Actuaries adding values in deals

A presentation to the 17th EAAC
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Sometimes…
…deals are crystal clear and work out nicely!

Looks like a good deal!

Fit is good!

"Are you thinking what I'm thinking?"

But…
…other competitors may think the same
…success is in the execution not the deal-doing

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Deals in Asia

Deals in Asia: What's going on?

The role of actuaries – Today and Tomorrow

Why the Interest- Buyers and Bargainers?

Assessing deals – dangers in the numbers

The deal process
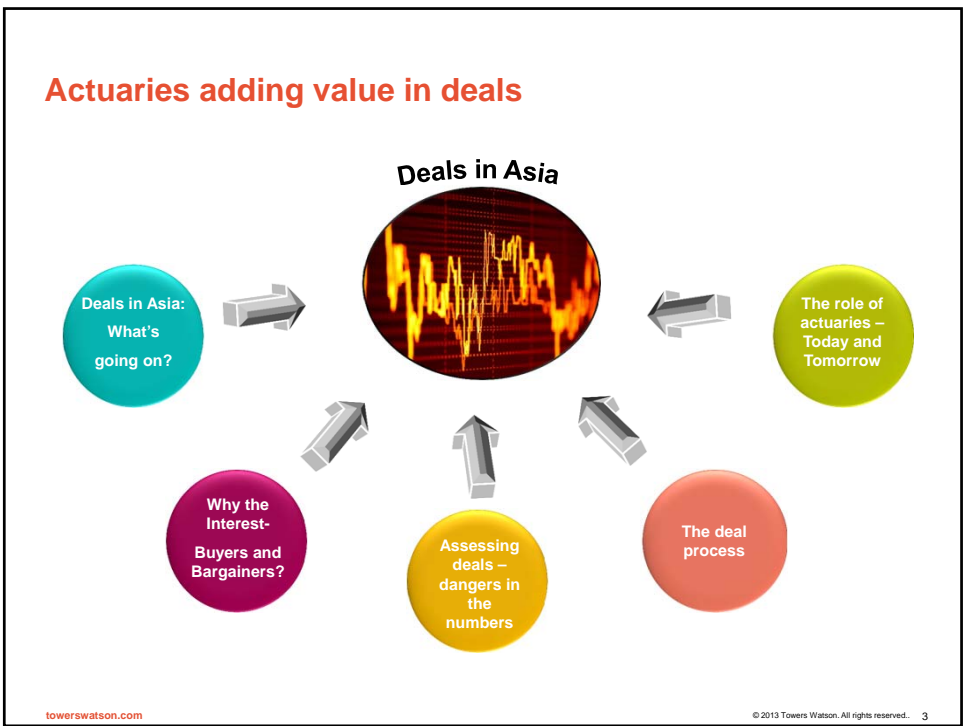
What's going on in the deal-making world?

Insurers must approach M&As with non-financial perspective too

Malaysia: AMMB Holdings may now sell only 51% of its stake in its life business instead of 70% in a mega-deal.

Citibank to offer insurers its 600 branches across the region to sell products

Early involvement with legal advisors must for successful M&A

Insurance M&A deals in Middle East continue to fall

Insurance M&A faces "quiet revolution"

Indonesia: Tokio Marine Life eyeing clients through banks

Japan: Meiji Yasuda nears deal for Thai Life Stake

South Korea: ING Life sold in country's biggest insurance deal

Investors continue to swarm emerging insurance markets

Aviva eyes Asian expansion with Indonesian deal

Zurich and HSBC roll out savings plan for Middle East customers

Takaful and sukuk sectors urged to cooperate closely for growth

Manulife sells its Taiwanese life unit

India: Insurers take wait-and-see attitude to banks becoming insurance brokers

Taiwan: Life Insurers' focus on agency sales affects banc first-year premiums

Thailand: Prudential Life expects to increase sales from bancassurance channels to make up 75% of total sales the next few years.

