



Institute  
and Faculty  
of Actuaries

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

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GIRO 21 October 2015

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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

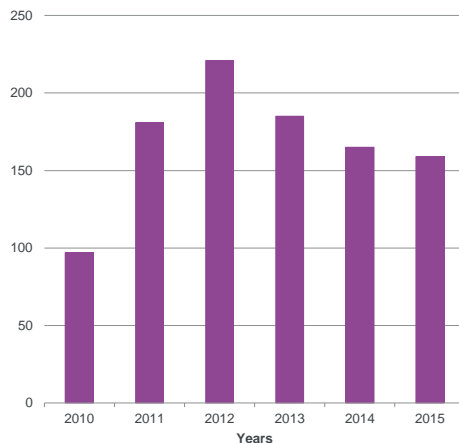


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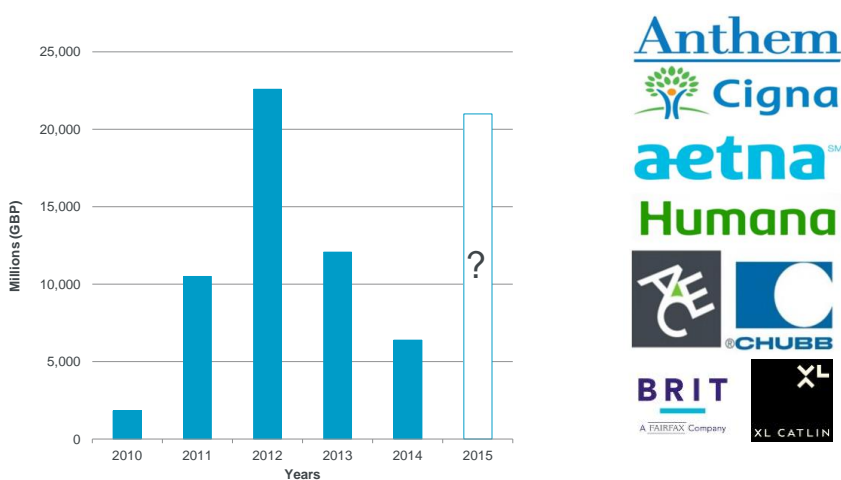
## Volume of completed non-life transactions 2010-2015 (including those for a non-disclosed amount)



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## Value of completed non-life transactions 2010-2015



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## Who is here today?

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## A quick definition

The screenshot shows the Wikipedia article for "Post-merger integration". Two red boxes highlight specific text:

- The first box highlights the sentence: "a complex process of combining and rearranging businesses to materialize potential efficiencies and synergies".
- The second box highlights the sentence: "Integration Planning is one of the most challenging areas to address pre-close during a merger or acquisition."<sup>[2]</sup>

The visible text in the screenshot includes:

**Post-merger integration** or **PMI** is a complex process of combining and rearranging businesses to materialize potential efficiencies and synergies that usually motivate mergers and acquisitions. The PMI is a critical aspect of mergers; it involves combining the original socio-technical systems of the merging organizations into one newly combined system.

**Contents** [hide]

- 1 Overview
- 2 Organizational lifecycle
- 3 See also
- 4 Sources
- 5 External links

**Overview** [edit]

The process of combining two or more organizations into a single organization involves several organizational systems, such as assets, people, resources, tasks, and the supporting information technology.<sup>[1]</sup> The process of combining these systems is known as 'integration'. Integration Planning is one of the most challenging areas to address pre-close during a merger or acquisition.<sup>[2]</sup>

**Organizational lifecycle** [edit]

Integration fits within an organizational lifecycle or specific business mergers and acquisitions cycle where businesses buy, integrate, then dispose of

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## 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**

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## Where do the issues start?



Doing the DEAL

VS



Delivering the  
integration

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## 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?

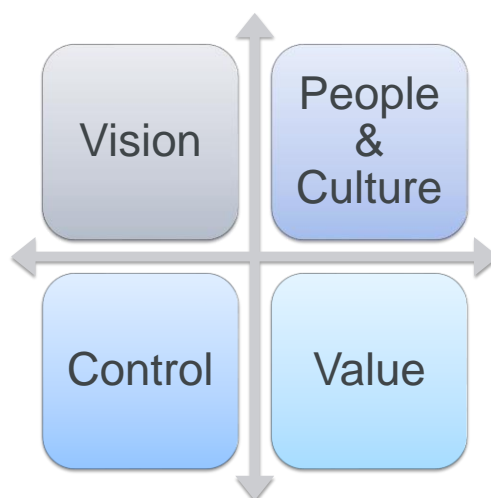


Have you let the need to do the deal cloud your judgement?

