



How P&C Insurers Can Unlock Value from Mergers & Acquisitions

P&C insurers are likely entering a historic era of increased M&A activity aiming to drive growth at a double-digit pace, pivot into new business models and remain competitive. These insurers will be under pressure to realize the projected revenue growth and cost savings through integration synergies. Here's how P&C insurers should complete a post-merger integration – from strategy development and planning through execution.

Executive Summary

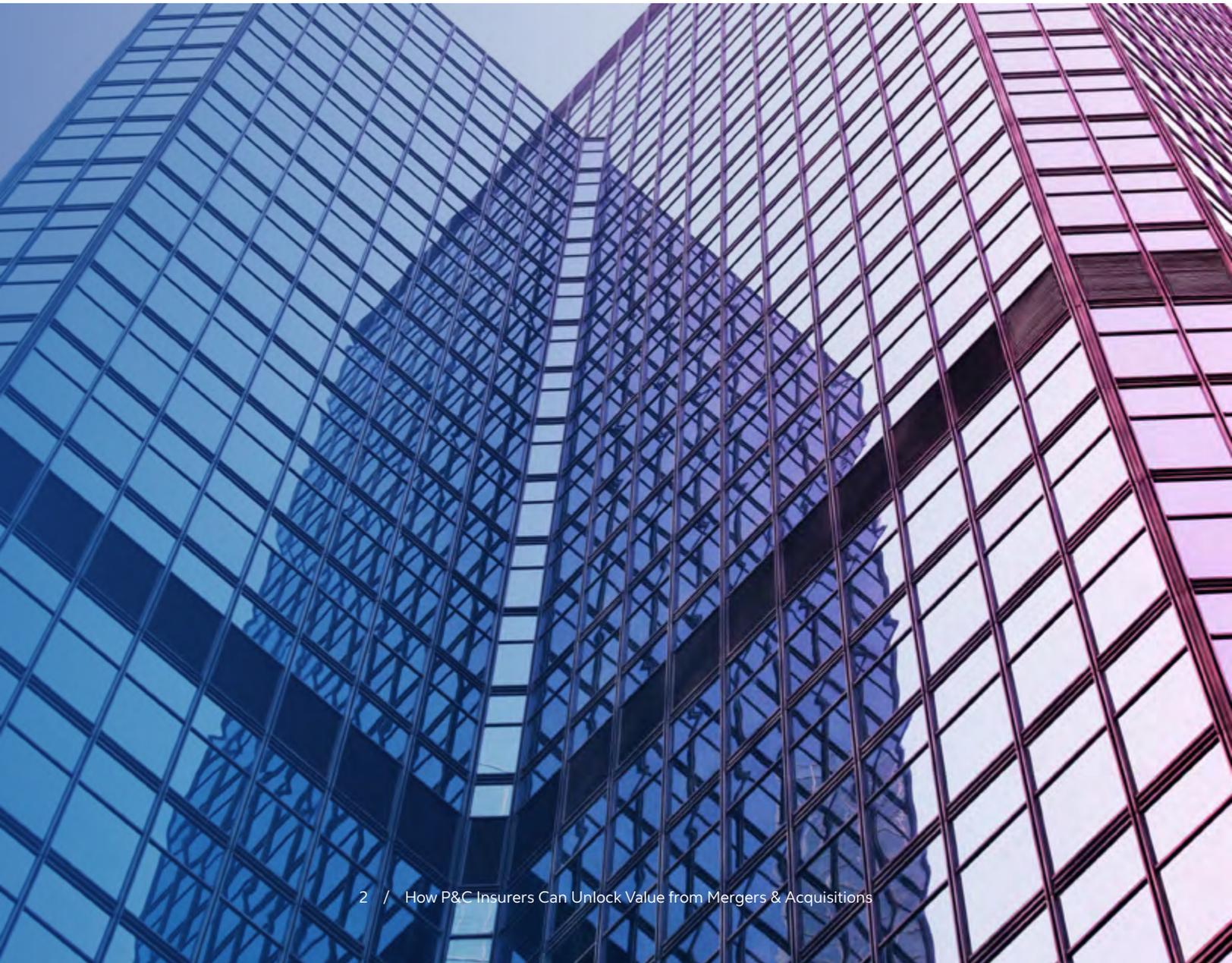
The property and casualty (P&C) insurance industry has been in a sustained, saturated growth phase across personal and commercial segments, with constant annual growth of around 5% over the last few years.¹ Recent economic strains on the top and bottom line created by

the COVID-19 pandemic have led the P&C industry into uncharted territory. This, coupled with low investment income² and financial market volatility, may lead insurers to seek strategic mergers and acquisitions (M&As) as a means to grow – or even survive – in the years ahead.

