More deals like Liberty Mutual- Pru ahead?

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by Pat Healy
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BOSTON — A $540 million purchase has made Liberty Mutual the eighth largest provider of personal lines insurance in the country, but not all analysts think that a definitive agreement for Liberty to acquire Prudential Financial's U.S. personal lines property and casualty operations in 47 states is a good idea.

"It might not be the best idea timing-wise," said Robert Farnam, the analyst that covers Liberty for Oldwick, N.J.-based insurance rating group A.M. Best.

Farnam's group expressed concerns regarding reserve adequacy, particularly on older workers compensatiion claims and unfounded asbestos liabilities. A.M. Best representatives have said that stability of capitalization remains exposed to potential unrealized investment losses or adverse loss reserve development, which could lead to downward rating pressure.

Farnam also said the outlook for all debt and property and casualty financial strength ratings remains negative, and that Liberty's overall capitalization remains a concern, but agreed that the acquisition does fit into Liberty's plan of expanding capitalized business.

Stephanie Eakins, a financial analyst with Weiss Ratings of Palm Beach Gardens, Florida, thinks the acquisition makes sense for both companies. "Liberty Mutual has more experience with property and casualty than Prudential does," she said, "and property and casualty just wasn't working for Prudential."

Most analysts said this was the right move for Prudential.

"They had given up on property and casualty," said Farnam. "Their whole book had gotten into some relative disrepair."

Cathy Seifert, an equity analyst for New York-based Standard and Poor's, said concentration on business that is not property and casualty is a logical plan for Prudential. "To the extent that they can narrow their focus to protection asset management type of operations, changing their business mix makes a lot of sense," she said.

Analysts also seem to think that this sort of acquisition would become more commonplace in the near future, with fewer companies being able to afford outright takeovers.

"I think we're probably going to see more consolidated mergers and acquisitions in the banking area," said Seifert. "As companies seek to put their economies in scale, selective divisions will be bought and sold. They'll revaluate their businesses and sell off their non-core unit."

Farnam agreed.

"Years ago we were looking at a lot more mergers and acquisitions but now I think it's more than businesses are buying each other's books," he said. "I just don't think the capital is there to support straight up acquisitions."

Eakins said selling a book of a specific type of business allows for a company to make a more graceful exit from the market.

"Whether or not that company is successful depends on what their book of business looks like," she said.

Analysts also expressed a slight degree of cynicism regarding one of the states whose property and casualty business Liberty Mutual did not buy: New Jersey. There, Prudential sold its property and casualty business to The Palisades Group, a leading New Jersey provider of auto insurance. That transaction is valued at approximately $260 million, including capital of about $230 million and cash and a note from the purchaser.

Prudential's business in New Jersey represents eight percent of the auto insurance market, and 10 percent of the homeowners market.

"That's a pretty big chunk for them to chew," said Farnam, "but I think that particular line of business is profitable."

Eakins said this sale is of a different variety than the Liberty Mutual purchase.

"Palisades isn't nearly as big or strong, but they're buying a small portion of Prudential," she said. "If I were a policyholder being switched I would keep my eye on Palisades." ❐