

# Mergers and Acquisition

## Introduction

Few organizations have expertise integrating business after mergers and acquisitions activity, yet business success is dependent upon successful integration of its People, Process, Technology and a well planned M&A strategy. Without a well thought and effectively managed plan, the merger or acquisition risks an incomplete integration, business frustration, loss of critical staff, higher costs and an unnecessary complex environment. Successful integration starts before the merger or acquisition. Due diligence must be used to develop an integration strategy, plan and team that will give confidence to all stakeholders. Identifying key decisions around which applications, infrastructure and IT processes can go forward and key actions to create the new organization after the merger or acquisition is also a necessity.

Global merger and acquisitions in the insurance sector have reached all time record of 148.7 billion dollars in 2008, up 34 per cent from the previous year. Strategic activity accounted for 97 per cent of total activity in the industry, as compared to 83 per cent in 2007. Insurance companies in the United States made the maximum number of acquisitions. US-based insurers made acquisitions worth \$71.6 billion, up by 102 per cent from the deals in 2007. Deals worth over \$10 billion each accounted for nearly

36 per cent of 2008 volume, which stood \$53.4 billion, up from just 10 per cent in 2007 whereas deals in the range of \$1 billion to \$5 billion range made up 25 per cent of the total with an announced value of \$36.7 billion.

## Key Challenges in Mergers & Acquisitions

The post-merger integration phase covers the operational part of any merger project. Often this phase determines if the merger becomes a success or failure. The four key aspects of any business organization are typically Strategy, People, Process and Technology. Many of the critical success factors of the post-merger integration are “soft” factors, which involve people and their interactions with technology and process. Value is created by focus and adherence to strategy.

Therefore, Cognizant feels it is necessary to focus attention on issues such as

- Development of a new management structure for the new, larger organization; especially overcoming leadership problems in very large units
- Bringing together formerly separate units from both former organizations
- Allocation of clear roles and responsibilities in the emergent merged entity



- Communication of the new strategic objectives and the new vision of the merged organization
- Implementation of a new shared corporate culture and management culture
- Integration of the multiple IT organizations
- Reduction in redundancy and duplication of IT systems
- Harmonization of management compensation and management incentive systems
- Overcoming of language barriers and country specific cultural differences
- Overcoming of staff's suspiciousness of the other organization
- Knowledge transfer among units that are to be integrated
- Maintenance of customer and intermediary relationships during integration
- Employees who fear being earmarked redundant
- Impact on the existing corporate culture

### Cognizant's IT Integration Approach during M&A

Cognizant's roadmap to support clients during Merger and Acquisition transaction has structured mile stones and processes to continuously raise the bar in order to execute effectively.

#### Target Assessment

- Identify and assess sources of synergy (cost and revenue), costs for synergy extraction and accrual of long term benefits
- Analyze the existing system architecture to decide if it is ready to accommodate the systems of the target organization. In an insurance industry merger, this would also include analysis of the fitment of various products in the portfolio of the merging companies
- Assess existing staff skills and carry out adequate resource planning, a product re-alignment exercise might also be carried out
- At the end of this phase, the IT organization articulates the principles that would guide the integration decisions, system integration strategy and approximate timelines for achieving each milestone of integration

#### Pre-merger Planning

- Undertake Due diligence and Assessment of integration effort
- Finalize the Insurance portfolio for re-alignment based on the list from 'Target Assessment' phase
- Identify possible change in company rating and anticipate the rating agency reaction
- Structure the deal to best monetize the assets
- Plan for Day One and conduct internal dry runs

#### Planning for M&A

- Pair IT and business across merged entity to form cross functional teams to develop detailed area wise integration plan & prepare for joint IT governance
- Conduct joint dry runs and perfect execution plans
- Enable communication to all stakeholders
- Provide BAU services (Helpdesks, Production support, System availability, Scalability, etc)
- Implement execution plans and programs covering functional areas, applications, data and infrastructure elements
- Enable fulfillment of regulatory and legal requirements
- Complete Phase 1 of consolidation of book of business, migration of data and customers, product rationalization, infrastructure consolidation
- Enable cross-selling and up-selling
- Refine and detail IT governance plans
- Fine tune the execution plans

#### Execution

##### Effective senior management team for execution

- Common Vision and Strategy Workshops
- Experiential Learning Workshops
- Creating effective governance groups

##### New culture supporting new enterprise strategy

- Planning Participation
- Team Launch Workshops
- Coaching
- Interactive simulations