The P&C industry has experienced many acquisitions over the years. However, our financial analysis of the carriers over years of pre- and post-acquisition found that many carriers have not achieved both growth and cost synergies. Based on our experience, most post-merger integrations still take much longer than originally anticipated. There are many obstacles in such blendings, which have led to delays and lost synergies. Insurers face complex decisional hurdles, typically in their business operations and IT integrations, due to an unclear understanding of scope, priorities, cross-dependencies and challenges. Some of the

keys to success are having a robust integration plan, adopting an agile approach with a focus on minimum viable product (MVP) releases of integrated processes or platforms, and engaging a strategic partner to help guide the business through the process.

This white paper will cover key aspects of post-merger integration (PMI) and introduce a framework based on our experiences from past programs. We also have recommendations to help the integration management office effectively orchestrate all operations.



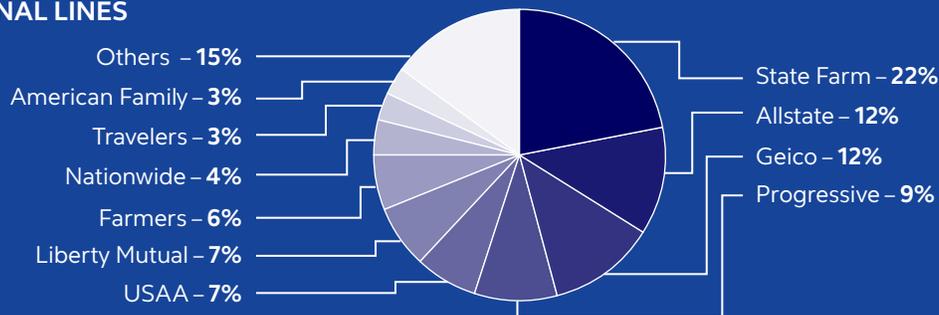
Post-merger integration: A value multiplier

P&C insurance is a moderate growth industry with both personal and commercial segments highly fragmented (see Figure 1), with no dominant player and intense competition to capture market share. Today, along with finding new avenues for growth, insurers must address multiple challenges such as evolving stakeholder expectations, the rise of newer business models from increasing penetration of

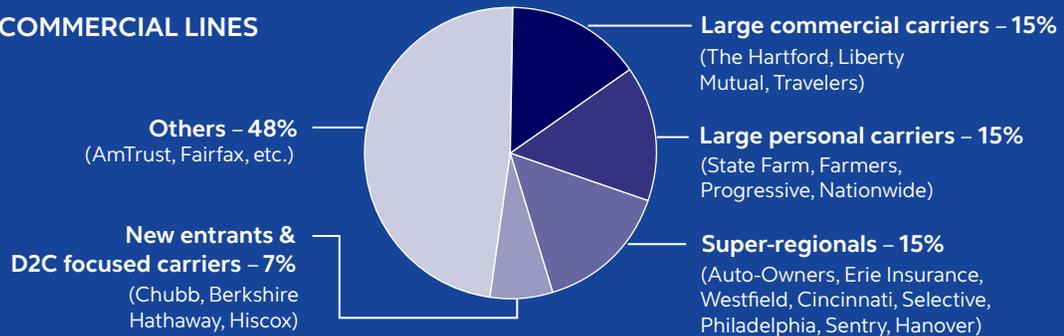
IoT devices, and impacts from the pandemic and ransomware attacks. To outperform competitors, many insurers seek inorganic growth by entering new markets, regions, segments and service areas through acquisitions. P&C M&A activity is expected to rise as insurers strive to emerge stronger from the pandemic.

