INSIGHTS – M&A FOCUS

Winning the M&A game

(L-R): Mr John Spence, Mr Alexander Ankel, Mr Jeremy Wall and Mr Clement Ma.

The recent flurry of M&A activity in Asia has shown that everyone is hungry – for risk, for profit and for diversification. As the honeymoon period draws to an end, however, it seems that not all of the new relationships have proven to be successful ones. Speakers at the recent 3rd Conference on Insurance M&A in Asia discussed the latest patterns and the steps that need to be taken to ensure a good partnership in the current environment.

By Ahmad Zaki

A lot of money has been wasted on the wrong investments, said Avicennia Capital Group CEO and Executive Director Mr Alexander Ankel. "Valuation, valuation, valuation. That's the key to successful M&A."

Mr Ankel suggested a "cold-hearted" approach to viewing potential assets, saying that the only thing that should influence a decision on whether an asset should be bought or sold is its value.

He pointed out how European insurers had been exiting the currently underperforming Asian markets, despite the rapid rise of the middle class in Southeast Asia and a huge growth potential for insurance, displaying a pattern of having a more cautious approach to asset valuation.

"When you want to make these choices, you obviously have to look at the solvency regimes and regulatory environment," he said.

Citing China's C-ROSS and Singapore's RBC 2 requirements as examples, he showed how the burden fell heavily on smaller insurers to achieve solvency requirements, leading to banks and other organisations revising their valuations of these assets. Attempting to meet capital requirements has also resulted in banks diversifying out of insurance.

High-value bancassurance deals unsustainable

Avicennia's own strategy is to aim for a flagship market presence in core markets, before branching out. They will be focusing on finding a strategic fit for synergies, operations capabilities, distribution capabilities and partnerships – the quality of shareholders and partner expertise. Furthermore, Mr Ankel advised that a proper mix in investments, with a diversified mix of life and non-life assets will yield higher ROEs in the long run.

Mr Ankel also spoke against the high-value bancassurance deals that have happened over the past five years, believing that these huge sums of money bandied about in these deals would prove unsustainable for the industry.

"There's a strong likelihood that too much money is being paid for bank distribution capabilities that do not support the ultimate goal of making money," he said. He suggested the industry get its "head cooled before spending so much money".

The importance of valuation

Mr Jeremy Wall, Group Managing Director of JPWALL, provided a much needed look into the valuation process from an actuarial perspective. While looking at net written premiums as a way to determine an asset's value is possible, a far more comprehensive study can reveal a significantly different result.

Mr Wall suggested conducting comprehensive research on a potential asset, taking into account historical data such as regulatory and industry statistics, the company's balance sheet and revenue account and economic statistics such as GDP and assets yield.

Then, by looking into the company's current portfolio and studying its financial statements by line of business, the quality of its assets and liabilities and its solvency margin, an acquirer will be able to come to a better valuation of a potential asset.

Further research can be conducted on explicit forecast of net profit and book value, and whether any upcoming changes to regulations, such as de-tariffication or changes in capital requirements will affect this valuation.

A lot of this information is publicly available, and the research can be done by anyone with enough time and resources. This due diligence is highly useful for any company wanting to make a deal, especially in the current landscape of wasted investments and failed partnerships.

"I'd say the better measure of the most valuable, or the best performing, companies would be its projected profits over the next 10 to 20 years," he said.

Looking beyond the financials

However, just looking into financial considerations is insufficient to make a good decision and complete a value-adding M&A deal. Mr Harpreet S Bindra spoke about the many factors that could cause a strategic partnership or a joint venture to fail, focusing on three main points.

Firstly, the race to completion. Too many companies rush to get the deal done too quickly, hurrying through business plans and operating models without recognising potential failure points or conflicts.

This hastiness also prevents companies from figuring out if they have compatibility – in terms of shared vision, corporate culture, future direction of business and value system – with each other, that can lead to a good partnership. "It's a little bit like speed dating for companies, as opposed to a drawn-out courtship," he said.

Secondly, the assumption that one size fits all. "Culture plays a very important role. You have to customise your approach for different markets," he said. Every market is different and attempting to use a plug-and-play model in different regions without adjusting for regulatory and culture changes will also cause for an underperforming partnership.

Finally, the lack of commitment to the long-term relationship that is a joint venture. "You don't enter a partnership because it's the flavour of the month or an opportunistic deal has come by," he said. Partnerships, like all relationships, are living systems that need nurturing. He suggests having one or two members of senior management to see through the entire partnership, from its conception to its ending, and provide continuity and stability.

Mr Bindra's advice was to find the right partner, not just a partner. The key to a successful partnership, he said, was a strong alignment of interests and having a partnership of equals.

Asia continues to grow as a contributor to M&A activity

"Here in APAC, we're seeing heavy volatility in the markets, but we're still continuing to see a pipeline of regional M&A activity," said Mr Clement Ma, Senior Director and Head of Asia-Pacific Financial Institutions, S&P Global Intelligence.

With Japan and China now acquiring assets in North America and Europe, Asia's contribution to the global M&A activity has significantly increased. Although inbound interest in Asia continues to exceed outbound activity, the recent slew of big acquisitions – from a deal valuation perspective – from Japanese insurers cannot be ignored. In both non-life and life, Asia-based companies accounted for 15 out of 20 of the top global M&A deals of last year.

The conference attracted some 100 delegates from 13 countries with Avicennia Capital – the insurance investment arm of Khazanah Nasional Berhad, the Sovereign Wealth Fund of Malaysia – as silver sponsor and consulting firm JPWALL as sponsor. Organised by *Asia Insurance Review*, the two-day conference in Singapore had the theme "Being strategically ready to win in the M&A game".

(L-R): Mr Richard Holloway, Mr Harpreet Singh Bindra, Mr David Alexander, Mr Jonathan Goacher, Mr Enrico L Cordoba, Mr Anupam Sahay, Mr Benjamin Tin, Mr Michael Guo and Angela Chong.

(L-R): Ms Anna Tipping, Mr Patrick Hanna, Mr Aaron Le Marquer, Mr Sam Kok Weng, Mr Mohit Mehrotra, Ms Ira A Eddymurthy, Mr Fahrul S Yusuf, Mr Michael Cripps and Dr Sutee Mokkhavesa.