♦ COMPETITIVE PROFILE: Primerica Corp. ♦

This financial department store works

With Primerica, banks face a strong, less-regulated competitor newly focused on three businesses: consumer finance, insurance, and brokerage

By Joseph Asher

Part two of an occasional series describing nonbank financial companies that compete with banks

As nobody needs to be reminded, the last few years have been trying times for all sorts of financial service providers.

Yet Primerica Corp., a diversified financial services company, has been producing strong growth in revenues and earnings right through the worst of the period.

The school of thought that says "stick to your knitting in one narrow financial niche" will get no comfort here; Primerica has gotten good results by doing precisely the opposite.

New York-based Primerica, with some $23 billion in assets and four million customers spread across activities in consumer finance, brokerage and investment banking, mutual fund management and insurance, is no stranger to contrarian thinking. At year-end 1992, the company paid $722.5 million to acquire 27% of insurance giant The Travelers Corp., whose troubles have been well publicized. Sanford I. Weill, chairman and CEO of Primerica, called Travelers "one of the best franchises in the financial industry."

The two companies announced a "strategic alliance" going forward, and the move underscores two things: Primerica's willingness to risk its money on an eventual turnaround at Travelers; and Primerica's steady advance into the financial big leagues. Third and by no means a foregone conclusion, this could be an early step toward eventual control of Travelers by Primerica.

Although half the size of Travelers, Primerica is dealing from strength. On revenues of $5.1 billion in 1992, operating earnings were $593 million, up 22% from the previous year. Mainly reflecting one-time gains from divestitures and asset sales, net earnings were up even more sharply from $478.8 million in 1991 to $717.8 million in 1992. Excluding one-time gains, income from continuing operations has risen about sixfold since 1987, and the company has achieved rating agency upgrades for six consecutive years.

Primerica's Sanford Weill: thinking big

COMPANY ON THE MOVE...

On March 10, the boards of Primerica Corp. and American Express Co. approved Primerica's purchase of the brokerage operations of Shearson Lehman Brothers Inc. from American Express, for about $1.15 billion.

It was the second attempt by Primerica CEO Sanford Weill to acquire Shearson and merge it with Primerica's Smith Barney, Harris Upham & Co. unit. Once the merger is completed, the resulting company will rival Merrill Lynch & Co. as the nation's biggest securities firm.

The accompanying article was written before the acquisition talks began. Far from being outdated, however, it provides excellent background for understanding the significance of the proposed deal from a banking perspective. —Ed.

Multiple lives. A fairly young company in its present form, Primerica is actually the heir to some very convoluted history. In the early 1980s, what had been the old American Can Co. was gradually refocused away from food containers mainly towards becoming a financial services company led by Gerald Tsai, a well-known Wall Street investment manager and dealmaker. Under the new name Primerica were A.L. Williams, a fast-growing Georgia-based company specializing in term insurance, and Smith Barney, a well established Wall Street brokerage and investment banking firm, along with a miscellany of odds and ends.

In 1988, Weill entered the picture and changed it completely. Weill has a long and successful history on Wall Street. In 1960, Weill and three partners formed a tiny brokerage house that over the next two decades grew into Shearson Loeb Rhoades. The firm was sold to American Express in 1981 for almost $1 billion, and Weill emerged as president of American Express.

In 1985, Weill struck out on his own by leaving American Express. A year later he acquired control of Baltimore-based Commercial Credit Co.,

Joe Asher, a former senior editor of this magazine, is a free-lance writer based in Seattle.

until then a subsidiary of Control Data Corp. engaged in commercial finance, leasing, factoring, and to some extent consumer finance. Weill took Commercial Credit public and brought in Robert I. Lipp, a former president of Chemical Bank, to run the company, which was refocused almost exclusively as a nonbank consumer finance company. At the end of 1988, Weill acquired control of "old" Primerica from Tsai, merged it with Commercial Credit and transferred the Primerica name to the expanded company.

Structurally, Primerica is like a three-legged stool, with consumer finance services, insurance services, and investment services each accounting for roughly one third of revenues.

Consumer services. Commercial Credit is the keystone of the company's consumer financial services and has been the steadiest success story of the new Primerica. In 1989-90, the company made two leaps in size by acquiring 280 branches from BarclaysAmerican/Financial and Landmark Financial Services. Today it has over 700 offices around the country and about $6 billion in outstandings, principally consumer loans and home equity loans.

Unlike some major competitors among nonbank consumer finance companies, Commercial Credit has been very good at avoiding heavy credit losses in a tricky economic environment. Lipp attributes this to several things, including careful credit scoring of loan applicants, loan-aging analysis branch by branch to spot any deteriorating trends before they grow large, and strong encouragement to branch managers to take responsibility. "They live in the community and understand the customers," Lipp said.

