	Canada	0.8%	31 807	1.7%
12	Dai-ichi	Japan	2.6%	30 272	1.6%
13	Prudential (UK)	UK	1.4%	29 959	1.6%
14	Meiji	Japan	1.7%	29 152	1.6%
15	Prudential (US)	USA	1.3%	27 751	1.5%
16	Hartford	USA	1.2%	26 848	1.5%
17	Sumitomo	Japan	2.2%	23 831	1.3%
18	CNP	France	1.3%	23 828	1.3%
19	New York Life	USA	0.9%	22 798	1.2%
20	Credit Agricole	France	0.5%	19 390	1.0%
21	Zurich	Switzerland	1.2%	19 272	1.0%
22	Principal Life	USA	1.1%	18 840	1.0%

Global life insurance groups
Large national life insurance groups

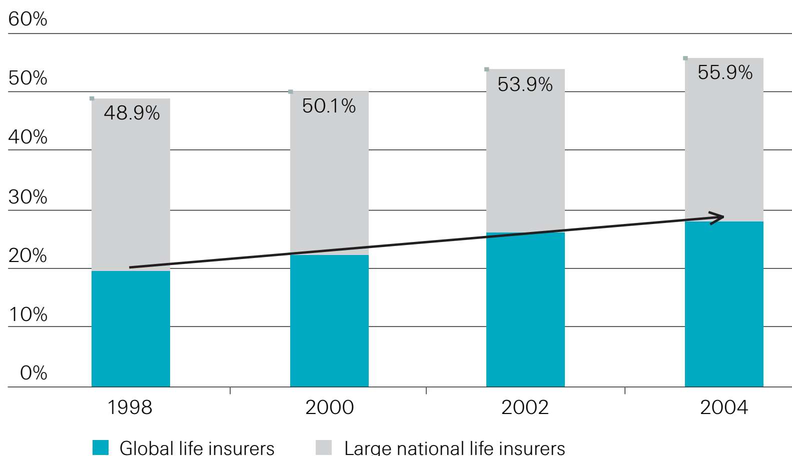
Notes: Definition of premium volume: sum of life insurance premiums and deposit-type business (such as premiums for unit-linked policies, fixed and variable annuities). Globals are shaded in light blue.

Source: Company reports

The Globals are driving consolidation.

The 40 largest life insurance groups increased their market share from 48.9% in 1998 to 55.9% in 2004. This increase was entirely driven by the 12 Globals, whose market share rose from 19.8% to 28.2% . Table 2 lists the 1998 and 2004 market share of each of the Globals.

Figure 15
Worldwide market share of the largest 40 life insurance groups, 1998–2004

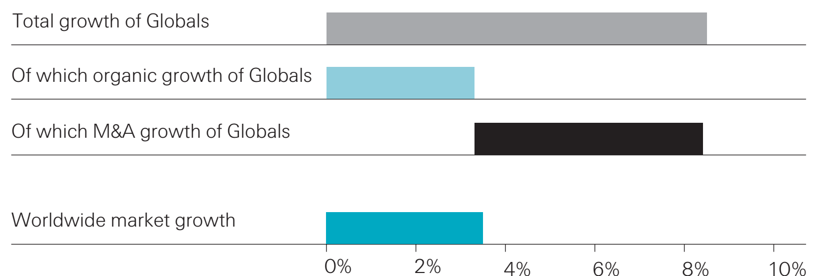


Source: Swiss Re Economic Research & Consulting

Globals grew mainly by acquisition.

The growing market share of the Globals is mainly due to mergers & acquisitions. A comparison between internal (organic) and external (M&A) growth reveals that, for many of the Globals, external growth was prevalent (Figure 16). The 12 Globals acquired 130 companies with aggregate premiums of some USD 104 billion. These premiums are equivalent to 5.6% of the industry volume in 2004 and account for two-thirds of the 8.4 percentage point market share increase.

Figure 16
Organic and M&A growth of Globals, CAGR (adjusted for inflation), 1998–2004



Sources: Company annual reports, Swiss Re Economic Research & Consulting

Experienced buyers integrate their acquisitions more successfully.

The companies that grew most substantially through M&A (Table 3) were AVIVA (the most transactions) and AIG (the largest life premium volume acquired). A key to successful acquisitions has been efficient and timely integration. This is often achieved by experienced acquirers. Thus, experience is a crucial M&A success factor.

