vertical IQ

Insurance Agencies & Brokerages

NAICS: 524210
SIC: 6411

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Coronavirus Update

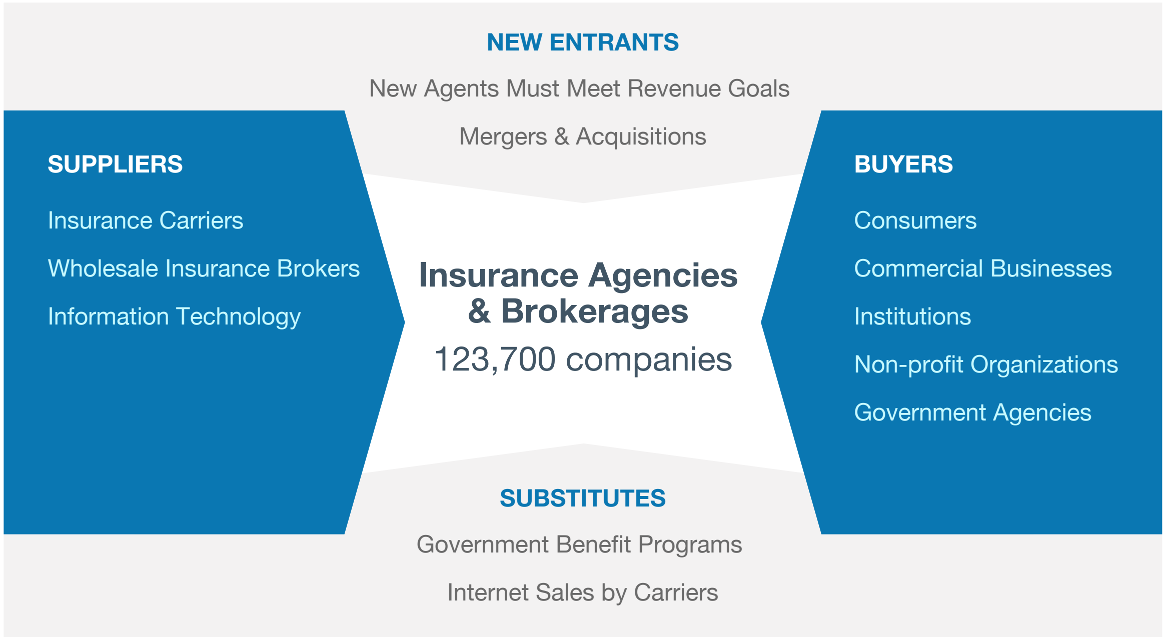
Jan 21, 2022 -- Delta Drove Global Spike in 2021 Life Insurance Claims

- As coronavirus-related losses piled up, small business owners who thought they would be covered by business disruption insurance have mostly discovered otherwise. A few years after the SARS outbreak, some insurers inserted clauses excluding coverage for "loss due to virus or bacteria," according to the Philadelphia Inquirer. Several states – including New York, Oregon, Pennsylvania, Rhode Island, and Washington – have introduced legislation to prevent insurers from denying business interruption claims resulting from COVID-19-related losses. However, none of the proposed state-level legislation passed, according to Moody's Investor Service.
- As of December 20, 2021, more than 2,100 COVID-19-related business interruption insurance lawsuits have been filed in the US, according to a litigation tracker maintained by the University of Pennsylvania's Carey Law School. In federal courts, insurers have secured motions to dismiss more than 95% of COVID-19-related business interruption lawsuits, according to a litigation tracker maintained by the University of Pennsylvania's Carey Law School. More than 75% of cases in state courts have been dismissed. Many of the dismissed cases involved policies with virus-specific exclusions. However, a fresh wave of business interruption suits involving larger companies could signal a shift. Large firms often have tailored policies that don't include the virus-exclusion clauses that are typically sold to smaller businesses, according to The Wall Street Journal. The law firms representing large companies have extensive experience in insurance coverage lawsuits which could signal long and expensive legal battles.
- Additional guidance regarding COVID-19 issued in early April by the Centers for Disease Control and Prevention (CDC) may undermine business interruption claim arguments that assert physical damages due to the coronavirus clinging to surfaces. The CDC guidance suggests the virus primarily spreads through the air. The agency said, "It is possible for people to be infected through contact with contaminated surfaces or objects (fomites), but the risk is generally considered to be low." However, some attorneys have filed suits that allege airborne viral contamination does cause physical damages. Such arguments, including in cases involving mold, have been successful for plaintiffs in the past.
- Early in the pandemic, some auto insurers offered customers rebates and discounts as the number of miles driven in the US – and therefore the number of accident claims – declined. However, as driving activity declined, the severity of accidents increased as drivers drove more recklessly, according to Insurify. The auto accident fatality rate in the spring of 2021 was 26% higher than during the same period in 2019. As driving activity continues to increase and inflation rises throughout the US economy, average car insurance rates are expected to increase 5% in 2022, according to Insurify.
- Even before the pandemic, in-person meetings between insurance agents and clients were on the decline. The pandemic hastened the use of web-based meeting tools as agents worked from home. As insurance companies move to reduce fixed costs, some firms are rethinking their real estate footprints. Nationwide has said it will close some of its offices as its shift to more remote work increased efficiency. In early 2022, State Farm announced it planned to fill more than 3,000 full- and part-time jobs and that many of the positions would offer hybrid work arrangements. A State Farm spokesperson said the company had no plans to transition back to full-time in-office work for most employees.
- Increased prices for cars and housing are affecting property and casualty insurance firms in the form of higher loss costs, according to the American Property Casualty Insurance Association. As the economy and consumer spending improved, supply chains have often not been able to keep up with surging demand. Some employers that curtailed factory activity earlier in the pandemic have not been able to find enough workers to ramp production back up. The resulting imbalance in supply and demand triggered inflation. US consumer prices rose on a year-over-year basis by 7% in December, which was the fastest pace since 1982, according to The Wall Street Journal. New car and truck prices were up 11.8% in December compared to the same month a year earlier.
- As the pandemic has worn on, Americans are buying more life insurance. In the first three quarters of 2021, total life insurance new annualized premiums increased 18% in 2021 over the same period in 2020, according to the Life Insurance Marketing and Research Association (LIMRA). The 2021 spike in premiums was the largest nine-month rise in 25 years. Nearly two-thirds of carriers reported increases in life insurance premiums, including nine of the top 10 companies. Global life insurance claims due to COVID-19 reached $5.5 billion in the first three quarters of 2021, compared to $3.5 billion for all of 2020, according to insurance broker Howden. While the industry had expected payouts to decline in 2021 due to vaccine rollouts, the emergence of the Delta variant, which is more transmissible than earlier variants and causes more hospitalizations, likely contributed to more life

insurance claims. The rise in claims was most pronounced in the US, India, South Africa due to COVID-19 fatalities among younger, unvaccinated groups. Claims activity in 2020 was more subdued, primarily because most fatalities were among the elderly who do not typically take out life insurance policies.

- US driving activity is rising but is not back to pre-pandemic levels. US commuters lost about 36 hours to traffic congestion in 2021, 10 more than they lost in 2020, but about 63 fewer hours than they lost in 2019, according to a December report by transportation analytics from Inrix. Auto insurers Progressive and GEICO reported double-digit increases in claims frequency in the first six months of 2021 compared to 2020. Increased severity of accidents and vehicle price inflation has increased the number of total losses, hurting insurance firm margins.
- The significant spike in mergers and acquisitions (M&A) activity during the pandemic led to a near doubling of M&A insurance rates, according to Insurance Journal. Insurance policies for M&A typically protect buyers against seller misrepresentation of performance targets or order books. Sellers tend to buy M&A policies to cover possible problems with deal exits. The value of Global M&A activity was $1.07 trillion in the third quarter of 2021 compared to the $770 billion in deals in Q3 2020, according to S&P Global Market Intelligence. The rising volume of deals has encouraged M&A insurers to raise rates. Some brokers suggest dealmakers' limited ability to perform due diligence during the pandemic also pushed M&A insurance claims higher.

