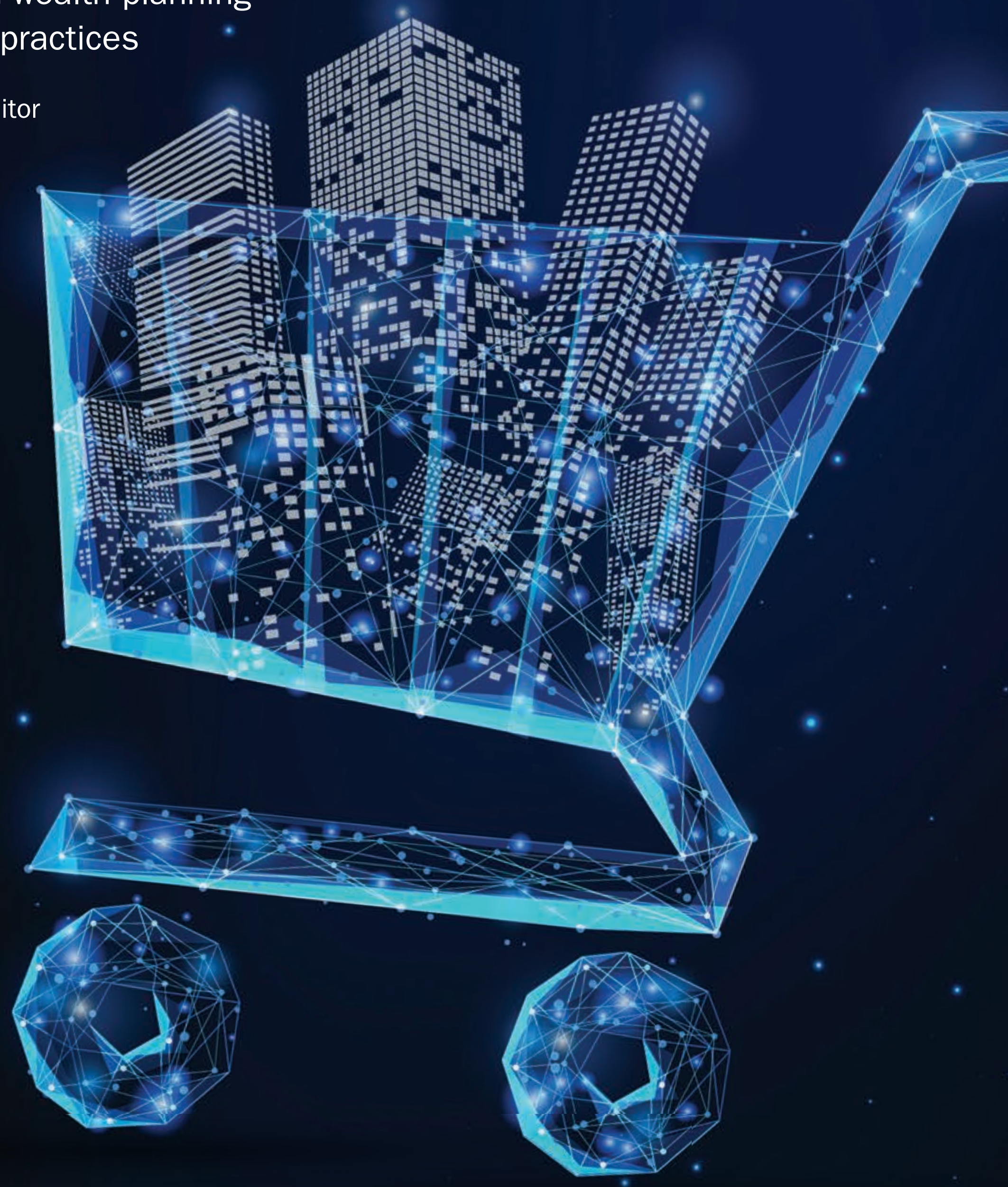
COMMERCIAL M&A

Multilines multiplier

How P&C brokers are mining revenue opportunities by acquiring retirement, wealth planning and employee benefits practices

By Philip Porado, Managing Editor



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Recent merger deals announced by Canadian commercial P&C brokerages are increasingly featuring acquisitions of wealth management and employee benefits firms, and this is no accident, brokers tell *Canadian Underwriter*.

