

New Agency Toolkit

The information below is designed to educate and assist in the process of starting an independent agency, but it is up to you to make it happen. Building an agency from scratch is possible. If you're successful, the rewards are considerable, including the ability to call your own shots, a healthy return on investment in the form of owner's equity and the satisfaction of being in a business that protects people and their valuables. On the other hand, starting an agency from scratch is challenging.

STEP 1 **THE GROUNDWORK**
How to get started

STEP 2 **THE BUSINESS PLAN**
Five things every business plan should address

STEP 3 **E&O AND LEGAL CRITERIA**
Licensing, registration, tax ID, etc.

STEP 4 **ACCESS TO INSURANCE MARKETS**
Secure direct appointments and indirect markets

STEP 5 **AGENCY MANAGEMENT SYSTEM**
Framework for all the necessary business processes

STEP 6 **WORKFLOW PROCEDURES**
Develop a written procedures manual

STEP 7 **ADDITIONAL TRAINING**
Technical and management

Laying the Groundwork

- **Establish a realistic timeline.** Starting an agency will take time. How long it takes depends on your situation and how much time you have to work on it. It almost always takes more time than you think it will. Expect at least six months to arrange financing and at least two weeks to obtain E&O insurance.
- **Obtain qualified legal advice.** This is necessary if you're in a current relationship that may involve non-compete or other contractual-related issues.
- **Get an overview of the independent agency system and an introduction to basic insurance knowledge.** If you have operated your own captive agency, you are ahead of the curve (especially if you were able to establish a book of business outside the captive market). You understand how an agency works and are versed in the technical aspects of insurance contracts; however, for as many similarities between owning a captive agency and owning an independent agency, there may be just as many differences.

Create the Business Plan

Not to bore you with the “not planning is planning to fail” lecture, but just about every industry relationship will require a formal business plan. This includes carrier prospects for appointments and E&O insurance providers. The business plan consists of a narrative, resumes and several financial worksheets. Five things it should address are:

- a. **People** – At its core, the fundamental value of any agency is in the capability of its people to execute its objectives. Therefore, your business plan should include information about the people who are responsible to execute it. At a minimum, include resumes on each of the key players that describe the professional and personal background relevant to the agency business as well as the knowledge, skills and abilities possessed by each. For start-ups, a lack of a demonstrated track record may inhibit your ability to attract prospective employees, customers and carriers. To mitigate this uncertainty, include an explanation of who you know and how you may be known in the community and/or industry.
- b. **The opportunity** – A key to agency success and of interest to all current and potential stakeholders is how the agency plans to acquire customers, including with what products and services and with what advantages over competitors. This section should demonstrate that you know who your customer is, what your products and services are and how you will position your products and services to be selected over those of your competitors.
- c. **The business environment** – Your business plan should demonstrate that you have a keen awareness of the external business environment in which you operate, that you understand its impact on your business prospects and how you will navigate and exploit it. The discussion should encompass regulation, the economy, labor supply, customer markets, suppliers, competitors and in what way the status of these factors is relevant to the operation of your agency.
- d. **The risks** – Many business plans, often make the mistake of painting only a rosy picture; however, risk is inevitable. The best business plan readily identifies and confronts the risks to be faced. Potential stakeholders, especially prospective carriers, will develop confidence in those agencies that pose the risks and provide strategies to resolve them.
- e. **The numbers** – You need to have realistic expectations of where revenues will come from and when and how cash will be used; furthermore, insurance carriers will be interested in growth projections. At a minimum, you should have a start-up budget, a cash flow forecast and a production forecast.

Meet Legal Criteria

- a. **Choose an Entity**
There are four broad categories to investigate when determining your business organization: sole proprietorships, partnerships, limited liability companies, and corporations. While sole proprietorships are the least expensive and easiest to create, they carry a risk of personal liability for the owners. Partnerships, limited liability companies, and corporations can afford further protection for the owners, but require more paperwork and cost.
- b. **Register With the State**
Partnerships, limited liability companies, and corporations must file an Assumed Name Certificate with the Iowa Secretary of State.
- c. **Obtain IRS ID**
The IRS requires a Taxpayer Identification Number for all entities. This number is used in the administration of tax laws. If your agency is organized as a sole proprietorship, your social security number is your tax identification number. If your agency is organized as a partnership or corporation, you are given a Federal Employer Identification Number (FEIN).
- d. **Apply for E&O**
Since this is a new independent agency, and professional liability policies are on claims-made policy forms, your new E&O policy will have a retroactive date of the policy inception. In addition, since your agency is new and there is no previous information to reference, the E&O carriers will essentially have to underwrite you, as the owner, and your goals for the agency. E&O carriers will require a business plan and resume with all new applications. The Big "I's" Independent Agents Service Corporation (IASC) is part of a national purchasing group providing E&O coverage to members. For this reason, IIAI membership is required before your E&O application can be processed.
The Association is here to help members succeed. IIAI offers support through education, insurance market placement, technical advice, governmental advocacy and agency management support.
- e. **Obtain Licenses**
Of course to sell insurance in Iowa you must be licensed. The following is the list of licenses you may want to review:

Exam code	Exam name
01	Life
02	Accident & Health or Sickness
55	Personal Lines
44	Commercial Lines*
31	Crop
29	Credit
46	Surety
82	Excess & Surplus Lines
03	Property
04	Casualty

For more information go to www.PearsonVue.com.