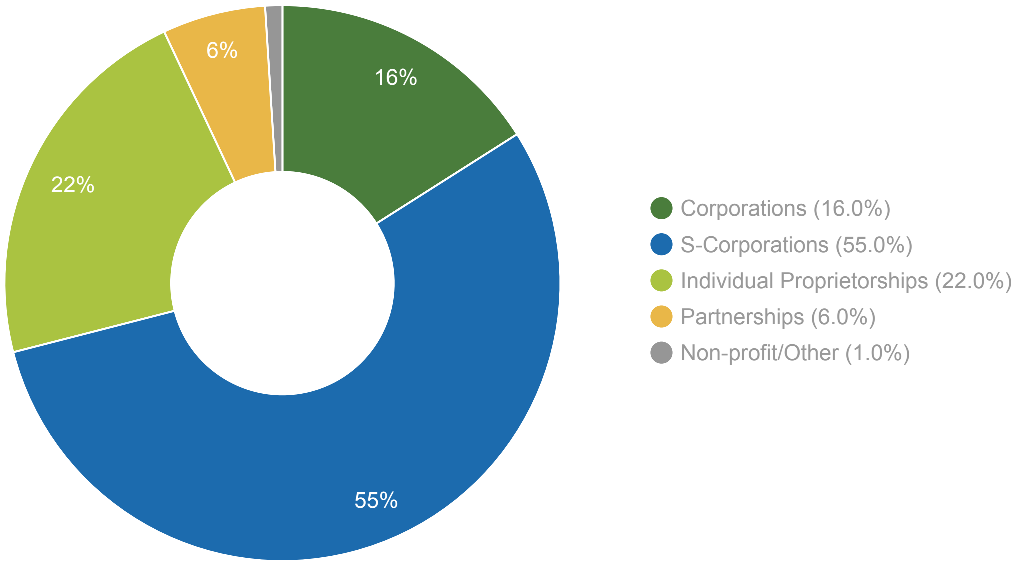
Industry Structure



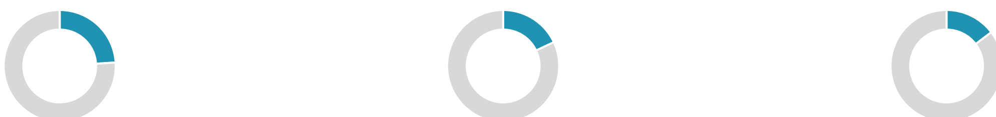
A typical insurance agency or brokerage operates out of a single location, employs about 7 workers, and generates $1.2 million annually.

- The insurance agency and brokerage industry includes 123,700 companies that employ about 853,400 workers and generate about $153 billion annually.
- For property/casualty insurance, "direct writers" (captive agents, direct sales via Internet, and affinity groups) account for 52% of sales and "agency writers" (independent agents and brokers) account for 48%, according to A.M. Best.
- Direct writers account for about 70% of personal P/C insurance sales, while agency writers account for 71% of commercial P/C insurance sales.
- Independent agents account for 49% of new life insurance sales, captive agents account for 38%, direct marketers for 7%, and others (such as stockbrokers) for the remaining 6%.

Industry Demographics



Source: US Census Bureau



Female Owned

24.0%

Minority Owned

18.0%

Veteran Owned

14.7%

Source: Census Bureau

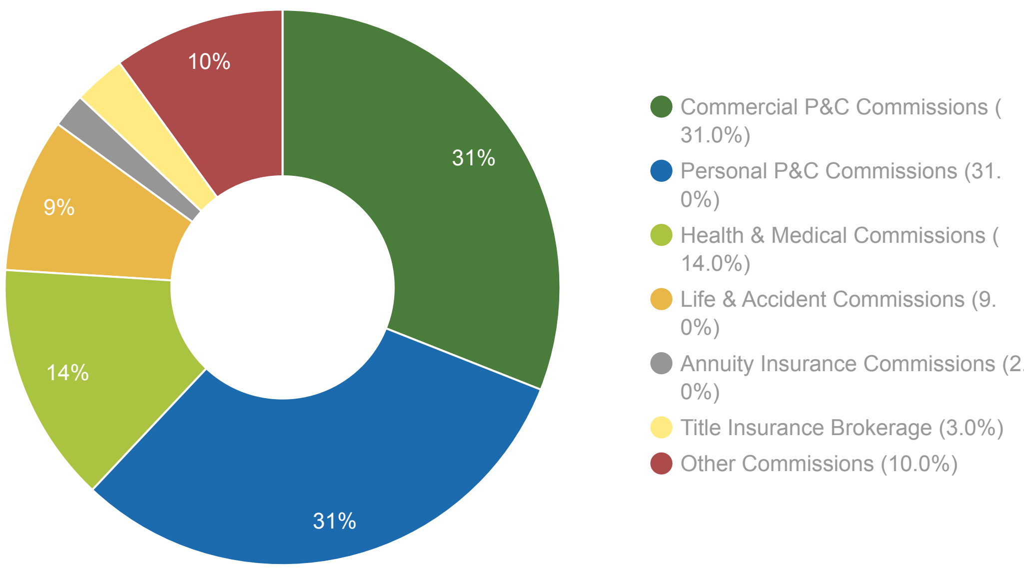
How Firms Operate

Products and Operations

Agencies and brokerages act as the “sales arm” of the insurance industry. Insurance agencies represent insurance carriers and sell policies to customers looking to minimize risks. “Captive” agents are affiliated with a single carrier. Independent agents may represent a variety of carriers. Brokers represent customers, and work with multiple carriers to determine the policy that best fits customer needs.

- The primary source of revenue is commissions. Companies earn commissions from selling different types of insurance, including property and casualty (commercial and personal); health and medical; life and accident; and annuities.
- Other sources of revenue include consulting projects, financial planning and investment management, and claims adjustments.
- Companies may specialize in a particular industry or offer a broad range of product lines.
- Specialty insurance includes travel, car rental, flight, computer, or pet insurance.

Insurance Agencies & Brokerages Revenue



Source: US Census Bureau

Property and casualty insurance provides protection from losses resulting from property damage, including car accidents, fire, theft, and extreme weather. Property and casualty insurance also protects businesses from claims associated with product liability, medical malpractice, and workman’s compensations.

Health and medical insurance, which includes dental and disability policies, helps cover the cost of medical care or loss of income due to illness or injury. Life insurance provides payments to beneficiaries when a policy holder dies. Annuities provide a series of payments, typically after retirement. Surplus lines (also known as excess lines) insure risks that traditional carriers decline to cover or cover at an extremely high price.

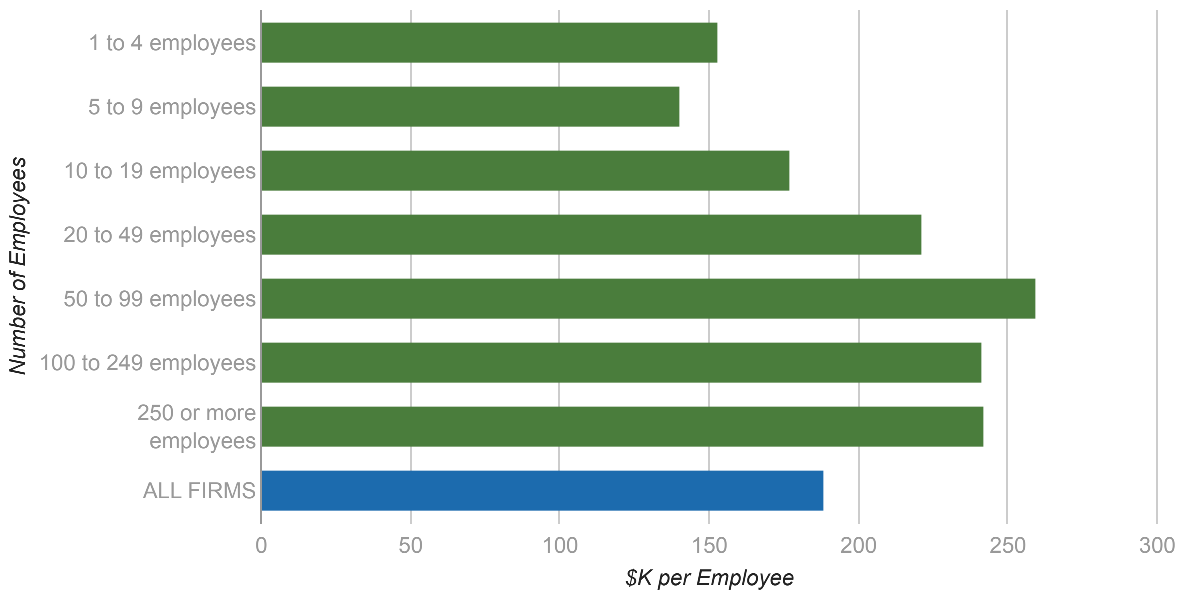
Captive agencies often act as brokers for surplus lines not covered by their carrier. Examples of specialty policies include insurance for mobile homes, classic cars, and multiple rental properties. These brokered products will be billed by the agency, while the carrier typically direct bills for their own policies.

Agents and brokers are primarily responsible for selling policies, although some may help clients settle claims. Brokers that represent multiple carriers work with clients to determine which carrier offers the best fit, considering both coverage and cost. Agents and brokers collect and forward client information to carriers. Carriers price policies based on a risk assessment. Maintaining a solid client base is critical to long-term success. Referrals help companies grow their client base and sales. Companies may also purchase mailing lists or Internet leads to generate business. Most companies use computerized agency management systems to manage operations and maintain communication with carriers.

