

WHITE PAPER

# SMALLER BROKERS IN THE UK INSURANCE MARKET AND THEIR EXIT ROUTE OPTIONS



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# 1. EXIT ROUTE PLANNING

Almost half of business owners have no exit strategy — leaving them stranded in no man's land when retirement beckons and the departure board offers no viable flights.

Every entrepreneur and business owner needs to engineer a available exit strategy, well in advance of their intended retirement D-day. A plan should be in place that will allow them to board the next flight from the business 'departure board' whenever they decide it is time to let go of the reins and head into retirement. The problem? Almost half of business owners have no roadmap in place that will steer them towards a means of doing this.

This can lead to much disillusion when a business owner discovers the reality of the situation. Many smaller businesses fall foul of the Switzerland Principle, described by John Warrilow, author of 'Built to Sell: Creating a Business that Can Thrive Without You' and founder of the 'Value Builder System'. The Switzerland Principle is where too much of the day-to-day operation of the business is dependent on them as an individual personality and the business's founder, or on one major client. Having the Matterhorn sitting at the centre of your brokerage, or on your client books, presents an acquirer with too big a mountain to climb.

Other business owners find their company's profitability of little interest to acquirers. A further significant number do not have the right systems and procedures in place to make them an attractive proposition. In some cases, business owners are caught out, because their succession planning had envisioned a son or daughter stepping into their shoes. A lack of appetite by the family members concerned leaves them with no Plan B.

But for the smaller insurance broker it can truly feel as if they are stranded in no man's land. This can amplify all of the usual pressures that business owners experience when they discover there is no exit door that will allow them to strike a deal and retire in comfort.

## 2. THE SMALLER INSURANCE BROKER'S BROKING LANDSCAPE

Smaller brokers are not invisible to consolidators, simply not their focus of interest.

Smaller insurance brokers may well feel they have missed the boat and been overlooked by insurance consolidators, who have exhibited a real greed in recent years and seemingly absorbed everyone bar them.

However, under-£1m premium brokers are not as alone as they believe. Many of their peers, at this level of premium generation and slightly higher, are also in exit strategy limbo.

These brokers may believe they are trapped under low-lying cloud and invisible to consolidators. That is not necessarily the case. Taking into account the general rules of acquisitions, the buyer wants to get a good rate of return on their investment. In many cases, a smaller insurance broker cannot provide that. In 2022, those generating premium income under the £750,000 mark were also been found to frequently be making a loss.

In other instances, it is too much of a headache for an acquirer. Smaller insurance brokers may fall down on their systems. They may not have embraced digitalisation, particularly if that was too great an expense drain on the brokerage.

The Switzerland Principle is also more evident in a smaller brokerage. Clients are typically loyal to one broker and only stay on board because of the ties they have to them. An acquirer knows that these clients will not stick around in the long term, should that key person move on.

It has been noted that the attention of acquirers has already been diverted away from UK shores. Both Europe and Australia are now attractive markets for consolidators and private equity firms seeking an escape from the saturated UK insurance market. These geographical areas have the fragmented broker networks that are ripe for consolidator activity, whilst the UK market has largely been wrapped up to the extent the consolidators desire. The drop-off in the number of deals now being done is a true indication of how the consolidators have shifted their focus.

### **3. OTHER BURDENS FOR SMALLER DIRECTLY AUTHORISED BROKERS**

Smaller brokers feel ghosted by insurers on the one hand, and face soft-market, cut-throat competition, on the other.

This leaves smaller, directly authorised brokers trapped, with no easy route towards retirement. Pension planning can be in tatters and all of this pressure simply compounds other day-to-day issues. These include being 'ghosted' by insurers, who will not provide agencies to brokers of their size, the day-to-day burdens of FCA compliance, accounting and money handling, and the sourcing of affordable PI cover.

They might be stuck with costly overheads, unable to work from home. Add to this regular cash-flow worries and it can be mentally draining.

There is also a Catch-22 situation. Smaller insurance brokers know that today's insurance customer wants quick online quotes, online access to their policies and an efficient digitised service. But these brokers are typically unable to provide this type of service delivery, as the cost of investing in the IT infrastructure, which will allow them to provide such a service, is totally prohibitive.

### **SMALLER BROKERS AND THE SOFT MARKET**

At the time of compiling this guide, the UK is experiencing a soft insurance market. For several years, a hard market has masked the plight of the smaller insurance broker and thrown them a lifeline. Many have managed to survive, despite all the pressures, because high commissions could be generated in a hard market.

In a soft market, that glimmer of hope dissipates. The rate charges that drove premium income to a respectable level, at which a reasonable living could be made, are eroded. This puts more pressure on finances. Smaller brokers are almost bullied into having to price in a super-keen fashion, just to retain business. They also find themselves the plankton suppliers in the insurance food chain, with everyone now targeting and feasting on their biggest clients. The scramble for business and cut-throat pricing can be the last nail in the coffin.