Bahrain: bni and Al Ahlia in talks over major acquisition

Source: Headlines from AIR eDaily, Jul-Oct 2013
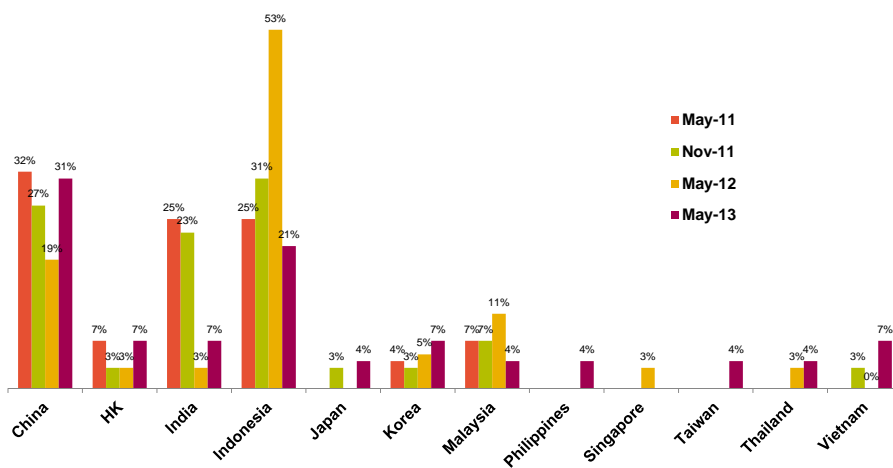
Which market?

1. China
2. Hong Kong
3. India
4. Indonesia
5. Japan
6. Korea
7. Malaysia
8. Philippines
9. Singapore
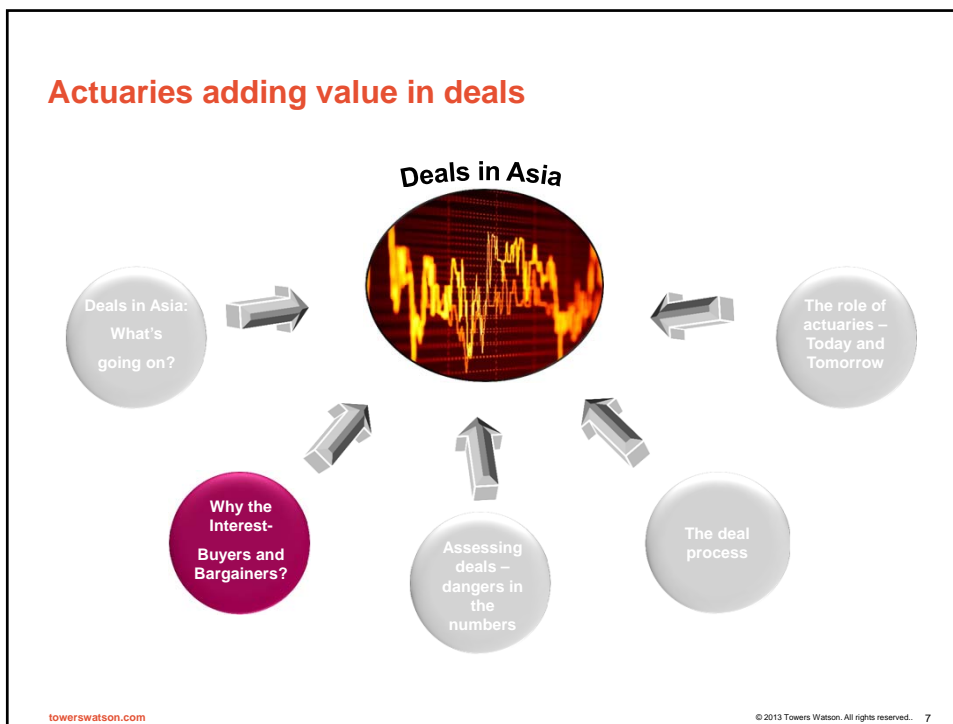10. Taiwan
11. Thailand
12. Vietnam

A question from our Asia Financial Forum:

Assuming you had to make an acquisition, you had the available capital and could buy a company in the Top 5, which one market in Asia would you make the acquisition in?

