



# The Actuary's Role in Life Insurance M&A

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## Agenda

- I. Case Studies & Actuarial Resources Utilized
  - a. Financial Transactions
  - b. Strategic Transaction
  
- II. Perception and Feedback on Roles of Actuaries in M&A
  
- III. Key Deal Success Factors – How Can Actuaries Help?

## Case Studies: Financial Transactions

### 2014 Transaction Highlights

	Company 1	Company 2	Company 3
<b>Purchase Price</b>	\$237 million	\$197 million	C\$600 million
<b>Initial Booked Loss</b>	\$(303) million	\$(220) million	C\$(1.2) billion
<b>Future ROE Enhancement</b>	60-70 bps	Not disclosed	40 bps
<b>Stock Price Increase*</b>	4.1%	6.7%	0.0%

\*Day before announcement close compared to day after announcement close

- ✓ **Non-core Legacy Business:** Eliminated non-core legacy business which caused:
  - Drag on overall returns
  - Distraction from the companies' core product and geographic strategies
- ✓ **Recognize Loss:** Willingness to recognize a loss that was already apparent to investors

## Case Study: Strategic Transaction – Operating Efficiencies

### Issues

- ✓ Disparate, legacy systems
- ✓ High cost structure for in force management
- ✓ Lack of in-house expertise with managing large, transformational IT projects

### Benefits

- ✓ Focus resources into more strategic priorities
- ✓ Increase value of business through realized expense savings from using variable cost platform
- ✓ Guaranteed cost of conversion and ongoing policyholder expenses
- ✓ Risk of BPO service failure or insolvency passed to Reinsurer
- ✓ Leverage expertise and resources to mitigate risks associated with the conversion process and maintain very high service standards

## Role of Actuaries – During Diligence Stage

<b>Diligence Item</b>	<b>Outside Perception</b>	<b>Wilton Re View</b>
<b>Pricing Model</b>	Actuaries own	Actuaries typically run -- everything goes through pricing
<b>Liability Assumptions</b>	Actuaries, of course	Multiple analyses on each assumption, validations are key
<b>Project Management</b>	Not historically a role for actuaries	Liability assumption diligence in itself is a project; Actuaries can also manage overall deal
<b>Investments</b>	Limited role	Subject matter experts analyze -- Actuary translates analysis for pricing
<b>Expenses/Operations</b>	Limited role	Subject matter experts analyze -- Actuary translates analysis for pricing; validation expertise also a big help
<b>Legal Risks/Agreements</b>	Limited role	Subject matter experts complete -- Actuary confirms consistency between pricing and legal agreements
<b>Taxes</b>	Limited role	Subject matter experts analyze -- Actuary should know rules and make sure SMEs are correct
<b>Communicating Results</b>	Limited role	All risks run through pricing -- Actuary needs to communicate results at both high and detailed levels

## Role of Actuaries – Post Signing

<b>Diligence Item</b>	<b>Outside Perception</b>	<b>Wilton Re View</b>
<b>Regulatory Filings</b>	Limited role	Legal or Regulatory team completes -- Actuaries review detail
<b>Operations (Transition/Conversion)</b>	No role	If leader on deal, Actuary could play major role
<b>Monitoring Results</b>	Depends on Company (Accountant or Actuary)	Actuary plays major role; Finance actuary monitors closely through EV/Actual to Plan; Deal actuary reviews results
<b>Investments</b>	Limited role for actuaries	Review results, especially initially – Pricing actuary knows what is supposed to happen
<b>Settlements</b>	Key role	Actuaries sign off on initial settlements, initial balance sheets

## Deal Success Factors – How Can Actuaries Help?

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### **Deal Success Factors**

- ✓ Have flexible, tailored solutions
- ✓ Responsive, involved senior management team
- ✓ Clear, concise view of risks; sensitivities
- ✓ Be clear on what you can and will do

### **Deal Success Factors: Post-Signing**

- ✓ Don't forget the deal isn't done
- ✓ Deal with employees and distribution fairly
- ✓ Regulatory relationships are important
- ✓ Be clear on what you can and will do