



Cookson Walker Consulting

Building Bridges

How brokers can benefit from strong company relationships

By John Garner, Eric Walker and Steven Frye

The successful broker knows in general what it takes to have a strong relationship with the brokerage's major company markets: Volume and quality of business; frequent communications, joint planning, or at least sharing and discussion of plans, and mutual respect and integrity in all dealings.

But do brokers consider the complete range of benefits that can be derived from these strong relationships?

Some of these advantages come readily to mind -- generally those that do not require much additional effort to obtain (most of the spade work having already been done). They include: Enhanced or unique contingent profit arrangements; special underwriting authorities; preferred (front-of-the-line) treatment; invitations to select off-site conventions, and sponsored training and continuing education sessions

There are, however, other benefits that are potentially available. But, unlike the others, to even be considered by a company they require careful thought in their conception and a willingness to invest time and money in putting together a well-structured proposal. These benefits generally fall in the areas of growth initiatives and succession planning.

The company perspective

When presenting an idea to a company market, enough preliminary work has to be done to present a case compelling enough that it can be taken to the next level. In all situations, the company has to be shown how it will benefit. Being a key broker for the company definitely carries its own weight, but this is probably already being recognized through some or all of the extras enumerated above. Be this as it may, quality brokers are critical to a company's success so attention will be paid to a well-considered proposal.

Whether a company will or can accommodate a proposal depends on the reasonableness of what is being requested tempered by internal restrictions on the company's actions, which may range from corporate policy to regulatory limitations.

In some cases, particularly when the company is a subsidiary, it is subject to policies that are difficult to override. Often, these policies are based on firmly established principles (e.g. "we will not compromise our independence in any business relationship") that are grounded in historical experience or on beliefs with respect to appropriate corporate conduct. In other instances, the policies may not have a clear foundation but

nonetheless constrain the company.

Companies are also subject to various regulatory requirements and limitations, particularly when it comes to providing any form of financial support.

New products and programs

A broker who wishes to grow and ultimately perpetuate the business may want to consider the following initiatives with a major company market, keeping the company's perspective in mind: New products and programs, producer financing and development, acquisitions and succession planning.

With new products, the company may be asked to tailor an existing product, create a unique form of coverage (typically a variation of existing offerings), or package and customize products for a particular market segment. New programs are similar, except the products are being targeted at particular groups or associations.

Generally, the broker would like to have underwriting authority, claims management authority, and compensation for this additional work (typically, extra commission or an override plus profit sharing). In addition, the broker will generally expect this to be an exclusive arrangement.

As far as the company is concerned, a new product or program has both an upside and a downside. Certain market segments can be shown to have good loss experience and sufficient volume potential to make the work required of them and any incremental costs worthwhile.

On the other hand, there may not be sufficient data available to gauge expected loss experience and volume potential and other brokers may react adversely if the product or program overlaps their client base or is provided as an exclusive.

As with all proposals, a clear and comprehensive business case will improve the broker's chances of success. Because of the amount of work involved, the following is a suggested list of contents for the final product after the company has expressed interest. However, this list can also be used as a checklist for the initial presentation:

- The proposed product or package and its pricing.
- Target market (or group/association) statistics and volume potential.
- Loss experience statistics or approximations (based on similar situations if possible).
- Background and experience of key broker personnel.
- If applicable, proposed underwriting, adjusting and claims payment authorities.
- Proposed reporting and payment arrangements.
- Proposed compensation arrangements.
- Use of sub-agents and their authorities.
- Pro forma projections (three to five years).

Producer financing and development

In this situation, the company is being asked to support the initial costs incurred in hiring new producers and developing their selling skills and product knowledge. These costs, including base salaries or draws, can be substantial, especially given that not all hires will be successful.

From the company's perspective, the goodwill generated from such assistance should pay off in additional business. In addition, the aid provided, be it in the form of loans, subsidies, sponsored producer development programs or future internships, can be made conditional on the new producers (or the firm) meeting minimum new business targets. This would particularly be the case if the company were prepared to provide a subsidy or attach a forgivable feature to its loans.

In requesting assistance, the broker should be prepared to provide the following details:

- Assistance sought.
- Unless this is a one-off, hiring plans and goals for the next three to five years.
- Type of recruits being targeted (educational background, experience).
- Interviewing approach and use of personality profiling tests.
- Initial compensation and probation arrangements.
- Targeted production levels in three to five years.
- Share of production and/or minimum new business volume to be placed by the brokerage.
- If applicable, proposed repayment terms.

Acquisitions

This area ranges from professional advice provided by company personnel or outside consultants to assistance in obtaining financing through the company's resources to outright loans or equity infusions.

When a broker approaches a company regarding an acquisition it is usually with the intention of securing funds rather than professional assistance. However, this is the area where corporate policy and regulatory limitations often come into play. Some companies are prohibited from providing direct financing but will still use whatever means they can to assist the broker.

For example, some have offered overrides if the acquiring broker is prepared to commit to placing a minimum volume of acceptable business from the combined entity. Others have used established relationships with their banks to effectively support loans made by these banks to their brokers. And some have combined both, using target volume levels to offset the interest portion of bank loans.

In some limited instances, and particularly when a company has a non-regulated parent, the company may well be prepared to arrange equity financing to support the acquisition.

No matter what backing a company is prepared to provide, the broker has to work up a business case. Even if the company is only able to provide professional support, a business case is necessary if outside financing is to be obtained (although the professional support could assist with much of the preparation).

Assuming a business case is being made for a loan, a proposal for financing should incorporate the following:

- Summary request for amount and use of funds.
- Description of corporate background and history.
- Detailed profile of the book of business being acquired.
- Summary business plan, clearly identifying growth initiatives affecting the company.
- Financial projections.
- Historical financial information.

Succession planning

Some of the key aspects of succession planning include financing the development of succession regarding producers and business managers. Accordingly, companies provide assistance to brokers along the same lines as the aid outlined in the cases of producer financing and development and acquisitions.

Well-run brokers develop strong company relationship and can benefit from those ties in implementing business strategies that will help to foster growth with a particular market and ultimately build the brokerage and increase its value.

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