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When private equity firms target family businesses

Agreeing how to share influence with company founders can be a delicate task

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Inviting private equity investors into the family business was not initially appealing to Reungdej Dusdeesurapoj and his siblings.

SMK — the insurance company their father set up in Thailand in 1951 and one of the country's largest — was courted by much larger peers when the Dusdeesurapoj family explored attracting new investment to the business in 2014. RSA, the UK-listed insurance group, was planning to sell its minority stake in SMK and family members were keen that any new partners would be able to help the business grow.

There were the options of a merger or outright sale to a rival that could allow an expanded business to take advantage of economies of scale. But the siblings felt that doing so would compromise the SMK brand, which they had worked hard to build.

"We were looking for a partner to help us work harder than before to expand," says Mr Dusdeesurapoj. "We had many options for buyers and in the final round we had key players, including big insurance companies."

Eventually two private equity firms, Leapfrog and Lombard Investments, bought a combined 22 per cent stake in the business for $57.6m.

The private equity groups are trying to benefit from the expansion of Thailand's motor insurance market by investing in its second-largest provider. The value of motor premiums grew 61 per cent between 2010-15, according to the Thai General Insurance Association, and is expected to grow a further 35 per cent between 2015-20.

The family hopes the new partners will help win more customers in a country of 67m people. But as with any partnership, there were problems to address.

The first challenge was about control, says Stewart Langdon, a Leapfrog partner who was involved in negotiations with the Dusdeesurapoj family. Family members were reluctant to give up part of their influence on the business to another buyer and it took four months to convince them to do so.

"The biggest sticking point when we were pitching to them was around the shareholders' agreement and how to ensure that [we got] a say in decision making. Often these families have spent decades making decisions as they please," says Mr Langdon.

Eventually the family allowed Leapfrog to have a seat on the board. This was written in to the shareholders' agreement, which regulates the relationship between the managers and owners of a company. "Sometimes that's quite a tough thing for families to accept but we achieved it by building a relationship with them," says Mr Langdon.

The family believed most rival insurance companies would want more control whereas private equity investors would be "a bit more flexible" about sharing power, he says. Another benefit for SMK was that there was no danger of private equity investors demanding co-branding on its products, adds Mr Langdon. "If you bring in a big insurer, then suddenly you can see their brands sitting alongside yours. For a family business, that's quite an emotional thing."

Leapfrog executives hope technology can help SMK win more business. To do so, the company needs to shift its focus towards selling insurance online. "In the future, insurance will be sold much more through direct channels — in digital channels in particular," says Mr Langdon.

Leapfrog has been working with the family to make it better equipped to sell products online. "When you [consider the rate] of mobile take up, it is very sobering and the family has started to realise they need to invest," says Mr Langdon. "You need to have the trust of the family in order to communicate that message effectively. Still, this is work in progress."

Leapfrog is also pushing SMK to make more use of technology as part of its underwriting process. The insurer operates to a large extent on a model that involves third parties, where pricing risk can take several days. The private equity firm is planning to install software that would allow a salesperson to quote a price immediately.

"The pace of change has been faster than if it was run by just the family," says Mr Dusdeesurapoj. "You cannot fall behind the competition — once you do, it's hard to close the gap. We see more consumers moving online and we need to adapt."

He adds: "We might have to work harder than before because of private equity ownership. They work fast and we have to be fast to get there."