An Advisor’s Guide to Succession Planning

This Action Report highlights the steps you need to take when developing an effective succession plan.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>3</td>
</tr>
<tr>
<td><strong>CHAPTER 1:</strong></td>
<td></td>
</tr>
<tr>
<td>Important First Steps in Succession Planning</td>
<td>4</td>
</tr>
<tr>
<td><strong>CHAPTER 2:</strong></td>
<td></td>
</tr>
<tr>
<td>Insights from Industry Pros</td>
<td>10</td>
</tr>
<tr>
<td><strong>CHAPTER 3:</strong></td>
<td></td>
</tr>
<tr>
<td>A Succession Planning Case Study</td>
<td>18</td>
</tr>
<tr>
<td><strong>CHAPTER 4</strong></td>
<td></td>
</tr>
<tr>
<td>Top Takeaways</td>
<td>22</td>
</tr>
<tr>
<td>Conclusion</td>
<td>23</td>
</tr>
</tbody>
</table>

**Media Contacts:**

- **Mark Briscoe**, Senior Director, Strategic Communications  
  mbriscoe@naifa.org
- **Sheila Owens**, Vice President, Communications & Marketing  
  sowens@naifa.org

**Editor:**

- **Ayo Mseka**, Editor in Chief, Strategic Communications  
  amseka@naifa.org
Introduction

Many agents and advisors spend a good deal of time advising their clients about the need to prepare for the future, but quite a few of them don’t seem to be taking that piece of advice themselves when it comes to planning for the future of their own business.

In fact, according to numerous studies, most advisors do not have a formal succession plan that details how and when they intend to exit the business. This situation is startling considering the fact that 12,000 to 16,000 advisors are expected to retire each year in the next 10 to 12 years.

With this massive exodus just around the corner, succession planning has become a hot topic in the financial-services industry, as many advisors scramble to put in place systems, processes and procedures that will allow them to create plans for exiting their businesses—when and how they want to.

In addition to not having a succession plan, many advisors lack a continuity plan, which, some think, is the first document they need to create before moving on to a succession plan.

To help advisors with these challenging tasks, NAIFA has created An Advisor’s Guide to Succession Planning, an action report that highlights the business case for creating a continuity and a succession plan, common mistakes to avoid when creating a succession plan, and what it takes to put together a succession plan that benefits all stakeholders involved.

As you go through this report, we hope that one of the lessons you learn is that succession planning is more than just selling a business or handing it over to the next generation. More importantly, succession planning is about maximizing the value of your practice, increasing your options, and ensuring the continuation of your business long after you have left the business.

Over the years, you have worked hard to build a practice that has given you a great deal of personal and professional success. It’s now time to make sure that your hard work will continue to pay off, even when you are no longer around.

Ayo Mseka
Editor in Chief
Strategic Communications – NAIFA
CHAPTER 1

Important First Steps in Succession Planning

As you prepare to take on the complex task of creating a succession plan, your first step should be to implement a continuity plan—an a plan that makes sure you continue to receive income from your business, even if you are physically unable to work. Once you know the basics of creating a continuity plan, your next step is to start working on your business succession plan.
Why You Needed a Continuity Plan Yesterday

BY KIRK HULETT, M.S.

You know the importance of having a continuity plan for your practice. It lays out what you want to happen to your practice when you are no longer running it. A continuity plan is also a great first step in creating your succession plan, but unlike a succession plan, a continuity plan is implemented immediately, rather than over a period of months or years, due to an unexpected disruption in your ability to work. Also, a succession plan typically assumes you will not return to run the practice; a continuity plan must also address the possibility that you will.

Here are 10 reasons to stop procrastinating and set a goal to create a continuity plan by the end of the year.

1. **Your clients.** The circumstances under which a continuity plan will be implemented are always difficult; so, having well-informed and supportive clients is essential. Having a plan reassures your clients they will be cared for even if you are unable to do so yourself. If you have clients who own businesses, this is also a chance to show them what planning for the future of their business looks like.

2. **Your staff.** If something were to happen to you, your staff will be on the front lines—explaining the situation to clients, prospects, vendors and business partners. At the same time, they will be dealing with their own emotions—sadness, grief, fear, anxiety, possibly anger. You owe it to your staff to not only prepare a plan for what happens if you suddenly cannot run the business, but to also review the plan with them several times a year, looking for anything that needs updating. They are the key to retaining your clients until you return or the business is sold.

3. **Your family.** Unless your family is involved in your practice, they probably have little understanding of how it works. They will be ill equipped to make immediate, important decisions to your practice’s survival in your absence. Like your staff, they will be dealing with powerful emotions, and as you’ve so often told your clients in assisting with their estate plans, that’s not the time to be making critical decisions.
If the practice must be sold, the clock is ticking. Clients need your services and if they believe you will not return, they will take their business elsewhere. That means the income your practice currently produces to support your family, and the value your family will receive if the business is sold, are dwindling.

