



Acquisition - Due Diligence Checklist

Overview

Before completing a purchase transaction, it is important to confirm that the many statements the seller has made about the agency are reasonably true. If they are not, the tentative price and terms offered will need to be revised. Assuring that the seller's representations are true is accomplished through the Due Diligence process.

Note - Iroquois® practices neither accounting nor law. The following is provided to facilitate discussions among member agents and their accounting and legal advisors



When to Conduct Due Diligence



Due Diligence is usually conducted shortly after the seller and buyer have reached agreement on the key deal components in the buyer's non-binding letter of intent and before the purchase and sale agreement has been finalized by the buyer's attorney. Due Diligence is usually accomplished while the attorney of the buyer is working on the first draft of the purchase and sale agreement. Anything of material difference found by the buyer during the Due Diligence process may justify amending the purchase offer.

Confidentiality



Sellers are usually very concerned about having their employees or clients learn about a proposed sale of the agency before due diligence has been completed. They want maximum assurance that the buyer is totally committed to the purchase before letting the word out and they understandably want to carefully manage communications. For this reason, Due Diligence typically involves only the owners (or highly trusted employees) of the seller agency and the process is often conducted after office hours or on a weekend.

Due Diligence Checklist



Everything the seller represented to the buyer that could impact the agency in the future should be verified. The following list contains the minimum that should be checked. The list should be modified to fit your unique situation. Agencies that have non-traditional operations or special alliances or arrangements with producers, brokers, aggregators, affiliates, or associations will need to expand the list accordingly.

The key areas to be considered in the Due Diligence process are shown in the checklist that follows:

Category	Due Diligence – List of Items to Check and Resolve	Resolved
 <p>Book of Business</p>	<p>Checklist of accounts being purchased against agency management system's records to assure that all are in-force.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No
	<p>Identify top 10 to 15 accounts and review files to determine likelihood of their continuance.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No
	<p>Identify any business where it was not disclosed that expirations are owned by a producer or broker.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No
	<p>Determine what the plan and timetable will be for notification to clients and the public.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No
 <p>Financial</p>	<p>Verify that the income expected is the same income carried on the company books, income tax returns and agency management system.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No
	<p>Confirm any cost savings that may be realized as a result of eliminating positions or duplication, and discuss notification and timing.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No
	<p>Review accounts receivable and payable for problems or inconsistencies.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No
 <p>Producers</p>	<p>Review the commission split or compensation arrangement regarding producers. If it will change, discuss how that will affect each producer and how that will be handled. Where necessary to retain a good producer, consider transferring some under-serviced house accounts to the producer so the producer's book will be large enough that total compensation under your agency's commission split will be similar to what the producer earned in the past.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No
	<p>Determine if many of the top accounts are tied to key producers and seek ways to assure that the key producers will continue with the buyer. For example, where possible seek to assign the key producers' employment contracts to the buyer. Where that is not feasible, request that the key producers agree to sign new contracts with the buyer.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No
	<p>Review producer T&E expense reimbursements, auto allowances, educational expense reimbursements, etc. to discuss how they will change and how such changes will be communicated to the producers.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No
	<p>Review existing producer non-piracy/non-compete agreements to determine where problems may exist and discuss the manner in which they will be resolved.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No
	<p>Determine if producers have agreements granting equity interests tied to the books of business they have developed (vesting, deferred compensation, put/call agreements regarding purchasing their books of business or having their book of business purchased by the agency, etc.). If such agreements are in place, resolve their impact on price and discuss how they will be handled.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No

Category	Due Diligence – List of Items to Check and Resolve	Resolved
 <p>Markets/ Carriers</p>	Determine the agency's current relationships as well as its loss ratios over the past three years for each key carrier.	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Determine which carriers do not have a relationship with the buyer and discuss how and when the buyer will speak with such carriers to gain assurance of their willingness to continue a market for the buyer.	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Identify any markets that need to pre-authorize the purchase transaction (for example, certain specialty markets that retain renewal rights on their books).	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Determine if the agency is overly dependent on one carrier.	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Determine if the agency has business in any carriers that have financial or claims paying ratings below investment grade and discuss.	<input type="checkbox"/> Yes <input type="checkbox"/> No
 <p>Personnel</p>	Discuss agency employees and whether or not they will be likely to continue with the buyer.	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Identify clients who are tied to relationships that they have with any personnel who may leave the agency.	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Discuss whether or not CSRs have employment agreements with non-piracy provisions and, if not, whether they are likely to sign those of the buyer.	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Determine if employee benefits such as health insurance, vacation, holidays, profit sharing, 401K, etc. materially change with the buyer and how and when these changes will be communicated to the employees.	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Discuss any employee compensation program change relative to salary, bonus, pay schedule, severance, etc. and how and when such changes will be communicated.	<input type="checkbox"/> Yes <input type="checkbox"/> No
 <p>Lease Commitments</p>	Determine if the leases have to be negotiated for all desired locations.	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Determine if lease termination will be a financial burden on the seller if buyer has no need for a current location. Determine if a transition period will be appropriate.	<input type="checkbox"/> Yes <input type="checkbox"/> No
 <p>Seller</p>	Discuss development of joint letters to be sent to clients to encourage their retention. Agree to wording.	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Discuss content and timing of joint calls to top 10-25 clients to encourage their retention.	<input type="checkbox"/> Yes <input type="checkbox"/> No
 <p>Miscellaneous</p>	Identify any networks or aggregators that the seller may belong to and, if there are any, communicate with them to understand if an assignment of rights is possible.	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Confirm that all office furniture, artwork, computers, communications equipment, and other fixed assets are part of the purchase.	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Identify any equipment not owned by the agency (leased, owned by a carrier, etc.).	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Review computer leases or maintenance agreements regarding software and hardware.	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Identify vendors and agreements regarding services such as telephone, newspapers, power, water, security, cleaning and maintenance, etc.	<input type="checkbox"/> Yes <input type="checkbox"/> No



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