Boal & Co

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Cut Adrift from the Mother Ship

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The past ten years as a consulting actuary working with many offshore life companies (after seven years as an employed actuary at just one company) have certainly not been dull. At Boal & Co we have grown with the offshore life industry and have offices not just in the Isle of Man (from where we started in January 1995) but also in Dublin. We therefore work with both “traditional” offshore companies (eg the classic Isle of Man life industry) and the newer “EU cross-border” style of offshore business (eg in Ireland). The two have some similarities, of course but equally they have many differences.

Here, culture and language differences spring to mind ahead of anything else (such as mere products). Working with northern European companies is vastly different, say, to working with southern European clients. Each has their own charm and their particular characteristics. If I had known then what I know now, perhaps I would have been better served taking Italian instead of French at school (the former being true cross-border pioneers, the later somewhat the opposite). (Thankfully my colleagues are more blessed in this department than I am).

One of the greatest frustrations in any consultant’s life is the adage that “you can take a horse to water but you can’t make it drink”. On the (odd!) occasions when clients take advice that recommends X, and then do Y instead, we may tear our hair out as we watch what happens, but are powerless to do anything about it. Sometimes clients too can take the most major strategic decisions (eg where to locate) for the most surprising/trivial/politic/personal reasons. It can be truly amazing how theory and analysis can be chucked out the window when personal factors or office politics intervene.

Whilst the offshore life business (in both branches) remains an intriguing area of practice – and one for which I look forward with confidence to the next decade – the one experience above all others that the past decade has imparted is the truly frightening destruction of shareholder value than can occur when parent companies operate by dictat or when management neglect fundamental business principles.

The last decade regrettably has seen several cases where head office dictats have undermined offshore life business and destroyed shareholder value. For example, it is naïve (at best) for a UK head office to put an offshore subsidiary up for public sale, and still expect that subsidiary to attract new business support in the market. It is equally naïve for head office management to think that a company can go into a region and then summarily pull out of it (and then contemplate going back into it again!) without damaging the credibility of the business, not just in that region but also beyond.

And it is perilous for any management to pursue an unbalanced business strategy. When markets are riding high and an organisation has a strength in Product X, it can be all too easy to sit back and count the huge premium volumes and amass the growing embedded value. But markets move in a cycle and, by pursuing Product X at the expense of Products Y and Z, an insurer can be holed under the water-line when the cycle changes or the fashion moves on. Embedded values then all too swiftly evaporate.

The maxim of diversification holds true not just for products but also for markets. An offshore company operating in just one market might be more efficient and focused than a pan-European or an international company, and heaven knows we have seen at time the effects of the pendulum swinging too far in the expansionist direction. But a narrow market focus is the opposite extreme, and shareholders’ interests must surely be better served by a business strategy which is sensibly diversified both by product and by market