

Human Resource Management Problems for Insurance Company Mergers: A Case Study

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Abstract—In this study, we have studied a case of two leading insurance company merger, which are Aviva and Ak insurance companies operating in Turkey. The company merger case is studied according to the human resource management (HRM) approach. During the study, the HRM perspective of merger is based on the interviews by C-level executives and many HRM related outputs, like gender, age or education level statistics are collected from the company merger. The case, studied in this research, is the biggest merger in Turkish insurance sector up until now and the outputs first time published in this paper states a useful base line for further studies. In this paper, the qualitative outcomes of merger, like the number of employees, education levels or the gender and age distribution is published as well as the qualitative outputs like the strategic achievements, organizational commitment or the leadership model. Another important section is holding the steps followed by the HRM department after the merger operation.

Index Terms—merger and acquisition, insurance companies, human resource management

I. INTRODUCTION

Merger and acquisition transactions have an increasing trend on the business world because of its attractive nature. Most of the companies foresee those transactions as an opportunity to expand their market shares or get a strategic advantage on the competitive scale.

One big issue on the merger of companies is the human resource performance, which is strongly related to the expectations, actions and behaviors of the employee.

Also, each market has its own dynamics of human resource management (HRM). For example, the expectations or behaviors of an employee on financial sector or production sector can show some differences.

In this study, a case of biggest merger in Turkish insurance market is studied. The outcomes of merger transaction are studied via interviews of C-level executives of the merged company from the perspective of HRM.

One company, subject to the merger is AVIVA, which can be considered as an international giant who is operating in 20 countries and started its operations in Turkey at 1988.

The second company of the merger is AK and it is founded by Sabanci Holding, which is one of the top 3 holdings in Turkey, who is one of the leading holdings with 22 companies operating in the industry, including car manufacturing, banking and finance.

The research is based on a case study by interviewing the key people on the merger company, so the paper is starting with the background of merger and acquisitions in the literature and the motivation behind the merger of two companies in our case, on the second section.

Third section holds the quantitative values after the merger operation and finally on the fourth and last section of the paper, the merger of two companies will be criticized.

In the fourth section, the post-merger complications and solutions are discussed.

II. BACKGROUND AND MOTIVATION

Merger and acquisitions are one of the major issues in the literature and a very well known issue in the insurance and banking sectors starting from the 1980s. For example, in their studies [1], Chamberlain and Tennyson has researched the merger case on property-liability insurance industry and they have based their research on the studies of Myers and Majluf [2]. Before the studies in 1980s, there are some older studies from end of 1960s [3] but by the 90s, the issue is massively research by the increasing number of mergers and acquisitions [4].

Merger and acquisitions are also a well studied subject in the insurance and banking sectors, for example at the start of this millennium the Citigroup –Travelers Corp merger has had publications in the literature [5].

Turkey has a high competitive market and in a special XU30 index, which is keeping the most prestigious 30 companies in Turkey, there are 7 banks [6]-[8] and all the banks are offering the insurance service. The similar case applies for most of the markets like European or US markets. For example 20% market capitalization of S&P

500 in U.S. is from financial services industry [9]. Financial services industry can be strongly correlated with the capital based services where the economics of scale has the major role [10], [11].

Main motivation behind the merger is the strategic expansion of both companies in different aspects. Both companies were targeting higher profit from different aspects of view. AVIVA was inclined for the banking network of AK insurance company, because AK insurance was supported by one of the biggest banks in Turkey, AK Bank. On the other hand, AK insurance was inclined for the merger because of the direct sales and international power and experience of AVIVA. Both companies were aiming the leadership of the sector after the merger. After the merger initiated in 2008 and finalized in 2011[12], the company is named as AVIVASA, where AVIVA is the name of the first company and ‘SA’ is a famous postfix for the companies owned by Sabanci Holding (the first two letters). After the merger, the company was holding a unique sales opportunity in Turkey.

From the strategic point of view, the merger motivation for both of the companies can be summarized as profit maximization. The market shares also gives a clue about the market domination trend after the merger.

