



Starting an Independent Agency – New Agency Tool Kit

Building an agency from scratch is possible. This document is designed to educate and assist in the process of starting an independent agency, but it is up to you to make it happen.

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. However, starting an agency from scratch is challenging.

This tool kit will walk you through the steps necessary to get started and provide resources to help you implement the measures where possible.

Critical Success Factors

- **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 can't sell insurance without access to insurance companies and/or managing general agents. Most companies are looking for a long-term relationship for property and casualty insurance. 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 excellent selling skills and can make great insurance producers. Other people are great at administration and service. Starting an agency from scratch requires both skills until you get enough to hire others.
 - **Thorough technical expertise** – Customers are placing their risk management needs in your hands; therefore, you must 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, and you have a very knowledge-intensive profession.
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How to Get Started (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/Financial Advice:**

It is recommended that you seek advice from legal and accounting professionals. They should help you understand the risks, costs, and administration of opening a new business. You should also discuss the costs and implications involved with these professionals if your venture could be more successful.

- **Get an Overview of the Independent Agency System & Basic Insurance Knowledge:**

If you have operated your 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 a Business Plan

We will not bore you with the “not planning is planning to fail” lecture, but 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 comprises a narrative, resumes, and several financial worksheets.

Five Things Every Business Plan Should Address:

1. **People** – At its core, any agency's fundamental value is in its people's capability to execute its objectives. Therefore, your business plan should include information about the people responsible for executing it. At a minimum, contain resumes of each critical player that describe the professional and personal background relevant to the agency business and the knowledge, skills, and abilities each possesses. 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, explain whom you know and how you may be known in the community and/or industry.
2. **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 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. **The Business Environment** – Your business plan should demonstrate a keen awareness of the external business environment in which you operate, 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. **The Risks** – Many business plans, especially those used outside the agency to attract other stakeholders, often make the mistake of painting only a rosy picture; however, the 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. **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.
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E&O and Legal Criteria

Meet Legal Criteria

a. Choose an Entity

There are three broad categories to investigate when determining your business organization: Domestic Profit Corporation, Domestic Limited Partnership (LP), **and** Domestic Limited Liability Company (LLC).

There are three basic steps in starting a licensed business entity in Massachusetts:

1. Name Approval
2. File with the MA Secretary of State's Office
3. Application, Enclosures, and Fee

Start at the Division of Insurance Individual and Business Entity Licensing page to begin this process and get the correct information.

b. Obtain IRS ID and Choose your Business Structure

The IRS requires a Taxpayer Identification Number for all entities. When beginning a business, you must decide what form of business entity to establish. Your form of business determines which income tax return form you must file. The most common forms of business are sole proprietorship, partnership, corporation, and S corporation. A Limited Liability Company (LLC) is a business structure allowed by state statute. Legal and tax considerations enter into selecting a business structure. ([Additional IRS information](#))

c. Obtain Proper Licensure

To operate your business, you must have a separate individual producer license.

Note: Sole Proprietors also use their individual licenses for the business entity; however, they do have to go through all steps above to create the business.

Rules regarding individual licensing are available on the [Division of Insurance Individual and Business Entity Licensing page](#).

MAIA has many educational resources to assist in preparing for a P&C, LAH, or PL individual producer license. Visit massagent.com for program information.

d. **Apply for E&O Coverage**

Before opening your new business, you must get an *Errors and Omissions* policy.

Professional liability policies are written on claims-made policy forms. Your new E&O policy will have a retroactive date of the policy inception. As a new independent agency with no prior history, the E & O carriers will 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. MAIA's Number One Insurance Agency is the number one writer of Agent's E&O in MA and works with agencies of all sizes, business structures, and coverage needs. We have multiple markets and will help you find the best options available to fit your unique agency's needs as you start out and throughout the lifecycle of your agency as it grows and develops.

