Grey Parrot
FINANCIAL PLANNING

10 practical things to consider before you sell your general insurance business

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For many owners of general insurance business, the pandemic has been a mixed blessing.

On one hand, profit margins for many firms have increased and many have been successful throughout the last couple of years.

However, spending more time away from the office may have led you to rethink your priorities. Perhaps you've had more time to work on your business rather than in it, and now you're thinking more clearly about an exit strategy?

Or, maybe you have simply enjoyed more time with your family, and you'd like to make that a more permanent arrangement?

In recent years, mergers and acquisition activity has increased in the general insurance sector. Indeed, Insurance Age report that there was a record number of deals and money spent on consolidation in the UK insurance distribution market in 2021, with 145 buys – up from 108 in 2020 – costing just over £6 billion.

This trend looks set to continue with private equity seeing the high potential returns GI businesses can generate.

EBITDA multiples have increased to record levels, firms are looking at additional markets to increase revenue – more of this in a moment – and consolidator activity due to private equity is strong.

All these factors might have led you to consider selling your business over the next few years.

We've designed this guide to help you to clarify your thinking around a potential sale. From devising a plan to looking at ways of increasing your revenue – and future sale price – there are loads of useful tips for any general insurance broker looking to exit their business.

You'll find loads of practical advice that will help you get the most from your sale – and live the lifestyle you want both now and in the future

There are two practical ways Grey Parrot can help you:

- Good quality financial advice allows you to make informed decisions about your future. We can help you determine whether you have "enough" when you sell your general insurance business, and create a financial plan that enables you to live the life you want once you sell your company.
- We can work in partnership with you to provide the same quality financial planning to your clients. This tripartite arrangement can help you to increase your business revenue, and can significantly enhance the value of your business when you come to sell.

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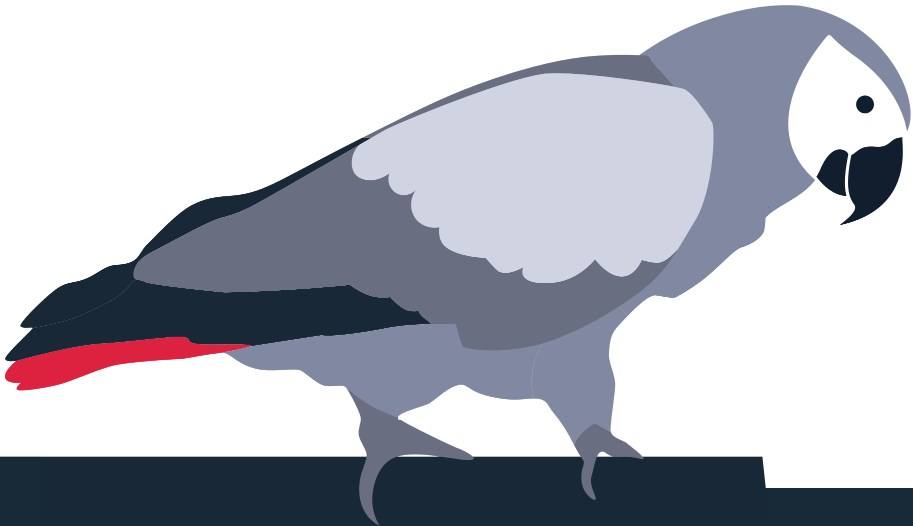

How a partnership with Grey Parrot can increase your revenue and sale price

Over the next few years, the demand for good quality financial planning will increase. As baby boomers reach retirement age and as individual wealth rises, more and more people will seek retirement, wealth management and investment advice.

Your clients are likely to be some of the most in need of this advice.

So, a partnership with a financial planner can do two key things:

- Provide a joined-up service for your insurance clients, ensuring that they get holistic advice about their entire financial situation
- Generate revenue for your business.

This additional revenue can be substantial, meaning it can increase your sale price or even bring your exit forward.

Here's an example.