Assuming you had to make an acquisition and you had the available capital and could buy a company in the top 5, which one market in Asia would you make the acquisition in?

Legend:
- May-11
- Nov-11
- May-12
- May-13

China: 32%, 27%, 19%, 31%
HK: 7%, 3%, 3%, 7%
India: 25%, 23%, 3%, 7%
Indonesia: 25%, 31%, 53%, 21%
Japan: 3%, 4%
Korea: 4%, 3%, 5%, 7%
Malaysia: 7%, 7%, 11%, 4%
Philippines: 4%
Singapore: 3%
Taiwan: 4%
Thailand: 3%, 4%
Vietnam: 3%, 0%, 7%

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Bancassurance is a growing part of a growing pie

Partnership Distribution Share of Market			
Markets	**2001**	**2011**	**2025 Estimates**
China	Frontier	Dominant	Dominant
Hong Kong	Emerging	Dominant	Dominant
India	Frontier	Developed	Developed
Indonesia	Emerging	Dominant	Dominant
Japan	Frontier	Emerging	Developed
Malaysia	Emerging	Developed	Dominant
Philippines	Emerging	Emerging	Developed
Singapore	Emerging	Dominant	Dominant
South Korea	Frontier	Dominant	Dominant
Taiwan	Emerging	Dominant	Dominant
Thailand	Emerging	Dominant	Dominant
Vietnam	Frontier	Frontier	Emerging

Index	Market Share
Dominant	Controlling share of market
Developed	Meaningful share of market
Emerging	Growing share of market
Frontier	No/low share of market

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Why are sellers selling and Banks bargaining?

Drivers for insurers to Sell	Drivers for banks to bargain
• HQ capital issues • "Corporate strategy" • Regulator pressure • Focus • Inability to grow / turnaround / leverage • Get a strategic investor / partner with expertise • Monetisation	• Opportunity aware – why can't we do that? • Ongoing fee-based revenue • Leverage customer base • Leverage fixed expenses • Cash • Offload or get expertise into manufacturing business • Play providers off against each other

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Common valuation metrics for life insurers
-- the search for the simple "silver bullet"… ?

Primary	Valuation metric	Supplementary
IFRS P/E	Price/earnings ratio	P/EV earnings
P/ IFRS NAV	Price/book	P/EV
Dividend yield Earnings yield	Yields	-
RoE	Return on equity	RoEV

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PRICE / EMBEDDED VALUE ?

Asia Insurance - Credit Suisse - P/EV vs ROEV
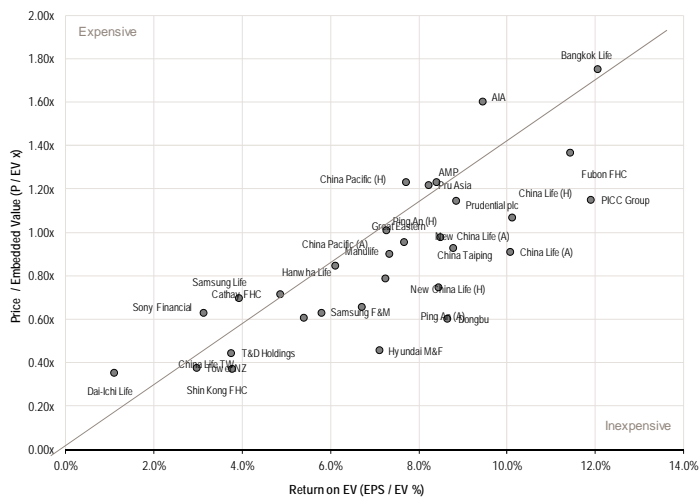
Source: Credit Suisse report dated 2 Oct 2013   *CARE REQUIRED IN INTERPRETATION AND USE*

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PRICE EARNINGS RATIO ?

