

March 2016

Rating Outlook — Stable

Fitch Ratings' stable outlook on the U.S. insurance broker sector reflects an expectation that brokers' balance sheet strength and profitability will remain supportive of ratings over the next 12–18 months.

Sector Trend — Stable

Fitch's stable sector outlook recognizes continued flat or declining rates in most commercial insurance segments and a soft reinsurance market that will pressure organic growth. Revenues from diverse product and geographic platforms, such as healthcare and benefits consulting, should help offset headwinds.

Acquisition Interest Surges

The pace of acquisitions increased following a period of more modest activity due to an improving global economy with available funding in a low interest rate environment. Private equity firm acquisition activity continues to expand, representing 54% of 2015 transactions versus 29% in 2011 according to a report by Optis Partners. Banks' waning interest in diversifying via broker acquisitions may be shifting as evidenced by BB&T Corporation's announced purchase of the U.S. brokerage business of Cooper Gay Swett & Crawford.

Debt-Servicing Abilities Solid as Leverage Rises

EBITDA/interest expense coverage remains solid for brokers despite increased debt levels over the last two years. Near-term coverage should remain in the high single digits in aggregate based on projected earnings and free cash flow growth. Total debt grew in part due to increased acquisition opportunities and caused some temporary rises in debt levels for preclosing financing. Low interest rates also promoted early debt refinancing at lower costs.

Growth Challenges from Softening Market

Growth for the brokers in Fitch's coverage universe remained positive at 3% in 2015, continuing a favorable trend since 2011. This trend reflects primary insurance premium growth, positive economic growth and acquisition integration completion. Emerging markets, healthcare and alternative reinsurance markets are sources of expansion and opportunities. Organic growth is anticipated to slow but remain positive in 2016.

Profit Margins Flattening

Brokers continue to generate double-digit operating margins; however, the average margin flattened in the last two years from pricing pressures and lower margin business growth. Margins should be stable in 2016 with modest improvements to overall earnings, reduced expenses and strong cash flow.

Related Research

[2016 Outlook: U.S. Insurance Broker Industry \(Stable Credit Trends Continue with Focus on Growth and Expense\) \(December 2015\)](#)

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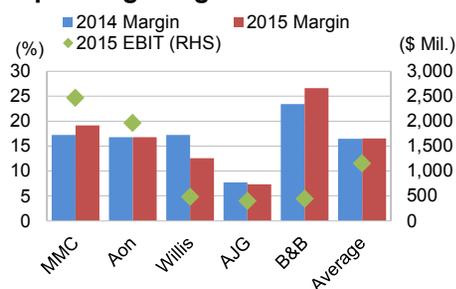
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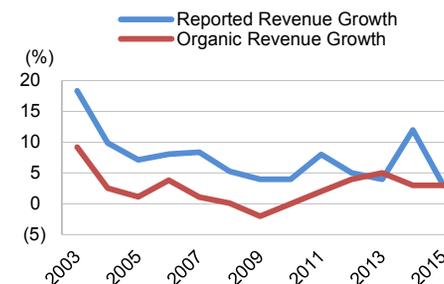
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Consolidated EBIT Operating Margins



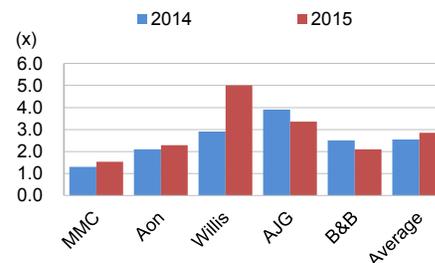
Note: Excludes regulatory settlements and certain other nonrecurring items.
Source: Company data.

Organic Growth



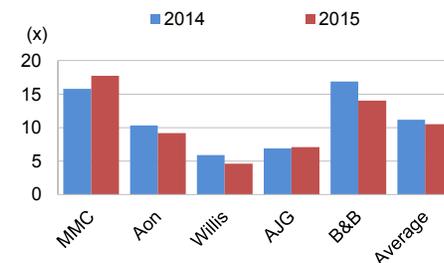
Note: Average results of insurance brokerage operations for companies included in the Fitch Insurance Broker Index.
Source: Company data, Fitch Ratings.

Debt/EBITDA



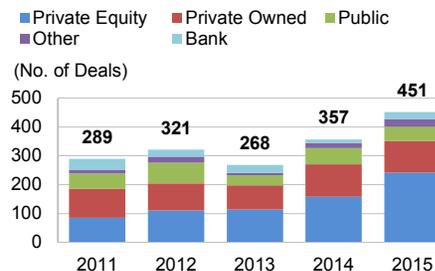
Note: Excludes regulatory settlements and certain other large nonrecurring items.
Source: Company SEC filings, press releases.

EBITDA/Interest Expense



Note: Excludes regulatory settlements and certain other large nonrecurring items.
Source: Company SEC filings, press releases.

Expansion of Private Equity-Backed Broker Acquisitions



Source: Optis Partners.

Insurance Broker Ratings

Company	Senior Debt Rating
Aon plc	BBB+
Marsh & McLennan Companies, Inc	A-
Willis Towers Watson plc	BBB

Source: Fitch Ratings.

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