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# Company Actuary Role in Mergers and Acquisitions

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# Four primary types of transactions:

- Loss portfolio (reserve) transfer
    - Risk-adjusted present value of loss runoff.
    - Not purchasing existing assets and liabilities.
  - Purchase of runoff company (no new business)
    - Value of assets/liabilities (including reserves) plus profit/loss on declining volume of future premiums.
  - Purchase of active company
    - Value of assets/liabilities (including reserves) plus profit/loss on future premiums (could be increasing or declining depending on business assumptions).
  - Purchase of renewal rights
    - Profit/loss on future premiums only.
    - Not purchasing existing assets and liabilities.
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# Traditional Actuarial Issues

- Loss reserve adequacy
    - Have there been changes in claim practices?
    - Will acquiring company be able to generate reduced severities?
  - Pricing adequacy
    - At selling company's rates
    - At acquiring company's rates
    - Trends in business profile/underwriting quality
  - Persistency
    - Historic
    - Future based on business model
    - Temporary impact of transition
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# Traditional Actuarial Issues

- Risk Management
    - Will acquisition increase or decrease risk profile?
    - Impact on reinsurance or other risk mitigation strategies/costs.
  - Product Strategy
    - Retain selling company's products vs. converting to acquiring company's products
    - What are the relative strategic benefits?
    - Cost of maintaining multiple products vs. conversion impact
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# Other Ways to Add Value

- Financial Modeling
    - Future projected cash flows
    - Scenario testing
    - Dynamic Financial Analysis-type modeling
  - Valuing Other Deal Aspects
    - Assets/Investment Income
    - Future Expense Assumptions
    - Growth Assumptions
    - Other Strategic Implications of Deal
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# Other Acquiring Company Issues

- Imperfect Information
    - Need to understand the data as well as you can
    - Likely not to get all the data you want
    - How to make assumptions in the absence of data
  - Tight Timeframes
    - Need to prioritize issues
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# Selling Company Issues

- How to fairly present the financial/strategic value of the company
  - Construct “data room”
    - Loss Reserve Triangles
    - Pricing Studies
    - Historic loss/persistency results
    - Risk studies (e.g., PML models)
    - Rate and underwriting manuals
    - Significant events that would impact historic results
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