Consolidations in Insurance—views from outside

What is the Logic Behind Consolidation? Does it Create Value?

Pia Tischhauser, Global Leader – BCG Insurance Practice

11th Symposium on Insurance Strategies

Consolidation in Insurance: What is it about?

6 November 2015, London
Consolidations in Insurance – views from outside
What is the logic behind consolidation? Does it create value?

Pia Tischhauser, Global Leader – BCG Insurance Practice
6 November 2015
Can you actually create value through M&A?
Consolidation activity driven by changing industry context

However, only 50% of deals create value for acquirer

Macro level trends in insurance 2020

- Regulatory requirements
- Low interest rate environment
- Increased expenditure through aging
- Hedging of new risks
- Hybrid customers
- New competitors
- New operating models
- Blurring boundaries
- E2E Lean
- Big Data & predictive analytics
- Limited organic growth options

50% of all acquisitions create value, similar in insurance

Value Created 51%\(^2\)
Value Destroyed 49%\(^2\)

1-year RTSR of completed acquisitions (%)

Key consolidation drivers

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1. Analysis across industries based on 37,299 transactions (all industries) between 1990 and 2014. Value measured as relative total shareholder return for one year after the announcement date. One-timers made 1 acquisition within a 5-year period, portfolio builders >5 acquisitions
2. Analysis for insurance sector based on 778 transactions involving insurance companies between 1990 and 2014 (SIC Codes 6311, 6321, 6331, 6351, 6361, 6399, 6411) Note: Only transactions with deal value >$25m, share transfer >75%
### Key reasons why acquisitions fail to create value

#### Percentage of named reasons for acquisition failure

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wrong candidate</td>
<td>41%</td>
</tr>
<tr>
<td>Unclear strategic fit</td>
<td>69%</td>
</tr>
<tr>
<td>Overpaid</td>
<td>49%</td>
</tr>
<tr>
<td>Process structure</td>
<td>36%</td>
</tr>
<tr>
<td>Integration</td>
<td>55%</td>
</tr>
<tr>
<td>Complexity</td>
<td>64%</td>
</tr>
<tr>
<td>Cultural fit</td>
<td>61%</td>
</tr>
<tr>
<td>Lower synergies</td>
<td>64%</td>
</tr>
<tr>
<td>Market timing</td>
<td>58%</td>
</tr>
</tbody>
</table>

1. Results from BCG survey among corporate leaders (respondents = Head M&A, CFOs); sample size = 54. More than one reason possible

But how to create value from M&A?
How to create value from M&A
Do's and don'ts on the buy-side – BCG perspective

**Do**  
*Our view on best practices*

**It starts with Target search**
- Actively seek proprietary deals
- Systematic approach, analytical framework

**Execution requires discipline**
- Focus on key value drivers in your DD
- Walk away when the numbers don't add up

**It ends with PMI**
- Have integration in mind from start of DD
- Realistic synergy expectations only work if you have *operational experience on your deal team*

**Don’t**  
*Things we have seen*

**Opportunity driven approach**
- The bank provided the opportunity
- Time was of the essence in the auction

**Focus on getting the deal done**
- Deal teams really wanted to win
- “We have already invested so much time”

**Inexperienced deal teams**
- Outside-in estimates for synergies and integration costs
- No seat at the table for the business operations people

Source: BCG
Complexity of PMI driven by hard *and* soft factors

Drivers of complexity in integration

- Geographic footprint/ # of countries
- Legal entity structure/ regulatory context (e.g. Part VII in UK)
- Brand/ product/ channel landscape
- IT/ Ops landscape, legacies
- Organizational/ cultural fit

**Five key drivers of organizational integration complexity**

- Adjacency of business acquired
- Governance & Operating Model
- Cultural fit
- Country size comparability
- Readiness for deal of top management

Illustrative examples from recent transactions

Source: BCG analysis of recent transactions
Key tasks and risk mitigators for due diligence and PMI

**Key Tasks**

**Pre-announcement**
- Define target operating model
- Prepare legal structure & comms, filing with regulators
- Approach target and assess contingencies/interlopers
- Execute DD and quantify potential (dis)synergies
- Plan integration timing & deliverables

**Pre-close**
- Manage and communicate legal and regul. constraints/dependencies
- Define retention measures for critical staff
- Ensure target org ready to launch through n-2 by Deal Close
- Select and prepare on-boarding of new mgmt team
- Prepare D1 comms and measures to ensure business continuity

**Post-close**
- Manage HQ/entity wind-down
- Define retention measures for critical staff
- Ensure target org ready to launch through n-2 by Deal Close
- Select and prepare on-boarding of new mgmt team
- Prepare D1 comms and measures to ensure business continuity

**Risk mitigators**

- Fully assigned and clear central PMI team already defined
- Clear view on target BoD/Exec roles
- Early prep of clean team setup
- Clear lean integration governance
- Clarity on future mgmt team
- Clear D1 AND integration plan until full integration
- Quick implementation after Close
- Continued internal communication
- Clear tracking & escalation procedures

Source: BCG project experience

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Draft—for discussion only
Thank you

BCG’s 11th M&A report

More BCG publications on M&A on bcgperspectives.com

2008, The Return of the Strategist
2009, Be Daring when others are fearful
2010, Accelerating out of the Great Recession
2011, Riding the next wave in M&A
2012, Plant and Prune
2013, Divide and Conquer “M&A Synergies”
2013, BRICs Versus Mortar?
2014, Don’t Miss the Exit

Source: BCG