



## 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 steps where possible.

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### 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 you can't sell insurance without access to insurance companies and/or managing general agents. For property and casualty insurance, most companies are looking for a long-term relationship. 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 great selling skills and can make great insurance producers. Other people are great at administration and service. Starting an agency from scratch will require both sets of skills until you get large enough to hire others.
  - **Thorough technical expertise** – Customers are placing their risk management needs in your hands, therefore you need to 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 itself, 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 involved with opening a new business. You should also discuss with these professionals the costs and implications involved if your venture is not successful.

- **Get an Overview of the Independent Agency System & 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.

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## 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 consists of a narrative, resumes and several financial worksheets.

### Five Things Every Business Plan Should Address:

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. 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, include an explanation of who 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 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. **The 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. **The 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. **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), 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

To begin this process and get all of the correct information, start at the [Division of Insurance \(DOI\) business entity licensing website](#).

#### 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 have to file. The most common forms of business are the 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 Information at IRS.gov](#).

#### c. Obtain Proper Licensure

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

Note: Sole Proprietors do use their individual license for the business entity as well however they do have to go through all steps above to create the business.

Rules regarding individual licensing are available at [Division of Insurance](#).

MAIA has many educational resources available to assist in preparations to obtain a P&C, LAH or PL individual producer license. Visit [massagent.com](http://massagent.com) for program information.

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

Prior to opening your new business, you will need to 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 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. 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's E&O markets in Massachusetts also offer a large range of assistance in the form of 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 get started on selecting your E&O Carrier.

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### **Access to Insurance Markets / Secure Market Commitments**

Direct appointments with a variety of established carriers that have broad, competitive insurance products to offer is the ideal situation. However, direct appointments 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 select direct appointments as well as 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 who have an established track record and/or are located in selected marketing territories. A list of companies currently operating in Massachusetts can be found on [Mass.gov](http://Mass.gov).

Another document that you may find useful is [How to Attract a New Company](#).

- **Broker Business**

An already established agency can provide access to their markets. An agreement must be reached between you and the broker/agent on how business will be transacted as well as a

percentage commission structure. To do this you will have to research agencies in your area and find one that is willing to do this with you.

- **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.

- **MAIA Markets / Number One Insurance Agency**

Member of MAIA have access to [the markets offered by the Number One Insurance Agency](#) which include:

- Workers' Compensation
- RLI Personal Umbrella & In House Business Insurance
- Liquor Liability
- Lawyers' Professional Liability
- Flood – Personal, Commercial & Excess Coverage
- Others



- **Big “I” Markets**

Member of MAIA are also members of The Big “I”. Your membership provides access [Big “I” Markets](#), an online access to specialty/niche coverages, program business and hard-to-find markets access exclusively for IIABA members. Using proprietary IIABA technology and IIABA’s nationally licensed, wholly owned agency—IIAA Agency Administrative Services—IIBA members gain access to available coverage, terms and conditions, applications, a quote request platform and policy forms and electronic brochures are efficiently conveyed to and from IIABA member agents and product providers.

[Complete Information on Big “I” Markets](#)

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## Agency Management Systems

### Choose an 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. 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. It is also recommended that when you choose your agency management system that 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.

**Resource:** Steve Anderson, independent industry tech consultant and speaker, has written a free system to help agencies select an Agency Management Providers. More information is available at [steveanderson.com](http://steveanderson.com).

## 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 the way you want your business handled.

**Resource:** Purchase a templated [Agency Operations and Procedures Manual](#).

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## Recruit The Staff

Whether you need staff right away 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.

**Resource:** [MAIA's Career Headquarters](#) is there to help when you're ready.

**Resource:** Personality testing new hires can assist you with the candidate selection process with [Caliper](#).

**Resource:** Begin with a seasoned remote worker. Check out [WAHVE's staffing solution](#).

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## Network

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

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## 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 & News 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, that has been designed to connect the future leaders of the insurance industry in Massachusetts. Agents who are under 40 years of age or have less than 5 years of experience in insurance are encouraged to become an active participant. The committee hosts up to 6 networking/educational events each year in addition to an annual industry-wide golf tournament. Contact [Jamie Leslie](#) for more information.

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



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