Selecting an E&O Carrier

E&O Carriers offer more than a policy form. The two leading Agent E&O markets in Massachusetts also provide an extensive range of assistance in Loss Control. Their established E&O Loss Control Websites include sample agency procedures, sample letters for clients, exposure analysis tools & self-audit forms. They also often offer free webinars & podcasts on "hot topics," discounts to outside resources/reference guides, and general inquiry services.

Contact [Donna Goncalves](#) in the [E&O Department](#) at (508) 634-7362 to select your E&O Carrier.

Access to Insurance Markets / Secure Market Commitments

Direct appointments with various established carriers with broad, competitive insurance products to offer are the ideal situation. However, immediate appointments are tough 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 immediately.

For most start-ups, market commitments must come from a combination of select direct appointments and several indirect markets that might include brokering business through an already established agency or aggregate of agencies.

- **Direct Appointments**

Many insurance companies operate through the independent agency system; however, most will only appoint agents with an established track record and/or located in selected marketing territories. A [List of Companies](#) currently operating in Massachusetts can be found on the Division's website.

- **Broker Business**

An already established agency can provide access to its markets. An agreement must be reached between you and the broker/agent on how the business will be transacted, as well as a percentage commission structure. To do this, you must research agencies in your area and find one willing to do this with you.

- **Market Aggregators**

Market aggregators assist 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 regarding book ownership, commission or revenue sharing, and exit costs.

- **MAIA's Number One Insurance Agency**

All [MAIA](#) members enjoy free market access to various personal and commercial lines products with national and regional carriers. We have personal and commercial lines products at your fingertips: [Check out our Program List and Commission Schedule](#).



- **Big "I" Markets**

Members of MAIA are also members of our national association, the [Independent Insurance Agents & Brokers of America](#). The IIBA provides members exclusive access to Big "I" Markets, an online platform to quote and service a variety of specialty/niche coverage options for your clients. Visit [Big "I" Markets](#) and sign-up today!

Agency Management Systems

Choose an Agency Management System

A fundamental building block for today's successful independent insurance agency is a sound 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. It is advised that a new agency should focus on agency management software since it will pay in the long run to operate as electronically as possible. It is also recommended that when you choose your agency management system, you also consider the support offered, training, and support networks of the system, as these often help an agency with the actual use of the software.

Establish Workflow Procedures

In Massachusetts, it is estimated that one in thirteen 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 how you want your business handled.

Resource: Visits MAIA's [Business Tools for an Agency Operations and Procedures Manual and more!](#)

Recruit The Staff

Whether you need staff immediately or down the road, recruiting the right talent for the right roles takes work - especially if you're doing everything in the agency yourself.

Resource: [MAIA Talent Solutions](#) is there to help when you're ready.

Network

As the saying goes, 'People do business with people they like and trust, so networking is highly encouraged. It is imperative to establish yourself where you plan to do business. It is recommended that you join service clubs and networking groups and volunteer wherever you can be visible.'

How the Association Can Help

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

- [Join MAIA](#)
Access all the benefits and discounts available to members of the largest trade organization for independent agents in Massachusetts.
- [Education & Training](#)
MAIA is the leading source of high-quality continuing education and training for all levels of insurance personnel led by seasoned, experienced instructors.
- [Market Access with Number One Insurance Agency](#)
 - Workers' Compensation
 - RLI Personal Umbrella & In House Business Insurance
 - Liquor Liability
 - Lawyers' Professional Liability
 - Flood – Personal, Commercial & Excess Coverage
- [Technical Advice & New Updates](#)
Our staff specialists welcome your questions and provide members with timely and accurate information, insights, and advice on emerging trends and business practices in the insurance industry.
- [Young Agents Committee](#)
MAIA has a thriving Young Agents Committee designed to connect the future leaders of the insurance industry in Massachusetts. Agents under 40 years of age or less than five years of experience in insurance are encouraged to become active participants. The committee hosts up to 6 networking/educational events each year and an annual industry-wide golf tournament. Contact [Heather Kramer](#) for more information.

For more about the benefits of [joining MAIA](#) ... visit massagent.com or contact [Lori Kane](#) for additional membership information.



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