Agents and brokers must be state licensed. Agents that sell securities must have additional certification through the National Association of Securities Dealers (NASD). Companies often work on commission-only plans.

The territory that an agency covers is only limited by which states it is licensed in. Captive agencies compete with other captive agencies of the same carrier for business in a given local market. Agencies may acquire other agencies to grow market share within a local area or to expand into new markets.

Revenue per Employee by Firm Size



Source: US Census Bureau

Profit Drivers

Effective Marketing To New Clients

To be successful, agencies must grow their "book of business" or "policies in force" (PIF) by acquiring new clients. Captive agencies have bonuses tied to goals for new client acquisition set by carriers and may be dropped if they consistently fail to meet these goals. Referrals from existing customers are the most common source of leads for new consumer or business clients. Agencies also leverage advertising and marketing programs sponsored by carriers to attract new clients. Other marketing activities include local advertising in newspapers and movie theaters, sponsoring sports events, and online advertising. Most agencies are switching dollars that used to be spent on Yellow Pages ads to social media and online marketing.

High Policy Renewal Rate

Customer retention rates of over 90% allow agencies to grow their revenue base and accurately forecast future cash flow. Achieving high retention rates requires competitive premiums and a focus on customer service. Since agents typically receive higher commissions for new policies than for renewals, agencies and carriers often implement bonus programs or contests to focus on servicing existing customers. They monitor the "lapse ratio" to compare performance of agents in preventing policies from not renewing. Agencies are also implementing mandatory policy reviews with clients to strengthen relationships and increase the likelihood of renewal.

Higher Revenue Per Client

Successful agencies seek opportunities for add-on sales and expanded coverage as their clients' needs change. Regular policy reviews with existing clients can identify additional needs. Agencies can provide comprehensive offerings for clients' insurance needs by brokering products from specialty insurers. Providing multiple types of insurance to a client also decreases the likelihood of them switching agencies. Agencies should expect, manage, and reward add-sales by their agents.

Efficient Operations

Agencies seek to minimize operational costs through efficient processes and use of information technology. Most agencies use an agency management system to automate workflow and manage customer information. Agency management systems are typically integrated with carrier systems to speed pricing and approval of policies and to keep up with changes in policy terms. Payroll is the largest operational expense for agencies, so they invest in systems to increase staff productivity.

Careful Underwriting

While underwriting decisions are ultimately made by the carrier, agencies seek to avoid clients that result in high claims and are unprofitable for the carrier. This is especially important for independent agencies, who may earn higher commissions and more favorable terms from carriers if they develop a reputation of bringing profitable clients to the carrier.

Industry Trends

Trends are affected by the COVID-19 pandemic.

Changes in revenue, employment, business practices, trade and forecasts are occurring rapidly and data reporting by the government lags the changes. We are tracking changes in the "Coronavirus Update" chapter.

Volatile Performance

Growth in the P/C segment is fluctuating. Profits fell 25% in 2016 and almost 16% in 2017, before rising 8% in 2018, 7.8% in 2019 and 6.8% in 2020, according to ISO and the American Property Casualty Insurers Association. Net premiums on personal lines of insurance rose 5-7% annually in 2013-2018, 4.5% in 2019 and 0.4% in 2020. Net premiums on commercial lines declined 1.4% in 2016, then rose 3.3% in 2017, 19.3% in 2018, 2.5% in 2019 and 5.7% in 2020. Losses due to Hurricane Florence in September 2018 negatively impacted insurers profits in the second half of the year. Losses due to natural disasters eased in 2019, down 18% from the annual average. 2020 posted a record number of catastrophic events that stripped underwriting income. Workers' compensation lines are poised for improvement as businesses hire workers and demand for coverage increases. Medical liability lines have generated substantial profits due to improved analysis of pricing cycles.

Technology Affects Distribution

While the majority of customers prefer to purchase and renew insurance from a local agent, more customers are conducting initial research and purchasing policies online. The Internet has become an important channel for auto insurance, with customers researching and obtaining rate quotes online and buying new policies online. Purchasing life insurance direct, through the Internet, mail, or phone, has also become more popular. Younger consumers are most likely to purchase insurance through the Internet, according to Consumer Affairs and J.D. Powers.

Acquisition Opportunities

Acquisition activity in the insurance brokerage industry is improving. With soft market conditions, many companies are relying on acquisitions to deliver revenue growth, product expansion, and geographic coverage. Deal volume is improving annually, and is nearing historic highs, according to Deloitte. Strong foreign interest in US insurers has also been a driver of acquisition activity in recent years. An aging owner base, combined with prolonged financial pressure on small agencies has created opportunities for large regional players looking to buy. Strong acquisition activity in recent years was not slowed by the 2020 pandemic. Insurers are acquiring InsurTechs (online insurers) to expand their services and markets.

Aging Population And Long Term Care

As the baby boomer generation enters its retirement years, demand for insurance is evolving. The population of adults age 65 and older is projected to increase more than 30% over the next decade. Greater longevity and unpredictable health costs have generated interest and demand for insurance programs involving supplemental health care and long-term care. The escalating costs of long-term care and associated Medicaid expenses has led some states to pass legislation allowing accelerated death benefits in the form of life insurance to pay for long-term care. The majority of consumers purchase long-term care insurance between ages 55 and 65, according to the American Association of Long-Term Care Insurance.

Insurers Push Bundling Of Coverages

Due to poor profit performance for standalone coverages, some insurers have announced that they will discontinue providing some types of coverage for customers unless additional coverages are bundled for the customer. Agencies must understand how insurers are dealing with this in order to manage the impact on their customers.

Group Health Premiums Rising

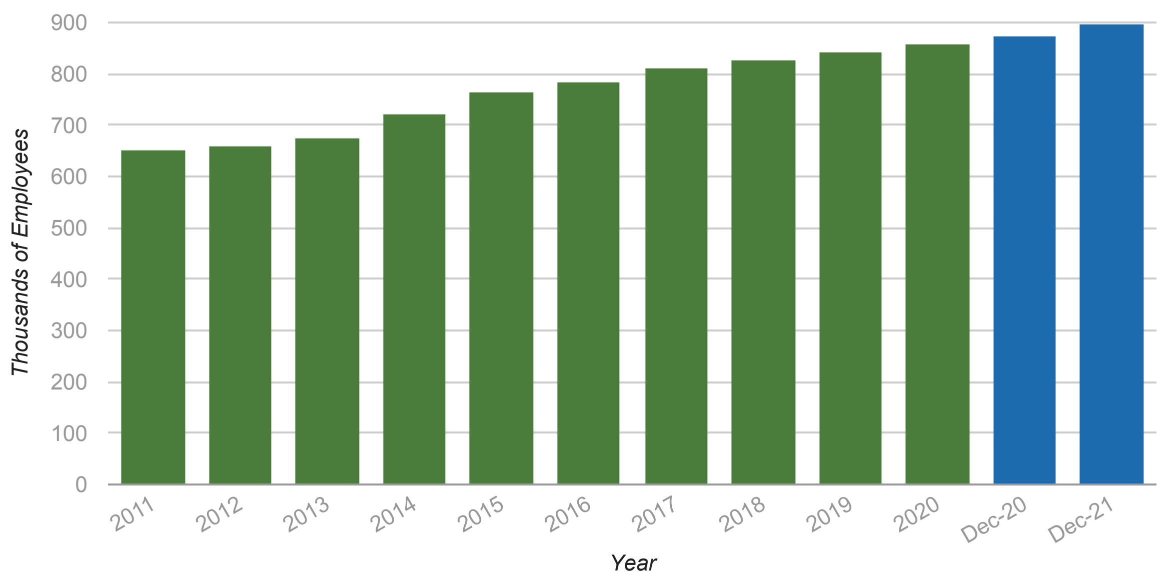
Insurance carriers are raising premiums for group health care plans to cover incremental costs associated with the Patient Protection and Affordable Care Act (PPACA), according to the Council of Insurance Agents and Brokers (CIAB). Carriers have cited additional coverage required by PPACA, along with higher than average losses as reasons for premium increases. Large group plans saw the lowest premium hikes, while small plans (which generally have fewer options) saw the largest. To help control costs, many employers are considering or implementing high-deductible health care plans and health savings accounts.

Employment and Wage Trends

Employment by insurance agencies and brokerages increases

Overall employment by insurance agencies and brokerages changed 2.5% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.

