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   MARK HIGGINS, EXPERT IN PRACTICAL APPLICATION OF ADVANCED ANALYTICS, HEADS THE PERFORMANCE ANALYTICS GROUP OF GLOBAL INSURANCE SERVICES.
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Jim Wrynn is a Senior Managing Director and leader of Governance, Regulation and Risk in FTI Consulting’s Global Insurance Services practice, and is located in New York City. He has more than thirty years of experience as an insurance executive, attorney, regulator and strategic advisor in the global insurance sector, earning wide recognition as a premier authority on domestic and global insurance regulation and related strategic and risk management matters. In addition to his role as NYS Insurance Superintendent, Jim was instrumental in creating the NYS Department of Financial Services and was its first Deputy Superintendent. In senior roles with the National Association of Insurance Commissioners (NAIC), and the International Association of Insurance Supervisors (IAIS), Jim also played a key role in developing national and international regulations and policies governing the insurance industry.

Prior to joining FTI Consulting, Jim was Managing Director and Vice-Chair in the U.S. of Guy Carpenter’s Global Strategic Advisory Group. Jim is admitted to the Federal and State Courts of New York and New Jersey as well as the Supreme Court of the United States.

Jim holds a B.S., Accounting, St. John’s University College of Business Administration and J.D., St. Johns University School of Law. He has earned a Martindale-Hubbell Peer Review rating of AV Preeminent, and has been rated a top lawyer in insurance law by American Lawyer Media and Martindale-Hubbell and in insurance coverage by New York Metro Super Lawyers. Jim has also earned an Associate in Captive Insurance (ACI) and Associate in Risk Management (ARM) designation. He is a frequent speaker and author on insurance governance, risk and regulatory matters.

Mark Higgins is a Senior Managing Director and leader of the Performance Analytics group within FTI Consulting’s Global Insurance Services practice. Mark is located in Dublin and is focused on expanding Performance Analytics within EMEA and the Americas.

He has extensive experience in the insurance and banking industries, and has developed and implemented analytics led strategies for international clients that have improved revenue, customer profitability, and operational cost effectiveness.

Mark blends sector know-how and change management expertise with FTI Consulting Data Analytics capabilities to diagnose opportunity, identify root causes of poor performance and inform competitive strategies for our clients.

Prior to joining FTI Consulting, Mark provided independent consultancy services at strategic and operational levels to the insurance sector. Previous to this Mark worked in the insurance industry for 10 years developing new products, planning and leading complex business change and managing delivery of large technology implementations for market leading organizations.

Mark holds an MBA, Smurfit Business School, University College Dublin, a BEng in Mechanical Engineering, University of Bolton, Manchester, England, and is a PMI Project Management Professional.

Paul has more than eighteen years of experience in the insurance industry with eight years of executive experience at Scottish Re Group Limited, including board member in both public and private companies, chief executive officer, chief administrative officer, executive vice president, and general counsel.

Paul has also advised a number of companies in buy side/sell side M&A, re-domestication from Bermuda to Switzerland, restructuring, opening of U.S. insurance platforms, and regulatory, tax, and legal matters.

From 1986 to 1991, prior to college and law school, Paul served as a Squad Leader in the U.S. Army’s special operations force, the 75th Ranger Regiment. He holds a J.D., Southern Methodist University and a B.B.A. Accounting, University of Texas, El Paso.
Ian Marshall is a Managing Director in FTI Consulting’s Global Insurance Services practice and is located in London. He is considered a leading insurance expert and recently devised and implemented the first solvent scheme of arrangement for a reinsurer to be sanctioned by the court for several years.

The solvent scheme of arrangement is noteworthy in three key respects. It is the first such scheme to have been sanctioned since the PRA and FCA took over regulation of the UK insurance industry from the FSA. Second, it is the first scheme to combine finality for the parent of the insurer with the provision of continuing cover to policyholders. Providing continuing cover is a key aspect of the PRA’s 2014 supervisory statement on schemes of arrangement. This has been achieved using a combination of new scheme provisions to define the schemed policies and claims and by the third new feature of carrying out the scheme in conjunction with a Part VII insurance business transfer.

Ian was recognized along with three other FTI Consulting employees in “Who’s Who Legal - Insurance & Reinsurance 2015 for his experience and expertise in insurance technical investigations and complex reinsurance transactions; insurance operational and service delivery, including claims, delegated authorities, outsourcing and run-off management; and reinsurance pricing and underwriting.

Ian has more than 30 years of experience specializing in run-off, insurance technical investigations, arbitration and litigation, insurance accounting expert work, and expert and management roles in Part VII and Scheme of Arrangement processes.