4. **Your business partners.** If you partner with other advisors or work within a branch or financial institution, how will revenue generated from your clients be split while you recover? Will those who do the work in your absence get all the compensation? If you die, will your family get any of that revenue? If so, how long will they continue to do so? Don’t assume all compensation will continue to flow to you or your heirs. That assumption has been the demise of many successful advisor partnerships and has left many widows and children with nothing from the business you built.

5. **Your estate plan.** If you die and your practice is successfully sold, how will the proceeds of that sale impact your estate plan? How about your spouse’s estate plan? You need at least a basic valuation to gauge how taxes and other obligations, such as outstanding business expenses and payroll, might be addressed if your death or inability to work forces a quick sale. Life insurance is one solution, but again, you need to know how much coverage is needed to preserve assets for your heirs.

6. **Your prospects.** Having a continuity plan can be a great selling point when meeting with prospective clients. It shows that you practice what you preach, and that their needs will be met even in your absence. If your prospect owns a business, it also gives you the experience to assist that prospect in creating his or her own business-continuity plan.

7. **Your peace of mind.** Creating a continuity plan takes an important but often overlooked to-do item off your list. It can also get you started on your succession plan, help you define or update your emergency or disaster recovery plan, and reveal strengths within your staff, along with areas needing improvement.

8. **Your speedy recovery.** If you face a prolonged illness or recovery from an accident, the last thing you need is the stress of worrying about whether your business is running smoothly without you. That level of stress can actually hinder your recovery. In addition, you won’t be forced to make important decisions when your emotions are running high and your energy reserves are running low.

9. **Your practice valuation.** Again, that clock is ticking, and from the time you become incapacitated to the time of the sale, your practice value will be declining. Having a continuity plan in place can increase or at least maintain the value of your practice in the interim, as it helps ensure clients, and assets stay with your practice until the sale becomes effective. You get bonus points if you have shared your continuity plan with your clients before the critical moment, as they will be more comfortable sticking around, knowing someone you hand-selected well in advance will be taking over their accounts.

10. **Your income.** As a small-business owner, your livelihood is directly dependent on your ability to work. If you experience an injury or a prolonged illness that leaves you unable to work, you still have basic expenses to cover, like food and housing, as well as the added expenses of medical care. In addition, your spouse’s ability to work may be impacted if he or she becomes your caregiver. And as long as you’re still living, there’s no life insurance to offset some of these expenses. A continuity plan helps ensure that you continue to receive income from your business, even if you are physically unable to work.

“A continuity plan helps ensure that you continue to receive income from your business, even if you are physically unable to work.”
Common Mistakes in Succession Planning—and How to Avoid Them

BY ANTHONY J. MARTINS, CLU, ChFC

Advisors spend their careers helping clients identify their goals, plan their futures and achieve their dreams, but when it comes to planning their own retirement, it seems the old saying, “a cobbler’s son does not have shoes,” is accurate.

The reality is that succession planning can be hard and exhausting. As you prepare to create your succession plan, you should be aware of several common succession planning “traps” and ways to avoid them. This will make sure that you address the needs of all parties involved and ensure a smooth transition for your successor.

Here are a few of these traps—and suggestions of how to avoid them:

**TRAP #1: Not having a plan.**

There is a lot of research out there today but it seems fair to say that more than 50 percent of financial advisors do not have a formal succession plan. Even if you’re confident that you’ll have time to create a succession plan or think everything will just “fall into place,” the odds aren’t in your favor. Without a succession plan, your business and reputation could be negatively impacted, ultimately resulting in a client exodus, which will erode the value of your business.

**SOLUTION: Create a plan.**

Creating a plan now will ensure that you, your clients and your business partners are prepared for the transition of your business—whether that’s according to your timing or due to unforeseen circumstances. In addition to minimizing business disruption and enhancing client relationships, a succession plan helps maximize the value you’ll eventually receive for your business.

There are five stages to a successful succession plan.

**Stage 1—Preparation:** What is the current value of the business? What would you like to have happen with your clients when you retire, or if you die or become disabled? These are just a few of the questions you’ll need to consider as you prepare to create a succession plan.
Stage 2—Identification: Develop the profile of your ideal successor or successors.

Stage 3—Trial Period: So you think you found the right person? How will you know?

Stage 4—Integration: Work with your successor and attorney to create a formal, long-term commitment to each other. Introduce your successor to client engagements.

Stage 5—The Event: One of your triggering events occur (hopefully retirement). It’s time to implement the agreement from Stage 4 and fully transfer your client to you successor(s).