Asia insurance - Credit Suisse PER analysis - P/BV (x) vs ROE (%pa)

Source: Reuters, **Credit Suisse** 12mth forward earnings forecasts (IBES for non-rated stocks)
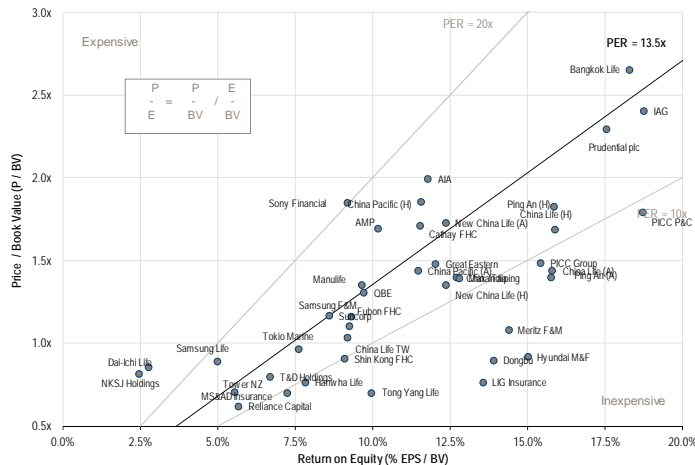
Source: Credit Suisse report dated 2 Oct 2013 *CARE REQUIRED IN INTERPRETATION AND USE*

P/EV – Europe and Asia … time sensitive

Note: Korea insurers' P/EV is based on FY2010 March EV results.
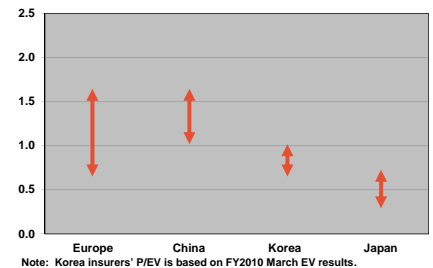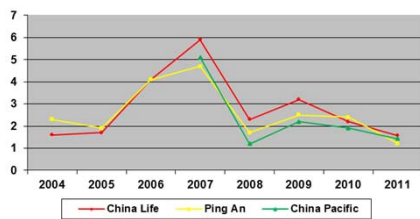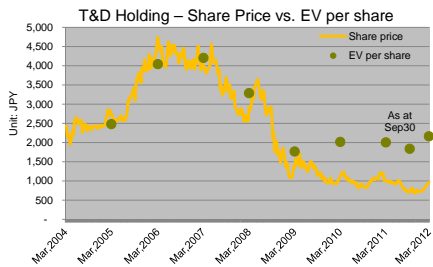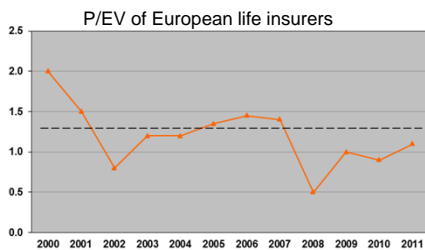
Asia Insurance – Price to embedded value
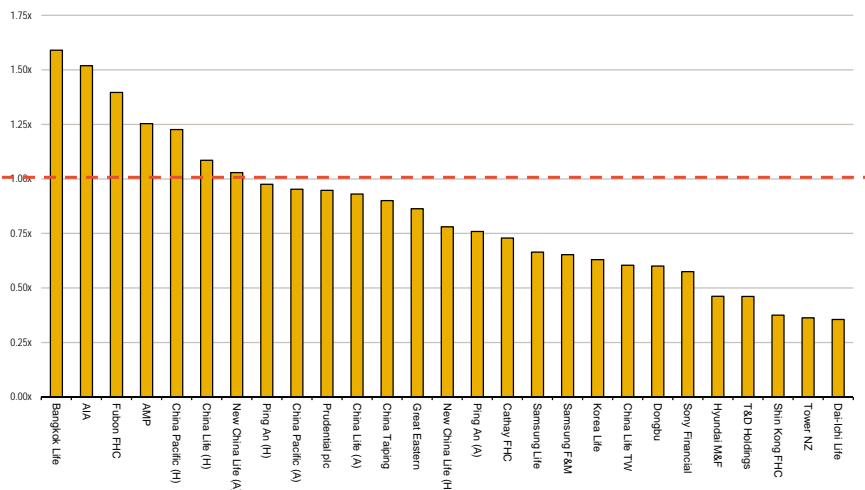
Source: Reuters, Credit Suisse 12 mth forward earnings forecasts (updated Oct 2013)

