

THE *Insurance* & *Investment* JOURNAL

FOR FINANCIAL ADVISORS

VOL. 14 NO. 4 MARCH 2010 \$7.50

INSURANCE

RBC's direct discount on term
worryes independent advisors

Page 5

Term insurance sales grow for
managing general agents

Page 10

INVESTMENT

Guaranteed withdrawal products
continue to drive seg fund sales

Pages 26 to 28

New trend gains momentum in
group retirement market

Pages 32 and 33

FINANCIAL PLANNING

Expert advice for serving high net
worth clients

Pages 20 and 21

End-of-life financial planning is
necessary and valued

Pages 22 to 24

Follow the money to find investment
opportunities

Page 25


EXCLUSIVE COMPARATIVE TABLES

TERM 10 INSURANCE
PRODUCTS

PAGES 5 TO 12

SEGREGATED FUND NET
FLOWS AND MARKET SHARES

PAGES 26 AND 28



Prepare ahead
to maximize
the value of your
BUSINESS

Pages 14 to 18

A comprehensive guide to buying or selling a book of business

What is my business worth? That is a question many financial advisors are asking themselves without knowing where to find a clear answer. To help guide you, *The Insurance and Investment Journal* is pleased to present its annual Business Value Index.

This special report features valuation criteria and expert advice. Discover how the market measures the value of your life insurance and investment clientele.

Whether you want to sell or acquire a block of business, borrow to support your growth or carry out a merger,

inside this special report you will learn about the factors that influence the worth of a book of business. Using the index, you can also make changes now that will build the value of your business, whether you are planning to sell or buy in the near future, or many years from now.

Serge Therrien
President and Publisher

THE Insurance & Investment JOURNAL

LE JOURNAL DE L'ASSURANCE

LEGEND FOR BUSINESS VALUE INDEX TABLES

\$\$\$↑	Extremely valuable
\$\$↑	Valuable
\$↑	Rather valuable
\$↓	Less valuable
\$\$↓	Even less valuable
\$\$\$↓	Far less valuable
☆	Factors to consider

VALUE ATTRIBUTED TO THE SIZE OF LIFE INSURANCE IN-FORCE (ACCORDING TO RENEWAL COMMISSIONS AND ECONOMIC VALUE)

Renewal commission factor	Size of in-force
5 X	In-force of \$1 million and more
4 X	In-force between \$500,000 and \$999,999
3 X	Under \$500,000

Source: Nessa Capital

BASIC COMPONENTS FOR VALUATION OF LIFE INSURANCE BUSINESS

\$\$\$↑	Duration of renewal commissions (see Compensation from life insurance clientele)
\$\$↑	Retention rate
\$↑	In-force premiums (for premiums paid by the clients only)
☆ Tip	In-force size significance is related to the duration of renewal commissions left on policies in the business block, multiplied by the retention rate.

COMPENSATION FROM LIFE INSURANCE CLIENTELE

\$\$\$↑	Renewal commissions for policy life
\$\$\$↑	High renewal commissions
\$\$\$↑	Additional bonuses payable in future (retention, service, etc.)
\$\$↑	Commissions protected by contract with insurer
☆ Tip	Some firms assign a uniform base value to each client for which no renewal commission is payable (often \$30 to \$35 per client)
☆ Tip	When appraising the clientele, some companies take into account estimated gross revenue for the next few years and all take into account gross revenue produced by the clientele in the years preceding the sale

Prepare ahead to maximize the value of your business

How can financial advisors maximize the value of their businesses before a sale? The answer is to prepare for the succession years in advance, agreed experts interviewed by *The Insurance and Investment Journal*.

George Hartman, President and CEO of **Market Logics Inc.**, is a financial services industry consultant and coach and author of a new, bestselling business book for financial advisors called *Blunder Wonder Thunder*. He says ideally advisors should start planning for a sale two to three years in advance.

Mr. Hartman says about a third of his business coaching work relates to succession planning. The main problem most advisors encounter with respect to selling their business “is insufficient time and care up front.”

A question he asks advisors who are thinking of selling is: “Would you sell to anyone?” It takes time and care to find the right match, he explains. A factor to look at in finding a successor is whether the buyer fits the existing business model. “If the model is comprehensive estate planning, you don’t want a high flying stock broker...you want to make sure that philosophically you are aligned.”

How do you find such a match? “The best way is personal observation.” Mr. Hartman suggests that in the years leading up to a sale, an advisor should look around for potential candidates. The first choice is to look within the firm. Internal candidates already share the business culture. Failing this, referrals from wholesalers or people within your network can lead to good candidates. The last resort for finding a buyer is advertising, he adds.

