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Firms fighting for more sustainable operating margins due to pressure on fees

Legal market consolidation tipped to continue despite insurers' concerns

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Concerns among insurers over declining service levels are unlikely to quell an uptick in mergers and acquisitions activity in the insurance law market, as legal firms battle to obtain market share and establish more sustainable operating margins.

Like the insurance and broking sectors, M&A in the insurance law market has been active in recent months with the latest deal confirmed on 16 September between Clyde & Co and Scottish firm Simpson & Marwick, previously an acquisition target of Kennedys.

The deal was driven by Clyde & Co's desire to establish a presence north of the border, according to the firm's global insurance head Simon Konsta.

"As the [UK] market continues to consolidate, it is increasingly important we have the scale to meet the needs of our insurance sector clients across the board," he said.

The Clyde & Co deal follows April's merger between DWF and niche firm Watmores, and the May 2014 deal between Berrymans Lace Mawer and HBM Sayers to create the £100m business BLM.

The impact of the *Legal Aid, Sentencing and Punishment of Offenders Act 2012* and insurers opting for smaller legal panels were previously noted as drivers for consolidation and, while commentators agree those challenges still exist, they admit there are several other pressures currently facing insurance law firms.

For Ruth Lawrence, Hill Dickinson insurance head, the key reason for M&A is the perception among law firms that they have to be a large volume player in the insurance market – specifically for deals between English firms.

"It does not come out of a desire to acquire expertise or a geographical footprint – it is about buying up market share. The margins within insurance work have been squeezed by the insurers. If you are in that market you need size and volume," Lawrence said.

Konsta also raised the issue of thin operating margins in the market and predicted this would drive further M&A deals in the next five months.

One potential deal that is rumoured to be in the pipeline concerns defendant law firm Keoghs purchasing Plexus Law, part of Parabis Law. A Keoghs spokesman told *Post* the firm does not comment on speculation.

Konsta continued: "There can be areas of the provision of legal services to the insurance sector where, for a sweet spot of time, niche players are able to access extremely profitable books of business. Then, the insurance sector will operate like any market does and it will attack that profitability and increase competition."

"What we have seen with the merger activity is that it is driven by the fact that the law firms are operating on very thin margins. They need to consolidate with other law firms and drive costs out of their model and try to establish more sustainable margins," he added.

One legal expert, who did not wish to be named, was aware of

Konsta: scale needed for clients

insurer concerns about service quality in the wake of increased legal consolidation.

"Insurers will raise concerns about quality and will say they, therefore, do not want the cheapest price but [in reality] they do want the cheapest price," the legal expert said. "There has been quite a lot of consolidation between insurance law firms and there is a risk for insurers that there is then a limited choice for the large insurers with panels."

Paul Berry, DWF insurance practice head, added: "Insurers are telling us they want more for less, they want better value, they want more transparency and they want a more adaptable and flexible approach."

Insurers often benefit from the economies of scale law firm mergers bring to the market, according to Forum of Insurance Lawyers CEO Laurence Besemer.

"Downward pressure on fees and rigid service level agreements have historically been cited as key drivers of consolidation in the insurance law market. What matters most to insurers is the outcome of claims and very tight, short timeframe service legal agreements combined with low fixed costs are starting to be seen as contrary to that objective in the long term," Besemer explained.

For Lawrence, there is a danger in too much consolidation.

"The danger is if everything becomes three or four very big law firms it is a similar service and it is difficult for people to distinguish themselves. Law firms will want to distinguish themselves and will start doing different things," she said.

Indeed, Clyde & Co is exploring offering services that take it beyond "merely lawyering", Konsta said.

"For example, consultancy services where we have accumulated knowledge and expertise about different elements of the insurance sector and whether we can play back some of that combined expertise," he explained.

Asked if it had concerns about service in light of legal consolidation, an Ageas spokesman said: "It is not our policy to comment on M&A activity of other firms. We assess all our relationships on an individual basis dependent on impact to our customers and individual circumstances."

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