DUE DILIGENCE OF A RUN OFF BUSINESS - CHALLENGES FOR A BUYER

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<th>Steering and Management of Transactions</th>
<th>Strategic / Indicative Valuations</th>
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</thead>
<tbody>
<tr>
<td>Development of strategic options</td>
<td>Leading of overall process</td>
<td>Valuation of companies, business</td>
</tr>
<tr>
<td>Feasibility studies to selected strategies</td>
<td>Conduct of negotiations and tactics</td>
<td>units or portfolios</td>
</tr>
<tr>
<td>Second opinion to transaction projects</td>
<td>Where appropriate supporting function</td>
<td>Modeling of business units</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Coordination or Execution of Due Diligence</th>
<th>Evaluation of Lawyers / Tax Consultants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall coordination/support or execution</td>
<td>Support in assessment and selection of legal advisors (law firm) and tax consultants</td>
</tr>
<tr>
<td>Financial, commercial, tax and legal</td>
<td>Appointing of lawyers and tax consultants</td>
</tr>
<tr>
<td>Further expert and specialist topics</td>
<td></td>
</tr>
<tr>
<td>Due diligence outcome for negotiation purpose</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Coordination / Procurement of Special Expertise</th>
<th>Structuring of Transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational and process relevant expertise</td>
<td>Handling of financial, tax, commercial as well as legal topics in the context of structuring a transaction (e.g. carve-out, treatment of non operation assets etc.)</td>
</tr>
<tr>
<td>IT and outsourcing specialists</td>
<td></td>
</tr>
<tr>
<td>Investment, ALM and derivatives specialists, actuaries</td>
<td></td>
</tr>
<tr>
<td>Specialized auditors</td>
<td></td>
</tr>
</tbody>
</table>
MANAGING TRANSACTIONS AROUND RUN OFF BUSINESS – FOCUS OF TODAY’S DISCUSSION

**Run off Transactions**
- Assessing opportunities for portfolios, branches or legally independent units
- Evaluation and pursuits of strategic options
- Steering, managing and structuring of transactions
- Strategic / indicative valuation
- **Coordination / Execution of Due Diligence (Financial, tax, IT, actuarial)**
- Coordination / Procurement of special expertise

**Transition into Run off**
- Assessment of and benchmarking business lines
- Allocation of fitting portfolios
- Development and valuation of alternative run off strategies
- Considering relevant frameworks (damage scenarios, capital position, fiscal effects, regulatory, personnel and IT issues)
- Roll out plan

**Run off Management**
- Data preparation and valuation of portfolios
- Development and preparation of run off model
- Implementation of a run off business model resp. business processes
- Preparation and accompaniment of commutations
- Support in schemes of arrangement
- Selection of outsourcing partners
- Accompaniment of full exits (liquidation)
- Project management and project office
- Monitoring and Coaching
# FOCUS ON DUE DILIGENCE: KEY ELEMENTS

## Understanding Business Objectives
- Geographical presence, diversification effect
- Business operations: Organizational structure/Financial/Tax/IT impacts
- Business & product portfolio: interdependencies, initial synergies, quality of lines of business

## Value Drivers and Modeling
- Historic & business plan analysis
- Assessment of business assumptions
- Valuation methods & scenarios analysis
- Benchmarking and rating aspects

## Purchase Assistance
- Share purchase agreements
- Price adjustment mechanism
- Representations and warranties
- Deal structure and Implementation plan
- Closing assistance

## Negotiation Assistance
- Pre-conditions (exclusivity, etc.)
- Terms of condition of the transaction
- Value, price and tactical support

## Transaction Rationale
- Feasibility of business case (deal breakers)
- Implications for shareholders and other stakeholders
- Opportunity benefit/cost
- Synergies/Restructuring costs
- Bidding process/competitors
- Initial valuation aspects
- Views on structuring and tax implications

## Post Closing & Integration Assistance
- Purchase price adjustments
- Supporting implementation plan (realization of synergies)