Insurance Agencies & Brokerages Employment

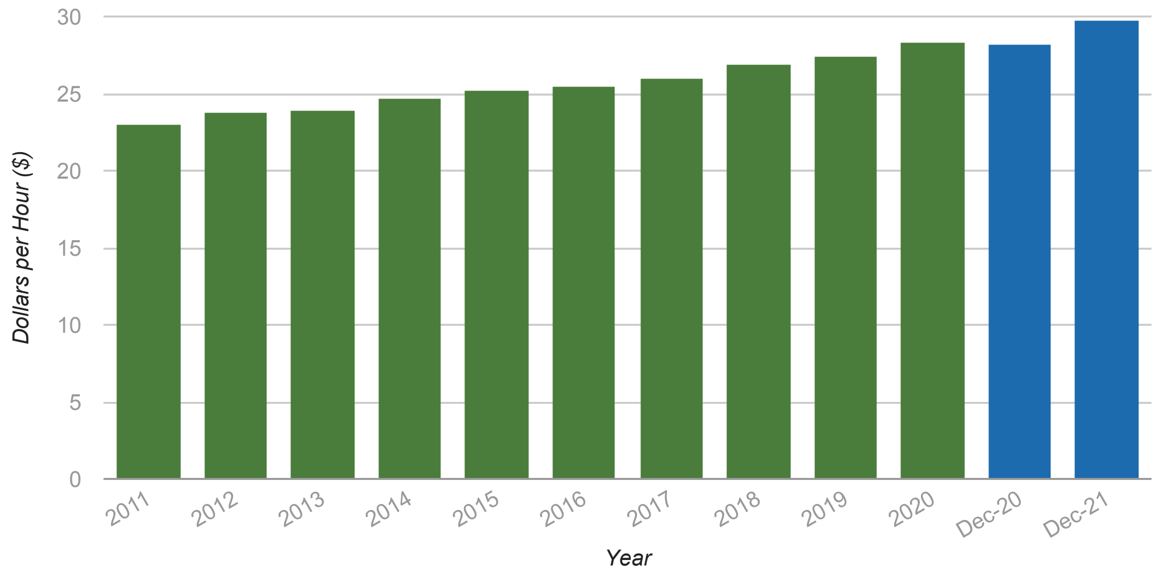


Source: Bureau of Labor Statistics

Wages at insurance agencies and brokerages rise

Average wages for nonsupervisory employees at insurance agencies and brokerages were $29.75 per hour in December, a 5.3% change compared to a year ago.

Average Wages for Nonsupervisory Employees



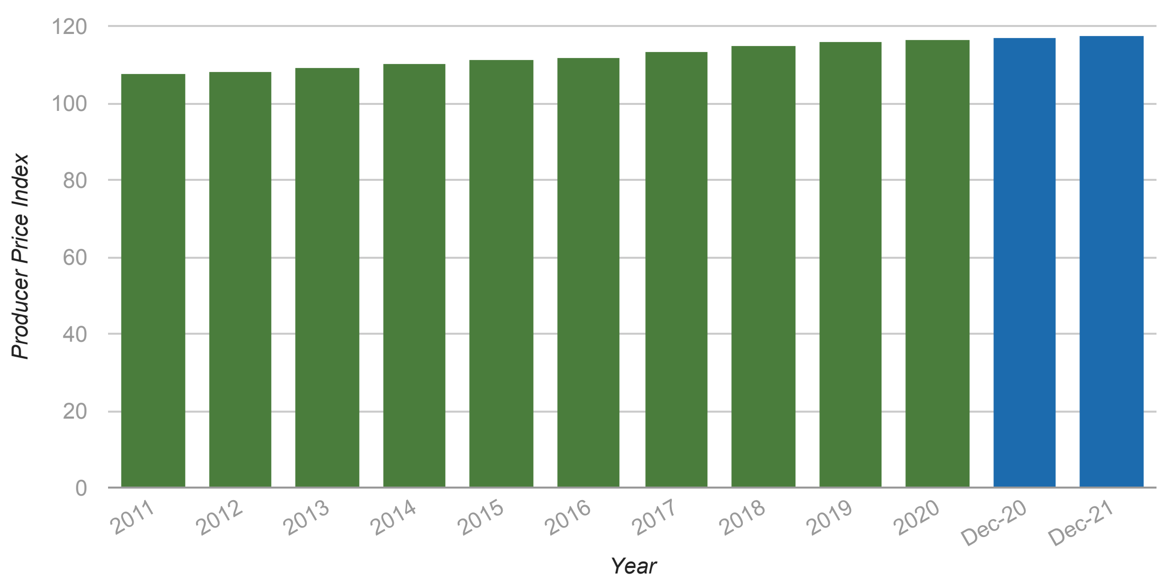
Source: Bureau of Labor Statistics

Price Trends

Producer Prices for insurance agencies and brokerages stay flat

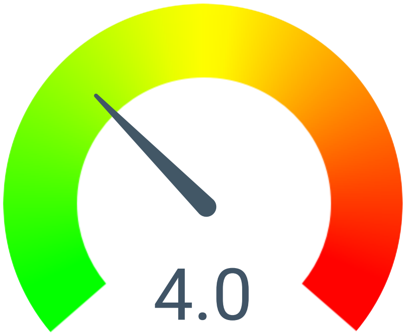
The Producer Price Index for insurance agencies and brokerages changed 0.42% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.

Producer Price Index for insurance agencies and brokerages



Source: Bureau of Labor Statistics

Credit Underwriting and Risks



Industry Risk Rating:
Stable/Satisfactory

Business Exit Rates:	5.0	Comparable to US average for all businesses
Cyclical Sensitivity:	3.5	Low sensitivity
Barriers to Entry:	5.1	Low initial capital; moderate regulatory/technical barriers; low concentration
External Risk:	5.0	Moderate external risk
Industry Outlook:	1.4	Much higher than GDP; low cyclical risk
Financial Summary:	3.5	High margins; moderate liquidity; moderate leverage

Key Metrics

METRIC	VALUE	COMPARISON
Business Exit Rate 2019–2020	9.03%	9.0% All Industries
Compound Annual Growth Forecast (2020–2025)	7.29%	6.1% GDP
SBA 7(a) Default Rate by Number of Loans (2010-2019)	1.92%	3.82% All Industries
SBA 7(a) Default Rate by Gross Loan Amount (2010-2019)	0.49%	1.21% All Industries

Underwriting Considerations

- How many years in business? First few years are very challenging with higher exits during that period.
- What types insurance with does the company specialize in? How does the company generate its revenues? What are the revenue trends?
- How many clients does the company have?
- How competitive is their market? How does the company manage competition and market penetration and growth?

Industry Risks

Cyclical Sales

The insurance industry is cyclical and premiums vary considerably depending on market conditions. A weak economy causes consumers to delay purchases of new cars and homes with a resulting loss in new insurance premiums. Competition among carriers generally results in a “soft” market, characterized by flat or reduced premiums. Major losses, such as those generated from natural disasters, cause carriers to reduce capacity and raise premiums (creating a “hard” market). Hurricane activity and extreme weather conditions greatly influence property and casualty insurance rates in affected geographical markets. As premiums fluctuate, commissions for agencies and brokers vary as well.

Carriers Dictate Terms

Insurance agencies and brokerages derive the majority of revenue from commissions earned from insurance carriers. Carriers set premiums and typically require agents to generate a minimum amount of revenue annually. Consistent failure to meet financial objectives can result in termination of a relationship. In addition, carriers may monitor an agency’s profitability. Excessive losses can also jeopardize an agency’s carrier agreement. Carriers may determine that the risk in a certain geographic market or industry is too high and drop existing policies. The resulting losses in commissions to agencies and brokerages can be significant.

Government Regulation

Government regulation can affect insurance premiums, coverage, and commissions. For example, provisions in the Patient Protection and Affordable Care Act (PPACA) limiting administrative costs for carriers have resulted in drastic reductions in commissions. Most states have the authority to approve or deny certain types of rate changes for premiums. With pricing limitations creating unprofitable or less profitable markets, some carriers have pulled out, resulting in major losses for agencies and brokerages. Cyber regulations, such as the New York District of Financial Services (NYDFS) Cybersecurity Rule, the California Consumer Privacy Act (CCPA), and the NAIC Model Law are evolving and placing requirements on insurers regarding the security of customers' personal information and notifications, as well as expanding customers' rights.

Competition

Insurance agencies and brokerages compete with a variety of providers. Banks, accounting firms, and consulting firms, may offer insurance as part of a comprehensive risk management program. As a result of high premiums in the private sector, federal and state governments offer health insurance and property insurance in catastrophe-prone areas. In some cases, insurance carriers and underwriters bypass agencies and brokerages and sell policies directly to customers.

Alternative Forms Of Insurance

Some customers or groups of customers are turning to self-insurance, also known as "captive" insurance. Captive insurance is a risk management instrument that allows owners to form their own insurance company to cover estimated losses. The captive retains the premiums and allows owners to tailor coverage to meet unique needs. Owners benefit from investment income generated by retained premiums. Many large companies have formed captive insurance companies, and about half of the states have captive insurance legislation. Because foreign countries offer lower costs and greater flexibility, most small captives are formed abroad.

