

## Winning Where Most Fail

*How the Nationwide-Allied commercial lines post-merger integration succeeded through execution mastery*

**May 17-19, 2009**

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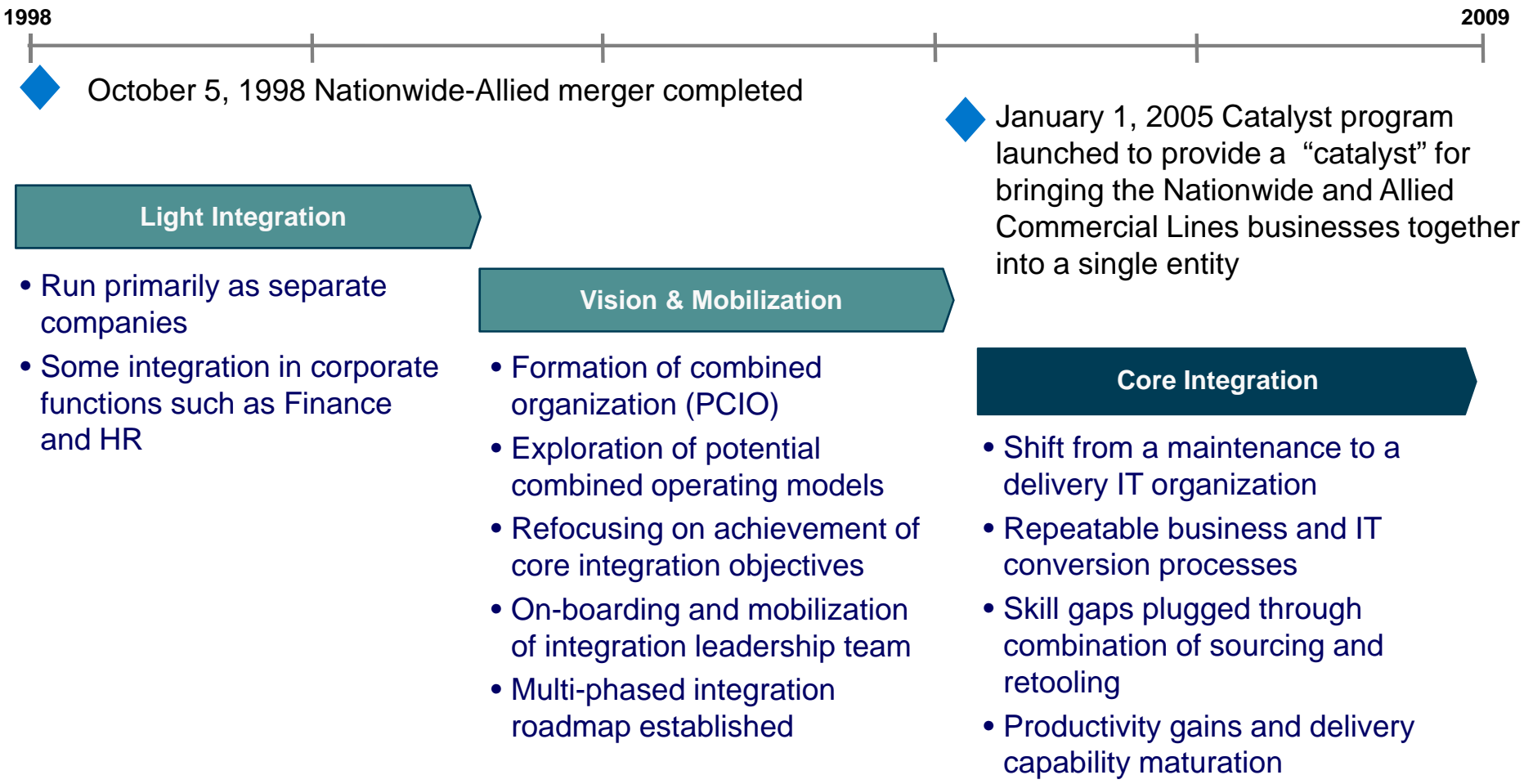
# Discussion Objectives

**There are several key outcomes targeted for today's session**

- A more realistic appreciation of the technology-related challenges facing P&C insurers that are considering a merger or acquisition
- A better understanding of how a simplified, optimized operating model can support an insurer's business objectives
- Practical advice for increasing the likelihood of success in navigating through product, process, and system post-merger integration