Secure Market Commitments

Direct appointments with a variety of established carriers that have broad, competitive insurance products to offer is the ideal situation; however, they are very hard to come by unless you have at least a three-year track record and a sizable book of business that you will bring to the table right off the bat. For most start-ups, market commitments will have to come from a combination of a few possible direct appointments and/or a variety of indirect markets such as wholesalers, managing general agencies and market aggregators.

a. **Company Appointments**

Company appointments can be critical. As a member of IIAI we will provide you with a list of affiliate members which may be a starting point for you to consider contacting. If the company has adequate representation in your marketing area, they are unlikely to offer you a contract. When they are looking for agents most will only appoint agents who have some sort of established track record and/or are located in selected marketing territories. As an IIAI member, you also are a member of the Independent Insurance Agents & Brokers of America, giving you access to a number of markets it provides.

b. **IIABA Eagle Agency/MGAs/Wholesalers**

Many managing general agents and wholesalers are receptive to working with new agents. Many will have little or no volume commitments and are compensated per transaction through commissions or policy fees that are passed on to the customer. See last page for information on IIABA's Eagle Agency.

c. **Market Aggregators**

Market aggregators provide assistance to new agents in setting up their first agency office, access to otherwise unattainable markets and niche programs, the opportunity to obtain direct company appointments and a chance to share in the network's profitability. In return, these networks usually ask agents to pay a percentage of commission, a membership fee, or require them to give up a small stake in the value of the book of business built up through the aggregator. Be sure to review the contractual relationship with these entities carefully, especially as they relate to book ownership, commission or revenue sharing and exit costs.

Choose an Agency Management System

A fundamental building block for today's successful independent insurance agency is a good agency management system that can provide a framework for all the necessary business processes. The most effective independent agencies have maximized the ability to operate as digitally as possible, minimizing double entry and moving paper. Agency management software can range in cost from less than \$1,000 to \$5,000 for a start-up operation with monthly fees of \$60 to \$600, depending on the level of sophistication you desire. It is advised that a new agency should not skimp on agency management software since it will pay in the long run to operate as electronically as possible. When you join IIAI, you also become a member of the Independent Agents & Brokers of America, IIABA. IIABA sponsors an organization made up of independent agencies, carriers and technology vendors called the Agents Council on Technology. The ACT website has numerous resources to help agencies harness technology to maximize productivity and profitability.



WORKFLOW PROCEDURES

Develop a written procedures manual

Establish Workflow Procedures

In Iowa, it is estimated that one in five agents will be involved in an E&O claim. One of the best ways to avoid this potential is to create and develop a written procedures manual. This document should be fluid and adaptable to meet the market and client demands, but should also establish some structured guidelines to enforce the way you want your business handled.



ADDITIONAL TRAINING

Technical and management

Obtain Additional Training

Depending on your level of industry experience, or your level of expertise in the various lines of business you intend to offer, IIAI offers a broad array of training resources to member agencies.

The following is a short list of critical success factors necessary to make it:

- Capital – While an independent agency is not capital intensive relative to other industries, you can expect to need approximately \$40,000 to \$50,000 in start-up capital to pay for things such as office space, equipment and furniture, E&O insurance and marketing; and that doesn't count resources necessary to live on while you build your customer base.
- Access to insurance companies – You can get licensed but you can't sell insurance without access to insurance companies and managing general agents. For property and casualty insurance, most companies are looking for a long-term relationship. Getting an appointment usually requires, among other things, experience in the business, a track record of successful marketing and selling, a marketing territory geographically desirable to the companies and a solid proposed business model.
- Good sales and administrative skills – Some people have great selling skills and can make great insurance producers. Other people are great at administration and service. Starting an agency from scratch will require both sets of skills until you get large enough to hire others.
- Thorough technical expertise – Customers are placing their risk management needs in your hands, therefore you need to understand the products you're selling. Depending on the lines of business you intend to offer, there are scores of different policy forms and coverage implications. Add to that the importance of understanding the risk management process itself, and you have a very knowledge-intensive profession.