

**DEAD, DISABLED  
OR JUST PLAIN  
TIRED**

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# **PERPETUATION**

## **WHAT IS IT?**

**PERPETUATION IS A CLEAR AND LEGAL WAY TO INSURE THE EXISTENCE OF YOUR BUSINESS WITHOUT YOUR PRESENCE**

## **WHY DO IT?**

- 1. YOU**
- 2. YOUR FAMILY**
- 3. YOUR PARTNER (S)**
- 4. YOUR BUSINESS**

**A RECENT SURVEY CONDUCTED BY THE ACADEMY OF PRODUCER**

**INSURANCE STUDIES INDICATED  
30% OF ALL INSURANCE AGENCIES  
HAVE NO PERPETUATION PLAN**

**OF THE 70% THAT HAVE A  
PERPETUATION PLAN 40% DO NOT  
HAVE IT IN WRITING**

## **HOW TO PERPETUATE**

### **1. SOLE PROPRIETOR**

**A. ANOTHER AGENT**

**B. EMPLOYEE**

**C. FAMILY MEMBER OR  
RELATIVE**

**D. FRIEND**

## **2. PARTNERSHIP**

### **A. PARTNER(S)**

## **3. CORPORATION**

### **A. OFFICER(S)**

**IF THERE IS NO**  
**WRITTEN AGREEMENT**  
**OR BUY/SELL**  
**AGREEMENT**  
**DISREGARD**  
**EVERYTHING I HAVE**  
**SAID SO FAR AND**  
**MAKE SURE YOU HAVE**  
**THE BEST ATTORNEY**  
**OF ALL PARTIES**  
**INVOLVED**

# BUYERS

## (DO YOUR HOMEWORK)

### PROFESSIONAL HELP

#### DO YOU NEED THE HELP OF A PROFESSIONAL

1. INSURANCE CONSULTANT
2. ATTORNEY
3. ACCOUNTANT
4. IIAofI

## **FINANCIAL ASPECTS**

**YOU MUST OBTAIN FROM THE SELLER THE FOLLOWING:**

- 1. INCOME TAX RETURNS (3 YEARS MINIMUM, 5 IS BETTER)**
- 2. FINANCIAL STATEMENTS, OPERATING STATEMENT & BALANCE SHEET (3 YEARS MINIMUM, 5 IS BETTER)**
- 3. YEAR END BY COMPANY (3 YEARS MINIMUM, 5 IS BETTER)**
- 4. ACCOUNTS RECEIVABLE ISSUES (HOW MUCH, SAME CLIENTS, BAD ACCOUNTS)**
- 5. IS PFTA IN TRUST**

**6. ANY EXISTING LEASES OR  
BUILDING ISSUES**

**7. ANY ASSUMPTION OF DEBT  
(WHY)**

## COMPANIES

### YOU MUST DETERMINE THE FOLLOWING ABOUT THE SELLER'S COMPANIES:

1. WHICH COMPANIES DO YOU REALLY WANT (HOW BAD)
2. WILL THEY GIVE YOU A CONTRACT
3. HOW DO THEY PERCIEVE THE NEW RELATIONSHIP
4. WILL THE COMMISSIONS AND PROFIT SHARING REMAIN THE SAME
5. WHAT ARE THEIR LOSS RATIOS

- 6. WHAT IS THE MIX OF BUSINESS BY LINE**
  
- 7. DOES ANY COMPANY HAVE CERTAIN REQUIREMENTS YOU MAY HAVE TROUBLE MAINTAINING**
  
- 8. IS THE AGENCY HEAVY IN LIFE, HEALTH, NON-STANDARD, BROKERED BUSINESS, OR PROGRAM BUSINESS**

## **ESTABLISHING VALUE**

### **MULTIPLE OF REVENUE WHAT TO CONSIDER**

#### **(REVENUE)**

- 1. PROPERTY/CASUALTY  
COMMISSIONS**
- 2. HEALTH COMMISSIONS**
- 3. LIFE COMMISSIONS**
- 4. PROFIT SHARING**
- 5. FEES**

#### **(MULTIPLE)**

- 1. ACCOUNTS THAT GENERATE  
MORE THAN 2% OF REVENUE**
- 2. PROFITABILITY OF AGENCY**

- 3. CLASS & AGE OF CLIENT BASE**
- 4. IS AGENCY OVER/UNDER STAFFED (REVENUE PER EMPLOYEE)**
- 5. TERMS OF PAYMENT (CASH, CASH & INSTALLMENTS, LENGTH OF INSTALLMENTS)**
- 6. FLAT AMOUNT OR RENEWAL ADJUSTED**
- 7. WILL OWNER REMAIN (HOW LONG, HOW COMPENSATED)**
- 8. ANY E&O CLAIMS**
- 9. WHEN WILL ACQUISITION CASH FLOW**

- 10. WHAT IS THE DIRECTION OF THE MARKET**
- 11. WHAT IS THE DIRECTION OF THE COMMUNITY**
- 12. WHAT IS THE REPUTATION OF THE SELLER IN THE COMMUNITY**