# A Journey

The journey to a combined, simplified Commercial Lines operating model across both Nationwide and Allied was a long one and only began in earnest several years ago



# Benefits

The Catalyst program was established in 2005 to deliver benefits to the combined Commercial Lines organization in four key areas

Benefit	Summary
<b>Accelerate Growth</b>	Pick the best products, practices and leaders to grow the business faster than Allied or Nationwide would have been able to do on their own
<b>Reduced Expenses</b>	Reduce the cost of managing and supporting multiple business models
<b>Business Agility</b>	Significantly improve our ability to react and respond to internal (new opportunities) and external (competition, regulation) requirements
<b>Better Experience</b>	Consistency, better integration, usability and quality (as a result of fewer systems) improves the customer experience

# Post-Merger Integration Challenges & Risks

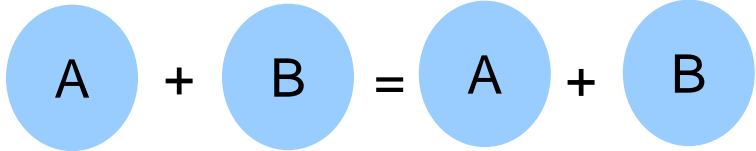
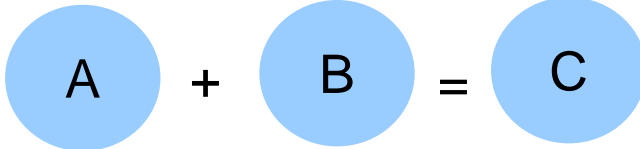
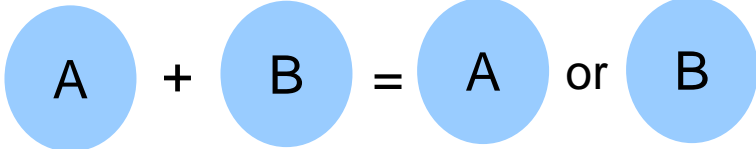
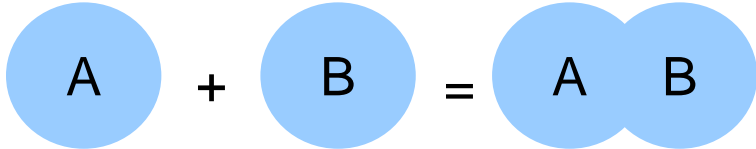
We anticipated post-merger integration challenges and risks that were both common to the U.S. P&C insurance industry as well as specific to Nationwide

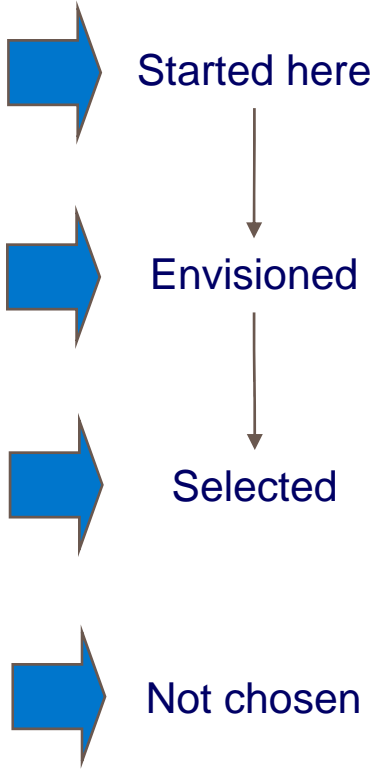
Type	Key Challenges & Risks	
<div style="background-color: #2c5e8c; color: white; padding: 10px; text-align: center;">Cross-Industry</div>	<ul style="list-style-type: none"> <li>• Insufficient focus on <b>critical integration decisions</b></li> <li>• <b>Culture</b> integration</li> <li>• Customer <b>churn</b></li> <li>• Loss of market and operating <b>focus</b></li> <li>• Ability to realize <b>synergies</b> promised to street/board</li> </ul>	 <p data-bbox="1676 705 1889 782">Common to the Industry<sup>1</sup></p>
<div style="background-color: #2c5e8c; color: white; padding: 10px; text-align: center;">U.S. P&amp;C Insurance Industry</div>	<ul style="list-style-type: none"> <li>• State regulation drives additional <b>cost and complexity</b></li> <li>• Rationalization of product &amp; pricing differences in overlapping markets is <b>resource intensive</b></li> <li>• “Big bang” system conversion involves significant <b>execution risk and cost</b></li> <li>• Longer time period before emergence of a single operating model can <b>slow realization of cost synergies</b></li> <li>• <b>Potential for channel conflict</b> and alienation of independent distribution partners</li> </ul>	
<div style="background-color: #2c5e8c; color: white; padding: 10px; text-align: center;">Nationwide-Allied</div>	<ul style="list-style-type: none"> <li>• <b>Cultural differences</b> between Nationwide and Allied</li> <li>• Lack of <b>large-scale development competency</b></li> <li>• <b>Skill gaps</b> and resource shortages on goal state platform</li> </ul>	 <p data-bbox="1676 1139 1889 1216">Specific to Nationwide</p>