Taking the next step

Mr. Hartman uses the analogy of courtship to describe the succession process. Once the potential buyer is found, the first phase is “the engagement period.” During this phase the seller and potential buyer must find common ground and discuss what the firm would look like after succession. This involves developing a vision for the busi-

ness, culture, philosophy and working out the legal matters involved in the sale.

“Then we have the wedding,” adds Mr. Hartman. This phase involves completion of the agreement, the effective transition, the official handoff and announcements.

Following this, the buyer and seller embark on their Honey-moon. This is the period where the selling advisor will stay within the business for a certain period and introduce his or her successor to clients.

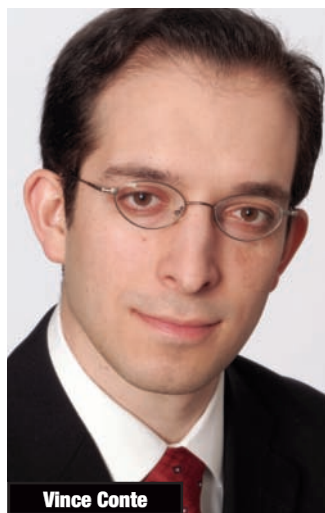
Exit gracefully

Then, it is time for the seller “to ride off into the sunset,” Mr. Hartman says, explaining that a graceful exit is an important part of a successful sale. Staying too long could cause clients to revert back to the old advisor, or cause the buyer to feel that the former owner is looking over their shoulder. “I’ve seen deals fall apart because the owner had difficulty letting go.”

Cindy Jenner Cowan, Director, Training for **Worldsource Financial Management**, agrees that advisors should start planning their sales years ahead. She says planning should start five to even 10 years in advance. “A sale is not just an event; it is really part of your overall business plan.”

Selling a business is a similar to the process a home seller follows, she adds. To increase the sale price, a homeowner will often carry out last minute renovations before putting up the business for sale. Likewise, advisors will often make improvements to their processes prior to a sale. She says advisors should make these changes years before they are planning to sell. “You could do it earlier and enjoy it.”

The future of the business is of paramount importance in a sale. “The value of the business is not what it has done in the



Vince Conte

past, but what it will do in the future,” explains Mr. Hartman. “We’re really looking for things to anchor the business in the future.” This includes the business’ growth path, marketing and the types of clients that the business is aiming to attract and processes from a sales perspective.

For this reason, having a written business plan is the most important factor for increasing business value prior to a sale. This plan must explain “who we are, where we’re going, and how we’re going to get there,” Mr. Hartman says.

Client transferability

Ms. Jenner Cowan says that, “At the end of the day, what really drives value is what is being transferred.” She warns that historical values can be misleading in this regard. Transferability of clients within a book of business or practice, cash flow and potential for growth are the true value drivers.

Client transferability from the seller to the buyer is influenced by a number of factors including age groups, geographical locations and client service and retention methods. If the client is attached to you as an individual, as opposed to the organization, retaining the client will be more difficult (see p. 17 *Take focus off yourself*).

Ms. Jenner Cowan suggests developing a profile of what type of individual you would like

to take over your business that details such information as what kind of products they might sell and business style, i.e., do they like to meet clients at home or in the office?

Such considerations are key to the transferability of a clientele and take time to do well, she underlines. “We’ve found it takes 12 to 24 months to find a successor and that you want to have another year working with the new person.”

Vince Conte, a Chartered Business Valuator, and Senior Manager, Financial Advisory with **Deloitte**, says one of the obstacles that advisors from smaller brokerages encounter at the time of sale is that they are not prepared for the amount of information the buyer will require.

“Prepare for a long process; the buyer will have a lot of questions. You need to respect this process.” The buyer needs to cover all the bases so there are no surprises down the road, Mr.

EXTRA!

Market crisis stalls sales
www.insurance-journal.ca/extra

Conte explains.

He adds that advisors can help this due diligence process along by preparing a comprehensive information package before the business is put up for sale. This package should provide information such as: revenue by client and by product over the last five years; client retention rate; details of key agreements with underwriters or investment managers; revenues by underwriter; employee agreements; a staff hierarchy chart; identification of key staff members and prepared answers about which clients you’ve lost and why, Mr. Conte explains.

He adds that the work involved in keeping excellent financial records may not pay off in a brokerage’s day-to-day revenues, but the value will become apparent when it is time to sell the practice. “Good financial and operational records drive higher prices.”

