Scaling new heights
M&A integration in insurance
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Foreword

The volume of M&A activity in the insurance sector has been high over the past two years. However, while businesses may be good at doing transactions, success can often only be measured by how well the two businesses are integrated and benefits realized.

This is the context in which we undertook our second global financial services M&A integration study, Scaling new heights. While across the insurance sector, artificial intelligence is increasingly playing a key role in many business processes, planning and delivering the integration of an acquisition remains a very human challenge.

Encouragingly, our research – based on a dialogue with more than 50 global businesses – suggests that insurers now recognize it is imperative to plan integration very early on in the deal-making timetable. The majority already have well-developed integration plans and target operating models in place in time for completion. They are acutely conscious of the need to ensure operational stability as they take control of the target business, as well as executing on their key deal drivers.

Nevertheless, further work will pay dividends. Many insurers are now thinking harder about how to retain key talent and build stronger customer relationships during the integration phase. Some are embracing M&A as a vehicle for broader business model transformation, particularly as they realize the opportunities of digitalization and other emerging technologies. A further focus on governance, accountability and performance monitoring will be crucial if these objectives are to be achieved during integrations.

This work will have to be undertaken in a tough market environment, where regulatory reform, emerging competition, demographic change and political uncertainty all pose hugely challenging questions for insurers. This research provides invaluable insights into how insurers are stepping up to the mark – and what the priorities in M&A integration should now be.

We would welcome the opportunity to share more details about these findings and discuss their implications for how your organization approaches M&A integration. Please get in touch with one of the key contacts listed at the end of this report or your regular EY Insurance contact.
In this survey, we analyze a number of similar areas to our survey on M&A integration in the financial services sector, conducted in 2015. We have used the results to identify key trends and delve deeper into a number of areas, highlighting new insights for those undertaking integration in the insurance sector.

**Key developments since the 2015 survey**

Integration planning pre-signing is no longer just best practice, it’s become a minimum requirement: 96% of respondents say they start integration planning pre-signing, compared with only 64% last time.

Nearly two-thirds (64%) of insurance deals now involve a transitional services agreement (TSA) with the seller (whereas only 16% of deals were carve-outs in 2015). These agreements can help expedite getting to deal closing, but add complexity to the integration approach.

More value is being created: 75% say they now generate cost synergies of more than 30% of the target’s cost base, compared with only 22% in 2015. We believe this is primarily driven by the uptick in the number of domestic deals (62% this time, compared with 50% last time) and a reduction in very large and more complex mergers.

Only 14% of respondents have more than 50 internal integration resources, compared with 58% in 2015. This is because of a larger proportion of bigger deals in the last survey: 34% were worth more than US$1bn in 2015 compared with only 8% this time.
Almost half (44%) of respondents say they see having greater discipline on synergy planning and tracking as the number one improvement factor.

Insurers expect new technologies, such as FinTech, blockchain, artificial intelligence and robotics to dominate future integrations and target operating model design, but the most impactful trend today and tomorrow is data analytics.

Over one-third (37%) of insurers are using deals to acquire capability and not just scale, and thereby transform the combined business.

The average split of internal and external resources on integration is 75% to 25%.

Operational stability on day one and in the first 100 days is the top priority for insurance executives. The most significant threat to this is employee engagement.

Significant focus and attention is now on managing the customer experience or journeys and protecting innovation levels in the business.

Over one-third (36%) of respondents say they left more than 50% of the target’s IT systems in place in the target operating model, potentially adding to the complexity of their business.

There is a fundamental difference in how insurers are approaching the integration of digital channels versus policy administration systems.

While 78% say they had a synergy case at deal signing, fewer had a defined integration strategy or high-level plan, which in our view is a prerequisite for a robust synergy case.

The majority of insurers are adopting a corporate method or specialist team for integrating acquisitions.
Preventing to integrate

As the integration process begins, insurers understand the importance of generating synergies as quickly as possible while not undermining the operational stability of the company.

Insurers have two overriding priorities in the run-up to closing a deal: they want to be sure the business will continue functioning properly from the moment they take it over and they also want to begin executing on their deal drivers from day one. In practice, the two ideas go hand in hand.

“We emphasize operational stability to begin with because none of our subsequent plans can be successful without it,” points out the director of integration at one North American insurer.

Extensive early planning is the key to successful integration, whether the objective is simply a smooth transition, or to push ahead with securing the potential benefits of the deal. Where once this pre-signing work was considered best practice, it is now a minimum requirement.