## Due Diligence (scope)
- Scope definition: Financial, actuarial, tax, legal, HR/pension, IT, operations
- Quality and sustainability of earnings
- Areas of significant judgment (fair values, provisions, etc.)
- Regulatory requirements
<table>
<thead>
<tr>
<th>Financial information and reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Organization, structure, financial data, processes, underlying data</td>
</tr>
<tr>
<td>• Summary of historical financial information, accounting policies</td>
</tr>
<tr>
<td>• Currency exposure, debtor and creditor structure</td>
</tr>
<tr>
<td>• Management and administration expenses</td>
</tr>
<tr>
<td>• Technical reserve analysis</td>
</tr>
<tr>
<td>• Related party transactions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Analysis of investments and portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Portfolio and investment analysis, asset classes, sustainability of investment returns</td>
</tr>
<tr>
<td>• Compliance with solvency requirements (incl. future regulatory requirements)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Analysis of reinsurance structure &amp; conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Reinsurance contracts and conditions, current accounts of reinsurers</td>
</tr>
<tr>
<td>• Reinsurance debtors and creditors, liabilities and funds</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Regulatory supervision &amp; compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Compliance with Swiss solvency requirements (SST) and Solvency II (both for cross border)</td>
</tr>
<tr>
<td>• Compliance process adequacy</td>
</tr>
<tr>
<td>• Regulatory procedures, controls and restrictions, licenses and permits</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Corporate Governance and risk management</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Risk reporting (quality)</td>
</tr>
<tr>
<td>• D&amp;O and other insurance cover</td>
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</table>

<table>
<thead>
<tr>
<th>Operational setting &amp; key IT systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Operational setting and IT organization (incl. outsourcing aspects)</td>
</tr>
<tr>
<td>• Agreements relating to the databases and IT systems</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Direct federal, cantonal and communal taxes, indirect taxes, value added taxes</td>
</tr>
</tbody>
</table>
# DUE DILIGENCE IN RUN OFF TRANSACTIONS – POSSIBLE ISSUES / FINDINGS (I/III)

<table>
<thead>
<tr>
<th>Issues</th>
<th>Findings/Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial information and reporting</strong></td>
<td></td>
</tr>
<tr>
<td>Swiss Code of Obligation as applied accounting standard</td>
<td>Reassessment of future run off reserve required.</td>
</tr>
</tbody>
</table>
  - Conformity with national standards |
  - Adequacy of reserves for future run off expenses |
  - Impact of integration of target regarding reporting standards (GAAP; IFRS) |
| Technical Reserves | Price discount for the risk of reopening of claims. |
  - Analysis of the history of claims and technical provisions development |
  - Reopening of closed claims |
| Reserves and provisions for future run off costs | Underestimation of current reserve → verification through commercial assessment necessary. |
  - Analysis of reserves |
  - Acceptance by tax authorities |
  - Reassessment of future run off costs under new cost structure |
| **Analysis of investment portfolio** | | |
| Investment Portfolio and Current Account | Liquidity constraints identified and calculated. |
  - Required amount for current account to operate target (settlement of open claims) |
  - Complexity of investments and investment approach (Liquidity, maturity, default risk of bonds) |
  - Investment in management capabilities |
## DUE DILIGENCE IN RUN OFF TRANSACTIONS – POSSIBLE ISSUES / FINDINGS (II/III)

