

FEBRUARY 25, 2008

# INSURANCE JOURNAL®

THE NATIONAL PROPERTY CASUALTY MAGAZINE

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## STRENGTH IN NUMBERS AND COOPERATION

No. 4 on IJ's Top 100, Keystone Insurers Group's cooperative franchise approach stands out

Left to right: Michael J. Azar, George C. Wynne, Joseph P. Joyce, Colin R. Buzzard, David E. Boedker

# STRENGTH IN NUMBERS AND COOPERATION

No. 4 on IJ's Top 100, Keystone Insurers Group's cooperative approach now thrives in five states

Imagine being part of an agency consortium that understands only growth, not decline. Imagine being given the opportunity to experience that growth with amazing returns, and become part of a growing network of independent agencies that are sharing buying power and a comprehensive support network.

It may sound too good to be true, but it's a business model that's alive and thriving in five states.

For an agency to expand without some form of contraction seems implausible to most, but for those who are part of Keystone Insurers Group, a Pennsylvania-based provider of insurance products and services, it's the reality of doing business. Perhaps it's because Keystone's member agencies are not acquired or merged with the company. These agencies, which are successful agencies in their own right, have made a conscious decision to join the franchise that is Keystone. They joined up with what's best described as an aggregator with a twist: a franchise opportunity with all the support of a major insurance organization, yet one that encourages and insists upon their independent status. For that reason, they stay.

It seems only natural that the company serves as a franchisor since its roots were in such a union. The group began in 1983 as a joint cooperative between four already established agencies in Pennsylvania. The organization was formed in response to constraints in the market that made it tough for smaller agencies to compete.

## Franchise, not a brokerage

The collective soon grew and in 1999, Keystone changed its business model to the current franchising model. It worked. Within a few short years, 110 Pennsylvania-based agencies had signed on with Keystone. By 2003, the group was expanding beyond Pennsylvania into North Carolina and Virginia. Today, there are 135 franchises in five states — Pennsylvania, North Carolina,

Virginia, Indiana, and Ohio. The company has hopes of securing franchises in its sixth state, Tennessee, by 2008. The agency has climbed to No. 4 on *Insurance Journal's* Top 100 Agencies list.

The company is not a brokerage. Rather, Keystone President David Boedker considers Keystone "facilitators of value" for the franchises within the company's system. And value it delivers; company-supplied figures give conservative year-end estimates of revenues reaching \$1.2 billion.

Keystone acts as a support system for agencies that are getting along quite well on their own. In fact, Keystone does not take over operations of any member agency. Boedker is adamant on that point: "Keystone does not take on the administrative duties of its franchises; the franchises are best able to handle their own businesses."

Today's partners are much like the founding agencies, which all had unique characteristics that, when joined with the others, made for a strong union in the market. None of the original agencies wanted to fully merge the agencies, so they hit upon the idea of the cooperative. Likewise, today's Keystone agency partner is fully independent and will remain that way.

Probably the largest benefit of becoming a Keystone franchise is the strength of partnership. Franchisees have access to more carriers and exclusive programs, risk management assistance, bulk insurance discounts, intellectual capital resources, and much more than they could access as independents working alone. "Everything that is risk-transfer-oriented we're involved in," says Boedker. "That's where you need to be today in order to be successful. You have to be able to offer your clients a suite of services and product offerings."

There are two directives Keystone Group's central business lives by. According to Boedker, the objectives are to grow business at a faster pace than the rest of the market, and to meet its fiduciary responsibility to generate "great" financial returns for its owners/investors. As Boedker explains,

### Insurance Journal Top 100 Agency Profile

**RANKING: No. 4**

### **Keystone Insurers Group**

**Headquarters:**  
Northumberland, Pa.  
**Year Founded:**  
1983

**Additional Locations:**  
204 locations

**2006 Premium Volume:**  
Total: \$912.5 million  
% Commercial: 60 percent  
% Personal: 40 percent

**2006 Revenues:**  
\$98.8 million

**Principals:** Five senior officers of the corporation — each agency has principals  
**Mergers/Acquisitions:** Franchises independent insurance agents. There are no mergers/acquisitions.

**Number of Employees:** 1,100 (all franchises and corporate office)

**Number of Carriers Represented:** 56

“Our founding principle is to do with peers what we can’t do alone.”

