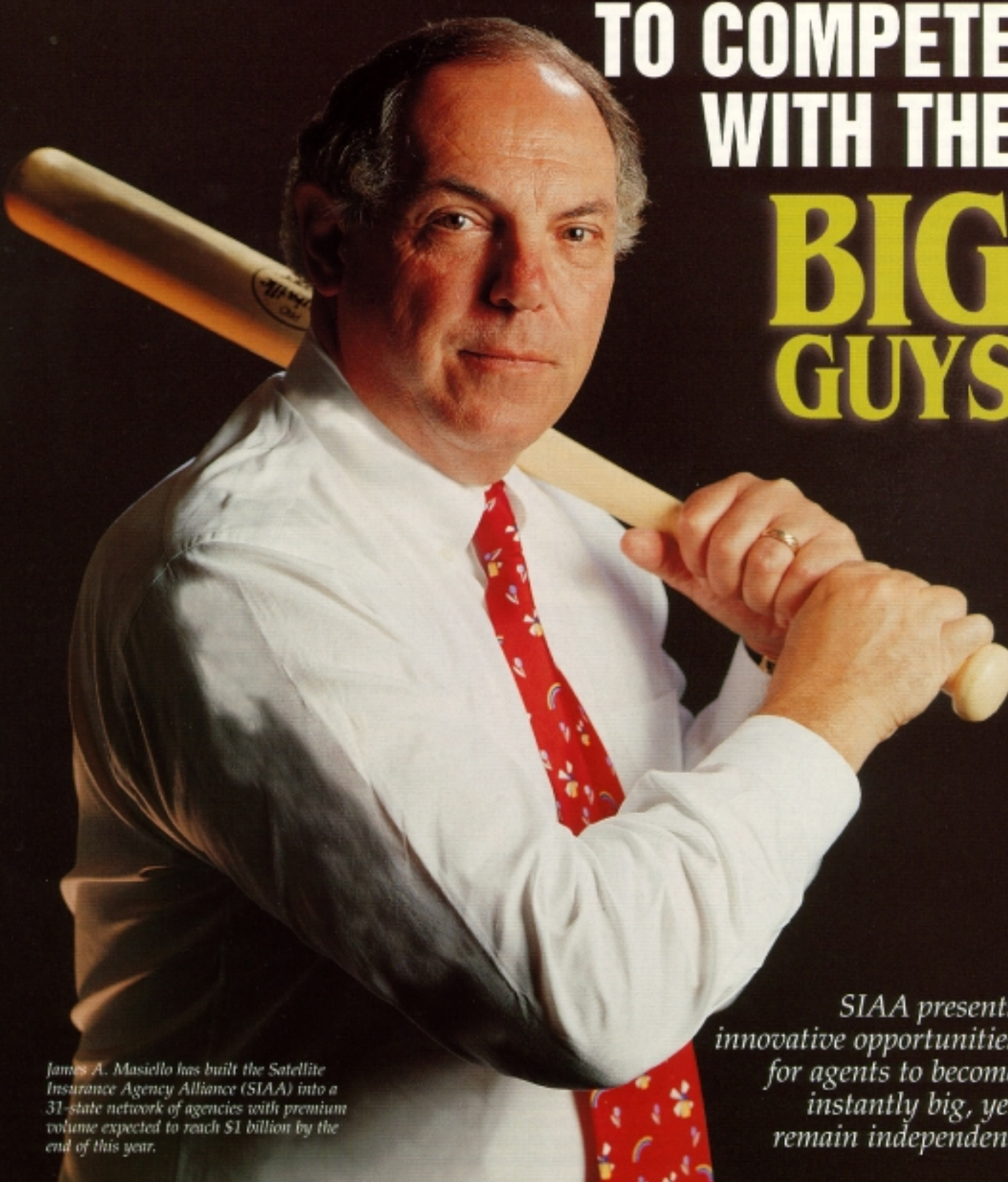


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SMALL AGENCIES GIVEN **CLOUT** TO COMPETE WITH THE **BIG GUYS**

A middle-aged man with receding hair, wearing a white dress shirt and a red tie with a colorful pattern, is shown from the chest up. He is holding a wooden baseball bat over his right shoulder with both hands. He has a serious expression and is looking directly at the camera. The background is dark.

James A. Masiello has built the Satellite Insurance Agency Alliance (SIAA) into a 31-state network of agencies with premium volume expected to reach \$1 billion by the end of this year.

