Starting Your Own Insurance Brokerage
Many people are welcoming the opportunity to use their skills and experience to build their own insurance brokerage; to take control of their future and truly benefit from their efforts.

As with any new business, starting your own brokerage requires planning and there are a number of things to consider.

What you need to know

What will make this a viable option for you? There are a number of qualities which are important to the success of your business.

Insurance Experience
You will have built up experience over a number of years within the industry. This may be directly working for a Broker or Insurer or associated businesses which have provided you with the level of experience needed to provide good and proper advice to your clients. As a regulated industry it is essential that you can demonstrate a track record of providing service in your chosen field.

Technical Knowledge
Whilst it is not a requirement to have formal qualifications (but of course that helps) it is essential to demonstrate that you have the level of knowledge necessary to provide technical advice to your client. This will vary depending upon the type of business you want to transact but a reasonable level of technical and product knowledge is essential.

Sales Track Record
You will need to have a track record of dealing with insurance buyers. To build a successful business you will have been able to build strong and trusting relationships with your audience and therefore the ability to build your client base.

Commercial Awareness
Building your own business requires a basic level of commercial knowledge. This might be the first time you have had to deal with running your own business and although working within a commercial environment will have armed you with good financial knowledge you will need to be confident in your ability to make commercial decisions. Access to business support and mentoring can be very helpful in the early days of setting up your business and there are lots of useful places for you go to for support. The following links may be useful:

gov.uk - start your own business
barclays.co.uk

Compliance Knowledge
General Insurance is regulated by the Financial Conduct Authority so it is essential that brokers operate in a compliant manner. Whether you choose to go down the Directly Authorised or Appointed Representative route knowledge of the FCA requirements is essential. There is a broad range of support services available, online training and development and industry bodies can all help you to ensure that your knowledge remains current. The Chartered Insurance Institute is a great place to start.

Commitment
It goes without saying that making your business successful will require commitment and drive. As with any new enterprise a considerable amount of energy is needed and the amount of time you will need to invest should not be underestimated – the rewards can be great but starting your own business is never an easy option.
Every business needs a plan. This does not need to be a long and tedious document - after all it is what you do that is important and the best plans in the world will not lead to success unless the execution is good. However, the thought process; how are you going to get business, researching your market and competitors, planning your campaign, marketing/networking etc is important.

Understanding your cash flow is vital. In starting your own business you may be exchanging the certainty of a salary cheque for the unpredictability of what business you will win. Your planning should help in establishing when revenue is likely to come through, however it is important that enough allowance is built into your projections to allow for the the lack of certainty. The cash outlay involved in forming an insurance brokerage will need to be closely monitored and be influenced by the model you choose - Directly Authorised or Appointed Representative. Again there are lots of helpful sites available containing lots of advice to get you started with your plan.

During the planning stage of starting your own brokerage it is important that some thought is given to the marketing of your business. This does not have to be a complex marketing strategy, involving a big budget, but should include some research into your target audience, who they are, where they can be found and how they buy, along with some ideas about how you would like your clients and prospects to perceive you and the type of message you would like your business to convey – this is the development of your brand.

A good brand will:

- Deliver your message clearly
- Connect you to your target prospects
- Confirm your credibility
- Motivate them to choose you

There are lots of resources on the web with excellent, easy to follow advice on the most cost effective methods to begin to market your business effectively. You might find Marketing Donut and the Microsoft Business Hub useful.
An important part of building your brand and your presence in the market is establishing a website. In its simplest form a website helps to give your business credibility and professionalism. It gives your potential customers an opportunity to find you, understand what you do and make contact with you. The Guardian has some great tips and advice on designing a website from a small business perspective. Don’t be fooled into thinking that because you are just starting out, you don’t need a web presence yet - without one your business will not have the credibility to compete with the rest of the market.

Building a pipeline of future opportunities will also be important for the success of your business. There are some great customer relationship management (CRM) systems available which will help you manage the relationship with your clients and build good prospect information to assist your marketing activities. There are many low cost and even no cost options available designed specifically to work well for small businesses.

**Legal Advice**

If you are leaving employment it is important to understand any contractual obligations to your past employer. This is particularly important when clients may be following you. Interpretation of such obligations are often not straightforward and getting an expert opinion from an employment lawyer is often a very sensible investment. There is some useful information regarding covenants at out-law.com.

### The Choices Available

So you have what it takes – what are your options? There are two basic routes to obtaining FCA Authorisation.

- **Directly Authorised**
- **Appointed Representative**

In the past becoming Directly Authorised was the usual route to setting up an insurance brokerage. However following the lead of the general financial services sector where the Appointed Representative model is wide spread there has been a significant rise in the number of Appointed Representatives amongst the general insurance sector. In fact this model is now widely acknowledged as an alternative to the more traditional approach and a growing number of business have made this their preferred route.

