



ACTUARIAL SOCIETY
of
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Mergers and Acquisitions Issues & Challenges

- Sim Ng, President of ASHK
- Ellick Tsui, Sun Life Hong Kong Ltd
- Lawrence Lai, AXA China Region Insurance Co Ltd



$$1 + 1 = 3$$

or

$$1 + 1 = 0$$



Mergers and Acquisitions - Issues & Challenges

$$1 + 1 = 3$$

Examples:

- (1) Chevron's \$44 billion takeover of Texaco in 2001, Chevron shares have increased by 75% since the deal was completed.
- (2) Bank of America shares have increased by 20% since the acquisition in 2004 of Fleet Boston Financial.



Mergers and Acquisitions - Issues & Challenges

$$1 + 1 = 0$$

Examples:

- (1) UniCredit shares decreased by 10% since it announced plans in May 2007 to buy Capitalia for \$30 billion.
- (2) Daimler-Benz's \$36 billion purchase in 1998 of Chrysler wiped out \$12.6 billion in market value in nine years.

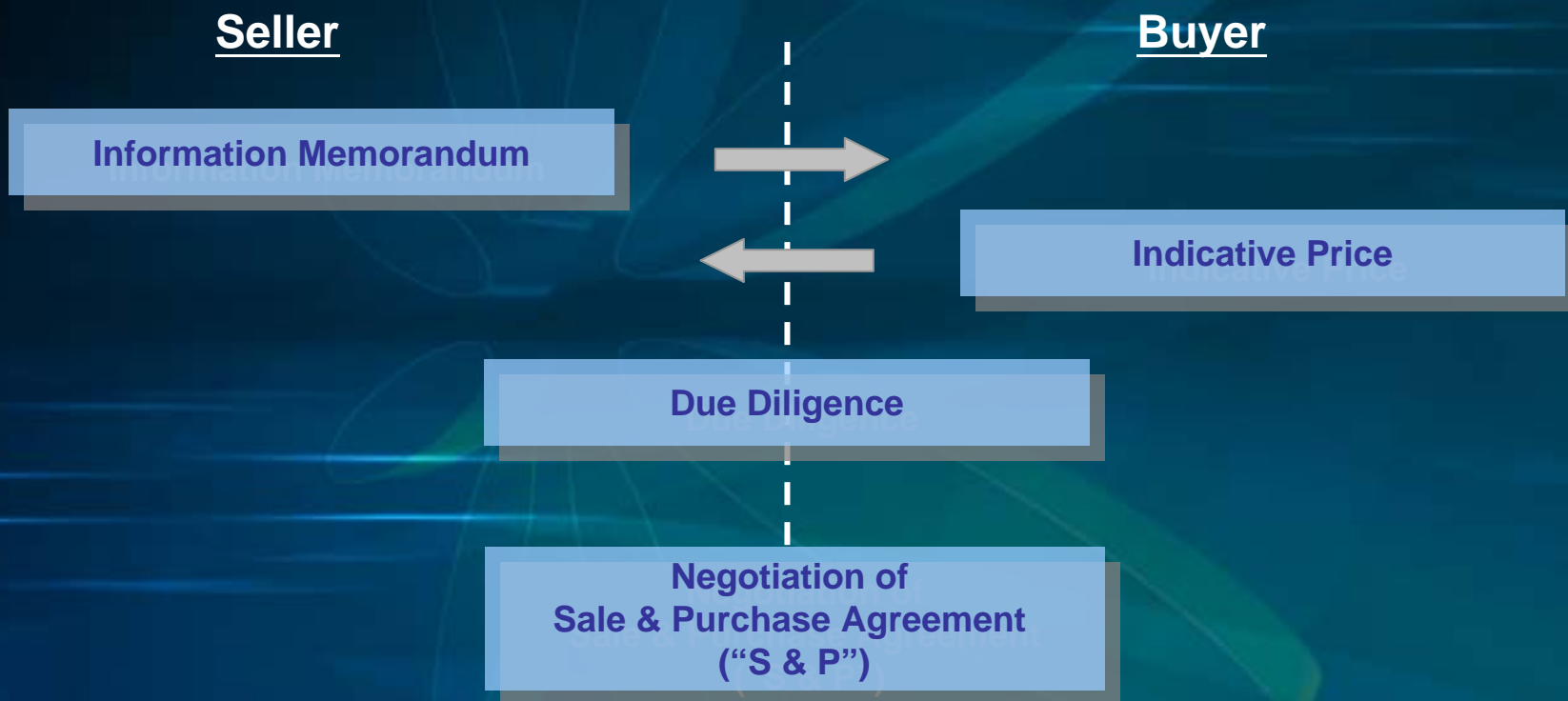
..... nearly 60% of acquisitions completed from 1992 to 2006 reduced shareholder returns

[source : Boston Consulting Group's analysis of more than 3200 transactions]





Pre-transaction processes





Outcome

Agreement



OR

Unsuccessful



- Price
- Representations & Warranties



Involvement of Actuaries

Seller

Price

Defend basis for valuation of policy liabilities

S & P Agreement

Provide minimal representations and warranties

Buyer

Price

“Find flaws” with valuation assumptions, etc. which have an impact on price.

