THE STANDARD
NEW ENGLAND'S INSURANCE NEWSMAGAZINE
Published Since 1865 Boston, Mass. October 30, 2020 Vol. 287 No. 9

SPECIAL FOCUS ON AGENCY MANAGEMENT PAGE 12

Agency Values During COVID-19

By: Mike Ryan, CPA

The fallout from the coronavirus pandemic has impacted all of our lives. What impact, if any, has it had on independent insurance agency values?

My comments and insights are based on my discussions and experiences with agency buyers and sellers and their advisors over the past six months.

Based on recent reports in national publications and my own experience, agency merger and acquisition (M&A) activity both locally and nationally has slowed down. I have spoken to some major local agency buyers who have told me they have placed any new acquisition plans on hold until the coronavirus problems are resolved. This could result in fewer active buyers and possibly lower sales values. I have spoken to a few agency buyers who anticipate lower agency prices based on the coronavirus pandemic as well as predictions from national M&A advisors. This could be wishful thinking.

Clearly agencies that have commercial lines accounts with exposure to restaurants, gyms and businesses that are directly impacted by the coronavirus will experience premium declines and impaired agency values. Agencies that have primarily personal lines accounts are unlikely to experience any significant decrease in premium revenues. With improved loss ratios as a result of insureds driving less and having fewer auto accidents, the agencies should be more profitable with enhanced profit-sharing commissions.

In my experience, activity from both buyers and sellers has decreased during the past six months probably due to the uncertainty and the distractions of trying to run a business during the pandemic. Recently, I have seen an uptick in activity as we adjust to the "new normal."

To date, I have represented eight agency sellers in 2020, with six closings so far and two expected to close by year end. In my opinion, the coronavirus pandemic has not negatively impacted any of these agency sale prices. Keep in mind that none of these agencies had a concentration of commercial accounts that would be negatively impacted by the coronavirus.

I recently spoke with attorney David Bakst of Morrison Mahoney LLP to get his insights on the current market. Nationally recognized for his expertise in the insurance industry, Bakst has seen a great deal of M&A activity throughout 2020. He said that big national buyers backed by hedge funds and private-equity money have continued to aggressively pursue larger agencies with "offers sellers can't refuse." These buyers do not appear to be concerned about the pandemic because they are buying agencies with diverse books of business. Both agency prices and deal structures have continued as in the past.

"On the local level, smaller agencies with small 'Main Street' business clients represent more precarious books. As a result, prices are slightly off their peak with some sales based upon a portion of the purchase price being conditioned on retention of business over one to three years," said Bakst.

Retention payout deals provide buyers

with protection against declining books of business.

I asked Ely Kaplansky, president of Kaplansky Insurance, about his experience during the past six months. Kaplansky has completed over 30 agency acquisitions since 1974.

"I have definitely seen reduced activity but no impact on agency pricing. We continue to evaluate agencies as we have in the past and are still paying comparable multiples for good agencies," he said.

In conclusion, I believe that good attractive agencies will continue to be in demand, and I do not expect to see a decrease in the value of these agencies. The factors that have driven agency consolidation have not changed, and buyers will continue to compete for quality agencies.

Owners of agencies that have commercial books of business that have been affected by the coronavirus pandemic will face reduced values and less attractive payment terms. These sellers probably would be wise to delay a sale until there is a recovery. ■

Michael B. Ryan, CPA, is the managing member of Insurance Agency Consulting Services LLC, which assists buyers and sellers with agency acquisitions.