oak street funding

Acquire and Grow

Financing for insurance businesses

a complimentary whitepaper for insurance professionals

The benefits and the challenges of acquiring an insurance business

Acquisitions as a strategy

Growth is nearly always on the mind of driven insurance professionals. That makes perfect sense, because a growing insurance business usually means growing revenues, and that translates to increased commissions. Generally speaking, prudent acquisitions typically offer the fastest, most cost-effective way to grow income quickly. In addition, acquisitions often provide a strategic way for owners to take their businesses to the next level.

The time is right

Much of business success comes down to making the right decision at the right time. If you've considered purchasing another business, it's hard to imagine a better time to do that, for several reasons.

Strong Market: According to the new U.S. Financial Services Deals Insights Q2 2018 report from PwC[1] - the value of mergers and acquisitions in the insurance industry rose steeply for the first half of 2018. PwC reported 247 announced deals in the insurance sector with a total disclosed deal value of $28.6 billion. This compares with 302 deals valued at just $10.1 billion in the first half of 2017. Thus, deal value in the sector for the first half of 2018 nearly tripled that of the same period in 2017, with most deals involving insurance brokers.

Aging Business Owners: The Baby Boomer generation is well on the road to retirement, with the first Boomers already qualifying for Social Security benefits. According to a report from management consulting firm McKinsey & Co., the average age of an insurance professional in the Unites States is 59, thus one-fourth of the insurance industry's workforce is set to retire within the near future.[2] In addition, many Boomers aren't content to work until health issues stop them. They're retiring early to pursue hobbies or to take on roles that are more emotionally satisfying.

Your Team is Hungry: People like to be challenged and to succeed. An acquisition can take employees out of the daily routine and challenge them to do more. That can be especially true if you link incentives to the acquisition.

Finding the right opportunity

If you decide to acquire an insurance business, finding the right opportunity that fits your needs is critical to achieving expected results. Before your search begins, give some thought to what would be an ideal acquisition. What size of a business do you want, both in terms of revenue and staffing? Does it need to fit within a certain geographic area? Would you want the seller to stay on your payroll in a consultative role? Do you prefer a profitable business that's generating excellent revenue, or are you willing to pay less for a struggling operation that needs new investment (or enthusiasm)?

Seek Expertise: Successful businesspeople usually become that way because they know how to tap into knowledge and advice from a variety of experts. That's especially important when it comes to acquisitions. Build a team of experts you trust, including your accountant and attorney, and keep them involved throughout the entire process. They will provide additional viewpoints and identify issues you may not have considered on your own.

Some buyers will also work with an experienced investment banker

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or business broker who specializes in the insurance industry. Be sure to do your homework before retaining a professional or signing a contract for services, and consider seeking referrals from colleagues who have used outside advisors in their own acquisitions.

Perform due diligence

If there's a single secret to a successful acquisition, it's exhaustive due diligence. While many buyers find the process long and tedious, the more you know about the business you plan to acquire, the better you'll be able to integrate it into your business, and the closer the purchase price will reflect the valuation. Failing to perform adequate due diligence is a key reason many acquisitions go sour. You don't want to discover significant financial problems or legal liabilities after the deal is done.

To protect your financial interests and professional reputation, answer these questions:

How Do They Do Business? Few businesses will volunteer every bit of information you need, especially the negative aspects. Check business references and perform online research to turn up any irregularities.

Why Are They Selling? What does the seller plan to do after the acquisition closes? There are many legitimate reasons for putting a business on the market, such as retirement or succession planning, but some sellers may be trying to duck away from financial or legal problems. Make sure their problems don't become yours.

How Are The Numbers? Don't settle for pro forma financials. Have your accountant compare actual tax returns, compute ratios and margins, and examine the level of non-operating expenses. Watch for nonrecurring items that might artificially inflate income levels.