*SIAA presents
innovative opportunities
for agents to become
instantly big, yet
remain independent*

By Samuel Schiff

In the recently concluded baseball season, the term "clout" was in the headlines virtually every day. Whether it referred to the exploits of Mark McGwire, Sammy Sosa, Ken Griffey, Jr., Greg Vaughan or one of the other home run sluggers, it represented interest, excitement and power.

But baseball isn't the only area in which "clout" carries special meaning. It's equally important in the business community, where having "clout" can open doors, increase business and enhance profits. Nowhere is this more true right now than in the insurance industry, as mergers and acquisitions shrink the number of companies doing business, and it becomes tougher and tougher to show year-to-year profit gains.

With the big getting bigger, the independent agent has suffered, especially the small agencies, that in recent years have found it increasingly difficult (if not virtually impossible) to compete with the large brokers. In fact, various studies, including a recent one by Conning & Co., have all but written an end to the independent agency business. According to some of these doomsayers, the owner of an independent agency has one foot in the grave and the other on a banana peel.

That conclusion, however, does not hold water or carry any credibility with James A. Masiello, chairman of the Satellite Insurance Agency Alliance (SIAA). Thanks to his innovative business engine—SIAA—small, independent agencies now have a way of benefiting from the "clout" that was previously the domain of the big hitters.

SIAA was conceptualized in 1982, by Masiello, at a time when the independent agency system was beginning to feel the pinch of the large brokerages. At that time, small agencies (typically between one and nine employees) were finding it virtually impossible to compete. Masiello's challenge was to create a growth plan that would not require significant capital from borrowing or the use of existing retained earnings to acquire additional agencies, establish branch offices or fund producers.

These smaller agencies lacked the volume of business to be attractive to major carriers, and they couldn't maintain their markets in the face of increased competition. Also, despite

their familiarity with many of their regional customers, loyalty was in short supply when it came to premium dollars; and the survival rate of smaller agencies appeared to be limited, to say the least.

"The concept leading to the creation of SIAA was developed in New Hampshire, at a regional meeting of IIAA members from the New England area where there was a discussion of what could be done to enable small agencies to survive," said Masiello. "For example, my company, Masiello Insurance Agency, located in Keene, New Hampshire, was profitable but being in the southwestern portion of the state, was not near any other area of concentrated businesses or population centers."

In addition to being profitable, Masiello's agency also was regionally dominant, enjoyed strong markets, had excellent relationships with its customers and enjoyed an aggressive reputation. "These were all attributes that could be shared with other agencies, captives and producers," said Masiello.

Following extensive discussion with other regional agencies, Masiello created the Satellite Agency Network Group, Inc. (SAN). Through this arrangement, the Master Agency would create a network of independent

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satellite agencies, made up of smaller agencies. Masiello's Master Agency would provide the markets to SAN, which in turn would provide markets and management skills to the satellites, who were then better able to concentrate on producing business. These satellites would pay SAN a fee to become a member and would share a small percentage of income and equity appreciation generated from the growth of their agencies.

Masiello's concept became a reality in January 1983, when SAN established the Curdie Insurance Agency, in Bristol, New Hampshire, as

its first satellite. The idea of an agency network caught fire, albeit slowly at first, and now has more than 100 members in the New England region, producing premiums in excess of \$120 million annually and working with more than 40 carriers.

The success of the New England SAN venture emboldened Masiello. With the urging of a number of insurance company executives, industry consultants and other SAN members, he took the concept out of the New England region and went national, with the creation of the Satellite Insurance Agency Alliance (SIAA).

"Established in 1995, SIAA is currently operating in 31 states and 90 territories (within those states), and in 1997 produced more than \$750 million in written premiums," said Masiello. "This premium volume gives our members significant clout and enables us to obtain favorable terms and conditions from an increasingly large number of major carriers. By being able to produce this kind of premium volume we have gained access to businesses and carriers that our individual agencies would have been unable to obtain."

All told, 1997 was a good year for SIAA, with the creation of 11 new Satellite Master Agencies (SMA)s, the expansion into 20 new territories, and the addition of 45 new independent satellite members (ISM)s, who added new network premium volume of approximately \$200 million. Also SIAA had 141 network members by the end of the year.

"At the start of 1997," said Masiello, "our goal was to double our SMA's, which would have resulted in the addition of nine new SMA's. As we began the year, we were not anticipating multiple territories. Our assumption was that each SMA would have a single territory. In reality, we added 20 new territories and 11 new SMA's. By year-end, we had tripled the size of the SIAA network and increased the number of states in which we operate from 19 to 29."