TRAP #2: Thinking there’s only one path to the destination.

Many advisors think there is one road to retirement. In reality, there are many ways to structure your succession, along with many things that could change over the course of the plan’s development and your transition.

SOLUTION: Be intentional and flexible, and take a long-term view.

You’ve spent years—even decades—cultivating relationships and building your practice. This same long-term and thoughtful approach is needed for a successful succession plan. The earlier you begin planning, the more alternatives you will have to structure your eventual transition. Remaining flexible will allow you to adapt to changes and will increase your chances of achieving your succession and retirement goals.

TRAP #3: Limiting your field of buyers.

Have you poured your time and energy into mentoring a junior advisor? Are you assuming that your son, daughter or another relative will take over your practice? While these individuals may be natural choices for your replacement, you may be overlooking more ideal candidates to succeed you in your practice. Even if relatives or a junior advisor aren’t on your list of successor candidates, you may be making incorrect assumptions that can hurt your chances of finding the right advisor.

These assumptions include:

- You won’t have to train your successor.
- Young people aren’t willing to work hard enough to earn the business.
- You need to replace yourself by finding someone who is identical to you.
- The right person will show up in your time of need.

SOLUTION: Identify your value and expand your search.

Identifying an ideal successor and building an effective team begin with having a good understanding of you and your practice. As desirable as your practice may be today, you must consider how you can position it in a way that attracts successor candidates and encourages them to work with you.

The following are a few questions to help you determine your value proposition, your priorities, and the opportunities for your practice. A careful analysis will also help you identify the skills and qualities of an ideal successor, which can be used in the recruitment and selection process.

- What are your practice’s strengths, weaknesses, opportunities and threats?
- What do you see as the most significant milestone for your practice in the next 3-5 years?
- What does your ideal successor or successors look like?

Once you’ve addressed these questions and honed your value proposition, you’ll be better prepared to seek potential candidates. Finding the right person takes time and this person can often come from unexpected places. Only you can decide whether it is wise to build on internal strength or recruit from outside your firm. Regardless of the source, you will have to invest energy in training and partnering with your successor to ensure a smooth transition for everyone involved.
**TRAP #4: Being informal and not communicating.**

Perhaps you are unlike many advisors and you already have a succession plan. If so, how formal is it? Are you presuming the person you've identified as your successor knows that he or she is your successor and wants to take over your practice? How much do your spouse, clients, business partners, team and staff know about your succession plans? Just as it is if you do not have a plan, lack of communication and informal “handshake agreements” can potentially damage relationships and your business. For example, without a formal business succession plan, the successor has the freedom to walk away from the agreement without suffering from any repercussions.

**SOLUTION: Formalize, communicate and communicate again.**

Frequent and clear communication is perhaps the most important thing to keep in mind as you plan for your succession. During periods of transition or change, communication helps the involved parties feel valued and increases their confidence in the succession plan. This leads to strong client retention and better business relationships for a smoother transition.

With the help of your attorney, you and your successor will negotiate the necessary agreements to formally position the transfer of your business.

“The earlier you begin planning, the more alternatives you will have to structure your eventual transition.”
Insights from Industry Pros

To help you with your next phase—the creation of a succession plan—NAIFA interviewed three industry experts for advice on how to create an effective succession plan.

DONALD A. MCLAUGHLIN, CLU, CHFC, CLF, MSM, recently retired after 35 years in the financial-services industry. His areas of expertise include marketing, training and organizational development. He is widely recognized as a pioneer in developing succession planning for producers and advisors.

MICHAEL DICENSO is a speaker and expert in the retirement services and wealth-management industry. His focus is in the areas of fiduciary process management, fee transparency, innovation, technology, vision, strategy, sales growth, marketing, client service, operations, practice management, M&A, and capitalizing on industry trends.

ROGER VERBOON is director of practice succession and acquisition for Securities America. Verboon joined Securities America in 1996 and has served in several areas, including practice management. He also led the creation of the company’s practice transition center.
NAIFA: What’s your definition of a “succession plan?”

DON MCLAUGHLIN: Succession planning is the accumulation of steps you take to prepare for the orderly transition of leadership and management of a business.

NAIFA: How is it different from business continuation planning?

MCLAUGHLIN: Business continuation planning is a part of the succession planning process. Business continuity agreements (sometimes called contingency plans), provide for the transfer of servicing of a producer’s clients to another producer following the occurrence of a triggering event (death, disability, retirement or departure from a company). Think of a continuity plan as analogous to term insurance for your practice.

NAIFA: Why is it becoming increasingly important for advisors to focus on succession planning?

MCLAUGHLIN: In my opinion, the importance hasn’t changed but the awareness of the option to create a succession plan has increased significantly. The urgency has increased because of the aging of our industry’s distribution force, as well as economic and regulatory changes in the financial-services environment.