<table>
<thead>
<tr>
<th>Issues</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Analysis of reinsurance structure &amp; conditions</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Reinsurance</strong></td>
<td></td>
</tr>
<tr>
<td>• Counterparty risk linked to reinsurance assets/ Existence of collaterals</td>
<td>Financial impact of a change of control clause.</td>
</tr>
<tr>
<td>• Change of control clauses allowing for cancellation</td>
<td></td>
</tr>
<tr>
<td>• Performance of reinsurance contract/ reinsurance results</td>
<td></td>
</tr>
<tr>
<td>• Reinsurance arrangement classified as «third party» contract</td>
<td></td>
</tr>
<tr>
<td><strong>Swiss Solvency Test (SST)</strong></td>
<td></td>
</tr>
<tr>
<td>• Analysis of SST reporting and Solvency Ratio. Possible FINMA ratification of SST figures required.</td>
<td>Reserves for evtl. negative developments made, depending on FINMA position.</td>
</tr>
<tr>
<td><strong>New regulatory developments concerning SST</strong></td>
<td></td>
</tr>
<tr>
<td>• Potential adjustments due to regulatory changes</td>
<td>Advantages for run off business expected.</td>
</tr>
<tr>
<td><strong>Volatile Solvency Ratio</strong></td>
<td></td>
</tr>
<tr>
<td>• Capital situation with regard to solvency ratio requirements</td>
<td>Strong capital situation with regard to solvency ratio requirements.</td>
</tr>
<tr>
<td>• Existence of sufficient actuarial know-how</td>
<td></td>
</tr>
<tr>
<td><strong>Assessment of Solvency II requirements at group level (buyer)</strong></td>
<td></td>
</tr>
<tr>
<td>• Investigation on potential capital requirements</td>
<td>Potential impact on Buyer’s solvency reporting.</td>
</tr>
<tr>
<td><strong>Tied assets</strong></td>
<td></td>
</tr>
<tr>
<td>• Accountability of reinsurance assets given by FINMA</td>
<td>No finding.</td>
</tr>
<tr>
<td>• Tied-asset reporting requirements</td>
<td></td>
</tr>
</tbody>
</table>

| Recommendation for SPA Guarantees/Warranties Price Impact |
|----------------------------------------------------------|----------------------------------------------------------|

- SPA Guarantees/Warranties
- Price Impact
## DUE DILIGENCE IN RUN OFF TRANSACTIONS – POSSIBLE ISSUES / FINDINGS (III/III)

### Corporate Governance and risk management

**Corporate Governance (according to Swiss law)**
- Assessment of steering and reporting tools
- Risk assessment proceedings by Board (organizational structure)
- Mandatory internal audit function

**Findings**
- New set up of organizational setting regarding Risk Assessment/ procedures by Board.

### Key IT systems

**Analysis of IT organization and plan for post transaction setup**
- Organization of IT infrastructure (cost analysis)
- Database transfers and software licenses

**Findings**
- Selection of required IT systems and infrastructure (transition process and agreement).

### Organizational structure and personnel

**Arrangements and assurances of services provided to the target**
- Ensure smooth transition of services provided by seller or third parties
- Analysis of management fees
- Evaluation of alternative organizational setting & recruiting

**Findings**
- Limited personal resources to run the company smoothly.

### Taxes

**Income tax**
- Withholding tax
- Value added tax

**Findings**
- Future intercompany transactions to be assured at arm’s length.

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**Recommendation for**

- **SPA Guarantees/Warranties**
- **Price Impact**
INTERPRETATION OF DUE DILIGENCE FINDINGS INTO A SHARE PURCHASE AGREEMENT (TERM SHEET)

ISSUES / TOPICS

- Object of sale
- Parties of the SPA
- Purchase price
- Intercompany balances between Seller and Target
- Pricing mechanism
- IBNR and LAE amounts (run off specific)
- Closing conditions
- Termination right
- Closing deliverables
- Representations of Seller
- Representations of Buyer
- Exclusivity of SPA representations & warranties
- Statute of limitation
- Governing law and jurisdiction
- Seller’s liability
- Covenants
- Any unclear client indemnities
- Seller’s liability
- Covenants
- Any unclear client indemnities
INTEGRATION ASPECTS TO BE CONSIDERED

INTEGRATION ASPECTS

Statutory Audit
- Regulatory consequences of auditor change
- Change of auditor by general assembly possible at any time
- Efficiency considerations

Regulatory Audit
- FINMA deadlines

Internal Audit
- Outsourcing possibilities
- Generally mandatory for Swiss insurance companies
- Exemption options?

