

strategy&

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Developments and trends in the German market for commercial insurance brokers

Strategy&

2023

“The German commercial broker market **continues to grow**, largely driven by a strongly growing broker share in the P&C business.”

Tim Braasch

PREMIUM INCOME

EUR 30bn

Premium income in the German commercial insurance sector reached **EUR 30bn in 2020**, representing a **year-on-year increase of ~3%**. The strongest growth was seen in property and liability insurance.

BROKER MARKET SHARE

↑ 40%

Brokers' share of gross written premiums in Germany is currently 40% and growing. In contrast, in the UK, brokers account for about 80% of gross written premiums for commercial insurance.

INSURANCE BROKERS

46,000

The German commercial insurance broker market is **highly fragmented**, with around 46,000 brokers which can make it challenging for insurers to reach customers and for customers to navigate the market and find the right broker for their needs.

PRIVATE OWNERSHIP

90% ↓

Actually, **around 90% of brokers are owned by private entrepreneurs**, many of whom are nearing retirement. By contrast, in the US and UK brokers are both around 90% owned by private equity investors.

Yet it currently feels like not a week goes by without a new acquisition being announced or a new broker consolidator entering the market.

Significant publications in recent months

HG Capital buys German broker association

September 29, 2022. At the end of last year, the London-based private equity investor HG Capital swallowed the broker pool Fonds Finanz, and now it has once again acquired a broker service provider.

Global Group acquires and restructures

December 27, 2022. The broker Global is making changes to its corporate structure. The Cologne-based group has grown strongly inorganically this year. It has made twelve acquisitions.

Söderberg comes to Germany

February 23, 2003. Swedish major broker and financial services provider Söderberg & Partners, which is backed by private equity investors KKR and TA Associates, plans to enter the German market to buy brokers.

New broker consolidator about to be established

November 3, 2022. Another company wants to consolidate the German market of large and industrial brokers with the help of private equity capital. It is teaming up with a private equity fund jointly run by German family offices.

GGW buys transport MGA Mund & Fester

January 11, 2023. The GGW Group, led by Tobias Warweg, has struck again: Wecoya Underwriting, the subsidiary responsible for the insurance underwriting business, is taking over the traditional Hamburg company Mund & Fester.

Acrisure wants to buy platform broker first

March 2, 2023. The US broker Acrisure, which has been active in the German market for a few days, initially wants to acquire a somewhat larger broker that can serve as a platform for further acquisitions.

Aon: Private equity must integrate brokers

November 8, 2022. Many private equity investors are interested in insurance brokers and are playing a major role in the industry's consolidation here in Germany. ... now is the time for strategic buyers.

MRH Trowe buys bAV specialist Lurse

January 18, 2003. Just over a week after the last acquisition, MRH Trowe announces the next takeover. MRH Trowe aims to become one of the top 3 brokers for company pension plans in Germany.

Broker Global before sale

March 10, 2003. The Cologne-based broker house Global Assekuranz is about to be sold to the private equity investor Castik.

But why is the German market of commercial property insurance brokers so attractive for private equity companies?

Six good reasons why the German broker market is attractive for private equity firms



Stable and growing market.

The German commercial non-life insurance market is one of the largest in Europe and is expected to continue to grow in the coming years. This provides a stable and attractive market for private equity companies looking for long-term investment opportunities.



Various consolidation opportunities.

The market is highly fragmented, with many small and mid-sized companies operating in the space. This provides an opportunity to acquire and consolidate these companies, creating larger and more efficient entities that can compete more effectively in the market.



Attractive returns.

The commercial non-life insurance market is growing and typically generates high margins, providing attractive and stable returns for investors.



Experienced management teams.

Many of the companies in the German commercial non-life broker market have experienced management teams that can help drive growth and operational efficiencies.



Favorable regulatory environment.

The regulatory environment in Germany is generally favorable to insurance companies and brokers, providing a stable and predictable operating environment for investors.



Dry Powder at record level.