Table 3
Mergers and acquisitions of Globals, 1998–2004

Rank	Firm name	Number of deals	Sum of Life premiums acquired, in USD m	Value of deals, USD m	Country
1	Aviva	21	10 912	33 475	United Kingdom
2	Manulife	16	8 003	10 451	Canada
3	MetLife (1)	14	11 312	2 225	United States
4	AIG	12	24 470	43 440	United States
5	Aegon	11	11 178	11 336	BeNeLux
6	Allianz	11	3 250	1 204	Germany
7	Prudential UK	10	1 456	332	United Kingdom
8	Generali	9	11 057	17 374	Italy
9	Prudential US	9	4 914	8 148	United States
10	ZFS	8	3 102	1 345	Switzerland
11	ING	6	13 099	14 241	BeNeLux
12	AXA	3	1 160	3 529	France
Total		**130**	**103 913**	**147 100**	

(1) Metlife's acquisition of Travelers not included (Premium volume in 2003: 10 300 USD m, Transaction volume in 2003: 11 500 USD m)

Note: Transaction values are not available for all mergers and acquisitions. Therefore, the value of deals may be somewhat distorted.

Sources: Company annual reports, Swiss Re Economic Research & Consulting

The US annuity market has characteristics which attract European Globals.

European life companies are attracted to fixed and variable annuity business in the US. Variable annuities are popular during periods when stock markets boom, while fixed annuities are more popular when stock markets languish. The annuity business potentially allows companies to grow their assets under management organically and to generate a stable earnings stream from asset management fees. These factors have induced the European Globals to gain a strong foothold in the US annuity market. Among the top ten annuity providers, four are European (see Table 4).

Table 4
Top 10 US annuity providers, 2004

Rank	Firm name	Premiums, USD bn	Market share in the annuity market	US annuity business as % of total worldwide business
1	AIG	31.5	9.8%	
2	Hartford	20.9	6.5%	
3	MetLife	18.5	5.8%	
4	ING	17.5	5.4%	**38%**
5	John Hancock	16.1	5.0%	
6	Allianz	12.5	3.9%	**22%**
7	AXA	12.2	3.8%	**21%**
8	Prudential US	12.1	3.8%	
9	Lincoln National	9.9	3.1%	
10	Aegon	9.5	3.0%	**23%**
Total Top 10		**160.8**	**50.0%**	

Note: Highlighted companies are European

Source: Swiss Re Economic Research & Consulting

Sales of blocks of business and run-off operations

An emerging consolidation trend is the increase in sales of blocks of business...

An emerging trend in some markets over the past few years has been an increase in transactions that involve portfolio transfers. These are acquisitions of blocks of business, sometimes in run-off, with no new business added to the books. An efficient market for portfolio transfers provides several advantages. First, the transaction allows a company to monetize embedded value, which would otherwise only materialize over the remaining life of the policies. This creates financial flexibility for companies seeking capital or earnings stability. Block acquisitions also allow insurers to focus on core business by releasing capital supporting non-core operations. Such transactions are suitable for companies trying to increase market share in core business or looking to close a book of business or exit a business line that is not profitable. Once a block of business is sold, the primary company no longer has to deal with legacy issues such as the need to maintain the IT and processing infrastructures for a closed portfolio, thus improving its operating results.

...in the US...

In the past few years, more US life insurers have followed a focused business strategy, aiming to expand core operations while divesting unprofitable and non-essential lines of business. This has led to an increase in the number of portfolio transfers. According to Conning, the majority of the M&A deals in the US in 2004 involved sellers who divested operations they described as "non-core".[10]

...and the UK.

In the UK, recent consolidation activity has also been partially driven by business placed in run-off. The collapse of the market for with-profits products in the UK forced a number of carriers to close unprofitable books of business. According to the Financial Services Authority, life companies in the UK have closed 66 of the 110 with-profits funds to new business. These funds, which have GBP 191bn (USD 312bn) assets under management, represent 20% of the overall UK market.[11] This has created a growing market for portfolio transfers. The UK market for closed life funds has attracted new run-off providers and reinsurers over the past year.

[10] Conning, "Mergers & Acquisitions and Public Equity Offerings – 2005 Edition", p 45.

[11] Financial Services Authority, Insurance Sector Briefing: The regulation of closed with-profits funds, September 2004.

The key drivers for mergers and acquisitions are economies of scale and scope.

Successful mergers and acquisitions provide important potential benefits to participating companies, particularly:

- economies of scale – larger companies are more efficient
- economies of scope – companies with a wider product and geographical range are stronger

Other potential benefits to acquisitions include improvements in the technical efficiency of the target company, increased market power, access to distribution channels, lower income volatility, and increased capital efficiency. Some M&A transactions, however, may be done for dubious reasons or are poorly executed. Empirical evidence shows that there are economies of scale and benefits to focused acquisitions.

Economies of scale

Large life companies have many potential advantages.

One frequently-cited motive for mergers and acquisitions is to realize economies of scale. Firms operating at a below-optimal scale can achieve scale gains through consolidation. In life insurance, economies of scale may arise from the development of distribution networks and sales and marketing systems, branding, IT systems, asset management or product development. Large scale also provides insurers with more resources and flexibility to adjust to changing market conditions. It also makes it easier to change product focus and exit or sell unprofitable lines of business.

