E&S and Specialty Lines

A Blueprint for M&A Success

Communication. People. Technology.

What does it take for M&A to be successful?

Mergers and Acquisitions (M&A) have become a prominent theme in the insurance industry, particularly in the broker and Managing General Agent (MGA) space. Record deal activity driven by private equity interest and consolidation platforms has shaped the sector's landscape in recent years.

Even as some momentum has slowed in the broader sector amid higher interest rates and financing costs, specialty distribution M&A has surged since 2021 to grow at a faster pace than retail agency consolidation.

According to a report by MarshBerry, a consulting and advisory firm specializing in the insurance industry, there were a record 157 US transactions in 2022 involving specialty distributors as targets, with the sector consolidating at a rate of over 4x retail brokers.

To ensure that value is not eroded following a transaction, buyers, and sellers of specialty distributors and carriers must prioritize effective communication, a strong technology transition strategy, and a focus on people.

Most commonly cited reasons for selling:

- Access to better technologies
- Access to wider relationships
- Access to new markets

Most commonly cited reasons for buying:

- Pro forma profits
- Cost and revenue synergies

Reported by Martina Seferovic, OIP President, and CEO

In this guide, we will explore three key pillars that are essential to a successful merger and acquisition - **communication, people, and technology.**

Clear and consistent communication...

...is a fundamental aspect of successful M&A transactions. It facilitates collaboration, reduces uncertainty, and ensures that all parties involved are on the same page, leading to more seamless integration and increased chances of achieving the intended benefits of the merger or acquisition. Furthermore, effective communication is the connective tissue that addresses both people and cultural aspects, as well as technology transitions during the M&A process. Ensuring open and transparent communication helps manage people issues during the post-M&A transition period, minimizing uncertainty and disarray among employees.

Access to greater resources, such as HR and back-office functions, is one of the attractions for companies considering a sale to a larger firm. However, a lack of clear communication about post-transaction integration and operational changes can undermine perceived benefits and create dissatisfaction among the selling company's workforce.

To foster a smooth transition, it is essential to communicate the entire integration plan to employees and stakeholders. Over-communication is preferable to under-communication, as it provides clarity and addresses concerns related to future roles, benefits, and changes in processes.

Creating pre-acquisition and post-acquisition checklists, led by a corporate change or communication manager, can further facilitate effective communication throughout the process.

Apart from employees, other stakeholders like customers, suppliers, investors, and regulators are also affected by M&A activities. Keeping them informed about the progress and potential changes ensures a smoother transition and helps maintain positive relationships.

In nine out of ten cases, it’s not properly explained what the company is going to do post M&A. So it’s up to the owner or leader – whoever makes these decisions whether that’s a board or individual – to communicate the whole idea down.

Martina Seferovic, OIP President and CEO

RECOMMENDATION:

Put together a pre-acquisition checklist and post-acquisition checklist that would come from the communications manager at the acquirer. Also, draft and action a detailed communication plan for internal and external stakeholders and identify one person who will be feet-on-the ground change manager responsible for effective communication.

People and Company Culture

All too often, there is insufficient attention paid to the people involved on both sides of a transaction and the need to avoid cultural issues that can ultimately lead to discontent and departures, particularly at a selling firm.
M&A is a business transaction, but people can’t be treated transactionally.

Employee satisfaction and retention along with productivity should be topics that are given equal consideration to financial synergies in management discussions before a transaction closes.

We all know how much it costs a company to lose a good tenured employee and replace them with a new employee. It's going to take them between six months and two years to reach the level of quality and productivity of those that have left. The value of retaining the senior employees and quality employees is immeasurable because the brain drain can undermine the whole deal.

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The people involved in M&A transactions are critical to the success of the integration process. HR departments on both sides should collaborate to define company values and culture, ensuring alignment with the corporate strategy. This involves conducting cultural assessments and identifying areas where the cultures of the merging organizations may differ. By understanding these differences, HR teams can develop targeted initiatives to promote cultural integration and foster a shared sense of identity within the new organization.

Additionally, HR plays a key role in talent assessment and retention, identifying key individuals and teams that are essential to achieving the strategic objectives of the merged entity. They can implement talent retention strategies, such as career development programs and personalized support, to retain top performers during the transitional period.

Handholding and clear communication are necessary to gain buy-in from employees on both sides as they undergo the change process post-M&A. Employees may experience uncertainty and anxiety during the integration, especially concerning job security and potential changes in roles and responsibilities.

Leaders from both organizations should proactively engage with employees, address their concerns, and communicate the benefits of the merger or acquisition.

Regular town hall meetings, one-on-one sessions, and open-door policies can provide employees with a platform to voice their opinions and seek clarification.

This transparent approach builds trust and helps create a positive atmosphere for collaboration and teamwork, fostering a sense of shared purpose among the newly integrated workforce.

Transparency and honesty are crucial during periods of headcount reduction, as any duplication of positions is addressed. Retaining talent is linked to the level of information and involvement employees have during the transaction. Companies that actively engage employees and value diversity and inclusion can expect better talent retention and a more harmonious integration process.