NAIFA: What are some of the hurdles advisors face in creating a succession plan?

MCLAUGHLIN: The process of succession planning is fairly simple. It just isn’t easy. The two biggest issues in creating and executing a succession plan are finding a worthy successor and letting go of your client relationships. Though there obviously are financial considerations, the key to a successful plan is a transition of trust. Both you and your clients must trust the successor in order for the transaction to be successful. This makes finding a worthy successor even more difficult.

Try to envision your best clients. Long-term clients who count on you for advice and assistance throughout your career become friends, neighbors and family. More importantly, they trust you. Now, think about how it will feel to look at those clients in the eye and say, “trust that person over there the way you have trusted me.” This is one of the most difficult tasks any successful entrepreneur will ever undertake–letting go of control.

NAIFA: Describe some steps advisors can take to create an effective succession plan.

MCLAUGHLIN: Because every practice is different, few generalities can be made. Every state has different laws, and licensing and regulations.

Depending on your practice, FINRA and the SEC have an interest in your planning. Each company, insurance carrier and broker/dealer also has unique procedures and processes. However, there are a few essential steps one can take before starting a plan:

Check out the rules. Find out what is allowed and not allowed by your company, broker/dealer, insurance carriers and contracts when it comes to selling your practice. Then, check the rules and regulations of the organizations and states that govern how you do business.

Learn how servicing is transferred within your companies and broker/dealer. What happens? How long does it take? How can you be compensated when it occurs? What are the systems limitations?

Plan an exit strategy. Sketch out a strategy for exiting your practice. If you have more than five years in the business, you should have a continuity/contingency plan in place with instructions for the care of your clients in the event of your death, disability, termination or departure. If you are within ten years of the day you think you want to leave your practice, you should have in writing a succession plan that identifies the successor or successors, the date of transition, and financial terms.

Create a profile of an ideal successor. It is essential that you define the kind of person who you believe can take care of your clients. Think about characteristics, skills and attributes. Challenge your own profile. Know the kind of person you are looking for before you start looking.
NAIFA: How would you describe a successful succession plan?

MCLAUGHLIN: As with any business, the concept of a good deal is based on a willing and knowledgeable seller, a willing and knowledgeable buyer and a meeting of the minds. Everyone likes to win.

In a successful plan, all stakeholders should win—the seller, the buyer, the clients, the carriers and the industry as a whole. To accomplish that, a plan has to go beyond a simple financial transaction. The successful plan should focus on the transition of trust. There are no shortcuts.

NAIFA: What are some of the pitfalls advisors should avoid when creating a succession plan?

MCLAUGHLIN: When I gave speeches, I often asked audiences, “How many of you met the love of your life, grabbed his or her hand and immediately ran to the chapel to be wed?” This question always garnered a few laughs but also created a pause to reflect.

A succession relationship that works requires the same time and attention it takes to build a successful marriage. That is rarely accomplished in a few hours.

NAIFA: What are some of the hallmarks of an effective succession plan?

MCLAUGHLIN: The plan is in writing, filed with all companies and carriers, covers all contingencies, provides for a transition period and a transfer of ownership/operational control, and provides for seller compensation, if any.

NAIFA: Any “words of wisdom” for the advisor about to embark on the succession-planning journey?

MCLAUGHLIN: I was taught to do the best I can with what I have wherever I am. That became my mission in life. During my professional career as a trainer and consultant, I amended that mission by helping other people do the best they could with what they had, wherever they were.

I believe the same mission can be applied to the vast majority of successful advisors I have met.

They have enjoyed a career that gave them the freedom to succeed and the ability to enjoy unlimited economic rewards. Along with those career benefits, they got to experience the feeling of making a difference in the lives of their customers and their clients.

This last sentence describes how many successful producers get their buzz. I believe the fear of no longer being able to make a difference in people’s lives is the biggest hurdle to retirement. Letting go of the buzz feels like a loss—like reaching the end of the road. It even can feel like death.

So these are my words of wisdom: Succession planning is not about loss or going. Succession planning is about growing. It is about growing your current business and increasing your options for exiting your practice at some time in the future.

Most importantly, succession planning is about fulfilling your commitments to your clients. Make sure they get the advice and help they need, whether or not you are there.

Plan for continuity of service by creating a plan for the transition of your business to a worthy successor.

You help clients do this every day. It is now time to do it for yourself.
Interview with Michael DiCenso

NAIFA: Do many advisors have a written succession plan?

MICHAEL DICENSO: Currently, only 5% of agents and advisors have a written succession plan. Advisors need to have a plan in place to insure the long-term success of their companies. It is also a vehicle that can be used to monetize the business and deliver greater benefits, services, and deliverables to clients.