James owns a general insurance brokerage and has a strategy to exit his business in the next three to five years. He has around 600 clients, mostly with a commercial bias and a proactive approach to a strategic alliance with us.

James introduces 50 clients to us – around two a month – over the course of two years. Assuming his firm received a fee of £700 a client from us initially, and £300 a year on an ongoing basis, at end of year three the initial profit added to James' business would be £35,000 and the ongoing would be £15,000 a year.

An EBITDA deal constructed over last 18 months would mean £32,500 added to the firm's profits. With EBITDA multiples in the sector as high as "seven times", the business value has increased by £245,000.

All James has to do to earn this is to recommend us to his clients.

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1. Think about your reasons for selling

The first question you should consider is: why do you want to sell your business?

You'll have sunk countless hours into growing your company and you've no doubt had plenty of stressful, sleepless nights getting your business to where it is today.

While there may be lots of practical reasons to sell, it's important to be emotionally ready to move on.

It's likely you have been integral to your business's success, and as a result it holds a special place in your heart. It may have dominated your life for years or even decades and come to define who you are as a person.

So, think carefully about whether you're ready to move on to the next stage. Many people who decide to retire end up back in the workplace within a few years, because they either miss the purpose that work gives them, or the social aspects of day-to-day working life.

Preparing to sell a business is just as much about you, your feelings, and your retirement goals, as it is about selling the company itself.

2. Think about what you want to do next

Now you've decided you definitely want to sell you need to think about what you plan to do next.

If you plan to retire, you'll need to consider carefully how you structure your income for this next chapter of your life. As life expectancy rises, your funds might have to last you 20, 30 or even 40 years and so it's vital you devise a strategy for taking income sustainably.

This will involve considering factors such as:

- Drawing income tax-efficiently
- Pension allowance – such as Lifetime Allowance – issues
- Tax due on your business sale (more of this later)
- An investment strategy that is appropriate for your goals
- Estate planning and Inheritance Tax issues
- Whether you want to help your family financially.

As financial planners, we have considerable expertise in helping business owners to plan for retirement. Whether that's saving for later life as your business grows, or taking income sustainably and tax-efficiently once you sell your company, we can help.

If you don't intend to retire, do you have a plan in place? You'll need to think about what you want to do next, and how much short- and medium-term income you'll need during this period.

3. Establish how much is "enough" for you

Sarah received an offer of £2 million for her business. Her accountant felt it undervalued the company, and so she spent five years holding out for the £2.5 million offer she wanted.

Chloe also received an offer of £2 million for her business. She spoke to a financial planner and, using cashflow modelling and thinking carefully about her future plans, they determined that £2 million was more than enough for Chloe to do everything she wanted with the rest of her life without running out of money.

Chloe sold straight away and spent five years travelling the world and ticking items off her bucket list – safe in the knowledge she had "enough".

This is a cautionary tale for all business owners. If you don't know what your number is – how much is "enough" – then it's difficult for you to make informed decisions when you come to sell your business.

If you're leaving your business, you're probably going to lose your main source of income. So, the first thing to work out is how much you need from the sale to do all the things you plan to do next.

You may be ready to retire or are preparing to move on to your next business venture. Either way, it's important to have some idea about what comes next and how much money you might need for your new chapter in life.

Cashflow modelling is the perfect tool to really understand what you want the future to look like. We'll look at your goals and objectives and use cashflow modelling to play out a variety of "what if?" scenarios to help you understand how much money you need to achieve your dreams.

This exercise can provide useful insight into how much you might need to sell your business for, or how much income you'll need to generate once you have sold the business.

It really focuses on what you need, not what you think you might want – and seeing this in black and white can be a genuinely life-changing moment.

4. Maximise your revenue and sale price

If you're planning a sale in the next few years, one of your aims will be to maximise the sale price of your business.

That's likely to mean keeping a tight control on expenditure and increasing revenue.

"The insurance agents and brokers industry is expected to perform well over the next five years. Industry revenue is expected to increase at a compound annual rate of 4.7% over the five years through 2025/26 to reach £15.8 billion.

