

Agency Rollups Pick Up Speed

A sign of economic growth or a temporary economic trend

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In the agency world, recent M&A activity is suggesting that the economy might be picking up, slowly but surely.

In July, *National Underwriter* covered a report that the analysts at the Mergermarket Group, New York, prepared. It was a health care M&A review based on interviews with some 75 U.S. healthcare investors. The results showed 80% of the respondents predicted healthcare sector M&A activity will increase in the coming 12 months and 16% predicted activity will "increase significantly."

This is in complete contrast to what Conning analyst Jerry Theodorou reported in 2009, when U.S. insurance M&As were at their lowest level since 2002, with health insurance dipping below \$1 billion.

Since then, M&A activity has been on the rise from larger companies (such as the \$4.9 billion acquisition of Hewitt Associates Inc., Lincolnshire, Ill. by Aon Corp., Chicago) to smaller companies (like Blue Cross Blue Shield of Delaware, Wilmington, Del., signing an affiliation agreement with Highmark Inc., Pittsburgh) have some wondering if this is an economic phase or a promising economic rise.

"Our industry is fundamentally realigning itself in response to healthcare reform, which is why alignment is so important now," says Mike Sullivan, executive vice president and chief marketing officer of Digital Insurance Inc., an Atlanta-based employee benefits agency, specializing in small and mid-size companies. "Carriers, providers, agents, and brokers, as well as most other industry participants are trying to understand the future economics of the healthcare and benefit business."

As the implementation phase of The Patient Protection and Affordable Care Act (PPACA), gets into high gear in January 2011, some large insurance agencies are looking to expand their market share by acquiring smaller independently owned insurance agencies, which can benefit from the larger agencies' greater capital, technologies and operational efficiencies.

Companies like Digital Insurance and Tampa, Florida-based Brown & Brown Insurance are searching for top performing brokerages to enhance their firm's local market presence in major regions as well as become a key resource for these smaller agencies. Digital Insurance's recent acquisition of Georgia Benefits, Lawrenceville, Ga. and Summit Benefits, St. Louis is a case in point.

"Alignment of smaller agencies is absolutely essential. Sellers need to take a hard look at whether their motivations are really an exit strategy or an alignment for future growth," said Sullivan of the acquisitions. "At Digital, we nurture an aggregate mindshare, which we believe is essential to our future. We intend to build a competitive advantage in our segment and understand the importance and benefits of strong alignments."

Brown & Brown Insurance, an independent insurance intermediary organization that provides a variety of insurance and reinsurance products and services to a variety of businesses, government organizations and individuals, recently acquired Thomas R. Jones, Inc. and T.R. Jones & Company of Broward, L.C., subsidiaries of Beecher Carlson Holdings, Inc., Homestead, Fla.

Tom Riley, Regional President & Chief Acquisition Officer of Brown & Brown Insurance, Daytona Beach, Fla., was unavailable for comment at press time, but his company's recent trajectory also points to an increasing willingness to scoop up smaller agencies in a bid to expand market share before the economy gets back on its feet again.

As more agencies seek acquisitions in preparation of PPACA, there are those who wonder if the agency rollups will continue to gain momentum. Sullivan appears to believe so. "Consolidation is and will continue to redefine the marketplace and as new products emerge it will add tremendous value to both employers and insured populations," he said.

He added, "The on-going consolidation of companies will vary by state and product segment. A firm's capabilities and value creation will be distinct critical components in defining those that will survive and those that don't."