



Independent Insurance Agents
& Brokers of Washington

Starting An Agency

This toolkit is designed to educate and assist in the process of starting an independent agency. 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.

Step 1 - 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 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.

Step 2 - The Business Plan

Just about every industry relationship you need 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. The five things every business plan should address are:

1. **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. Include an explanation of who you know and how you may be known in the community and/or industry.
2. **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.
3. **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.
4. **Risks** - Many business plans, especially those that will be used outside the agency to attract other stakeholders, 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.
5. **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.

Step 3 - Agency Coverage and Legal Criteria

Choose an Entity and Register with the State: There are three broad categories to investigate when determining your business organization: sole proprietorships, partnerships and corporations. While sole proprietorships are the least expensive and easiest to create, they carry a risk of personal liability for the owners. Partnerships and corporations can provide further protection for the owners, but require more paperwork and cost.

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). Sole Proprietorships, Partnerships, Corporations, LLC

Apply for E&O: Before insurance companies will appoint you as an agent to sell their products, you will be required to obtain professional liability insurance (also known as Error & Omissions Insurance). 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. IIABW insurance products is part of a national purchasing group featuring many insurance markets, including E&O coverage.

Join IIABW: The association is here to help members succeed. IIABW offers support through education, insurance market placement, technical advice, governmental advocacy and agency management support.

Obtain Licenses: Your agency will need a corporate license which can be applied for from the Office of the Insurance Commissioner's web site <http://www.insurance.wa.gov/agents-brokers/your-license/apply-for-license/>.

Step 4 - Insurance Markets/Appointments

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.

- **Direct Appointments:** You can refer to our list of Associate Members as a start. IIABW staff can also help you identify companies that would be a good fit for your agency.
- **MGAs / Wholesalers:** IIABW gives members access to a number of niche markets. Our list of Associate Members also is a good start to find managing general agents and wholesalers to work with. Many will have little or no volume commitments and are compensated per transaction through policy fees that are passed on to the customer.
- **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.

Step 5 - 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 IIABW, 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.

Step 6 - Workflow

One of the best ways to avoid an E & O lawsuit 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.

IIABW and IIABA have abundant resources in our 'Virtual University' for helping you develop procedures for your agency. However, whether you purchase templates or create your own from free member downloads, this process is very time consuming and needs constant updating as your agency matures. Plan on spending a least a month to prepare your initial manual.

Step 7 - Staffing

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

Whether you need staff right off the bat or down the road, recruiting the right talent for the right roles is not easy, especially if you're doing everything in the agency yourself. IIABW's provides a job bank, to assist you with free classified ads. IIABW members also receive exclusive discount pricing on personality testing products in the industry.