Donna Glasgow

Intangibles important factor in valuation

Sylvain Corriveau, a financial planner with **Investia Financial Services** in Laval, Quebec, has bought five investment funds clientele over the years. For him, potential future income is only one factor to consider: more intangible elements weigh heavily in his book of business valuation. "Who you buy from is just as important as what you buy," he points out.

He considers categorically valuing an investment clientele at 1.5 times assets or four times service commissions misleading. "Especially if clients jump ship during the transaction because clients are less loyal than before," he says.

Before acquiring a block of business, Mr. Corriveau always asks about the seller's approach to the clients. What was the clients' return in the last five years? How did they perceive their representative? Were they satisfied? Most importantly, as the new buyer, how will these clients perceive you?

"If you buy a block of business from a representative with a take-charge style while you tend to listen to the clients more, will clients used to being told what to do feel lost with you? How well do they know financial products?" he asks.

This is why Mr. Corriveau demands concrete figures before buying. Promises are not enough. "If a representative tells me his clientele has potential, my first reflex is to ask why he didn't develop it." He also takes into account the geographical distribution and average age of the clientele. Ideally, he tries to enlist the seller's support during the transition, when he first meets the clients.

Some buyers willingly pay more than the usual multiple for a book if they can restructure it to increase their income. For example, if someone buys a clientele with a no-load fund, they can generate added value from the block of business by converting the portfolio into a fund with a back-end load. (AT)

LIFE INSURANCE TRANSACTIONS

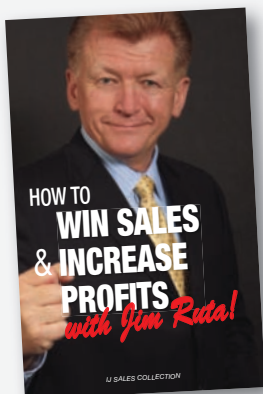
↑↑↑↑ or ↓↓	Seller offers temporary support to ease the transition. Sometimes works for the buyer
↑↑↑↑	Seller contacts all the clients, in writing or verbally, to inform them of the transaction and introduce them to the buyer
↑↑	Business concentrated with a small number of suppliers
↑↑	Program to ease the transfer, including financing for the buyer
↑	Seller and buyer have same business and service philosophy
↑	Seller incorporated: lighter tax burden and fewer potential legal problems
↓↓↓	Firm with no computer systems or administrative assistant
↓↓↓	Seller has a bad reputation with the clients
↓↓↓	Lingering debt, administrative charges and commission recalls

LIFE INSURANCE PRODUCTS

↑↑↑	Renewal commissions are high and of unlimited duration: disability insurance; health and accident insurance
↑↑↑	Segregated funds
↑↑	Convertible term with several conversion products
↑↑	Level cost universal life with high excess premium
↑	Whole life with redemption value that insured can withdraw without terminating the policy
↑	Product whose premium is paid monthly by pre-authorized bank withdrawals
↓↓	Whole life with little or unavailable redemption value
↓↓	Non-renewable term or exorbitant renewal premium
↓↓	Non-convertible term
↓↓↓	Book with large proportion of products whose renewal commissions will soon expire
↓↓↓	Yearly renewable cost of insurance universal life, minimum premium and high performance projections

LIFE INSURANCE CLIENTELE

↑↑↑	Average age of clientele from 40s to early 50s (critical illness insurance niche)
↑↑↑	Advisors with computerized client files, which supply a complete detailed list of the clientele, along with targeted business opportunities
↑↑	Cross selling potential (e.g. buyer has a life clientele and the seller an investment funds clientele)
↑↑	Active seller with new clients in the book
↑↑	Targeted clientele (niche with potential growth, e.g. business owners)
↑	Clients demonstrated loyalty by buying more than one product from seller (good for retention rate but less good for future sales opportunities)
↑ or ↓	Clients dissatisfied with products (can harm retention ratio but can give the opportunity of meeting clients)
↓	Clients scattered across different regions
↓↓	Low income clientele
↓↓	Poor advisor-client relations
↓↓↓	Files in a mess, information generally incomplete
★ Tip	Book containing several recent clients is worth more than a clientele to whom the advisor has not sold anything for a few years



How to Win Sales & Increase Profits with Jim Ruta

This book combines Jim Ruta's collected columns that have appeared in *The Insurance and Investment Journal* over the past three years with never-before published material. The result is a powerful blend of motivational, practical and technical wisdom to help you attain new heights of sales success!

Available in English and in French, this book is the perfect gift for anyone in financial services. Order it for your representatives, colleagues and especially yourself!

ORDER NOW! www.insurance-journal.ca/books

Take the focus off yourself

In his new book, *Blunder, Wonder, Thunder*, George Hartman President and CEO of Market Logics Inc. states, "If your clients do business with you rather than your practice, you have nothing to pass along to a successor."

