

How Do Life Insurance Companies Compare to the NCAA?

Who is the most successful coach in modern college football history? Unless you are a rabid football fan – or live in Ohio – the answer will probably surprise you. And with that hint, most readers are probably scratching their heads and thinking “someone at Ohio State”? But they would be wrong.

College sports are a big business. According to an article on Priceonomics.com titled “[The Pseudo-Business of the NCAA](#)” total revenue is \$8 billion, yet only 1% of college athletes are responsible for 99% of that revenue. “The majority of student-athletes play in Division III, the largest and least competitive of the divisions in the NCAA. Many more play in lower divisions (that are not part of the NCAA) or in club sports”.

The chance to play on a top Division I sports team is the opportunity of a lifetime for the gifted 1% of student-athletes. In addition to the adoration, fame, and potential fortune if they are fortunate enough to turn pro, every athlete enjoys access to the best coaches, the best trainers, and the best facilities that money can buy – not to mention a scholarship to a prestigious and well-known university.

“However, even the elite big-money sports divisions are sharply divided in terms of commercial size. In Division 1A football, the biggest programs generate 14 times as much revenue as smaller teams. Among the conferences, the most successful (The Big Ten Conference) distributes over \$150 million to its members while the tiny Sun Belt Conference splits just over \$1 million”.

Revenue obviously plays a large role in how much a university is able to spend on their football programs. However, not all universities are fiscally responsible when it comes to athletics. In fact, “just over half of elite football and basketball programs turn a profit. Only 14 out of 120 athletic departments in the upper tier of Division I cover their costs. The remainder run a median deficit of \$10 million”.

How can this be? One of the biggest factors is an “arms race” between the elite teams. Professional football and basketball leagues have only 32 and 30 teams, yet the highest division of college sports has 120 teams. There are far too many teams trying to be elite. In their competition over windfalls from March Madness appearances and BCS bowl games, universities spend large sums of money gambling that a better coach, stadium, or marketing campaign can deliver them to the top of the pack”.

Smaller Division I programs, even among elite schools, have a very difficult time competing against the largest competitors. “A report from the Knight Commission on Intercollegiate Athletics sums up the problems facing a team in a small sports market:

Iowa State of the Big 12 is an example of a have-not school in a big-time conference. It brings in a respectable \$17 million per year in football revenue. Among its competitors are Texas, with \$73 million in football revenue. But Iowa State’s fans and boosters expect its program to retain coaches and build facilities at the same level as their richer Big 12 colleagues. Keeping up with the Joneses is extremely difficult if not impossible”.

It’s almost enough to make you feel sorry for poor Iowa State – but the point is well taken. Fans and supporters of all elite Division I schools have the same expectations for results, even though the available resources can differ drastically.

To put this into context consider the differences between the top domestic life insurance companies by size. MetLife was number one in 2012 with over \$562 billion in total net assets. The number 25

company – Great West – is one tenth the size of MetLife with \$55 billion in assets. Although not small by any measure, Great West is still only half the size of nearly 70% of the 24 larger companies ahead of them. Phoenix was number 50 in terms of size with \$19 billion in net assets yet they are only half the size of 65% of their larger competitors.

Perhaps at some point a difference of a few hundred billion dollars isn't that much of a differentiating factor? But even these large companies start to resemble Iowa State in terms of going toe to toe against much larger competitors. And just like Iowa State, the stakeholders for these companies have the same expectation for success, regardless of the competition.

How big of a factor is size in terms of success? In Division I football, it is significant. In a June 2010 article by Brett McMurphy on AOL News titled "[Big Spending Ohio State](#)" he observes that The Buckeyes had been to five consecutive BCS bowls, including the BCS championship games in 2006 and 2007. They won or shared the Big Ten title five years in a row from 2005 – 2009. And they spent more money on football than any other school in 2008. McMurphy goes on to painstakingly detail the win/loss percentages for each major Division 1 Conference against schools with bigger or smaller budgets. 89% of schools had a better than .500 record against schools with *smaller* budgets, compared to only 29% against schools with *bigger* budgets. This makes strategy simple: spend more to win more.

That's not to say that one can simply "buy" a championship season – if only it were that easy! In the same way, larger companies don't automatically outperform their smaller competitors. However, all things being equal, companies with more resources have an advantage over companies with less. Fortunately, in football as well as insurance, all things are never equal. Superior leadership, recruiting, brand awareness, and execution all help "level the playing field" to a certain extent, but don't eliminate the inherent advantage that larger budgets provide.

Since the majority of life insurance companies are much smaller than the top 100 in terms of assets, perhaps it's worth looking into the performance of the Division III schools where the majority of student athletes also compete?

Let's go back to our original question: who is the most successful coach in modern college football history? That would be Larry Kehres from the University of Mount Union in Alliance, OH. In 27 seasons, Coach Kehres' teams won 23 Ohio Athletic Conference Championships, posted 21 undefeated seasons, and participated in the NCAA National Championship game in 16 out of the past 20 years, winning 11 of them. His career coaching record is 332-24-3 (.924).