<sup>1</sup>Source: Accenture analysis

# Key Decision: Operating Model Selection

A key decision in any post-merger integration effort is selection of the target operating model

Approach	Description
<p><b>Separate</b></p> <p>Leave in place two separate business models, processes, and systems</p>	
<p><b>Transformation</b></p> <p>Transform business model, processes and systems to a new optimized model</p>	
<p><b>Conversion</b></p> <p>Convert business model, processes and systems to one of the two models</p>	
<p><b>Best-of-Breed</b></p> <p>Aggregate best-of-breed business model, processes and systems to a combined model</p>	



# Key Decision: Conversion Approach

Having selected the target operating model, the next key decision was how to get there

## Conversion Option



- Convert policies mid-term
- One deployment for all regions and states

## Key Pros

- Less operational complexity associated with new operating model rolled out at one time

## Key Cons

- Increased execution risk
- High staffing ramp-up required across IT, Product/Actuarial, Service Center
- Increased initial time to market
- Increased customer retention risk
- Increased regulatory coordination risk
- Increased risk of poor quality due to volume of change and extended development lifecycle



- Convert policies at renewal
- Multiple deployments by regions / state groupings
- Enhance target platform over time

- Shorter time to market for initial benefits
- Lower risk profile (retention, regulatory, execution)
- Higher quality levels resulting from consistency in staffing and maturation of processes and tools

- Increased timeline to realize all benefits
- Additional operational complexity associated with policies on different systems depending on release schedule

# Key Decision: Deployment Sequencing

We divided up the Catalyst program into “Builds” and sequenced them based on business value and risk

## Definition of a “Build”

A “Build” deploys common products, business processes, and technology solutions across:

- A grouping of 3-6 states, typically from the same region
- All lines of business
- All distribution channels



## Rationale

- Minimized the number of times a region would be impacted
- Reduced the need for additional Product/Actuarial resources by spreading the work
- Kept IT enhancements to a manageable size

Each “Build” was sequenced based on several factors:

Earlier Release	Factor	Later Release
High	Policy Volume	Low
Low	Regulatory Risk	High
Low	System Functional Gaps	High

# Catalyst Program Overview

The Catalyst program was divided into four separate pillars for management and reporting purposes

## Program Pillar

## Objectives

Conversion and Expansion

- **Reduce operating expenses** by consolidating commercial policy applications, enabling the retirement of 5 Legacy systems
- **Support market expansion** to 13 states for the Independent Channel / Nationwide Agribusiness
- Enable new capabilities to be developed **more cheaply, more quickly, and across entire footprint**

Consolidation

- Provide **additional automation** for commercial processing such as increasing automated renewal rates by 2-3X and delivering policies electronically
- **Consolidate cross-LOB functions** such as renewals and print

Imaging and Workflow

- **Enable virtual service center** through one common imaging and workflow platform across channels
- Improve **underwriting decision support**

