THE GENEVA ASSOCIATION

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

BCG
INSURANCE

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Can you actually create value through M&A?

Consolidation activity driven by changing industry context

However, only 50% of deals create value for acquirer

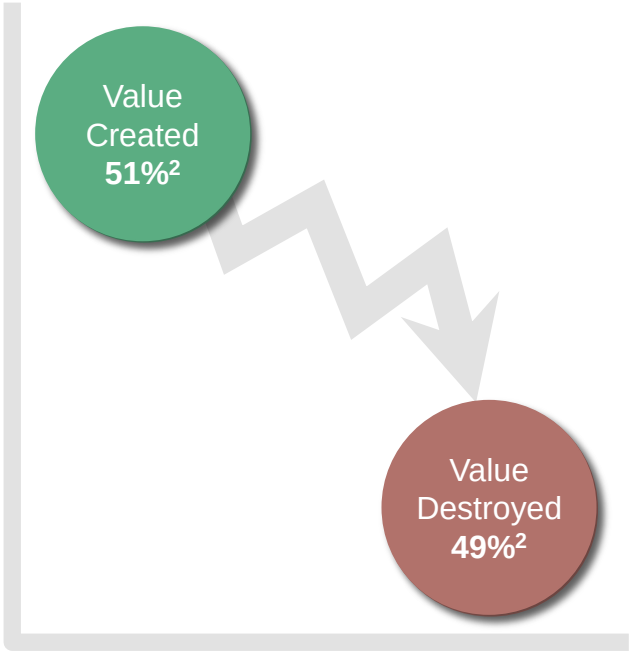
Macro level trends in insurance 2020

- 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

Key consolidation drivers

50% of all acquisitions create value, similar in insurance

1-year RTSR of completed acquisitions (%)



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%
Source: Thomson Reuters Datastream; Thomson ONE Banker; BCG 2015 M&A report " From Buying Growth to Building Value" Oct 2015

Key reasons why acquisitions fail to create value

Percentage of named reasons for acquisition failure[1]

Deal preparation & execution

Wrong candidate	41%
Unclear strategic fit	69%
Overpaid	49%
Process structure	36%

Inadequate or poor Post-merger Integration (PMI)

Integration	55%
Complexity	64%
Cultural fit	61%
Lower synergies	64%

Bad timing

Market timing	58%

1. Results from BCG survey among corporate leaders (respondents = Head M&A, CFOs); sample size = 54. More than one reason possible
Source: BCG corporate leaders survey; BCG 2015 M&A report " From Buying Growth to Building Value" Oct 2015