Before the merger, both companies were not in first 3 ranking for the market shares.

The market shares of companies after the merger are given in Table I [13]:

TABLE I. MARKET SHARES BEFORE MERGER

Rank	Insurance Company	Market Share
1	Anadolu	9.73%
2	Axa	9.49%
3	Allianz	8.56%
4	Ak Sigorta	7.70%
5	Gunes	5.24%
...
13	Fiba	2.31%
14	Aviva	1.93%
15	Ray	1.71%
...
23	HDI	1.32%
24	AvivaSA	1.24%
25	AxaHayat	1.06%
...

There are 56 insurance companies in the list of Insurance Association of Turkey and Table I is fetched from the web site of association. The merger company appears together with the previous companies since the initial two companies were operating at that time. At 2011 both companies have finished their operations and the merger company is enlisted alone.

From the Table I, it is obvious that the market share of three entries, Ak Sigorta, Aviva and AvivaSA have a

market leadership at total with $7.70 + 1.93 + 1.24 = 10.84$ above the ranked first company.

III. QUANTITATIVE OUTPUTS

In this section the merger is studied by the quantitative values. The shareholders after the merger are given in Table II

TABLE II. SHAREHOLDERS AFTER MERGER

Share Holder	Share	Value
AVIVA PLC	49.83%	17,830,354 TL
AK Emeklilik (Insurance)	49.83%	17,830,354 TL
Others	0.34%	118,489 TL
Nominal Capital	100%	35,779,197 TL

After the merger, the number of employees in insurance company is 1800, where both companies were aiming to increase, so the number of employees is increased for both of the companies.

The education level after the merger is demonstrated in Fig. 1.

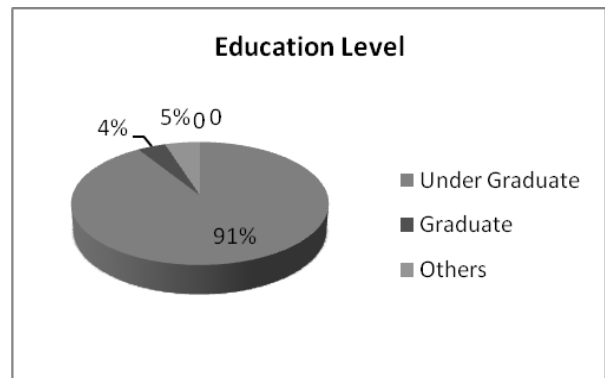


Figure 1. Education level of merger company.

Also, the age distribution of merged company is demonstrated on the Fig. 2.

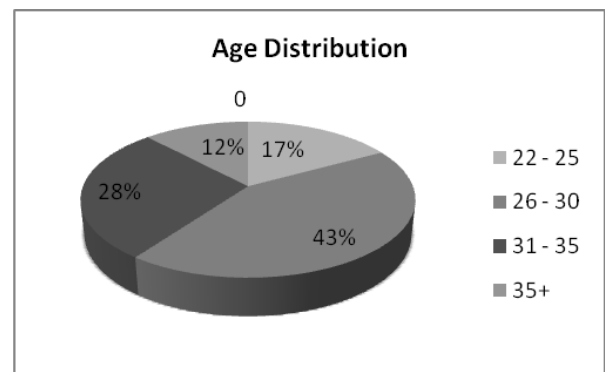


Figure 2. Age distribution of merger company.

The gender distribution among male and female employees is demonstrated in Fig. 3.

The gender distribution demonstrated in Fig. 3 also displays the high number of female employees dominating the number of male employees.

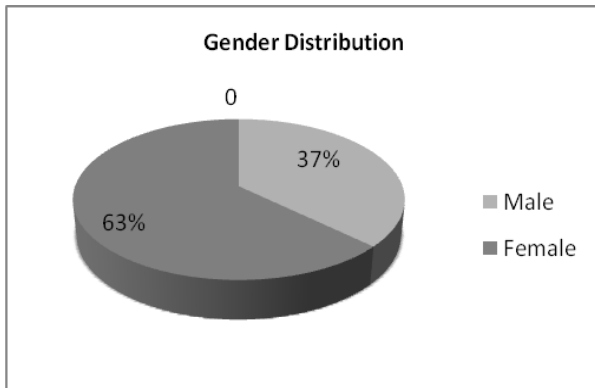


Figure 3. Gender distribution of merger company.