How does an advisor determine if this is the case for him or her? "It takes doing an introspective exercise," Mr. Hartman explains. "Advisors can ask themselves, 'If I didn't show up for 30 days, what would happen to the business?'"

If the answer is, "The phone would stop ringing; I would cease to do business," then your clients are doing business with you and not your organization, he adds.

In this scenario, the challenge is brand-building, in particular, "shifting the business to bigger than me...from a brand of me, to a brand of we." This shift will require emphasizing the organization's processes and staff. "You

must convey the message that the business would be well managed without me. Is it difficult to do this? Yes, but it is necessary," says Mr. Hartman.

Vince Conte, a Chartered Business Valuator, and Senior Manager, Financial Advisory with Deloitte, also underlines the importance of this transition. "You want to create lasting value that is attached to the business as opposed to you." He adds that the goal is to transform "your personal goodwill into commercial goodwill."

Successfully achieving this transition takes time, he adds, so planning ahead is necessary. "You can't do that in a few

months. It takes a few years or longer."

During this period, Mr. Conte says the objective should be to remove clients' dependency on the key advisor who is selling. "You want to make sure that there are capable mid-level staff who can run the business "so they can become the trusted advisor of the client as opposed to you."

Mr. Conte also recommends emphasizing value-added programs "that associate the client with the brokerage entity as opposed to the individual owner-advisor." This might be done by using products such as competitive wrap programs, asset allocation strategies, relationships with fund managers, etc. The goal is to promote such offerings as products and services that the firm provides, instead of "you as an individual."

Cindy Jenner Cowan, Direc-

tor, Training for Worldsource Financial Management, says that in any advice business, clients will often develop a dependency on their advisor, similar to what can happen with a doctor-patient relationship.

"I've spoken with many clients who absolutely adore their advisors. One of these clients' greatest fears is what happens if their advisor is not there."

This is why she calls it "almost a fiduciary responsibility" for the advisor to find the right match in their successor and take enough time to transition the new advisor into the business, allowing a certain comfort level to be achieved, she adds.

Donna Glasgow



Plan before it's too late
www.insurance-journal.ca/extra

OTHER FACTORS TO ANALYZE	
Quality database on client files	Ideal database contains complete financial and qualitative strategic information to help the buyer integrate and quickly serve the clientele acquired. Also easily transferable electronically.
Transaction framework	What are the company's environment, team and reputation? What are its clients' habits? What are its commercial partners and agreements? Will you keep the assistant, associates, brand name, etc.?
Complementary portfolio	The more the clientele is concentrated in a line of business, e.g. life insurance, the more attractive it is for a potential buyer concentrated in another line of business (e.g. mutual funds)
Clientele distribution	Is the clientele scattered?
Supply and demand	Do market conditions favour the buyer or seller? In which sector, region and market segment will the sale take place?
New business potential in coming years	Better potential development opportunities (future sales) of the clientele will attract a larger number of interested buyers, even from different networks and competing companies.
Quality of clientele	Average value per account not too high (especially with a small number of clients) or too low.

CLIENTELE DIVERSIFICATION	
\$\$\$	Diversified clientele segments (for better quality, avoid over-concentration in a given segment: diamond, platinum, gold, silver, bronze)
\$\$\$	Diversified business (more than one product per client account)
\$\$\$	Diversified sources of income in target portfolio (life insurance renewals, service commissions in mutual funds) PAC
\$\$\$	Diversified clients in different account value brackets (avoid over-concentration in small or large accounts)
\$\$\$	Diversified clients in terms of risk profile
\$\$\$	Diversified clients in terms of markets reached (families, corporate professionals etc.)

BUYER STRUCTURE	
\$\$\$	Firm (assistant, associates, systems etc.)
\$\$\$	Individual buyer with administrative assistant
\$	Individual buyer

INVESTMENT PRODUCT CLIENTELE	
\$\$\$	Average client contribution increasing
\$\$\$	Book contains several long-time clients who also bought other types of financial products from you
\$\$\$	Buyer able to analyze fund statements in detail
\$\$\$	Elderly clients whose RRSPs are near maturity (opportunities of transferring into income products)
\$\$\$	In recent years, fund contributions exceed withdrawals
\$\$\$	Clients' age points to good potential for future contributions
\$\$\$	Clientele turnover rate reveals low business retention rate
\$\$\$	Income available for investment low for a majority of clientele
\$\$\$	Withdrawals exceeded deposits and no reason found in client files
\$\$\$	Average contribution paid by clients to funds is decreasing
★ Tip	Buyer must ensure that the "know your client" rule is applied to each client in the book bought

AVERAGE AGE OF INVESTMENT CLIENTELE	
\$	Young
\$	Average
\$	Old

ASSETS UNDER MANAGEMENT – INVESTMENT PRODUCTS	
\$\$\$	\$40 million and up (2.0% to 3.0% of assets under management)
\$\$\$	About \$20 M and up (1.5% to 2.0% of assets under management)
\$	About \$10 M (1% to 1.5% of assets under management)
\$	About \$1 M (less than 1.0%)

Note: The type of products is not that important if the asset volume is high because the buyer then has manoeuvring room to renew the portfolio

What is the potential worth of your clientele?

