

Clusters and aggregators: Straight from the sources

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As part of our coverage for [April's feature story on clusters and aggregators](#), AA&B spoke with representatives of several groups about what makes their groups successful. We spoke with five groups of different sizes, structures and geographic reach. Each offers something a little different to participating agencies.

Here are their stories:

J. Bruce Cochrane, CIC, President
[Renaissance Alliance Insurance Services LLC \(RAIS\)](#)
Wellesley, Mass.

Renaissance was established in 1999 to address the many frustrations of typical local community-based independent agencies, including industry fractionalization, inability to achieve sustainable organic growth, and competition from regional brokers.

We have 83 member agencies in three states: Massachusetts, Connecticut and Rhode Island. Current property-casualty aggregate premium volume is \$400 million, total property-casualty commission is \$52 million, and we represent 27 insurers with standard market contractual carrier relationships.

Our members sign an exclusive brokerage contract; all property-casualty business is placed through RAIS, which magnifies our market clout and influence.

All members are allowed to operate autonomously because they're all independent from RAIS. We have no ownership or controlling interests in any of our agencies, and our agencies have no ownership interest in RAIS. They set their own individual business plans and look to RAIS to assist them in achievement of their individual goals.

The main benefits for independent agencies joining RAIS is the ability to have all the advantages of the largest regional agency in New England, while still maintaining their local personalized service presence and persona. They're also able to get back to doing what they like to do, what they do best and the only thing that makes them money—developing relationships and selling.

The independent agency with shrinking or few options is no longer independent. By contrast, the agency with unlimited options is more independent than ever. The two biggest strengths of the independent agency system is their independence and locality. Locality is the springboard to relationships and the hallmark of independent agencies.

Ironically, the two Achilles heels of the independent agency system are their independence and locality. Our agents don't give up any of their independence. They become more independent by joining RAIS.

We receive significant support in many ways from our carriers, both financial and otherwise. We focus on delivering value to our carriers in the form of the only three things carriers seek in an agency relationship: profit, volume and ease of doing business. If we are achieving top tier predictable and consistent underwriting profits exceeding the carrier's own target ROE in large volumes in a cost-effective manner, there is plenty of motivation for the carrier to make such a relationship mutually financially beneficial.

Agents who are interested in joining a cluster or aggregator should do their homework. Make sure the group you are considering joining has sustainability, can deliver the advantages you are seeking and will enable you to achieve sustainable growth.

Three things cause most informal groupings to fail:

- Lack of a clear vision – coming together just to share markets and profit sharing is not a vision
- Lack of full time management – part time management of a group by member agency principle constitutes a social club

and not a serious business venture – full time management is needed to lead the agencies to achieving their clean vision

- Lack of capital – it takes money to properly set up and run the central operations that inevitably are the foundation of a successful group effort. Most agencies lack the excess capital to fund such operations, so an outside capital source is necessary.

Above all, make sure there cultural and values compatibility among your agency, the organization you are seeking to join and the members of the grouping. It does you no good to join an organization only to find the players are at odds with one another or are unethical. The “chain is only as strong as its weakest link” theory is very appropriate in deciding to join a group.

Douglas S. Wicher, founder and CEO
Smart Choice Insurance Centers
Greensboro, N.C.

In 1994, I approached a major property-casualty insurer with an idea to benefit smaller independent insurance agencies and their customers. The idea was to give me a master code, and several smaller agencies subcodes. Each agent would continue to own their books of business, but I would take responsibility for “gatekeeping” the business written and paying commissions. The insurer somewhat skeptically agreed, and I recruited 13 North Carolina agents to participate. The agents paid no fees to be in the network, simply splitting commissions with me. After two years, we were producing \$1.3 million in premium. At the end of 2008, Smart Choice agents were responsible for approximately \$300 million in written premium, with revenues of \$35 million.

Our program focuses primarily on standard and preferred personal lines agents, as well as commercial insurance. Ancillary products and services, including financial services through a partnership with Lincoln Financial Group, allow agents to maximize their revenue streams with little or not additional outlays of personnel or money.

While many agents choose to write business only through Smart Choice insurance company partners, they have the option of keeping any direct contracts with companies they may have received prior to joining Smart Choice.

We do not charge any joining or ongoing fees to agents. Instead, we split commissions with them, 70 percent to the agent and 30 percent to us. Unlike other programs, Smart Choice agents can earn 100 percent of the commissions. After reaching a fair, attainable commission level (combined from all the business they write through Smart Choice companies), agencies receive 100 percent of the commissions they earn about that cap.

All agents in the program are 100 percent independent. Smart Choice does not require specific operating guideline compliance, other than industry standard ethical and regulatory adherence.