Ian holds a BSc Economics University of Hull; Fellow of the Institute of Chartered Accountants in England and Wales; Certified Public Accountant in the United States; Associate of the Chartered Insurance Institute (Chartered Insurance Practitioner); Full Member of the Academy of Experts, London; and Panel Member of ARIAS, UK.

Jim Toole Jim is a Managing Director in the Global Insurance Services Actuarial practice and head of the life and health actuarial practice. Jim was recently appointed Chair of the Society of Actuaries (SOA) Latin America Committee. He spoke earlier this year at two SOA events: “The Role of the Actuary in Global Financial Systems” at the 11th Congresso Brasileiro De Actuária in Sao Paulo; and “Collaborating on Public Health Priorities” at the SOA Spring Meeting in Philadelphia with representatives from the Centers for Disease Control and Prevention.

Jim has more than 25 years of management and technical experience in the life, health, P&C and captive insurance industries, including a variety of roles with leading consulting firms and insurance companies. Jim has been active in SOA professional activities since 2000 and has held various positions, including board member and chair of various committees.

He is a frequent speaker at industry meetings, seminars, and universities in the United States and Latin America, and has written and/or edited articles for numerous industry publications. Jim was co-editor of “Insurance Industry Mergers and Acquisitions,” a textbook published by SOA.

Jim holds a B.S. in Mathematics, Wake Forest University, and is a Certified Enterprise Risk Analyst, and a Fellow of the Society of Actuaries.
Integrated Due Diligence: Your Best Warranty for M&A Success

In our article “Customer Integration Risk: A High Stakes Proposition for Insurance Mergers and Acquisitions”, we briefly touched on the importance of due diligence as a means for gaining the insights necessary to make informed post-transaction integration decisions.

In this article, we expand on the role of due diligence, discussing the use of Integrated Due Diligence (IDD) as an efficient and controlled methodology for gaining insights that can drive deal performance to optimum levels.

1+1 MUST EQUAL 3

History affirms that M&A rarely comprises a match of equals, and if the deal is to succeed, 1+1 must equal 3, and company A and company B must transform into company C. Achieving those objectives starts with a strategic plan and due diligence.

To be effective, due diligence should be integrated with the strategic objectives of the specific transaction and span the transaction lifecycle, thus continuously informing decision makers as diligence progresses.

Unfortunately, in a rush to move the deal forward and contain costs, transactional due diligence is often limited to a high level review essentially confirming public information generally known by the parties. This could turn out to be an error in judgment that can lead to disappointing results and post transaction disputes.

THERE IS A BETTER WAY

To be effective, due diligence should be integrated with the strategic objectives of the specific transaction and span the transaction lifecycle, thus continuously informing decision makers as diligence progresses.

As illustrated in Figure (1) IDD/TOM, this goal is achieved by structuring due diligence in combination with development of a preliminary Target Operating Model (TOM). Together IDD and TOM illuminate where targeted focus is required for uncovering the transaction risks and drivers of opportunities that influence deal value.

For example, the overarching objective may be to gain access to an existing distribution channel in a new market that will enable increased sales of one or more lines of business. Given the anticipated financial and operating metrics, the transaction is expected to increase revenue and profit by a certain amount. Knowledge gained from IDD about the distribution channel to be acquired, and the new market environment, helps refine the preliminary TOM, which in turn helps guide transaction integration planning and execution.

This is a simple example, but the important point is that transaction integration can be informed early, reducing one of the most prevalent risks in M&A transactions – not achieving deal objectives.

CATEGORIES POTENTIALLY ADDRESSED WITH THE IDD

There are typically 12 primary categories potentially addressed by IDD in conjunction with the TOM.

It should be noted that IDD need not cover all 12 categories. Which categories are covered depends on the strategic objectives, resources available, and the amount of information available prior to IDD.

- Financial: Assets, liabilities, leverage, liquidity, profitability, receivables/recoverables, capital adequacy
- Strategic: Markets, political, environmental, social, economic
- Governance and Risk Management: Culture, risk policies, appetite, tolerances, metrics, mitigation measures, reporting and assessment

Figure (1) IDD / TOM
• Regulatory: Policies, procedures, controls, data quality, documentation, compliance systems
• Legal/Regulatory Materials: Corporate papers, contracts, licenses, agreements, loans, board reports, compliance
• Operations: Actuarial, underwriting, claims – data quality, and integrity of models, reserves, processes and controls
• Products: Mix, pricing, liability, performance efficacy, lapse ratios, distribution
• Information Technology and Systems: Data quality, integration, analytics, decision intelligence, security
• Human Resources: Culture, demographics, education, expertise, credentials
• Property: IP, real estate, equipment
• Investment Portfolio: Alignment, balance, risk, volatility, value
• Third Party Vendors/Stakeholders: Brokers, agents, payors, service organizations, regulators

