

Broker financing

How to access capital to invest for the future



By Steve O'Farrell

VP Corporate Development, RSA Canada

Insurance brokerages are like any business, run by owners who have dreams of a sustainable, successful future. They want to advance their shareholder perpetuation plans, and often wish to grow the business through a merger, acquisition or other company investments.

With the opportunity to grow comes the challenge of securing the right financing and knowing how best to invest

new capital. Having the right financing partner to support growth initiatives is critical to the long-term success of any broker.

Brokerages can often access competitive financing directly through their insurance partners. Insurance companies are motivated to support brokers and help them succeed, as they want the broker sector to thrive and remain sustainable. Brokers also benefit from an experienced financier who knows the insurance industry in-depth and is often familiar with their management team.

The amount of financing that a broker is looking for may not look favourable to a bank, typically because banks have varying perspectives on lending a significant amount of capital against a custom-

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Broker financing checklist

If interested in broker financing, a broker should contact an insurance company's regional business development personnel to start the process. The insurance company is likely to expect the broker to present the following items:

- Shareholder information including ownership structure
- Business plan, if available
- Financial statements
- Budget or forecast including the impact of a possible acquisition
- Volume reports to understand the brokerage mix of business
- Details of existing loans and security against the brokerage assets
- Information about non-solicit agreements of key shareholders and key personnel



Broker financing

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er list. For a broker, their customer list is their most valuable asset. This is where the value of a brokerage lies, as opposed to bricks and mortar and other tangible assets, which is how a bank traditionally determines business valuations in other industries.

An insurance company recognizes that a customer list provides a stable source

Top 5 things for brokers to consider

- 1 Broker financing offers competitive terms and conditions.
- 2 Insurance companies can often provide some advisory services to support financing initiatives.
- 3 Eligibility considers the strength of the management team, ability to service debt, and debt leveraging.
- 4 Brokers should consider the potential risks such as first right of refusal and maintaining their independence.
- 5 Brokers will be expected to share company details such as shareholder information, business plans and forecasts.

of revenue, and understands the ability of a brokerage to retain its customers.

Another significant benefit is that, by being familiar with the management team to whom they are lending and how a particular brokerage runs its business, insurance companies can be more comfortable lending a higher amount of capital. It may also lead to a lower interest rate and flexible loan terms on areas such as repayment or amortization periods. It could also lead to flexibility when agreeing on which security will be taken in the event of a default on the loan.

In addition, insurance companies typically have corporate finance staff that can provide some advisory services for brokers who are working on either an acquisition or shareholder perpetuation. Shareholder perpetuation may include offering a key employee the opportunity to buy into ownership of the company. Proper guidance is important for brokers to make the most of new capital and ensure they invest the money effectively.

Eligibility for broker financing

Brokers who wish to explore broker financing need to be aware of some of the factors that insurance companies consider to determine if a broker is eligible for financing:

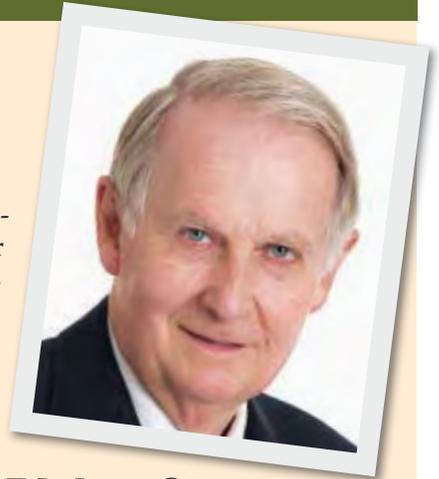
Strength of the management team:

An insurance company will review

You are invited to attend the gala event of B.C.'s insurance social calendar

An evening with Tom Meier

British Columbia's insurance community will be honouring Tom Meier – well-respected broker, business innovator, sought-after industry adviser and pillar of his community – at the 24th annual Salute insurance banquet this October.



And meet our Rising Star Jacob Singh BCom CIP



A Kiwi by birth, Jacob came to Canada as a toddler and, aside from four high school years in Calgary, grew up as an East Van boy. In 1997, while pursuing his BCom degree at UBC, he got a summer job at Reliance Insurance, and three years later was a commercial lines underwriting trainee at Dominion of Canada. From 2003 he was in marketing at AXA Pacific, now Intact, where in 2011 he became regional business development manager and is currently Branch Director. Jacob has played insurance league softball, curls in the Blue Goose curling league, is Co-chair of the Gary Dorman Memorial Charity Golf

Tournament and WICC BC, and is involved with Intact's Diversity Council and United Way committee. A rhythm guitar player with industry band The Moral Hazards, winner of the 2015 IIBC Battle of the Bands, Jacob is proud of the many relationships he has at all levels in the insurance industry.

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Black tie preferred, or dark suit. Spouses & guests are invited.

Thursday, October 29 Pan Pacific, Vancouver

An all-industry event representing general insurance companies, brokers and adjusters in British Columbia.
Lorraine Bullock, Chair.

Salute alumni:

Kevin McIntyre ('14), Chuck Byrne ('13), Barry Amies ('12), Brian Wills ('11), Brent Atkinson ('10), Mark Woodall ('09), Rick Parent ('08), Jim Ball ('07), Patti Kernaghan ('06), Conrad Speirs ('05), Vince Pritchard ('04), John Toomer ('03), Terri Johnson ('02), Ron Defieux ('01), Eric Laity ('00), Jake Brouwer ('99), Dave Clarke ('98), Mike Porter ('97), Herb Osen ('96), Bob Vickerstaff ('95), Jack Hamilton ('94), Ron Newcomb ('93), John Glavin ('92)

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the management team's experience and evaluate their past success. If the brokerage is looking for acquisition financing, its track record in past acquisitions is an important indicator of its ability to manage this process in the future.

Ability to service debt: An insurance company will evaluate whether it expects the brokerage to be able to manage interest and debt principal payments through sufficient cash flow and profitability.

Debt leveraging: The brokerage's capacity to take on debt relative to the size of the brokerage and their existing debt burden will be taken into consideration when determining if and how much to finance.

Risks to consider

As is the case with any type of financing, there are some risks that brokers must be aware of before entering into a financing agreement with an insurance company.

Some insurance companies expect a first right of refusal as a part of the financing terms and conditions. This could pose a problem for broker principals if they want to sell their brokerage because it may frustrate other potential buyers during a sale process. Typically, it is in a broker's best interest to avoid a first right of refusal for their financing.

Additionally, brokers understand the importance of maintaining their independence. Brokers intermediate on behalf of their customers and hold the interests of their customers paramount,

so brokers can potentially have concerns that they won't be able to maintain their independence if they get financing from an insurance company. In certain provinces, local regulation may require brokerages to disclose to customers the fact they have received financing from an insurer.

Another consideration for brokers is that they will be expected to disclose a level of confidential information to the insurance company, which is necessary to determine their eligibility for financing. Brokers must be comfortable with this process, which may feel less intrusive at a bank because of its separation from the insurance industry.

Working with a trusted insurance partner who has the best interest of the broker sector in mind can ease concerns about the risks and sensitivities of broker financing. Here at RSA, we take great pride in our ability to help our broker partners grow, typically through acquisition, and then watch their success. We've done it many times, and we know it works.

We encourage brokers to consider this financing route at any stage of their business growth. Not only does it offer competitive financing terms, but brokers will be working with a partner who is motivated to support their success. #

Steve O'Farrell is vice-president of corporate development at RSA Canada. He's been with RSA for 23 years and is responsible for mergers and acquisitions, corporate finance and corporate development.



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