Therein lies the beauty of the franchise business model. Keystone franchisees are able to own their niche markets, yet gain market strength through the association with a group consisting of multiple lines of business. Everything from property/casualty to personal lines and back again are represented: commercial, personal, financial services benefits, risk management and more are all part of the Keystone family of agencies. What that gives the agencies is buying power. Where once barriers existed thanks to minimum volume requirements, opportunities are now wide open.

The company is wholly owned and invested in by its franchisees and employees, and the company’s success creates an above-market return for this investor group. How much is a closely guarded secret, but Boedker says the company “way outperforms the market.”

“We are a growth-oriented entity, and we provide our partners with the tools to grow their agencies. If you look at the industry today, you’ll see that most carriers are thrilled if they’re up a couple of points in growth. We want to help our partners grow their business and sales in double digits. We’re up 9 percent this year on a same-store basis with our key strategic carrier partners. Most carriers are up less than 3 percent.”

The support system is broad. Boedker uses the example of the subsidiary that assists on large commercial accounts. “We have another subsidiary that assists them in the financial services arena. We provide services as simple as market access to a broad array of financial services providers, or we can provide technical services with certified financial planners who can work with them on case development or CPAs to assist with tax/estate planning, or lawyers. We also can act as their producer to go sell products if that’s what they wanted or needed.” In short, Boedker says, “We enable equity partners to operate like a *Fortune* 100 company.”



“Our founding principle is to do with peers what we can’t do alone.”

-Keystone President  
David Boedker

Keystone acts as a support system for agencies that are getting along quite well on their own. Keystone does not take over operations of any member agency.

### Failing agencies need not apply

Probably the most interesting aspect of agencies that join the Keystone franchise is that they are, by all rights, already successful at what they do. Boedker says the company will have it no other way. Explains Boedker, “We’re attracted only to agencies that are tremendously successful in their own right — agencies that don’t necessarily need to partner or to associate themselves with anyone. We are absolutely not a lifeboat. We are the exact opposite. In fact, if you need us, we don’t want you.”

When *Insurance Journal* talked with Boedker, he was driving from a meeting in Cincinnati with a group of independent agents to a meeting with yet another group in Cleveland. Yet even these meetings with prospective “equity partners” are carefully screened. Potential agency candidates are brought to the attention of Keystone in a very selective process. “The group of agents I just met with were either referred by a carrier, by an agency principal of Keystone, or is an agency we’re already familiar with. The people who get into Keystone are the best of the best.”

He means it. For Boedker, growing the Keystone family is important, but it’s not done lightly. Boedker explains that Keystone attempts to bring on 30 new member agencies a year, but the cherry-picking process often keeps the numbers lower. Searching for “extraordinary agencies,” as Boedker calls potential members, is a time-consuming, carefully executed process. “We’re looking for the best of the best, and that can take time. There’s one agency that came to Keystone that took me 12 years to bring on board. That’s an anomaly. Typically, an agency knows within six months if it’s right for them. It’s a different process for each agency.”

Just because an agency passes muster does not mean it’s a done deal. As Boedker explains, Keystone will present the potential partner with full disclosure. As a franchise, Keystone must comply with Federal Trade Commission guidelines, and in certain states Securities Commission guidelines. Each potential candidate agency is provided a Uniform Franchise Offering Circular, which is a prospectus/full disclosure document. Agencies considering joining the franchise know up front if the decision fits with their own needs.

Probably the most impressive part of that disclosure is what else is included. On the back of the circular is a listing of every agency in Keystone and their contact information. This is Boedker’s best advertisement. “The thing I’m most proud of is that potential franchisees can call every single agency on that list and ask them how they felt about their decision to join Keystone. I’d bet a month’s salary every one of them would say it was the best business decision they’ve ever made.”

Surprisingly, agencies that join the Keystone Insurers Group do not have to meet an earnings benchmark. The franchises are “like-minded peers” and size, in this instance, does not matter. Some Keystone members are sporting close to a million in revenue. Others are topping out at over \$10 million in revenue — most franchises’ revenue fall somewhere between those numbers. The composition of the company’s business model matters much more than the funds in the coffers. Franchises are granted based on the level of integrity, professionalism and ethics an agency brings to the table.