As Figure 1 shows, more than three-quarters of insurers (78%) have a synergy case in place by the time they come to complete a transaction, while more than two-thirds (70%) have a high-level target operating model design so that they can hit the ground running on day one. Integration planning is also well-advanced: more than half of respondents (60%) have a high-level integration plan in place at signing, while nearly as many (58%) say their integration strategy is defined by this stage.

Also vital is communication, where two-thirds of respondents (66%) have a strategy developed by the time of signing. This reflects the need to keep key stakeholder groups – internal groups, such as employees as well as external audiences, such as customers and regulators – informed about the progress of the deal.

Figure 2 illustrates how this pre-completion work continues seamlessly through signing and thereafter, so that insurers hit the ground running the moment that the work is done.

Almost 9 in 10 insurers (88%) rank operational stability as one of their top
three priorities for the first 100 days after the deal has closed. But deal drivers are front of mind too, with more than three-quarters (78%) citing the need to start generating synergies. Taking financial and operational control is one of the top three concerns for half of respondents (50%).

The need to ensure ongoing operational stability is part of the explanation for the large number of deals that involve TSAs.

Where a transaction involves the acquisition of business that is part of a larger group, it may need to go on accessing key services in areas such as IT from its parent company, until the integration process with the new owner is complete.

Almost two-thirds of insurance sector deals (64%) involve a TSA – in all but a handful of examples – illustrating how TSAs have become central to so many deals. But it’s important to note that while TSAs can help get the deal to completion, they will add complexity to the subsequent integration.

Insurers point to employee engagement and communication as their number one risk, as they seek to ensure people readiness on day one after closing: 60% of respondents pick this as one of their top two concerns.

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**Figure 2:** When planning for day one and the first 100 days post-closing, what were the key priorities? (Rank from one to three, where one is most important and three is third most important.)

<table>
<thead>
<tr>
<th>Key Priority</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational stability in the business</td>
<td>42%</td>
</tr>
<tr>
<td>Starting to generate synergies</td>
<td>22%</td>
</tr>
<tr>
<td>Taking financial and operational control</td>
<td>20%</td>
</tr>
<tr>
<td>Client retention</td>
<td>22%</td>
</tr>
<tr>
<td>Talent retention</td>
<td>14%</td>
</tr>
<tr>
<td>Rebranding</td>
<td>6%</td>
</tr>
</tbody>
</table>

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**Figure 3:** Did your acquisition involve the target being carved out of a parent group and therefore transitional services between the seller and you as the buyer?

- Yes, the TSA was less than one year: 40%
- Yes, the TSA was less than six months: 22%
- Yes, the TSA was more than one year: 2%
- No: 36%

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**Figure 3:** Rebranding

- Key priorities ranked from one to three, where one is most important and three is third most important.

0% 20% 40% 60% 80% 100%

Operational stability in the business  
Starting to generate synergies  
Taking financial and operational control  
Client retention  
Talent retention  
Rebranding  

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While the majority of insurers bring their target into their operating model, forward-thinking businesses see integration as an opportunity to create a better hybrid model.

The majority of insurers making acquisitions (55%) have subsequently moved the target on to their own operating model. However, more than a third (37%) say they have seen the transaction as an opportunity to reconsider the way they operate, opting to incorporate elements of the target’s model in ongoing operations. This best-of-breed approach can be an effective way to deliver the transformation many insurers now believe is required to remain competitive in the rapidly evolving marketplace.

The chief strategy and operating officer of a Chinese insurer makes exactly this point: “The deal we did was part of our plan to introduce new products and services, and to expand into new markets, and we felt the need to transform the business as part of that,” the executive recalls. “Taking parts of both business models was the key to us achieving the results we wanted.”

One fundamental driver of transformation, the digitalization of the financial services sector, is reflected in Figure 5. Following a transaction, insurers were much more likely to move to a new core product platform or to retain two systems when it comes to their digital channels, than in other areas.

Almost two-thirds of insurers (62%) say this is the way forward in digital; by contrast, this is highlighted by just 48% in claims and 38% in policy administration.

A small number (6%) of insurers even say they moved on to their target’s product platforms for digital channels once their transactions completed.
In some cases, it may even be that a superior digital offering was a prime factor driving a deal – an insurer may see the opportunity to acquire new digital capabilities as crucial.

Whether acquirers opt to move the target to their own operating model or to create a new one, it is inevitable that elements of the target’s IT infrastructure will be maintained. The insurance industry is well-known for its dependence on legacy IT systems, with complex infrastructure that has developed over many years of M&A.

Deal-making continues to add to this complexity – more than a third of respondents (36%) report over half of their target’s IT systems remained in place in their end-state target operating model; a further 48% see at between a quarter and a half of their target’s IT systems staying (Figure 6).