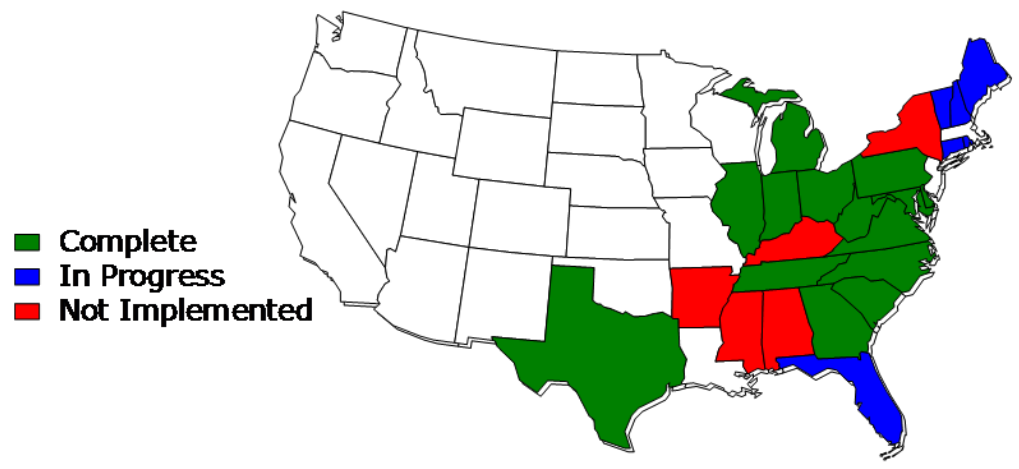
Commercial Business Intelligence

- Facilitate **improved analytical reporting** and **better decision making** on Commercial Lines business via one common source