This subset of M&A activity is about P&C brokerages being able to offer a type of one-stop shopping for their commercial and personal clients, adding select financial service offerings into the P&C insurance mix. It's changing how broking gets done in Canada, as retiring owners of small- and medium-sized employee benefits, retirement planning and wealth management firms find P&C brokerages becoming eager to buy them out.

"The banks in Canada bought a lot of what would be called the Tier-1 wealth advisors," says Navacord executive chairman T. Marshall Sadd. "There are a lot of smaller wealth and retirement individuals that might be associated with a group retirement business. We're trying to bring in talent, and train and develop that talent to perpetuate it to be a succession plan for the folks in these businesses."

The trend, while less prominent than other industry consolidations, has been underway for a few years, notes Yan Charbonneau, president of insurance industry acquisition firm Synex Business Performance.

"P&C firms are looking for products they can cross-sell with their large clients, which essentially [means a] natural fit would be anything related to financial lines," he tells *Canadian Underwriter*. "More aggressive consolidators are buying everything to fit their clients' needs. What is the next natural step? Of course, it's buying some life and wealth management shops. It's a natural transition [to] grow in [those] areas, because there aren't as many buyers within the sector."

Although Hub has primarily been a P&C brokerage for 20-plus years, Terri Botosan, regional president, employee benefits and life, notes they've entered the arena as well.

"As we have built strategic plans over the last number of years, I wouldn't say we've been actively looking for businesses in the retirement space, per se," she says. "What I would say is we've been actively looking for businesses that would enhance our ability to solve risk issues for clients, regardless of where those risk issues exist."

Those business lines make sense for commercial P&C customers, Botosan says, due to an evolving employer mindset in North America that recognizes employees are among a company's most important assets — even though they're not hard assets. "When you think about protecting employees, you have to take a holistic view," Botosan says. "I think there's broader recognition...that you can't take care of your employees and ignore financial wellness. If you're not participating in that, then you're not bringing a holistic solution."

Last summer, NFP purchased Toronto-based Newport Private Wealth. Newport, with $4.3 billion in assets under management, serves high-net-worth clients with offices in Waterloo and Kingston, Ont., Calgary, and Kelowna, BC.

"We certainly believe this is an emerging business model and there is a real client benefit when advisors offer holistic solutions that address clients' comprehensive insurance and financial needs at both a corporate and individual level," says Mike Goldman, NFP's president and chief operating officer.

"NFP has had wealth management capabilities operating alongside our P&C and benefits businesses in the U.S. for more than 20 years. By acquiring Newport Private Wealth, we emulated this business model in Canada, allowing us to integrate and deliver wealth management solutions for our Canadian P&C and benefits clients." Since 2011, NFP has acquired several other firms in the benefits, retirement and wealth management areas.

The sale's the thing

In most instances, the actual assets under management at many retirement advisory shops aren't worth purchasing on their own, says Charbonneau.

That's one reason most smaller firms aren't consolidating through mergers or buyouts from banks. But cross-selling opportunities can make the acquisitions pay off.

"If I can buy a wealth management shop and then sell [their client base] employee benefits, and sell P&C to that client base, then I've got something. But if my offering is limited to the one stream that the clients already have, then you're just rolling up the book of business, and why do that?" asks Charbonneau. "I'm going to cross-sell the whole thing with my P&C shop. And same for the advisory practice.

"There's no way you can get profit if you're not cross-selling. And this [is] basically why monoline doesn't work anymore."

Cross-selling is becoming more natural at what Sadd calls "multiline brokers that do P&C, which covers commercial and personal home and auto, and includes the benefits and the group retirement side of the business as well."

