



The Actuarial Profession

making financial sense of the future

Momentum Conference 2012
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Every deal is different

Agenda

1. Market experience

- What drives or kills a deal?
- Types of deals with examples

2. Practicalities

- What questions should you ask?
- Deal process
- Key skills & tips

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What is deal?

OED Definition:

An agreement entered into by ***two or more parties*** for their ***mutual benefit***, especially in a business or political context

What drives a deal?



Make money

Use surplus money

Create Capital/Tax efficiencies

Economies of scale

Regulatory change

Fix a problem...

What kills a deal?



Politics or vested interests

Too many cooks.....

Tunnel vision

Economic uncertainty

Regulatory uncertainty

Lack of preparation

Black Box Issues

Some types of deals

Consolidation

Invest in New Markets

Risk & Value Management

Regulatory Restructuring



Type of deal - Consolidation

What is it?

- Bringing companies or funds together.
- One company acquiring another company
 - Requires change control approval by the FSA
- Blocks of policies transferred from one company to another
 - Requires High Court approval.

Consolidation

Why do it?

- Extract greater value from combined businesses
 - Capital optimisation- capital traps or de-risking
 - De-risking
 - Synergies / efficiency - especially tax
 - Economies of scale - expense savings
- Build scale or increase presence in a market

Consolidation – Capital Optimisation

Capital Optimisation

- Restructuring funds will
 - Release trapped capital
 - Capture diversification
 - Simplify management
 - Provide cost effective capital support
- Different focus
 - Managing an open fund may lead to different behaviours
 - As the new manager have a fresh set of eyes and see different opportunities

Consolidation – De-risking

De-risking

- Apply a different approach to management
- Especially if the fund is closing
- May be able to achieve results and outcomes which were unthinkable for the previous management
- If a professional consolidator may have a different skill set and objectives

Consolidation – synergy / efficiency

Synergies

- Tax optimisation
- Different classes of business
- Skills / competency
- Cashflow off-set

Consolidation – Expense Savings

Economies of scale

- Expense savings by achieving economies of scale
- Out-sourcing business
- Increasing the duration of the business
 - WP business in run-off has a relatively short half life
 - For an established player there may be substantial overheads which need to be spread / supported
- Closing to new business releases value
- Build scale without relying on new business – particularly in difficult markets

Consolidation

Examples



Swiss Re



Resolution

Type of deal - Investment in new market

What is it?

- Seeking exposure to:
 - different risks
 - different countries
- Approaches include:
 - M&A
 - Strategic partnerships / joint ventures
 - Launches of new products
 - Start up companies e.g. Pension buyout



Investment in new market

Why do it?

- Available funds
- Access to faster growing markets
- Diversify into new risks
- Cross-sell new products to existing customers
- Access new customers

Investment in new market

Examples

REINET INVESTMENTS S.C.A.



mgmadvantage

Cinven

Risk and value management deals

What are they?

- VIF realisation
- Longevity swaps
- Sale or reinsurance of annuity blocks
- Sale of closed funds

Risk and Value Management

One person's dream is
another person's
nightmare

Why do it?

- Change in strategic focus or risk appetite
 - Focus on core businesses
 - Focus on cash generation or long term value
 - Focus on different metric - US GAAP, IFRS, MCEV, Basel II
- Improve balance sheet
 - Crystallise VIF
 - Capital optimisation
- Reduce exposure to particular risks - Annuities

Risk and Value Management

Examples

BERKSHIRE HATHAWAY INC.



AbbeyLife



With-Profit restructuring

What is it?

- Change the nature of risks in a with-profits fund
 - Compromise schemes to change the nature of guarantees
 - Sale of annuity blocks or strategic investments
 - Outsourcing of administration
- Release capital from a with-profits fund
 - Creation of a mutual capital fund
 - Reattribution of the estate

With-Profit restructuring

Why do it?