There are no simple formulas for valuing life insurance and investment product clienteles. If someone insists on a fixed multiple, start shopping around for a better deal. Your clientele may be worth much more than you think because of its future business potential.

A renowned Quebec specialist in the transfer of blocks of business in life insurance and financial services, **Alain Vézina** says he is tired of seeing fire sales in the market. The president of the private business bank **Nessa Capital** thinks that a clientele should never be sold until the seller knows its real economic value.

“The value of life insurance in-force that generates \$50,000 in annual renewal commissions can be worth three times these renewals. But those that say that a valuation index higher than three times is unrealistic are often those that cannot or won’t pay more,” Mr. Vézina explains.

Supply and demand

He believes in basic economics. “If someone is aware of the potential of a clientele and there are four or five advisors ready to buy it, they can set the multiple accordingly. It’s a question of supply and demand, not of a fixed multiple.”

Mr. Vézina is currently valuing the file of one advisor who, after a 30-year career, has 2,000 clients,

representing about 1,000 term policies. The book also contains a lot of disability insurance but few investment products. The advisor is in an enviable position, and his two employees have known the clientele for years. “Before asking if this clientele is worth three to four times renewals, you have to assess the economic value,” Mr. Vézina explains.

It would be unthinkable to sell this kind of book to a single advisor because he could never develop its full potential, Mr. Vézina continues. The ideal buyer would be a firm with several advisors who would have enough energy to go see all the clients whose term policies are expiring in the next two to three years. A firm like that would be willing to pay much more than three to four times renewals because it could tap into the potential.

Another transfer case that Mr. Vézina is currently managing involves an advisor with assets under management of \$30 million, insurance premiums in force of \$1.3 million with renewals and another in force without renewals of \$400,000 in premiums. “Her



Alain Vézina

managing general agent offered only \$1,000 for the last portion of the clientele because there are no renewal commissions.”

Mr. Vézina underlines that value does not lie in renewals alone. Year in, year out this advisor produces \$20,000 in new premiums from this segment of her clientele. “In life insurance, the needs of your clients must be reviewed on average every seven years. Each time is a business opportunity,” he explains.

Mr. Vézina estimates that a clientele of \$1,000,000 of premiums in force represents on average 1000 clients and \$50,000 in annual renewal commissions.

“Advisors are not just buying renewals, unless they plan to rest on their laurels. They are actually buying the capacity to meet 100 clients per year that have not been advised in seven years, and whose needs have changed. Under these conditions, \$1 million can easily generate \$100,000 in new business premiums per year,” he says.

Another example: 2,000 clients represent on average between \$15,000 and \$20,000 in assets in investment products per person. “If I do my work and I can sell more investments to these clients, it’s worth it for me. I’ll willingly pay the price,” Mr. Vézina adds.

Entrepreneurial spirit

The problem is that few life insurance and financial services advisors have the entrepreneurial spirit, he contends. Property and casualty brokerage firms all have employees and brokers. Meanwhile, he says most insurance advisors are reluctant to rent their own premises, develop a brand and put up a shingle like a dentist, lawyer or notary. They tend to work for managing general agents or captive networks, who dictate the rules and values, Mr. Vézina says.

Alain Theriault

Professional Coaching

Join a world-class professional coaching system ...at an unbelievable price

LONELY NO LONGER!

You don't have to be in business by yourself anymore. Get professional support from one of the "best business coaches in the World" at a price you won't believe. Finally...

- Get your questions answered
- Get a sounding board for ideas
- Stop "slumping"
- Re-Energize your Results!

Popular consultant, speaker and author, Jim Ruta introduces Expert Institute.com, a new professional coaching system for anyone at any level.

Jim brings entrepreneurs and advisors his 3 decades of expertise and experience in person, on the web and in conference calls like no one else can. Put him to work for you now. Gain the perspective you need to get the performance you want... and CE Credits too.

Call Catherine at
1.866.546.7882
or email
jim@jimruta.com
for more information
or to join.

