



# Insurance Broker M&A

## Outlook 2021

## Foreword

### We are delighted to present our annual outlook on the M&A market for the UK insurance broking industry for 2021.

Within this review of the market, we:

- Reflect on some of the industry's M&A themes from the last 12 months;
- Outline the results of our insurance broker survey carried out during 2020; and
- Run our predictions for the insurance broking M&A market for 2021.

It would be fair to say that 2020 was very different to what any of us could have imagined. However, despite the obvious challenges, M&A activity in the insurance broking sector remained resilient and we have already seen this momentum continuing into 2021.

Please feel free to contact us or any member of the M&A team should you have any questions.



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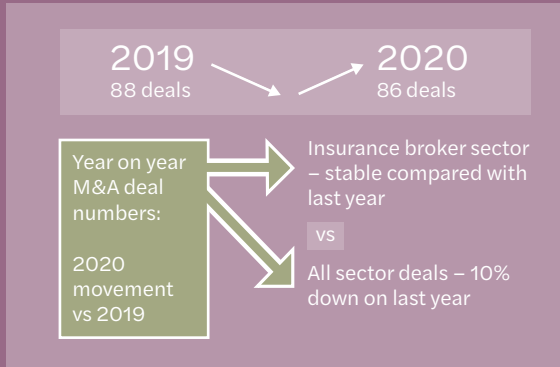
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# Insurance Broker M&A activity

## 2020 remained stable despite obvious headwinds

### Deal numbers...



Despite the pandemic, the insurance broking market is deemed a safe place for investment with deal numbers remaining stable compared to prior year.

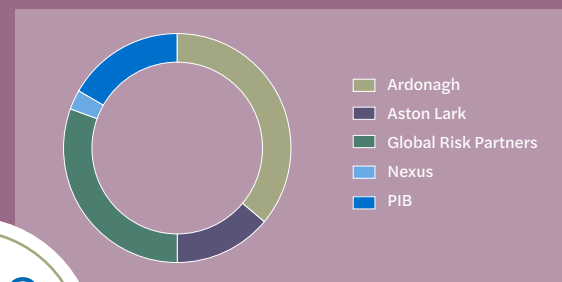
...whereas overall UK all sector deal volumes fell by **10%**

### Consolidators capitalise on opportunities...

After a brief pause, the consolidators returned to execute their acquisition pipelines.

**...48%** ...of deals in 2020 involved a market consolidator – this remained the same as the prior year.

With some consolidators joining forces once again, including Ardonagh's sloop of Bravo Group.



**2020 M&A review**

### PE remains a vital source of funding in the market...

**...71%** ...of deals in 2020 involved some degree of private equity funding.

PE House	Broker	Focus
HGGC & AIMCo	Davies Group	Risk & Claims management
Cinven & GIC	Miller Insurance	Specialist insurance and reinsurance
HG Capital	Howden Group	Specialist business and private clients
HGGC	Specialist Risk Group	Specialist business and private clients
Searchlight Capital	Global Risk Partners	General insurance
Synova Capital	JM Glendinning	Business and private clients

Source: Pitchbook, Capital IQ, IBIS and Mazars analysis

### Some notable deals have come from overseas buyers...

...including NSM's acquisition of Kingsbridge that completed during the height of the pandemic.

Overseas investment in the UK Insurance broking market increased from 8% in 2019 to 15% in 2020.

Investor	Broker	Country (buyer)
NSM Insurance	Kingsbridge	United States
Assured Partners	Red Insure Everest Risk Management	United States
PSC Insurance	Absolute Insurance Brokers	Australia
NFP	Ernest R. Shaw	United States

## Results of our 2020 survey

5%

...a minority of brokers think potential **tax rate** changes is the most important factor for M&A activity... the majority believe M&A activity is driven by the insurance sector being more attractive for investment than others.

43%

...of brokers feel that Insurtech has had no real impact on the industry over the last 12 months, however the majority feel that COVID-19 will influence their relationship with or **investment in Insurtech** going forward.

62%

...believe that the current level of consolidation is **sustainable**, a reduction from 83% in our survey last year. Also, 86% feel consolidation in the market has **positive elements**.

50%

...of brokers stated that COVID-19 will be the **biggest challenge** to organic growth over the next 12 months, however 76% suggest they have not changed their corporate strategy as a result.

67%

...suggest that having **more buyers in the market** (PE, international and new consolidators) is the main reason for high multiples in the sector. Others have suggested that the low returns in other sectors will amplify this demand.

76%

...of brokers think that there are positive elements to having **PE as a source of funding** in the sector, which is a consistent rate to our survey last year.

75%

...think that M&A **multiples will remain stable** after considering the impact of COVID-19.

90%

...of respondents think that **current levels of M&A activity** in the insurance broking sector will remain stable or increase as a result of COVID-19.

# After the contradiction that was 2020, attention will focus on investing in resilient sectors such as insurance

## Macro environment

An opportunity arises for those brokers that are able to ride the challenges of a **hardening market** and a threat for those that don't...

...as a result we are likely to see a flurry of acquisition opportunities arise whether through choice or necessity.



The pandemic has accelerated the shift towards **digital insurance**, which will change the behaviour of many brokers and play into the hands that already have...

...we expect to see a closer relationship with insurtech, whether that's digital brokers or investment in software to the broking industry.



## Private equity

Portfolio management may have been critical for parts of 2020 for private equity, but there will be an eagerness to replicate **success stories** recently seen...

...attentions are likely to turn closer towards **niche growing product lines** and concentrate further on those with a digital presence.

Last year, we identified a number of high profile **PE exits** that did crystallise in 2020, including GRP and Kingsbridge) and just recently PIB...

...below are a few that could happen in 2021...

PE house	Broker	Invested
ECI	Avantia	2014
Connection	Tempcover	2017
Inflexion	My Policy	2017
AnaCap	Brightside Group	2014

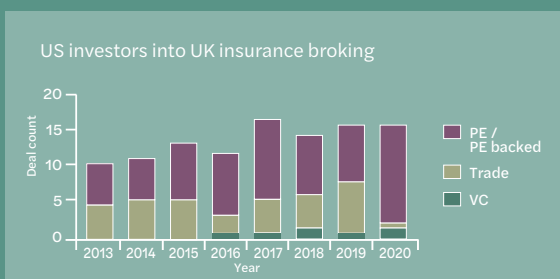
## 2021 M&A outlook

### Overseas activity

Overseas investment has for a long time fuelled M&A activity in the UK market and in particular **investors from the US**.

Despite Gallagher not acquiring any UK brokers in 2020, last year still saw the joint highest number of deals involving US based funding...

...with a number of other US players on the acquisition hunt for UK insurance broking businesses, we are expecting this trend to continue into 2021.

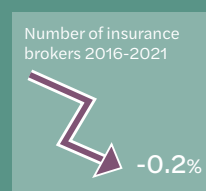


Source: Pitchbook, Capital IQ, IBIS and Mazars analysis

### 'New' consolidators

A number of the traditional consolidators have already started making headlines in 2021, with all of Ardonagh, Aston Lark, Gallagher, GRP and PIB making acquisitions within the first few weeks of the year...

...alongside the traditional consolidators, there are a number of **'newer'** consolidators heating up the market, driving demand for the mid size broker base.



Despite the high levels of consolidation seen in the market over recent years, the number of businesses in the industry has only marginally fallen.

There are opportunities for brokers at the smaller end of the market to break into the middle ground or see themselves being approached by larger players or as new private equity platforms.

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