

Real Estate Acquisition

The Situation

A large bank acquires a manufacturer of Life Insurance. The benefit is to extend overall Wealth offerings and acquire customer base and sales group. The Chief Financial Officer and experienced management team from the acquired Insurance company identify additional synergy opportunities based on the new combination. However, even with Board of Directors support, there are challenges. Management's Capital, Accounting, and Operational policies are tuned for traditional banking business.

The Intervention

An insurance company has high cash in-flow from its policy holders. Given the banks vast Real Estate holdings and Credit Risk appetite, the approach is to shift holdings from short term (cash) to long term assets. A detailed plan is developed. Actions are initiated to identify, invest, and lease back several hundred million dollars in Real Estate. A key benefit is the actuarial impact of the Asset Liability Matching on top of the bank financial metrics. Stephen and the CFO assemble a team of internal and external experts. The office of the Chief Accountant, Appointed Actuary, Tax and Legal team are joined by outside counsel and appraisal professionals. Explanation of the business case, risk profile, and an active communication to management stakeholders is key to remove blockers and gain internal support.

Project Result

While the first transaction is being worked out, word within the bank grows, and increasingly experienced and expert partners join the team. The first transaction is used as a template to replicate the business case several times over. It is unusual to work on a single project and see financial impact in following year financial results.

The success of the initiative is gratifying to all involved:

- Increased Net Income After Taxes (NIAT) / Reduction in Policy Liabilities;
- Reduction in Interest Rate Volatility; and,
- Increased Minimum Continuing Capital and Surplus Requirement (MCCSR) ratio.

Following the success of the first two significant transactions, Stephen transitions the “play book”. The remaining internal team replicate and continue this new initiative as a Business As Usual program.

#RealEstate #synergy #Acquisition #NIAT #Volatility #MCCSR