NAIFA: What types of succession plans are available to agents and advisors?

DICENSO: Succession planning is different for every firm. It is based on the wants, needs and desires of the owner or owners. Some owners will want to stay involved, but in a reduced capacity, some will not want to change their duties and responsibilities, while others will want to walk away from the business completely.

NAIFA: How can advisors and agents determine what plan is the best for them?

DICENSO: This is a process that a consultant can add tremendous value to, because in succession planning, it takes knowledge and experience to accomplish a specified goal. It can be a highly emotional process, as well.

An outside expert will lead and manage the process, ask the difficult questions, keep the process focused, add value through expertise and deliver a written plan for a successful succession.

NAIFA: What areas do advisors generally grapple with when creating succession plans?

DICENSO: They tend not to be honest with themselves when assessing their firm’s worth, and they do not seem to be able to let go. To successfully plan, the owner or owners must be completely open and honest about the fact that this is a process that transitions them away from the business they created and grew in some way, shape, or form. This can be very emotional.

NAIFA: What opportunities do advisors have to grow and monetize their business as they prepare to exit?

SUCCESSION PLANNING OPTIONS FOR ADVISORS INCLUDE:

1. Hiring someone to transition the firm to. This can be difficult due to the lack of new blood that is entering our industry.

2. A partnership/merger/acquisition. This is finding a firm that will enable you to grow your business and offer your clients greater services and resources, while allowing you to back away from areas of the business you do not want to be involved in, going forward.

3. A partnership allows the sharing of revenues and resources.

4. A merger allows some portion of monetization, while allowing the owner to stay involved over an agreed-upon period, with responsibilities remaining in place for the seller to perform (i.e., wants, sales, service, being the face of the firm/ doing away with management, business operations or records).

5. An acquisition allows an owner to fully cash out of the business and move on to retirement or to pursue other opportunities.
DICENSO: There are many opportunities as mentioned earlier, but there are steps that can be taken as well.

For example, the process could be to find a partner first who will provide some monetization and growth opportunities. From a partnership over time, this could move to a merger or an acquisition. Every situation and owner is unique and the right solution for each firm will differ.

NAIFA: Share a few practical ways advisors can use to begin the process of creating a succession plan. What should be their first step?

DICENSO: The first step for the advisor is to truly understand all the metrics of his or her business and solidify the practice-management process in the following ways:

- Assessment of the revenues by niche, services offered and delivery
- Assessment of profitability by niche, services offered, and delivery
- Assessment of resources/staff and efficiency
- Revenues by staff by service offering
- Profit by staff by service offering
- Revenue per client
- Profit per client
- Overhead as a percentage of revenues/profits
- Assessment of technology and efficiency

What I consistently see occurring in our industry is that owners are working “IN” the business instead of “ON” the business. In other words, they are selling to and servicing their clients, but are spending little time strategizing, growing and focusing on the parts of their business that drive the most revenues and profits.

Advisors spend little to no time planning their successful growth and their succession. Most advisors are good sales and service people.

As a result, those are the areas to which they gravitate in their business rather than to running, managing and operating their business.

NAIFA: Any closing remarks?

DICENSO: Trying to accomplish succession planning on your own can be a major challenge. This is the main reason few firms have accomplished a successful succession process and do not have a plan in place.

Keep in mind that the process takes time, thought, and effort. The process also needs to be fact based and advisors need to be challenged by asking tough questions. Also, the process needs to be void of emotion.

There are industry experts who can serve as resources for advisors and can enable them to execute a successful plan and strategy.

Most advisors are good sales and service people. As a result, those are the areas to which they gravitate in their business rather than to running, managing and operating their business.  

DICENSO
**Interview with Roger Verboon**

**NAIFA:** What is your definition of a business succession plan?

**ROGER VERBOON:** A Succession Plan is a defined and actionable series of steps and actions that will lead to an advisor’s planned business exit and business transition to one or more other advisors. It sets a timeline for exit, establishes financial terms, lays out roles and responsibilities of the parties and delineates specific actions to ensure a smooth transition. The succession plan focuses on a single main planned-for event: for a financial service practice. This usually is the sale of the business. The goal is a smooth and successful ending.

**NAIFA:** How is it different from a business continuity plan?

**VERBOON:** The term “Business Continuity” is seen as ensuring that a business continues to operate in the face of obstacles that would hinder the business from doing so. One of the obstacles can be the advisor’s death or disability. Other obstacles to the continuation of business activities include loss of key employees, physical damage to facilities and equipment, loss of utilities, or a natural disaster. This is a plan based on “what-if” scenarios and is more like the troubleshooting section in an owner’s manual. The goal is keeping the business going.