Transparent communication about the rationale behind workforce adjustments, along with fair and compassionate severance packages for those affected, can help ease the impact on departing employees. Moreover, fostering a culture of inclusivity and recognizing the strengths that diverse teams bring to the table can foster a sense of belonging and commitment among employees, leading to higher productivity and greater long-term success for the merged organization.

By putting people at the center of the M&A process and valuing their contributions, companies can enhance their chances of achieving a successful and sustainable integration.

Communication

- Communication is key to managing people issues post M&A
- Post-M&A integration plans and how operations will function must be
- communicated from leadership down through the organization
- Proactive and effective communications strategy is key in the period
- immediately post close
- Corporate change or communication manager has a key role

People

- Buy-in from employees on both sides and combining corporate cultures are key to a successful M&A
- HR departments should take responsibility for this aspect of integration
- Greater transparency tends to lead to better talent retention post transaction

Technology

- Access to better technology is often cited as a rationale for selling companies to sell to a bigger entity
- Impact on employees of switching to new technology and processes is sometimes neglected in M&A
- Proper mapping of migration must take place in advance of integration
- Finding the right talent and assigning it to tech integration and transition can make a major difference to the outcome

Technology Transitions

A third key area that needs to be addressed at the center of M&A integration is technology.

Access to better technology is another often cited reason for selling companies to seek a transaction. Technology can be expensive for smaller firms, especially where other more pressing needs might be fighting for limited financial resources.

Technology plays a pivotal role in M&A transactions, often driving selling companies to seek a transaction with larger firms to gain access to better technology and improve efficiencies. While the ultimate goal is often to have all companies on the same system, the impact of technology shifts on employees' day-to-day functions should not be overlooked.

Properly analyzing legacy system data and file trees before moving them to a new system is essential to avoid disruptions. Assigning the right talent to technology integration and transition can significantly influence the outcome. Insurance - educated IT staff can be instrumental in facilitating the migration process.

Standardization is recommended to streamline the technology integration process. Adopting the standards, processes, and procedures of the larger company benefits both parties and enhances communication and efficiency.

RECOMMENDATION:

Standardization of systems, data, and processes wherever it is possible can help make the transition and integration process quicker and smoother for all parties involved. Find a partner who understands the insurance ecosystem, industry best practices, and company culture.

Conclusion

Mergers and acquisitions present tremendous opportunities for insurance companies to gain access to new markets, technology, and relationships. However, to achieve successful outcomes and retain value, C-level professionals in the insurance industry must focus on effective communication, prioritize people and company culture, and address technology transitions during the M&A process.

By following the key pillars outlined in this guide, companies can navigate the complexities of M&A transactions and ensure a seamless integration that drives long-term business benefits.

M&A Checklist

Communication

☐ **Stakeholder Engagement Plan**

Develop a comprehensive communication plan that addresses all stakeholders, including employees, customers, suppliers, investors, regulators, and the broader community. Regularly update them on the progress, benefits, and changes resulting from the M&A.

☐ **Open and Transparent Communication**

Foster a culture of openness and transparency throughout the M&A process. Encourage feedback, address concerns, and provide opportunities for employees and stakeholders to ask questions and express their views.

☐ **Integration Communication Strategy**

Design a clear communication strategy focused on the integration phase. Ensure that employees from both companies understand the integration process, timeline, and how it will impact their roles and responsibilities.

People

☐ **Talent Assessment and Retention**

Conduct a thorough assessment of talent from both companies to identify key individuals critical to the success of the merged entity. Develop a robust talent retention plan to retain key employees and ensure a smooth transition.

☐ **Cultural Integration**

Assess the cultural compatibility between the two organizations and develop initiatives to promote a cohesive and unified culture. Encourage cross-company interactions and team-building exercises to bridge any cultural gaps.

☐ **Change Management**

Implement a structured change management program to help employees navigate through the changes resulting from the M&A. Provide training and support to help them adapt to new processes and technologies.

Technology

☐ Technology Assessment

Conduct a comprehensive assessment of the technology infrastructure and systems of both companies. Identify opportunities for integration, consolidation, or upgrades to leverage the best technologies from each organization.

☐ Data Integration and Security

Develop a plan to integrate data from both companies while ensuring data security and compliance with relevant data protection regulations. Address any data privacy concerns to protect sensitive information.

☐ IT Integration Team

Form a dedicated IT integration team that includes experts from both companies to oversee the smooth integration of technology systems and ensure minimal disruption to operations.

About OIP

Outsource Insurance Professional is an American-owned Knowledge Process Outsourcing (KPO) company headquartered in Henderson, Nevada. OIP has processing centers in Belgrade and Nis, Serbia, Zagreb, Croatia and Hyderabad, India.

The company provides Assistant Underwriting and InsurTech services to MGAs, Carriers, Program Managers, Retail Brokers, Inspection Companies and TPAs in the Excess and Surplus Lines insurance segment. Our insurtech services are centered around insurance process automation, software development, staff augmentation, Big Data & ML, and IT support services.

The company's vision and values are recognized and supported in more than 100 valued partnerships across the USA, UK and Canada.

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