

Insurance Brokerage Market Continues to Consolidate Despite Recession, Advisen Reports.

A shift in strategy pits the largest brokers against mid-size firms in a battle for the middle market.

New York (Oct 8, 2009) – Size matters, according to a new report on the insurance brokerage market by Advisen Ltd. As a result, the frenetic pace of consolidation in the brokerage sector will be only temporarily slowed by the global economic recession.

“Large brokers enjoy certain advantages of scope and scale,” said John Molka III, the author of the report. “At least in theory, their costs are lower, and they are able to provide a broader array of services. But small brokers are the engines of growth in the insurance market, and larger brokers will continue to acquire them to tap into their growth potential.”

Due in part to pressure from former New York Attorney General Eliot Spitzer, the very largest brokers have shifted their acquisition strategy from vertical integration – owning the supply chain – to achieving greater breadth and depth across more market segments, focusing on both niche opportunities and the vast middle market. The middle market has long been the strength of mid-size brokers, many of which have pursued aggressive “roll up” acquisition strategies to grow market share in this segment.

“The emphasis on middle market business pits the megabrokers against second- and third-tier brokerage firms,” observed Advisen executive vice president Dave Bradford. “Size has advantages, but smaller brokers historically have been quite successful in this sector.”

The two largest brokers, Aon and Marsh, also have been in head-to-head competition to achieve a dominant position in the reinsurance market. In the past year, Aon Re acquired Benfield Group, the third largest reinsurance intermediary, significantly extending its lead over Marsh’s Guy Carpenter & Co. Carpenter in turn acquired regional and specialty intermediary John B. Collins & Associates, and has announced plans to buy Lloyd’s broker Rattner Mackenzie Ltd..

Advisen’s 20-page report, *Insurance Broker Economics: The Carousel of M&As*, also takes an in-depth look at the important role of private equity in the broker market, examines the economics of the insurance brokerage industry, and analyzes the impact of the credit crisis and the ensuing global recession on merger and acquisition activity. The report can be purchased from the Advisen Corner, at http://corner.advisen.com/reports_topical_broker_economics.html, for \$499.