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Implied NB multiples for major Chinese Life Companies

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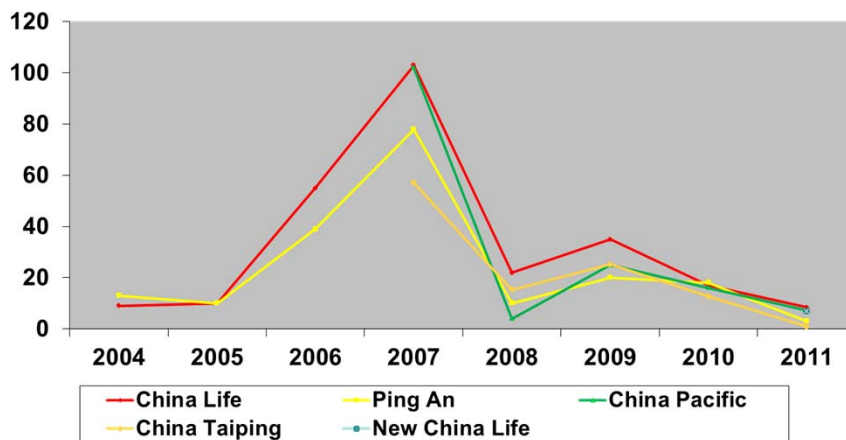
Asia Insurance – Implied value of 1yr new business multiplier (x)
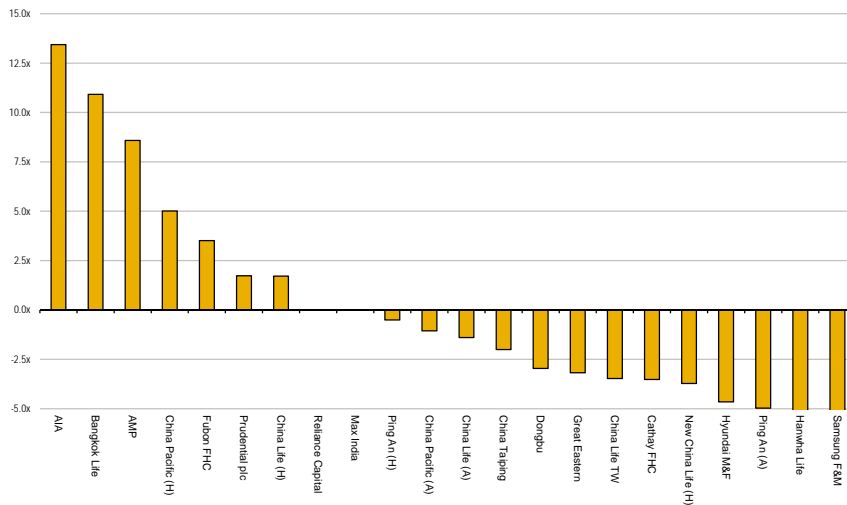
Source: Reuters, Credit Suisse 12 mth forward earnings forecasts (updated Oct 2013)

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But what about current deal prices?

POTENTIAL

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Don't blindly follow…….open your eyes…..and think…..

Economic Assumptions	RDR	Expenses	Negative Spread
Tax	Lapses	Potential	MV

8 for Fortune ?!?