Sometimes, however, big is not beautiful.

The argument for economies of scale as a major driver of consolidation is often criticized on the grounds that it fails to recognize post-merger integration costs, which can outweigh scale economy gains. Larger organizations are also much more complex to manage, creating the possibility of frictions and inefficiencies.

Empirical evidence implies the optimal size is fairly large.

Empirical research, however, provides some evidence that economies of scale exist in the life industry. One study about the efficiency in the US life insurance industry[12] finds that the majority of smaller insurers operate at a level where increasing returns to scale apply.[13] These firms can therefore become more cost efficient by becoming larger. The study also finds that some large companies, particularly those that write multiple lines, operate at *diseconomies* of scale, hence they could reduce costs by shedding unprofitable blocks of business. This suggests that M&A can help small insurers achieve optimal scale, while divestitures may lead to superior results for larger companies.

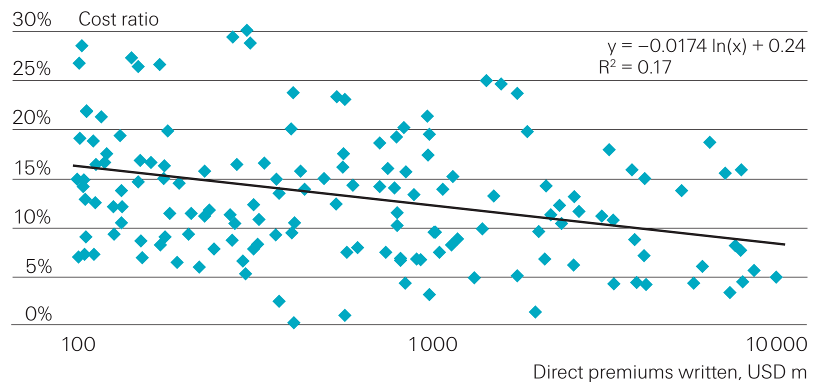
Larger companies tend to have lower expense ratios.

Evidence from several markets indicates that larger life companies tend to have lower expense ratios than smaller ones (Figures 17 and 18).

[12] J. David Cummins and Anthony M. Santomero, changes in the Life Insurance Industry: Efficiency, Technology, and Risk Management, pp 105–106. Kluwer Academic Publishers. Norwell, MA, 1999

[13] In the study, scale efficiency is measured relative to a *constant returns to scale (CRS)* frontier, ie a frontier where the ratio of output to input is the same for all levels of input. Firms that are operating on the CRS frontier are fully efficient.

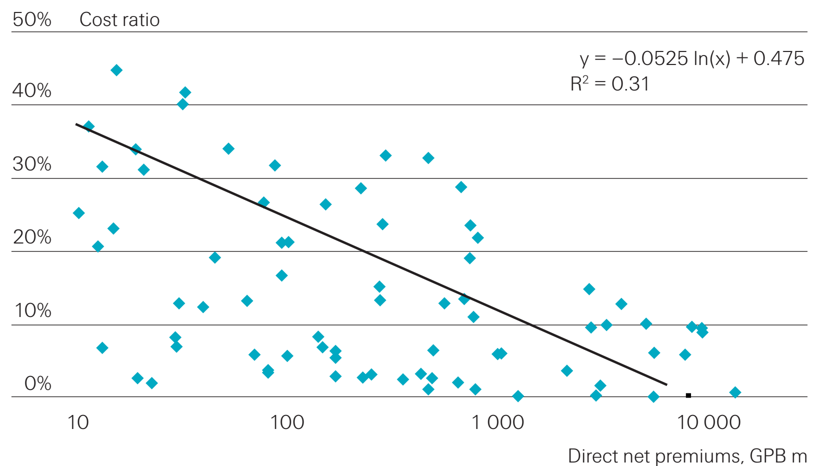
Figure 17
Expense ratios and size of life insurers in the US, 2004



Note: The sample comprises a total of 172 companies on a consolidated basis, which had premiums exceeding USD 100 million in 2004.

Source: Highline Data

Figure 18
Expense ratios and size of life insurers in the UK, 2004



Note: The sample comprises 96 companies.

Source: Thesys

Size may help improve efficiency.

A 2001 study of consolidation in the financial sector conducted by the Group of Ten, which examined relationships between the sizes of life insurers in North America and Europe and their costs and profits, also found evidence of economies of scale. In Europe, for example, management expenses were 4.4% of net premiums written for large insurers (USD 2 billion or more in assets) as opposed to 8.6% for small insurers (under USD 500 million in assets). Large insurers were also more profitable than small ones (see Table 5).

