

# Making the Leap from Captive to Independent Agent

## *The Ultimate Guide*



Many insurance agents start in the captive insurance model, learning the ins and outs of the industry, and building their knowledge of selling. Often, however, they find themselves lacking the ability to completely fulfill their clients' wishes, because they're seriously limited by the products they can offer, and are heavily regulated by their company. Most of these agents begin to wonder ... "What could I achieve if I had more options? Should I switch to the independent agency model?"

This is a very personal question, and only you can decide whether the independent agency model is right for you. However, there are a number of reasons so many captive agents decide to make the switch.

If you're thinking about taking the leap from captive to independent, you need to consider both the pros and cons of such a transition. You also need to learn about the practical steps required as well as the strategies that can help you succeed in your endeavor.

Use this Ultimate Guide to help navigate the decision-making process.



# The State of the Insurance Industry

IBISWorld<sup>1</sup> says there are 420,056 insurance agencies and brokers in the U.S., as of 2023. The U.S. Bureau of Labor Statistics (BLS)<sup>2</sup> says there were 523,000 insurance sales agents in 2021 and the number of agents is expected to increase by 6% between 2021 and 2031. Insurance is a thriving industry because people and businesses need coverage – it isn't optional. However, the insurance industry has many different competing models of delivery. On top of the captive and independent agency models, there are direct models that cut out agents entirely, delivering service via consumers' banks, online, and through other services. To succeed in insurance, agents need to choose their allegiances carefully.

# Captive vs. Independent: How They Stack Up

If you prefer a more traditional job role, you may feel more secure and comfortable as a captive agent. Although some captive agents are independent contractors, others are employees and may have access to a regular salary and employee benefits, which can be appealing to some agents. Also keep in mind that the definition of captive agent is in flux and many carriers have altered the agreements with their agents affecting profitability and viability.

On the other hand, if you're entrepreneurial, comfortable with taking some risk, and want to expand into multiple lines, build your income, and grow a business you can someday sell or pass down to the next generation, going independent may be an appealing path.

	CAPTIVE	INDEPENDENT
ENTRY-LEVEL CANDIDATE OPPORTUNITY	Moderate to High	Low
PAY	Base Pay, Commissions and/or Sales Incentives	Commissions Only
TRAINING	On-the-Job-Training + License	Pay for Your Own License and Systems + Learn Multiple Carrier Systems
BENEFITS	Employee Benefits Possible	No Employee Benefits
STABILITY	Subject to the Performance of Your Carrier	Depends on Your Individual Performance
INCOME GROWTH POTENTIAL	Moderate	High
OWNERSHIP POTENTIAL	Low	High
CAPABILITY TO OFFER CLIENTS CHOICES	Low	High
SUPPORT IN OTHER LINES	Dependent on Carrier	Dependent on Agency/Network
HOURS SPENT AT WORK	Medium to High	High for the First Few Years, Then Medium to High
RETIREMENT/SUCCESSION	May Have 401(k)	May Be Able to Sell Agency
OWNERSHIP OF BOOK/FUTURE RESALE CAPABILITIES	Low (Carrier Typically Owns the Book)	High
HELP WITH CLAIMS, MARKETING & OPERATIONS	High	Low

<sup>1</sup> <https://www.ibisworld.com/industry-statistics/number-of-businesses/insurance-brokers-agencies-united-states/>

<sup>2</sup> <https://www.bls.gov/ooh/sales/insurance-sales-agents.htm>



## The Appeal of the Independent Agency Model

Why do captive agents decide to become independent agents? There are five primary reasons.

### 1. The captive model may be losing its luster.

Some captive agents switch to the independent model because they're unhappy with changes at their captive carrier.

When you're a captive agent, you must adhere to whatever your carrier says, which may not always be in your best interest. For example, you might pay for leads only to have your company pass them to another agent. Alternatively, the company may raise premiums so high that policyholders flee. Worse, companies may do these things while enforcing ever-rising quotas you can't possibly meet under such conditions. Not all carriers are like this, but it is a risk.

