

agency perpetuation: leading your agency into 2019



At Safeco, we believe in the enduring value of independent agents. We want to help agencies succeed—now and in the future. As many agency principals head toward retirement, it's more important than ever that agencies create a perpetuation plan to make sure their agencies can continue to grow and serve customers well after the principal leaves.

Safeco recently conducted its [Agent for the Future™ survey](#) to get input from independent agents about how they are adapting to current changes, what they think will be important in the future and what they are doing today to prepare for tomorrow. We received responses from 600 independent agents regarding current industry trends and how those trends are expected to shape insurance through the year 2020.

The survey revealed that agencies are increasingly hiring millennials, focusing on growth and investing in digital innovations. Agents recognize that the insurance industry is changing rapidly, and in order for independent agencies to remain competitive in the future, **things can't just be business as usual**. Training young talent, increasing revenue and meeting customers' demands for digital service all play large roles in ensuring a bright future for independent agencies.

what exactly is agency perpetuation?

Simply put, agency perpetuation is the ability of your business to continue into the future. On a personal level, perpetuation planning is how you answer the question, "What will happen to your insurance agency when you (the principal) no longer work there?"

This is a pressing issue for many agency principals. The Future One 2018 Agency Universe Study (AUS) found that the average age of principals who own 20 percent or more of their agencies is 54 years old—and **15 percent** of those principals are 66 or older.

But no matter the age of the principal, the reality is that all agencies will eventually be sold, merged, or handed off to a successor. Planning for perpetuation is a bit like planning for retirement—or like thinking through your exit strategy after launching a startup. The earlier you start planning for what will happen to your agency once you step out of it, the more prepared you and your staff will be when the time comes. Good perpetuation planning will also help you maximize the value of your agency.

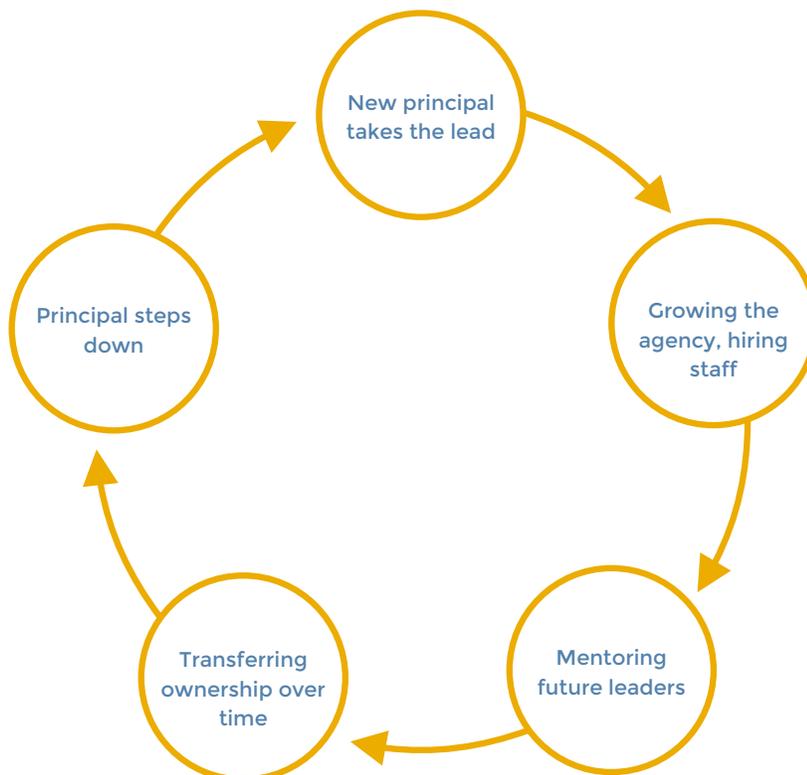
Even if you're not planning on leaving or retiring anytime soon, unforeseen circumstances can arise. In these cases, a perpetuation plan can act almost like an insurance plan—as a safety net to protect your agency in the event of your death, disability, or any other incident that may force you to step back from leading the agency.

There are two main methods of agency perpetuation: external and internal.

External: selling to an outside buyer



Internal: handing off or gradually selling to a family member or internal successor



Most agents recognize the importance of a perpetuation plan. According to the 2018 AUS, nearly **90 percent** of agencies have some perpetuation plan in place. And **57 percent** have a formal business plan, which usually includes some written goals for growth and retention.

The AUS reveals that **44 percent** of agents plan for their children or other family members to take over the agency, **32 percent** plan for other principals to buy out the principal's interest and **17 percent** plan to sell to an outside party or organization.