Table 5
Size and performance of insurance companies

Area	Variables	<USD 500m No	<USD 500m Average	USD 500–2000m No	USD 500–2000m Average	>USD 2000m No	>USD 2000m Average
Europe	Management expenses (% of net premiums written)	76	8.6	86	5.0	142	4.4
	Return on equity	99	1.3	76	10.6	134	11.8
North America	Management expenses (% of net premiums written)	72	16.2	102	14.0	134	10.9
	Return on equity	71	3.4	104	10.6	135	13.0

Life insurance companies by asset size

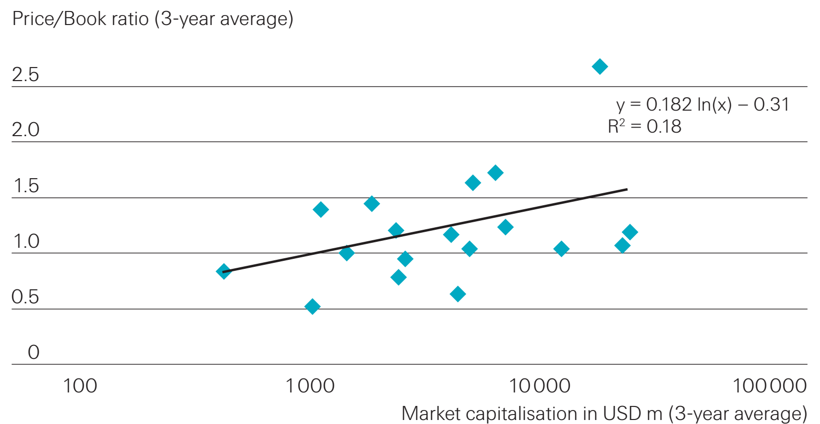
Note: The difference in cost levels between North America and Europe depends on different definitions of the variable "management expenses".

Source: Group of Ten, "Report on consolidation in the financial sector", January 2001. The publication is available for free on the BIS, IMF and OECD websites.

Larger life insurers also tend to have higher stock valuations.

Finally, an analysis of the price-to-book ratio for 18 large publicly traded US life insurers compared to their market capitalization reveals a slightly positive relationship. Because of the small sample size, the results are only indicative, but they do suggest that scale in life insurance is important for investors. This relationship may also be interpreted as evidence that investors believe that large companies are better able to manage their business efficiently and have better business prospects due to factors such as a well established brand name.

Figure 19
Market capitalization and price-to-book ratio of US life insurers



Sources: Bloomberg, Swiss Re Economic Research & Consulting

The US life industry, because it is fragmented, may benefit most from consolidation.

The evidence that economies of scale exist in life insurance suggests that some insurance companies can benefit from consolidation. This may particularly apply to the US life insurance market, where product design is more homogenous and the industry is still quite fragmented. In Europe, where product structures are very heterogeneous, the evidence for economies of scale is less pronounced. In Japan, where the average company size is large, there may be even a tendency towards diseconomies of scale. The dispersion of market share away from a handful of core players is manifesting itself in Japan in the form of increasing success by foreign companies in capturing the fixed and variable annuity market. Very large life insurers may be difficult to manage and may not be able to react quickly to a changing business environment.

Economies of scope

Economies of scope also provide many potential benefits for an acquisition.

Economies of scope are another important potential source of value from mergers and acquisitions. Joint production of outputs can lead to lower costs and higher revenues than production in separate firms. Benefits may arise from the shared use of resources such as IT systems, executive skills, marketing and distribution systems, customer base, or brand names. In the life industry, economies of scope are often said to arise from opportunities to cross-sell banking, P&C and life insurance products, with the aim of improving customer service quality. The "one-stop shopping" argument is often used as a justification of financial sector mergers. The experience of large and successful life insurers shows that some have integrated life and P&C operations over long periods of time (eg Travelers, State Farm, Liberty Mutual), while others have followed a strategy that focuses on life insurance (eg NY Life, Mass Mutual, Guardian Life).

Sometimes, however, a wide scope can result in culture clashes or a lack of focus.

Economies of scope may be hampered by the difficulties of integrating firms with different products and corporate cultures. Post-merger integration in bancassurance deals, for example, has often raised problems related to the substantial differences between insurance and banking operations regarding culture and profitability (see example in the following box).

Bancassurance in the US: the Citicorp/Travelers merger

The merger of Travelers Group and Citicorp in 1998 was the first bancassurance transaction in the US that combined commercial banking, investment banking and insurance under one roof. The transaction became a catalyst for passing the Gramm-Leach-Bliley (GLB) Act in 1999, which eliminated existing barriers to bank ownership of insurance underwriters and securities firms. At the time, the merger was viewed as creating a leading global consumer finance company which embodied an emerging trend across financial services globally – consolidation in all segments, convergence of a full range of consumer products, and the need to expand geographically to serve globalizing customers.

