Learning to Live Together
Post-merger integration in the insurance sector

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Agenda

• Recent activity
• Why is integration difficult?
• Delivering a successful integration
  – Vision
  – Control
  – People and culture
  – Value
• Areas for actuarial involvement
• Questions and discussion
The small print

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Why is post-merger integration important?

- The insurance industry is consolidating
- Between 2010 and 2015, the total value of non-life transactions for which valuations are available was £61bn
- This trend is only set to continue
- And it is not as easy as it looks
Volume of completed non-life transactions 2010-2015 (including those for a non-disclosed amount)

Value of completed non-life transactions 2010-2015
Who is here today?

A quick definition

Integration Planning is one of the most challenging areas to address pre-close during a merger or acquisition.
Difficult could be an understatement

- Failure rate of M&A is somewhere between 70% and 90%
  
  » Harvard Business Review

- Another study showed that:
  - 17% of deals had added value to the combined company
  - 30% produced no discernible difference
  - 53% actually destroyed value

- HOWEVER - 82% of respondents believed they had been a success

Where do the issues start?

Doing the DEAL  VS  Delivering the integration
Key questions to ask before the deal

Does it fit with your business strategy? If it's not clear, don't do the deal
Are there clear benefits for the transaction? Or are you hoping for benefits?
Have you done your due diligence? Have you recognised and resolved issues?
Are you paying too much? Have you let the need to do the deal cloud your judgement?

RBS – Turner Report: Reasons for failure included the acquisition of ABN AMRO

• Significantly increased RBS's exposure to risky asset categories, reduced an already relatively low capital ratio and increased potential liquidity strains
• Because of RBS's role as the consortium leader and consolidator created additional potential and perceived risks
• RBS's decision to proceed with this acquisition was made on the basis of due diligence which was inadequate in scope and depth given the nature and scale of the acquisition and the major risks involved
• The FSAs overall supervisory response to the acquisition was also inadequate
• Individual poor decisions can result from flawed analysis and judgment in particular circumstances: many of the decisions that RBS made appear poor only with the benefit of hindsight
A clear vision

- A clear strategic rationale
- What does success look like and by when?
- What are the key decisions that drive the integration?
- Clarity on the non-negotiables
- Define the Target Operating Model (‘TOM’)
- Align key stakeholders
Clarity of vision – Merger or Takeover?

Why did TMEI and Kiln merge?

Opportunities

Challenges

Support

Integration
Tokio Marine Kiln’s Vision

Create a single company And a single strategy for growth in Europe
Under a single, locally based, management team Empowered to set and deliver the European growth strategy
With a single brand Aligned over next 12 months
Across a combined platform Company and Lloyd’s platforms and channels
Supported by a single back office operation With enhanced capabilities, systems and services

Take control

- Establish Integration Programme Governance
- Appoint an Integration Lead and Empower
- Develop plans to
  - Protect the core business
  - Engage customers and strategic relationships
  - Take financial control
  - Address all statutory and legal requirements
TMK's integration principles

- Leadership team in place from Day 1
- Integration governance in place from the beginning
- Focussed on Business As Usual
- Collaborative teams brought together with clear accountabilities
- Regular review and reporting

Engage people

- Establish the leadership team
- Clear organisational structure
- Develop people retention strategies
- Proactive communications campaign
- Identify and address cultural challenges
- Involve people from both organisations
- Address differences in compensation and benefits
Focussing on people

- Clear communications plan – honest and open
- Resolved people issues and reporting lines early
- Changing HR to better support the business
- Terms and conditions – a general note

Create value

- Reassess benefits as soon as possible
- Find new sources of benefits
- Prioritise quick wins
- Identify one off costs
- Track delivery
Areas for actuarial involvement

- Integrating actuarial and risk teams
- Establishing new reporting lines
- Establishing new processes
- Establishing the Day 1 reserves
- Integrating the approach to pricing
- Combining capital models
- Part VII transfers
- Schemes of Arrangement

To close – Is an integration like a marriage?

Successful Integration

- Agreed vision, clear leadership
- Clear decision making and action from Day 1
- Do your due diligence
- Address people issues early
- Create value from the combination
  MORE PROFIT

Successful Marriage

- A combination of views
  (and some compromise... possibly)
- Honeymoon period, FUN
- Don't rush into things while drunk
- Best to do before marriage
- Not really done for profit (except emotional profit, of course)
Questions and comments

 Vision

 Control

 People & Culture

 Value

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