The following table provides a comparison between the two models. Not all Appointed Representative models are the same and the following is based upon the “usual” arrangements adopted by the main providers. There are currently two dedicated providers of Appointed Representative services in the UK Momentum Broker Solutions & Ten Insurance Services and numerous companies who provide services as an addition to their core activities as retail brokers.
<table>
<thead>
<tr>
<th>Authorisation Process</th>
<th>Directly Authorised</th>
<th>Appointed Representative</th>
</tr>
</thead>
<tbody>
<tr>
<td>The process is undertaken directly with the FCA and can be a complex one. The FCA do provide lots of advice to get you off on the right foot. Timescales can vary and within their service charter the FCA website currently states “we have six months from when we receive a completed application to make our decision and the earlier of (a) 12 months from receipt of an incomplete application; or (b) six months from when an application which was incomplete becomes complete. (An application is incomplete if information or documents required to be submitted as part of the application pack are not provided.)”</td>
<td>This is undertaken by the Principal and a combination of their own due diligence and FCA application process. Generally timescales are a lot shorter as the FCA have already satisfied themselves regarding the Principal’s process, systems and controls.</td>
<td></td>
</tr>
</tbody>
</table>

| Authorisation Cost | The amount will depend on whether the application is straightforward (£1,500), moderately complex (£5,000) or complex (£25,000). Most financial advisers, mortgage brokers and general insurance intermediaries will be straightforward applications. | Invariably there is little or no cost as the activity is undertaken by the Principal. |

| Capital Requirement | This will be based upon the permissions you have and can vary between £5,000 and £50,000 as a minimum. | The FCA capital adequacy requirement is met by the Principal so the only Capital required is that needed to run the insurance brokerage. |

| Governance | The firm will need to manage how they run their business by establishing good governance systems and controls. | The Principal firm will usually supply a framework for the business to operate within. |

| Insurer Agencies | Building an insurer agency base can be challenging and not all insurers will be prepared to provide an agency and if they are they may require Personal Guarantees. There are a number of networks who can provide access to insurers and membership costs vary. | Placement is generally via the Principal’s agency base. These are invariably comprehensive with access to a broad range of insurers and products. |

| Client Money Handling | All client monies are handled by the broker so they will need appropriate systems and controls in place to adhere to FCA rules. | All client money is handled by the Principal. They will generally be responsible for cash collection and insurer reconciliation. |

| Client Ownership | Always yours. | Yours - but important that you confirm this with the Principal as occasionally a different approach is adopted. |

<p>| IT/Systems | There are a myriad of different insurance trading platforms available. The choice will depend upon the nature of your business and of course the cost. Operational efficiency is very important to all businesses and features such as single keying, document production and e-trading capability can be very helpful. | The Principal will ordinarily provide the trading platform. If becoming an Appointed Representative is your chosen route it is important to ensure that the platform they adopt meets the requirements of your business. |</p>
<table>
<thead>
<tr>
<th></th>
<th>Directly Authorised</th>
<th>Appointed Representative</th>
</tr>
</thead>
<tbody>
<tr>
<td>FCA Reporting</td>
<td>The broker is responsible for meeting the FCA reporting and timescale requirements. Further information is available from the FCA website.</td>
<td>The Principal is responsible for FCA reporting.</td>
</tr>
<tr>
<td>Professional Indemnity Insurance</td>
<td>In order to be authorised the FCA require proof of adequate levels of Professional Indemnity insurance.</td>
<td>Generally the Appointed Representative will be covered under the Principal’s policy.</td>
</tr>
<tr>
<td>FSCS &amp; FCA Fees</td>
<td>The responsibility of the broker.</td>
<td>These are the responsibility of the Principal.</td>
</tr>
<tr>
<td>Other Support</td>
<td>There are numerous areas of additional support that are important for any new business. Typically this will range from systems and compliance to marketing activities. A number of insurance networks will provide access to these services as part of their proposition and these may be included in the cost of membership or as an add on.</td>
<td>This can vary greatly with some Principals providing a high level of marketing assistance and other support whilst others provide none at all. It is worth checking to see the scope of support which will be provided.</td>
</tr>
</tbody>
</table>

Starting your own business is a great thing to do.

Every year over 100 individuals set-up their own insurance brokerages and hopefully this document has given you better insight into what is involved.

Helping you to **start-up**

Enabling you to **stand out**

Supporting you to **succeed**

0116 2388 880

howard.pepper@momentumsolutions.co.uk

www.momentumsolutions.co.uk/contact