Gaining SPEED

M&A activity started slowly but got going as 2014 drew to a close.

by Dennis Gorski

Roger Sandau, an insurance executive who specializes in placing cancellation and nonappearance insurance for musicians, went through a startup and then two M&A transactions, all in five years—and now possesses a wealth of insight on the benefits and compromises that M&A deals involve.

Sandau, an attorney, gained expertise in the nonappearance niche with Aon before leaving to found Crossfields Insurance Brokerage in Baltimore in 2008. "I didn't need a 50,000-person firm to supply that expertise to a very targeted client base," he said.

With hard work, a strong client Rolodex and a productive channel with Aon in London, Crossfields grew and soon caught the eye of Doodson Broking Group, a UK-based entertainment and sports insurer looking to expand into the United States. That merger was finalized in early 2010; Sandau had gone from a two-person brokerage to a main player in a 100-person company in two years. (He had to sever ties with Aon's London supply channel at the time, he said.)

Then, in October 2013, New York City-based Integro merged with Doodson, and Sandau was part of an 850-person insurance brokerage. Such sudden growth made its mark and made him realize several truths about startups and acquisitions.

Most notably, his clients have evolved from smaller artists to entertainment companies that stage large global events. But there are other lessons, too.

For example, "All small businesses suffer from lack of structure," he said. "At Crossfields I had no employee handbook, no HR department, no accounting department." The Doodson acquisition gave him that structured organization and resources, which he admits he couldn't have done on his own, while keeping his U.S. client base and most of his autonomy intact.

And with Integro, Sandau said he can take complex problems with D&O, aviation, cat property issues to someone at Integro who can address the matter immediately and with expertise. That's important, he said, because the sheer size of the benefits offered in Integro's products sometimes dwarfs what he was procuring while running Crossfields.

Another concern, he said, is "a reality for any small business and a main motivating factor for M&A"—that with the business' production centered only on him, suddenly becoming disabled or unable to continue would kill his business.

The merger with Doodson gave Sandau bench strength, which built confidence for clients who knew that other team members would step in if he couldn't participate or continue.

An additional benefit of the merger is that it gave Sandau the ability to pursue larger clients. He believes it's also advantageous to be a specialist because "the challenge is having access to insurer appointments for products you're going to sell, so if you can be more strategic in what you're selling, it's much easier to gain some traction with one product than trying to get 25 different appointments, none of which are going to support the minimums the insurers are going to ask."

Having relationships with people at either brokerage firms or insurance agencies are essential, Sandau added.

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"You can't just start from scratch. When I left Aon, I had been at their Albert G. Ruben entertainment division in Los Angeles. I was doing cancellation/nonappearance insurance, placing it into the London insurance market using the Aon office there. When I set up my own firm, I ended up using that same team of people as a wholesale market for my retail firm. So I was able to establish that relationship without having to comply with any minimum.

"They needed me, I needed them, and they became my placing broker."

Activity on the Rise

What Sandau went through with Crossfields, then Doodson, and finally Integro, is likely to be replicated more frequently this year at other companies, according to Mayer Brown partner and insurance and reinsurance M&A specialist David W. Alberts.

Alberts, who's been an insurance transactional attorney for much of his 25-year career, says a "fair amount" of M&A activity will occur in the United States since it's a mature market. He added that international growth opportunities are high on his clients' wish lists, especially in Asia and Latin America.

"Looking back at deals over the last several years, after the U.S., most deals were acquisitions for large international companies in Mexico and Asia," Alberts noted.

Although 2014 began as a year of lackluster merger and acquisition activity, it gained a head of steam in the fall and ended with several potentially huge M&A deals heading for consummation early in 2015.

2014 started off flat because 2013 activity, both in number of deals and dollar value, had plunged from 2012 levels. On average, more than 40% of global insurance M&A activity comes from the United States, in terms of aggregate deal value, according to Deloitte's *2014 Insurance M&A Outlook*. But in 2013 this activity fell by about 60%, and the property/casualty, life/health and reinsurance sectors were all affected, Deloitte noted.

That's close to what a second study, *Global Insurance M&A Outlook* co-authored by Mayer Brown and global financial intelligence company Mergermarket Ltd., found in their April 2014 report. One main finding—that the "tepid" M&A market would accelerate as the year went on—was accurate, Alberts said.

And based on activity in the fourth quarter of 2014, Alberts expects further consolidation in 2015 in the reinsurance P/C market. "It's soft and outside money keeps flowing in," he said, referring to the influx of millions of dollars from hedge funds and alternative financial vehicles, especially into the cat bond sector.

Recently announced deals bear that out. According to London-based insurance deal-watcher Mondaq.com, late 2014 featured RenaissanceRe Holdings agreeing to acquire Platinum Underwriters for $1.9 billion; Progressive announcing it intends to buy a controlling interest in ARX Holding Corp., parent to homeowners writer American Strategic Insurance, for $875 million; and Ace Ltd. announcing it was acquiring Fireman's Funds' high net worth personal lines book from Allianz for $365 million.

"For the last few years it was smaller deals," Alberts said. "Most of the activity was in the agent/broker market and a lot of those were pretty small deals. But certainly on the P/C side this year we're definitely seeing a real uptick in big deals." In early January, XL Group plc announced it acquired Lloyd's underwriter Catlin Group Ltd. for $4.1 billion.

As 2015 rolls out, Alberts sees no letup in the continuing influx of alternative capital and hedge fund operators chasing better returns on their money. "That's going to put more pressure on a lot of the companies, especially in the reinsurance sector," he said, to acquire, be acquired, or merge.

And barring an unforeseen jolt from the Fed or an unpredictable world event, Alberts said, the structure of insurance and reinsurance will keep providing consistent and reliable returns. He added that "the permanency of regulatory capital make the insurance sector a pretty sound investment," even if "the returns aren't spectacular."

Two areas to watch, he said, are crop insurance and runoff plays. Alberts was intrigued by John Deere Insurance Co. and John Deere Risk Protection, which comprised the crop insurance unit of John Deere Financial, being sold to Farmers Mutual Hail Co. for an undisclosed sum late last year. The deal is set to close this quarter, Deere said.

According to Alberts, Deere's sale followed on the heels of a September announcement that HCC Insurance Holdings was buying Producers Ag Insurance Co. from CUNA Mutual for $110 million.

XL Group, Starr Cos. and Validus Holdings have also entered the crop insurance sector in recent years. "It's interesting because there are only 18 players in the space," Alberts said.

In the runoff space, Alberts said "there will continue to be fair amount of deals. Those types of deals have been around forever and will continue." BR

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