IV. QUALITATIVE OUTPUTS

During the merger, there are some qualitative outputs and problems. This section reviews the problems and outcomes of the merger from the qualitative perspective.

One big problem of merger is the conflict of duties and responsibilities of the employees. For most of the positions, there are two candidates from each of the companies. The selection of correct person for the merger company is a big problem in the case. The solution of conflict of positions in the AVIVA and AK merger case is mostly solved by the independent consultancy agencies for deciding on the qualifications of the employees.

Another problem is the communication language. AK insurance is originally formed up in Turkey and most of the employees were native in Turkish. On the other hand AVIVA is a foreigner company for Turkey and originally based on England. Because of the communication requirements the upper administration is formed from the employees, who are qualified to communicate in English. For the mid and lower level employees, there has been no such qualification requirement.

Information and communication technology infrastructure of both companies was built on the computer based communication technologies like e-mails or web based communication software. After the merge, both companies installed the software 'airport' for face-to-face communication.

Organizational commitment of employees is measured through the questionnaires. The level of organizational commitment is found higher than the satisfactory level by the company administration and the motivations behind the organization commitment is sorted by the 'being a proud member of organization', 'seniority' and 'the respect to company'. These answers are ordered by the priority of employee who filled the questionnaires.

V. POST-MERGER HRM ACTIONS AND OUTCOMES

After the merger of two companies some HRM actions are taken into consideration. For example the career plan of employees or the training requirements are explained in this section.

The first action was solving the human resource requirement for the gaps of post-merger situation.

For the human recruit, six solutions are applied:

- Employee application through HR web pages
- Employee applications directly to the company web pages
- News paper ads
- Face-to-face applications
- References of current employees
- Applications from career days of Universities

Between all the six methods, the highest number of employees recruited from the HR web pages.

The first step of trainings was to the administration level of companies in order to create a synergy. Rest of the Trainings are planned for the employees and organized to the mixed groups of two companies.

In the last step of training, all the employees are taken into orientation in the consultancy of an independent training company.

After the merger, one another step of HRM department was the calculation of the salaries. The first step of HR pricing was the justification of responsibilities and workload between departments. After each department has a justified workload, the HR pricing has taken into account. During the salary justification, following steps have applied:

- The payment of financial consultancy has renewed
- Bonus system of general management has been reorganized to cover all the employees
- All ancillary benefits for the employees are collected into 11 procedures and published to all employees
- The HR database has been enriched by the reports to answer the requirements of new HRM department.

For most of the employees, if there is no change on the work load and duties, the salary has kept in the same level. On the other hand, if there is an increase on the workload, the salary has been positively affected.

The leadership of company is also taken into consideration and multi dimensional leadership is taken into account. By the multi dimensional leadership, 4 levels of employee models are applied in the field. By the model, each of directors is considered as a mentor of the department in 4 levels. By the end of 2008, 97 directors have completed the multi-dimensional training.

The career planning of employees is also organized. Below steps are the career plans for the employees.

- Increasing the capabilities and experiences of the employees in their current positions.
- Defining the career path of each employee
- Giving multiple career alternatives to the employees
- Determining the training requirements for each employee on their career plan
- Directing employees into best positions for their capabilities and experiences and by the way increasing the performance

One of the problems in the merger was the cultural integration of two companies. The cultural integrity studies have started before the merger is completed. The initial steps were in the executive level teamwork for the

merger. Also the new forming up merger-company is designed by these integration teamwork and the vision, mission and goals are defined by the integrated team as their first project.

The organizational culture is built on several trainings and meetings. The four basic value of the company is defined as human, trust, success and progress where the motivation of employees are built on these values.

After the merger, the merger company is leading in the market shares.