## **EMPLOYEES**

- 1. DO EMPLOYEE INTERVIEWS**
- 2. ARE THERE ANY MINORITY OWNERS**
- 3. DOES THE STAFF HAVE EMPLOYMENT CONTRACTS WITH NON-PIRACY CLAUSES AND ARE THEY ENFORCEABLE (EXHIBIT 1)**
- 4. HOW ARE STAFF MEMBERS COMPENSATED**
- 5. DOES THE STAFF HAVE BENEFITS**
- 6. WILL THE STAFF REMAIN AFTER THE SALE**

- 7. ARE ANY PRODUCERS CONTROLLING NON-PROFITABLE BUSINESS**
  
- 8. HAS ANY PRODUCER BECOME STAGNET**

## **MISCELLANEOUS**

- 1. ARE THE AUTOMATION SYSTEMS COMPATIBLE**
- 2. IF THE CURRENT OWNER STAYS THERE MUST BE A DEFINITE DEPARTURE DATE**
- 3. DO NOT ASSUME ANY LIABILITIES OF SELLER**
- 4. DO NOT HAVE AN ATTORNEY INVOLVED UNTIL THE DEAL IS AGREED UPON**

# **SELLERS**

## **PRIOR TO PLACING THE AGENCY FOR SALE THE SELLER MUST:**

- 1. HAVE ALL PROSPECTIVE BUYERS SIGN A NON-DISCLOSURE, CONFIDENTIALITY AGREEMENT (EXHIBIT 2)**
- 2. BE PREPARED BY HAVING AVAILABLE ALL BANK STATEMENTS, INCOME TAX RETURNS, FINANCIAL STATEMENTS, AND COMPANY PRODUCTION STATEMENTS FOR THE PAST 5 YEARS**

3. DETERMINE WHAT YOUR SELLING PRICE WILL BE DO NOT OVERPRICE THE AGENCY
4. DETERMINE IF YOU WANT CASH SALE OR DOWN PAYMENT AND INSTALLMENTS (HOW LONG AND WHAT INTEREST)
5. MAKE CERTAIN THE PFTA IS IN TRUST
6. PREPARE A LIST OF EMPLOYEES, THEIR HISTORY WITH THE AGENCY, JOB DESCRIPTION, AND COMPENSATION

- 7. MAKE CERTAIN ALL EMPLOYEES HAVE SIGNED EMPLOYMENT AGREEMENTS THAT ARE ASSIGNABLE TO A BUYER**
- 8. DETERMINE IF YOU ARE WILLING TO STAY, IF SO IN WHAT CAPACITY, FOR HOW LONG & COMPENSATION**
- 9. HAVE CPA EXPLAIN ALL TAX CONSEQUENCES**
- 10. CHECK THE FINANCIAL CONDITION OF THE BUYER**
- 11. GET COLLATERAL ON BALANCE IF PURCHASED ON TIME**
- 12. BE FLEXIBLE ON NOS. 3 & 4 ONLY**

# MERGERS

“THERE IS ONLY ONE THING  
WORSE THAN A BAD MARRIAGE  
AND THAT IS A BAD PARTNERSHIP”

AUTHOR,  
A VERY WISE MAN

PLANNING, HONESTY, AND  
COMPATIBILITY, THE KEYS TO A  
SUCCESSFUL PARTNERSHIP

## **COMPATIBILITY**

- 1. OWNERS' PERSONALITY(S)**
- 2. OWNER'S GOALS & OBJECTIVES**
- 3. OWNERS' REPUTATION(S)**
- 4. WORK ETHICS**
- 5. SYSTEMS & METHODS OF DOING BUSINESS**
- 6. DO THE DIFFERENT BOOKS OF BUSINESS FIT**

## **PLANNING**

- 1. PRIVACY ISSUES**
- 2. WHAT IS THE PRIMARY OBJECTIVE OF THE MERGER**
- 3. WHO WILL BE BOSS**
- 4. WHAT WILL BE EACH OWNER'S RESPONSIBILITIES**
- 5. WHAT EMPLOYEES WILL BE ASKED TO STAY/LEAVE**
- 6. DO EMPLOYEES OF ALL PARTIES INVOLVED HAVE EMPLOYMENT CONTRACTS**
- 7. HOW WILL OWNERS BE COMPENSATED**
- 8. WHAT WILL OWNERS BE EXPENSED**

- 9. WHAT WILL EMPLOYEES BE EXPENSED**
- 10. HAVE ANY PARTIES HAD ANY E&O CLAIMS**
- 11. BUY SELL CONTRACTS INVOLVING ALL OWNERS (EXHIBIT 3)**
- 12. ESTABLISHED BASIS FOR FUTURE OWNERSHIP (BOTH FINANCIAL & EARNED)**
- 13. DECISION ON FUTURE “FAMILY MEMBER” EMPLOYEES**

## HONESTY

**ALL PARTIES MUST SHARE ALL  
FINANCIAL INFORMATION FOR  
PAST 5 YEARS**

**THE MOST COMMON REASON FOR  
FAILED MERGERS IS FAILURE TO  
DISCLOSE ALL INFORMATION IN  
A TOTALLY HONEST MANNER**

# **THE DEAL IS DONE**

- 1. HAVE A LETTER OF INTENT SIGNED BY ALL PARTIES INVOLVED (EXHIBIT 4)**
- 2. MOVE TO CLOSE DEAL QUICKLY**
- 3. DO NOT RELOCATE, ADD SPACE, OR BUILD UNTIL CONTRACTS ARE SIGNED AND MONEY HAS CHANGED HANDS**