agency finances

Don’t Allow Debt Aversion to Stunt Business Growth

By Carissa Newton

With growing optimism and faith in a recovering economy, agents are dusting off the plans they put on hold a few years ago and are now looking to transition out of simply maintaining their agencies to growing and thriving again. Many agency owners are ready to grow by purchasing technology to implement new sales and marketing processes, acquiring another agency or book of business, or taking on additional licensed sales producers.

As agency owners contemplate acquisitions and organic growth, they face the challenge of resources. Although there are many low-cost initiatives agency owners can use to grow, most plans require more capital than these agents have on hand.

Consider the cost of hiring just one extra employee. According to the National Alliance Research Academy’s 2010-2011 Insurance Agency Growth and Performance Standards, the average compensation for a producer in a personal lines agency is $52,629 and $33,834 for a support staff employee. And the combined expenses of technology, software and consulting to manage advertising and marketing campaigns can run anywhere between $25,000 and $50,000 – and that’s for a conservative plan.

Successful companies have demonstrated the necessity to make significant investments for growth. They see positive results of reinvested capital while stagnant businesses struggle to manage costs as revenues decline. Despite this reality, many owners scale back or completely abandon their strategies because they lack the necessary capital. In effect, this failure to invest decreases competition, allowing those who choose to invest in their businesses to write more business.

The credit crunch felt by business owners of every industry in recent years has given way to more available and accessible funding. But some agents are reluctant to take on a business or commercial loan. Instead, they turn to credit cards and personal lines of credit which can negatively impact their individual financial health.

Why are agency owners averse to commercial debt?

Assets. Many believe that financial institutions provide loans based on balance sheet financials and are not likely to lend against the agency’s biggest asset — future cash flow, which is embedded in the agency’s in-force book of business.

Angst. Agency owners believe these institutions prefer hard assets like real estate or inventory as collateral, and they’re not comfortable with that scenario.

Skepticism. A common presumption among agency owners is that actually obtaining a loan is so unlikely; it's not even worth going through the application process.

FICO. The economic recession and soft insurance market hit many agencies hard over the last few years. As a result, finances have suffered and agency owners believe a less-than-stellar credit score will completely bar them from getting a loan.

Dread. The application process for a business loan is an arduous task if agencies aren't disciplined about maintaining current and accurate documents – for management and finance purposes. They would rather avoid it.

Money. Owners believe a sizeable outlay of cash is initially required for a loan, and they simply don't have it.

Is their aversion justified?

The fear or avoidance of loans by agency owners may be somewhat unwarranted. For example, some lenders provide loans to borrowers who have a decent or respectable FICO score, even though they may not fall within the top tier of scores or they weren't fortunate enough to avoid some negative history. Lenders will also use an agency owner's future commission stream as collateral even though it's an intangible asset. What's more, lenders can work with borrowers to meet their needs, like providing an interest-only loan with smaller first-year payments to an agency owner who may not see the results of an additional producer for several months or a year.

It is true; the process for obtaining a business loan can be a long one, and sometimes complicated. But it doesn't have to be. First, some lenders really understand the insurance agency business, how to value commissions and what the unique needs of the agency owner are. This simplifies the process and makes it less painful for borrowers. Second, the process can be improved when owners learn the requirements ahead of time and take steps to prepare the documentation in advance. In fact, some loans can fund within three to four weeks if proper documentation is provided in a timely way.

There are no guarantees for securing a business loan from a financial institution, but trepidations can be overcome. The possibilities in the insurance agency market are endless. While many successful insurance agencies are thriving despite only recent signs of economic and industry improvement, some haven't been able to find resources to grow. Agency owners should know there are viable funding options available that will allow them to meet their goals. ***Ef***

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