One member of the National Association of America's Finest Agents (NAAFA) explains how becoming a captive agent has become less fruitful over the years. "Being a captive agent 20 to 30 years ago was often an admired position. Then, I began to see things changing. Commissions were cut, and new contracts were forced on agents and never to the agents' benefit. Premiums were raised according to ZIP code, and often we saw the company lower premiums in ZIP codes where company-favorite agents were located," she says.

Ted Paris, Executive Director at National Association of Professional Allstate Agents (NAPAA) agrees. He estimates that 75% of captive agents leave for other opportunities within five years and roughly half don't even make it five years. "It changed for the worse. Companies are increasing demands and lessening rewards," he explains.

Jeff Felger, Director of Legal Activities for United Farmers Agents Association (UFAA) says that he's seen both improvements and declines in the captive space. On the positive side, some carriers have improved technology and workflow efficiency. "New business platforms make quoting, compliance documentation, underwriting tools and customer document access much easier," he says. "However, in some cases, technology rollouts are rushed or poorly designed, creating complications and down-time," he adds.

On the negative side, Felger says that continual production tiering changes are perceived to decrease agent commissions. In addition, captive agents can feel pressured to hit carriers' new business quotas. In some cases, captive agents prefer to focus on existing relationships and their referrals rather than pursuing new business, and this choice is not always respected.

Declining consumer loyalty is also making it more difficult to succeed in the captive model according to Felger.

## 2. The independent agency channel is strong.

Despite growing competition from online and direct channels, the independent agency model is strong. The Big "I" 2022 Market Share Report<sup>3</sup> shows that independent agencies captured 62% of all property-casualty insurance written in the U.S. and 88% of all commercial lines premiums. If you want to be part of a winning team, it makes sense to embrace the independent agency model.

## 3. Independent agents can serve their clients well.

Independent agents are doing well because they can serve their clients better. Insurance is confusing to the average person, and the stakes are high when buying coverage. Instead of trying to buy coverage directly online, many people want the expertise and guidance of an insurance professional. They also want options, which is something independent agents can provide better than captive agents. As independent agents can obtain quotes from multiple carriers, they can find their clients the best deal, which helps independent agents close more sales and retain more clients.

## 4. The sky's the limit.

The Bureau of Labor Statistics says insurance sales agents earned an average of \$49,840 in 2021. This is only slightly better than the national average of \$45,760 for all industries. Independent agents have the potential to earn much more, as they're not restricted to one carrier, and can seek out the best commission structures. They can also sell more diverse lines of business – exploring commercial lines, specialty niches, and even excess and surplus opportunities, to further increase their revenues. If they work hard, there's no limit to the success independent agents can achieve.

## 5. You're in control.

If you've ever wished your captive agency did things differently, you know how frustrating it is to have good ideas you can't implement. As an independent agent, you have the freedom to do things your way. Whether you want to change the way you approach marketing or alter the hours that you work, you're in control.

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*If I can't find the right solution with one carrier, I can find it with another. There's always an insurer I can work with, so it's definitely much better now since I've become an independent agent.*

– Martha Hernandez,  
Martha Hernandez Financial Services, Inc

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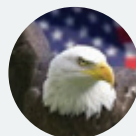


*As I really started trying to take on that trusted advisor role, I often found that we were trying to put circles in square holes. Unfortunately, you can only go so long with believing that your one product is the best fit for every customer. It quickly became clear that I needed to go independent.*

– Jeremy Powers,  
Powers Insurance Experts

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*It seems like every person I talk to who has gone independent seems to love it. The toughest part seems to be getting past the original shock that perhaps there are some insurance companies who actually appreciate an ethical, dedicated, and hard-working agent.*

– A Proud NAAFA Member

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<sup>3</sup> [https://www.independentagent.com/media/Pages/2022/BigI\\_Releases\\_2022\\_Market\\_Share\\_Report.aspx](https://www.independentagent.com/media/Pages/2022/BigI_Releases_2022_Market_Share_Report.aspx)





## The Dark Side of the Independent Agency Model

The independent agency model holds a lot of appeal, and certainly sounds great— but it's not all sunshine and roses. There are also some challenges involved with being an independent agent.

