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Consolidation, Rising Rates Expected to Fuel Global Insurance Brokerage Growth

by *BusinessInsurance.com*

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A combination of rising commercial insurance prices and ongoing industry consolidation will fuel growth for the global insurance brokerage sector, according to a report released by New York-based Moody's Investors Service Inc. on Wednesday.

The report, written by Bruce Ballentine, VP and senior credit officer, and Benjamin Goldberg, associate analyst, analyzes three global, publicly traded brokerage firms and seven midsize and smaller firms that are privately held. "The stable sector outlook reflects the valuable service offering of these firms (given the increasingly complex risks faced by clients) along with their high proportion of variable costs, limited capital requirements, lack of underwriting or investment risk, and relatively stable cash flows," the report states. "These strengths are tempered by the slow pace of global economic growth, particularly in advanced economies, by potential liabilities arising from errors and omissions, and by high financial leverage among private brokers."

Upturn in P/C rates

The economic headwinds are countered to an extent by the recent upturn in commercial property/casualty rates, the report notes. "The U.S. commercial property/casualty insurance market has achieved moderate rate increases over the past few quarters after several years of rate declines," according to the report. "We expect such rate increases, along with the gradual economic recovery, to support single-digit organic revenue growth for brokers through 2012-13." "Moody's also expects the wave of consolidation to impact brokerage bottom lines. Brokers in our rated portfolio rank among the largest players in the highly fragmented U.S. brokerage sector and are adept at acquiring smaller firms to supplement organic growth," the report states. "Several leading brokers have in-house merger and acquisition teams to identify acquisition candidates, propose/negotiate transactions and integrate the acquired operations. While acquisitions have fueled growth among the leading brokers, this strategy carries the risk that an acquired business disrupts an existing business, falls short of expectations, or contains unexpected liabilities."