This is potentially problematic. At the very least, the fact that so much of the target’s IT infrastructure remains in place suggests the combined business will face additional IT complexity and potential functional overlaps.

Figure 4: What was your overarching approach to target operating model design?

<table>
<thead>
<tr>
<th>Approach</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Move the target to the acquirer operating model</td>
<td>55%</td>
</tr>
<tr>
<td>Create a new best-of-breed operating model/transform the business</td>
<td>37%</td>
</tr>
<tr>
<td>Leave the target operating on a standalone basis</td>
<td>6%</td>
</tr>
<tr>
<td>Move the acquirer to the target’s operating model</td>
<td>2%</td>
</tr>
</tbody>
</table>

Figure 5: Which core product platforms did you select for the end-state target operating model?

<table>
<thead>
<tr>
<th>Platform</th>
<th>Acquirer system</th>
<th>New solution</th>
<th>Retain both</th>
<th>Target’s system</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy administration</td>
<td>60%</td>
<td>20%</td>
<td>18%</td>
<td>2%</td>
</tr>
<tr>
<td>Claims</td>
<td>46%</td>
<td>26%</td>
<td>22%</td>
<td>6%</td>
</tr>
<tr>
<td>Digital channels</td>
<td>32%</td>
<td>24%</td>
<td>38%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Percentage of respondents
For these reasons, while it may feel easier to leave systems in place, it makes sense to decommission and eradicate as much legacy technology as possible. There may be regulatory considerations around data retention — and it may save time and cost not to migrate this data to new systems — but it’s important to not leave unnecessary complexity in the organization.

Functional integration
When it comes to levels of integration of different functions, new business processing, and underwriting and pricing are likely to be highly integrated into the end-state operating model at many insurers, with 74% and 76% respectively assessing integration as more or less complete.

This makes sense as insurers push hard for top-line growth and improved share of the market. But, given the desire of many insurers to secure cost synergies as part of the benefits of a transaction, it would be unfortunate if integration of back-office functions, where business volumes are high, was overlooked.

Insurers currently report claims and policy administration as areas less likely to be highly integrated at the end of the process.

76% say that underwriting and pricing were more or less completely integrated in the end-state operating model.

74% say the same of new business processing.

Figure 6: Indicatively, what percentage of the target’s IT systems remained in the end-state target operating model?
Figure 7: What were the achieved levels of integration for each of the following functions or teams in the end-state operating model? (On a scale from one to five, where one is not at all integrated and five is completely integrated.)

<table>
<thead>
<tr>
<th>Function</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance, actuarial and tax</td>
<td>4% 27% 55% 14%</td>
</tr>
<tr>
<td>Underwriting and pricing</td>
<td>2% 22% 39% 37%</td>
</tr>
<tr>
<td>Claims</td>
<td>2% 4% 29% 47% 18%</td>
</tr>
<tr>
<td>Policy administration</td>
<td>4% 27% 45% 24%</td>
</tr>
<tr>
<td>New business processing</td>
<td>2% 4% 33% 41%</td>
</tr>
<tr>
<td>Distribution and channels</td>
<td>2% 14% 39% 43%</td>
</tr>
</tbody>
</table>

0% 20% 40% 60% 80% 100%
Percentage of respondents
Managing the integration

According to our survey, insurance companies appear to be managing the integration process well, from an employee and client perspective. But there can be no room for complacency.

Figure 8: What percentage of employees in the target company left within the first year following the transaction?

- 25-49%: 12%
- 10-24%: 39%
- Less than 10%: 49%
Insurers are acutely conscious of two of the biggest risks of a transaction: that uncertainty can prompt talented employees to leave the organization, and that similar concerns may see customers depart. This research suggests they have worked hard to mitigate such risks – and secured good results.

Among our respondents, just 12% say that more than a quarter of the target's employees left during the first year following a transaction, while almost half (49%) say less than 10% of such staff had departed. Such low figures suggest talent retention strategies, where appropriate, are having good results during M&A in the insurance sector, ensuring acquirers are able to go on benefiting from the skills and experience of the talent within their target companies.

“Right from the very start of the deal, we had a plan in place for the design of the company we were going to acquire,” says the head of integration at a European insurer. “However, for the sake of the employees of both companies, we worked very hard to integrate the company and to make it work under our brand.”

It is also encouraging to see that insurers are managing to maintain – or even enhance – their relationships with customers during transactions.

A clear majority (70%) say that the client experience had been improved or much improved during the integration process; integration may even represent an opportunity to reach out to the target's customers in order to build closer links for the future. That figure rises to 74% once integration is complete, including a significantly higher number of instances where the customer experience has been much improved.