### 1. Carrier access can be a barrier.

Before you can sell insurance products, you need to find carriers that will allow you to sell their products. Unfortunately, carriers can be highly selective about the agents they work with, and often want to see a certain level of experience as well as a commitment to a quota. For agents who are trying to build their book, this can seem daunting or even impossible. Many agents find they need network support to overcome this hurdle.

### 2. There's no guarantee of success.

You've heard the expression, "With risk comes reward." The independent agency model has a higher potential for reward than the captive model, but it also has a higher level of risk. As an independent agent, you don't earn a regular salary: you earn commissions – and you only receive commissions if you succeed at selling policies. However, if you plan to get into the business of advising on risk, you probably need to be willing to accept a certain amount of risk yourself. The insurance marketplace is cyclical, and the challenges are ever-changing with the economy and world marketplace. Agents must be willing to evolve and change constantly to succeed.

### 3. The learning curve can give you whiplash.

If you've been working as a captive agent for years, you might think you know everything there is to know about insurance. Not quite. You may be an expert, but you only know one carrier's procedures, systems, and products. To succeed as an independent agent, you need to master the procedures, systems, and products of dozens of carriers. You also need to manage every aspect of running the business on your own – from marketing and operations to following up on claims and underwriting issues.

### 4. You need to work hard.

If you aren't willing to hustle, the independent agency model might not be for you. The hours can be long, especially when you're just starting out and haven't established yourself. Many agents don't make it past the first year. The good news, though, is you're working hard to build your own success, not somebody else's. If you can make it, you'll reap the rewards of your hard work.



*No one wants to give a startup agency the opportunity to get direct access. They want to see a minimum premium amount and a number of other things before they'll give you a chance. It can be really difficult to get those appointments.*

— Chris Walters,  
Integrity Insurance Group



# Journey to Independence: How Three Agents Made the Switch

	Allan Miles	Martha Hernandez	Jeremy Powers
<b>Previous Life as a Captive</b>	Allan spent about 12 years as captive agent.	Martha built a \$6M book as a captive agent for State Farm.	Jeremy built a \$4-5M book as a captive agent. His decision to leave surprised a lot of people, but he wanted to provide more choice for his customers.
<b>Leap to Independence</b>	In 1999, he decided to take the plunge and form an independent agency – the R. Allan Miles Insurance Agency.	She opened Martha Hernandez Financial Services, Inc. ("MH Insurance Agency") in 2019.	He opened Powers Insurance Experts in 2019.
<b>The Transition</b>	<p>Carrier access was a major struggle at first.</p> <p>"In the independent agency environment, especially in the beginning years, you're trying to grow your market base, and you're trying to represent the most reputable and most competitive companies. That's difficult because a lot of companies are very careful about who they appoint. They look at lots of things and that makes it a challenge, especially when you're an agent just getting started," he says.</p>	<p>Martha wanted independence but admits wasn't easy. She found it especially difficult to leave all her existing customers behind.</p> <p>When she moved to the independent side, she didn't want to fall into the same traps that had limited her when she was a captive agent. "I actually wanted to be as independent as possible," she says, explaining she didn't want to get stuck in a contract that drained her commissions.</p> <p>Fortunately, she found a network relationship that did not charge start up fees, that gave her full independence, and that capped commissions.</p>	<p>As Jeremy had a limited budget, he needed to get up and running fast.</p> <p>"I started this business with \$3,000 and a dream," he says.</p> <p>He was able to fast-track the process of securing carrier appointments by joining a network. Best of all, he was able to join without any upfront investment of monthly fees.</p>
<b>Success</b>	<p>He started his agency from scratch and now has a book of business worth nearly \$7M.</p> <p>He says many things contributed to his success, including client referrals, a lot of hard work to earn new business, and having a great network partner.</p>	<p>Martha's closing ratio was around 50/50 as a captive agent, but now it's much higher.</p> <p>"The fact that customers can access every option with us is just a lot easier for everybody," she explains.</p>	<p>As a new independent agent, Jeremy wrote \$1.6M in just 18 months.</p> <p>"The independent space not only gives us the products and the ability to make sure we're offering the best solution, but we also have more technology to leverage and make sure our customers get the best experience," he says.</p>
<b>Lessons Learned</b>	<p>The industry is constantly changing. Agents need to adapt – and a network can help.</p> <p>"Because the business is very cyclical, companies may be competitive one year and not as competitive at the next renewal. As an independent agent, it's easier to find alternative solutions," he says.</p>	<p>Being independent is a lot more work, but it's been worth it for Martha.</p> <p>"If I knew then what I know now, I would've gone independent a long, long time ago," she says.</p>	<p>Network support makes a difference.</p> <p>"Having access to a network's advisors was an amazing resource, helping me put a strong foundation in place so my agency could succeed immediately," he explains.</p>