2019 U.S. market share for insurance segments

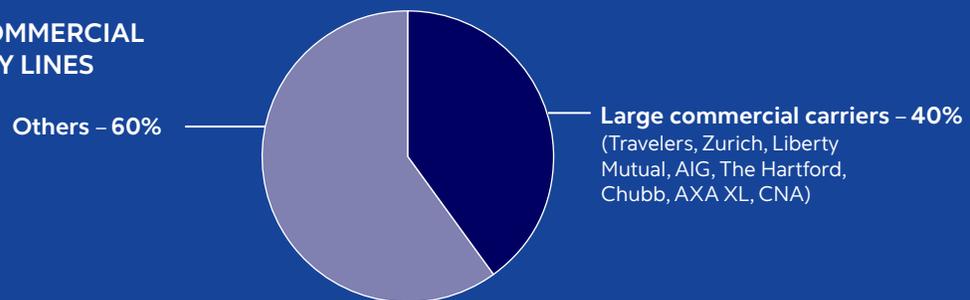
PERSONAL LINES



SMALL COMMERCIAL LINES



MID/LARGE COMMERCIAL AND SPECIALTY LINES



Source: Cognizant analysis based on NAIC and other secondary sources
Figure 1

Many multibillion-dollar deals have closed in the last few years.³ Our analysis of six large P&C acquisitions over the past eight years shows mixed results on the resultant growth and expense ratios, as shown in Figure 2. Most carriers that improved growth have higher expense ratios in the following years. Likewise, most carriers that contained their expense ratios were unable to realize accelerated growth.

Only two of the six carriers analyzed achieved both growth and expense synergies from the M&A, with only one of them achieving growth above the industry average. Some of the key reasons for the delayed and suboptimal results include:

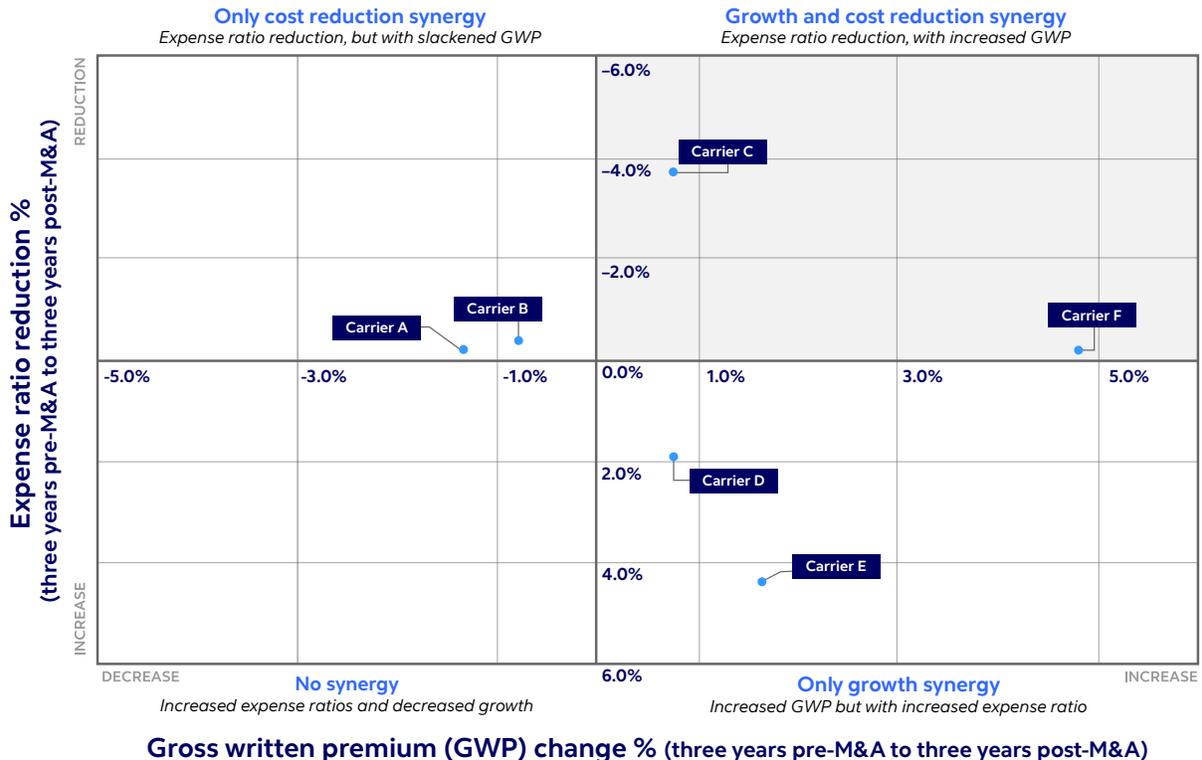
- Lack of an effective PMI strategy and a clear execution direction aligned with the overall business vision.
- Lack of technical depth among the integration partners, and their failing to understand and

