INSURANCE JOURNAL

Post Spitzer, Merger Activity Picking Up, Says Mystic Capital

By Andrew G. Simpson
May 9, 2006

Last year wasn't the busiest year for mergers and acquisitions in the insurance agency and brokerage field, but as concerns over various probes of the insurance industry fade, activity is picking up.

Kevin Donoghue of Mystic Capital Advisors Group, who specializes in mergers and acquisitions in the insurance industry, says there's been a lot of activity in the insurance industry since late 2005 right into this year.

"It's been a pretty exciting time period to be in the mergers and acquisitions field," says Donoghue in an exclusive interview in this week's Insurance Journal broadcast at http://www.insurancejournal.com/broadcasts/player/?vid=1509.

Donoghue thinks the industry probes spearheaded by New York Attorney General Eliot Spitzer had a dampening effect on mergers but that era is passing.

"I think some of the slowdown just related to the Spitzer investigations and how contingencies would be affected in the industry. That affects mergers and acquisitions pricing naturally, so a lot of money that was being readied to be deployed in the acquisition field pulled back. As those uncertainties seemed to go away towards late '05, the money came off the shelf and is currently being deployed into a number of different acquisition areas, both in the retail and on the managing general agent side of the business."

Certain players continue to be driving forces in mergers and acquisitions. "It's still being driven by growth expectations of the publicly traded brokers. Without acquisitions, most of them aren't even growing organically," the Mystic Capital executive explains. "They're still very active in the marketplace, so there's that supply / demand imbalance with them as well. It's pretty aggressive out there, and the pricing we see is pretty aggressive as well."

He says some banks are still interested in buying insurance operations, although it very much depends on the bank's situation.

"Banks' interest has ebbed and flowed over the past few years," Donoghue said during the interview conducted at the recent Target Markets Program Administrators Association meeting in Baltimore.

"I think the consolidation in the banking industry itself has created opportunities for new bank parent companies to divest opportunities. There still are a number of banks that are interested in buying as well, so different bank holding companies have different opinions on the insurance platform."

It's a good time for sellers who have reasonable expectations of prices. "There's not a shortage of buyers in the industry, so certainly if there's an interested seller, it's a good time from a supply /demand perspective. There's always that effect, do buyers have reasonable pricing expectations? That's really what keeps deals from happening versus anything," according to the merger consultant.

For the complete interview, visit http://www.insurancejournal.com/broadcasts/player/?vid=1509.

http://www.insurancejournal.com/news/national/2006/05/09/68086.htm