Mount Union is a Division III university. They have approximately 2,200 students (compared to more than 56,000 at Ohio State). They can't offer athletic scholarships. Their facilities are modest. Their games aren't nationally televised. And they are centrally located in a geographic triangle between Akron, Youngstown, and Canton – not exactly the metropolitan hub of the state. Yet Coach Kehres has created a football legacy that far surpasses anything the big money schools could even dream about, and he's done it in a division where coaching is pretty much the only thing that distinguishes one school from another.

This suggests an important distinction between Division I and Division III. Although good coaching is critical to the success of any program, in Division I the coach is just one of many factors that discern one top program from another. This is not the case in Division III where "all things truly are equal". When it

comes to Division III athletic programs, it's hard to find *any* factor that differentiates one program from another more than the track record of the coach.

For further proof, consider the recent winners of the prestigious Liberty Mutual National Coach of the Year awards. As stellar as Coach Kehres' career has been, he hasn't won this award since 2008. Instead, the first three-time recipient in the seven-year history of this elite award is Glenn Caruso of the University of St. Thomas, a private Catholic liberal arts college in St. Paul, Minnesota. Coach Caruso took over a program coming off a 2-8 season and posted records of 7-3, 11-2, 12-1, 13-1, and 14-1, culminating in an appearance at the Division III National Championship (where they ultimately lost to Coach Kehres' Mount Union team).

Smaller life insurance companies share a lot of similarities with Division III universities. Many are located in rural areas with access to a shallow employment pool. In addition, smaller budgets make it difficult to attract top talent. Limited resources often restrict the ability to execute all of the key strategies that companies already know they should be pursuing, let alone invest in new innovations that might pay off further down the road. Advertising budgets are minimal. Market research is modest. Regulatory distractions are significant. And the economies of scale that larger companies enjoy are non-existent. Yet good leadership – like good coaching – allows excellent smaller companies to stand out among their peers.

Unlike Division III schools, however, smaller life insurance companies still have to compete against much larger competitors. There are no divisions in business to make the competition more even. This is different from Iowa State squaring off against Texas. This is like Mount Union taking on Ohio State -- and winning – an improbable if not impossible outcome.

Fortunately, in business winning isn't measured merely by points scored. For the past 22 years, The Ward Group has conducted an in-depth analysis of the financial performance of nearly 800 life-health companies domiciled in the United States. Each year they identify the top 50 companies that pass stringent financial stability requirements and measure their ability to grow while maintaining strong capital positions and underwriting results over the past five years. This is truly an elite group. These top 50 companies produced a 19% statutory return on average equity from 2007 to 2011 compared to 3.4% for the life-health industry overall. In addition, The [Ward's Top 50](#) outpaced the industry for five-year surplus growth (45.6% compared to 22.2%) and net premium income growth (42% compared to 5%) while achieving 4.6% lower expenses relative to revenue.

Just as with Division I football, one would expect the Ward's Top 50 to be dominated by the larger life insurance companies. Therefore, it's no surprise that such notables as NY Life, AFLAC, and USAA are on the list. However, nearly half of the companies on the Ward's 50 have less than \$2 billion in assets. One of the smallest companies is [Bankers Fidelity](#) with less than \$150 million in assets. Bankers Fidelity is part of a group of small P&C and life companies owned by Atlantic American/Delta Group and has been ably managed by President Gene Choate for many years. Their disciplined focus on Medicare supplement and other supplementary worksite products epitomizes the way successful companies exploit niche products and markets.

Another interesting company on the list is [Citizens, Inc.](#), a NYSE traded company with less than \$1 billion in assets and a remarkably creative business strategy consisting of selling small face life insurance products to modest and middle income folks along with large whole life policies sold to wealthy

internationals. Citizens, Inc. has been perfecting this unlikely combination of protection/accumulation for two very diverse populations since 1961.

Two other companies on the list who provide further evidence of the benefits of focused niches are Homesteaders Life (less than \$2.5 billion) and Funeral Directors Life (less than \$1 billion). Both of these companies only sell preneed insurance. Forethought is a bigger example (less than \$6.5 billion) of a preneed focused company, although they also sell annuities as well. Preneed is such a specific niche that even most people in the insurance industry don't know exactly what it is!

In Division I football, bigger may be definitively better, but good coaching can create Division III powerhouses with records that surpass anything the marquis brands have achieved. In the same way, smaller life insurance companies are just as likely to match the financial performance of the best run household names given good leadership and a disciplined focus on mastering niche markets.

There are hundreds of "Division III" type smaller life insurance companies. However, the Ward's Top 50 proves that there are also a lot of Coach Kehres type CEO's running them.

So which playbook is your company running?