

## 2. Executive Summary

This is not a typical actuarial paper; there are no formulas or tables of numbers. Its goal is to present to an international audience an overview of the process unique to insurance M&A and the role of the actuary in it. While much of this paper is written from the seller's perspective, it is equally applicable to an investor's point of view. In addition to being addressed to the practicing actuary, intended audiences include:

- executives at institutions considering purchasing or selling insurance operations
- investment bankers involved in insurance transactions
- students of the profession

The paper begins with an introduction to the key elements of actuarial appraisal models. The role of the external actuary and the appraisal report are also discussed.

The next section deals with various considerations of the sale process from both the buyer's and the seller's perspective. The preparation of a company for sale, the bidding process and the rigors of due diligence are also discussed. The importance of teamwork throughout this process cannot be overemphasized.

After walking through the sale process, the development of economic and actuarial assumptions is examined in detail, including sources of data and various techniques for developing assumptions. Important considerations in specific markets are presented where appropriate. Methodology and modeling considerations for specific lines of business, including individual life, annuity and loss ratio lines are then discussed.

Finally, the paper examines the three traditional elements of appraisal value—adjusted book value, value of existing business and value of new business. In determining the value of new business, two separate and distinct elements are discussed—the value of new business from established lines of business produced by currently installed distribution capacity and the potential value of new business sold in new lines of business and/or alternative distribution channels. Together, these two components of new business are presumed to capture the franchise or “brand” value of the company.