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Prudential-AIA merger: Study impact on competition

Ivan Png

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FOUNDED in 1919, American International Assurance (AIA) is the Asian insurance business of American International Group (AIG). AIA is a major player in 15 Asian markets, with 23 million policies in force for more than 10 million customers and a sales force of 320,000 agents.

Faced with financial difficulties, AIG had planned to divest AIA through an initial public offering (IPO) of shares in the company on the Hong Kong Stock Exchange. However, British insurer Prudential pre-empted the IPO.

On March 1, AIG agreed to sell AIA to Prudential for US$35.5 billion (S$50 billion), comprising US$25 billion in cash, and US$10.5 billion in shares and other securities. Prudential arranged with Credit Suisse, HSBC and JP Morgan Cazenove to underwrite a US$20 billion rights issue of shares and US$5 billion of senior debt to raise the US$25 billion in cash. Prudential agreed to pay AIG a break fee of £153 million (S$322 million) if it failed to complete the purchase within 12 months.

In a statement to the London Stock Exchange announcing the acquisition, Prudential remarked that the combination of AIA and Prudential would be 'the leading life insurer in Hong Kong, Singapore, Malaysia, Indonesia, Vietnam, Thailand and the Philippines'.

Soon after the agreement, Prudential chief executive officer (CEO) Tidjane Thiam made a flying visit to the region with AIG chief Robert Benmosche. Together, they met staff and agents to reassure them of their future with the combined company. In Singapore, about 800 staff and agents attended a town hall-style meeting at Suntec City with the two CEOs. Apparently, Mr Benmosche and Mr Thiam also met government regulators.

It would be interesting to know whether they met the competition authorities as well as financial regulators. Given the scale of the acquisition, the approval of the competition authorities would be equally important to achieve the merger.

For Prudential, one of the key benefits is to establish itself as an industry leader in seven Asian markets. In Singapore, the combined company would be responsible for 28 per cent of all non-investment-linked life insurance policies in force. It would command an even larger share, 59 per cent, of all investment-linked life insurance policies in force. The market share of the combined company in new policies would be similar.

The scale of the combination then presents a possible challenge. In most of the countries where the two companies have a substantial presence, mergers and acquisitions are subject to competition law.

Generally, competition law aims to regulate mergers and acquisitions that limit competition without a countervailing increase in economic efficiency.

The extent to which a merger or acquisition limits competition depends in part on the market shares of the respective parties. In the AIA-Prudential case, as the figures above illustrate, the market shares vary with the market. Clearly, there will have to be deep analysis and discussions about the definition of the market in each instance.

The Prudential acquisition of AIA potentially affects millions of policyholders. From the consumer viewpoint, this may perhaps be one of the most impactful cases to come before the competition authorities in the region.

The writer is the Lim Kim San Professor at the NUS Business School, and professor of information systems and economics at the National University of Singapore.