Company Risks

Challenging Start-Up Conditions

Because compensation often consists solely of commissions, many new agents and brokers struggle to survive financially during the first few years. Maintaining a consistent staff may be difficult for companies that employ multiple agents or brokers. Pay based exclusively on commission gives more experienced workers little incentive to mentor new agents. While some agents are extremely successful, industry turnover is generally high.

Sustaining A Client Base

As the size and breadth of clientele grows, maintaining relationships needed to ensure renewals becomes a challenge. Companies must dedicate resources to new business development while the number of clients served increases and needs become more diverse. Inadequate effort dedicated to nurturing existing client relationships can affect renewal rates and future cash flow.

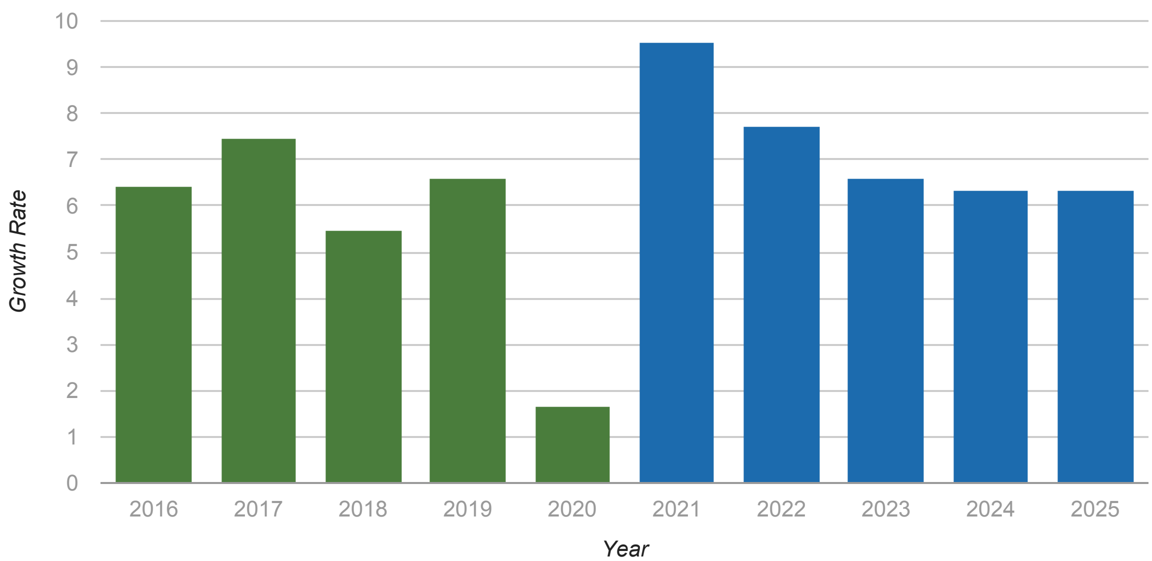
Industry Forecast

Sales for the US insurance agencies and brokerages industry are forecast to grow at a 7.29% compounded annual rate from 2020 to 2025, greater than the growth of the overall economy.

Vertical IQ forecasts are based on the Inforum inter-industry economic model of the US economy. Inforum forecasts were prepared by the Interindustry Economic Research Fund, Inc.

Last Update: August 2021

Insurance Agencies & Brokerages Industry Growth



Source: Interindustry Economic Research Fund, Inc.

Working Capital

Sell and invoice

Insurance agencies and brokerages generate revenue by selling policies and receiving commissions and fees from insurance carriers and clients. Commissions are generally based on a percentage of premiums paid. Commission rates can vary, and depend on the type of insurance and the policies of the underwriting carrier. Most commission plans pay a higher percentage of premiums for new policies and a lower percentage for renewals. Agencies may also receive additional commissions from carriers based on performance. Brokers typically charge a fee to clients for insurance procurement services. In some cases, agents may charge a brokerage fee in addition to receiving commissions.

> 46% of insurance agencies and brokerages said they go to their accountant or bookkeeper for cash flow advice, while 9% turn to their banker and 41% do not seek advice, according to a survey of small businesses by Barlow Research Associates.
>
> *Source: Barlow Research Associates.*

Collect

With direct-billed policies, the carrier collects premiums and pays the agency or brokerage commissions. With agency-billed policies, the agency or brokerage collects the premiums and remits the premium minus commissions to the carrier. Payments for personal insurance are typically made with credit or debit cards. Receivables account for 10-13% of assets.

Manage Cash

Sales can be uneven, and depend on the timing of policy inception dates. The timing of significant changes by carriers can affect sales, since major modifications cause clients to reevaluate terms. Cash flow also depends on whether a company receives advance commissions (lump sum up front) or as-earned commissions (payments over time). An agent with an advance commission plan must pay back the carrier if the customer cancels before the end of the policy term. A company's renewal rate is a good indicator of future cash flow. Start-up agents and brokers that rely solely on commissions for revenue typically struggle through the first few years. Building a client base substantial enough to generate acceptable ongoing cash flow can be a challenge.

Pay

Gross margins average 55-59% of sales. Labor is the largest expense, and averages 21-22% of sales. Companies often hire staff to perform administrative tasks so agents and brokers can dedicate time to developing new business. Rent averages 1-2% of sales.

Report

After-tax net profit averages 12-16% of sales. Companies may track revenue, profit, and retention rates by agent, product, client and carrier. The lapse ratio measures the effectiveness of a broker or agent by comparing the number of policies that have lapsed to contracts in effect over a period of time. Agency management systems help automate the reporting process.

Cash Management Challenges

Uneven Revenue From Policy Renewals

Monthly revenues from commissions can vary for insurance agencies, since premiums for policy renewals are tied to the policy inception date. Sales of new personal policies are often driven by new home and car sales, which tend to slow down in the winter months. The timing of premium payments is particularly critical for newer agencies that don't have a large enough client base to generate sufficient cash flow to easily cover monthly expenses.

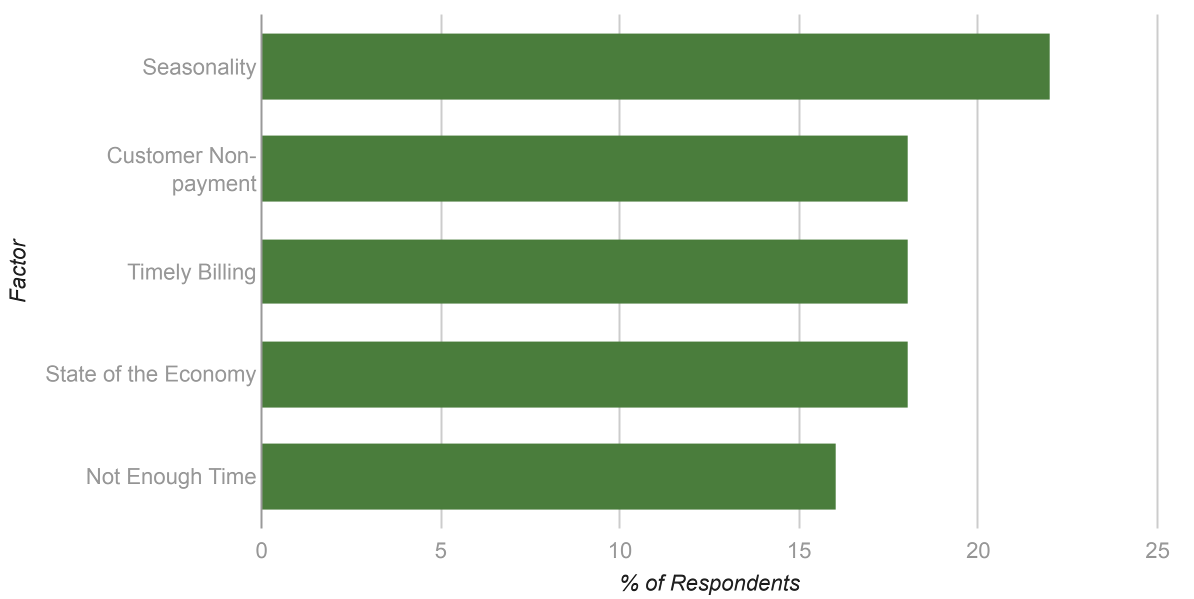
Successful Customer Retention

Retaining customers is key to a profitable insurance agency, but agents are often incented with higher commissions to focus on new policy sales. Advertising campaigns encourage consumers to switch carriers to gain lower premiums and better service, creating potential churn for agencies. Internet sites that allow consumers to compare rates from different carriers also encourage them to shop around when policy renewals come due.

Managing Underwriting Risks

Independent agencies must carefully manage the underwriting risks they sell to build positive relationships with carriers. By bringing carriers business that avoids high payouts for losses, agencies can earn bonuses and higher commission rates from carriers. On the other hand, customers that result in large losses will lead to less favorable terms and lower earnings. Agencies may specialize in particular markets or types of insurance to develop expertise at evaluating underwriting risks.