S & P Agreement

Require maximum representations and warranties.



Accounts

The Accounts :

- a) were prepared in accordance with the requirements of applicable Laws, and in accordance with the Accounting Standards consistently applied, as at the Last Balance Date; and
- b) give a true and fair view of each of the financial position and the performance of the Group for the financial period ended on the Last Balance Date and all material financial transactions of the Group have been accurately recorded in the Last Accounts.



Actuarial

- The company is solvent.
- No material liability to any policyholders other than those set out in the accounts.
- True and complete copies of actuarial report, etc...
- Details of all reinsurance arrangements have been disclosed.



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After M&A

- Challenge of manage different block of businesses
- Challenge of manage different distribution channels
- Challenge of different cultures

**product
harmonisation**

**compensation
harmonisation**

**model
harmonisation**

**valuation basis
harmonisation**

**reinsurance
harmonisation**

**system
conversion**



Company Structure

- **Sister Companies**
 - To policyholders, two companies are separate entities
 - More complexities in back office, e.g. regulatory filing, policyholders information integrity...

- **Single Company**
 - To policyholders, two companies become a single entity
 - Consolidated back office support, may have more synergy

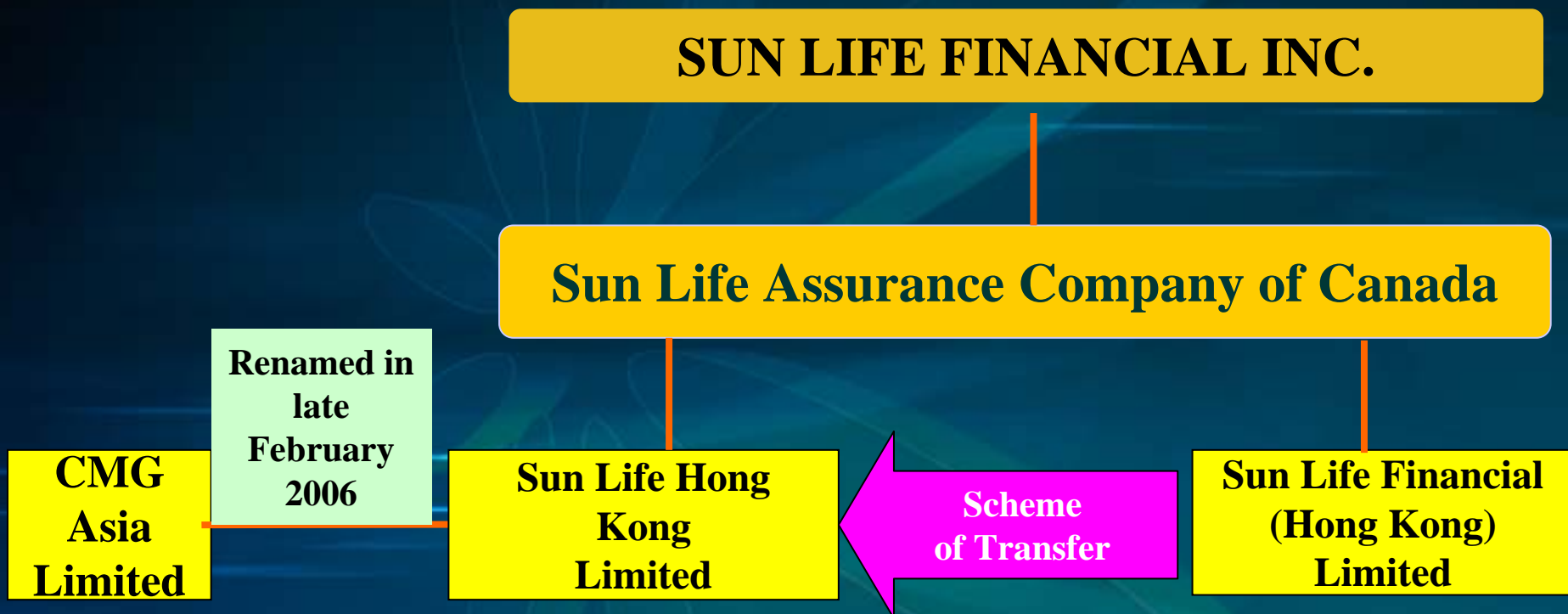


Scheme Transfer

- Scheme Transfer is a process of transferring all existing business from one company to another company
- Heavy involvement of an actuary
- Key parties that an actuary work with: consulting firm (an independent actuary), lawyer and regulator
- Need to have approval from High Court of HKSAR and Supreme Court of Bermuda
- Need to communicate to all existing policyholders of both buying and selling companies



