

Agency Risk Management Essentials: Buying, Selling and Merging an Agency

At some point in an agency's existence, it will either be bought, sold or merged with another agency. Other than starting your business, this is the second biggest decision you will make for your agency. No two situations are alike so take the time to make sure you are well prepared when you are making an agency transition. By being prepared BEFORE you start the process, you will ensure that the transition is well planned.

Things to Know	Who is responsible		
	Seller	Buyer	Merger
DON'T ready, fire, aim! DON'T first negotiate and sign a deal, then seek guidance from your expert advisors after the fact so it's too late to act on their advice.	✓	✓	✓
Put together your team: CPA, Lawyer, E&O Carrier, appraiser CPA-Will advise the tax consequences Lawyer should be experienced in buy/sell/mergers and preferably in insurance agencies in particular Appraiser- Get an appraiser. (don't assume you know the value.)	✓	✓	✓
Execute a confidentiality agreement to share information	✓	✓	✓
Know your long term goals-Set a timeline	✓	✓	✓
Determine what valuation will be placed on the agency: Based on past or future Valuation based on Earnings Valuation based on Revenues	✓	✓	✓
Look at the books! Make sure you know what you are getting yourself into		✓	✓
Get E&O Loss runs of agency being purchased		✓	✓
Don't make promises you can't keep	✓	✓	✓
E&O Extended Reporting Period/Tail-The seller should purchase and the buyer should require that an extended reporting period for the business that is being purchased. For the seller, this will ensure that coverage is in place for any claims after the sale; the buyer does not have to rely on the buyer maintaining their E&O coverage. For the buyer, this will ensure that they are not responsible for the seller's errors.	✓	✓	
Maintain copies of all account files prior to transfer-If an E&O claim or question should arise, the seller must be able to have access to documentation in the future.	✓		
Get E&O Loss runs of agency being purchased or merged		✓	✓
Include your E&O carrier in the process- don't assume your E&O Carrier will agree to transfer an E&O policy, accept new liabilities or new exposures. They can help you anticipate any additional premiums that may be due on transfer	✓	✓	✓
Inspect the customer files in the book of business for substantive and procedural handling, including (especially) documentation.		✓	✓
Do you have the same carrier appointments? Do I need to get carrier appointments?		✓	✓
Staff-Know the staff you are taking on. Who will come with the transfer?		✓	✓
Have a plan in place for how your agency will be disposed of at death-No one likes to think about it but do you have a plan in place for your business in case you should die unexpectedly?	✓	✓	✓
Decide whether a merger of two or more organizations is really what you want (as opposed to an 'alliance,' cooperation agreement or simply engaging in a symbiotic – but non-binding – referral arrangement.			✓
Decide who will be in charge and which entity will survive – or will both be merged into a new entity? Complete the merger by actually merging the organizations, keeping the best practices of each.			✓
Do a complete merger of the organizations keeping the best practices of each and discarding those that don't work.			✓
DON'T continue to operate as separate entities: separate locations with separate staffs, cultures, systems and business practices. All processes, procedures, systems and staff should be integrated to ensure a smooth flow of operations.			✓
Make plans for if (or when) a merger doesn't work out. Include a "pre-nuptial" in the Merger Agreement. Merger divorce is messy. You must anticipate those situations when things don't work out.			✓