

# Claims consolidation

Claims management companies won't be hoovered up in an acquisition-frenzy – unless they want to be. **Paul Manning** explains

Insurance broking has been consolidated to such a degree that five companies now dominate the market, and small companies are finding themselves with little choice other than selling their businesses. Recently there have been signs that the claims management industry could follow suit. Advertisements have been hitting the media, looking for people to sell their businesses, and merger and acquisition advisers have been at their busiest ever. There may be companies looking to merge and consolidate, but is the claims management industry ripe for major consolidation?

A year after regulation of the claims management sector began, the number of newly regulated businesses is still rising. So, the cost of the regulatory process has certainly not been a barrier to new entrants into the sector.

There are now 1,753 businesses authorised and regulated to carry out claims management activities, and the number is likely to grow. Some businesses have been suspended, some have had their authorities cancelled, and some have voluntarily cashed in their chips, but it is clear that if someone fancies trying their hand at accident management there is very little to stop them.

## BUSINESS BREAKDOWN

The Ministry of Justice (MoJ) published figures in June 2007 providing a breakdown of authorised businesses by turnover, and the results were quite shocking. Some 636 of the businesses declared a £0 turnover in the year prior to regulation.

Some 819 businesses had an annual turnover of less than £100,000 immediately after regulation, of which 331 had a turnover of lower than £20,000. Using the standard quote for a referral fee

of £600, those with a turnover of £20,000 or lower must be accepting fewer than three personal injury claims per month.

This is not to deride businesses with lower turnovers. They are no doubt experienced practitioners who know their local market and can easily survive on that level of gross revenue. However, rationalisation of market sectors tends to start from the bottom up – as is now being seen in the insurance broker market.

The five major insurance brokers that now dominate a large proportion of the market are supported by venture capitalists or investment companies who provide enormous war chests with which to buy out

smaller practitioners. And the insurance press is already talking about one or more of the 'big five' taking ownership of another so the number of dominating brokers could reduce even further.

Smaller insurance brokers are coming under increasing pressure to sell simply due to market forces. It is not a choice. They cannot compete with large brokers on commission rates, insurance companies would much rather deal with a much smaller pool of brokers, and of course volume in anything attracts lower rates. So the writing is on the wall for the small broker: sell up (if possible) or watch your business fade away over the coming months or years.

**“One major insurance broking group with a massive war chest will not consider buying brokers with a turnover lower than £1 million. If that strategy was applied to the claims management market there would only be 29 businesses worth looking at.”**



## MORE M&A?

The claims management sector is not yet seeing anything remotely like this level of merger and acquisition activity. However it seems that more businesses are starting to look at M&A as part of an overall growth strategy.

The problem once again lies in the category of smaller claims management company. In the main they tend to be 'one-man bands' whose main marketing tool is their name and personal relationships in or around their locality.

These features would make it appear difficult, if not impossible, for these smaller companies to prove sustainable as part of an acquisition process. By the same token it would require a large sales and marketing commitment for any one company to secure the business that the



small companies enjoy locally.

There is also the cost of accountants and solicitors to oversee any purchase. So is it really cost effective to try and buy a business with a turnover of, say, £30,000?

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purely as a marketing tool to drive claims into their own practices.

However, solicitors could become very active in the claims management merger and acquisition field themselves, as they seek to add growth potential to their own roster of referral sources.

acquisition of claims management companies, brokers and other firms," he says. "We have been surprised by the number of solicitors who have expressed an interest in selling their practices when we have approached them on behalf of acquisitive client firms."

He thinks that this is happening in preparation for the Legal Services Act: "The advent of multi-disciplinary practices in 2011 is definitely in the minds of many, and many firms and businesses are putting their plans in place now so that they will be in a position to take full advantage when 2011 arrives."

But, once you subtract those with smaller turnovers and locally-based referral, are there many companies left to acquire or merge? It would appear so: there are 223 companies listed by the MoJ with turnover of over £100k and up to and above £1 million. These would be of interest to the growth hungry company, but as with all business, it all comes down to supply and demand. ●

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In addition there are accident management companies that are unlikely to ever be sold or merged because they are owned by firms of solicitors, who trade the accident management company

### **SOLICITORS SECURE SOURCES**

According to David Walmsley, a partner of Verus UK who advises solicitors about mergers and acquisitions, this is starting to happen already. "Our mergers and acquisitions team is currently the busiest it has ever been.

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