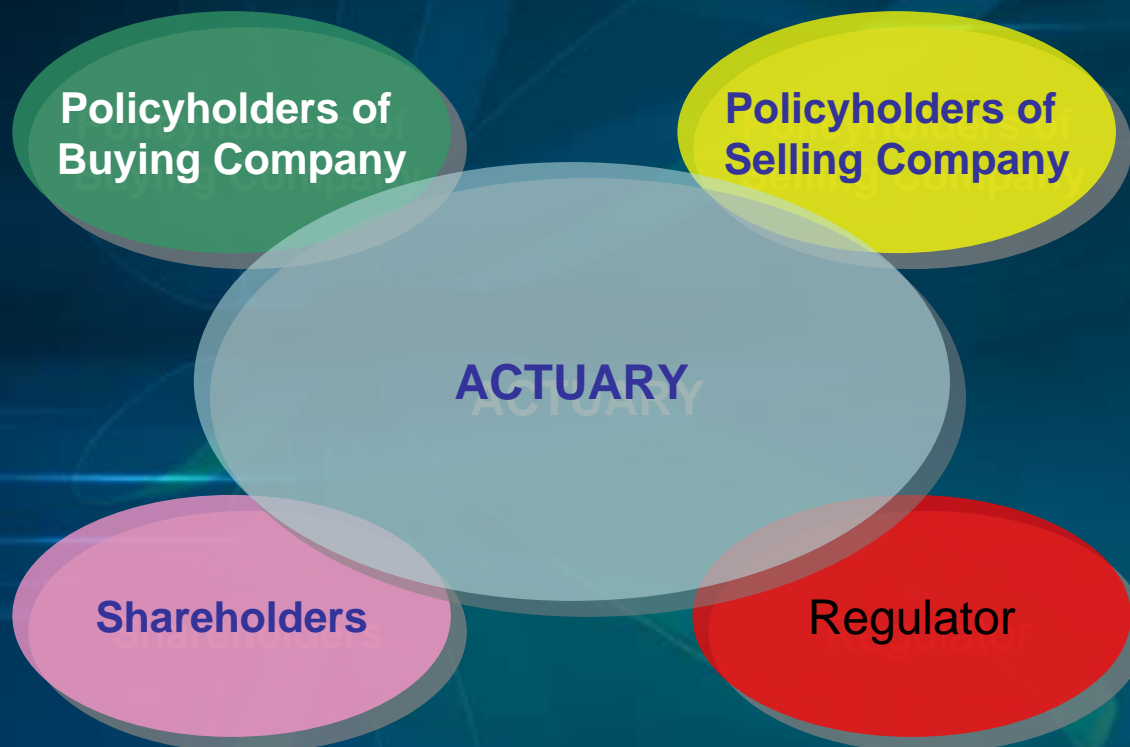
Scheme Transfer





Scheme Transfer

The Actuary needs to consider:





Scheme Transfer

- Policyholders of the Buying / Selling Company:
 - Any benefits of the Scheme Transfer to policyholders? Any detrimental impacts of the Scheme Transfer to policyholders?
 - Par Policyholders: (1) ring-fenced the block of transferring policyholders' assets? (2) ensure the block of original policyholders' assets unaffected? (3) how to maintain fairness between blocks of policyholders? (4) any impact on financial security? (5) any change to provisions?
 - Non-Par Individual or Group or MPF or Pension Policyholders: (1) any impact to guaranteed elements? (2) any change to provisions?



Scheme Transfer

- Shareholders:
 - Any benefits of the Scheme Transfer to shareholders?
- Regulators:
 - Policyholders' interests need to be protected
 - Financial security and solvency of the Company
 - Related product approvals from SFC
 - Communication to policyholders and complaint / queries management process
 - Independent Actuary's report



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Case Study (1/2)

M&A Issues to be considered (When? Before or after the purchase price is set?):

- Is it a domestic or global M&A?
- Are there only 1 buyer and 1 seller?
- What are the business drivers?
- What is the distribution strategy?
- What is the product strategy?
- What is the system and IT strategy?
- How much synergy effect we build in the price?
- Is fixed price the only option? How to reach an agreement when buyer and seller have different views?
- Consultant retention? What are the validation rules?
- Reporting issues? Which GAAP?



Case Study (2/2)

M&A Issues to be considered:

- How to handle the acquired company? Merged or keep it separate? Would company name changed after M&A?
- How to handle back office and sales support units? Which parts to integrate and which parts to keep separate?
- What is the impact to policyholder?
- Staff issues? Culture issue?
- How long it takes for planning the design? How long it takes to implement?
- Any regulatory product approval required? How long it takes?
- How to communicate the change to policyholder?