Observers expected that the Citicorp–Travelers merger would be followed by a wave of bank/insurer mergers to create financial supermarkets. This, however, did not happen. Only one other sizable bank-insurer deal, the 2003 acquisition of Zurich Life by Bank One, took place post-GLB.

At the time of the merger, Citicorp emphasized what it perceived as tremendous cross-selling opportunities in all product lines and distribution channels, including sales of the Travelers' annuity, mutual fund, auto and homeowners' insurance products to Citicorp branch-banking and credit card customers. However, three years later, in 2001, Citigroup split off its Travelers Property Casualty unit, acknowledging difficulties in cross-selling insurance to its customers and the business's low returns. On 31 January 2005, Citigroup announced it would sell most of Travelers' Life & Annuity to MetLife Inc. for USD 11.5 billion, ending its involvement in insurance underwriting. The reason for the divestiture, according to analysts and Citigroup officials, was the lower profitability and growth prospects of insurance compared to other financial businesses. In particular, Citigroup stated that the MetLife transaction "sharpens focus on higher growth and return businesses".[14]

Other potential benefits of M&A

Other benefits from M&A include improvements in technical efficiency...

Mergers and acquisitions can also be motivated by opportunities to improve the operational efficiency of the target company. Such gains may result from improving IT systems or eliminating duplicate operations in sales and marketing, distribution and claims management. The efficiency rationale is stronger for M&A in the same geographical or product area than it is for diversifying M&A. A recent study on consolidation and efficiency in US life insurance provides strong evidence that acquired firms achieve greater efficiency gains than firms that were not acquisition targets.[15]

[14] Source: Citigroup's slide presentation accompanying the announcement of the sale of Travelers' Life and Annuity, 31 Jan. 2005

[15] J.D. Cummins, S. Tennyson, and M.A. Weiss, "Consolidation and Efficiency In the US Life Insurance Industry," 1999, *Journal of Banking and Finance 23, pp 325–357.*

...access to distribution channels,

Access to well-developed, efficient distribution systems is a powerful motive for life M&A. US life insurance executives rate distribution as the second-most-important characteristic of a potential acquisition target, after its product structure.[16]

...and diversification.

Other justifications for M&A activity include opportunities to add value by increasing the market power of the acquiring company or by reducing income volatility through geographical or product risk diversification. Mergers may also provide opportunities to allocate capital more efficiently within the firm. However, one study questions the value of diversification by showing that diversified firms with multiple segments tend to have a lower value than the sum of the values of their segments taken independently.[17]

Challenges to successful acquisitions

Managers' motivations may not be fully aligned with shareholders' interests...

Another powerful, though unstated, potential motive for merger activity is managerial ambition. Managers may engage in consolidation to protect the firm from a hostile takeover or to increase their own prestige and net worth. One empirical study (not specific to the insurance industry) examines a large panel of UK mergers from 1981–1996.[18] It finds that, following a merger, executives receive significant and substantial pay increases, in excess of those that would be generated purely by the growth in firm size.

...or managers may overestimate their own abilities.

A related reason why acquisitions often fail, dubbed the "Hubris Hypothesis" by Richard Roll, is that some senior executives tend to overestimate their abilities. This leads them to believe they can improve the operations of a target company even when they cannot.

Post-merger integration poses many challenges.

Mergers and acquisitions ultimately aim to increase value for shareholders. Despite the good theoretical rationales for growth through consolidation, deals may fail to deliver the anticipated benefits to investors. Post-merger integration is especially challenging for cross-country and cross-industry mergers, mostly due to national and corporate culture differences. According to a survey of Forbes 500 CEOs, the following problems were most frequently encountered in the various phases of merger transactions:

- Strategy: incompatible cultures, nonexistent or overestimated synergies, incompatible marketing systems;
- Due diligence: excessive acquisition premium, failure to anticipate foreseeable events, unhealthy acquisition target, need to spin off or liquidate too much;
- Implementation: inability to manage targets, clash of management styles, inability to implement change.[19]

[16] Conning, "Mergers & Acquisitions and Public Equity Offerings – 2005 Edition", p.58.
[17] Philip Berger and Eli Ofek, 1995, "Diversification's Effect on Firm Value", *Journal of Financial Economics.*
[18] S. Girma, S. Thompson and P. Wright, "Merger activity and executive pay", Research paper 2002/02, University of Nottingham.
[19] Source: Mark Sanders, "Building success through mergers and acquisitions", *Asia Insurance Review*, May 2002. Discusses Tillinghast-Towers Perrin Survey of *Forbes* 500 CEOs.

