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KPMG Perspectives

# Getting strategic about inorganic growth: Insurance CEOs speak

INSURANCE CEOs are becoming much more strategic about their inorganic investments.

While the pace of deal-making in the insurance sector may have slowed when compared to the prior year, our survey of more than 100 insurance CEOs indicates that appetite for inorganic growth remains high.

Almost half of all insurance CEOs—45 percent—say they expect to undertake a merger with another firm in the next three years. Around four out of 10 say they will either buy or sell a business, asset or capability set from (or to) another firm. Half of the CEOs we surveyed believe inorganic growth will be key to achieving their growth strategies.

Why, then, has this not translated into a flurry of deal-making and consolidation across the sector? In large part, it is because insurance CEOs have become much more strategic about their investments.

Although many insurers expect to conduct traditional mergers and acquisitions over the next three years—our data demonstrates that they are equally (if not slightly more) keen on creating partnerships and joint ventures with other firms to innovate and achieve their strategic objectives.

Our experience suggests that many insurance executives have become much more focused on creating stronger alignment between their mergers and business strategy. They are thinking carefully about how their businesses will win in their markets, and they are looking for acquisitions and partnerships that could help them enhance their competitive advantages. They are reshaping their portfolio of businesses and assets, centers of operational excellence and markets to meet future growth opportunities. And they are thinking carefully about what capabilities and skills they will need in order to innovate and win in the future.

## Strategy-driven transactions

FOR most, this journey will start with formulating a very clear understanding of what makes their business unique and competitive in the market, and then using that information to start to assess the real value and strategic fit of potential acquisition targets.

Say, for example, your business is a market leader for superior customer service. Assets or businesses that could help brandish those credentials or improve those capabilities should, therefore, be of higher value to you than they would be to a competitor who competes based solely on low prices. With this information in hand, insurers should be able to make more value-based investment decisions that ultimately lead to achieving their long-term strategic growth objectives.

## Applying the strategic lens

LEADING insurers are also starting to take a much more holistic approach to evaluating potential acquisition and partnership opportunities. They now look beyond the traditional financial due diligence aspects of evaluating the deal to also consider the strategic fit of the target's business model and the potential risks associated with integrating the target's operating model.

In most cases, this means extending and expanding the due diligence process at both ends: at the top end, by including a more strategic analysis of the target's medium-term strategy; and, at the back end, where insurers are starting to conduct more strategic integration risk assessments of the target's businesses, its people, processes and systems that they are hoping to acquire and integrate into their operating model.

## Creating alignment

IN many cases, this may require closer alignment between members of the existing M&A function, the strategy function and corporate development function to enable strategy-driven transaction identification and evaluation for long-term growth. It will certainly require tighter screening and more frequent communication among the functions for better coordinated planning and execution of transactions.

It may also require a reassessment of the objectives and priorities of the M&A function to focus more on the expected and actual value that transactions deliver rather than simply on the successful execution and closing of transactions.

## More than one lever to value

WHEN we work with insurers to improve the value of their inorganic growth strategies, we focus on what we call the 'Nine Levers of Value'. The process allows executives to not only drive improved alignment between strategy and capability, but also to achieve a more holistic view of the relationships between each lever. ***To be continued***

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