# Are You Ready for the Leap?

## Four Pivotal Questions

You should make any major career change with your eyes wide open. Before you decide to take the leap and become an independent agent, answer these questions carefully to make sure you're ready

**1**

***Why do you want to switch? Is switching the best way to achieve your goals?***

Maybe you want to switch because you love selling insurance but want to give your clients more options. In this case, the independent model could be just what you need.

On the other hand, you might want to switch because you need a change of pace or want to make more money. Switching could be a solution, but there might be other ways to achieve these goals, too.

**2**

***Are you financially and emotionally prepared for the risk?***

When you open an independent agency, you're starting your own business. Even if you operate on a tight budget, this will require some capital. For example, you'll need marketing materials and business cards. You may also need to pay for leads. Plus, it might take a while before you see any commissions. Crunch the numbers to decide if you're financially prepared for the transition.

You should also make sure you (and any significant others) are comfortable with not having the stability of a reliable paycheck. For some, this can cause a lot of anxiety.

**3**

***Is the independent agent role a good fit for you?***

Some people like to decide what to do themselves; others are more comfortable being told what to do. If you fall into the latter category, you might not enjoy running an independent agency.

If you grow, you'll eventually need a team. You may have to transition again – from an agent to an agency leader. Is this career trajectory a good match for your strengths?

**4**

***Are you ready to work harder?***

You already know that selling insurance can be hard work, but now you're going to be doing it without a safety net.

On top of the hard work needed to find prospects and close sales, you'll need to take care of operations, technology, marketing, and human resources.

For the first few years, you may need to invest a lot more time than you currently spend as a captive agent. Make sure you and your family members understand the commitment.

# Essential Building Blocks

Success isn't a guarantee, but it is within reach. With the right strategies, you can rise to the top. Here are four essential building blocks for starting your agency.

1. **Gain carrier access.** Getting access to carriers needs to be your top priority, but going directly to them might not work. It doesn't matter that you have years of insurance sales experience and you know you can sell. If you don't meet carriers' requirements, they won't give you the time of day. You need to find another way to access carriers – for example, by joining a network or agency alliance

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*Access is more important than premium or commission levels because I need to have a place I can go that has multiple carriers so I can quote business that's going to be attractive to a prospective client.”*

— Mary Anne Connelly,  
Connelly-Weiss Insurance Services

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2. **Widen your net.** As an independent agent, you'll be selling products from multiple carriers, but you may also need to diversify in other ways. For example, you may have only sold personal home and auto policies as a captive agent. What if clients also need life insurance? What if they're opening a business and need commercial insurance? By offering a wide variety of products, you can meet all the needs of each client. This can increase your revenue because you'll be selling more policies. Just as importantly, it can improve your retention because your clients won't have to go elsewhere to meet their needs. Consider personal, commercial, life, and excess lines.
3. **Differentiate yourself.** When you worked for a big carrier as a captive, a lot of your marketing was for that carrier. Now you need to be at the center of your marketing. What do you offer clients that they might not find elsewhere? Work on your marketing strategy – you will need a website and business cards for starters. Find a niche market to tap into that becomes your specialty and sets you apart. Joining a network is another way to gain marketing support.
4. **Choose your partners carefully.** As an independent agent, you may find you need some sort of support. Many agents gain support by joining an aggregator or network. Before you sign on the dotted line, however, consider your choices carefully. Some organizations require fees that might be prohibitively expensive for a new agency; others may stake a claim to your agency, lock you into a multi-year contract and enforce other restrictive requirements. Look for a partner that offers the support, carrier access, and commission structures you need without fees or burdensome restrictions.