Nevertheless, a small minority of insurers admit there is still work to be done in this area, with almost one in seven (14%) conceding that the client experience at

49% say that less than 10% of the target company's employees left in the first year following a transaction.

70% claim the client experience improved during the integration process.
While acquirers are confident about their ability to deliver customer value through the integration process, the proof of this will ultimately lie in their ability to retain customers and deliver on their growth objectives.

Moreover, while acquirers are confident about their ability to deliver customer value through the integration process, the proof of this will ultimately lie in their ability to retain customers and deliver on their growth objectives. These tests may not be established for some time after completion.

In this context, having the right level of resources in place to ensure that the integration process can proceed smoothly is crucial. Many insurers have significant teams of people dedicated to working on integration.

Almost half of the respondents (46%) say they had more than 25 employees in their team on their most recent transaction, including 14% with more than 50 employees. In most cases, this staff is supplemented by contractors and advisers – more than half of respondents (58%) employ up to 10 such staff, with a further 40% employing between 11 and 25.

When asked about the key attributes that respondents are most likely to value in members of their integration teams, experience, dedication, leadership and communications skill figure most highly (see Figure 11).
Figure 11: What words best describe a high-performing integration team? (Free-form response)
Realizing value
Synergies are the essence of value creation and insurance companies feel that financial synergies created the most value — however, they were also the hardest to realize.

The opportunity to extract synergies is at the very heart of dealmaking — but those benefits come in different forms. As Figure 12 shows, insurers see financial synergies as having the most potential to create value — these are the gains it may be possible to make from restructuring as part of the deal, and may include a tax saving if the combined group’s tax profile or domicile changes, lower capital costs as its scale, activities and assets change, and even lower borrowing costs, if its credit rating improves.

Securing financial synergies is not always straightforward, however. Indeed, insurers regard such gains as tougher to extract than either cost synergies — seen as the most straightforward benefit to deliver — or revenue synergies. The latter depends on the combined business finding new opportunities to grow revenues — through cross-selling or improved distribution, for example, and will be vital to many insurers.

Cost synergies, meanwhile, may be seen as the lowest hanging fruit following a transaction, but this is not to suggest they are of low value. Almost half of the respondents (48%) report having been able to secure cost synergies worth more than 40% of their target’s cost base by the end of the integration process; a further 48% delivered cost synergies of between 20% and 40% (Figure 13).

**Synergy watch**

With such large sums at stake, insurers naturally work hard to ensure they are extracting as much value as possible from synergies, with clear strategies for driving and monitoring progress throughout the integration process. For example, almost three-quarters (72%) of respondents link each synergy back to a specific integration deliverable or milestone and which was tracked by the integration team. More than half (56%) set their executive management teams’ synergy targets as part of their individual performance plans — and therefore their remuneration package.

**Figure 12:** Please rank the factors that created value in your transaction and the ease with which that value was realized. (Ranked from one to three, where one is least value created or hardest to realize and three is most value created or easiest to realize — mean shown.)

<table>
<thead>
<tr>
<th>Value created</th>
<th>Revenue synergies</th>
<th>Cost synergies</th>
<th>Financial synergies (capital and tax)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.8</td>
<td>1.8</td>
<td>2.4</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ease of creation</th>
<th>Revenue synergies</th>
<th>Cost synergies</th>
<th>Financial synergies (capital and tax)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.0</td>
<td>2.1</td>
<td>1.9</td>
<td></td>
</tr>
</tbody>
</table>

**Figure 13:** As a proportion of the target’s cost base in dollar terms, what were the annual cost synergies achieved in the end-state, post integration?

- 4% in 10-19%
- 21% in 20-29%
- 27% in 30-39%
- 48% More than 40%

Insurers see financial synergies as having the most potential to create value — these are the gains it may be possible to make from restructuring as part of the deal.
72% say that they ensured that every synergy is linked to a trigger point in the integration plan that can be tracked.

60% say they saw levels of product and service innovation accelerate during the integration process.

A similar number (54%) say they commissioned independent reviews of the benefits realized.

However, not all insurers are currently following through on synergies. Half the respondents (50%) say synergy targets were simply merged into the overall business plan for the transaction once the deal was completed — the targets weren’t then tracked distinctly, which may make it harder to hold managers to account.

It is also important to note that synergies are not the only benefit achievable from M&A. Many insurers see deal-making as part of the transformation process, as they seek to confront the challenges and opportunities of the evolving global marketplace. The head of finance at one Latin American insurer says: “Our most recent deal brought our business presence in the digital distribution space; our target had the skills to guide us through the integration of digital channels, raising the pace of our innovation.”