In addition, the branches are moving to automated work stations that not only aid in credit scoring and qualifying but also act as cross-selling aids by analyzing customer profiles and flagging other products that fit a given customer. Commercial Credit will probably open 50 new branches in the coming months.

Also under consumer finance services comes Primerica Bank, a Wilmington, Del.-based nonbank bank that acts primarily as an issuer of MasterCard and Visa credit cards. With a portfolio of some $500 million and around 400,000 cardholders, this is not a huge operation compared to competing issuers. But it has value as an additional profitable product that can be cross-sold to customers of other Primerica units.

Insurance outlook. Insurance services have also been a success story, but here the road has been bumpier. There are some small, mostly specialized insurance units, but the chief component of what is now called Primerica Financial Services (PFS) is the former A.L. Williams. Under the old regime, Williams astonished much larger insurance competitors by huge growth in selling term insurance. But it also came under a cloud because of allegedly sharp selling practices, leading to government investigations. New management was installed, led by Peter Dawkins, West Pointer, Rhodes scholar, former Republican gubernatorial candidate in New Jersey; Lyndon Olson, a past president of the National Association of Insurance Commissioners; and Edwin Cooperman, a former top American Express executive. Allegations of sleaze are a thing of the past, and dire predictions that growth would fall off completely under the new regime were disproved. PFS' other important business, mutual fund sales of Common Sense Trust Funds, has also grown; assets under management approach $3 billion.

Travelers strategy. Although already fairly well established in insurance, Primerica's new strategic alliance with Travelers puts Primerica face to face with a lot more insurance opportunities and also some risks. Hartford-based Travelers, with over $50 billion in assets and more than a century of history as a multiline insurer, is a pillar of the insurance establishment, but it has taken some serious lumps lately.

Heavy holdings of investments in commercial real estate turned sour, with some estimates saying that over one third of its real estate portfolio is underperforming or worse. The recent spate of natural and man-made disasters also hurt Travelers: largely due to Hurricane Andrew it took a $358 million loss in the third quarter of 1992.

Even before Primerica came on the scene, Travelers was taking steps to shore up its capital, raising close to $700 million through debt and equity offerings, and Primerica's contribution more than doubled that amount. This gives Travelers urgently needed breathing space to handle its problems.

For now, relations between Primerica and Travelers are necessarily at arm's length. The alliance agreement called for Primerica to get 25% representation on Travelers' board, while Travelers Chairman Edward Budd went on the Primerica board. The agreement also provided that Primerica would not increase its stock investment in Travelers over the next five years without prior assent by Travelers, and Travelers acquired a 50% interest in Primerica subsidiary Gulf Insurance.

The two companies have formed a joint strategy committee and Primerica's President and CFO James Dimon has said "we'll definitely consider" joint-venture offerings of products and services. For now, one thing is clear. Although it may take a while, Primerica's investment has a better than 50-50 chance of becoming extremely valuable. Meanwhile, it gets to act on a much bigger stage by becoming an ongoing partner with one of the biggest financial organizations in the country.

Brokerage—slow growth. The third leg of the stool, investment services, has Smith Barney as its principal unit. Smith Barney has a history as a middle-tier brokerage and investment banking firm—well established but neither big enough to compete with the very biggest nor a standout success as a niche player. Weill attempted at one point to merge it with Shearson and more recently he's understood to have tried to merge it with Kidder Peabody. So the feeling is that Smith Barney, while a respectable performer, has yet to hit its stride and probably needs more critical mass to do so. In the meantime, it's adding some new offices, it has had success in attracting institutional money to manage, and it will probably continue its search for a merger partner.

Two other investment services units are also in the money management business: RCM Capital Management and American Capital Management and Research, the latter a mutual fund manager and marketer. Together with Smith Barney the firms manage over $54 billion in assets.

There is a growing synergy among Primerica's three business legs. According to Dimon, nine operating centers have been reduced to three, and there is potential for more back-office rationalization. Also, many cross-selling opportunities have been spotted and exploited. One example is that PFS agents selling insurance also generate loan referrals to Commercial Credit, which has led to an added $500 million in loans. And while PFS agents generate mutual fund sales for Common Sense Trust Funds, American Capital Management & Research acts as 50-50 partner and advisor.

Another source of strength is willingness to give line managers extra incentives through stock options. Already, over 8% of Primerica stock is held by or for employees, and the figure is rising. Lipp says it makes a real difference to a branch manager to be told, "If you stay at your branch, and you do well over time, and Primerica does well, you will be rewarded with a significant increase in wealth." ☐