Why do transactions fail?

Rank	Top 10 Pitfalls in Achieving Synergies	Negative Impact
1	Incompatible cultures	5.60
2	Inability to manage target	5.39
3	Unable to implement change	5.34
4	Synergy non-existent or overestimated	5.22
5	Did not anticipate foreseeable events	5.14
6	Clash of management styles/egos	5.11
★ 7	Acquirer paid too much	5.00
8	Acquired firm too unhealthy	4.58
9	Need to spin off or liquidate too much	4.05
10	Incompatible marketing systems	4.01

Note: Survey of Forbes 500 CFOs. Assessed on a scale of 1 to 7, where 7 is high.

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The Deal Process

Before the deal **Strategy & Planning**	During the deal **Due Diligence**	After the deal **Implementation**
Know what you want & be ready	Know what you are getting for the $	Now the real work starts!
• Objectives	• Financial due diligence	• Clear objectives
• Alternatives	• Distribution due diligence	• Project Management
• Windshield Scan	• Operational due diligence	• Governance
• Resourcing	• Fit, culture, alignment	• Resource
		• People & Relationships
		• Quick Wins – 100 day plan

To realize the value expected in an acquisition, the best financial/risk analysis, critical thinking and integration planning must start early
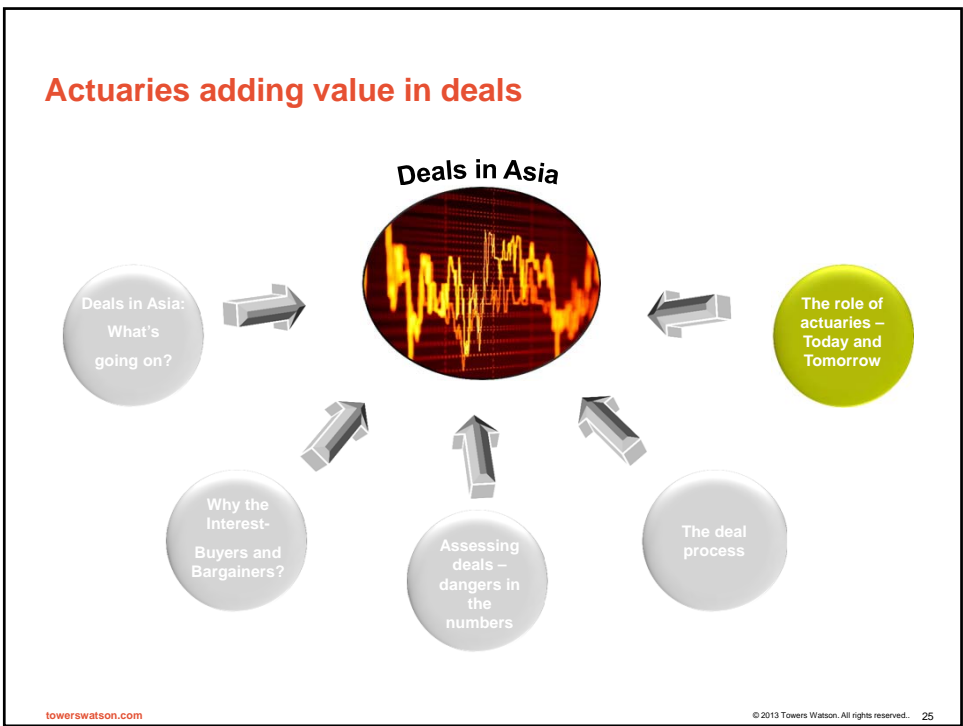
ILLUSTRATIVE

Announcement   **Close**

| -90 days | -60 | -30 | +1 | +30 | +60 | +100 |

Negotiate deal: assess fit, value, preliminary plan

Agree

Develop detailed "Day #1" Plan

Develop detailed "100 Day" Plan

Form "teams"