foresee roadblocks with the typically complex legacy processes and systems across both organizations.

- Lack of an effective governance structure required to make decisions with execution pace, change management, communications, early realization of value and guidance to teams.

Many insurers will accelerate inorganic growth through M&As as a means of expanding into new markets (e.g., specialty, excess and surplus), geographies (e.g., international or state-wide expansions), industry segments and risks (e.g., ride-sharing providers and other sharing economy providers), and also adopting new business models, such as peer-to-peer insurance or episodic insurance. The key to ensure best outcomes and faster synergy is an effective PMI strategy – from planning to execution.

Pre- and post-merger growth and expense ratios of large P&C carriers that went through M&A activities in the past eight years



Source: Cognizant analysis based on data from NAIC, annual reports and secondary sources

Figure 2

Charting the building blocks for effective integrations

A PMI may span multiple geographies, product groups and business units. This results in a breadth of integration activities across business areas and operating models including organizational structure, products, distribution channels, people, processes and technologies – such as applications, end-user services, servers and databases. A successful integration needs to ensure that all dimensions (business, operations, IT and infrastructure) are holistically integrated. An unclear rationalization

and integration strategy will result in lost synergies and delayed implementations. For example, challenges arriving at a consensus on the clearance processes across business groups have delayed many submission/intake system integrations. Our P&C insurance PMI framework, as shown in Figure 3, includes the key dimensions and subdimensions that insurers need to consider and decide upon to ensure they realize holistic integration and planned synergy benefits.