**NAIFA:** Why is it so few agents with formal succession plans?

**VERBOON:** Things that can be done later – are done later. Since succession planning is focused on a future event, advisors tend to think about it later. Also, since obstacles to the continuation of the business are potential, not certain, events, they don’t get thought of very much, if at all. In reality, the financial-service industry is not a physically demanding job. It usually pays very well and is built on relationships that often become deeper than in other careers. Most advisors in the business have built their practices from scratch, which makes it harder for them to emotionally turn them over to someone else.

Then, because valuations of practices are relatively low, some advisors see no need to exit their business now, or at any planned time, because they believe they can work for another two to three years, make the same amount of money, and still sell it.

Lastly, industry media erroneously, in my mind, report that there are 50+ buyers for every seller, that it is a seller’s market, and that businesses can be sold overnight. So, why should an advisor plan for a sure and easy turnkey event?

**NAIFA:** What is the first step advisors should take when they begin to put together a formal succession plan?

**VERBOON:** I start with asking advisors to pick the date on which they will exit the business; a succession plan without an exit date is no more than a continuity plan. Next, I ask them to describe what their exit will look like: a sale and a walk-away event, a gradual phase-out over a period of time, or a relinquishment of ownership and major responsibilities, but they are still staying active as long as possible.

Then, I have advisors benchmark the value and quality of their business so they can use the data in planning for that eventual exit.

Lastly, I ask the advisor for a description of their ideal successor and if any successors have already been identified. So
the process basically consists of: How, What and Who.

NAIFA: When they do develop a succession plan, what is the most common type of plan many of them use?

VERBOON: Predominantly, financial services practices’ succession plans involve steps to take that result in an asset sale. The asset (client list, revenue stream) is the value; so, the succession plan needs to focus on how to increase the value prior to the sale and should include steps to assist in retaining the value after the sale.

NAIFA: What do you consider to be an effective succession plan?

VERBOON: An effective succession plan focuses on what is being sold, and how it can be successfully transferred. The plan needs to be in writing and include: the When, How, What and Who I described earlier. Lastly, when elements of the plan require agreements or disclosures, these need to be in writing.

NAIFA: What are some of the mistakes many advisors make when they are developing their succession plans and how can they be avoided?

VERBOON: Mistakes include:

• They don’t start planning early enough, which limits their succession options.

• They go by industry articles, books and word-of-mouth ideas that are general in nature and they don’t tailor their plans to their practices.

• They don’t seek help from trusted advisors such as business consultants, business brokers, attorneys and CPAs.

NAIFA: Any closing remarks for advisors struggling to create their succession plans?

VERBOON: Get help. Start the conversation with people who have done the research or are in the business of helping business owners with business planning in general and exit planning in particular. ■

“ A succession plan without an exit date is no more than a continuity plan. ”
VERBOON
A Case Study on Succession Planning in the Family

What happened to an advisor who died suddenly without a succession plan piqued the interest of the next advisor you are about to meet—Roland Chan—and led him to create a system that champions better transition behavior among financial-services professionals.

Chan’s story underscores the need for all advisors to focus their attention on succession planning and to start doing so right now.

ROLAND CHAN, CLU, CHS, is a former life and annuity agency operator. He founded FindBob to help the insurance and financial-services industry take control of growth and perpetuation.
NAIFA: Briefly describe the company you work for.

ROLAND CHAN: I’m the founder and CEO of FindBob (see sidebar on Page 20), a digital platform designed to help the insurance and financial-services industry take control of growth and perpetuation. Our mission is to champion better transition behavior among financial professionals and within enterprises in order to perpetuate, protect, and grow their books of business.

As someone who came from the insurance industry, I want to ensure that we live up to the promise made to our customers—to be there for them throughout their lifetime and to make sure the industry is preparing the next-generation advisor.

NAIFA: You joined your father’s insurance company in 2009. What did you do before then and what did you do when you first joined the firm?

CHAN: I started my career in the technology field and eventually started my own consulting firm in 2003. Then in 2008, I took my passion for agile approaches to managing software organizations and solving complex business problems and transitioned to running my family’s now 28-year-old life insurance managing general agency.

Although I only joined the firm in 2008 full-time, I had been licensed since 2000, and in addition to servicing a small book of business, I wrote much of the software that still powers the agency’s back office. I was familiar with the agents and staff.

However, my primary goal when I joined the team was establishing myself as a leader. Defining culture, achieving trust, and making decisions your team will rally behind were what kept me up at night.

So I immersed myself in the industry, pursued my CLU and CHS designations, and became active in my national association for insurance and financial professionals. It was through my relationship with these associations that I created my informal advisory board of mentors whom I would turn to for guidance. A couple of these advisors had been successors themselves and had gone on to grow the business they took over; so, their feedback was invaluable.

NAIFA: Did your dad have a succession plan in place before you joined him?

