

# Consolidation conundrum

*Plan sponsors are worried about rate hikes and a lack of insurer flexibility. But is consolidation in the life insurance industry all bad news?*

**By Anna Sharratt**

WHEN MANULIFE FINANCIAL CORP. ANNOUNCED ON DEC. 9 that it was making a \$6.4 billion hostile takeover bid for Canada Life Financial Corp., benefits plan sponsors were not surprised. Talk of more consoli-

dation in the life insurance industry has been a hot topic for the last year.

It's now hotter than ever. While Canada Life shareholders have yet to accept the deal—an offer which Canada Life's board has publicly rejected, calling the offer “inadequate”—collective worrying has begun among benefits plan sponsors.

Many feel that the effect of more consolidation in the life insurance industry may lead to less flexibility in designing plans, a reduction in bargaining power for employers in

insurer negotiations and higher costs down the road. But while plan sponsors are not viewing consolidation through rose-coloured glasses, there's no sense of panic.

## FEWER CHOICES

The lack of choices is the most prominent side-effect of consolidation. With only a handful of players in the market, it is more difficult for employers to find carriers for their business.

“The biggest concern that I have is the fewer insurance companies out there, the less flexibility larger employers will have to design plans that meet their specific needs,” says Gail Stevely, a benefits administrator with the City of Hamilton, in southern Ontario. Adds Lynn Lebel, corporate director, employee benefits at Kruger Inc. in Montreal, “You don't have a lot of choices if you don't like your insurance company.”

It's difficult to like your insurance company when it has been charging you higher rates for the past several years. Since some insurers began to demutualize in 1999, becoming stock companies rather than mutual firms, consolidation has become the name of the game. And with it has come a quest for profitability. The result has been that policyholders

have had to pay higher user charges for core and non-core services.

## RATE INCREASES

Now, there are predictions that rates may rise yet again. Stevely is particularly concerned about fee increases. “In between what's going on in the stock market and the demand for profit, it will increase administration fees.” Mike Jolly, pension and benefits consultant for AMEX in Markham, Ont., agrees. “The rates can always go up.”

The good news is that for the moment, prices have not begun to increase, says Marg French, a group benefits consultant with Mercer Human Resource Consulting in Toronto. “We have had some very competitive quotes.” But she warns insurers could raise the costs of non-core products. “I think there will still be pressure on companies to quote competitively on core services. The new spin for the future will be the added services.”

The overall feeling among plan sponsors is that consolidation will not bring with it insurmountable problems. While it will create less choice and potentially higher fees, employers will attempt to manage their costs through internal belt-tightening and a reassessment of programs.

To manage rate increases, French predicts that employers will work to reduce claim costs—not their human resources functions. “They will be focused on getting people back to work earlier, [on] whether medications are going to the right people, etc.”

And although more consolidation is expected in the next year, with rumours already circulating about deals in the offing, prices should come back down.

“Once we settle on a few large carriers and there is less focus on growth through acquisition and more of a focus on organic growth, we may see competition on prices and more aggressive bidding, which could bring prices down,” says Tim Clarke, a benefits consultant with Hewitt Associates. “I don't expect price wars—but it could happen.” **BC**

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