Key business, operations and IT integration dimensions for holistic integration



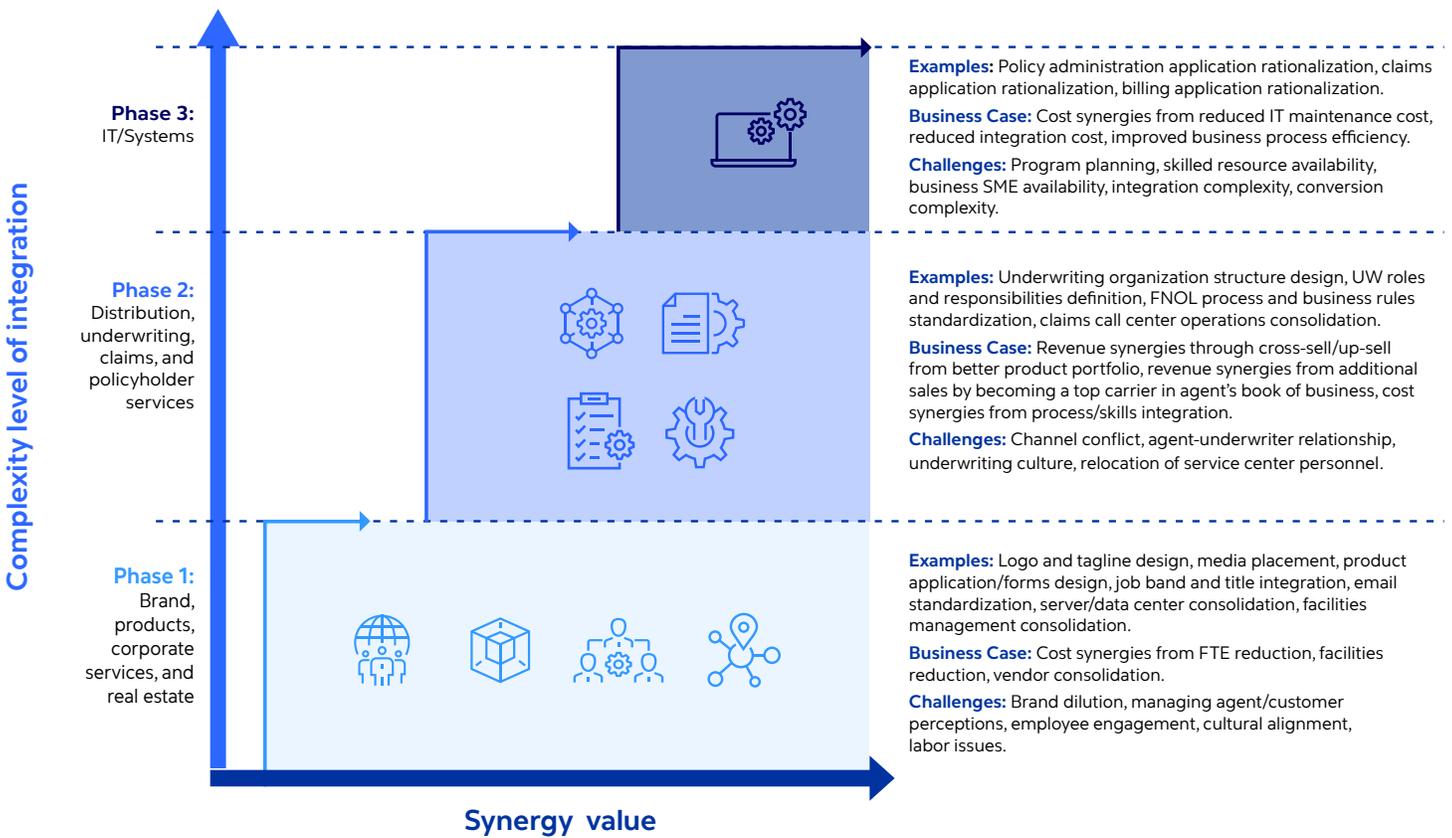
Source: Cognizant
Figure 3

Navigating the PMI journey

Combining these dimensions in an actionable plan is critical to success. When setting timelines for integration and deciding on best approaches, the decisions made will vary depending on the combining cultures and the intended business objectives around the acquisition. Figure 4 depicts a representative phase-wise approach to integration, calling out the key challenges and expected business values captured. Additionally, the integration phases

need not always be linear. Insurers can opt to run workflows in parallel with an agile mindset. For example, insurers may stage their IT consolidation by starting with end-user computing consolidation and then address application consolidation after the business process integration is complete. Integrating business operations and IT are the most challenging and time-consuming but are key to realizing synergistic value.

Phase-wise categorization of the key dimensions across business, operations and IT integration stages



Source: Cognizant
Figure 4

Quick Take

Key Learnings from Successful PMIs

Business functions differ widely in their level of integration complexity. Adding to these complexities are business interdependencies, innate challenges with the current technology and cultural differences. Figure 5 depicts key learnings across functions from our recent experiences integrating business operations and applications.

Key PMI learnings across business functions, working with leading P&C insurers

Function	Key question(s) for insurers	Our learnings
Submission/clearance	What should be the scope of clearance across my segments?	Carriers can decide between providing a common clearance (for customer, broker, risk) against the one segment of their business (small, mid-size, large, specialty) or build a common clearance across the enterprise.
Underwriting	Should I move underwriting to a common underwriting platform or retain the existing underwriting tools/platforms?	The complexities and change management associated with consolidating underwriting tools/platforms are higher, though they provide better effectiveness and efficiency.
Policy administration/servicing	Should I consolidate my policy administration systems and migrate historical data?	Policy administration consolidation typically has a huge impact on business case and should be prioritized. Policy migration can be done at renewals.
Claims	Should I consolidate my claims systems and migrate historical data?	Claims provides better potential for consolidation sooner than other business applications. Different options and strategies exist to manage open claims, long-term claims and closed claims.
Reinsurance	Should the reinsurance treaties be consolidated to a common system?	Reinsurance complexity is driven by line of business (number of treaties, facilities, etc.). Target solution should be defined early, but “manual” solutions can work short term.
Reporting	How can I provide consolidated business, operational reporting and analytics?	Consolidated reporting solution is often complex and involves sourcing and combining data from multiple sources. Short-term tactical reporting solutions often require manual consolidation.
Finance	How can I consolidate premium, receivables accounting functions and close financial periods?	Consolidation of financial systems usually happens prior to consolidation of policy/UW and claims platforms, as executives look at consolidating the premium reconciliations. Accounting to be streamlined across merged entities and close financial periods accurately in a timely manner.