Capital committed to private equity firms for investment but not yet utilized rose globally to a record level of \$3.4 trillion in 2022.¹

First, the German commercial non-life broker insurance market is one of the largest in Europe and is expected to continue to grow in the coming years

Growth factors

A Increasing Demand for Expertise

Businesses are increasingly seeking the advice of insurance brokers to help them navigate complex insurance products and risks. This trend is likely to continue, as companies seek to manage their risks more effectively and efficiently.

B Growing Awareness of Risk

Businesses are becoming more aware of the risks they face, including **cyber risks, natural disasters and supply chain disruptions**. This is leading to **increased demand** for insurance broker services **to help companies manage and mitigate these risks**.

C Advancements in Technology

Brokers are leveraging technology to improve their efficiency, **reduce costs and provide better customer service**. This includes the use of **data analytics and AI** to identify risk trends and develop personalized insurance solutions.

E Increasing Competition

The broker market is becoming increasingly competitive, with new entrants and consolidators vying for market share. This is leading to **greater pressure on brokers to differentiate themselves and provide high-quality service to their clients**.

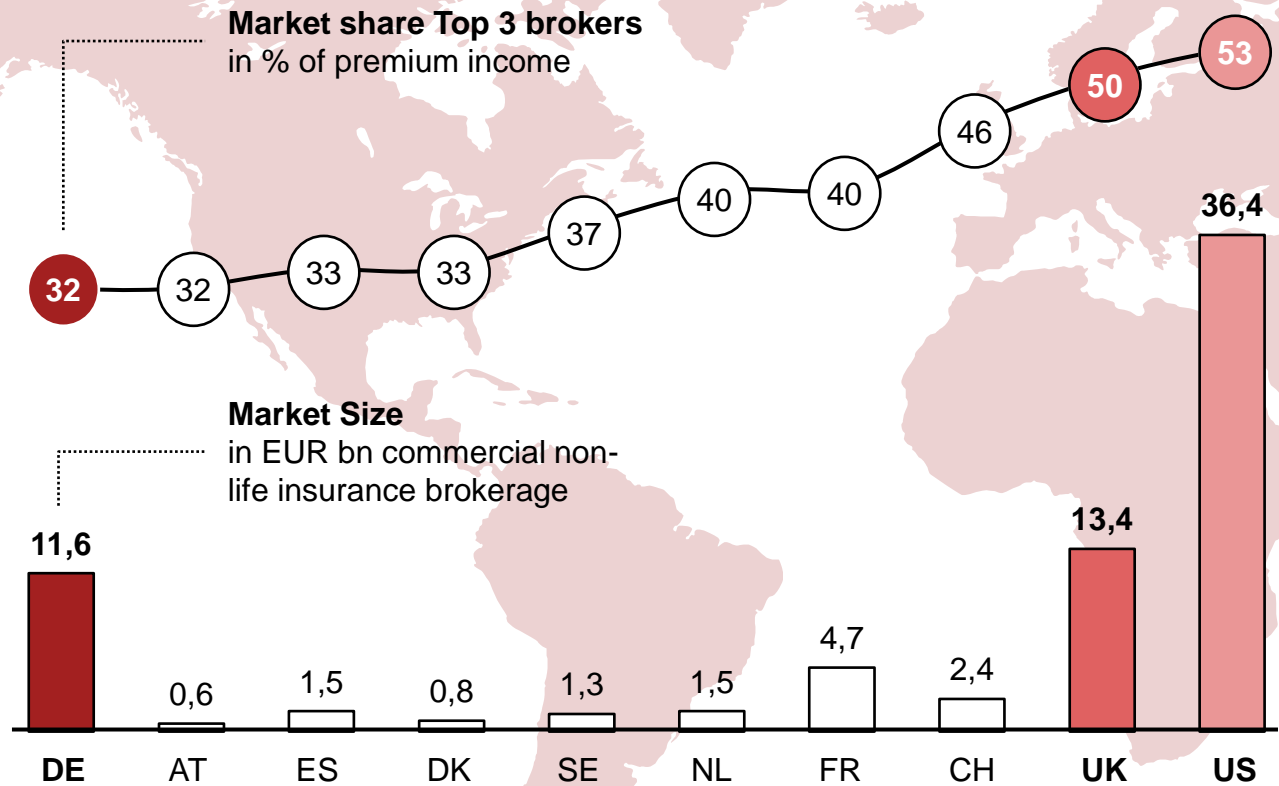
D Regulatory Changes

The German Federal Financial Supervisory Authority (BaFin) is likely to introduce **new regulations and requirements for insurance brokers**, particularly in relation to **data protection and cybersecurity**. This is likely to impact the way brokers operate and interact with their clients.

Brokers adapting to these trends and provide quality service to their clients will be well positioned to grow.

Second, the German commercial broker market is highly fragmented, with many small and mid-sized companies operating in the space.

Selected commercial non-life insurance broker markets 2020



The commercial insurance broker market in the US, UK and Germany has seen **significant consolidation in recent years**, although there are some **notable differences in consolidation trends and market structures**.

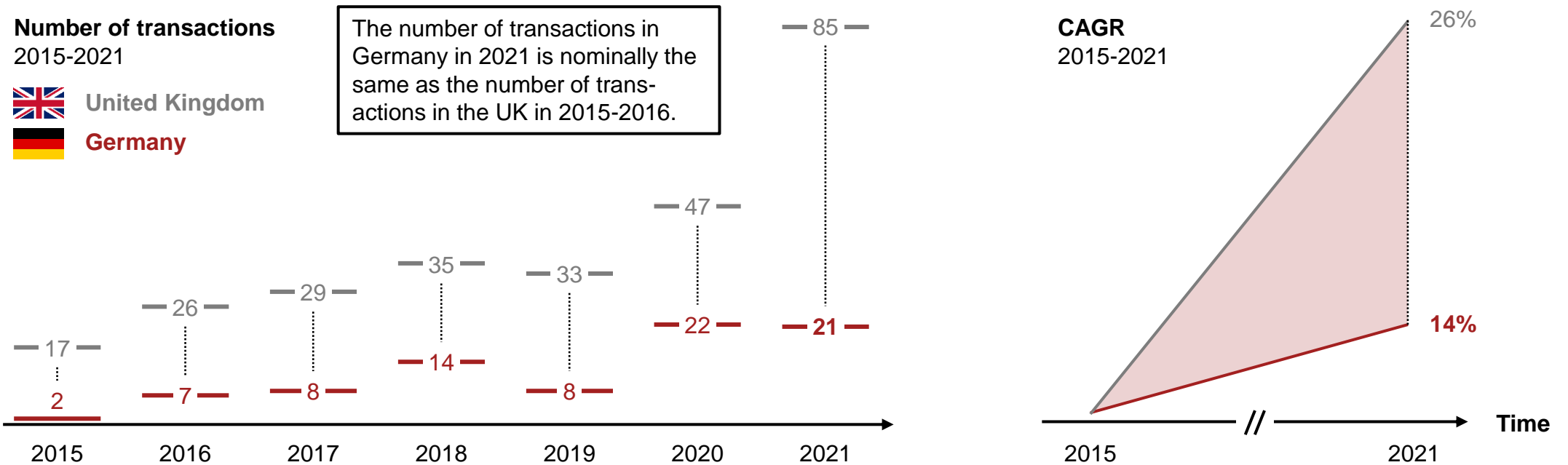
In the US and in the UK, the commercial insurance broker markets are **highly consolidated**, with the **top three firms accounting for ~50% of the market share**. This consolidation trend has been ongoing for decades, with mergers and acquisitions and **private equity playing a significant role**. However, the market structure in UK is somewhat different from the US, with a stronger presence of specialist brokers focusing on specific sectors.

