The Race for Consolidation

How the rules of the game are changing for German insurance brokers

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Matthias has held senior executive positions in insurance, broker syndicate, consulting, and software/technology firms across the German market. He is the former COO of one of Germany's largest insurance brokers, Fonds Finanz, and the former CEO of leading insur-tech SmartInsurtech. In 2022 alone he conducted 18 advisory projects for investors – namely, private equity & pension funds and family offices

We've seen increasing interest from private equity investors in the German insurance brokerage market. In your opinion, why is this?

In general, the German economy is relatively stable, providing a favourable environment for investment. Germany's insurance market is one of the largest and most developed in Europe, providing a large customer base for insurance brokers. In addition, the insurance market in Germany is highly regulated, which can provide a certain level of security for investors, once invested. When it comes to the brokerage market, this market is relatively fragmented in Germany, providing opportunities for private equity to consolidate smaller players and achieve economies of scale in two directions: on the cost side for example secondary business functions like finance and HR but also core IT system costs. And on the revenue side: e.g. commission rates from insurers.

The UK insurance brokerage market has seen a high level of consolidation over the last 5 years – due to a number of factors (technology advancement being one of them). Why do you think the German market is more fragmented?

There are many insurance agencies and brokerages that are family-owned or have been in business for many years. These companies may be less inclined to merge or be acquired by larger companies. The German market was also less affected by the technology advancements and digitalization as compared to the UK market, so the companies may not have seen the same level of pressure to consolidate as in the UK market, also because management and owners are 50+ agers, hoping others will reinvest time and money in digitalisation of their business. But this time is now.

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What is the greatest challenge that will be met by the German insurance brokerage market in 2023 (particularly for market leaders like Marsh, AON and Willis)?

Commercial insurance brokers are facing challenges in securing coverage from insurers at a fair price, as insurance company margins have been negative in recent years. In particular, when it comes to cyber risks, a significant number of insurers refuse to provide coverage. Market leaders will face further challenges in effectively managing the acquisitions they have made or plan to make in order to realize the economies of scale they aim to achieve. Moreover, they must use the increased power they gain wisely in negotiations with insurers. Otherwise, they may opt to establish their own insurance carrier or directly engage with re-insurers for coverage.

What is the role of insur-techs in driving innovation in the market more broadly?

Insur-techs will continue to prioritize enhancing customer experience and introducing new products at the point of sale or product-oriented stage of the value chain. But more importantly, insur-techs will increasingly move deeper into the value chain of insurers and will drive the digital transformation and facilitating the streamlining of processes. So in 2023, we will see insur-techs automating manual processes and reducing operational costs through the use of technology AND making insurance more accessible and affordable for consumers.

Where do you think lies the greatest opportunity for private equity as we start the year? (personal lines / commercial lines/retail?)

Private Insurance: There is little potential for consolidation of broker syndicates anymore, but still huge potential in the space of software/technology players in the insurance industry. Investors need to have a professional lens on the various players among the value chain – on the broker side, but also on the insurer side, which will evolve to be the most attractive target section for investors. Commercial Insurance: Consolidation of commercial/industrial brokers will continue and this market stays relevant for investors.

Oliver Lang

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Oliver is a serial entrepreneur with special expertise in insurance, banking and other financial industry segments. He combines innovative thinking and business-building competencies with extensive strategic experience gained at McKinsey and first-hand knowledge of corporate players. During his tenure at leading insur-tech WeFox, he led a series of acquisitions of small and medium-sized brokers across the Netherlands, Italy and Germany.

.We've seen increasing interest from private equity investors in the German insurance brokerage market. In your opinion, why is this?

a) Insurance is one of the biggest industries globally. It provides stable, recurring revenues is crisis resistant and has a low correlation to the general markets. It is therefore an exciting industry for investors.

b) According to McKinsey, insurance distribution companies have produced significantly higher total shareholder returns (TSR) than insurance or reinsurance companies throughout the past 15 years. They are a great target for PE investors as the trend is their friend.

c) Some investors have made a fortune by consolidating insurance distribution markets in the US, UK, or the Netherlands. Germany is a big insurance market so PE investors expect to make money using proven models and applying them to the German market.

The UK insurance brokerage market has seen a high level of consolidation over the last 5 years – due to several factors (technology advancement being one of them). Why do you think the German market is more fragmented?

a) The British insurance market is larger than the German market.

b) Regulation on insurance provisions has favoured a rapid consolidation of the British insurance distribution market.

c) PE companies that have played an important role in consolidating the market are frequently based in the US and have experienced how profitable the role of a consolidator can be. In Europe, traditionally their first offices have been opened in London. Naturally, the British insurance distribution market was closest to them.

d) I'm convinced the German insurance distribution market will go a very similar path to the UK market (potentially slower as there is much less regulatory pressure to consolidate)

What is the greatest challenge that will be met by the German insurance brokerage market in 2023 (particularly for market leaders like Marsh, AON and Willis)?

In my opinion, it will be guiding their customers through a period of price increases (due to increasing nat-cat risks but mainly due to inflation), stricter underwriting and risk accepting (e.g., in cyber or D&O), less favourable terms & conditions, and lower capacity in some lines of business. Time for good news for their customers is over and many younger employees have never gone through a quickly hardening market with their customers.

What is the role of insur-techs in driving innovation in the market more broadly?

Technology can drive the insurance market towards a more positive future. It can increase lead quality and quantity, improve the quality and speed of advice, reduce back-office spending, and claims adjustment cost, and improve the customer journey. We have learned however, that insurance fails to scale on two very important dimensions: customer acquisition cost and claims cost. Both scale more or less with size. No technology has found a solution to these limitations yet. Insurtechs will continue to drive innovation that leads to more efficiency.

Where do you think lies the greatest opportunity for private equity as we start the year? (personal lines / commercial lines/retail?)

Both retail and commercial brokerage can be a great opportunity for PE investors. Traditionally, consolidation has been quicker in commercial lines distribution. It is easier as the available players are usually bigger which means PEs must buy and integrate fewer players. It's also easier to find candidates for the first transaction which should exceed 100m EUR in revenues and 20m EUR in profit. On the other hand, commercial lines distribution organizations tend to have more diverse business models and are therefore harder to integrate.

Retail insurance distributors are typically much smaller and there are only very few companies that make a good candidate for a good first transaction. Many takeovers are necessary to reach a critical mass of about 500m EUR in revenue. On the positive side, once retail brokers are acquired, they are typically easy to integrate as they tend to have very similar business models.

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