Evidence from stock returns

Returns were favorable for mergers allowing geographic or product line expansion.

A McKinsey study of market reactions to 237 insurance M&A transactions in the US and Europe from 1990 to 2001 compared post-deal shareholder returns to an industry benchmark index.[20] The results show that benefits to investors varied depending on type of deal. Generally, investors reacted positively to M&A transactions that helped companies expand geographically or into new product lines. They also favored deals that signaled focus, ie acquisitions of divisions rather than entire companies. Moreover, sales of divisions brought positive results for both the acquirer and the target. Domestic consolidation was favored in the US, where the market is large and fragmented, but not in Europe. Bancassurance deals led to loss of value, which suggests that investors are skeptical about uniting banking and insurance operations under one roof.

Success factors: skilled acquirer, strategic fit and underperforming target.

An essential factor for the success of whole-company acquisitions is that the target company must fit in well with the strategy of the acquiring firm. Acquisitions of underperforming companies for the purpose of restructuring also generally yield positive results.

[20] Lars Jacob Bø *et al*, "Assessing insurance deals", *McKinsey* Quarterly, 2003 Number 2.

M&A activity is expected to increase due to...

sigma expects life M&A activity to rise sharply in coming years, though it is unlikely to return to the levels seen in the late 1990s. Below, the study discusses the factors that will promote consolidation in the next five years.

Excess capital and low financing costs

...excess capital and low financing costs,...

The life industry in Europe lost a substantial part of its risk capital as a result of the stock market crash. However, the industry is currently recapitalizing through cost savings, solid investment returns on the equity portfolio and bonus allocation reductions. The risk-capital base of the European life insurers is still below the level achieved in 1998, but with further improvements under way, the industry may soon be well capitalized again. It remains to be seen how the introduction of the risk-based solvency framework in the EU will change capital requirements. The availability of capital in excess of what is economically justified for the underlying business will tempt well-capitalized companies to expand their businesses through M&A. In the US, the risk capital of life insurers increased by USD 66 billion between 1998 and 2004. This demonstrates that the life industry has performed well even in the face of financial market turbulence. In Japan, life insurers are still limited by a depressed capital base.

In addition to the availability of excess capital, insurers currently also benefit from low capital costs.[21] Equity prices have recovered in recent years, while interest rates remain low and credit spreads are narrow. Both excess capital and low financing costs will accelerate consolidation in the life insurance industry.

Appetite for growth

...the desire for growth from investors,...

Top-line growth is one prerequisite for stock appreciation in the medium/long term. In mature markets, where robust organic growth is difficult, this can be achieved through a takeover, merger or by expanding business operations, whether at home or abroad. Managers are often confronted with aggressive growth targets by investors that cannot be achieved solely by organic growth, but only in combination with merger activity.

[21] According to a recent study, the cost of capital in the non-life sector has declined from 15% in the 1980s to 7–8% today. See Swiss Re, *sigma* No 3/2005: "Insurers' cost of capital and economic value creation: principles and practical implications".

Regulatory reforms

...and regulatory change in Europe.

There are various (self-)regulatory initiatives underway, both in Europe and in the US, that affect the corporate landscape. The most prominent EU regulatory initiatives are the introduction of a risk-based capital framework (Solvency II) and the introduction of the International Financial Reporting Standards (IFRS).[22] The European Embedded Value Principles (EEV) is a self-regulatory initiative.[23]

Europe

Solvency II may accelerate consolidation.

The introduction of a risk-based capital framework in the EU (Solvency II) may accelerate consolidation. Fewer, larger companies may emerge in the market. Investment risk will be included explicitly in the solvency requirement calculation. Due to the long-term nature of the policies, the required solvency capital can be substantial for life insurers. The most immediate strategy for gaining relief from capital pressure is to lower financial-market risk exposure (such as by further reducing equity holdings). Another action would be to close certain business lines to new business and to sell these portfolios - for example to a specialized run-off provider - and to focus instead on products with lower risk exposures, and therefore lower solvency requirements.

Reform will make European insurers more transparent, facilitating acquisitions.

Investors have long regarded the European insurance business - particularly in continental Europe - as opaque, with true profitability blurred. The adoption of EEV, the introduction of IFRS and Solvency II will make the insurance business in Europe more transparent, allowing a better understanding of the value creation of insurance. This may attract increased interest from potential North American and Asian acquirers seeking geographical diversification.

US

Small insurers find it harder to raise capital, encouraging them to consolidate.

In the US, higher reserve requirements for term and universal life products (Regulation XXX and AXXX) and variable annuities with embedded guarantees (C3 Phase II RBC) have inhibited life insurers' ability to grow their capital base. US life insurers have started to utilize capital market solutions, either directly or through reinsurers, to fund growing reserves. Because of their limited resources, smaller insurers are less able to exploit opportunities such as capital market transactions, which tend to be costly for small transactions. This may drive further consolidation.

