

A WELL-CRAFTED PERPETUATION PLAN

A solid perpetuation plan is vitally important and cannot be one-sided. The plan should allow the seller to achieve retirement goals and enable the successor to achieve their own business goals. The plan:

- Should be created well in advance of the actual event
- Is not a transaction, but a process
- Passes ownership interest efficiently
- Creates value for both seller and buyer
- Is Sustainable!

YOUR PERPETUATION PLAN SHOULD INCLUDE:

- Advice from industry-specific consultants
- Agency valuation
- Description of how control of agency will be passed on
- Financing and loan structure
- How taxes will be minimized for both the buyer and the seller

All of the above should be reviewed on a regular basis.

FINDING THE RIGHT LENDER

When shopping for a lender for your agency, you should look for an institution with insurance industry knowledge. The more a lending institution's decision-makers recognize the unique aspects of the agency business and their intangible assets, the more likely they will be able to create a financing solution for your perpetuation transaction.

A knowledgeable lender will recognize that no two agencies are alike, and therefore, the financing structure should be just as unique.

A good lender is like a good insurance agent. Each looks at the whole picture of a situation, considers the client's objectives and prepares a professional recommendation based on experience and expertise.

WHAT A LENDER WILL LOOK AT

A lender that understands the insurance agency will ask about the following to make an informed decision.

- A well crafted perpetuation plan that includes all the information previously mentioned
- Strong business financials and personal financials of the buyer
- A business analysis and projections
- Adequate collateral — (A bank knowledgeable about insurance agencies will recognize your intangible assets.)
- A third party valuation
- Your mix of business, which is just as important as your volume of business
- Your carrier relationships
- The efficiency of your operations - minimize expenses and maximize revenues

ACCESSING CAPITAL

As no two agencies are alike, the perpetuation financing structures should be just as unique.

Capital for the perpetuation deal can come from different sources including the seller, banks, personal resources of the buyer, other institutional sources or some combination of these.

The structure of the deal should benefit the individual needs of both parties and can include the following:

- Gifting stock
- Deferred Compensation Plan
- Trusts
- Recapitalizations
- Personal Buy-out
- Stock Redemption
- Leveraged ESOP
- Any combination of the above

CONCEPTS TO REMEMBER

- A financially sound agency has more options, is more valuable, and has an easier time obtaining financing.
- Valuable agencies have a better shot to perpetuate.
- Building value is a continual process. See the drivers of value.
- Agencies are all unique and each merger and acquisition requires an independent approach.
- Be willing to seek the help of experts.
- Hang out with good advisors. CPA, Attorney, Banker, Agency Consultant.
- Arrange financing before you need it. A current business plan is to get a line of credit to purchase producers and small books of business.



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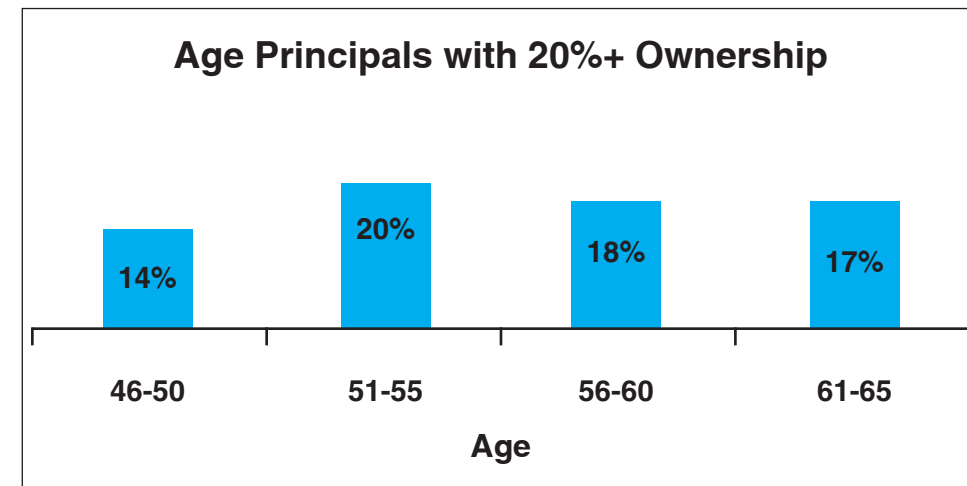
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WHY YOU NEED THIS TOOLKIT

Your agency is your legacy and an investment in your future. Now is the time to start thinking about how you will prepare to harvest that wealth and keep your legacy alive. By doing so you are also helping to keep the independent insurance agency system thriving.

It's never too early to begin preparing a perpetuation plan. Consider the age of principals with 20%+ ownership in their agency. Where do you fit in? Agency principals as young as 40 should be thinking about their succession.



HOW TO PREPARE YOUR AGENCY FOR PERPETUATION

Preparation for a perpetuation starts years in advance of the actual event. It is an ongoing process that begins with building value and remaining profitable and ends with choosing the right successor within a sound perpetuation plan.

DRIVERS OF VALUE

An insurance agency must build value over time if at some point the owner is going to look to harvest that value. The owner needs to nurture the business and run the operation in a manner that creates value. It is important to understand what drives value and how you apply these to your agency. Start now by taking a look at your:

- Brand/Reputation
- Quality of Staff
- Continual Investments in Producers
- Specializations/Niche Markets
- Quality of Leadership
- Compensation Structure for Producers & Staff
- Current Technology
- Restrictive Covenants