In Germany, the commercial insurance brokerage market is **less consolidated**, with a **larger number of smaller, regional brokers**. However, **consolidation is increasing** in the market, with **larger firms acquiring smaller brokers to expand their market share**.

Accordingly, a comparison of M&A activity in the UK with those in Germany shows that Germany is (only) at the beginning of consolidating its broker market ...

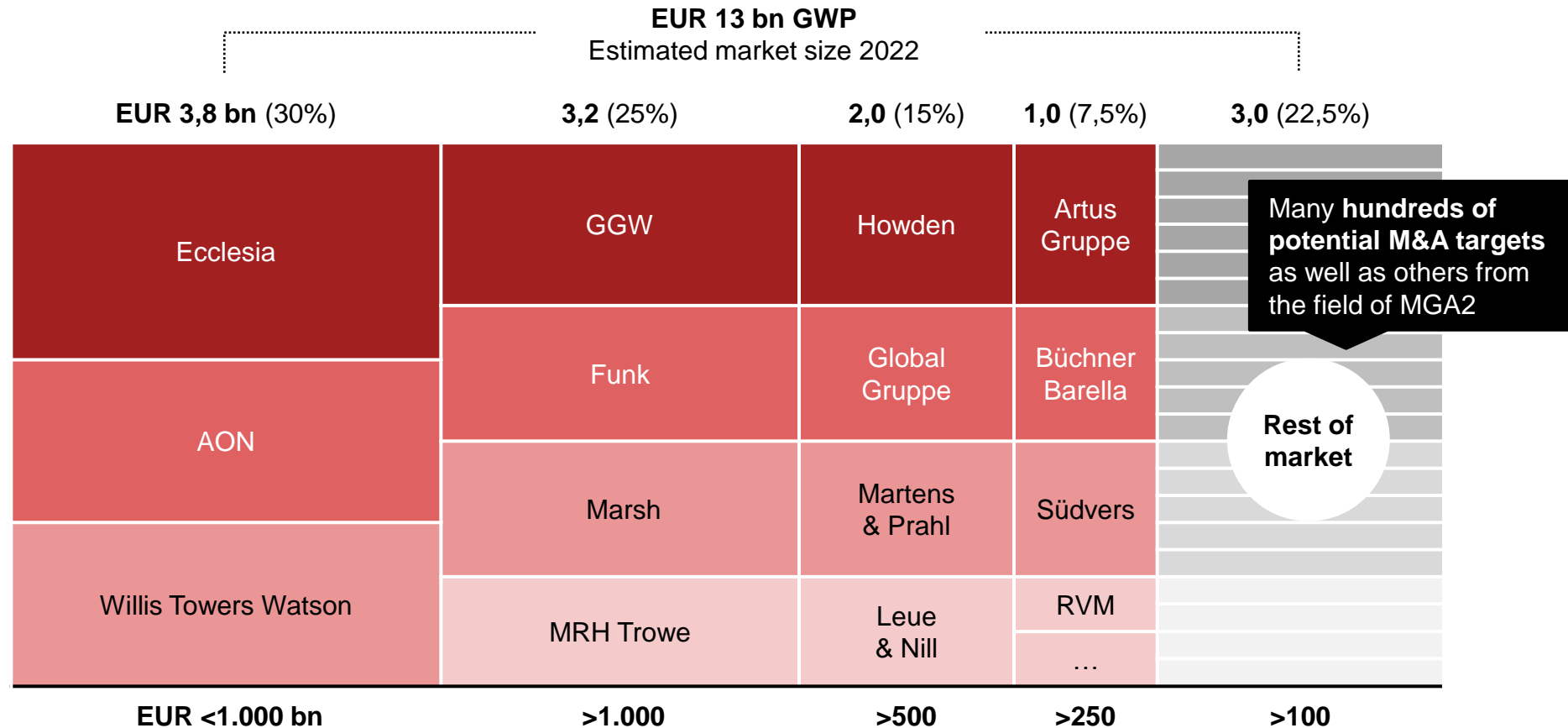
Broker market consolidation activities in UK and Germany¹

The number of M&A transactions in the German broker market is continuously increasing. The three companies Ecclesia (currently market leader), GWG and MRH Trowe are currently playing a very active role and are "consolidation leaders". Comparing the current level of activity in the German market with the more mature UK market, it becomes obvious that the German broker market is (still) at the beginning of its consolidation.