TABLE III. MARKET FACTS OF MERGER COMPANY

Insurance Type	Market Value
Individual Retirement Fund Size	1,400,000,000 TL
Individual Retirement Contribution Amount of Investment Directed in Individual Retirement	1,300,000,000 TL
Life Insurance premiums	1,200,000,000 TL
	137,000,000 TL

Table III shows the market facts after the merger and by the individual retirement plans, the merger company is market leader. Also in the life insurance plans, the merger company is in the third position. At the end of 2007, the market share life insurance premiums of merger are in third position with 10.93% and individual retirement market share is in first position with 24.73% of the Turkish market.

VI. LEGAL BACKGROUND OF MERGER

The insurance companies in Turkey are subjected to strict rules and regulations of government in order to protect the savings of the citizens. The merger in insurance sector brings the necessity of legal background and governmental inspections bring some new laws and regulations in the sector. The legal background of merger can be studied from on going risks, provision for outstanding claims, life mathematical reserves and dividends, equalization provision, warnings, provision for receivables from insurance operations, receivables from pension activities of pension fund operations, pension liabilities from operations and internal auditing system.

For the Turkish technical provision regulation, the on going risks should be separated if the risk level and time distribution is not suitable from both companies. By the date of merger, investigations show no such unsuitable on going risks.

The problem of outstanding claims which the cases are in expertise or the amount of payment are still not certain is also declared in Statement of Changes in provision for outstanding claims and by the end of merger year, the outstanding claims was 2.412.156TL.

For each on going policy, the price is calculated separately based on the technical principles of actuarial mathematics provision for the Company's obligations to policyholders. The life mathematical reserves and the dividend is approved by the date of merger.

Turkish Republic, Secretary of Treasury of Foreign Trade January 14, 1993 and 12 September 1996 and USD and TL dividend as approved by the technical principles are evaluated on a daily basis. Policyholder's investment income on a daily basis method investments related to accrued interest income is distributed. The company's articles of other funds belonging to the cumulative policy life mathematical reserves for TC Treasury 's General Directorate of Insurance, dated November 1, 1999 approved dividend Technical Principles and Life Insurance Regulation is implemented according to the Daily Profit Share System. TL , USD and EUR calculated based on daily returns of investment tools and dividend rate calculated according to the value of dividends are paid to the individuals balance.

The catastrophic risks of merger companies are also investigated under a special topic in the technical provision regulation. Merger allocates funds for catastrophic risks like earthquakes in gross 189.642TL and in net 187.669TL.

Also another important issue for the merger companies is the internal auditing. The internal auditing of merger is operating directly under the board of directors. The merger internal auditing system is organized on risk basis and compatible with the international standards of COSO (Committee of Sponsoring Organizations of the Treadway Commission) and ERM (Enterprise Risk Management).

The auditing department has completed an audit about legal compliance, fund management, finance and accounting, integration of information technologies, management information systems and insurance risk and pricing in 2008 and the report of audit is presented to the board of directors.

The personal qualifications are well defined in internal systems regulation and auditing department consists of 1 auditing director, 1 auditing manager and 2 senior auditors. Auditing department is completely independent from the operations of merger and has no obligation or authority over the operations of the merger.

VII. CONCLUSION

In this study, the biggest merger operation in Turkish insurance sector has been studied from the perspective of HRM. The merger was between a foreign originated AVIVA insurance company and local originated and bank supported AK insurance company.

In the paper, the HRM dynamics, motivation behind merger and outcomes by quantitative and qualitative aspects has been published first time in the literature for the Turkish market.

The merger operations are under enforcements of legal regulations and market dynamics. Also cultural integrity and human resource management is a big deal for the mergers. From the perspective of a success story, the post-merger actions by the new company have been added to the study. The research is based on quantitative values already published in company announcements, public disclosure platform, or independent organizations like Insurance Association of Turkey or governmental organizations like Banking Regulation and Supervision

Agency or qualitative findings from the interviews by the c-level executives. We believe this research will be a good point of start for most of the further studies.

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