## FUNDAMENTALLY, SMALLER BROKERS NEED TO BE:

Smaller brokers need viable options when it comes to increasing commission, accessing cutting-edge IT and gaining market access.

- securing their futures and their retirement plans
- finding a way to gain market access
- increasing their commission rates
- putting new digital processes into place, that will make a transition from the business simpler
- improving their brokerages and getting them fit and ready for sale
- eyeing the huge hole in the middle insurance market that they could potentially fill, if they could engineer some growth in their brokerage
- putting themselves into a position where they can finally draw up their retirement road map.



## 4. TRAPPED BY THEIR OWN DECISION-MAKING?

Direct authorisation is no longer the Holy Grail for insurance brokers. Wise professionals are reversing the traditional roadmap route and switching their status to AR.

Is all this easier said than done? Not if the insurance broker changes their mindset and lets go of the industry's traditional viewpoint of the broker journey. In the past, this was one whereby direct authorisation was seen as the Holy Grail. If a broker started their trading life as an appointed representative, it was only ever really seen as a means to end. That was the acquisition of directly authorised status within a few years of trading.

Brokers believed that having the whole of the pie, in terms of the commission earned, was a far better proposition than having to split commission with an appointed representative principal, in return for the principal's FCA permissions and other support services.

Now, this is all turned on its head. On the one hand, the insurance industry has been subjected to a huge amount of regulation, which translates into a daily drain on resources, simply to deal with red tape and reporting duties.

Secondly, insurers have vastly increased the amount of premium income they wish to see generated, before they will grant an agency. Directly authorised brokers who never wanted to plant magic beans and grow crazily so as to rub shoulders with giants, have discovered, the hard way, that the industry metronome is set by the really big players. Without buying power behind them, they are now earning all of the commission, as they intended, but on relatively low amounts of business and at low commission rates. It has become a true case of 'be careful what you wish for'.

In recent years, however, there has been an escape route. This involves the directly authorised broker changing their status and moving in the opposite direction to the traditional broker journey model. Crossing the bridge and becoming an appointed representative, rather than being directly authorised, is step one of a roadmap that can lead to an ideal exit plan for these brokers.

## 5. AR NETWORKS: NOT NECESSARILY AN EXIT STRATEGY

Not all AR networks can provide an exit route that continues to keep the insurance arrangements of long-standing, loyal clients in trusted hands.

The key thing for a smaller directly authorised broker to remember, at this point, is that becoming an appointed representative (AR) in itself is not going to secure them an exit route. AR networks differ greatly. Some AR networks are merely ‘wrappers’ – providing a few key services in exchange for a share of the commission on each placed risk.

Some may mask the principal-AR commission split, by virtue of the principal skimming off commission before they ever present figures to the appointed representative.

Other AR networks claim to have an exit route but, in fact, that relies on them encouraging another member of their network to find the funds to purchase the book of business of the broker wishing to sell up. Here, the broker could return to the trap they originally experienced when failing to find a buyer on the open market. If their business is still not well-run and not financially viable, it will probably prove no more palatable to a fellow AR in their network. Unless another member broker is local to them, it may also be cumbersome for them to purchase another broker in a different location.

Even if a buyer is found in this way, the broker wishing to exit their business is likely to be transferring clients into the hands of another organisation and team with whom those clients have had no relationship. Having spent many years building personal relationships with clients, backed by huge amounts of mutual trust, this can feel like a betrayal of that client loyalty.

There can be an added dilemma for the broker, as many clients are also friends and people with whom they socialise. To jeopardise those relationships by placing them in the hands of an unknown quantity can be perilous. There is also the risk that the broker’s social engagements are suddenly curtailed, because too much business was mixed with pleasure and former clients are too disgruntled at their treatment to want to mingle any more.

As of 2025, the only AR network that offers a clear and demonstrable exit strategy, proven to work in a way that resolves all concerns and issues that the retiring broker may have, is the Gauntlet AR Network.

## 6. WHY THE GAUNTLET AR NETWORK PROVIDES THE ONLY VIABLE EXIT STRATEGY

With a unique feature of a direct sales team at its core, Gauntlet provides the seamless transition that brokers seek for their clients, at the time they decide to retire.

The exit strategy available through the Gauntlet AR Network – the network of Leeds-headquartered Gauntlet Risk Management – is one that draws upon the unique heritage of the network.

The Gauntlet AR Network was established in 2009 as a sister enterprise to Gauntlet Risk Management, founded in 1994. The vision was for the two to enjoy a symbiotic relationship, with the direct sales team at Gauntlet helping to generate the buying power, and hone the sales campaigns, that could be passed on to the network's appointed representatives and replicated by them. This vision has come to fruition, with the direct sales team continuing to be a mentoring resource for appointed representatives at the start of their Gauntlet journeys and at any time they require extra support on their pathway.

Meanwhile, the in-house broking team has long steered the network's broking ship, engineering key insurer relationships, highly attractive commission rates and a strong reputation in the market.

