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Allianz to Speed Dresdner Integration, Analysts Say
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Munich, July 16 -- Allianz AG, Europe's second biggest insurer, said it controls 95 percent of Dresdner Bank AG following its $20 billion bid, meaning it can start integrating Germany's No. 3 bank seven months after combination talks began.

Chief Executive Henning Schulte-Noelle's biggest purchase to date will create a company with 1 trillion euros ($850 billion) in assets, 171,000 employees and more than 800 German branches through which it can sell insurance and banking products.

To reap the benefits the insurer is targeting, Allianz may have to move more quickly than anticipated, analysts said. That's as Dresdner earnings flounder, economic growth stalls and new money inflow at the bank's mutual fund arm DIT dried up.

``There's an increased need for speed,'' said Philip Panaro, head of financial services integration at IM2 in New York. ``Weak markets are affecting their ability to meet revenue targets and cross selling is even more difficult.''

The German economy may grow 1 percent this year, according to the DIW Research Institute, which last week slashed its April forecast of 2.1 percent. When Allianz and Dresdner began talks in January, the economy was expected to grow 2.7 percent this year.

Dresdner's pretax profit slumped 63 percent in the first quarter, and Allianz already cut its forecasts for Dresdner's contribution to earnings this year once. Fund inflow at DIT fell to a seventh of the amount DIT had a year ago in the first half.

No Short-Termism

``Our calculations were not based on short-term economic developments but on the long-term prospects,'' Allianz Chief Financial Officer Paul Achleitner told reporters after a conference in Munich last week. ``Nothing of that has changed.''

Allianz shares have fallen 3 percent since news of the takeover of Dresdner first emerged in March. AXA SA, the biggest European insurer, has risen 7.8 percent in the same period, while the 23-member MSCI Europe Insurance Index has gained 3.3 percent. Today, Allianz shares were unchanged at 321 euros.

That's as investors debated whether Allianz would achieve the 885 million euros in savings it said it will achieve by 2005. Sixty percent of those savings will be generated from additional revenue growth, the company said at a briefing May 31.

``It's a huge task,'' said Nicholas Schobinger, co-head of Central European M&A at Cap Gemini Ernst & Young in Zurich, in a telephone interview. ``The biggest strategic issue is whether they will go further than harmonizing distribution channels.

An integration taskforce of ten people is leading the merger and 1,000 people in 20 separate teams focus on integration. On top of that, between 50 and 80 McKinsey consultants are advising Allianz, with consultants working in teams of two to three.

Complicated

``Such big mergers are very complicated operations,'' said Frank Praedel, who helps manage $14 billion at Trinkaus Capital Management. ``You always have to view them with skepticism.''

The money management business will be combined into Allianz Dresdner Asset Management. Other areas, such as Dresdner's Dresdner Kleinwort Wasserstein investment bank, aren't involved.

``They need to train their sales forces and determine which products should be offered to which of their customers,'' said Panaro at IM2 in New York. This is where most banks fail.''

Allianz has said it expects integrating the bank will take three to five years. Schulte-Noelle is leading the integration process himself, with Dresdner Chief Executive Bernd Fahrholz at his side. Fahrholz will become deputy chief executive, and two other Dresdner managers will join Allianz' management board.

Dresdner shareholders' acceptance ``is both incentive and obligation to achieve our eager plans together with Dresdner Bank,'' Schulte-Noelle said today in a faxed statement.

Credit Suisse

Credit Suisse Group integrated distribution and technology when it acquired Winterthur in 1997 and boosted earnings mainly by selling some of Winterthur Insurance's foreign units and by cutting branches at home. The Swiss bank has reorganized twice since the purchase and is planning another overhaul now.

``A lot of the management will be tied up with the integration process in the time to come,'' said Stephan Koenig, a lawyer at Linklaters Oppenhoff & Raedler in Frankfurt. ``You'll have to sell the merger both inside and outside.''

Allianz expects European Commission approval of the purchase later this week, Schulte-Noelle told shareholders last week. The final takeover result will be reported Friday. The settlement of the transaction will be completed July 23.

--Silje Skogstad in the Frankfurt newsroom and Hellmuth Tromm in Munich, with reporting by George Stein in New York

Story illustration: {ALV GR <Equity> GPO <GO>} for an overview of Allianz' share price performance. {MXEU0IS <Index> GP <GO>} for the MSCI Europe Insurance Index. {MA <GO>} for the Bloomberg database of mergers and acquisitions.