Our agents benefit from being part of a strong national network which results in our ability to attract quality insurance carriers that are willing to provide subcodes to agents they may not have otherwise been able to contract. Smaller agencies have the ability to market nationally and regionally branded insurers' products, allowing them to compete with larger independent agencies, captive agencies and direct writers.

Our company partners have worked hand in hand with us in opening new territories, training our agents, supporting our state meetings and generally giving us access to their executive management. They have proven to be an important sounding board as we evaluate ideas for additional agent services, and have worked closely with us to ensure our agents have the tools and support they need.

Ed Weeren, CPCU, ARM, past chairman and founder
Combined Agents of America LLC (CAA)
Austin, Texas

CAA's official start date was January 1, 1998, although it was actually started a year earlier by seven friendly competitors from Texas, including myself, who started talking about forming a company to help perpetuate our businesses and remain autonomous. We didn't want to sell out or merge, even though companies in all industries were merging and getting bigger. In the fall of 1997, we called in a lawyer to put the legal touches on our agreement. Then we formed a premium finance company and called in the top-ranking people at our companies to tell them what we were doing. At first only three or four companies approved, but eventually the others went along with it.

In the beginning, our coverage was the corridor from Waco to San Antonio. As our companies became comfortable in this area, they started to expand. We started with 7 agency members operating only in Texas. Now we have 40, with a property-casualty premium volume of \$387 million in 2007. We have expanded into Oklahoma and Kansas. We're expanding incrementally because from the start we've focused on getting good people, not necessarily the biggest or the oldest firms. One of our goals then and now is to provide a good product, a lower loss ratio than the statewide average,

and our range of companies. These will go up and down with storms and economic factors, but we want to beat the average.

We've been in a soft market, but at the end of the day when things turn around, companies are still going to look at the bottom line if the agency is making them a profit. We established a loss ratio review committee from the start which annually reviews every agent's loss ratios with their major companies; if they are bad, the agency must explain why and address the problem.

Our requirements for membership are that the agency must be financially in trust, must be an established business, and should have a good spread of risk. We wanted to stay in the more preferred areas of the state, where companies like to underwrite. We also want agencies to demonstrate a willingness to work with other members, because a lot of the work is done by volunteers in the organization through committees.

Every agency is totally autonomous; there is no shared ownership. Our central office is in Austin and we have an executive director, which creates some expense. To offset this, we charge each agency a fee each month, based on their premium volume. We keep a modest amount of capital and our collective profits pass through to the agencies.

As part of our membership services, we've added a brokerage agency at our Austin office for their use only. We also have an MGA license with a very experienced guy running it, which gives us access to companies that are selective with appointments.

Our members represent most national insurers, including Central, Hartford, Travelers, CNA, Allied, America First Group, and regionals like State Auto and United Fire. Through our brokerage, we can also access Fireman's Fund, Chubb's personal lines market, Utica, and others.

Our contract is basically an operating agreement that members sign and agree not to compete with each other. However, members can leave as easily as they get in, although we've never had anyone leave unless they sell their agency. We also issue a certificate of ownership and an initial membership fee. If they leave, they get that money back and we get the certificate of ownership.

I've been in the business for 50 years and I've seen many agencies and companies go away. If you're an independent agent, you need to get serious about staying in business in the long run. If you're interested in a group, look at how it's structured: some you can't get out of, others try to do things on a grand scale of financing, so agents must be careful about that.

There are some good groups out there, but you need to see what is the cost and what they offer. If we're at a seminar and an agent asks about us, we're not reluctant to let them see how excited we are about the group. Seek out agent friends that are in groups and explore the things they can talk about. But don't pay a bunch of money to get in, or sign an onerous agreement.

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Ellsworth, Maine

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Looking at our contingent commission over the past 15 years and our books of business before that, we saw that some years it would be zero, other years \$40,000, the next year zero, after that \$5,000. We decided it would make more sense to combine forces; that way the commission would go up or down, but it's always there, and that's how small agencies can make money to put back into their businesses to buy computers and upgrade.

Before grouping, we did a lot of research on our own, got online with the Big I, looked at cluster agreements, and chose how we wanted to do business together, which was the genesis of our agency agreement. We started talking seriously about grouping in 1991 and started a third agency in another community. It all came together to cluster the three agencies in 1994.

We have 19 agencies in 20 locations, most in eastern Maine. The premium volume for all lines of business is between \$30 and \$40 million. Our biggest and most supportive market is The Hanover, although other insurers include Concord, MEMIC,

Patrons, Acadia, One Beacon, Peerless. Maine Mutual, Main Street America, Andover, Union Mutual, Norfolk and Dedham, Patriot Insurance, Progressive, Foremost, Bristol West and Farmers.