The growth of SIAA has continued impressively in 1998. "We are currently operating in 31 states and actively seeking members in all 50 states. We have added 36 new territories and anticipate adding one new ISM per SMA every six weeks," says Nickolas J. Pappajohn, president.

"Most important," he added, "is that we anticipate \$1 billion of network premium volume by year-end. Properly leveraged, this amount of money will propel SIAA well beyond any

opportunities that we have negotiated with carriers to date."

Being a member of the SIAA network offers agencies benefits that would not be available if the agency were going it alone. SIAA provides prospecting and marketing support to the SMA—prospective member identification, a proven record of recruitment success, long-term exclusivity, full organizational and procedural support, marketing support, training, and contracts based on experience since 1983.

An SMA, in its particular area, forms a network of smaller local agencies—the Independent Satellite Members (ISMs)—a group of unaffiliated producers, direct writers and producers seeking to grow by creating a network of these small agencies.

In turn, the small independent agencies, serving as branches of the larger SMAs are in a position to obtain significant benefits that they would not receive on their own. These include: becoming instantly big by joining with the larger SMA, while at the same time retaining independence; obtaining access to SMA companies through appointment, sub-code or Access Plus; becoming an integral part of a regional and national insurance distribution network; having the ability to increase agency value and earnings from profit-sharing excess compensation opportunities; obtaining discounts on agency management systems and software; being able to utilize assistance of SMA staff for a variety of services, including pricing and placement of larger risks, and having consulting and managerial services available.

Most important, however, is the ability to grow and expand business by being able to compete with larger agencies for accounts which otherwise would be out of reach due to the smaller agencies' lack of clout.

SIAA has been especially responsive to its regional presidents and members. "At the request and suggestion of our members and regional presidents," said Masiello, "in August 1997 we began the ISM Recruitment Program and entered into an agreement with GHM Marketing. At year-end in excess of 100 appointments with ISM prospects had been made."

"More important to our members, we entered into several override relationships including ones with Peerless, Indiana, Royal, Merchants and Hartford Commercial Lines," said Masiello. "In addition, a steady stream of income and benefit programs was introduced: the Worksite Exchange—a

benefit payroll deduction program; pre-paid legal services through Pre-Paid Legal Casualty Insurance Co.; PIP—The Travelers personal lines payroll deduction program; and in February, SIAA Intranet came on line, providing members with an information exchange and bulletin board program accessed only by our Strategic Partnership Agencies and SMAs. As we continue to grow, communications, within our network and among all our members, become more and more essential."

Just how good a deal is what Masiello has created for a newly enrolled SMA? Both Mark Kelder, president of Energy Insurance Agency, in Lexington, Kentucky, and secretary-treasurer of the Agency Network of Kentucky, along with Mark Berset, president of the Comegys Insurance Agency in St. Petersburg, Florida, and president of SAN of Tampa Bay, look at their participation in SIAA as a "win-win" situation.

Berset's SAN of Tampa Bay was created in 1996 to develop a network in the areas surrounding Tampa Bay/St. Petersburg. "The market was in need of a program such as the SIAA network," said Berset. "The smaller agencies really had a problem with market availability. We joined because we believed that the affiliation would help us grow dramatically and at the same time help the smaller agent survive."

Berset noted that by joining SIAA, his firm could grow without buying

other agencies or spending money to train additional staff and, at the same time, provide smaller agencies with new markets, along with marketing, management, and automation expertise. "We also recognized the advantages of dealing with a significant volume of property/casualty premium business when it came to dealing with major carriers," he added.

"Our agency currently enjoys premiums volume of between \$15 million and \$17.5 million, the bulk of it coming from workers compensation insurance and bonding company business. Currently we're doing business with three national and three regional carriers," said Berset. "In addition, with the special programs in Florida, because of our size, we are able to exercise more clout (there's that word again) in our dealings with different carriers and we're able to see that bigger is really better."

Looking ahead, Berset believes that by mid-1999 the state will be blanketed by smaller agencies as members of the SIAA network. "Virtually all small agencies have similar problems, and this association will significantly benefit them," he said. In his area, he notes that a number of major companies have indicated their interest in moving into the Tampa Bay area; and with an insurance distribution system in place, his firm can be up and running quickly.



