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5 Tips for Buying an Independent Insurance Agency

Each year, thousands of baby boomers move one step closer to retirement. For those who have spent the bulk of their career building an independent insurance agency, the plans to leave the workforce often include plans to sell the business. If neither a family member nor employee is available or interested in the acquisition, these highly motivated sellers must look for an outside buyer to take over their accounts and take good care of their clients. In fact, industry experts estimate that three in four independent agencies will experience an ownership transfer within the next ten years, putting younger insurance professionals looking to acquire an agency at an advantage.

Buying an insurance agency is a cost-effective strategy to grow income quickly in the insurance business, but it is not without its risks. Deals often fall apart as a result of poor due diligence or inadequate funding. Here are five steps to take if you are looking to acquire an agency to increase the odds of a successful business transfer.

- 1. Know what you're looking for.** Deciding what size agency you are targeting and the product mix you want to offer are key considerations in your search for a prospective seller. Also look at whether you want an agency that is underproducing and in need of a capital infusion to capture growth opportunities, or one that is already producing a reliable revenue stream. Geographical location is important as well, not only in terms of reaching new clients, but local competition, type of products needed, and the ability to create synergies.
- 2. Surround yourself with experts.** Buying an agency is a complex process. Make sure that you have a support team of advisors, such as a CPA, tax consultant, and transaction attorney to guide your decision making and help avoid common pitfalls. Also consider hiring an experienced insurance business intermediary with specialized expertise in agency sales and acquisitions. Doing so will help you find the type of agencies you have targeted and handle the detailed mechanics of this complex deal-making process. An added bonus, depending on the intermediary, will be the facilitation of the very difficult financing process. To ensure that you are able to secure needed financing and expedite the purchase.
- 3. Focus on due diligence.** Reviewing a seller's financials is critical, from the pro forma to several years of tax returns. You'll want to make sure that the returns match up with commission statements, and also look at operating expenses and profit margins for the business. Likewise, examine the health of the agency in terms of account retention, existing carrier relationships, and staff tenure. High turnover in any of these areas can be a red flag. An experienced business broker, such as Springtree Group, can manage most of this process for you, so you can stay focused on your current clients while also ensuring that you have an accurate assessment of the opportunity in front of you.
- 4. Examine employee relationships.** In an ideal scenario, you will be able to keep experienced team members on board with the agency during the transition, with no disruption to the business. If a producer or administrator plans to leave, however, you want to make sure you fill the position quickly, either with a qualified candidate from within or someone that you hire. In addition, make sure to have solid non-compete contracts in place, so that neither the seller nor any agents who leave the firm can solicit current clients and shift their accounts to another business.
- 5. Find the right financing solution.** In many business transfers, obtaining a commercial loan from a bank is not a big issue. However, most banks won't lend against the in-force book of business for an insurance agency, putting owners and prospective buyers in a quandary. Sellers would be unwise to put their personal assets at risk to underwrite a loan for the buyer, so using an organization that specializes in agency financing is the best course of action.

Springtree Group has multiple specialty lending products available for insurance agents and is uniquely qualified to help independent agencies obtain financing for a business transfer. Loans can be customized to the buyer and the seller, with interest rates generally in the mid-single digits and ten-year terms on the note.

Buying an insurance agency can be a smart move to catapult business growth and profitability. For the purchase to be successful, you must first find a qualified seller with the right opportunity, do the necessary due diligence, and find the right financing tools for the acquisition. Springtree Group works directly with independent agency buyers and sellers to structure successful transactions, maintaining a commitment to strict confidentiality and handling every aspect of the transfer, from deal structure and financing development to due diligence and closing processes. To learn more, call (972) 395-8811 or request information using the [online contact form](#).

Independent Insurance Agencies for Sale – February 2015

Welcome to the second edition of the STG Insurance Agent Sales Alert for 2015. Although it's not even Valentine's Day, the winter holidays will be here before you know it. During the fourth quarter of 2014, a number of potential buyers contacted STG in November and December wanting to close a deal "before the end of the year." However, by the time Q4 rolls around, we must advise clients that in most cases there is simply not enough time to professionally complete the process unless the deal is all cash.

The process to find and close a transactions often takes six months from inception to closing. So if

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