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Initially, those cross-sales happened organically. Group retirement and benefits clients could be moved to wealth advisors after they retired. And commercial and personal P&C clients could access retirement, wealth planning and benefits products.

"But having these folks housed in the same space [means] those conversations happen, and those opportunities will present themselves more often than if it happens only by referral," says Sadd. "They're all [within] the same business, the same brand and these opportunities are, I would say, warmer. You do get revenue synergies by putting these businesses together."

Executing the strategy well means bringing sales-management structures to the acquired businesses and making the cross-sales deliberate. "What we do is put some better processes in place [at the acquired companies] to accelerate or increase the opportunities," Sadd adds.

How long's your runway?

Even though succession is a component of the acquisition strategy, most buyers don't expect sellers to leave right away.

The goal is to find people with runway, say both Botosan and Rob Taylor, executive vice president of retirement at Hub International. An owner could remain for four, seven or 10 years, but retirement isn't imminent. Taylor knows this from experience, having sold his firm, TRG Group Benefits & Pensions, to Hub three-and-a-half years ago.

Botosan notes the goal is to offer mentorship opportunities to employees at the acquired firms, allowing them to explore work in other product areas that weren't available to them before the buyout. "We're making sure we develop those skillsets and provide for a younger generation," she says.

Taylor says that when he sold, he expected his runway would be five years. Now, a few years in, he sees his runway extending another six years.

"You kind of sell with the idea that my runway was always the same, but I'm having a lot of fun. And the quid pro quo on the Hub side is they're looking for organizations to buy that have [people with] long runways that want to be around to offer that value to customers," he adds.

What's more, retaining principals can smooth transitions. Which means, Sadd says, that sellers who want to help mentor the evolving teams are welcome.

"Sometimes it can be two years, sometimes it can be five years," he says. "We're not fussed about it as long as they're adding value. We're happy to have them stick around."

But, in cases where owners do want to leave sooner, Charbonneau starts the handoff process early and will have incumbents of the acquired firm bring an advisor who's taking over a particular file to client meetings and explain there's been a transaction.

"For some advisors, part of our group, I would say their portfolio is half-full. So, they can take on more in each line of businesses," he says. "The day we buy, we know that advisor X comes in with a quarter of his practice in seg funds, and a quarter in life insurance, and a quarter in employee benefits.

"We split his practice with three individuals that are going to be specialists in each of those areas."

Retain talent, or change?

Beyond the owners, retaining promising employees is also a goal of acquisitions, notes Botosan, particularly when those team members want to build focused skillsets for specific business lines.

"As we are building this business, Canadian employee benefits and retirement is several multiples larger than it was four years ago. [Owner] succession would have been an easy place to find good benefits shops or retirement shops that wanted to get out of the business," she says. "But I was not trying to just gather books of business. I was trying to build a business that had a long runway to really drive value to the client."

Many new broker partners also require technology and infrastructure improvements, says Sadd. And, sometimes an acquisition means changing the team structure. "What we're finding is that within the benefits, wealth and retirement space, folks for the most part are in the twilight of their careers," Sadd says. "We're good [at] finding people...that are client-facing relationship-builders and revenue generators, and then teaching them the products...

"And then we're affecting a succession plan with the next generation of talent."

Retention also ensures people with the correct product licences across P&C, employee benefits, and retirement and wealth planning remain at the merged operations. And, while multiple lines discounts are appealing, Taylor notes, "the real discount lies in the efficiency in productivity gains from dealing with one shop. You don't have to have all these separate business relationships."

Meanwhile, younger customers are leaning toward larger firms that can support them through complex problems, says Charbonneau. "There's no one shop, one advisor that knows every line," he says. "You had [guys with] 20 different certifications. They were good at nothing but average at everything. That doesn't work today."

And, while there's no ideal number of acquisitions, Sadd says, "where we have a P&C infrastructure office, we would like to have good benefits, group retirement and wealth advisors." CU