"This growth is likely to be driven by rising demand for speciality commercial lines like cyber insurance, gig economy insurance and SME policies. Personal line insurance products such as medical cover, pet insurance and travel insurance are also likely to support revenue growth..."

IBISWorld *Insurance Agents and Brokers in the UK report, March 2021*

One of the ways Grey Parrot can help you to increase your revenue and, ultimately, the sale price of your business is by creating an income stream from financial planning.

Page 3 of this guide details an example of how recommending general insurance clients to us can generate both substantial initial and ongoing fee revenue.

With this in mind, we think that being introduced to the right type of client will create additional income to a general insurance broker in the region of:

- £700 for each client initially
- £300 a year for each client ongoing.

So, for the right broker, our proposition represents a significant opportunity to increase the EBITDA and, consequently, the exit value.

If you were to introduce 50 clients over two years – a couple a month – at end of year three the initial profit added to your business would be £35,000. Ongoing profits would increase by £15,000 a year.

An EBITDA deal constructed over the last 18 months would mean £32,500 added to your firm's profit. With a multiple as high as "seven times", the business value increases by £245,000.

Our fixed-fee approach offers significant benefits to your clients

Our view is simple. As most financial advisers are not qualified to manage investments, nor are they responsible for their performance, they shouldn't be rewarded for it.

We don't think it's right that someone with £1,000,000 invested should pay 10 times as much as someone with £100,000 invested if they receive a broadly similar service.

In addition, fixed fees are fairer and are typically more cost-efficient.

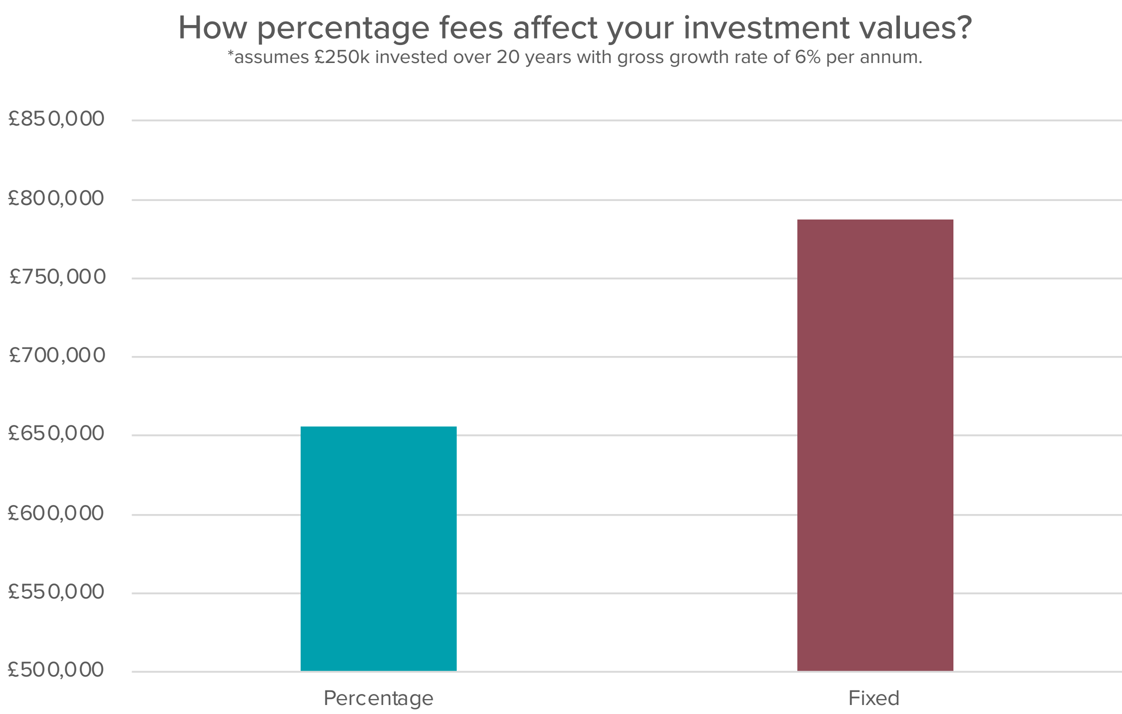
Here's an example.