No matter what path you choose for your agency, perpetuation is better viewed as a process than an event. It's not just about what may happen in the future, it's about continually taking steps to increase your agency's value, identify potential successors or buyers and establish plans for continuity.

the art of agency culture

Agency culture is often overlooked when talking about perpetuation, but it's an important aspect of successful perpetuation. An agency's culture encompasses the underlying mission and values that shape why and how the agency does what it does. A healthy agency culture lays the foundation for a positive workplace environment for employees and consistently positive experiences for customers.

While an agency's culture is inevitably shaped by the founder and principals, it should be integrated into operations and regularly reinforced in order to be sustainable. Well-articulated core values and mission statements help your agency attract and keep employees who share your values. It gives employees a shared sense of belonging and ownership, serving as a sort of glue that will hold the agency together no matter who is in charge.

Fostering a healthy culture and hiring employees who align with the agency's core values can help you identify and mentor future leaders. A strong culture also gives a consistent feel to both internal and external operations. This helps your agency retain employees and clients through ownership transitions.

“Perpetuation necessitates the successful transition of legal ownership and the power to act on behalf of the enterprise. To be successful, the ongoing attributes of leadership, culture and knowledge will not be far behind.”

- Patrick Linnert in Insurance Journal

foundations for future success

Perpetuation planning isn't just about planning for a future event. The best practices for perpetuation will benefit your agency right now as well as laying the foundation for it to thrive in the future.

increase value through growth

Strategies for growth belong in conversations about perpetuation planning because growth adds to the agency's valuation. Whether you plan on selling your agency to an outside buyer or perpetuating internally, actively growing your agency is a central part of perpetuation planning.

In Safeco's 2018 Agency Growth survey, the fastest-growing agencies in the U.S. pointed to client referrals and cross-selling as their main methods of growth. However, Safeco's Agent for the Future survey also found that agents are planning to adopt some new strategies for growth. When asked about how they plan to grow in the next five years, **50 percent** said they plan to add new producers, **48 percent** plan to adopt new digital capabilities and **38 percent** plan to increase their investment in marketing.

how agencies plan to grow in the next 5 years



The Agent for the Future survey found that independent agents want to spend more time growing their business than retaining or servicing clients. Almost 75 percent of small agencies also say the roles of CSRs and producers are merging, with CSRs often writing new business and producers providing service to their customers.

These changes point to opportunities for agencies to cut costs and increase efficiency. Agencies should ensure that every staff member knows how to sell and provide service without having to pass the client around to different people within the agency. Outsourcing customer service to a carrier team such as Safeco Gold Service™ can also free up staff members to focus on sales and interactions that deepen client relationships and help your agency grow.

If you plan to perpetuate internally, adopting strategies for growth will help you attract talented staff and engage current employees. When staff members see that the agency is growing instead of just remaining static, they may be more invested in committing to the agency for the long haul—and more likely to be interested in stepping into leadership roles.

If you plan to sell your agency, growth is the no. 1 way to increase the value of your agency. Buyers want to invest in growing agencies. Paying attention to market trends and actively working to bring in new clients and increase revenue will help you attract potential buyers and get a higher price when it comes time to sell.

reduce operating costs through book consolidation

Gary Fischer, Senior Vice President, IA Channel Growth and Engagement at Liberty Mutual and Safeco Insurance, suggests that agents go after a mix of personal lines and small commercial business rather than just focusing on large accounts. This provides predictable and stable cash flow and revenue, which can make your agency more attractive to investors.

He also says that carrier consolidation can be a wise step toward perpetuation because it can make your agency more profitable.

“Consolidating to fewer, sophisticated personal lines carrier partners can help you increase base commissions and profit sharing, save on operating costs and reduce the number of processes, systems and products your agency employees need to understand,” he says. “With a focus on fewer carrier partners, you’ll be in a better position to maximize your compensation, which maximizes your agency value and attracts more buyers.”

deepen client relationships through marketing

Safeco’s Agent for the Future survey showed that as independent agents push for more growth, many of them see a need for increased marketing investment. Marketing helps drive growth. A Safeco survey of the 240 fastest growing independent agencies in the country found that all of those agencies were actively marketing themselves, resulting on average in **26.7 percent** policies in force growth year over year. More than half of those agencies had a dedicated marketer on staff.

Good marketing increases awareness of your agency’s brand, products, services and people. This helps fill the pipeline with qualified leads. It also boosts retention since clients feel more connected to the agency as a whole, making them less likely to jump ship during ownership transitions. Agencies who authentically communicate on a regular basis with their clients see a 1.5 point retention lift over a 12-month period. Having a healthy stream of new and recurring business increases the value of your agency.

Hiring a marketer will not only create growth, increase revenue and improve productivity, it will also help with perpetuation planning. While it may take years to develop an entrepreneurial leader that can take the agency forward, marketing your agency now will help fill your talent pipeline with great team members now and in the future.

