

# INSURANCE DAY

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## Consolidation Time

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**Editor**

If the insurance industry has started 2004 as it means to go on, the much-anticipated round of broker consolidation is upon us. The festive season is often a quiet news time, a period for reflection and looking forward and for the insurance and reinsurance industry for finalising renewals. But the past two weeks have seen a rash of mergers and acquisitions. And although the main focus has been within the broking community, we have also seen some risk-carrying deals completed or announced and even one merger of trade associations.

As is so often the case, the impetus has come from the US, where every new day has brought the announcement of at least one new transaction.

Large companies such as Willis and Arthur J Gallagher have been keen to expand their US domestic reach with niche acquisitions.

### **MARSH AND AON**

And while over the past 12 months or so the world's two largest brokers, Marsh and Aon, have focused their attention on acquiring licences for the so-called "emerging markets" of India and China, Marsh's retired chairman and chief executive

Jack Sinnott indicated in an interview with Insurance Day in early September that the company was keeping its eyes open for potential acquisition targets. As regular readers will know, Marsh had looked at a deal with London-based Heath Lambert, but the negotiations collapsed before the transaction was finalised.

But the company did sign an agreement to acquire Alaska's largest insurance broker, Brady & Company, and it finalised the purchase of Saldana & Associates, the leading insurance broker in Puerto Rico and the Caribbean.

### **SMALLER PLAYERS**

So while the US's bigger players have been biding their time at least on the home front some smaller operations have been strengthening their market positions. In November, for example, BB&T Insurance Services unveiled plans to acquire Alabama-based McGriff, Seibels & Williams for more than \$350m in stock and cash in a deal it said would create the sixth-largest insurance broker in the US.

BB&T's insurance operations made it the eighth-largest US-based insurance broker, while McGriff, Seibels & Williams, a privately-held company, which estimated through premiums of \$1.8bn for 2003, was at number

13. Daytona Beach-based Brown & Brown, which was active in the acquisition arena throughout 2003, has announced the asset purchase of Niagara Risk Management Associates and Niagara Benefits Group, collectively known as Niagara Insurance Group. It has also bought the New Jersey-based Eugene W Pashley Agency, which does business as Pashley Insurance Agency.

Niagara Insurance Group operates through the northeastern US, providing retail commercial property and casualty and employee benefit services to clients. The main presence of the group, which has annual revenues totaling around \$4.5m, is in the greater Buffalo region of New York state. Niagara Insurance Group has itself recently completed the acquisition of John G Berger Insurance Agency.

### **COMMUNITY FIRST**

Meanwhile, Community First Insurance, the insurance arm of financial services company Community First Bankshares, has bought Arnold & Arnold, a Colorado insurance agency. Community First Insurance has also acquired an insurance book of business from Colorado Benefit Service, headquartered in Parker, Colorado.

These are just a flavour of the deals confirmed in recent days.

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There are plenty more on the horizon and it is a distinct possibility that those companies that have already entered the acquisition arena will develop further deals.

"Insurance continues to be one of the key elements in our solutions-based approach to meeting clients' needs," says Community First president and chief executive Mark Anderson. And he explains there is likely to be more acquisition activity on the horizon: "We have a banking presence in 136 communities, while we have an insurance presence in 55 locations, representing what we believe is significant opportunity for growth within our existing customer base. We continue to seek opportunities to acquire additional insurance agencies that complement our delivery model and geographic footprint."

Whether the dynamic of the US broker market changes dramatically as a result of the M&A activity remains to be seen, but at the very least the rising cost of compliance and technology means we can expect more deals in the coming weeks and months.

## **Balance of power**

STILL on the subject of the broking market, the January renewals season has again thrown up the argument of the balance of power between brokers and underwriters. In a

hard market, so the argument goes, the risk-carrier is all powerful. He or she will choose to underwrite only those risks that promise a good return, and will gladly turn away brokers. On the other hand, in a soft market, when experience shows many underwriters are keen to maintain premium income, the power could be seen to switch to the broking fraternity which, after all, brings the business to the risk carrier.

This is a simplistic view, and according to at least one senior insurance executive I have spoken to, a dangerous one. It is very hard to disagree with James Drinkwater, managing director of Willis's carrier-facing Global Markets unit, who told me at the end of last year: "I feel the underwriter has always had the power. I think any broker who feels the balance of power is shifting is thinking about the long-term relationship in the wrong fashion. It's a very short-sighted way of looking at things."

Mr Drinkwater's feelings reflect the understanding of many in the broking community that the paradigm has changed and that there is a greater focus in the risk carrier arena on underwriting discipline and underwriting profit.

## **Arnie gets tough**

So, California's new governor, Arnold Schwarzenegger, has highlighted reform of the state's

workers' compensation system as one of his top priorities for this year. The former actor has the backing of many insurance industry groups and general business associations. And as befits a former action hero, he has threatened to get tough if he does not get his way. In his "State of the State" address this week he warned legislators that if they do not produce reform that he considers radical enough, he will push forward his own proposals to the planned referendum in November.

Mr Schwarzenegger clearly has no doubts that California's workers' comp system needs an overhaul. Costs in California are the highest in the US and nearly twice the national average. But Mr Schwarzenegger's Republican colleagues in other states and at federal level have been consistently frustrated in their attempts to achieve meaningful tort reform in recent times.

We must wait to see whether the California legislators will produce results that meet Arnie's approval, and if not there will no doubt be a heavily political publicity campaign in the lead-up to the November referendum.

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