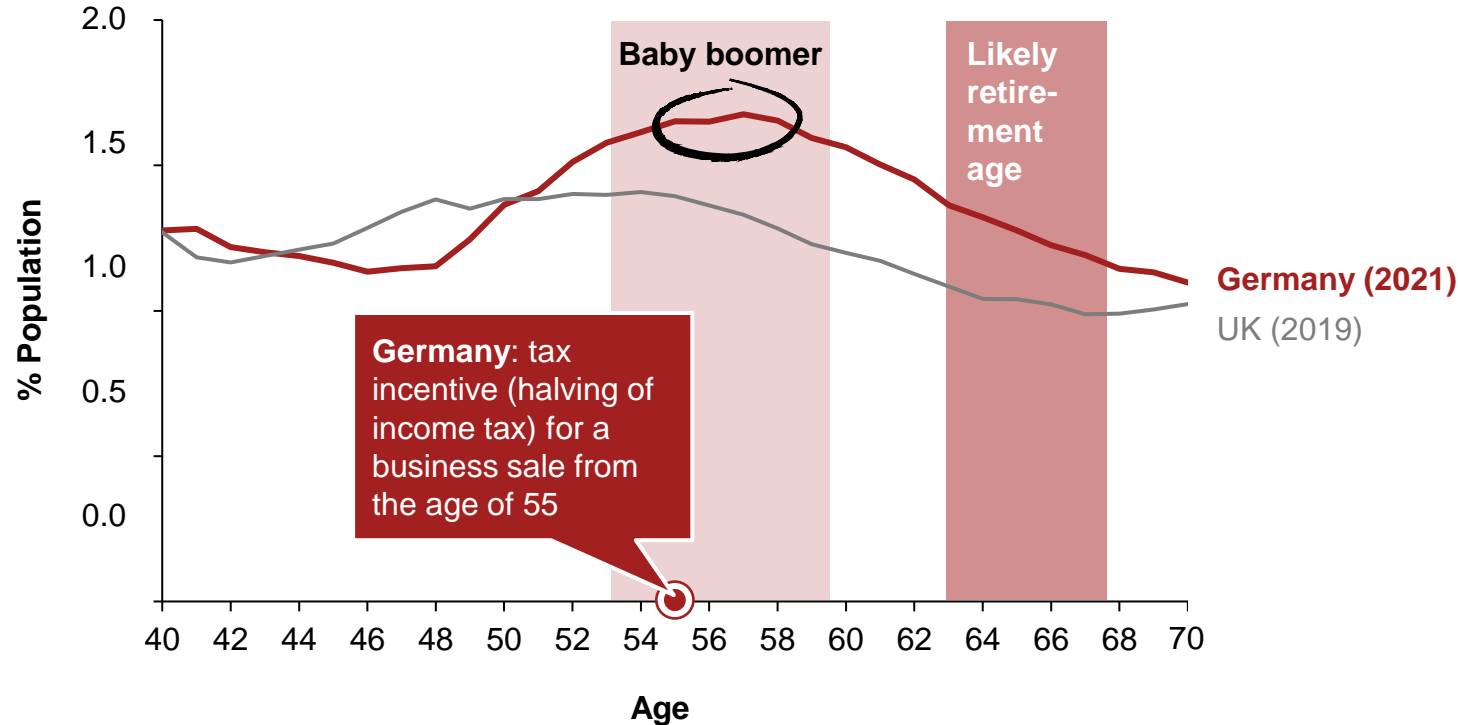
.... offering tremendous opportunities to take over "smaller" brokers and create larger, more efficient entities that can compete more effectively in the market.

