



**The consolidation battle for the European broker has begun**

# The perfect storm

A rare set of circumstances will cause a significant acceleration of acquisitions over the coming years. The low interest rate makes capital cheaper than ever before, which makes financing acquisitions far more straightforward. In addition, private equity parties and other investors have discovered that insurance brokers achieve a steady yield. Even in economically hard times. Also, they require little capital investment.

Add to that the ageing population, which is causing many insurance brokers to look for succession, and it becomes clear that an unprecedented wave of acquisitions is on its way. Over the past ten to fifteen years the smaller brokers in the United States and Great Britain have systematically been incorporated in their larger counterparts. **The same thing is now about to happen in Europe.**



Compared to the Anglo-Saxon countries, Europe still has many highly active brokers. From small, local, family-owned businesses to large full-service companies that employ over 300 experts. The Netherlands alone has some 6,500 licence holders. Acquisitions in this industry far exceed the rest of the Dutch SME acquisitions market and have not been hindered by Covid-19 in any way, as the Acquisitions Monitor of the Ratings Institution for the Financial Services Industry (RIFD) shows.

### **Consolidation trend**

Not only the Dutch market is currently appealing to acquiring parties, so is the entire European market. Germany and France, for example, have approximately 45,000 and 25,000 brokers respectively. The premium volumes of each of these countries are similar to those of Great Britain, where there are now only 4,000 independent brokers. Twenty years ago, that number would have been tenfold. This consolidation trend will be seen in an increasing number of countries.

### **Competitive playing field**

The low interest rate, the interest from investors and the ageing population are creating a perfect storm. What makes the acquisitions boom competitive, is that not only Dutch brokers are interested in increasing their share. Large private equity parties, other investors and internationally active intermediaries are also fishing in this pond. For them, purchasing insurance brokers is a tried and tested way of achieving a secure yield.

### **Successor wanted**

A factor in the background, but often ignored, is the increasingly ageing population. In 2019 as much as 20.3 per cent of the Western European population was 65 years of age or older. And that very same Europe has a relatively high number of family-run businesses (approximately 60 per cent has two or more family members in managerial positions) in the financial services industry. Succession is not always a given for these companies.

### **Digitisation and the added value of brokers**

The further digitisation of the economy affects brokers, as well. Primarily with regards to their private clients. To say that the broker has fallen out

of favour, is far from the truth. The added value, of small brokers included, has always proved itself. The service-oriented, personal approach that these brokers are known for, is of huge value to both business and private clients. Brokers are appreciated for their reliability and expertise, creating longstanding relationships.

### **Paradox**

This is precisely where an interesting paradox lies, looking at the motives for an acquisition. On the one hand buyers are targeting the smaller brokers because of their loyal, valuable client database. On the other hand, mergers create an increase in scale, and networks possibly become less solid, tight and viable. The concern felt by all parties for maintaining these client relationships at the desired level, is therefore justified. Both on a qualitative and on a quantitative level. The success of a good insurance broker always lies in the optimal combination of relationship and automation. The broker must be aware of his added value and distinctive strength for the coming years. That is not always easy. Because who has a crystal ball? What is the right moment to scale up? Who knows what the perfect way is to lead the company into the future?

### **Delicate process**

For many brokers the benefits of a merger with a big party are well worth considering. There's no harm in talking, they often seem to think. And they are right. One of the often-voiced considerations is combining quality. But increasing purchasing strength, organising IT processes more efficiently, and collaboration on compliance are also common reasons. Whatever the rapprochement process is, it is always a delicate one. It is vital not to lose sight of maintaining a company's identity. It is also important to establish which other emotional aspects come into play. Intended mergers often fall through, 'because it didn't feel right'. Don't forget: many brokers are experienced entrepreneurs, who are accustomed to taking big decisions based on their gut feeling.

### **Private equity**

It is likely that somewhere within the next few years, brokers – if they haven't done so already – will receive a phone call from interested parties. Strong catalyst to this development is the



low interest rate. It stimulates investors, with or without the encouragement of European governments. Private equity parties, an investment form accepted by many private investors nowadays, have entered the arena and are here to stay. Investors such as pension funds and family offices are now also investing in brokers directly, instead of going through a fund. After all, the economic stability of the insurance market reduces the risk of this investment for them. In addition, institutional investors are comfortable investing long-term at a stable yield. A direct investment provides that better than the short and midterm investments of private equity funds do.

### **Dry powder**

The presence of much capital explains the high pace of the oncoming consolidation. The fact is that at present there is a high quantity of dry powder. This significant sum of 'idle money' managed by private equity parties and other asset management companies, has ignited a rapid search for resilient investment schemes with a good yield. And yes, the insurance broker is in demand,

precisely for those reasons. Currently it has created a competitive acquisitions market, increasing valuations.

### **Emotion and reason**

As stated earlier, a cultural match between broker and investor is an important consideration. A difference in company culture, after all, leads to a difference in growth strategies. A private equity fund differs from a large insurance broker with average growth ambitions in that way. Now that there are many changes coming, an explicit vision on the strategic positioning of your company will make all the difference. Even if there is an M&A process underway, it makes good sense to hold your portfolio up to the light on a regular basis and compare it to existing market data. The broker who chooses to position himself firmly, is the one to make a meaningful connection between relationship and data. Knowledge creates insight and that then leads to an attractive position in the Dutch and European market of insurance brokers. The consolidation battle has begun. It is now up to the broker to take position.



### **Michel Schaft**

managing director MarshBerry International

[Michel.Schaft@MarshBerry.com](mailto:Michel.Schaft@MarshBerry.com)

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### **Introducing MarshBerry International**

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MarshBerry appointed Dutchman Michel Schaft in 2017 to support the European brokers and to advise on strategy, acquisitions and sales. In 2020 he set up MarshBerry International. From Amsterdam Michel Schaft, Armand Hoftijzer and Joost Mulder advise brokers on making the right choices during this perfect storm. The combination of knowledge and experience of the local market is added to data and process knowledge from the United States of America.

MarshBerry International is actively setting up a branch in Germany and seeks to further increase the number of specialists in the short term.