# Catalyst Results Achieved

The Catalyst program is nearing completion

## Conversion Map



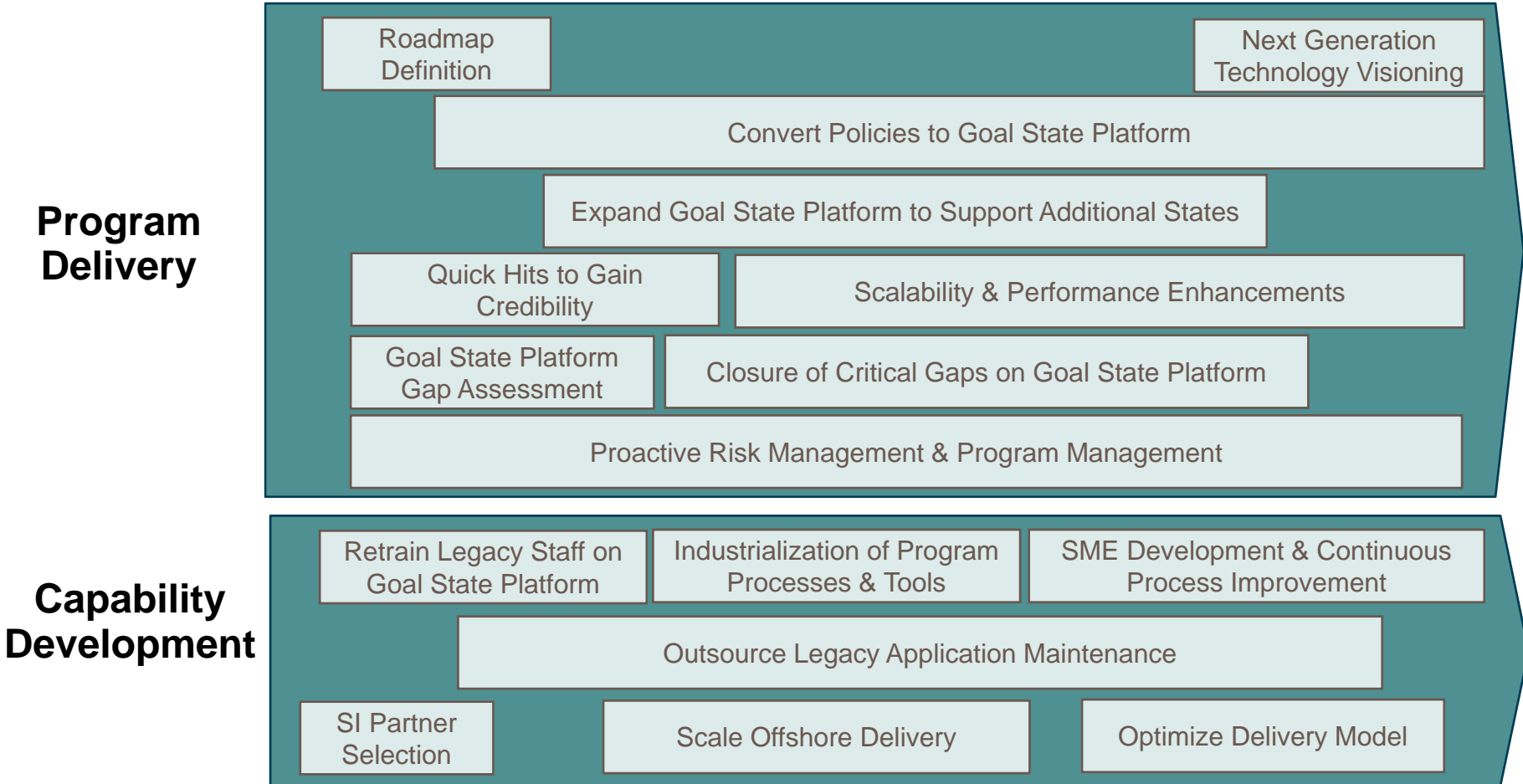
## Key Metrics

<b>Business</b>	States Enabled:	21 of 26 (81%)
	Policies on Common Platform:	~90%
	Retention Impact:	minimal
	Renewal Pricing Impact:	minimal
	Agents/Associates Trained:	5,500
	Training Sat% (4-5 on 5 pt scale):	~99%
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<b>IT</b>	Total Work Hours Spent:	approaching 1,500,000
	Avg Annual Budget Variance:	<1%
	Conversion Builds On Time:	100%



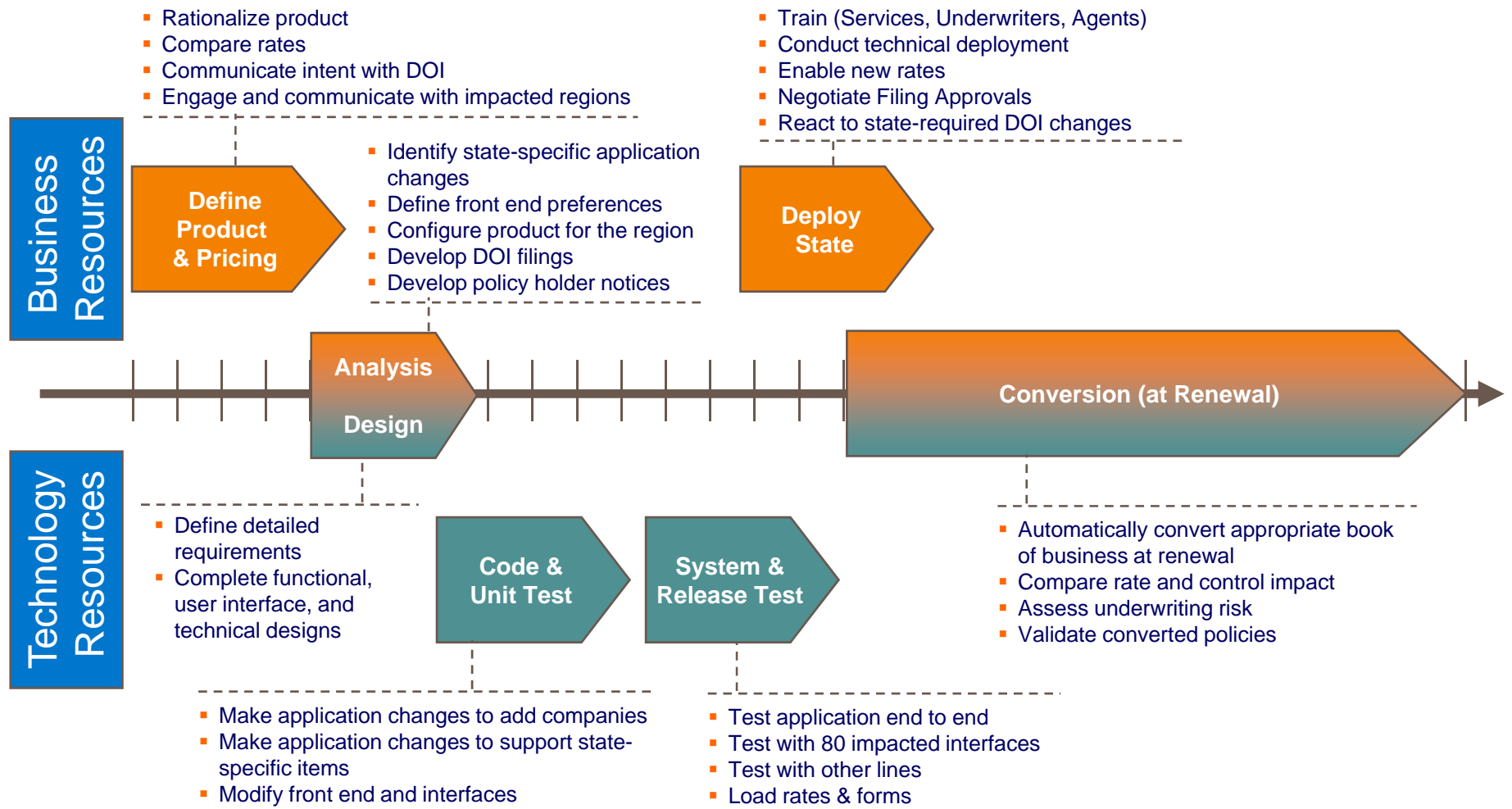
# Critical Success Factors – Multi-Phase Roadmap