## Perfect retention

It may be hard to believe, but in 25 years Keystone has lost no franchises. In an industry that is always in some form of merger, acquisition, liquidation or restructuring, that's quite an accomplishment.

"There has never been a partner that has decided to take his marbles and go play in a different game. It's a big decision to become part of Keystone," insists Boedker. And it's a decision that's weighed heavily on both sides of the equation. "We're looking for people who want to remain independent into perpetuity, people who are probably prime targets for one of the big aggregators to acquire, but who don't want to sell. Those are the people we're most attracted to."

They stay also because of the value received for their investment. Agencies aren't changing their business model to fit with Keystone. Rather, as Boedker puts it, they are enhancing their business by adding a suite of services and opportunities that would not be available otherwise, or would be out of reach financially for some of the smaller players. The organization holds focus group meetings and makes a concerted effort to deliver what the principals need in order to remain successful and grow their businesses. That all of the group's agency franchises have remained — some for 20 years or more — speaks to the validity of the company's business model, and the value the agencies receive from the franchise. That the company has expanded into five states in just a few short years speaks well to the attractiveness of that model.

Clearly, doing business in a number of states and having so many franchises requires a bit of guidance. Because the group grew selectively, the powers that be were able to install state-based management that worked directly with that particular state's agency franchises. To date, there are four state managers. Each manager is the touch point for all things state-related, and knows intimately the insurance regulations and climate in his or her state. Overseeing it all is a hand-chosen management team. In general, Keystone adopts the same selection process to its management as it does to its agency prospects. That makes it what Boedker calls a "high horsepower" organization. Decisions are a group process, not strictly a management process.

## Decisions, decisions

Still, not every decision made is a good one. Boedker has had his share of both good and bad decisions, and he shares both with equal honesty.

Boedker is especially proud of his decision to join the company 20 years ago; a decision he credits to his wife's influence. He also remembers a decision to create a division of the company to offer exclusive property/casualty programs, to design products and pricing platforms that are unique and only available through Keystone partners. "That represents a substantial portion of what our partners do today. It's a bullet in their gun that no other competitor has. We have exclusive endorsements by state and national associations where we are the only people who have access to that product and pricing platform. The results have been phenomenal. Our retention is off the charts. The loss ratio performance is easily 10 to 15 percent better than what we realize on our traditional book, which is very profitable to begin with."

Still, some decisions were a bit less successful. Boedker remembers



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The company has set a goal to double size and number of franchises within the next five to seven years.

one in particular — the company's adoption of a payroll deduction platform to sell personal lines policies — that didn't necessarily create the same fervor as some of the other offerings. "We didn't cross-pollinate it. The investment versus reward didn't seem to be great enough, so we didn't follow through and execute like we should have. We should have invested a lot more focus and hired internal leadership to drive the process." However, some of Keystone's agencies still offer the payroll deduction platform with success. Boedker says these agencies are the ones that understood how to manage the platform properly.

One decision that the company made recently will help to ensure not only its own health but that of the industry. Keystone has created a Legacy Development division designed to bring new blood into an aging industry. Boedker says it's one example of how Keystone is looking forward and addressing potential problems before the develop. "While we have a youthful organization with the majority of our people in their forties, 15 years is coming up on us really fast. Our whole methodology is because we want to preserve the independent agency system into perpetuity."

Gone are the days when insurers recruited prospects fresh out of college, training them and putting them in the field. Independent agents would then recruit them to become

their producers and those prospects would ultimately become the principals of the agencies. Times have changed. The Legacy Development program will attempt to bring in 10 to 15 new producers in 2008. They will become potential legacy members for Keystone's member agencies. Boedker believes that carriers should be addressing the legacy issue now to abort any potential shortage of good talent going forward.

Likewise, Keystone is also planning for the future of its franchise. The company has set a goal to double the size and number of franchises within the next five to seven years. For Boedker, a franchise with Keystone is a long-term affiliation that pays out over time. "So many people think of aggregators bringing people together in order to generate more revenue. I look at that as something I'd classify as immediate gratification. That's not what we're about.

"We're about helping an agency grow the value of their business, helping them write an account they might never have written otherwise, helping them retain an account they were going to lose, helping them to add a new aspect to their company, such as starting a benefits division. That's what Keystone's about." **U**

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