The commercial non-life insurance broker market 2022



Third, it can be assumed that the availability of M&A broker targets in Germany will increase over the next 10 to 15 years, partly as a result of increasing retirement.

Founder/ owner exits comparison of population development UK vs. Germany



While UK baby boomers have broadly entered retirement age over the past two decades (coinciding with the insurer broker consolidation wave), **a wave of retirements will occur in Germany over the next 10-15 years.**

The retirement wave may cause **significant growth in M&A target availability in coming years**, supported by:

- ① **Higher proportion of population in retirement age¹,**
- ② **High incidence of business owners in this age bracket,** due to the economic boom post-WW2 (and post-reunification), as proven by age distribution of insurance broker directors, and
- ③ **Lack of successors** given long-term low birth rates.²

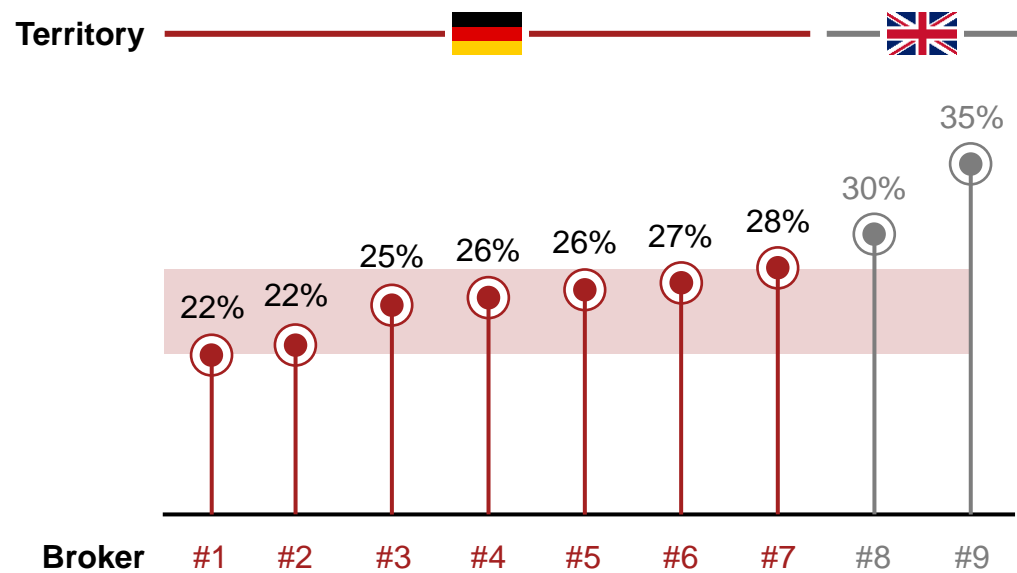
Fourth, the German brokerage market for commercial non-life insurance generally generates high margins that offer investors attractive and stable returns.

Broker “profitability” and commission rate uplift potential

Our analysis shows that the current **commission increases of 3pp in Germany** are roughly “comparable” to those in the **UK**, where we see a peak of 5pp for transactions GBP 300m.

