Advising a Multinational: Managing Risk

- Mergers & Acquisitions
  - Missing financial liabilities, not advising on integration issues, neglecting to review deal language for critical issues
  - Global deal managed centrally, global deal managed globally, local deal managed locally

- Plan Design & Integration
  - Designing locally, but failing to obtain HQ approval
  - Designing centrally, but failing to obtain local buy-in
  - Local strategy may be at odds with HQ strategy

- Shared Services/Pooling Risk
  - Failing to leverage experience, failing to leverage purchasing power

...anecdotes to follow
Actuaries support the entire deal

"Deal Flow"

Formulate Locate Investigate Negotiate Integrate

Pre-Deal (assessing, planning, forecasting value)
Pay and benefits financial due diligence
- costing, funding of pension plans, retiree medical, plan structures, risks, liabilities, termination indemnities, executive compensation

Deal (agreeing value)
At the table
- deal language can hold pitfalls

Post-Deal (realizing value)
Plan design
- integration and cost management add value to the deal

Multinational Applications: what's special about these?

- If meetings are an important part of unified decision making, what happens if you can't have them?
- Add in multiple time zones, multiple languages and multiple "cultures" - the way things are done
- The regulatory rules - the foundation is different around the world with respect to labor laws, taxation, social regulations, speed of decision making, role of decision maker, total compensation structure and mix, etc
- And all countries are different from each other
- If Business Unit leaders struggle to understand HR's role and value in their own country - they are totally "lost" when it comes to international
**Benefit Plans - anecdotes**

- **Germany:**
  - Deal managed locally - asset deal, but target wants Multinational to cover retirees
  - Still early stages of the deal, local actuary advises verbally regarding the difficulties/costs
  - Local business unit provides written summary to HQ misrepresenting some of the issues, local adviser did not review
- **Australia:**
  - Locally advised on selecting insurance provider - preferred pool did not make the short list
  - Local business was not concerned, but HQ pressured business and advisers to support the decision

**Benefit Plans - anecdotes**

- **Japan:**
  - Multinational on fifth acquisition in Japan. Needs to integrate compensation practices & change to more "Western Style", have a common but flexible retirement & other benefit plans.
  - HQ wanted to control retirement plan design, but not comp
  - Created global team from Japan and US in order to match client's local & HQ needs, and was integrated into client's global team.
- **Mexico:**
  - Local business designs competitive plan
  - HQ withholds approval since business need was not identified
Benefit Plans - anecdotes

- U.S. / France, Netherlands
  - Global deal structure depended on finding synergies
  - HQ. had fully rationalized U.S. costs
  - However, redundancy costs and timeframe in minor deal
countries proved to be a substantial hurdle
- Brazil
  - Global deal intended to move target employees to
  Multinationals programs as soon as possible. Multinational
  had better programs in Brazil, so move should be easy
  - However, target had better medical/dental and local HR saw an
    opportunity to improve benefits for everyone, but it was not
    necessary

Benefit Plans - anecdotes

- Austria:
  - Book reserve for TI was larger than that for DB plan - had
    been omitted from deal agreement & went to arbitration
  - Local management didn’t allow actuary to review deal
    language, but HQ expected such a review
- Japan:
  - Target employees covered by “parent” Health Insurance
    Association - no buyer control, possible adverse cost
    exposures - HQ pressed to move employees to government
    plan
  - HQ later denied such pressure - employees lost valuable
    benefit, costs increased, surplus lost
- **Global:**
  - *Fortune 100 company lets business unit run deal - however, first major global deal is overwhelming*
  - *Business unit makes the Multinational look like an amateur rather than a global player. Local advisers try to guide the business, but learning curve is too steep*
  - *Multinational will now establish an HQ M&A team to work with all business units for future deals*