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

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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?

If you get the deal right – Four elements to delivering a successful integration

- Vision
- People & Culture
- Control
- Value
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?

[Diagram showing 2 Year % Variance of Stock Returns with Clarity, Uncertainty, and Confusion axes, and various deal attitudes like Hostile, Lukewarm, Friendly, with data points indicating -10.0%, -8.0%, -6.0%, -4.0%, -2.0%, 0.0%, 2.0%, 4.0%, 6.0% changes.]
Why did Tokio Marine Europe and Kiln merge?

Vision statement

- Our Vision is to become a leading global specialist and corporate insurance company that people want to work with and work for....

- One Strategy
- One Team
- One Brand
- Empowered Expertise
Developed into our 10 Year Vision

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
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