

# INSURANCE BROKER

The first steps on the road to creating your own business

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2022



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## THE FIRST STEPS

**LOOK AROUND YOU AND YOU WILL SEE GROWING MARKET DISAFFECTION WITH THE ACTIVITIES OF THE CONSOLIDATORS.**

Many people, fed up with the disruption caused to their (and their families) lives following yet another takeover, have decided that enough is enough.

They want to back their own talent, skills and experience to build their own insurance broking business and create something that will become a tangible asset to their family.

**SO HOW DO YOU MOVE FROM BEING AN UNDERVALUED EMPLOYEE TO RUNNING YOUR OWN BUSINESS?**



## IT'S ALL ABOUT YOU!

### 1. ATTITUDE

You must be a self starter, someone who has the drive, energy and tenacity to make things happen and to keep going through the tough times.

### 2. VISION

You will have the ability to see the bigger market picture, how to position your business to gain maximum return allied to a tactical awareness and market nous.

### 3. INSURANCE BACKGROUND

You will have built up experience in the Insurance market over a number of year's most probably working for a broker or an insurer but with a track record of giving best advice in a client facing position.

You will probably have built up a good 'book' of loyal clients.

### 4. EXPERTISE

You will be able to demonstrate a good level of competence across all classes of general insurance, and may well have a particular skill in a niche area all backed up by evidence that you have recognised the importance of professional qualifications (FCI / ACII qualified or evidence of progress towards).

### 5. SALES SUCCESS

You will probably have achieved success in a sales environment with an ability to find numerous ways to achieve sales. You will have a track record of giving the kind of first class service to clients that means you have a high renewal retention and above all you will care about the clients best interests at all times.

### 6. BUSINESS ACUMEN

Whilst you may not have run a business before, you are clearly streetwise and aware of the importance of understanding your numbers, staying up to date with market developments and trends and constantly re-evaluating your approach so that you are offering something different to your clients.



## WHAT SUPPORT DO YOU NEED?

Before you set off on your exciting journey make sure that you have read all you can about starting up and running your own business, preferably from independent sources such as:

[www.gov.uk/starting-up-a-business/start-with-an-idea](http://www.gov.uk/starting-up-a-business/start-with-an-idea)

[www.bbc.co.uk/news/business-16595152](http://www.bbc.co.uk/news/business-16595152)

[www.theguardian.com/small-business-network/starting-a-new-business](http://www.theguardian.com/small-business-network/starting-a-new-business)

It is also essential that you understand your governance responsibilities and the need to ensure that your business remains compliant in line with the guidelines for General Insurance as set out by Financial Conduct Authority whether you decide to go down the Directly Authorised route (as an Insurance Broker in your own right) or as an Appointed Representative where you would work under the approvals of a Principal (typically an Insurance Broker or a Network provider).

There are many support services available, including online training & development and industry bodies can all help you to ensure that your knowledge remains current. For good advice look at:

[www.CII.co.uk](http://www.CII.co.uk)

[www.FCA.org.uk](http://www.FCA.org.uk)

## BUSINESS PLANNING

If you were vying for capital to start your business, from a bank, VC or private investor, they would insist on seeing your Business Plan.

It does not need to be a novel but more an overview - 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.

The Business Plan will set out your business aims, target markets, how you will achieve your sales and how you will develop from the first day and through at least your first two years of trading. It will show research in your chosen market, competitors, plans for campaigns, marketing & networking.

Understanding your cash flow is vital. When starting your own business you will be moving from the certainty of a salary to a world where your earnings rely totally on the business that you win.

Your plans will show when revenue is likely to come through, with a sensible allowance for the inevitable uncertainty inherent in real life trading.

Your capital outlay involved in forming your business will need to be closely monitored and it will be influenced by the model you choose. There are two options:

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

## MARKETING

In your planning stage it is vital that you give a lot of thought to the marketing of your business.

This does not have to be a complex marketing strategy but it should include research on:

- **Your target audience: who they are, where they can be found and how they buy**
- **Ideas on 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 help you to differentiate yourself in a competitive market as well as ‘selling’ you as a professional, ethical and competent individual.

There is a lot of information on the best way to market your business and you might find the following to be useful:

[www.marketingdonut.co.uk](http://www.marketingdonut.co.uk)

[www.microsoftbusinesshub.com](http://www.microsoftbusinesshub.com)

[www.entrepreneur.com/marketing](http://www.entrepreneur.com/marketing)

[www.thisismoney.co.uk/money/article-1585166/Marketing-small-business](http://www.thisismoney.co.uk/money/article-1585166/Marketing-small-business)

[www.econsultancy.com](http://www.econsultancy.com)



## HOW TO SET UP YOUR BROKERAGE

### CREATING YOUR NEW COMPANY

There are two routes to set up an insurance brokerage either as a sole trader or a limited company.

Inevitably, you will choose the route which is most appropriate to your needs but you can get good independent advice through the following site:

[www.gov.uk/business-legal-structures/overview](http://www.gov.uk/business-legal-structures/overview)

Setting up a limited company is quite straightforward and can be done online at minimal cost.

Guidance can be obtained from the following site:

[www.companieshouse.gov.uk/infoAndGuide/companyRegistration.shtml](http://www.companieshouse.gov.uk/infoAndGuide/companyRegistration.shtml)

If you are setting up a with the word Insurance in your name this is regarded as a sensitive name and will require FCA approval before Companies House will register it. Your chosen name will also need to make it clear that you are not an insurer so if you want to include 'Insurance', you will need to include 'Broker',

### CREATING A WEBSITE

This is an essential building block which will support your brand and help build your credibility and image in the Insurance market. It gives your potential customers an opportunity to find you, understand what you do and make contact with you.

