Death in an Agency

By Chris Burand

I have unfortunately worked with the families, estates and partners of several agency owners who have passed away. Most, but not all, of the deaths occurred unexpectedly. In all cases, the person who passed left their families, estates and partners with far more problems than necessary. So my question to you is this, if you passed away tomorrow, would you leave the people around you with unnecessary problems?

Agency Value

One of the absolutely worst situations I absolutely dread is when I have to tell a family the agency is not worth anything near what the recently passed relative (usually the father) told them it was worth. Agency values are not what they once were. So telling your family they can get two times is wrong and, while possibly innocent, it is still cruel.

Get your agency valued using real world values so everyone's expectations are realistic. Put yourself in their shoes. The income from the agency will be eliminated upon the sale. Will the agency's sales price be enough to support their standard of living?

Being proactive also brings to light things that can be done to increase the value. One of the saddest examples is bad debt. I have seen a number of agency owners die with sizeable accounts receivable that were totally uncollectible and quite old. I have seen these debts total 20 percent, 25 percent, even 30 percent of the agency's commissions. Even if an agency is worth some high multiple, those bad debts have to be deducted.

Another horrible situation is a widow learning that her husband did not really own all the business on the books. He always meant to get around to fixing his producers' contracts, but died before he did. Also, there have been situations where all the important accounts are written by the deceased and there is no one in the agency to take over those accounts. Those key accounts most likely will not stay with the agency and, therefore, the value is not going to be what the estate may have thought.

Or another example: keeping lousy books. It is not imperative for an owner to keep good books and good data. It is smart and it is a good business practice, but it is not imperative. However, if a person dies and the books are poor the agency is not going to sell for full price. Who will pay full price for an agency for which no one knows the true income and the true state of its balance sheet?

I know many readers are thinking these things never happen, but they do. How do you know you do not have similar issues if you have not gone through the process of having your agency valued by a competent agency appraiser? As one client said not long ago, "I did not realize I had so many holes in my data until you valued it and I understand now why you need that information."

Agency Ownership
Do you really own your agency? I have seen a number of situations where the agency's contracts were so poorly written the agency did not clearly own the business on its books. Maybe the owner knew this at one time and had forgotten because nothing bad had happened. On a day-to-day basis, it didn't really matter. But when the agency is being valued, especially when it is being valued because the owner has died, it does matter and that is not when anyone wants to discover the problem. As more and more clusters develop and even age, this is going to be a bigger and bigger problem.

Buy-Sell Agreements
What happens when a person dies with a bad buy-sell agreement with their partner? Unless luck and goodwill are in plentiful supply, nothing good happens. The partner may have been the greatest, most unselfish person on earth, but is his or her family just as unselfish? This is important because at least for a time, the dead partner's family will be partners too.

For example, what happens when the surviving partner realizes the buy-sell agreement poorly defines value? This may leave the door open for the dead partner's estate to claim whatever value they desire. I have seen, more than once, claims of two times PREMIUMS! It is not always that the other side is greedy; often they are just uneducated about the insurance world. Combine that with grief and a feeling of immense vulnerability, and it may mean they won't want to settle for a reasonable value.

Another great example is where the agency's balance sheet is poor and the estate's trusted advisor discovers some rule of thumb that agencies are worth some multiple of commissions, but fails to understand that balance sheet deficits, especially trust ratio deficits, must be deducted. If you have ever tried to buy out a partner at full price while the agency has a trust ratio deficit, you will know how difficult it is to make payroll and other payments.

Last But Not Least
The readers of this article have the opportunity to fix a wrong before the wrong occurs. The pain survivors feel when a loved one and partner dies is already immense. Why exacerbate it by leaving them a business in a mess?

Chris Burand is president of Burand & Associates, LLC, an insurance agency consulting firm. Readers may contact Chris at (719) 485-3868 or by e-mail at chris@burand-associates.com.

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