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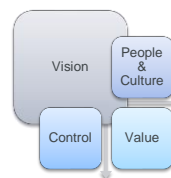
## If you get the deal right – Four elements to delivering a successful integration



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## A clear vision

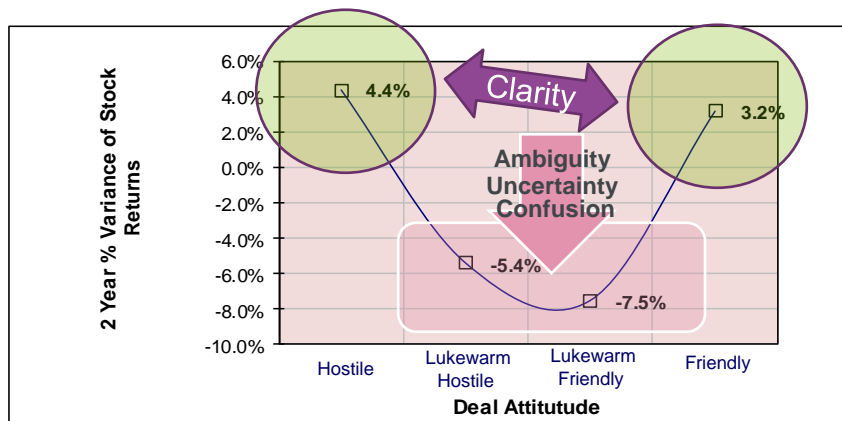


- A clear strategic rationale
- What does success look like and by when?
- What are the key decisions that drive the integration?
- Clarity on the non-negotiables
- Define the Target Operating Model ('TOM')
- Align key stakeholders

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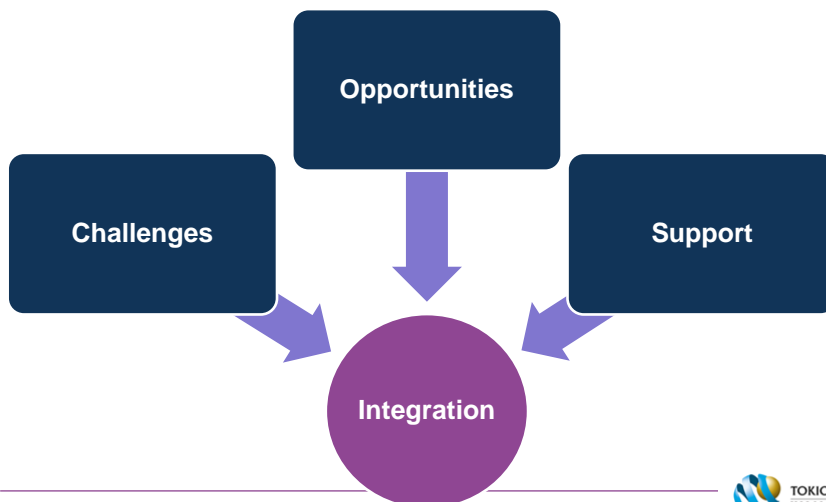
## Clarity of vision – Merger or Takeover?



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## Why did Tokio Marine Europe and Kiln merge?



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## 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

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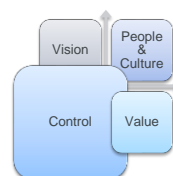
## Developed into our 10 Year Vision



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## 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

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## TMK's integration principles

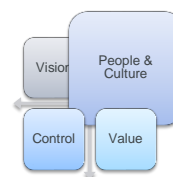
- Leadership team in place from Day 1
- Integration governance in place from the beginning
- Focussed on Business As Usual
- Collaborative teams brought together with clear accountabilities
- Regular review and reporting

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## Engage people

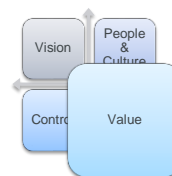
- Establish the leadership team
- Clear organisational structure
- Develop people retention strategies
- Proactive communications campaign
- Identify and address cultural challenges
- Involve people from both organisations
- Address differences in compensation and benefits



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## Create value



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

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## 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

Just like any other profession...  
Actuaries experience a roller coaster of emotions.



A boring day in the life of an Actuary



An exciting day in the life of an Actuary

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## 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

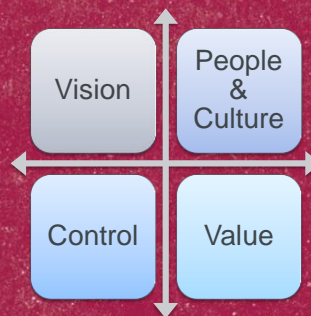
### Successful Marriage

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)

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## Questions and comments



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