NEWSLETTER
INSURANCE AND FINANCE

THE GENEVA ASSOCIATION

Special Issue January 2016

Perspectives on Consolidation in Insurance: 'The Inside View'

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The insurance industry has recently been undergoing unprecedented consolidation. Capital availability, the pressures of mounting competition and the desire to attain greater scale, among other factors, resulted in more merger and acquisition activity in the global insurance industry in 2015 than in any previous year. Much has already been written and talked about the macro drivers of these trends and so, instead, this paper will offer perspectives with a different focus—we'd like to share a 'practitioner's account' of acquisition integration from a vantage point inside one of the world's largest life insurers.

Manulife and our wholly-owned subsidiary John Hancock together form the eighth largest life insurance group in the world. Today, our business is split almost evenly between Canada, the U.S. and 12 territories in Asia. We have built a presence in many of the world's largest economies, and we are rapidly expanding in most of the world's fastest growing markets, especially in Asia. While Manulife is often thought of as a life insurer, it is important to note that more than 40 per cent of our global business is in institutional asset management and the group and individual wealth management businesses of pensions, retirement savings and investment funds. In order to successfully achieve our global scale, we have deployed a strategy that includes focused, disciplined acquisitions. As a result, in the last 20 years we have made more than 40 successful acquisitions around the world.

To provide the 'inside view' on integration from Manulife's perspective, we will share the stories of two of our most transformative deals in the last decade, the acquisitions of John Hancock Financial in 2004 and of the Canadian operations of Standard Life plc in 2015. We'll also describe some of the key challenges we faced during the integration of these particular acquisitions as well as some of the general lessons that we have learned from executing many integrations over the years.

Case Study 1: acquisition of John Hancock Financial Services Inc.

In 2004, Manulife acquired Boston-based John Hancock for almost USD 11bn. The deal was truly transformational for Manulife, adding millions of new customers, new products and distribution breadth, increased operating scale and a greatly improved competitive footing. In the U.S. market, the combined Manulife–John Hancock immediately became a top-five competitor in almost all of its lines of business. In Canada, the acquisition of John Hancock's Canadian operations, Maritime Life, made Manulife the number one or two player in almost all lines of our Canadian business.

Not surprisingly, the transaction also resulted in a very large-scale integration effort across the six newly expanded businesses in Canada and the U.S. We were faced with integrating millions of individual and group customers, a large corporate office in Boston, more than 7,000 new employees in facilities across North America (joining our almost 13,000 employees at that time) and 65,000 independent agents and advisors. Making matters more

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challenging, there was immediate and significant operational overlap, since John Hancock had operations in Canada and Manulife had existing businesses in the U.S. Significant benefits were expected from the deal, including projected pre-tax run-rate cost savings of CAD 350m targeted by the second year post-acquisition. A decade ago, this represented a very meaningful amount for Manulife, around 10 per cent of combined operating expenses at the time. The sources of these savings and efficiency benefits primarily resulted from eliminating duplication in operating management roles, IT platforms, distribution organisations and corporate management functions.

The John Hancock acquisition was an important moment in Manulife's history. It accelerated our growth strategy for high-priority global businesses, especially in North America; it diversified our business by strengthening existing capabilities and adding new ones; and it enabled us to acquire one of the most powerful brands in financial services in the U.S.

Case Study 2: acquisition of Standard Life in Canada

In January 2015, Manulife acquired Standard Life plc's Canadian business for CAD 4bn. Though much smaller than the John Hancock transaction, this too was an important acquisition for Manulife. The acquisition enabled us to improve operating leverage through greater scale for several of our key Canadian businesses, particularly in pensions, wealth and asset management. We have also been able to build upon an already established and successful wealth and asset management partnership with Standard Life Investments. The acquisition provided us with nearly 1.5 million new customers for the very broad product shelf that Manulife Canada offers.

Similar to our experience with John Hancock in 2004 and 2005, Standard Life Canada's acquired lines of business had significant overlap with Manulife's, resulting in a complex integration, but one which enables us to target significant cost savings and efficiencies. We are currently into the 11th month of the integration and we are pleased with our progress.

Common challenges and keys to successful acquisition integration

To get the real 'inside view', we sat down with those at Manulife who have been most instrumental in leading the John Hancock and Standard Life Canada integrations. Together, we discussed the key challenges and lessons learned from these integrations and others that we have executed in years past.

Not surprisingly, everyone agreed that the top challenges that we faced during these integrations related to people and culture. John Hancock and Manulife had many cultural similarities prior to 2003 when acquisition discussions began. Both companies had long histories (Manulife was founded in 1887, John Hancock in 1862), had recently demutualised, then gone public in high-profile IPOs (Manulife in 1999, John Hancock in 2000 in the eighth largest IPO in U.S. history at the time) and had people and operations in similar geographies. Both companies even had CEOs named D'Alessandro at the time. In many ways, the transaction looked like more of a merger of equals than an acquisition by Manulife.

The cultural similarities undoubtedly made the integration process much smoother than it could otherwise have been, but they also left us with a challenging situation: a large portion of expected operating expense savings, an important aspect of the deal, was targeted to come from the elimination of duplication of roles in the corporate and operational management ranks. This is always a sensitive matter, but its importance to the success of the acquisition cannot be overemphasised. We had to be thoughtful about our approach and expedient in our execution. Predictably, where the overlap in roles was the largest, at the senior-most corporate officer level, the rationalisation was greatest and swiftest.

