Insurance Times: Principal Financial goes public, drops holding company bid
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by David Pitt
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DES MOINES, Iowa — Executives at the Principal Financial Group had it all worked out back in 1998 — a plan that would allow the insurance and investment services giant to speed up the process of going public and raking in billions of dollars.

Then one of the company's agents spoke up: Principal was trying to sell something that it didn't really own.

Des Moines-based Principal, one of the nation's largest overseers of 401(k) retirement accounts, is still on track for its initial public offering, but with a significant change — now its 700,000 policyholders also stand to profit, too.

Policyholders will vote at a special meeting this week on whether to approve the 122-year-old company's conversion from a mutual insurance holding company — owned by its policyholders — to a public stock company. A two-thirds majority is needed.

Principal, with $113 billion in assets under management, is but the latest insurance company to go down the road of demutualization, following John Hancock Financial Services Inc. and MetLife Inc.

“They're usually companies that have growth opportunities and have flexibility in their capital structure as an advantage," said Joan Zief, an analyst with Goldman Sachs & Co. “They also tend to be companies with strong brand recognition."

The company expects its proposed IPO, to be held in late 2001 or early 2002, to raise $2 billion to $3 billion to fund growth that would enable it to compete in a consolidating financial services industry.

“We had used a fair amount of our expansion capabilities up and we were at the point of wanting to establish ourselves in the public market," said chief executive Barry Griswell.

Griswell said the company's directors concluded that the mutual insurance holding company structure didn't offer enough flexibility.

“My personal view is that it will not turn out to be an organizational structure that is viable for large companies that have global or other aspirations," he said.

The holding company format is controversial because it allows the board of directors to sell up to 49 percent of the company's stock without paying policyholders for their ownership stake.

“It's an abuse," said David Schiff, an insurance industry watchdog from New York. ``It's very negative for the policyholder because it allows (company officials) to sell stock in an insurance company without giving policyholders anything."

Among the critics was Anamaria Lloyd, who sold Principal policies in Seattle. When the company first sought holding company status, she confronted executives at a public hearing. After the state approved Principal's plan and the company converted in June 1998, Lloyd sued the state panel and Principal.

“I knew that if I didn't do it, I could never sell another policy," said Lloyd, herself a Principal policyholder. ``I could never look another customer in the eye and say 'I will work for you'."

Lloyd lost her lawsuit, but she believes the negative publicity dissuaded investors from buying stock in the holding company and eventually led Principal to rethink its approach. In 1999 the company began a two-year process of full demutualization to a publicly traded stock company, with policyholders receiving full compensation.

She said most policyholders, not realizing they had value in their insurance contracts, never would have questioned the conversion plan. She estimated the average Principal policyholder has $15,000 in equity in their policies.

As part of demutualization, Griswell said policyholders will be paid cash or issued at least 100 shares of stock.

Going public will not be without changes for policyholders, management and the company's 84,000 employees, he said.

“You are clearly under the pressure of analysts and sophisticated investors looking over your shoulders," he said. ``I think over time it will mean a change in our culture."