In that context, it’s encouraging that almost two-thirds of respondents (60%) saw levels of product and service innovation accelerate during the integration process, when deal-related work might have been expected to be a distraction. Less than one in five (18%) respondents reported a slowdown in innovation.

This speaks to an important challenge for insurers – particularly those that see revenue synergies as tough to obtain during integration.

Innovation can be the key to unlocking further growth – and therefore contributing to those revenue strategies – so insurers need to focus on this value-adding activity. Many acquisitions are all about acquiring new capabilities, so leveraging these capabilities for innovation and growth will be vital.

![Impact meter](image.png)

**Figure 14:** Which of the following methods did you use for driving and monitoring synergy realization? (All that apply)

- Every synergy linked to an integration deliverable or milestone and tracked by the integration Programme Management Office (PMO) 72%
- Targets built into executive management’s individual performance plans 56%
- Commissioned independent audits or reviews of benefits realization 54%
- Merged into the business plan post-deal completion and not tracked distinctly thereafter 50%
- Not specifically tracked or monitored 0%
Figure 15: During the integration, was there an impact on the level of product or service innovation in your business?

- **Accelerated**: 60%
- **No tangible difference**: 22%
- **Slightly slowed**: 18%

Percentage of respondents
Our survey reveals that insurance companies are not being complacent about future integration. Executives realize that improvements can be made and that technology and digitalization will play a major role in future planning.

While the survey suggests insurers are planning ahead for post-deal integration — and allocating resources to the integration team — respondents also see a number of areas where they can and should make improvements on future transactions.

Two potential improvements stand out in particular. Almost three-quarters of respondents (70%) cite governance and decision-making as a potential area of focus, while almost two-thirds (62%) point to synergy realization planning and tracking. The second of these is most commonly ranked as the important change that insurers could make during future integrations, picked by almost one in five respondents (44%).

Beyond these top two, however, respondents point to a range of possibilities — more than half (58%) think integration planning should start earlier; almost as many (54%) think
concentrate on during previous integration processes given the complexities involved, and deals suffered as a result.”

Still, most insurers now have dedicated teams to work on integrations — some 78% of respondents have put such resources in place, while the remainder aspire to do so. There have also been attempts to standardize the integration process, as far as that is possible, with almost two-thirds of respondents having developed a methodology “playbook” setting out how they will deal with such projects. That may enable insurers to deliver more consistent results during future integration work — certainly, those insurers who do not currently have this facility say they would like to put one in place.

However, integration playbooks and similar models will need to be flexible — while the objectives and opportunities may be similar as insurers move from one deal to another, the most relevant issues may change. For example, during their most recent integration projects, insurers say they were most likely to encounter trends such as the move to enhanced data analytics capabilities (cited by 86% of respondents) and sector convergence (84%). But, while 84% of respondents see data analytics as likely to be a major trend during future acquisitions, only 8% say the same of sector convergence.

In fact, most of the trends insurers now anticipate for future integration work are technology-related — FinTech and blockchain (84%), increasing digitalization (67%) and cloud computing (61%) are all seen as potentially significant. That will require dedicated integration teams to shift their approach in future transactions — and to deploy their playbooks in a fashion that is appropriate to the prevailing themes.
Demographics and methodology

Region

What was the value of the acquisition? (Please select only one option)

More than US$1b
US$500m–US$1b
US$100m–US$499m
Less than US$100m

How many financial services acquisitions has your firm undertaken in the past 36 months?

What type of deal structure was it? (Please select only one option)

Share deal (majority)
Share deal (minority)
Hybrid
Asset deal
In terms of geography, how would you categorize your transaction? (Please select only one option)

- Domestic: 62%
- Cross-border: 38%

In comparison to your existing business, what size was the target? (Please select only one)

- Smaller: 4%
- Roughly the same: 96%

About the research

In December 2016, Remark, the market research division of the Mergermarket Group, surveyed 200 C-level executives on behalf of EY. All of the financial services companies included in the survey had conducted a recent acquisition.

Those surveyed occupy a range of senior roles, such as CFO, strategy director, head of M&A and integration director. To be eligible for the survey, companies in the banking sector required revenues (defined as net interest income, fees and commissions, and other income) greater than US$8b.

The survey included a combination of qualitative and quantitative questions, and all interviews were conducted over the telephone by appointment, with the results analyzed and collated by Mergermarket. All responses are anonymized and presented in aggregate.

About Remark

Remark, the events and publications arm of The Mergermarket Group, offers a range of publishing, research and events services that enable clients to enhance their own profile and to develop new business opportunities with their target audience.

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About EY

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ED None

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