Factors Causing Cash Flow Stress: Insurance Agencies and Brokerages



Source: Barlow Research Associates

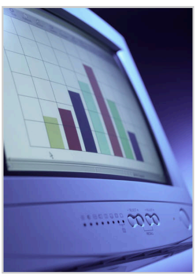
Capital Financing

Companies often require financing to expand via acquisition. Acquisitions allow companies to grow sales, expand geographically, improve service capabilities, and diversify product mix. Large brokers have relied on debt or stock to finance acquisitions. Purchase transactions typically include a guaranteed component (the amount the seller receives at closing) and a contingent component (additional amount depending on certain performance targets). The contingent component may be paid out after several years.

Companies may also require funding to purchase, expand, or upgrade computer information systems. Because of the growing complexity of the insurance industry and the volume of clients served, companies rely on agency management systems to automate workflow. Agency management systems are typically integrated with carrier systems so companies can stay current with policy changes and claims. Information systems also allow agencies to centralize customer files and documentation and produce reports more efficiently. Companies typically rely on commercial banks for funding. Some carriers may offer financial assistance for new agents.

Some independent agents and brokers work out of homes and have minimal start-up costs. Larger agencies often operate out of multiple locations and may use real estate loans to purchase their office space.

Examples of Equipment Purchases



Agency Management System

$500 - $15,000 per year

PC or web-based software for managing customer relationships, accounting, policy renewals, agent commissions, and communications with insurance carriers. Pricing varies widely depending on size of agency.

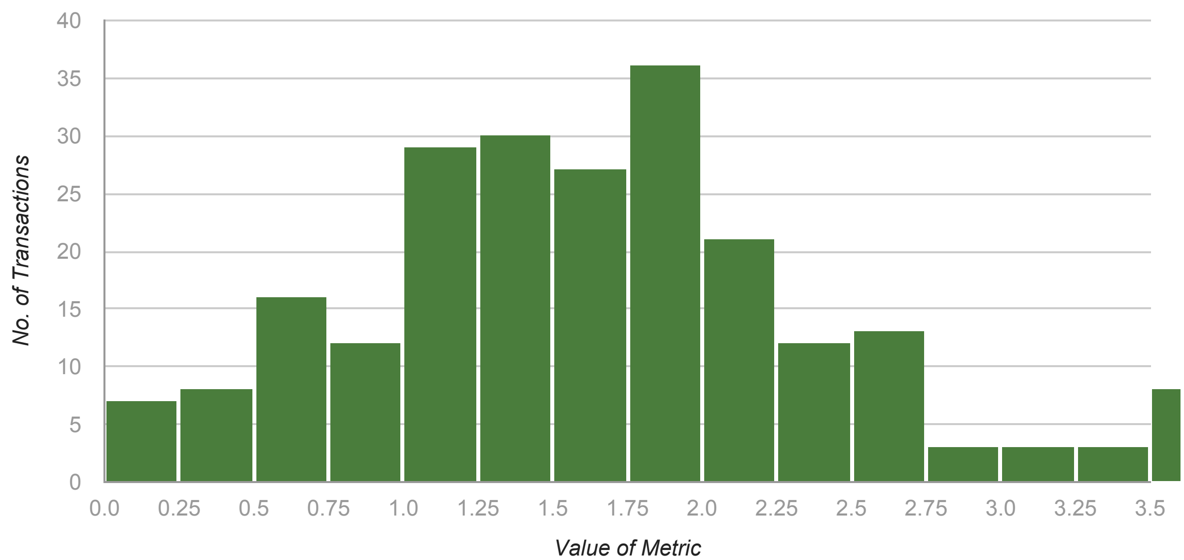
Business Valuation

This data on business valuations is supplied by DealStats, an online database with the most complete financial details on nearly 36,000 acquired companies. These companies are mostly small and medium-sized private firms.

Summary Valuation Data for Insurance Agencies & Brokerages

	MEDIAN	MEAN	# TRANSACTIONS	DATES
Price to Net Sales	1.6	8.93	228	05/03/1999–06/04/2021
Price to Gross Profits	1.73	19.34	211	05/03/1999–06/04/2021
Price to EBITDA	4.76	19.73	142	05/03/1999–06/04/2021
Price to EBIT	4.57	20.11	201	05/03/1999 –06/04/2021

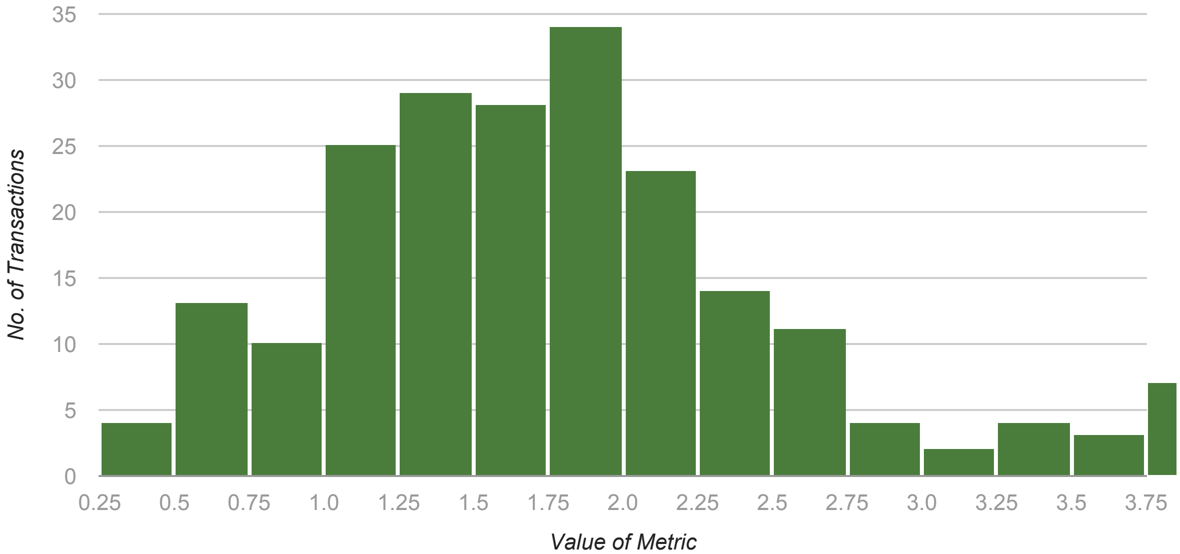
Click on the metric below to see a distribution of transactions for the industry:



Source: DealStats

Count: 228 **Min:** 0.07 **Max:** 1571.75 **Mean:** 8.93 **Median:** 1.6

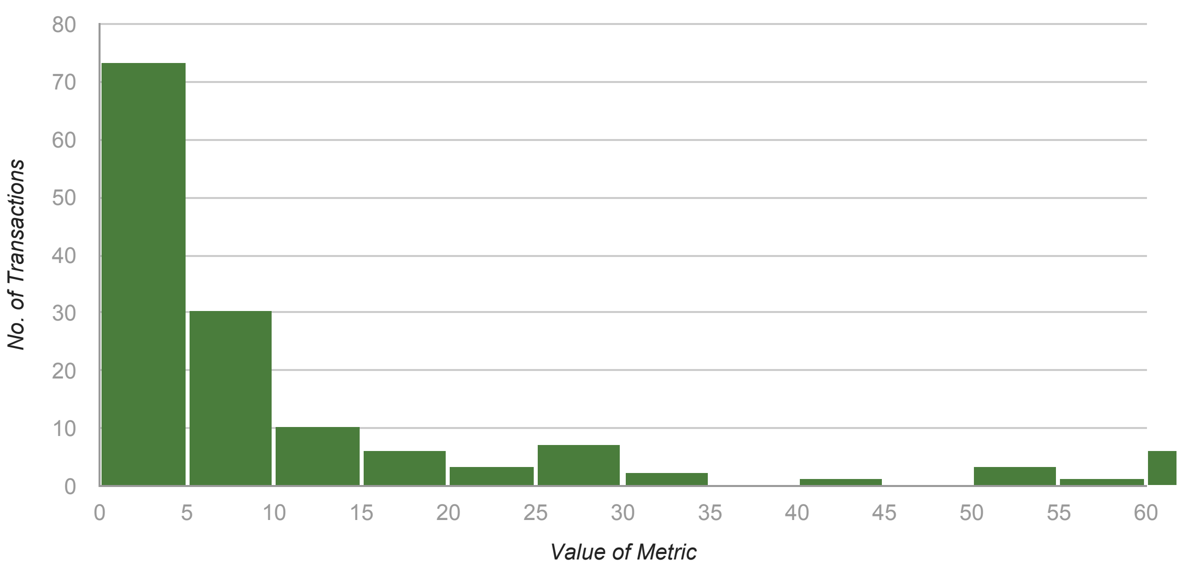
Price to Sales = Selling Price/Net Sales
Date range: 05/03/1999 - 06/04/2021