Source: Cognizant
Figure 5

IMO: Ensuring success through holistic integration strategy, planning and execution

The integration management office (IMO) plays a vital role in integration success, as it manages strategy, planning and execution. This office represents the “home base” that orchestrates all efforts across diverse groups. It is responsible for establishing program standards, governance, reporting, change management and measuring KPIs

to assess integration program outcomes. An IMO requires representation from all the business and IT groups involved. Playbooks, skills, methodologies and tool kits must be cross-leveraged when progressing through the many acquisition initiatives. Figure 6 defines the key roles and responsibilities of an effective IMO.

Key roles and responsibilities of the IMO

 <p>Strategy and planning</p> <ul style="list-style-type: none"> ■ Road-map and rollout sequence. ■ Foundational planning. 	 <p>Program management</p> <ul style="list-style-type: none"> ■ Develop and manage program timelines. ■ Standardization of hand-off processes/activities. 	 <p>Business case management</p> <ul style="list-style-type: none"> ■ Develop and manage business case: benefits & cost. ■ Measure progress and deviation. ■ Transition services agreement (TSA) management.
 <p>Risks and dependency management</p> <ul style="list-style-type: none"> ■ Risks and issues management. ■ Dependency tracking and management. 	 <p>Integration services</p> <ul style="list-style-type: none"> ■ Develop key integrations between systems. ■ Review data dependencies and requirements. 	 <p>Infrastructure & end-user computing</p> <ul style="list-style-type: none"> ■ End-user device and network enablement. ■ Manage infrastructure migration and data center consolidation.
 <p>Change management</p> <ul style="list-style-type: none"> ■ Change management impact assessment, strategy and plan. ■ Comprehensive rollout, communication and adoption plan. 	 <p>Foundational work/planning</p> <ul style="list-style-type: none"> ■ Product definition by business unit/ profit center. ■ Brokers, agents and office rationalization. 	 <p>Multidisciplinary tracks</p> <ul style="list-style-type: none"> ■ Product, policy, underwriting, claims, finance, reinsurance, actuarial, reporting. ■ Conversion and migration.

Source: Cognizant
Figure 6

The IMO should ensure proper coverage and oversight of all integration components and help teams deliver on time and within budget. Guiding IMO principles include:

I Manage the cultural shift. Never easy, fostering change can introduce anxiety and confusion across management levels and departments in both organizations. This often leads to higher attrition, particularly in functions such as underwriting, claims and finance. Managing employee expectations through effective change management and strategic and timely communications is critical. Retaining employees in key roles such as underwriters, claims adjusters and actuaries needs special attention as they may be anxious about their future and the impact of change.

I Follow an agile path. Successful integration planning and execution needs to be agile to deliver value incrementally and quickly and to gain stakeholder trust. Two key considerations include:

- > Business and IT need to approach and execute integration with an MVP mindset, which focuses on incremental business integration and value delivery. The IMO must ensure this focus by being the central organization that manages the MVP scope and ensures the mission stays on track. Scenarios such as functional enhancements at the portfolio level can derail the integration's scope and timeliness. Tying changes to what is absolutely needed for integration (vs. enhancements) and ensuring teams remain steadfast to complete integration objectives will help organizations realize their PMI goals.

- > Keep the scope and assumptions flexible, with room to make adjustments along the way. For example, regulatory changes, channel resistance and geographic differences often lead to unforeseen requirement changes. These types of complex issues – especially those related to multinational needs (currency, language) – can impact integration plans. Creatively resolve challenges through workflow changes. Managing changes, communications and rollout through the IMO will enable teams to focus on their committed milestones.

All options need to be evaluated through an execution lens, and the role of a strategic M&A partner is not just to define the strategy and plan but to bring learnings from prior integrations, customize approaches and lead execution with an agile mindset. For example, one insurance M&A MVP addressed claims-system integration, while another M&A focused first on policy-administration consolidation. A clear agile plan needs to be devised during due diligence.

