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How an Industry-Focused Bank Can Help with Your Next Agency Acquisition

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Agents seeking capital for business needs often view banks through a purely transactional lens: What terms are they offering for a loan? However, this one-dimensional thinking can be shortsighted. It overlooks the value that a bank with deep industry experience can deliver. Just as insurance agencies provide tailored advice to their clients, an industry-focused bank brings specialized knowledge that can be a critical asset during an acquisition.

A good example is when an agency pursues a targeted acquisition, such as purchasing a book of business where they already have a strong presence — say, a specific line of commercial accounts. This affords the bank the perspective to apprise buyers of the nuances that would not be apparent to broader lenders.

Sometimes the best deals are the ones you end up not doing — or restructuring after more due diligence. We pride ourselves on being consultative and assisting agencies in getting deals closed. However, there have been times when we've alerted the buying agency to potential red flags. We call this "informed due diligence."

Red Flags for a Buying Agency

1. **Carrier Appointments:** Will the buyer be able to maintain the incumbent carrier relationships that represent significant premium volumes?

2. **Renewal Support:** Will the seller assist with renewals for larger accounts? Is there an incentive built into the purchase agreement to encourage this?

3. **Revenue Concentration:** Are one or two major accounts responsible for 20% to 30% (or more) of the total book?

4. **Key Talent Dependency:** Is key staff from the selling agency critical to retaining major accounts? How does the agreement protect the buyer if these employees leave?

5. **Cultural Fit:** If the transaction includes staff, is there a good cultural alignment between the two agencies?

For issues like renewal support, revenue concentration and key staff retention, structuring the deal with a mix of bank and seller financing can help protect the buyer's interests. Seller financing, subordinated to the bank's loan, encourages the seller to stay engaged during the transition to help maintain client relationships.

In some cases, an unforeseen event may force a selling agency to close a sale quickly. A pragmatic buyer may want to have a pre-approved line of credit ready to move fast. This approach is especially helpful in smaller book acquisitions. An experienced, industry-focused bank can advise on these lending options and ensure a smoother transaction.

Buying Cash Flow

In a book purchase, you're buying cash flow. Understanding how agencies operate — and assisting in that analysis — is critical. We review carrier reports alongside agency management system reports to reconcile cash flows. When

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smaller agencies don't have management systems, more emphasis is placed on carrier reports. Our consultative approach validates that projected cash flow is realistic.

Beyond immediate cash flow gains, combining a purchased book with an existing portfolio can help the buying agency reach higher commission tiers, qualify for better profit sharing or bring on key personnel. In some cases, buying a book is less about the accounts themselves and more about gaining expertise — particularly in specialized commercial lines where service, claims handling and audit capabilities matter.

A lender without industry knowledge may overlook these dynamics. An industry-focused bank, on the other hand, understands how these factors impact the success of an acquisition and can structure financing to support long-term success.

Just as clients trust their insurance agency's expertise, agency owners should recognize the advantage of partnering with a bank that knows the industry. Don't underestimate the value of tapping into their M&A experience. ■

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