Are You Compatible? Don't neglect the intangible aspects of the transaction. Do you do business in ways that are similar to the current owner? Do you have a similar client service philosophy? Will the employees prosper with your management style, or will you butt heads? Since the answers are seldom quantifiable, you'll have to rely on your gut instincts.

Find the value

Auto dealers love it when prospective customers fall in love with a particular car, because they know they'll be able to get a higher price for it. The same can hold true for the price of a business if you let your emotions drive the process. The seller is excited at the prospect of a large influx of cash, while you're excited about the opportunity to grow.

Unfortunately, buyers often underestimate the cost of purchasing and the cost of doing business in a now-larger company. They don't plan for contingencies or the unexpected. They also may underestimate their ability to reduce costs. An accurate valuation is critical.

The critical transition

The work doesn't end once the papers have been signed. The transition between owners is full of make-or-break moments involving clients and employees. Even though your business and the business you've purchased are both established, in effect you're creating a whole new set of first impressions.

Employees want to know their jobs are secure and they're not facing significant changes in the work environment. Frequent, relevant communication is key to staying in front of the office gossip. The more time you devote to getting to know them and sharing your plans, the less uncertainty they'll face. That's important, because their moods and statements will have a significant effect upon what the customers think of the new owner. Overall, clients want to be assured that their relationship with your business will not suffer any disruptions, and that the acquisition won't create any hassles for them. Focus on getting to know existing clients and reassuring them that they won't notice any bumps along the way.

If you're combining office staffs, give everyone a chance to get to know each other outside of the work environment. Simple, informal events such as cookouts and potluck dinners can provide the opportunity for comfortable conversations. If you'll have multiple locations, give employees the time to visit the other offices and get to know each other. That way, the best elements of both businesses' cultures will combine.

Funding your strategy

If you're considering an acquisition and need additional funds, take a realistic look at your company's assets and available cash. Figure out how much additional capital you need to make the acquisition without compromising your financial security.

Most business owners look to local banks as their first potential funding sources, but many banks are hesitant to lend money to insurance businesses. Banks normally base their lending on physical collateral such as real estate and inventory, and they expect borrowers to meet extremely high credit standards.

Other borrowing strategies carry risks that are unacceptable to conservative business owners. For example, borrowing with credit cards carries much higher interest rates and can create negative impacts on personal credit. Working with venture capitalists and private equity firms often involves a loss of ownership.

A practical alternative is a lender that understands and focuses on the insurance industry. With a loan from Oak Street Funding, you don't have to risk losing control of the business you built or your client relationships. You can borrow against the future cash flows from your commission. It's a solution thousands of other insurance business owners have used to finance acquisitions and other strategies for growth.

Oak Street can customize a loan for your needs and situation, from $25,000 to $30 million. The goal is to help you finance growth with minimal out-of-pocket cost by leveraging the power of your insurance business's cash flow.

Learn more or request a free quote at www.oakstreetfunding.com.

Finding the right opportunity that fits your needs is critical.

The growth opportunities available to insurance businesses through smart, sound and strategic acquisitions are limitless. Access to affordable capital is the key to taking advantage of those opportunities, and Oak Street Funding has money to lend.

About Oak Street Funding

Since 2003, insurance professionals have benefited from hundreds of millions of dollars in loans from Oak Street Funding, a direct, non-SBA lender that understands their business model and appreciates their most valuable assets – even though they are intangible. Our strong financing expertise, innovative technology, proprietary actuarial models and experienced niche-lending team align to develop new products to meet the growing demand for insurance business financing. Visit www.oakstreetfunding.com to learn more.

[1]PwC Deals - US Financial Services Deals Insights Q2 2018 (https://www.pwc.com/us/en/industries/financial-services/library/pdf/pwc-fs-industry-mergers-acquisitions-q2-2018.pdf)
[2]McKinsey & Co. via Insurance Business America (https://www.insurancebusinessmag.com/us/news/marine/one-in-four-insurance-agents-will-be-gone-by-2018-17943.aspx)