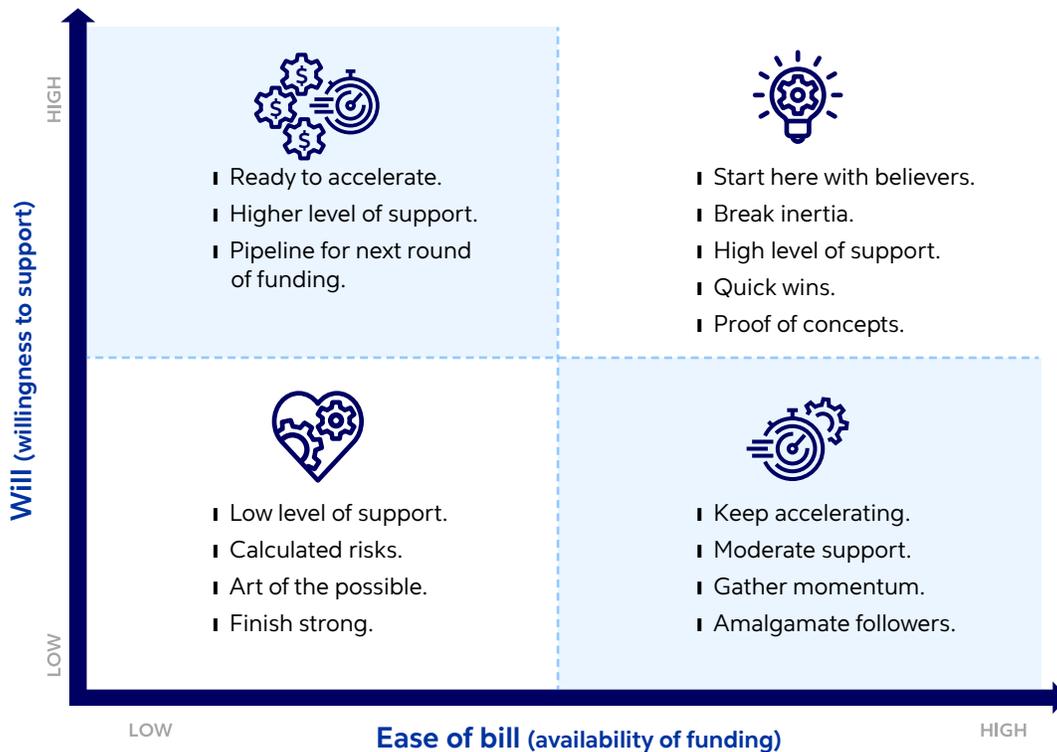
- I Manage scope through integration phases.** Conduct the integration in phases based on parameters such as business appetite, speed-to-market, team availability and required change management. Manage scope closely and treat integration and transformation requirements differently. In a recent acquisition, the acquiring carrier focused on integrating the applications and business processes to get to one unified state of integration, while planning how to make that united approach futuristic, through digital transformation in distribution. Approaching integration with undiluted attention helps prevent teams from switching contexts and contributes to completing the committed integration goals on time and within budget.

I Establish rollout and adoption plan. Once the execution work is divided into releases and waves, devise an effective adoption plan. Starting in an area with maximum resistance will most certainly stall the program with paralysis-by-analysis. To avoid such, within each wave leverage a “will vs. ease-of-bill” approach (see Figure 7) to ensure steps along the journey don’t fall victim to any delays in decision-making. Recommendations include:

- > Identify the key integration supporters who are eager to embrace change and can act as change agents. For example, business functions with inefficient workflows are more open to adopt change. Leverage these quick wins to inject confidence and break the initial

- change inertia with the other business units.
- > Unleash IT capabilities in phases, and incrementally add business value to secure business support. Establish federated services to streamline business processes impacted by the integration of business applications. This will help minimize disruption until the applications are rationalized. For example, a central service, such as a federated policy service, would help downstream systems such as claims, finance and reporting systems to obtain the required policy information and support continued service to customers and internal users, until the policy systems get rationalized.

Example of a will vs. ease-of-bill analysis when planning the journey



Source: Cognizant
Figure 7

I Set measures, monitor KPIs and communicate.