- Distribute estate over lifetime with-profits contracts
- Reduce risk
 - Difficult for a mutual to raise additional funds
 - Shareholder companies don't want "burn-through"
- Enable more flexible use of estate assets

Note of caution

- Need to consider conflicts of interest, shareholder vis-a-vis with-profit policyholder, between groups of policyholder
- Not many opportunities left!

With-Profit restructuring

Examples



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What is the most important question?



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Who are your stakeholders?



Some things to think about

- Why are you doing the deal?
- What are the likely issues / concerns?
- How should the deal be structured?
- How should your team structure be structured?
- Who do I need to communicate with and how?
- What does a good project plan look like?

The Process – Post Merger

- Execution
- Integration
- Harmonisation
- Consolidation



The Process – Pre-deal

- Investigate potential structure options
- Produce Information memorandum
- Select advisors
- Gather information
- Identify likely issues



The Process – Due Diligence and Agreement

Phase 1:

- Many potential acquirers / options
- Limited information available
- Short time scales
- Initial indicative offers / solutions produced

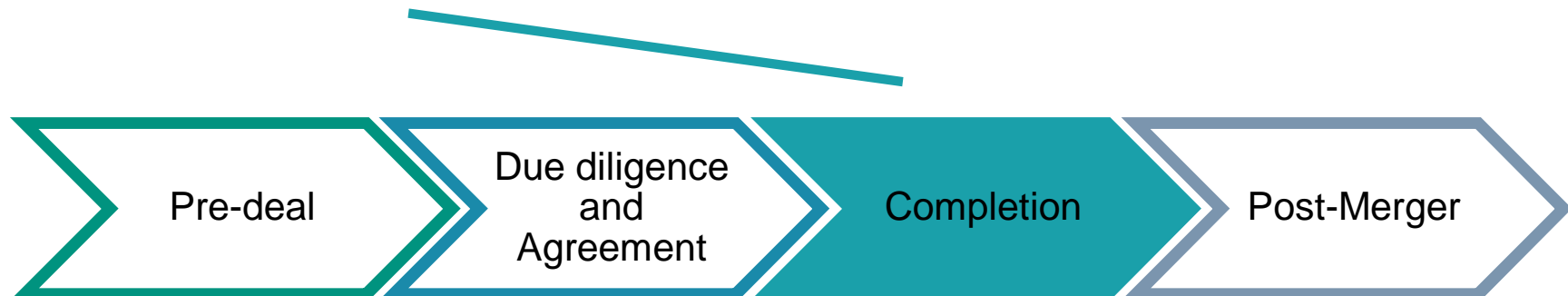
Phase 2:

- Preferred acquirers / options selected by vendor
- More detailed DD & (some reverse DD)
- In principle offer accepted (option selected)
- In principle agreement signed (agreed by board)



The Process – Completion

- Detailed DD (& reverse DD) - FSA processes (e.g. non-objection)
- with selected acquirer (or option)
- Court processes (e.g. Sanctions & Final hearings)
- Final terms agreed
- Scheme drafted
- Policyholder correspondence
- Independent review