Every company that's part of this group has the final word of who represents them, but they facilitate the group arrangement and most have been very supportive. The benefit to the company is they're getting a prescreened person. Their marketing reps know of good agencies that need help to get another market or in area where opportunities are limited and will get bumped out as profitsharing levels go up.

All of our member agencies have been referrals from company marketing representatives, and most are in rural towns. Within our group we have had guys that started as one-person agencies and now have two people because now they have market access through Grindstone. Members pay a monthly fee based on commissions, along with an entry fee. We don't seek ownership in member agencies and have not allowed anyone to buy into Grindstone.

The main benefit to our members is market access, but we also provide 6 to 9 6-hour continuing education classes a year, and a pro-rata profit-sharing split based on volume—if we write \$1 million for a company and get a profit-sharing check for \$100,000, Grindstone collects 10 percent and \$90,000 is split by all agencies that put in any volume with that company, regardless of loss ratio.

In all Grindstone's years in business, we have only had one agent that didn't come out ahead, and that was because they had a huge book of business with an insurer that didn't do profitsharing one year. Although we've never had an agency pull out, we have had agencies that got sold to bigger agencies.

I would advise agents interested in grouping to think hard about what they want from the arrangement. To me, ownership was the biggest deal because I want to be my own boss. Agencies should do the numbers work and determine whether whether it's a win for both parties, which is how we tried to structure Grindstone. Some arrangements call for the agency to give up 50 percent of their business, others ask for 25 percent in arrangements where everyone owns part of the business and the agency owner is just a manager. Grindstone doesn't run that way.

We don't tell anyone how to run their business or where to place business, but in our contract if an agent has legal issues, that's grounds for being kicked out. Our contract is 2-year agreement that renews perpetually unless there's a serious problem with a carrier, such as a contract violation.

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Keystone Insurers Group, which is wholly owned by its partner agencies and employees, was founded in 1983 on the premise that there would be greater opportunities as a group rather than as individuals. Keystone is regional simply because there are states, and areas within states, that simply would not generate the numbers of franchises needed to support the model. For example, every state has a vice president responsible for providing services. Without at least 20 or 30 franchisees, the state could not support that presence and the array of services Keystone provides.

We have exercised the power of partnering in an industry that has shown a propensity for dramatic and often drastic change. Keystone does not own agency partners; Keystone does not tell a partner how to operate; Keystone does not usurp a partner's identity or independence. Keystone's mantras are greater opportunities for partners and the perpetuation and strengthening of the independent agency system.

Our model is unique in that we partner only with agencies that are doing fine on their own, but that recognize coming together, while maintaining ownership and individual identity, provides significant clout, greater independence, enhanced opportunities and an unparalleled intellectual capital.

We began 2009 with approximately 175 partners in Pennsylvania, North Carolina, Virginia, Indiana and Ohio. Our model is to enter a new state every 16 or 20 months. We have earmarked Kentucky, Tennessee, Georgia, Illinois and South Carolina as the next opportunities for expansion.

Keystone partners write all lines of business. Core carrier representation often varies by state simply because not every carrier is licensed to do business in all states. Keystone is most successful with those national and regional carriers doing business in all of the states in which Keystone is present.

Our partners determine what is best for their individual agencies so there is no loss of autonomy. In fact, our partners say they are more independent by virtue of Keystone than they could have ever been on their own. We have several divisions within Keystone (exclusive programs, loss management, legacy, benefits, financial services, Keystone Risk Managers, profitability and Production, and service), and a partner can pick and choose those needed to realize greater success.

We don't do start-ups; we aren't interested in agencies that are struggling; we're not interested in agencies that, on their own, cannot get markets or command the respect of their carriers. We want only agencies that are doing fine on their own. This becomes one of Keystone's major attractions for interested agencies.

Keystone is governed by FTC regulation, which is a platform of full disclosure. Partners can leave after one year for any reason whatsoever. We are proudest of the fact that in 26 years, we have never had a partner decide to leave.

The average agency partnering with Keystone will take months, sometimes years, to make a decision, and we're willing to work and be patient with them. It is a major decision, and both Keystone and the agency had better be sure it is mutually beneficial.

Our advice on partnering with any organization: Read the fine print, understand the model with whom you're partnering; understand what you can and will derive from the relationship, not what you hope you'll derive; respect those who have gone before. And understand your own agency. The result of partnering with great independent agencies is a productive, profitable entity that commands respect and opportunity and that adds value to partner agencies.

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Source: <http://www.agentandbroker.com/Exclusives/2009/4/Pages/Clusters-and-aggregators-Straight-from-the-sources.aspx>