Start

Work "100 Day" plan
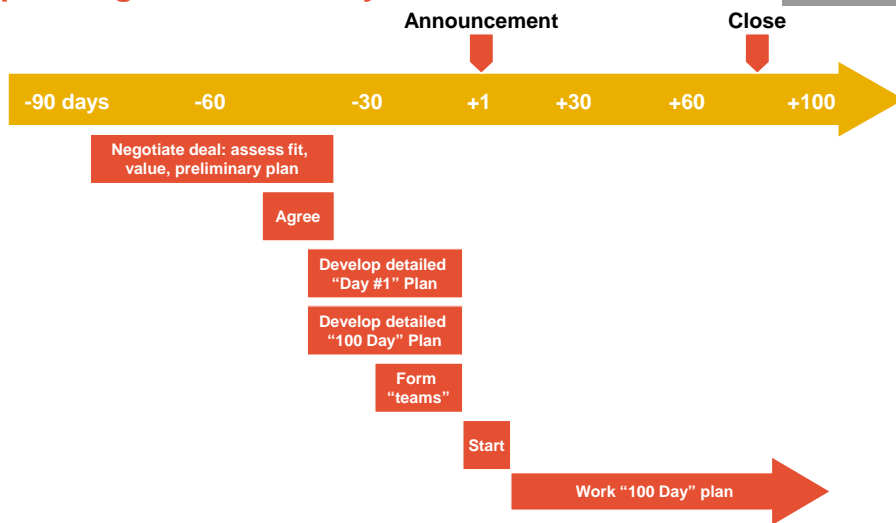
How to win: Don't just try to get the "right price" - it is really about executing to ensure the price WAS right…

Before the deal
Strategy & Planning

During the deal
Due Diligence

After the deal
Implementation

Project Management Office

Change Management

- Organization Readiness
- HR Service Delivery
- Compensation
- Benefits
- Integration Planning
- Business Plan
- Driving Growth
- Corporate Transactions
- Managing Costs
- Business Performance
- Leadership
- Talent
- Due Diligence
- Culture
- Communication
- Integration Execution

Actuaries adding value in deals
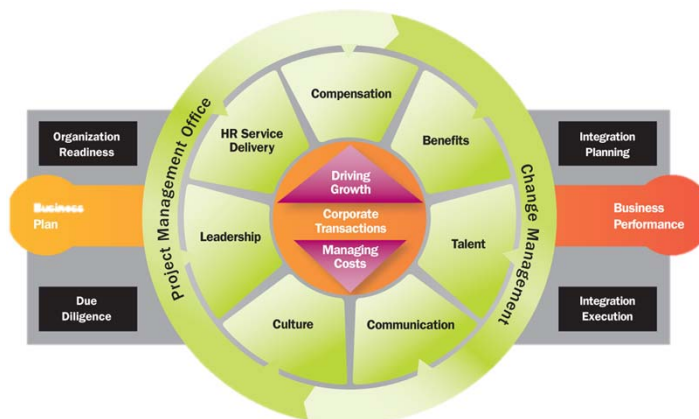
Actuarial skill-sets

- Deep understanding of the financials – inputs and outcomes
- Logical and analytical approaches to complex questions
- Broad training across insurance / investment / pensions businesses
- Looking forward
- Control cycle approach

What can actuaries bring?

- The past
  - Check liabilities
  - Economic valuation of in-force
  - Actuarial risk management assessment
  - Life insurance

- Today & the future
  - Capital
  - Future earnings
  - Risk – discount rates, MCEV
  - Price (not just value)
  - Products
    - Margin sustainability
    - Suitability to channel, segments
  - Sales Projections
  - Channel effectiveness
  - Broad risk management assessment
  - Synergy valuations
  - Operating effectiveness
  - Life / general / health / pensions / wealth

Having the confidence to advise on taking risks
Being the best-placed to advise decision-makers

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And finally… We live in interesting and exciting times … Take a fresh look … Be better informed… ……GRASP THE OPPORTUNITY

Success and Fortune

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