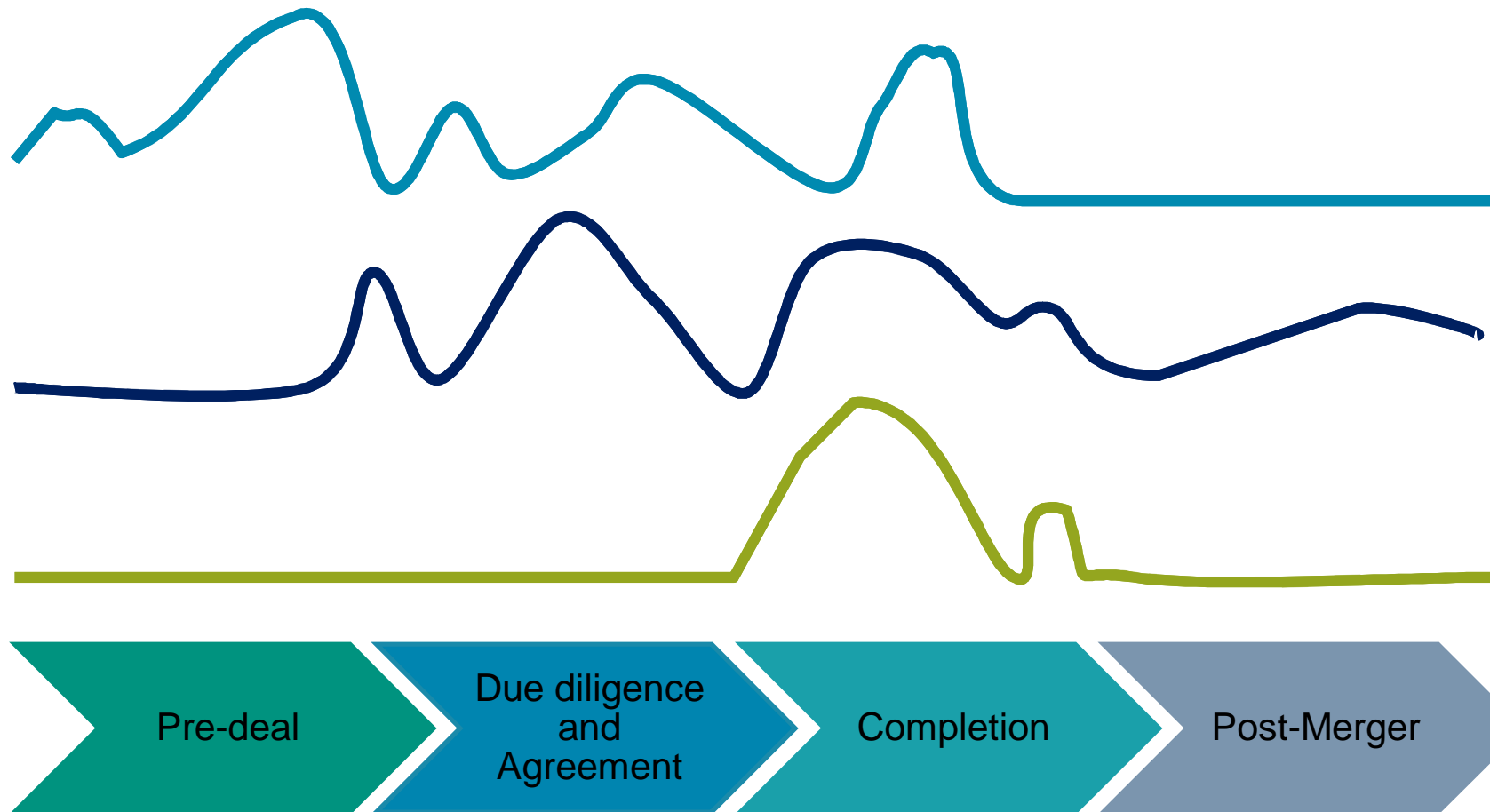
The Process

Vendor

Purchaser

Expert

Illustrative internal effort levels (M&A)



Key skills

Key skills

Strong analytical skills

Seeing the woods for the trees (materiality)

Familiarity with client and their objectives

Stakeholder management

But also...

Creativity

Flexibility

Stamina

Report writing

How to make the deal process smoother

- Clear, realistic and robust plans
- Strong (and knowledgeable!) project management
- Strong corporate sponsor
- Disciplined communication process:
 - Regular multi-party meetings and calls
 - Open dialogue with the regulator
- Honesty around delivery of materials and drafts
- Regular re-cuts of the plan
- Try to get things right first time

Tips for a successful deal

- Know what's behind door number 5
- Memorise everything
- Know when to buy the pizza
- Have a gofer
- Have a fire-fighter
- Emotional Intelligence
- Keep calm and don't panic the client / board / partner

Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