A multi-phased roadmap provided a compass to help guide our efforts as well as a yardstick for measuring progress



# Critical Success Factors – Large, Complex Delivery Rigor

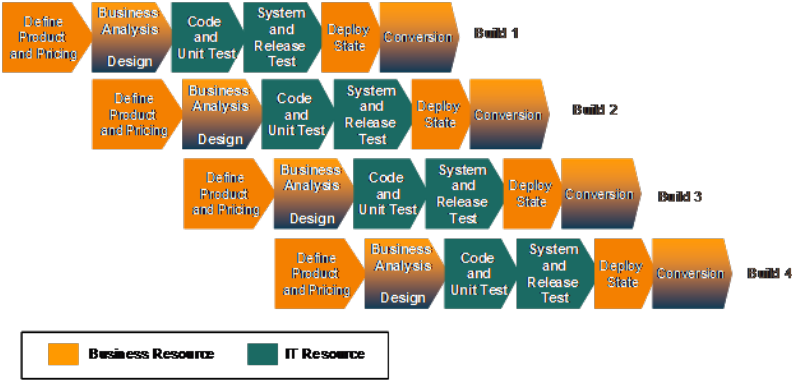
Rigorous processes and tools were used to support large-scale delivery



# Critical Success Factors – Delivery Factory

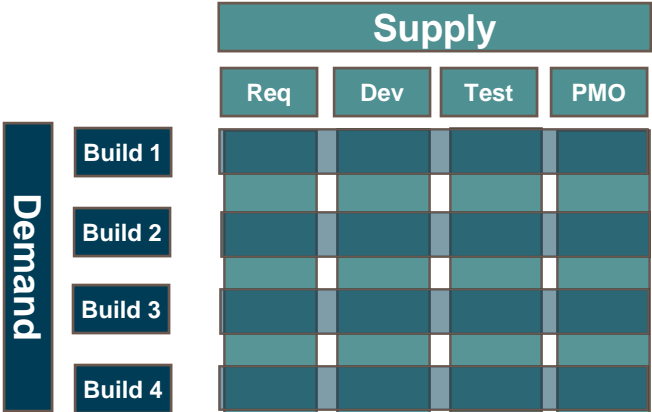
## Establishing a delivery factory paid dividends given our phased approach

A phased build schedule helped to **industrialize** the factory



- Multiple Builds in flight simultaneously
- Resources redeployed seamlessly across “Builds” at the stage where their skills were needed most while minimizing downtime
- Promoted deep specialization and continuous process improvement as lessons learned were incorporated into subsequent Builds