CHAN: He had “contingencies” but no written and actionable plan in place. It was a minor health issue that prompted him to talk to me about potentially being his successor.

NAIFA: How did that experience work out for you and your dad?

CHAN: Succession is complex, and family succession is even more complex. It required us to take a more balanced, holistic approach. Even though I was my father’s choice, we knew there was a possibility I wasn’t the “correct” choice, or taking over the agency wouldn’t be the correct choice for me.

So we put a transition plan in place, which addressed my needs, as well as those of my father and other stakeholders. We asked ourselves how our transition plan could affect our customers, regulators, partners, employees, our management team at the office and our 150 agents.

“Succession is generally viewed as an exit event. But it is not. Instead, it is an opportunity for growth for the practitioner and the firm that he is associated with.”

CHAN
This, coupled with the task of maintaining the viability of the business and fulfilling our personal goals as well as the priorities of the family, was our biggest challenge.

To address these issues, we put covenants in place, including the regular written actionable agreements. Most impactful, though, were the discussions about setting reasonable expectations and reciprocal accountability.

It was far more complex than just tax and estate planning. We needed to understand each other’s motivations, do personal financial planning, re-structure the business, setup KPIs or metrics for performance, strategic planning and consider our family dynamics.

**NAIFA:** Is your dad still at the agency or has he retired?

**CHAN:** My father actually stepped down several years ago shortly after I joined the firm in 2008 and transitioned leadership and all operational responsibilities to me. However, when I launched FindBob, it became apparent that there was an opportunity to make a meaningful difference in an industry that dad and I cared so much about. We encountered many agents, several of whom worked for us, who left succession and business continuity planning to an event like death, disability, retirement or loss of license.

After incubating the business while still working at the agency, I decided to make another transition and my biggest supporter was my father. Although I still provide strategic support, the agency is now in the capable hands of our management team, and my father, who

### ABOUT FINDBOB

**NAIFA:** Describe FindBob.

**CHAN:** FindBob is an enterprise platform. We “white label” our technology to help large insurance and financial institutions support their agents and advisors with their growth and perpetuation goals.

For agents interested in buying, selling, merging, teaming, continuity or succession, we provide tools to allow them to anonymously discover one another on an internal private marketplace.

For the enterprise or home offices, there are tools to help identify transition gaps within their organization, and the ability to help orchestrate connections.

Perhaps most importantly, we leverage the power of data to help them glean insights into their distribution so they can underwrite risk and assess the impact of loss—helping them to make sound business decisions.

**NAIFA:** How many advisors are using FindBob?

**CHAN:** We currently have thousands of users throughout North America. We recently graduated from the Global Insurance Accelerator based in Des Moines, Iowa. It is backed by some large carriers. We used that as an opportunity to expand our enterprise offering into the U.S. and we’re in the process of finalizing several engagements.

**NAIFA:** You’ve described FindBob as a “growth and perpetuation platform.” Why? What else does FindBob do besides assist agents with their succession plans?

**CHAN:** Succession is very much top of mind for many agents nowadays. However, succession is really the thin edge of the wedge for FindBob. Our platform helps users focus on their growth and transition goals and provides rich content at relevant moments in their journey.

Then, based on their interests, we help them discover opportunities not only for succession, but for partnering, merging, teaming, and business continuity, as well as with other like-minded professionals. When they’re ready, they can reach out, using a safe and secure messaging platform.
much to the pleasure of my mom, drops into the office a few hours a week to connect with the team.

**NAIFA:** Tell us more about what piqued your interest in succession planning.

**CHAN:** We had an advisor who unexpectedly passed away. He was a fantastic agent and advisor who had served the needs of families and small businesses for over 20 years. When he died, though, he was like a dentist with bad teeth. He didn’t have a succession or a continuity plan in place to protect the value of his most precious asset—his book of business. It took me over a year to transfer the value of his business to his wife and kids, and by the time that happened, much of the value had eroded.

Either because his clients discovered he didn’t have a plan and walked away, or agents, many of whom attended his funeral, poached those clients. Not only did he erode the value of his life’s work, leave his family in the lurch, and cause my firm and the carriers he represented to lose assets to attrition, perhaps most importantly, he ignored his fiduciary obligation to his clients.

When consumers engage insurance and financial advisors, they’re doing so for the duration of their lifetime, not ours. We have a duty of care not only as practitioners but also as enterprises and home offices to ensure that we are building practices of endurance that make good on the promises we make to our clients.

**NAIFA:** What lessons did this experience teach you?

**CHAN:** It brought the idea of succession planning clearly into focus. The average age of the independent agent and advisor is approaching 60 and over 80% of them do not have written and actionable succession plans. And according to studies by LIMRA-McKinsey, close to 40% of life agents are planning on exiting the business within the next 10 years. We’re headed towards a perfect storm.

