



NAHU Mergers & Acquisitions Discover the Value

by Mike Barone
North American President,
Employee Benefits
HUB International
San Diego, California

GETTING M&A RIGHT

The market for insurance mergers and acquisitions is hot right now. Here are some considerations for finding the right match.



The insurance industry is experiencing strong M&A activity due to record levels of deployable capital and a growing interest from private equity firms in the insurance sector.

Demand is high, and it's a seller's market, which means that businesses are selling for high multiples.

For every M&A, there are two sides: the buyer and the seller. In 2021, HUB International completed more than 70 M&A transactions, with the most successful deals bringing together the right seller and the right buyer for the right reasons.

Think of the right buyer like a martini glass, where the top funnels down through the middle stem to the bottom foundation. The top of the glass represents an agency's

people—sales staff, producers, consultants and client services—all of whom support the business strategy and output to the clients.

They in turn are supported by the stem of the glass, made up of the shared resources provided by the larger business. The bottom foundation is the leadership, providing stability and support to the entire network. The larger buyer wants to make sure that the people they are incorporating into the top funnel of their glass will mix well with the team they've already built, while the selling agency is looking for the stability provided by the buyer's leadership and resources.

Take your time to find the right buyer for your agency.

WHAT TYPE OF AGENCY DO BUYERS LOOK TO ACQUIRE?

When companies are looking to buy, they typically ask themselves the business version of "What do I want to be when I grow up?"—i.e., what does the company want to be? What is its ultimate goal?

For example, HUB's goal is to be the "best-in-class commercial broker in North America." This eliminates acquisitions outside of North America from consideration.

Typically, buyers will be purchasing to expand or grow an existing practice within their portfolio. If the buyer is looking to enhance one of its offerings while adding a new one, it may look at multi-line agencies versus single-line, single-industry or platform agencies.

Multi-line and platform agencies will still specialize but may also bring a broader portfolio to the top of the martini glass. They drive the acquisition strategy by attracting smaller organizations that will gain traffic due to proximity to the "anchor tenant," like in a shopping mall. From a customer's perspective, this wide breadth of offerings is valuable.

WHAT MAKES AN AGENCY ATTRACTIVE TO A BUYER?

Insurance is an industry of people. Business transactions within the industry are primarily built on relationships and trust—the foundation of both being people. This includes deals between organizations. When evaluating agencies for acquisition, buyers search for three key factors, which all center around people:



1. **Leadership.** Agencies with great leadership teams are attractive to buyers because they support every aspect of the organization. An agency with a strong leader or leadership team is more likely to have motivated employees, strong offerings and loyal customers.
2. **Growth opportunities.** A growth-oriented agency is typically a healthy organization. A buyer only wants to acquire an agency that will bring a quick return on its investment and help it grow larger. Ideally, healthy agencies are retaining the majority of their customers every year while growing their business.
3. **Culture.** In M&A, culture is table stakes. Every culture is unique. Some cultures work together; others don't. Again, think about the top of the martini glass. The team and values of the agency are going to be mixed into the existing contents of the funnel. They need to complement each other.

WHAT CAN AGENCIES DO TO MAKE THEMSELVES MORE ATTRACTIVE TO BUYERS?

Ultimately, nothing. It is not about changing the agency to be more attractive. The key to a successful M&A is finding the right buyer for a strong partnership. A buyer with a complementary culture. A buyer with the right leadership perspective. A buyer that will appreciate the existing business. In a seller's market, it's more important that sellers find the right home for the agency that they've spent their lives building.

WHEN IS M&A A BENEFICIAL OPTION FOR AGENCIES?

Like the buyer, agency leaders must ask themselves the same key question to

determine if M&A is a potential opportunity: "What do we want to be?" Based on how they answer this question, they can determine if selling is a direction they want to consider and focus on the type of buyer they want.

Three areas of opportunity may arise when agencies ask themselves what type of business they want to become. These areas could point to M&A being a beneficial option:

- **Leadership support.** The leader of any organization is ultimately responsible for evaluating its position in the marketplace and determining what resources it needs to succeed. Leaders may know where they want their company to be in five or 10 years, but they also might determine they need external investment and resources (a longer stem) to reach that goal. Sometimes leadership support is as simple as realizing that the agency's leadership is looking at retirement, so the existing team and customer base needs a larger organization's foundation to keep the business going.
- **More buyer resources.** More often than not, an agency decides to sell to gain access to a greater bank of resources (the stem of the martini glass). An advanced IT infrastructure, risk-management services, greater sales development tools, access to a claims-management team, and MGAs and wholesalers—these can be invaluable resources to a smaller entity. These resources also include the ability to cross-sell insurance products. The buyer is not the only entity adding to its portfolio in an acquisition. The agency gains cross-selling opportunities as well.
- **Employee career opportunities.** Merging into a larger organization allows

agency team members to find career growth that is unavailable on a smaller team. Members of the organization once working in the top funnel may have the chance to make their way to the leadership foundation.

In today's market, there are no excuses for getting M&A wrong. With the right intentions—and a focus on people, culture and honesty—the right partnership is available and waiting to be made.

Remember, like the martini glass, all the components must be balanced and supported from the top down. Without the right people and culture, the glass is empty. Without strong resources, there isn't a stem to hold them up. And without a solid foundation, everything will fall apart. [4](#)



Mike Barone is North American president of employee benefits at HUB International. In addition to day-to-day direction of the firm, he maintains direct strategic planning relationships with clients, and leads strategic benefits planning, population health management, employee engagement and communication, healthcare reform guidance and compliance. Mike is a member of both the CA Executive Management Team (responsible for employee benefits statewide) and the National Employee Benefits Executive Committee at HUB. Before joining HUB in 2013, he was CEO of Intercare Insurance Solutions. He is a graduate of Cornell University.