These two resources operate systems and processes, policy frameworks and sales correspondence with which appointed representatives' clients become familiar. The broking team may even be directly responsible for placing the risks into the insurance market, if that is what the individual AR broker wants them to do. When it comes to a time when the AR broker wishes to retire, they can simply move their clients over and allow the Gauntlet direct sales team to become their new insurance support.

This is a seamless transition for clients and it is one that the appointed representative broker can stagger and schedule as they wish. They could decide to fully sell their book of business to Gauntlet, or take a staged retirement, simply moving tranches of clients into the direct sales team as best suits them. They also have control over which clients to move and which to retain, if that is the case.



In a scheduled retirement, they are able to retain the social aspect of their insurance broking lives, continuing to work with the clients with whom they are closest. They can also retain their insurer relationships, as Gauntlet puts no blocks on its appointed representatives having direct contact with insurers.

The smooth transition can minimise stress for the AR and give them the satisfaction of knowing they have done right by their clients. Just as importantly, it can secure them the buyer of their book that they never thought they would be able to find.

This is a pain-free process too, with no handover to endure and no necessity to work for the new buyer for a contractual period of time.

If they are able to secure another buyer at this point, they are free to take that offer instead. Although they are likely to secure an exit strategy with Gauntlet, they are under no obligation to take that route to retirement, when the time comes.

## **7. ADVANTAGES OF THIS ROUTE TOWARDS THE EXIT DOOR**

Brokers, who deauthorise to become Gauntlet ARs, gain a new stress-free lease of life and higher, rather than lower, income levels.

Rather than viewing the move from directly authorised status to appointed representative with the Gauntlet AR Network as the only option, there are some other key advantages.

Those who have already taken this pathway towards their ultimate retirement date have discovered that they are financially better-off as an AR with Gauntlet. The higher commission rates and extensive access to market, backed by slick systems and a support team that can take on the backroom work whilst the broker focuses on client relationship-building, to drive income upwards. By generating more business, at more attractive rates, they experience a financial uplift.

There is also far less stress, because all compliance and accounting duties, as well as administration, are delegated to the Gauntlet support team. They also take care of PI, reducing costs to the broker.

By leveraging the advantages of cutting-edge Acturis IT, as well as all of the Gauntlet back office compliance, accounting and administration services, de-authorising brokers can shed overheads and work from home.

The move also makes the smaller insurance broker's business a much better-run one, in terms of both systems and procedures and digitalisation. By driving it with cutting-edge Acturis IT systems, it becomes slicker and more efficient – key components that any buyer will want to see in the future, if the decision is taken not to sell the book to Gauntlet.

This digitalisation can also allow a smaller broker to work from home, perhaps for the first time. By having this IT capacity, it also means that Gauntlet brokers can step in and run the brokerage's affairs, should the broker want to take a holiday or need a medical time-out.

Brokers tend to become happier and more enthusiastic, knowing they have the means to leverage real growth in their business, over however many years they wish to continue to run it. This provides an optimism about their eventual financial return. Some describe it as "a new lease of life." The psychological boost cannot be ignored.

The brokers also come out of a world of near isolation and enjoy a whole new contact book of insurers, fellow appointed representatives and personnel within the Gauntlet team. They can meet up at training events and annual conferences and really feel part of a bigger organisation.

## 8. SUMMING UP

By opening their minds to a new and non-traditional insurance broking roadmap route, professional insurance brokers are attaining the attractive exit strategy option they deserve.

Smaller UK insurance brokers are somewhat stranded in the UK market, with the acquisition tide having gone out and new markets attracting the eye of private equity firms and consolidators. This, coupled with a tangible lack of access to market and many regulatory requirements to fulfil, can make the situation appear, at face value, to be devoid of solutions.

However, some smaller directly authorised brokers have already highlighted that there is a very advantageous route to take. Although it requires a complete rethink on their part, and an overhaul of their previous understanding of what being a 'successful' broker looked like, the minute they take the decision to change their status, deauthorise and become an appointed representative with the Gauntlet AR Network, they can revolutionise their future pathway.

From this point, they can strategise and plot their future retirement across a time frame to suit themselves, creating the exit plan they never originally had in place, the lack of which caused sleepless nights.

The adage, 'better late than never' has a lot of merit. By adopting that adage, no matter how far they already are into their broking careers, a smaller or medium-sized directly authorised broker can leverage a position they had viewed as an impossibility, gaining the reward they deserve for their years of commitment and hard work and simultaneously doing the best by their clients.

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<sup>1</sup> [https://www.hoku-legacy.com/key-drivers-company-value?utm\\_source=chatgpt.com](https://www.hoku-legacy.com/key-drivers-company-value?utm_source=chatgpt.com)

<sup>2</sup> <https://www.plimsoll.co.uk/blog/key-insights-into-the-uk-insurance-brokers-industry-in-2022>

<sup>3</sup> <https://www.pkf-l.com/insights/evolving-uk-insurance-broking/>

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White paper produced by Gauntlet Risk Management, the principal behind the Gauntlet Appointed Representative Network, in November 2025.



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