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

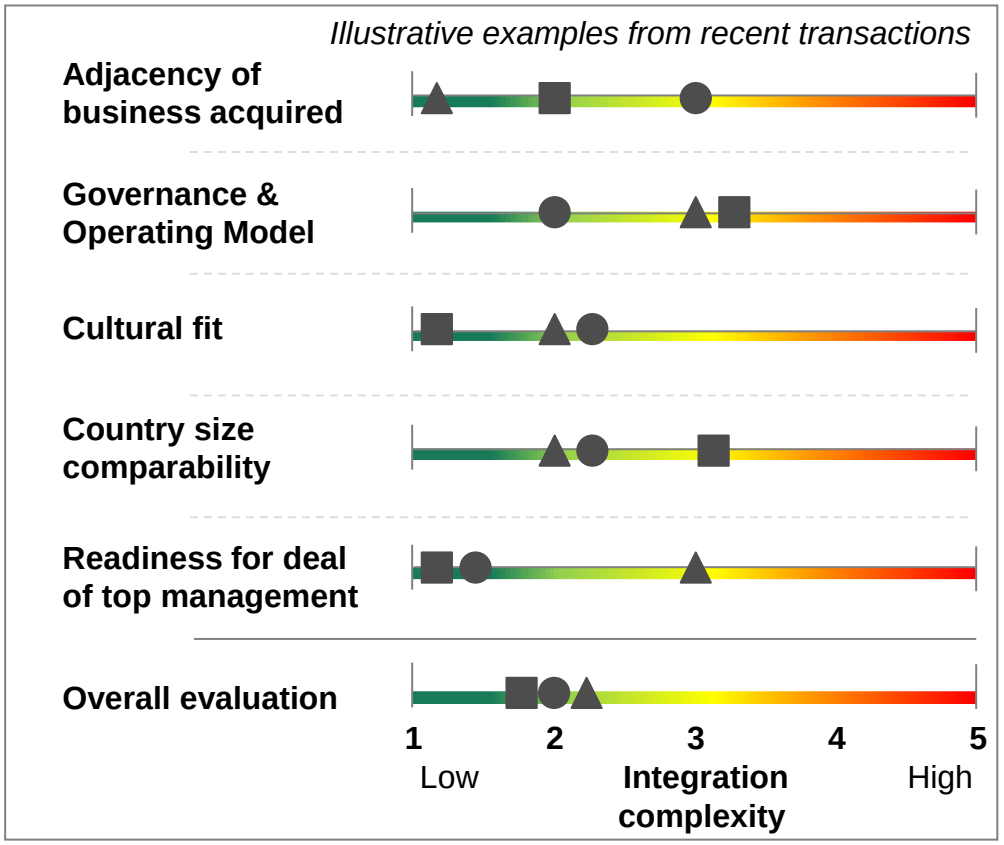
Source: BCG

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



Source: BCG analysis of recent transactions

Key tasks and risk mitigators for due diligence and PMI

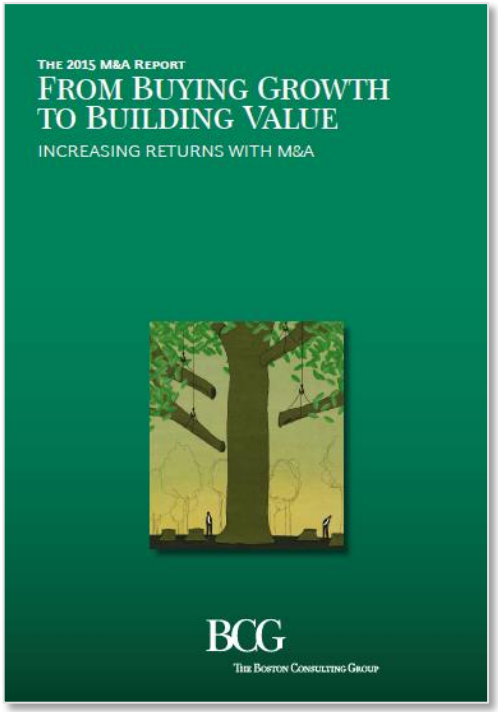
Approach → Announcement of firm offer → Acceptance of offer → Deal Close → D1

	Pre-announcement	Pre-close	Post-close
Key Tasks	Define target operating model	Manage and communicate legal and regulat. constraints/dependencies	Manage HQ/ entity wind-down
	Prepare legal structure & comms, filing with regulators	Define retention measures for critical staff	Design and appoint full org (n-3 and below)
	Approach target and assess contingencies/ interlopers	Ensure target org ready to launch through n-2 by Deal Close	Implement new legal structure
	Execute DD and quantify potential (dis)synergies	Select and prepare on-boarding of new mgmt team	Transition to integrated channel and go-to-market model
	Plan integration timing & deliverables	Prepare D1 comms and measures to ensure business continuity	Detail and implement roadmap for systems migration
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

Thank you

BCG's 11th M&A report



More BCG publications on M&A on bcgperspectives.com

2008, The Return of the Strategist

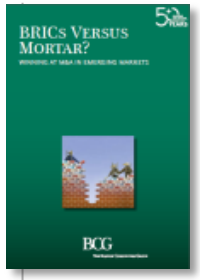
2009, Be Daring when others are fearful

2010, Accelerating out of the Great Recession

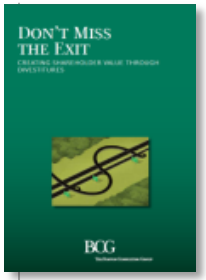
2011, Riding the next wave in M&A

2012, Plant and Prune

2013, Divide and Conquer "M&A Synergies"



2013, BRICs Versus Mortar?



2014, Don't Miss the Exit

Source: BCG

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