[22] See Swiss Re, *sigma* No 7/2004: "The impact of IFRS on the insurance industry".

[23] On 5 May 2004, the CFO Forum, a group of Chief Financial Officers drawn from 19 major European insurers, launched the European Embedded Value (EEV) Principles. The aim is to improve the consistency and transparency of life insurance supplementary financial reporting. The CFO Forum agreed to adopt the EEV Principles for their companies' supplementary financial reporting beginning year-end 2005.

Japan

The soon-to-be-privatized Japanese post office controls the largest life insurer in the world.

In Japan, the LDP victory in the September 2005 election is expected to give the Koizumi administration the political ammunition needed to push through its plan to privatize the postal system. Mr. Koizumi has designated the privatization of the post office a cornerstone of his structural reform program. The post office not only delivers the mail but is also the world's largest life insurance company and bank. Kampo – the postal life insurer – generated USD 114 billion in life premiums in 2002, which makes it by far the largest global life insurance group. Kampo benefits from a full government guarantee, tax exemptions, and different and less stringent regulatory oversight. The privatization, which will be executed sometime over the next decade, will increase competition for clients and capital and therefore impact the corporate landscape.

Market for run-off portfolios

Availability of "block assumption" capacity also facilitates acquisitions.

In recent years, several specialized life run-off providers have emerged in the US and the UK. The availability of this increased block assumption capacity facilitates mergers and acquisitions. Acquirers may find a merger or acquisition more attractive if they sell undesired portions of the business portfolio of the target company to a run-off company.

Low growth prospects in some of the large European markets

The need to lower costs may encourage certain acquisitions.

Another driver of consolidation in Europe is slow GDP growth and low expected life premium growth, particularly in countries with established pension markets such as the UK, Switzerland and the Netherlands. In such an environment, companies can only increase their profits through product innovation and/or lowering costs. Some companies may seek to acquire companies with very low expense ratios. Off-shoring[24] and/or outsourcing to lower costs will become increasingly attractive. As specialized insurance service providers emerge, opportunities for acquiring these companies may also be attractive.

Rising product complexity

Manufacturing and managing the risks of new products is facilitated by scale.

In mature markets, new product development is key to market leadership. Large companies can dedicate more resources to introducing new products, enhancing existing products' features, and managing the risk of the new products. There has been a clear trend toward rising product complexity (eg equity-indexed annuities, equity-indexed universal life in the US, variable annuities) which has led to greater and more varied risks. Becoming large enough to develop and manage these products and risks is another incentive for consolidation.

[24] Off-shoring is the process whereby a company places some of its back-office activities in a low-wage country remote from the underwriting business. This allows the insurers to retain control over the processes while cutting costs. In contrast, out-sourcing is the long-term contracting of a company's business processes to an outside service provider.

Access to distribution

Markets where tied agents play a dominant role may be more prone to M&A.

In markets where tied agents play a prominent role, acquiring a company with its agents may be the best approach. On the other hand, the existence of a widely developed broker channel allows a company to enter a market and to grow its business organically by cooperating with brokers.

Efficiency gains from size

Economies of scale are the main benefit from growing via acquisition.

Large life insurance groups tend to benefit from their size. They are able to distribute their fixed costs over more policies. In addition, investors seem to value large companies at a higher price-to-book ratio, indicating that investors may believe that large companies are able to reap economies of scale. On the other hand, new acquisitions always involve integration challenges.

Table 6
Characteristics of major life insurance markets, 2004

	US	Canada	UK	France	Germany	Italy	Japan
Total assets, USD billion (1)	**4 159**	**225**	**1 996**	**1 343**	**927**	**485**	**1 754**
Financial assets under management,	4 041	225	1 996	1 253	843	461	1 680
– of which for own risk	2 698	153	1 106	1 056	816	292	N/A
– of which for risk of policyholders	1 343	72	890	197	27	124	N/A
Total premiums, USD billion	**495**	**30**	**190**	**129**	**85**	**82**	**387**
Business split, in % (2)							
– Savings products with return guarantees (often including mortality protection)	14%	17%	10%	66%	53%	64%	38%
– Unit-linked/separate account business (US) (3)	3%	1%	20%	20%	10%	36%	N/A(4)
– Individual pension products	35%	25%	25%	1%	26%	<1%	23%
– Group pension products	31%	30%	34%	12%	5%	0%	16%
– Risk products (such as term life, disability, critical illness, long-term care)	15%	28%	11%	1%	6%	<1%	23%
– Other				1%		<1%	
Number of companies	1 123	108	204	118	106	109	40
Average premium per company, in USD m	441	278	931	1 093	802	752	9 675
Median premium per company, in USD m	13	29	292	167	234	280	2 534
Average number of potential clients per company (population divided by no of companies), in 000s	258	293	290	506	543	757	3 175
Market share of mutuals, 2003 (5)	14%	5%	14%	5%	20%	21%	63%
Largest distribution channel (in % of direct premiums) (6) (7)	Ind. agents/ brokers (54%)	Ind. agents/ brokers (51%)	Ind. Financial Advisors (63 %)	Banks (62%)	Agents (37%)	Banks (60%)	Agents
Second largest distribution channel	Own sales force (43%)	Own sales force (31%)	Agents (27%)	Agents (16%)	Brokers (26%)	Agents (28%)	N/A