Source: DealStats

Count: 211 **Min:** 0.16 **Max:** 3673.34 **Mean:** 19.34 **Median:** 1.73

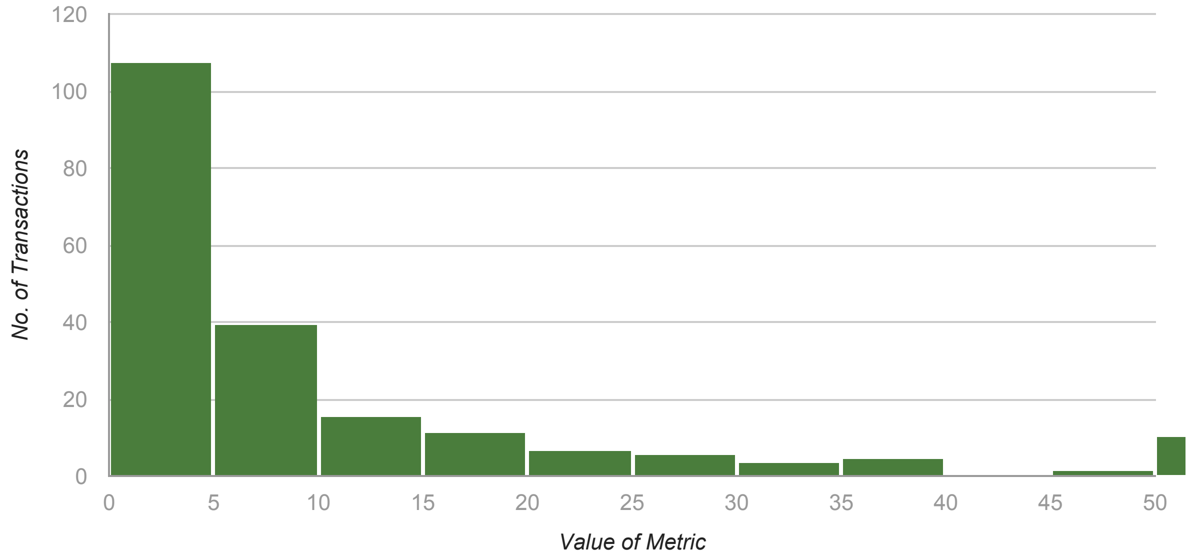
Price to Gross Profit = Selling Price/Gross Profit
Date range: 05/03/1999 - 06/04/2021



Source: DealStats

Count: 142 **Min:** 0.51 **Max:** 595.24 **Mean:** 19.73 **Median:** 4.76

Price to EBITDA = Selling Price/Operating Profit + Depreciation & Amortization
Date range: 05/03/1999 - 06/04/2021



Source: DealStats

Count: 201 **Min:** 0.51 **Max:** 803.86 **Mean:** 20.11 **Median:** 4.57

Price to EBIT = Selling Price/Operating Profit
Date range: 05/03/1999 - 06/04/2021

Selling Price, also known as MVIC (Market Value of Invested Capital) *is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer. The MVIC price includes the noncompete value and the assumption of interest-bearing liabilities and excludes (1) the real estate value and (2) any earnouts (because they have not yet been earned, and they may not be earned) and (3) the employment/consulting agreement values. In an Asset Sale, the assumption is that all or substantially all operating assets are transferred in the sale. In an Asset Sale, the MVIC may or may not include all current assets, non-current assets and current liabilities (liabilities are typically not transferred in an asset sale).*

Source: DealStats 2019 (Portland, OR; Business Valuation Resources LLC). Used with permission. DealStats is available at https://www.bvresources.com/learn/dealstats

Financial Benchmarks

The following financial benchmark data is based on annual financial statements submitted by member institutions of the Risk Management Association from Q2 of the first year listed through Q1 of the following year.

Financial Ratios (Insurance Agencies & Brokerages, Industry-wide)

MEASURE	2018-19	2019-20	2020-21
Current Ratio	1.21	1.21	1.57
Quick Ratio	1.03	1.01	1.34
Days Inventory	0.17	0.5	2.88
Days Receivables	44	45	50
Days Payables	40.62	32.37	40.93
Pre-tax Return on Revenue	9.77%	10.74%	15.22%
Pre-tax Return on Assets	13.31%	13.34%	15.68%
Pre-tax Return on Net Worth	47.68%	47.35%	48.01%
Interest Coverage	11.69	12.41	17.64
Current Liabilities to Net Worth	1.58	1.51	1.03
Long Term Liabilities to Net Worth	1	1.04	1.03
Total Liabilities to Net Worth	2.58	2.55	2.06
Number of Firms Analyzed	*581*	*492*	*372*

Income Statement (Insurance Agencies & Brokerages, Industry-wide)

ITEM	2018-19	2019-20	2020-21
Revenue	100.0%	100.0%	100.0%
Cost of Sales	42.7%	40.97%	48.68%
Gross Margin	57.3%	59.03%	51.32%
Officers Compensation	5.82%	5.44%	6.63%
Salaries-Wages	14.95%	15.42%	16.19%
Rent	1.62%	1.64%	1.18%
Taxes Paid	1.62%	1.63%	2.37%
Advertising	0.97%	0.94%	1.26%
Benefits-Pensions	1.89%	1.95%	2.26%
Number of Firms Analyzed	*581*	*492*	*372*

ITEM	2018-19	2019-20	2020-21
Repairs	0.32%	0.32%	0.28%
Bad Debt	0.06%	0.06%	1.48%
Other SG&A Expenses	9.77%	9.55%	-1.07%
EBITDA	20.27%	22.08%	20.74%
Amortization-Depreciation	3.08%	3.31%	3.13%
Operating Expenses	40.1%	40.26%	33.71%
Operating Income	17.2%	18.77%	17.61%
Interest Expense	2.17%	2.7%	1.75%
Other Income	-0.35%	-0.34%	-1.29%
Pre-tax Net Profit	15.38%	16.41%	17.15%
Income Tax	0.47%	0.6%	0.53%
After Tax Net Profit	14.91%	15.81%	16.62%
Number of Firms Analyzed	*581*	*492*	*372*

Balance Sheet (Insurance Agencies & Brokerages, Industry-wide)

ASSETS	2018-19	2019-20	2020-21
Cash	32.93%	32.52%	39.29%
Receivables	11.9%	10.86%	9.35%
Inventory	0.17%	0.13%	0.2%
Other Current Assets	5.19%	5.01%	4.34%
Total Current Assets	50.2%	48.51%	53.17%
Net Fixed Assets	14.27%	13.72%	12.61%
Net Intangible Assets	20.74%	23.23%	22.14%
Other Non-Current Assets	14.79%	14.54%	12.08%
Total Assets	*100.0%*	*100.0%*	*100.0%*

LIABILITIES			
Accounts Payable	12.75%	11.71%	10.77%
Loans/Notes Payable	12.85%	11.93%	17.5%
Other Current Liabilities	17.94%	18.01%	16.02%
Number of Firms Analyzed	*581*	*492*	*372*

LIABILITIES

Total Current Liabilities	43.54%	41.65%	44.29%
Total Long Term Liabilities	31.07%	33.24%	34.55%
Total Liabilities	74.61%	74.9%	78.84%
Net Worth	25.4%	25.1%	21.18%
Total Liabilities & Net Worth	100.0%	100.0%	100.0%
Number of Firms Analyzed	*581*	*492*	*372*

Vertical IQ financial benchmark data is based on data provided by the Risk Management Association (RMA) and Powerlytics, Inc. RMA's Annual Statement Studies provide comparative industry financial benchmarks based on financial statements of small and medium business clients of RMA's member institutions. Additional detail on income statement line items is provided using Powerlytics financial benchmarks, which are based on reporting submitted to the IRS. Additional detail on these data sources can be found at RMA and Powerlytics.

Bank Product Usage

Top Bank Products Used by Insurance Agencies & Brokerages

The following table provides the frequency of bank product usage by Insurance Agencies & Brokerages with less than $10 million in annual revenue. It is provided by Barlow Research Associates, Inc., the premier market research firm in the financial services industry.