The IMO must establish program standards, governance, methods, tools and KPIs to assess the complete integration program. Use reporting dashboards and policy standards to provide assurance, transparency and quality control. Scrutinize all work streams to ensure they are in line with the integration guiding principles. Communication forums are established for different levels through which the program progress, challenges and milestones are constantly communicated, updated and monitored. Enforce change management through approval governance.

I Manage change costs in the cloud. For large PMIs, changes will inevitably surface new needs and threaten to halt various workflows. To more effectively address change scenarios, the IMO should encourage teams to manage activities via cloud platforms. The cloud options range from building short-term, interim solutions for the integration through strategic business applications. Moving applications into the cloud brings many benefits, allowing businesses to pay for only what they use and gain agility, faster services and additional economies of scale. This translates to more efficient cost management and reduces CapEx. During the PMI, it is imperative to retain and archive all data and applications. Subscription-based cloud archival solutions save infrastructure costs significantly. Rent services for migration, which can accelerate the merger without a huge investment to purchase additional products. During PMI journeys, legacy applications tend to live longer than anticipated. Managing the application with a cloud solution provides alternate ways to attain cost efficiencies:

- > Move the data center and migrate the legacy apps from on-premises to cloud, resulting in operational cost reductions.

- > Archive the data onto the cloud when the applications shut down, making the data highly reliable while driving the restoration costs down.
- > Build any new solution for PMI on the cloud, resulting in rapid build-out of environments shortening the test cycle across applications.

I Track synergies and key financials including the transition service agreement.

The IMO must meticulously track key metrics such as cash flow, internal rate of return, and net present value to monitor spending and cost overruns. After the deal closes, almost every acquisition requires a transition service agreement (TSA) to maintain business continuity. The IMO plays a key role in drafting a TSA that encompasses all scenarios for running the business and developing the governance policies and process to monitor the provision of transition-related service agreements. Procurement, IT, infrastructure, and finance and accounting are just a few functions ripe for TSA synergies. Also, tracking TSAs helps manage day-to-day deliveries, resolve conflicts, ensure invoice payments are made, identify cost-saving opportunities, and monitor program progress and performance.

I Establish advisory councils. Many successful integrations adopt advisory councils, which are set up by the IMO. In a recent acquisition, the IMO established governing councils with multilevel representation from key business units such as product and underwriting, finance, claims, actuarial and IT. The IMO leveraged these councils to strengthen project management capabilities, share best practices, review approaches, ensure milestones are met and encourage continuous improvements.



The path forward

A successful integration will unleash significant value as the united business expands its portfolio and digital capabilities. As carriers progress in making deals, they should consider these critical success factors:

- Address PMI feasibility and complexity and the resources required when evaluating deal business cases and identifying potential synergies.
- Identify the required elements of a PMI strategy and key decision points.
- Foster a post-merger mindset that envisions the end state, and follow a phased approach across business functions, operations and IT, starting with an MVP implementation.
- Empower a central IMO that will manage and oversee all integration components, as well as track the progress of PMI activities, manage risks and change, and communicate progress.
- Involve an ecosystem of strategic partners to support the integration, from strategy definition through planning and execution. Early in the process, choose a partner that offers business consulting and implementation expertise.

Endnotes

- ¹ “COVID-19 to test US P&C insurance industry’s resilience in 2020 and beyond,” S&P Global Market Intelligence, 2020, www.spglobal.com/marketintelligence/en/news-insights/research/covid19-to-test-us-pc-insurance-industry-s-resilience-in-2020-and-beyond.
- ² “P&C insurers’ investment income under ‘strain,’” insurancebusinessmag.com, 2020, www.insurancebusinessmag.com/ca/news/breaking-news/pandc-insurers-investment-income-under-strain-230549.aspx.
- ³ “Axa completes \$15B acquisition of XL Group, ratings upgraded,” [businessinsurance](http://businessinsurance.com), 2018, [www.businessinsurance.com/article/00010101/NEWS06/912323959/Axa-completes-\\$15B-acquisition-of-XL-Group,-ratings-upgraded#](http://www.businessinsurance.com/article/00010101/NEWS06/912323959/Axa-completes-$15B-acquisition-of-XL-Group,-ratings-upgraded#).

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