(1) Data on assets for Italy are for 2002.
(2) US and CA: The business split is based on premiums for life, annuity and disability products, excluding medical expense business. Savings products with return guarantees include traditional and indexed universal life and whole life products. Unit linked business includes variable life and variable universal life in the US and segregated fund universal life in CA. For the US, the business split for life products is based on new annualized premiums (source: LIMRA). Individual pension products include both general and separate account business.
(3) The investment risk with these types of products remains with the policyholder. In Europe and Japan, this type of business is termed unit-linked business, while in the US it is called separate account business.
(4) Very little individual unit-linked business has been written in Japan. However, variable annuities have become more popular in recent years.
(5) 2002 for UK, France and Italy
(6) UK: new business, US and CA: individual life sales
(7) Ind.: independent

Source: Swiss Re Economic Research & Consulting

Table 7
Top 40 life insurers, ranked by premium volume, 2004

Rank	Group	Home market	Premiums in USD m, 2004	Global market share in 2004	Global market share in 1998
1	AIG	USA	66837	3.6%	1.8%
2	Metropolitan Life	USA	58732	3.2%	2.4%
3	AXA	France	58422	3.2%	3.3%
4	Allianz	Germany	56178	3.0%	1.8%
5	ING	Netherlands	45978	2.5%	1.5%
6	Generali	Italy	45936	2.5%	1.7%
7	Nippon Life	Japan	45515	2.5%	3.8%
8	Aegon	Benelux	42080	2.3%	1.7%
9	Aviva	UK	37612	2.0%	0.9%
10	Great Western Life	Canada	34090	1.8%	1.5%
11	Manulife	Canada	31807	1.7%	0.8%
12	Dai-ichi	Japan	30272	1.6%	2.6%
13	Prudential (UK)	UK	29959	1.6%	1.4%
14	Meiji	Japan	29152	1.6%	1.7%
15	Prudential (US)	USA	27751	1.5%	1.3%
16	Hartford	USA	26848	1.5%	1.2%
17	Sumitomo	Japan	23831	1.3%	2.2%
18	CNP	France	23828	1.3%	1.3%
19	New York Life	USA	22798	1.2%	0.9%
20	Credit Agricole	France	19390	1.0%	0.5%
21	Zurich	Switzerland	19272	1.0%	1.2%
22	Principal Life	USA	18840	1.0%	1.1%
23	Standard Life	UK	18719	1.0%	0.6%
24	T&D, Taiyo Lifa and Daido Life	Japan	16587	0.9%	1.6%
25	Swiss Life	Switzerland	16366	0.9%	0.8%
26	China Life	China	16266	0.9%	0.4%
27	Samsung	South Korea	15412	0.8%	1.2%
28	Sun Life	Canada	15406	0.8%	0.6%
29	Ergo	Germany	14058	0.8%	0.7%
30	LIC	India	13746	0.7%	0.4%
31	BNP	France	13489	0.7%	0.3%
32	Winterthur	Switzerland	13021	0.7%	0.8%
33	HBOS	UK	12995	0.7%	0.4%
34	Nationwide Corp.	USA	12360	0.7%	1.2%
35	Fortis	Benelux	11303	0.6%	0.6%
36	Legal General	UK	11070	0.6%	0.4%
37	Lloyds TSB	UK	10212	0.6%	0.3%
38	Skandia	Sweden	9362	0.5%	0.7%
39	Societé Générale	France	9262	0.5%	0.3%
40	Mitsui	Japan	8140	0.4%	1.0%
	Total Top 40		**1032905**	**55.9%**	**48.9%**
	of which Globals		520565	28.2%	19.8%
	of which non-Globals		512339	27.7%	29.1%
	Total global life premium volume		**1849086**		

Global life insurance groups
Large national life insurance groups

Notes: Definition of premium volume: sum of life insurance premium volume and deposit-type business (such as premiums for unit-linked policies, fixed and variable annuities).
“Globals” are defined as companies with substantial operations outside their home market and a global market share of at least 1%. The 12 Globals are shaded light blue.

Sources: Company reports

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