BANK PRODUCT	% OF FIRMS
Business checking account services	96.0
Business savings or money market account	66.0
Business debit card or business check card	65.0
Overdraft protection for business checking	62.0
Business credit card issued in your company's name (Visa, MasterCard, Amex, etc.)	54.0
Automated clearing house services (ACH)	54.0
Electronic payments initiated through the Internet (Bill Payment)	52.0
Point-of-sale credit card processing	45.0
Remote deposit capture (scanning checks at your office or by mobile device for electronic deposit)	41.0
Wire transfer services	39.0
Certificates of deposit	29.0
Credit lines secured by receivables, inventory, property or other assets	29.0
SBA loans	29.0
Money market mutual funds or short-term investments	28.0
Unsecured short-term loans or working capital line of credit (less than one year)	25.0
Commercial real estate mortgage	24.0
Payroll processing	24.0
Company sponsored 401(k), SEP, pension or profit sharing plan	23.0
Overnight investment or sweep accounts	22.0
Commercial real estate mortgage (company occupied building)	21.0
Commercial real estate mortgage (investment property)	18.0
Account reconciliation processing (ARP)	18.0
Term loans or equipment financing (one year +)	13.0
Equipment leasing	11.0
Accounts receivable collection (lockbox)	8.0
International (foreign exchange, import/export letters of credit)	7.0

Barlow’s Small Business Banking program is a multi-client research program sponsored by leading banks. Each quarter, a stratified random sample of businesses throughout the United States with sales between $100,000 to $10 million compiled from an independent list provider are invited to participate in a comprehensive banking survey of over 100 questions. The results measure channel adoption, bank satisfaction, brand power, account management, service quality, business product usage and the selling abilities of leading providers. The results in this chapter are calculated directly from the business product usage section and represent usage for the average small business ($100K-<$10MM).

For more information on Barlow’s banking research, go to http://www.barlowresearch.com/

Quarterly Insight

1st Quarter 2022

Delta Drove Global Spike in 2021 Life Insurance Claims

As the pandemic has worn on, Americans are buying more life insurance. In the first three quarters of 2021, total life insurance new annualized premiums increased 18% in 2021 over the same period in 2020, according to the Life Insurance Marketing and Research Association (LIMRA). The 2021 spike in premiums was the largest nine-month rise in 25 years. Nearly two-thirds of carriers reported increases in life insurance premiums, including nine of the top 10 companies. According to insurance broker Howden, global life insurance claims due to COVID-19 reached $5.5 billion in the first three quarters of 2021, compared to $3.5 billion for all of 2020. While the industry had expected payouts to decline in 2021 due to vaccine rollouts, the emergence of the Delta variant, which is more transmissible than earlier variants and causes more hospitalizations, likely contributed to more life insurance claims. The rise in claims was most pronounced in the US, India, South Africa due to COVID-19 fatalities among younger, unvaccinated groups. Claims activity in 2020 was more subdued, primarily because most fatalities were among the elderly who do not typically take out life insurance policies.

4th Quarter 2021

Insurance Agency M&A Activity Rises

There were more than 550 insurance agency mergers and acquisitions (M&A) in the first nine months of 2021, up from 490 during the same period in 2020 and marking the highest level of M&A deals on record for the January through September period, according to investment bank and financial consultancy OPTIS Partners. Deal activity has been driven by high agency valuations and aging owners hoping to cash out at the top of the market. Firms are also in acquisition mode as they look for inorganic growth. OPTIS Partners said the pace of M&A deals is likely to remain brisk through the remainder of 2021.

3rd Quarter 2021

Car Insurance Customer Satisfaction Flat

Despite $18 billion in pandemic-related premium relief, auto insurance companies' levels of customer satisfaction remained unchanged, according to the J.D. Power 2021 US Insurance Study released in June 2021. The 2021 results marked the first time since 2017 that satisfaction showed no year-over-year improvement. Various communication channels were the chief drivers of dissatisfaction. Satisfaction with assisted online channels including chat and email fell 12 points compared to a year earlier. Other communication touchpoints that saw declines in satisfaction included contact center (-5), website (-3), and local agent (-1). Just over half of survey respondents said they were aware of their insurer's pandemic premium relief programs. Brand perceptions were significantly better among consumers who were aware of premium relief, and that awareness also had a positive effect on policy renewal intent.

2nd Quarter 2021

Nearly Half of Consumers Make Policy Changes During Pandemic

Nearly half of US consumers made changes to manage their insurance costs during the pandemic, according to the J.D. Power 2021 US Insurance Shopping Study. About 46% of consumers made changes to their policies, including reducing coverage (17% of respondents), shopping for a new carrier (15%), and increasing their deductible or switching carriers (12%). J.D. Power noted that despite the industry's annual ad budget of nearly $10 billion, consumers see little differentiation among top insurance brands. Given the level of industry disruption and the current economic recovery, J.D. Power suggests insurers need to work harder to meet higher consumer expectations in terms of price, flexibility, coverage, and customer service.

1st Quarter 2021

Winter Storm Triggers Historic Number of Claims

In mid-February a polar vortex brought unprecedented cold, ice, snow, and power outages across Texas and the resulting damage is likely to bring a record number of insurance claims, according to the Texas Insurance Council. Some estimates suggest the storm could result in $18 billion in claims, according to Bloomberg. The number of potential claims reflects the magnitude of the disaster, which affected the whole state. Amid widespread power outages, freezing temperatures in homes and business led to burst pipes and water damage. Ice accumulation led to tree limbs falling on homes and vehicles, and to a high number of vehicle accidents. The winter storm impacted a total of 39 states. At least 10 states suffered power outages, affecting 4.3 million customers.

4th Quarter 2020

COVID-19 Lawsuits Mount

Businesses that were harmed by being closed during the shutdown continue to sue their insurance companies for denying business interruption claims. Judges in such cases have dismissed more than four times as many cases as they've allowed to move forward, according to the University of Pennsylvania Law School. Many cases have been dismissed because there was no physical damage and/or because policies specifically exclude claims related to viral outbreaks. However, attorneys representing business owners have begun to gain headway with new strategies. Some have argued successfully that virus-excluding policy language was ambiguous, allowing cases to move forward. Plaintiff attorneys have also argued that the presence of the coronavirus on a property does constitute damage. The vast majority of business interruption lawsuits will be matters for state rather than federal courts, according to The National Law Review. It is expected to be a lengthy process before any state supreme court issues a binding procedural determination of that state's view of coronavirus-related business interruption claims. It will take even longer for a majority view to materialize among all state supreme courts.

3rd Quarter 2020

COVID-19 Drives Analytics-Based Efficiencies

Analytics may be the key to ensuring small business insurers effectively adapt to the myriad of challenges created by the COVID-19 pandemic, according to a recent Property Casualty 360 article authored by several insurance analytics experts. In the first five months of 2020, the number of Chapter 11 bankruptcies was 48% higher than the same period in 2019, according to the American Bankruptcy Institute. The rise in business failures is likely to disrupt insurance carrier operating models, marketing strategies, and expense ratios. Analytics tools can help business insurers assess their portfolios using natural language processing (NLP) engines which can identify policies that are likely to require a payout. Portfolio analysis can also identify COVID-19-related changes in customer segmentation- such as industry type – that can aid in recalibrating marketing mix. Claims processing is another area where carriers can leverage analytics to improve efficiency and reduce expenses. Analytics can be used to identify claims where "no/low-touch" claims adjustment automation tools are the most efficient claims processing option.

2nd Quarter 2020

Business Disruptions May Not Be Covered

As coronavirus-related losses pile up, some small business owners who thought they would be covered by business disruption insurance are discovering otherwise. A few years after the SARS outbreak, some insurers inserted clauses excluding coverage for "loss due to virus or bacteria," according to the Philadelphia Inquirer. Some state officials are developing bills that would force insurers to cover business losses, a move that could put the insurance industry's solvency at risk. However, Standard & Poor's (S&P) does not believe states will succeed in efforts to retroactively change policy language to allow for claims related to COVID-19 business disruptions. Insurers are expected to vigorously fight such efforts in court.

Industry Terms

Agency-billed policy

Agency or brokerage bills insured and remits premium minus commission to carrier

Broker

Represents customers, and works with multiple carriers to determine the policy that best fits customer needs

Captive Agent

Agent that represents a single carrier

Captive insurance

Risk management instrument that allows owners to form their own insurance company to cover estimated losses

CIAB

Council of Insurance Agents and Brokers

Direct-billed policy

Carrier bills the insured and pays the agency a commission

E&S Market

Excess and surplus market, specialty insurance that generally involves high risk

Hard market

Conditions in which premium rates are stable or increasing

Independent Agent

Agent that represents multiple carriers

P/C

Property Casualty

PPACA

Patient Protection and Affordable Care Act

Soft market

Conditions in which premium rates are flat or decreasing

Web Links

The Council of Insurance Agents and Brokers
News, advocacy, market pricing surveys

AM Best
News, trends, and statistics from industry credit rating organization

Insurance Journal
News and trends section for agents and brokers

Insurance Information Institute
News, trends, and statistics

Think Advisor - Life/Health
News and trends

American Agents Alliance
News, trends, and resources for agents

Related Profiles

Commercial Brokers & Property Managers

NAICS: 531210, 531312 SIC: 6531

Insurance Claims Adjusters

NAICS: 524291 SIC: 6411

Residential Brokers & Property Managers

NAICS: 531311, 531210 SIC: 6531

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