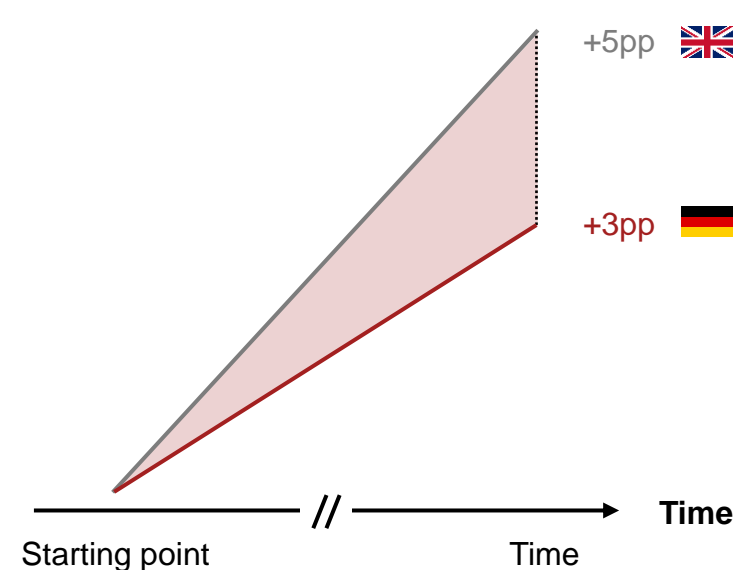
Broker “profitability” 2020

in percent of revenue/ commercial GWP



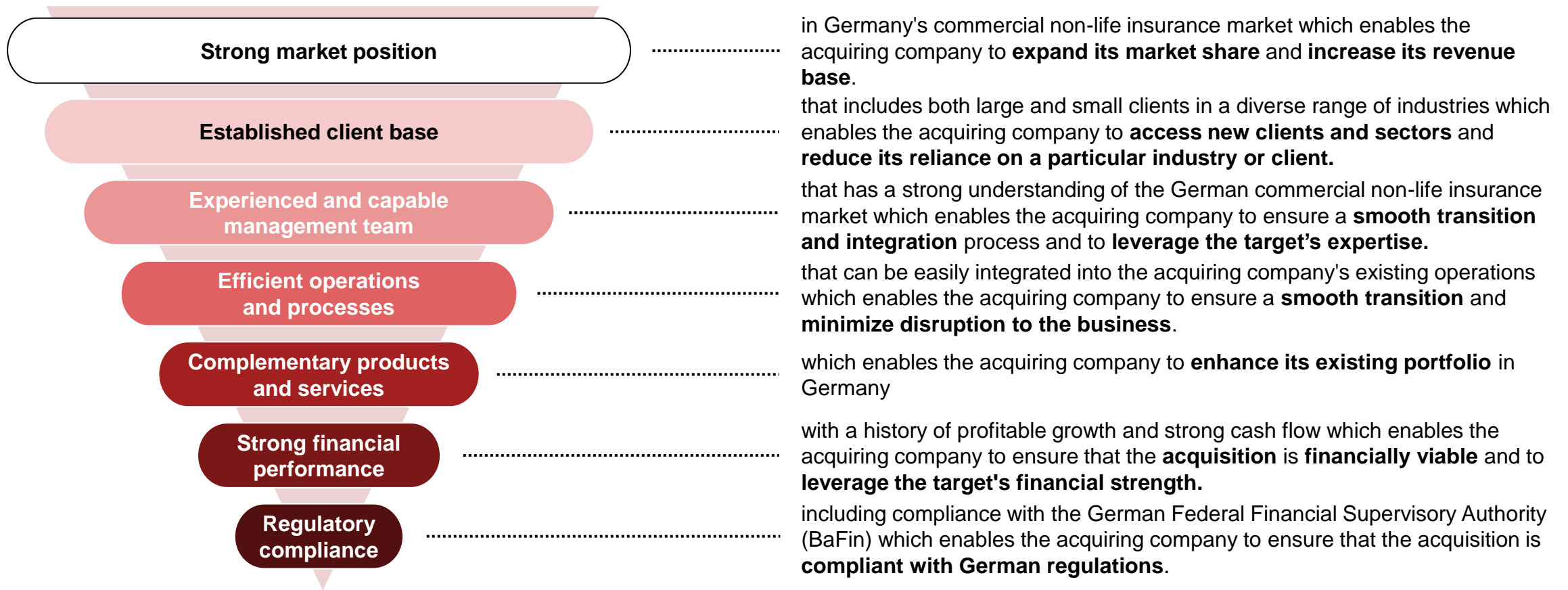
Commission rate uplift potential

in percent point GWP



Fifth, we are happy to help you identify the M&A target that best suits your individual needs and provide you with comprehensive support during the M&A process.

Characteristics the perfect M&A brokerage target should ideally have¹



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