GUIDELINES FOR CONDUCTING IDD
As noted previously, IDD and TOM are informed by the transaction strategic objectives and should be structured to address those specific objectives. However, early in the process, it is important to discuss initial findings and insights with the board and management in order to obtain further guidance and modification if necessary to IDD and TOM. These discussions should include consideration of targeted “deep dives” designed to uncover less obvious risks and opportunities. These discussions should also take place whenever there is a significant finding requiring board and management attention.

So as not to “boil the ocean” when conducting IDD, it is important to maximize use of client data and to maintain focus, as guided by the transaction objectives and direction from the board and management. It is also important to work collaboratively with other resources and remain flexible in responding to new insights.

SOME CONSIDERATIONS
Use of IDD and TOM can contribute to reducing risk, uncovering hidden opportunities, and helping ensure improved post deal value realization. However, there are certain aspects of this approach that need careful consideration due to the fact that a portion of effort is taking place ahead of deal closing.

• Multi-disciplinary Teams: Because IDD/TOM can cover various categories, best results are obtained by using multi-disciplinary teams that have deep domain experience, combined with technical and business acumen. This may require use of third party advisors.
• Resource Allocation Shifting: While reducing overall deal risk and helping ensure that deal value is achieved, the IDD/TOM approach distributes some of the resources ahead of deal closing.
• Project Duration: Choices in resource loading and scheduling will influence the IDD/TOM process duration.
• Access: Limitations may exist for access to people and information needed to perform IDD.
• Confidentiality: A secure confidential data room is typically required to process some data.

FINAL REPORT
A draft report should be developed to present findings, conclusions and recommendations, including a final TOM to the board and management. The approved draft report, containing any changes, forms the basis for a final report.

CONCLUSION
Integrated Due Diligence, combined with a Target Operating Model, is a powerful approach that helps achieve deal objectives from target identification to post-close integration. Close collaboration by the parties early on, combined with the insights gained help reduce deal risk and increase deal reward. Given the potential benefits, IDD/TOM should be considered as a worthwhile investment.

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Client Guidance
Continued
Internet of Things: Wake Up Call

You may have been annoyed Friday, October 21, that the Internet was slow and intermittent and that some sites were not available. **When you read this, you should be highly concerned.**

As reported broadly in the media, the Internet was impacted by a Distributed Denial of Service (DDoS) attack on the Domain Name System (DNS) infrastructure of DYN company.¹ The attack affected a number of high profile firms, including Twitter, Netflix, Paypal, Etsy, Spotify, Soundcloud, Reddit, Crunchbase, and others across North America.

**WHY IS THIS IMPORTANT?**

Analysis from Dyn and other cooperating security firms concluded that the Mirai Botnet² directed hundreds of thousands of devices that it had infected to overload and choke DYN’s networks.

Mirai scans the internet looking for vulnerable IoT devices that have default settings, i.e., username and password ‘admin, admin’ or weak passwords such as ‘1234’, etc.

Once the malware finds a large number of vulnerable devices (“zombies”), it uses these to launch a massive volume and velocity of traffic to a targeted firm. **That targeted firm could be yours!**

**ORGANIZATIONS HAVE CAUSE TO BE HIGHLY CONCERNED.**

Hangzhou Xiongmai Technology, a Chinese vendor behind DVRs and internet-connected cameras, stated that security vulnerabilities involving weak default passwords in its products were partly to blame.

Of course Xiongmai is not alone. There are millions of Internet of Things (IoT) devices in use and being manufactured daily that have such vulnerabilities. And these IoT devices exist in every company and almost every home.

IoT vulnerabilities may be magnified for those firms that interact with, and use customer information collected from IoT devices.

Will customers remain confident that their devices are secure and that companies are protecting their information? If not, consumer confidence in interacting with companies via IoT devices may erode. Users may react by choosing not to use certain devices. Some organizations are already reacting.

UK Prime Minister Theresa May, for example, has banned Apple Watches during UK cabinet meetings for fear the watches might be used for spying.

**WHAT YOU NEED TO DO**

Organizations need to understand the various IoT devices and their characteristics, and conduct a thorough assessment of their IoT resources.

How many are in use? Are they controlled on your infrastructure or in the Cloud? Are they secure? How are they used? Is your software involved? Is it your data or your customer’s data? Does your use of IoT devices meet regulatory requirements?

