



# Insurance brokerage M&A

## Creating and realizing value through inorganic growth

With an estimated **30,000** brokerage and insurance services businesses in the United States, the insurance distribution segment is highly fragmented and continues to be ripe for further consolidation.



**400,000** brokerage employees are expected to retire within the next



several years. An estimated **25** percent of agents in the industry are expected

to retire in **2018**. A workforce concentrated in an older age group could be subject to succession challenges if many in the group retire in a short period of time.

Private equity (PE)-backed acquisitions will continue in the insurance brokerage and insurance-service sectors in the foreseeable future. During the past



decade, more than **3,300** businesses were traded as part of a wave of M&A deals with significant involvement from PE-backed businesses.



### How KPMG can help



Leading acquirers develop a detailed operations model and value creation plan for the target in diligence. With acquisition multiples at record highs, acquirers cannot afford to have operating cost leakage postacquisition.



The question of whether to buy or build comes down to an investor's general investment thesis and investment parameters, consideration of a time horizon, and operational expertise.



PE firms "dry powder" stands at roughly

**\$1** trillion, according to Preqin, creating a situation where demand for attractive investments remains strong, and insurance brokerage investments have historically been strong performers for the majority of PE firms who have been involved in the industry.

In recent years, certain properties have traded quickly (less than three years from entry to exit for some investors) with attractive investment returns. As investors begin to think about the exit, there are a number of factors to consider. We believe that there are three factors that should be at the top of the list for consideration:

The demographics of the producers may present some considerably difficult future issues due to an aging workforce. It is vital to involve a third party with broad experience in successfully identifying ways to meet the challenge in recruiting younger brokers in the years ahead.

We have noted that sellers have achieved high returns around the ability to execute on inorganic growth strategy in the short term as well as the organic growth story. Accordingly, we believe sellers should consider investing in tools and capabilities that can accumulate and generate transaction-level information and then conduct in-depth analysis that demonstrates and supports its organic growth levels, which would likely result in higher valuations on exit.

It is critical to take control of the narrative of the business and how potential buyers should comprehend multiple and often-connected nuances associated with a business that has grown inorganically and quickly in the past few years. Our team of specialists gets involved in the task of helping an organization integrate people, processes, and technology.

For more information about KPMG's insurance capabilities, please visit our Web page: [kpmg.com/us/insurance](http://kpmg.com/us/insurance).

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