Want to learn more about strategies for marketing? Read Safeco's ["ultimate guide to marketing like an agent for the future."](#)

manage your client base well to ensure continuity

A well-managed agency is far easier to perpetuate.

For example, imagine an agency that uses a paper filing system. The principal has a sudden medical issue that leaves her out of the office indefinitely. She keeps some of the client files in her home office, so the successor who steps in may lose track of those clients or have to spend time tracking down policy information and claims. If the medical issue persists and the principal decides to sell the agency, her book of business may not be worth as much since the buyer will have to spend extra time and money organizing files.

Now imagine a similar situation in an agency that uses a customer relationship management (CRM) or agency management system (AMS) software. The successor will be able to easily access all the client information in one place, see which policies are current and pending, and communicate with customers about the changes in ownership. If the principal decides to sell to a third party, the buyer will be able to quickly absorb the client files into their own AMS, making the transition smoother for everyone.

According to the Future One 2018 AUS, **80 percent** of agencies use agency management systems. And Safeco's Agent for the Future survey found that independent agencies are getting more comfortable with new technology and paperless transactions such as e-signatures.

Implementing modern technology such as AMS is also an important part of recruiting talented staff members to your agency. Your agency will only be able to continue into the future if you can attract and retain future agency leaders—and studies show that younger workers want modern technology in their offices. The 2016 Future Workforce Study by Dell found that more than **eight in 10** millennials said that the kind of technology an employer offers plays a role in their decision to take a job. In addition, **42 percent** said they are more likely to change employers if they can find better technology elsewhere.

adopt digital innovations

Along with assisting with recruitment, adopting modern technology can also help you attract and keep clients. In today's increasingly digital world, consumers expect sleek websites and frictionless online customer service.

Independent agents are well aware of the impact technology will have on the future of their agencies. In Safeco's Agent for the Future survey, **60 percent** of agents said the increasing consumer need for online and mobile capabilities will have a major effect on their agency in the next few years. **More than half** of agents now provide quotes online and use text messaging to communicate with clients. However, the survey found that many agents are still not entirely comfortable with offering online account management, and **8 percent** don't want to offer it at all.

Investing in technology is a key part of laying the foundation for your agency's continued future. Agencies that resist modern technology run the risk of losing clients to direct carriers who offer easier digital account management and service.

mentoring the new generation of agency leaders

More than half of the agencies surveyed for Agent for the Future had hired new producers, service and support staff in the last two years. And **58 percent** of those positions were filled by millennials.

According to [Pew Research Center](#), millennials are now the largest generation in the U.S. labor force. Millennial employees may not be next in line to take over your agency, but they're not far down the line, and effective perpetuation planning takes a long view.

Filling the pipeline with talented employees and potential successors is a major part of leading your agency into the future. To attract and retain millennials and Gen Z (the generation after millennials that is starting to enter the workforce), agencies may have to rethink traditional methods of operating and shift how they market themselves.

Research from Deloitte and Gallup highlights some of the things millennials consider top priorities when deciding where to work:

- Flexibility in when and where they work
- Opportunities for training and career growth
- Commitment to making a positive impact in society
- Diversity in leadership
- Modern technology

Many millennials also like the idea of owning a business or being their own boss. A survey from the [Economic Innovation Group](#) found that **62 percent** of millennials have considered starting their own business.

All of this is good news for independent insurance agencies looking to perpetuate. Insurance agencies are positioned well to provide many of the things millennials want in the workplace. Agencies may be able to get more buy-in from millennial employees if they establish training and mentoring programs and communicate early with potential successors about what a path to ownership might look like.

“Now more than ever, our industry faces pressure from new technology—but that also means opportunity for millennials and Generation Z ... Who better for a retiring agency owner to look to than the generations that only know a world of connectivity and mobile devices?”

- Ryan Smith, Smith & Sons Insurance Agency, Inc. quoted in IA magazine

top things to do in 2019 to perpetuate your agency

Agency perpetuation is an ongoing process that lays the foundation for your agency to succeed far into the future. The earlier you start perpetuation planning, the more control you'll have over the legacy you leave in your agency.

10 things you can do now to set your agency up for future success:



Identify your agency's core values and foster a healthy culture



Streamline agency management and start sharing knowledge with future successors



Create an emergency plan in case of an unplanned event



Invest in modern technology



Formalize strategies and goals for agency growth and track metrics to increase agency valuation



Hire employees that align with the agency's culture and values



Outsource customer service and consolidate personal lines to cut costs and increase efficiency



Create a timeline for transferring ownership



Market your agency and communicate well to build connections with clients



Establish strong employee training and mentoring programs

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