Appointed Actuary
- Required tax capabilities
- Swiss VAT options
- Tax-optimized legal structure

Legal issues
- Possible for company/civil/labor law
- Possible set up for arbitration/litigation

Tax issues/structuring
- Outsourcing of function possible
- Required by Swiss law
- Double function approvable by FINMA
Thank you for your kind attention!
IF YOU'RE LOOKING FOR A DIFFERENT PERSPECTIVE, CHOOSE MAZARS

"A customized and human-sized approach."

«Whatever your plans, we'll embrace the challenge together.»

Mazars

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APPENDIX

1. YOUR CONTACT PERSON FOR TRANSACTION SERVICES

2. MAZARS TRANSACTION SERVICES IN SWITZERLAND

3. A SELECTION OF MAZARS’ INSURANCE CLIENTS
YOUR CONTACT PERSON FOR TRANSACTION SERVICES

Vincenzo Braiotta
Head of Transaction Services
Direct line +41 44 384 93 65
Mobile +41 79 964 03 64
vincenzo.braiotta@mazars.ch

Professional experience

- Mazars, Switzerland (since 2010), Director, Head Transaction Services
  - Responsibility for M&A/Corporate Finance, Due Diligence as well as for Valuations in the insurance, banking, and industry sector with focus on Europe and Switzerland.
- Binder Corporate Finance (M&A International), Switzerland (2009-2010), Senior Advisor
  - Main activities focused on transactions in the banking, insurance and small and medium sized enterprises area.
- KPMG, Germany (2005-2009), Partner, Transaction Services
  - Head of a transaction team of 16 professionals with focus on the European Financial Sector based in Munich and Cologne. Responsibility for leading, executing and quality assurance of insurance and banking transactions (M&A, Pre-deal and Post-deal support, Due Diligence, Valuation, Business & Transaction Modeling as well as IPO support).
- Ernst & Young (2001-2005), Switzerland, Senior Manager, Head Transaction Services
  - Head Corporate Finance/Transaction Services for Financial Services. Acting on behalf of Swiss and international insurance and banking clients in transactions related work.
- UBS, Zurich (1999-2000), Associate Director, Investment Banking
  - Responsibility for the execution of transactions in the Financial Services area. Successful support of the execution of an IPO in the banking sector.
- Zurich Financial Services, New York and Zurich (1992-1999), Senior Associate
  - Start as Financial Controller with responsibility for the planning process at group level. Acted also as strategic consultant in the area of business development. Thereafter change to the M&A Department of Zurich Financial Services in Zurich and New York.

Key projects & skills

- Insurance sector (e.g. Non-Life, Life, Insurance Broker, Reinsurance, run-off business)
- Banking sector (Private Banking, Asset Management, Investment Banking, Retail Banking, Commercial/Corporate Banking)
- Business process outsourcing
- Substantial experience in internationally oriented industrial companies

Sector expertise

- Expertise and experience in the execution of transactions in Germany, Switzerland, Austria, USA, Latin America and CEE Countries
- Merger & acquisitions, lead advisory for sell- and buy-side (cross-border), IPO, valuations, financial modelling, fairness opinions, (vendor) due diligences, corporate development
TRANSACTION SERVICES IN SWITZERLAND

Core transaction advisory

Corporate finance / M&A
- Search mandate
- Acquisitions / divestures
- Merger advisory
- Joint ventures / alliances
- IPO support, private placements
- MBO / MBI

Supporting services

Due diligence
- Sell side and buy side due diligence
- Deal support and pricing mechanism
- SPA support
- Negotiation support

Project Finance & Modeling
- Technical services to funds and operational projects
- Financial model audit
- Financial modeling

Valuation
- Business / asset valuation
- Fairness opinion
- Purchase price allocation
- Impairment test
- Valuation of intangibles

Tax
- Tax due diligence
- Tax structuring
- Negotiations with authorities (tax rulings)
- Domestic and international tax issues
- Tax structure implementation support
- Value added tax strategies

Audit & assurance
- Auditing and accounting
- IFRS and US GAAP restatements
- Pro formas
- Conversions

Our offer around Transactions
A SELECTION OF OUR INSURANCE CLIENTS