The SIAA executive team includes (left to right): Matthew P. Masiello, executive vice president of the Satellite Agency Network, Donald K. Wilson, executive vice president of SIAA and Nickolas J. Pappajohn, president of SIAA.



"For 1999 we look to continue to grow in size through the addition of more master agencies and satellites, increase of members' income from property/casualty operations and through increasing emphasis on technology."

—James A. Masiello

"Being a part of the SIAA network makes it exciting to come to work every day," he said. "Most small agencies share the same problems—especially in the area of automation—and the solutions available from SIAA membership will benefit all of us."

Berset, who also serves as regional president of SIAA Florida, has just added his third Master Agency, Spencer & Associates, in Titusville, which created SAN of East Central Florida. This new SMA will be responsible for developing the SIAA insurance distribution network throughout Florida's Space Coast area. Spencer, founded in 1974, employs 18 people and specializes in construction and light manufacturing insurance.

Kelder is equally enthusiastic about being part of the SIAA network. "Our agency was doing about \$10 million annually in premium volume," he explained. "We needed to grow, which we could do by hiring and training more people, which was costly, or joining SIAA and taking advantage of their size, markets and expertise. We chose the SIAA network."

This participation enabled the agency to remain independent and, at the same time, enjoy the benefits of the association with SIAA. He is particularly pleased with his ability to increase his markets, get up to speed regarding automation and have a hotline with various carriers.

Serving the central and eastern Kentucky area around Lexington, Kelder's SMA now has two agencies under contract, expects to add an additional three by the end of November and looks for significant growth—to as many as 30 agencies—

over the next four years. "We believe this is a reasonable expectation. In seeking agencies to become part of our group, we first negotiate and get the necessary information about an agency to see if they qualify. While that often takes time, it is time well spent. Also, in all our efforts we are looking for the quality of the agency rather than the quantity of business."

The future of SIAA and its concept looks bright to Kelder. "The insurance market in the years ahead is going to be a lot different than it's been in the past," he said, "especially with banks, financial services companies and others entering the market. If that's the case, then insurance companies will want to deal with the largest organizations available when it comes to doing business. Thus, a local retail agency will be at a significant disadvantage. But by becoming a member of the SIAA network, it achieves the clout it needs to continue to grow."

Growth, of course, can be measured in many different ways. One measuring rod for SIAA is the attendance at its semiannual membership meeting. The first one, held in a condo office room in Boston, in 1995, drew nine people. The two 1997 meetings attracted 24 in April and 41 in November. "Our members define the agenda at these gatherings," said Masiello. "It's truly their meeting. Interestingly enough, we've had a number of requests to lengthen them, which I feel is a great compliment to their content and format."

In 1998, these twice-a-year meetings will be held at Hilton Head Island,

South Carolina, with 75 SIAA members expected for the November session. Among the SIAA Strategic Partners scheduled to be in attendance are AI Credit, The Worksite Exchange, Harbor Capital Advisors, National Flood Services and American Bankers/American Reliable, Hartford, AMGRO, GRE/Peerless, Royal Insurance, and Captive Resources.

"Our business meetings bring together some of the most entrepreneurial agents in our industry," said Donald K. Wilson, SIAA executive vice president. "We build in a lot of networking time so that each member can learn from the accumulated experience of others attending the meeting."

While avoiding any prediction about 1999, except to suggest that growth above the \$1 billion premium level is likely and the number of agencies and territories is going to increase significantly, Masiello believes that insurance buying groups will exercise more clout with insurance companies than ever before and that they will be able to enter into special deals with the large carriers. "We are in a position to go to major companies for the best possible arrangements," he said. "This provides our members with the best opportunity to provide better coverage for their insurance customers."

"For 1999 we look to continue to grow in size through the addition of more master agencies and satellites, increase of members' income from property/casualty operations and through increasing emphasis on technology, and see to it that our company relationships remain strong," Masiello concluded.

With the insurance world changing and emphasis shifting more and more toward the bigger organizations, Masiello's concept may be a viable answer to the question of how a small, independent agency can compete and grow. With 740 companies represented by SIAA network members, actively writing business in 31 states, providing 57 companies each with \$1-\$7 million in premium volume, including more than \$27 million with one carrier, it certainly looks as though he is on the right track.

Masiello's vision for the future calls for an enrollment of about 240 Master Agencies and a target enrollment of more than 10,000 satellite agencies over the next five to seven years. Sound impossible? Who knows? But did anyone predict a year ago that Mark McGwire would hit (sorry, clout) 70 homers this past season? ■