Review on the IPOs of Korean Life Insurers

Recently, several high profile domestic and foreign life insurers have gone public. What is interesting in this is the change in their market value after their IPOs. The market values of all Korean life insurers and Dai-ichi Life in Japan decreased after the IPOs, whereas that of AIA in Hong Kong increased. It is well established that stock prices generally underperform over a period of three or five years after an IPO. However, some studies on insurance IPOs have shown that the IPOs of demutualized insurers achieve superior long-term returns. These researchers conjecture that this superior performance is associated with changes in strategies that lead to cost efficiency and higher profitability.

We examine why the market value of Korean life insurers falls excessively after their IPOs. To accomplish this, we analyze the motivations for IPOs and changes in companies’ business strategy after the IPOs. We find a very high proportion of secondary shares in the IPOs of Korean life insurers, which is unusual. This implies that one of the most important motivations for IPOs is the financing of the insiders who sell existing shares. In addition, we find no change in the Korean IPO life insurers’ business strategy. Unlike Korean IPO life insurers, IPO life insurers in the U.S. implement successful strategies that bring cost effectiveness, higher growth, and greater profitability. Overall, we conclude that the main purpose of an IPO among Korean life insurers is not the financing of implementing new strategies, but rather the financing of insiders, which makes firms reluctant to change
their strategy after the IPO. Lack of strategic changes may largely account for the excessive decrease in the market value after an IPO.

Whatever the motivations for the IPO, Korean public life insurers should maximize the benefit of going public to increase their market value. In Korea, the population is aging at an unprecedented rate and competition among insurers is more intense. This environment may be a good growth opportunity for insurers who can strengthen their capital through public equity offerings.