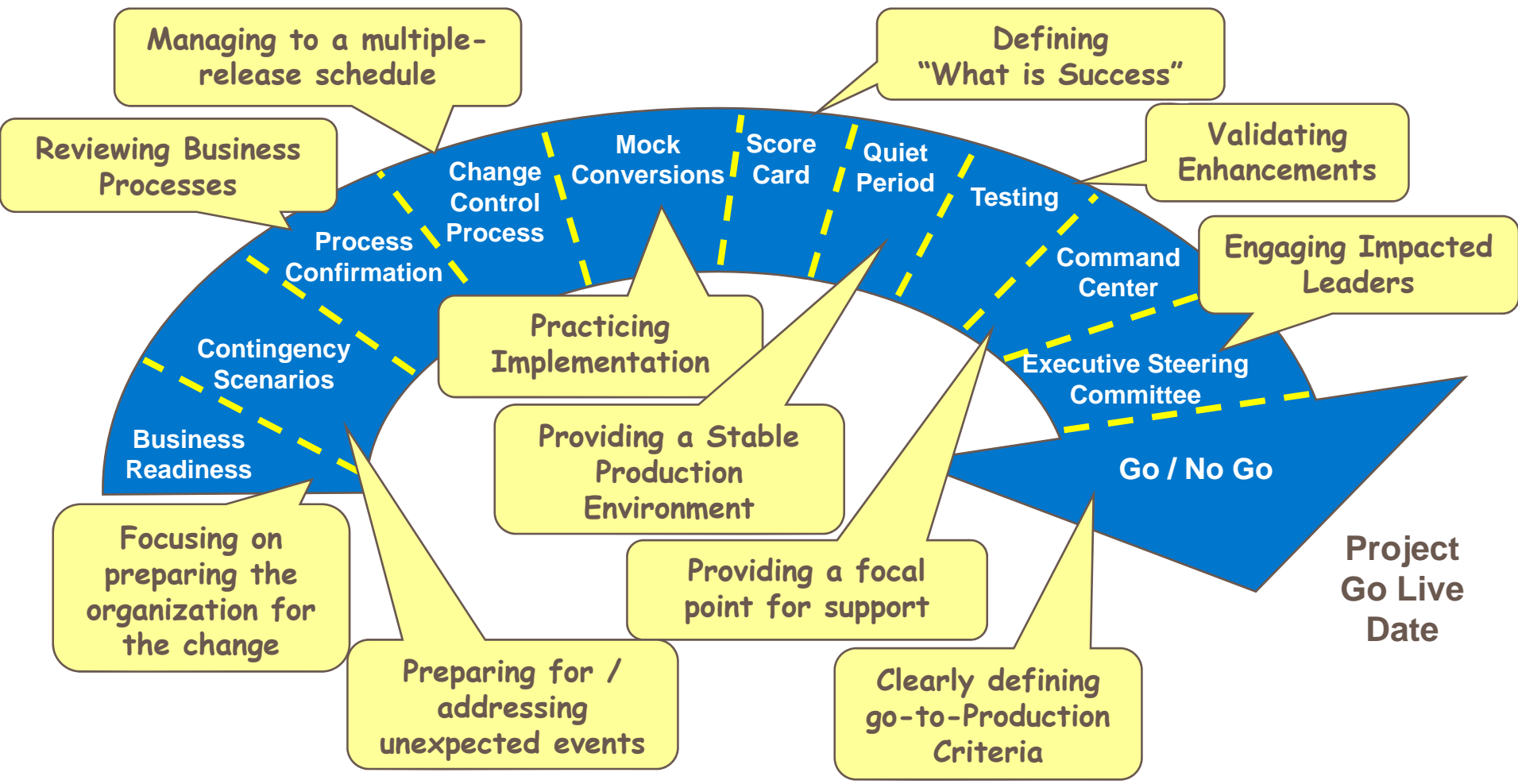
A matrixed team structure helped to **scale** the factory



- Matrixed team structure that facilitated balancing Supply and Demand
- Clear role definition and accountabilities
- Collaborative planning
- Fostered an environment where healthy and constructive conflict was encouraged
- “Improve while delivering” mentality

# Critical Success Factors – Business Readiness

A comprehensive approach to business readiness helped put our business partners at ease



# Lessons Learned

**For the most part we were able to recalibrate based on lessons we learned along the way**

1. **2 “major” builds annually** rather than 3 to help reduce delivery risk and complexity/cost
2. **Refreshing the business case** regularly
3. **Internally marketing successes** and re-establishing commitment, especially when leadership changes
4. Moving to an **offshore model** for conversion-related back-office processing activities, and more aggressively for application development and maintenance once risk profile is lowered
5. Choosing **the right external partner** from the start, based on relevant experience (commercial lines business knowledge, policy administration, post-merger integration, large-scale delivery)

# Question & Answers