As you can imagine, answering these questions and others will involve a complex, rigorous process, especially when taking into account those IoT devices used by interacting customers and third parties.

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¹ Dyn is a cloud-based Internet Performance Management (IPM) company. DNS is a system for naming computers and network services that is organized into a hierarchy of domains. The DNS infrastructure consists of the DNS servers that run the DNS service and DNS clients that run the DNS Client service.

² A Botnet is a network of private computers infected with malicious software that controls certain functions of the infected computers without the owners’ knowledge.

³ Gartner, Inc. forecasts that 6.4 billion connected things will be in use worldwide in 2016, up 30 percent from 2015, and will reach 20.8 billion by 2020. In 2016, 5.5 million new “things” will get connected every day.

³ http://www.gartner.com/newsroom/id/3165317
HOW FTI CONSULTING CAN HELP
Technology Forensics, a specialized unit of FTI Consulting, is a leading provider of independent cyber security and fraud detection services dedicated to protecting client information assets.

Technology Forensics uses dedicated forensic technology laboratory systems, specialized forensic software tools and forensic field kits, applying their extensive experience in law enforcement and system security technology to deliver a range of cyber security and fraud investigation and related services.

Focused on IoT, Technology Forensics can determine vulnerability issues, recommend and implement remediation measures related to the organization’s IoT assets, inclusive of the interaction with third party relationships and customers.

In addition to IoT, Technology Forensics provides a range of services related to the security of information systems, including:

- Assessing the organization’s security culture
- Conducting a risk assessment and determining the organization’s security resilience
- Performing system and network monitoring, logging and analysis
- Providing information security forensics and analytics, including analyzing email, web and social media activity and behavior
- Investigating data/privacy breaches and wrong doing, including fraud and improper confidential information and intellectual property disclosure
- Providing Incident response planning and execution
- Supporting litigation with fact-based data, analysis and expert reports
- Providing strategic communication to stakeholders

SUMMARY
IoT is a rapidly accelerating security risk that should be addressed immediately and aggressively.

Organizations should treat IoT risk as a subset of their overall information security initiatives, dedicating specific resources to identify and overcome any vulnerability. FTI’s experienced consultants, with automated technology tools and forensics, are available to work collaboratively with your teams as needed.

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NAIC Corporate Governance Annual Disclosure Model Act and Model Regulation

The need for improvement in corporate governance is a theme that runs through most international, federal and state regulations. Regulators continually seek to gain additional board and executive accountability, improved transparency, and better consumer protection.

The NAIC’s Corporate Governance Annual Disclosure Model Act and Model Regulation (Model Act & Regulation) is a prime example of increased focus on corporate governance.

The Model Act & Regulation work in tandem and require Corporate Governance Annual Disclosures (CGAD) of unprecedented scope and detail, sufficient to “...contain the material information necessary to permit the Commissioner to gain an understanding of the insurer’s or group’s corporate governance structure, policies, and practices.”

Accordingly, examinations will be in depth and cover such things as the suitability of management and directors, ethics tenets, performance evaluation, compensation, and risk management.

The immense amount of detail required by the CGAD will place a heavy burden on organizations, as well as on regulatory examiners.

In order to ensure that examinations are timely and thorough, the Model Act & Regulation allows the insurance commissioner to retain third party consultants to evaluate the CGAD at the insurer’s expense.

Organizations are encouraged to consider third party assistance as well in order to help ensure that the CGAD is prepared properly and in a manner that minimizes the regulator’s examination effort.

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In the News

FTI Consulting named to Forbes inaugural list of America’s Best Management Consulting Firms in 17 categories across industries and functional areas, and was one of only 20 of the 250+ consulting firms to be recognized in more than 15 categories.

CATEGORIES IN WHICH FTI CONSULTING RANKED AMONG THE BEST CONSULTING FIRMS
• Automotive
• Consumer Goods & Retail
• Digital Transformation
• Energy & Environment
• Financial & Risk Management
• Financial Institutions - Insurance, banking, etc.
• Internet, Media & Entertainment
• IT Strategy
• IT, Technology & Telecommunications
• Mergers & Acquisitions
• Metals & Mining
• Oil & Gas
• Operations
• Organization
• Other Industrial Goods & Services
• Strategy
• Travel, Transportation & Logistics
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About FTI Consulting

FTI Consulting, Inc. is a global business advisory firm dedicated to helping organizations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. With more than 4,600 employees located in 29 countries, FTI Consulting professionals work closely with clients to anticipate, illuminate and overcome complex business challenges and make the most of opportunities.

www.fticonsulting.com

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