We spoke with our integration leaders to better understand the nuances of this, and they described it in the following way, offering some very to-the-point directives: 'Identify those new leaders, managers and employees who are critical to the success of the integration and the go-forward combined organisation, then welcome them and engage them.' 'However, don't fall in love with your public story and with the pictures of the CEOs shaking hands. Remember the primary objectives of the job you need to do to deliver the benefits.' 'Solve the social issues for the top 10 officers of the acquired company first. Who stays? Who goes? And, when?' While it was agreed that this was one of the most challenging aspects of the integration effort, it was an absolutely critical step in order for us to begin to achieve the benefits we needed out of the deal.

From a people and culture perspective, it's also important to consider the impact that undergoing a major integration has on your employees and operations. Many key employees will almost certainly end up taking on significantly more than their typical responsibilities as the organisation realigns in order to meet the acquisition objectives. Certain employees may become overburdened, which can have significant impact on their morale and productivity. Major integrations will always generate additional work, but the integration team leaders must plan and manage the inevitable time constraints and talent and resource strains appropriately. The success of the integration cannot be won at the expense of compromising the quality of current operations, employee engagement and commitment, and the customer experience.

Other significant challenges that we faced during these acquisition integrations typically fell into three areas. The first, information technology, is always a top challenge and source of risk, especially with acquisitions as large as John Hancock and Standard Life Canada. There was significant overlap between Manulife's systems and those of John Hancock and Standard Life Canada. They have been very costly and complex challenges and have required diligent engineering and management to resolve. Volumes have been written on this and so we will not dwell on the obvious. The second, premises and facilities, is slightly more straightforward. It is important to understand and plan for the integration's impacts on locations and non-IT infrastructure of the financial services organisation, including demands imposed by regulatory requirements, as well as by staffing needs and talent retention plans.

The last challenge area we will comment upon, size and scope, is somewhat broader than the others. We certainly encountered the relative size challenge in both the John Hancock and Standard Life Canada transactions, which caused the impact of the integration efforts to be pervasive throughout the organisation, as opposed to the localised impact of a smaller 'bolt-on' acquisition. One key dimension of scope is the breadth of product lines and businesses acquired. We had to integrate multiple business lines with significant operational overlap and duplication throughout. This required swift and decisive assessments of differing skill sets and talent bases, customer segments, breadth and productivity of distribution channels, differential usage of offshoring and outsourcing, and countless other operational considerations.

A second dimension of scope refers to managing geographic challenges, something that (luckily!) did not impact us as much for the John Hancock and Standard Life Canada integrations. We were dealing principally with Canada and the U.S. (plus some modest Asia business considerations) compared to, say, MetLife's 2010 acquisition of Alico, which had operations in more than 50 countries at the time of acquisition.

The following is always a good question to pose when you have a learned group held hostage: we asked the Manulife integration team leaders what they thought they could have done better with the benefit of hindsight. Interestingly, they all had a similarly themed answer: during the John Hancock acquisition and integration, we were perhaps too internally focused and, for future integrations, it was felt that we needed to do a better job of maintaining more of an external focus, in particular by paying closer attention to the factors influencing the retention of both advisors and customers. In other words, 'The Voice of the Customer' must be an even more important component of our early stage integration planning and its subsequent execution. The consensus among the group was that we have done a more thoughtful job with this aspect in the integration of the Standard Life Canada acquisition. The proof is before our eyes in terms of the customer retention numbers and the readily observable uptake by former Standard Life customers of our Manulife Canada products and solutions.

There is no single silver bullet to ensure integration success, but we did ask our integration leaders for their points of view on what has enabled us to integrate successfully at Manulife. Together, we were able to narrow it down to four common elements, regardless of the integration's size or complexity, that are most critical to success.

Advance planning. It is impossible to have too much forethought when planning for an acquisition and its integration. Before the acquisition is even made, the impacts of the integration should be thoroughly understood.

The integration team should be formed early to ensure that the integration has as minimal an impact as possible on the organisation's current operations, employees, advisors and customers.

Alignment with strategy and culture. All decisions made by the integration team should align to the organisation's strategy. It is this dedication to following a clear strategy that will force action on the tough decisions that inevitably arise during all integrations. As discussed above, these tough decisions often relate to people and culture.

Excellence in execution by people who are dedicated and experienced. Successfully completing a major integration is no easy task. It requires dedication and hard work by individuals who understand from experience how best to act and not to act. For this reason, it is important that the integration team be selected from the company's best and brightest leaders and employees.

Clear, consistent and frequent communication. In these situations it is impossible to over-communicate, and the importance of good communication cannot be overly emphasised. All stakeholders, whether internal (e.g., employees of all levels and functions, agents and advisors) or external (e.g., shareholders and bondholders, governments and regulators, local communities, analysts and media), must be accounted for in a thorough, well thought-out communication strategy with clear and consistent (and necessarily repeated) messaging.

Ensuring that these four elements are part of the integration approach will not guarantee success, but based upon our experience at Manulife, we believe that they will significantly improve your odds.