#### Meet integration and business operation goals

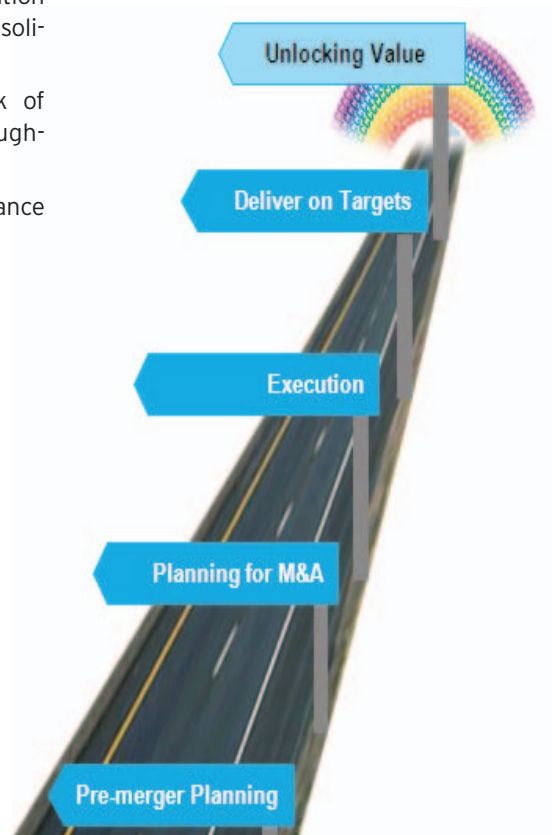
- Implement the new organization design & IT governance plans
- Execute HR policies, procedures and processes that support the Guiding Principles
- Implement business processes that match customer, cost, quality and employee satisfaction goals
- Complete phase 2 of consolidation of book of business, product rationalization, application integration and rationalization, Infrastructure consolidation

#### Deliver on Targets

- Implement the post 'Execution phase' plans
- Complete Phase 3 of Application integration and rationalization, and Infrastructure consolidation
- Enable automatic consolidation of Book of Business based on Straight-Through-Processing
- Comprehensively implement IT Governance plans

#### Unlocking Value

- Integrate to unlock the true potential of the assets through the synergistic combinations identified from the 'target assessment' phase
- Unlock value based on optimal levels of application and infrastructure rationalization (in-line with business model)
- Achieve strategic business agility based on plug and play IT and Business components
- Stress test the strong foundation developed for future M&A and strengthen as necessary



## Partnering Clients for IT Integration during M&A

Client	Description	Brief Description	Business Benefits
General Insurer in US	System consolidation & modernization strategy	System modernization strategy at the enterprise level for multiple companies with different business models and spanning across all core insurance process	<ul style="list-style-type: none"> <li>Reduced system complexity by rationalization of number of policy administration platforms from 15 to 5 and claims platforms from 7 to 3</li> <li>Reduced maintenance cost by around 15-25%</li> </ul>
Large Life Insurer in US	Infrastructure Integration and systemizing corporate and institutional functions	Integration of infrastructure of acquired company and decommissioning the system of acquired company	<ul style="list-style-type: none"> <li>Reduced cost by more than 1 million USD spent per month towards transmission services</li> <li>Increased productivity due to standardized tools and products enterprise-wide.</li> </ul>
General Insurer in US	Post-merger business operations consolidation	Optimization of the business insurance portfolio by reducing the number of products and platforms used across the business units and consolidate	<ul style="list-style-type: none"> <li>Anticipated cost savings due to suggested consolidation of 12 products from 4 lines of business unto another existing business platform</li> <li>Expected increase in cross-selling and streamlined marketing due to consolidated set of products and supporting platforms</li> </ul>
General Insurer in US	Business Transformation	Rationalization of myriad of policy administration systems on multiple platforms, creation and implementation of technology platform encompassing policy administration, billing and agency management	<ul style="list-style-type: none"> <li>Savings of 40% of annual IT expenditure</li> <li>30% decrease in average speed to answer within the first year</li> </ul>
Large Life Insurer in US	Application portfolio rationalization	Development of an integrated solution involving a combination of sun-setting, consolidation and migration phases across the portfolio of applications	<ul style="list-style-type: none"> <li>Reduced the maintenance costs by \$9 million/year</li> <li>Additional \$4 million were saved in project implementation costs attributed to Cognizant's Onsite-Offshore delivery model.</li> </ul>

### About Cognizant

Cognizant (NASDAQ: CTSH) is a leading provider of information technology, consulting and business process outsourcing services. Cognizant's single-minded passion is to dedicate our global technology and innovation know-how, our industry expertise and worldwide resources to working together with clients to make their businesses stronger. With over 50 global delivery centers and 64,100 employees as of June 30, 2009, we combine a unique onsite/offshore delivery model infused by a distinct culture of customer satisfaction. A member of the NASDAQ-100 Index and S&P 500 Index, Cognizant is a Forbes Global 2000 company and a member of the Fortune 1000 and is ranked among the top information technology companies in BusinessWeek's Hot Growth and Top 50 Performers listings.

### Start Today

For more information on how to drive your business results with Cognizant, contact us at [inquiry@cognizant.com](mailto:inquiry@cognizant.com) or visit our website at [www.cognizant.com](http://www.cognizant.com).



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Passion for building stronger businesses

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