

Pinnacle News

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From the President



Steven G. Lehmann

Questions have arisen in recent months about actuarial ethics as two casualty actuaries who were officers of their companies have been convicted of wrongdoing in connection with a finite reinsurance transaction. Pension actuaries too have been called to task regarding the assumptions they have used in calculating the adequacy of funding for public pension plans.

Ethics at Pinnacle are so important that it is part of our mission statement. We are committed to providing independent actuarial and management consulting services with "integrity, skill and care." We routinely screen all new projects for potential conflicts of interest and if in doubt, discuss potential conflicts with both the current and prospective client. And we have strong firm-wide requirements for peer review of every work product.

Actuaries are subject to a Code of Professional Conduct, Standards of Practice, and a discipline process for violations of the Code or Standards.

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Is the Safeco Acquisition a Trend?

As the insurance industry considers the ramifications of Liberty Mutual Group's agreement to purchase Safeco Corporation, it is tempting to focus on Safeco's strategic fit within Liberty Regional Agency Markets. Doing so, however, misses the bigger implication: that the current U.S. property and casualty insurance environment appears to be ripe for a period of acquisition and consolidation in the coming months.

There are many signs that point to higher-than-average acquisitions activity. First, continued soft market pricing is resulting in mediocre operating results for many insurers. As a result, the stocks of many publicly-traded insurers, such as Allstate, CNA, Hartford, OneBeacon, and Progressive are priced 20 - 40 % below that of a year ago. Meanwhile, a larger market percentage is using the sophisticated underwriting tools that many industry leaders had been using to realize superior operating results.

At the same time, the weak dollar increases the purchasing power of foreign insurers and multinational insurers with foreign operations. (The current exchange rate for the Euro produces about 15% more dollars than a year ago.) Two recent examples of acquisitions with exchange rate considerations are QBE Insurance Group's

purchase of Unigard and General Casualty and Mapfre's acquisition of Commerce Group.

Finally, the U.S. insurance industry is as close as ever to a federal regulatory oversight alternative. This would remove a barrier to entry for foreign insurers that have been discouraged by the prospect of dealing with 52 state regulators.

"...we believe the U.S. insurance landscape is poised for an extreme makeover."

Acquisitions over the last decade have demonstrated that no company is too big to be immune from acquisition overtures. It was not that long ago that Am Re, Employers Re, Maryland Casualty, Ohio Casualty, St. Paul, and Safeco would have all been considered too big for most organizations to digest. Given the current underwriting results and corresponding stock price declines, several companies will be more attractive takeover targets.

The challenges of such acquisitions are many. Only a few companies are large

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To provide you with direct access to the expert consultants at Pinnacle, our offices have added direct lines to each consultant as well as new main phone numbers for many of our national offices.

Though Pinnacle's existing numbers will remain active during the transition, please update your records with the new numbers. To see the updated phone numbers, please visit www.pinnacleactuaries.com/directAccess.