Rachel and Colin have £250,000 to invest and are considering two financial planners. One charges a fixed fee of £2,500 a year. The other charges an annual fee of 1% of their investment value.

On day one, both planning firms charge the same fee of £2,500.

However, Rachel and Colin's portfolio starts to grow. Let's assume it grows at 6% a year over a 20-year period.

The chart below shows the effect on future values of both a percentage-based and fixed fee charging structure.



Using this example, the effect of the fixed charges means that an additional £131,000 has been added to the value of their investment as Rachel and Colin's portfolio grows.

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5. Get the business "sale ready"

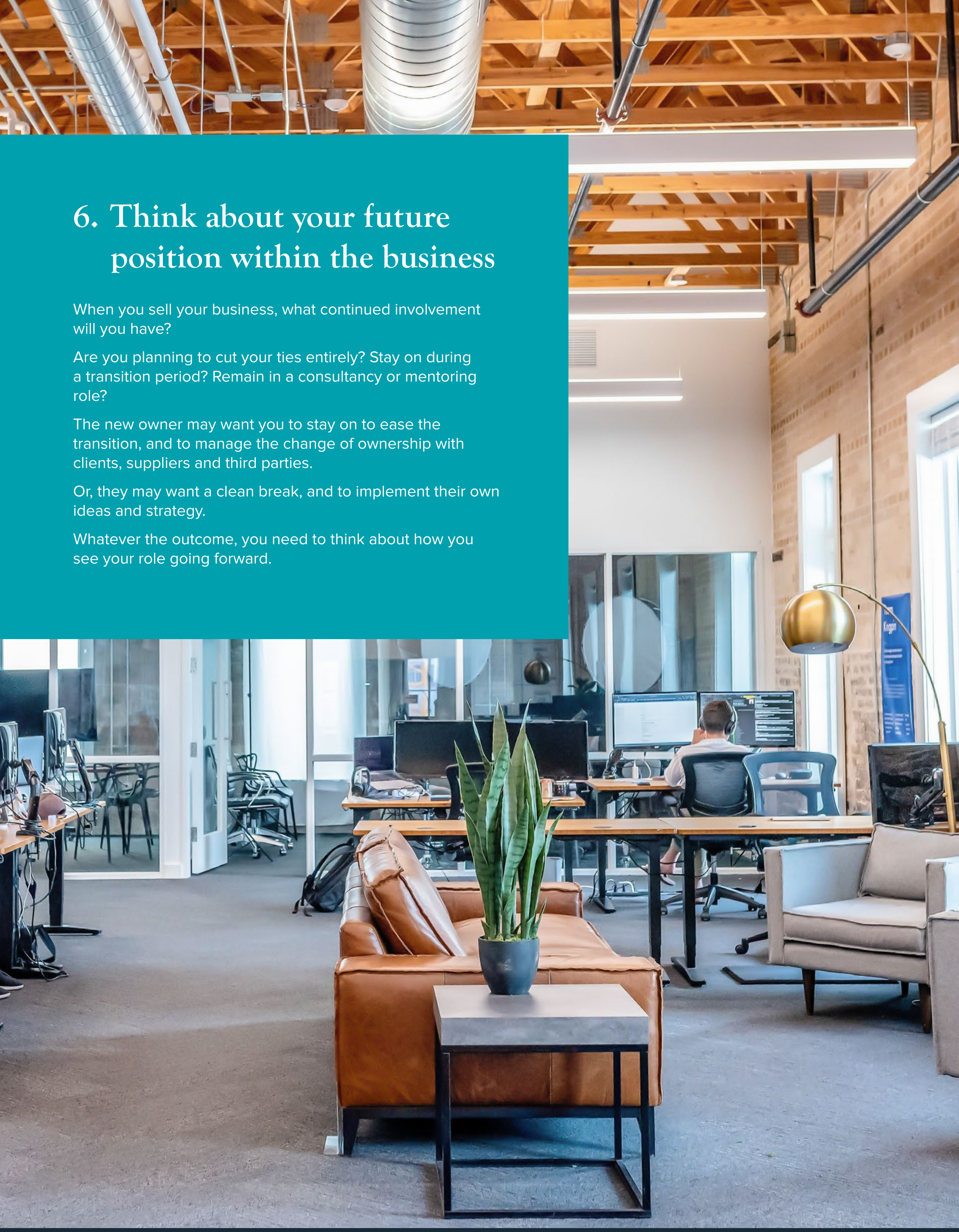
You know when you want to sell, how much you want to achieve, and you've taken steps to maximise your sale price.