### LEGAL ADVICE

If you are leaving employment you must understand your contractual obligations to your previous employer, particularly when clients may be following you.

Understanding these obligations is not straightforward and getting an expert opinion from an employment lawyer would be a very sensible investment.

## WHICH ROUTE SHOULD I TAKE?

THERE ARE TWO WAYS TO OBTAIN FCA AUTHORISATION.

**Direct Authorisation** - this has historically been the usual route to setting up an insurance brokerage but it has become increasingly difficult, time consuming and costly to become Directly Authorised.

These 'barriers' have severely affected many 'start up' businesses in their first year of trading when they ought to be devoting as much of their time as possible to winning new clients and building income streams.

Additionally, it is quite clear that insurer service levels, policy wordings, access to markets and commission levels are geared to giving enhanced service to the bigger broker players who will give higher volumes of business to them which in turn means that the 'start-up' company will struggle to provide good and competitive client service.

**Appointed Representative** - this is the fastest growing model in the general insurance sector of the insurance industry with a growing number of businesses making it their preferred route.

Working under an influential 'Principal' company who has excellent Insurer Relationships, this model enables the Appointed Representative to concentrate on building their new venture free of the time consuming and costly burden of back office administration.

Choosing the right Network or 'Principal' Insurance broker is essential - the best network providers have access to top tier insurer service, wordings and earnings which will give the new Appointed Representative competitive advantage over many established insurance brokers from day one.

The following summary shows a comparison between the two models - not all Appointed Representative models are the same and the following is based upon the "standard" arrangements adopted by the main providers.





## PROCESS

### Direct Authorisation

The process is undertaken directly with the FCA and can be a complex one. 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.)”

### Appointed Representative

Other than the provision of your Business & Financial Plans, your CV and the completion of an Application form, all other aspects of the process are taken care of by the Principal through a combination of their own due diligence and the FCA application process. Timescales are much shorter than for Direct Authorisation (typically between 3 and 4 weeks) because the FCA have already satisfied themselves regarding the Principal's process, systems and controls.

## COST

### Direct Authorisation

The amount will depend on whether the application is straightforward (£1,500), moderately complex (£5,000) or complex (£25,000).

### Appointed Representative

Most Appointed Representatives will be straightforward applications and generally there is little or no cost as the activity is undertaken by the Principal. However, some AR networks will charge a combination of introductory, monthly, annual or transactional fees for the services they provide.



## CAPITAL REQUIREMENT

### Direct Authorisation

This will be based upon the permissions you have and can vary between £5,000 and £50,000.

### Appointed Representative

The FCA capital adequacy requirement is met by the Principal so the only Capital required is that needed to run then insurance brokerage.

## GOVERNANCE

### Direct Authorisation

The firm will need to manage how they run their business by establishing good governance systems and controls which meet the exacting minimum standards set down by the FCA.

### Appointed Representative

The Principal firm will need to evidence a framework for the business to operate within.

## INSURER AGENCIES

### Direct Authorisation

Building an insurer agency base can be challenging and not all insurers will be prepared to provide an agency and if they do they may require Personal Guarantees and a minimum level of premium growth in year one.

### Appointed Representative

The Appointed Representative will benefit from the extensive Insurer Agency base, service, wordings and earnings from day one. This will give the Appointed Representative significant competitive advantage from the outset.

## CLIENT MONEY HANDLING

### Direct Authorisation

All client monies are handled by the broker so they will need appropriate systems and controls in place to adhere to FCA rules.

### Appointed Representative

All client money is handled by the Principal. They will generally be responsible for cash collection and insurer reconciliation.

## IT/SYSTEMS

### Direct Authorisation

There are many different insurance trading platforms and the choice you make will depend upon the nature of your business and of course the cost. Operational efficiency is important to all businesses and features such as single keying, document production and e-trading capability can be very helpful.

### Appointed Representative

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.

## FCA REPORTING

### Direct Authorisation

The broker is responsible for meeting the FCA reporting and timescale requirements.

### Appointed Representative

The Principal is responsible for FCA reporting.



## PROFESSIONAL INDEMNITY INSURANCE

### Direct Authorisation

In order to be authorised the FCA require proof of adequate levels of Professional Indemnity insurance.

### Appointed Representative

Generally the Appointed Representative will be covered under the Principal's policy.

## FCA FEES

### Direct Authorisation

The responsibility of the broker.

### Appointed Representative

These are the responsibility of the Principal.

## SUPPORT SERVICES

### Direct Authorisation

Many areas of additional support are available for a new business ranging 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.

### Appointed Representative

This can vary greatly with some Principals providing a lot of assistance, such as marketing, whilst others provide none at all. It is important to check the support that will be provided before you sign your contract!

## FINAL WORDS

The prospect of running your own business can be both exciting and daunting.

Within the General Insurance Broking sector, evidence suggests that start-up businesses are best advised to begin their journey as an Appointed Representative, working under the approvals of a good principal company, until such time as they are sufficiently well established and with sufficient scale to make them more appealing to insurers thus getting satisfactory levels of service from them.

If you decide to start off as an Appointed Representative it is essential that you choose the right principal company at the outset.







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