The real lessons came about when I started doing customer development. I interviewed over 100 industry influencers, carrier execs, agency principals, lawyers, accountants, chartered business valuers, business brokers, and of course agents. I talked to anyone who was close enough to be affected by the problem of lack of succession or transition planning.

It’s a largely frozen marketplace, which is a commonly known problem. So why have traditional approaches failed? They have not been successful because they have not focused on the needs of agents and advisors and the activities required to stimulate the types of behavior that we’d like to see.

Moreover, succession is generally viewed as an exit event. But it is not. Instead, it is an opportunity for growth for the practitioner and the firm that he is associated with. In addition, by not addressing this problem as an industry, we’re not focusing on the next generation agent.

As an industry, we are not doing a good job of bringing in new talent. By focusing on transition and perpetuation and harnessing the equity in existing books of business to attract talent, we have an opportunity we need to experiment with far more.

**NAIFA:** Any closing remarks for our readers?

**CHAN:** If you haven’t started the planning process, consider breaking succession planning into several steps, and start with business continuity planning. 95% of all agents and advisors we interview agree they have an ethical obligation to address succession on behalf of their clients.

Yet over 90% of those respondents don’t even have a business continuity plan in place. A properly structured business continuity plan is not only a great “what if I get hit by a bus today?” plan, it also provides the necessary financing to purchase your practice, as well as a next-generation owner to care for your clients.

Moreover, the person you identify as your business continuity partner may very well turn out to be a contender to take over your practice if and when you’re ready to address the issue of succession. The greatest menace to the future of your practice, especially if you are a solo practitioner, likely isn’t the lack of a succession plan; rather, it’s lack of a business continuity plan.
CHAPTER 4

Top Takeaways

The strategies shared by the industry experts featured in this report represent a good starting point for any advisor who wishes to embark on the succession-planning journey.

Here are a few things to keep in mind as you take your first steps:

**Takeaway 1**
When customers engage insurance and financial advisors, they do so for the duration of their lives, not for the lives of the advisors.

**Takeaway 2**
Succession planning takes time, thought, and effort.

**Takeaway 3**
A properly structured business continuity plan is not only a great “what if I get hit by a bus today;” it also provides the necessary financing to purchase your practice as well as a way to identify a next-generation owner to care for your clients.

**Takeaway 4**
If you have not started the planning process, consider breaking the process into several steps—starting with business continuity planning.

**Takeaway 5**
The concept of a good deal is based on a willing and knowledgeable seller, a willing and knowledgeable buyer, and a meeting of the minds.

**Takeaway 6**
A good plan needs to be in writing.

**Takeaway 7**
Finding the ideal successor takes time, and this person can often come from unexpected places.

**Takeaway 8**
Frequent and clear communication is perhaps the most important thing to keep in mind as you plan for your succession.

**Takeaway 9**
The earlier you begin planning, the more alternatives you will have to structure your eventual transition.

**Takeaway 10**
The key to a successful plan is a transition of trust.

**Takeaway 11**
Succession planning is about fulfilling your commitment to your clients.

**Takeaway 12**
Succession planning is not about loss. It is about growing your current business and increasing your options for exiting your practice at some point in the future.
As was noted throughout this report, many advisors hesitate to create a succession plan even though they are worried about what will happen to their business after they are gone.

When asked about their reluctance to embark on such a critical task, the responses they give are many and varied. Some say they love what they do and don’t plan to retire, others claim they are too busy running their business and do not have time to focus on succession planning, a few say they can’t find the right successor, while a handful admit they just do not know where to start.

If you are among those who admit to not knowing where to start, the ideas shared by the industry experts featured in this report should serve as important first steps as you map out your plan.

At the very least, you should:
• Assess your readiness to exit your business.
• Identify a successor or successors.
• Evaluate the financial value of your practice.
• Determine the type of succession plan that is right for your practice.
• Evaluate and identify the type of financial model you want to follow when selling your practice.
• Execute the plan.
• Update the plan as necessary.

Even if you already have a succession plan, a thorough review of the information contained in this report will help you identify your plan’s weaknesses, gaps, and shortcomings, and show you how to address them. Taking time now to improve your plan will result in innumerable benefits for you and your clients—now, and in the years ahead.

While you are working on your plan, don’t forget to take advantage of NAIFA’s educational offerings on succession planning, available on www.NAIFA.org.

NAIFA has made it a priority to help you plan for your succession because it realizes the importance of a well-thought-out and carefully crafted succession plan. Such a plan gives you peace of mind, allows you to go about your business knowing that your clients and staff will be taken care of, and assures you that when the time comes, you will be prepared to enjoy the retirement you have worked hard and long to achieve. ■