Now it's time to get to the position where it's ready to sell. Think of it like decluttering your house and touching up the paintwork before you open the doors to viewings.

There are several steps you can take to get "sale ready".

- Create regular, consistent income – while having a record-breaking month is a great sign your business has potential, showing a prospective buyer that your firm generates stable, consistent income is really attractive.
- Manage your cash flow – alongside consistency in revenue, a strong and well-evidenced cash flow can be a huge factor for any potential buyer.
- Speak to the team – do the team know about your plans? Have you put together an expert, responsible and talented team that will continue to drive revenue for a new buyer? Potential buyers need to be confident that the business will continue to operate at its current high levels when you're no longer involved.
- Get your paperwork in order – just like when you apply for a mortgage, a buyer will want to pore over your paperwork. Make sure all your accounts and bank statements are up to date, as this will make it easier for a buyer to conduct their due diligence.
- Have you delegated your responsibilities elsewhere – as you grew your business, you may have accumulated clients who want to work with you personally. When you are thinking of selling, you need to create a strong management structure and increase the work you delegate – otherwise you'll never be able to leave!

This last point is really important, so let's examine it more closely in the next section.



6. Think about your future position within the business

When you sell your business, what continued involvement will you have?

Are you planning to cut your ties entirely? Stay on during a transition period? Remain in a consultancy or mentoring role?

The new owner may want you to stay on to ease the transition, and to manage the change of ownership with clients, suppliers and third parties.

Or, they may want a clean break, and to implement their own ideas and strategy.

Whatever the outcome, you need to think about how you see your role going forward.

7. Consider the tax implications

As a successful business owner, tax is probably one thing you're used to thinking about. That won't end at the point where you to come to sell your business.

In the run-up to the sale, there are many things to consider. For example, if you've been paying into a pension, is there room for you to make additional contributions? This may be your final chance to benefit from tax relief on your contributions, so you might want to make the most of this planning opportunity.

When you sell your business, you may have to pay Capital Gains Tax (CGT) on any profit you've made. This can include anything involved with the business, such as land and buildings, or machinery and even shares.

You may be able to reduce your potential tax bill using Business Asset Disposal Relief (BADR).

To qualify for BADR, which replaced Entrepreneur's Relief in 2020, you need to have owned your business for at least two years. If you qualify, you can use BADR to reduce the CGT you pay on qualifying assets down to 10%. This can be applied to the value of your business and its assets up to a lifetime threshold of £1 million.

Any gains that don't qualify for BADR, or are above the £1 million threshold, will be charged at 10% or 20% (18% or 28% if the gain is on residential property or carried interest) subject to any annual exempt amount and depending on the availability of your basic-rate band.

You can use your tax-free allowance against the gains that would be charged at the highest rates (for example, where you would pay 28% tax).

We'll work with you to make sure you're taking the right steps to mitigate your tax liability wherever possible.

Make the most of tax-efficient investments

On the other side of the sale, if you have a high tolerance for risk and aren't quite ready to launch your own new venture, you may choose to rollover some proceeds of the sale into the Enterprise Investment Scheme (EIS) or a Venture Capital Trust (VCT).

Both carry healthy tax incentives and EIS can be particularly useful for deferring any CGT you might owe following the sale of your business. However, these are high-risk investments and so are not suitable for everyone.

8. Ensure your personal finances are also robust

It's not just the finances in your business you need to think about. Your personal affairs also need to be tax-efficient and well organised – especially if you're planning to stop working once the sale of your business concludes.

- Are you maximising your pension contributions?
- Are you making the most of tax-efficient investments such as ISAs?
- Do you have the right protection in place to ensure your loved ones can maintain their lifestyle if something happened to you?
- Have you made a will, and put a Lasting Power of Attorney in place?
- Will you have Inheritance Tax issues on your death?

Working with a financial planner can ensure that your personal finances are robust and organised in a way that will support the next chapter of your life.

Grey Parrot's 7 investment principles

These seven principles are designed to answer the question: "how can you get the best return on your money?".

1. Evidence shows diversification works. We will seek to diversify our clients' investments according to the principles of modern portfolio theory.
2. We will outsource portfolio construction to portfolio managers, portfolio funds or use portfolio construction technology where we cannot ensure our clients hold optimised portfolios at a level of risk they are comfortable with.
3. We will use the best risk profiling technology we can obtain to help our clients understand their risk profile.
4. We will seek to reduce overall costs for clients by obtaining platform savings where we can.
5. Our fees will be fixed; we will not charge a percentage of our client's funds for any work we do.
6. We will only select portfolio managers and portfolio funds who avoid using active managers. Where we construct portfolios using technology, we will only use low-cost funds that provide the market return.
7. We will add value to our clients through financial planning alongside financial advice, helping them make plans and decisions, invest wisely, and avoid costly mistakes.

9. Do you hold commercial property?

If you own and run your own business, you may have commercial property that you also own but which may not form part of the sale when you're ready to sell up.

Many entrepreneurs choose to hold commercial property inside a pension, which you can do using a self-invested personal pension (SIPP) or small self-administered scheme (SSAS).

You may need to take some time to think about whether you want to keep the property or if it's better to sell it and benefit from additional cash proceeds.

A financial planner can help you to establish the best outcome, and how a SIPP or SSAS might help to support your retirement.

10. Seek professional advice

As you've seen from this guide, there's a lot to think about when you come to sell a successful general insurance business.

From emotional considerations to a potential tax bill, you'll have some life-changing decisions to make. So, why make them alone?

We've worked with general insurance brokers for many years, and we know this sector inside out. We've helped both GI business owners and their clients to build a robust and tax-efficient financial plan that puts your life goals and ambitions front and centre.

We're a sounding board for big decisions, a mentor when you need to keep on track to achieve your aims, and a highly qualified expert when it comes to issues such as protection, retirement planning, estate planning, and tax.

And, by working in partnership with us, you might even be able to achieve a higher sale price for your business.

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Get in touch

Find out how we can help you.

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Please note

A pension is a long-term investment. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Your pension income could also be affected by the interest rates at the time you take your benefits. The tax implications of pension withdrawals will be based on your individual circumstances, tax legislation and regulation, which are subject to change in the future.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

The Financial Conduct Authority does not regulate estate planning, tax planning or will writing.

Enterprise Initiative Schemes (EIS) and Venture Capital Trusts (VCT) are higher-risk investments. They are typically suitable for UK-resident taxpayers who are able to tolerate increased levels of risk and are looking to invest for five years or more. Historical or current yields should not be considered a reliable indicator of future returns as they cannot be guaranteed.

Share values and income generated by the investments could go down as well as up, and you may get back less than you originally invested. These investments are highly illiquid, which means investors could find it difficult to, or be unable to, realise their shares at a value that's close to the value of the underlying assets.

Tax levels and reliefs could change and the availability of tax reliefs will depend on individual circumstances.

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