# Your One-Year Roadmap

Once you've decided that the independent agency model is the right path for you, it's time to map out your first year.

- ✓ **Check your contract.** If you're currently working as a captive agent, you probably have a contract with your carrier. Check what type of non-compete clause is in place. For example, you may be prohibited from poaching clients – i.e., taking your current clients with you to your new agency. There may be even more restrictive rules against selling certain types of policies or selling in certain areas. Many non-compete clauses are limited to a year or so. In January of 2023 the FTC proposed a rule to ban noncompete clauses, because they believe that they suppress wages, hamper innovation, and block entrepreneurs from starting new businesses.
- ✓ **Determine your budget.** Consider both your overhead expenses and your revenue when calculating your budget. Since things may be tight until you start bringing in commissions, decide on your priorities.
- ✓ **Obtain additional insurance licenses.** You already have an insurance license, but you might need additional licenses to expand into different lines, such as property, casualty, life, and health. Visit your state's licensing department website to determine what additional requirements you might need to meet based on your goals.
- ✓ **Register your business.** As an independent agent, you're running a business. You'll need to register your company's "Doing Business As" name if you use anything other than your full legal name. Also consider what type of business structure you want. Many agents operate as sole proprietors, but establishing an LLC can limit your liability and protect your personal assets. Check with your state's Department of Revenue or equivalent agency to find out your options and the process to register your business.
- ✓ **Open your business bank account.** You'll need to keep your business funds separate from your personal finances. Once you've registered your business, open a bank account just for your business. You don't necessarily have to use the same bank you use for your personal banking. Shop around to find a bank that will give you the customer service you need to operate your agency efficiently.
- ✓ **Get your accounting and taxes in order.** You'll need to keep accounting records and file your taxes as a self-employed business owner. If you were working as a traditional employee before, you may be surprised to learn that self-employed individuals are required to pay estimated taxes every quarter.
- ✓ **Look for support.** You might not be able to do all of the above on your own. If you want to join a network, make a list of the qualities you're looking for. For example, your list might include no startup fees, good commission structures, access to top carriers and products, an agency-friendly contract, and access to commercial, personal, and excess lines. Also check reviews and testimonials and read every word of your contract before signing.
- ✓ **Secure the necessary tools.** You'll need to acquire marketing and sales tools. Secure digital tools – including a website, social media accounts, and a Google Business profile – as well as business cards and other physical supplies. Include the costs for these tools in your budget.
- ✓ **Market your business.** There are lots of ways to market your insurance business. The method that works best for you will depend on your preferences as well as your clients' preferences. For example, you might find success buying leads or you might decide it's better to be visible in your community. You can network in person and develop an online presence. Once you start winning clients, you'll want to encourage referral and word-of-mouth business.
- ✓ **Meet your clients' needs.** Customer satisfaction can make or break you in this industry. If your customers are fully satisfied, they'll stay with you and bring you referral business. If they're unhappy, they'll leave and tell others to stay away. Referral business is the biggest source of marketing for many independent agents. Figure out what your clients need from you and do your best to provide it. This means making yourself available to them, listening to their problems, and finding creative solutions that meet their needs.
- ✓ **Figure out how to scale.** As your business grows, you'll need to scale. For example, you may need to hire more people. You might even want to buy out another agency. Create a plan for future growth to avoid stagnation. The right agency network can help you with finding agency acquisitions, adding staff, financing assistance, and more.
- ✓ **Reflect and reassess.** You might find things go well and you just need to keep plugging along. However, if you're not seeing results, you may need to change your approach. For instance, if the leads you've been buying aren't turning into clients, you'll need to focus on new lead sources, online marketing, or local referrals. If you've lost accounts because you couldn't access the coverage your clients needed, you'll need to find new options, such as excess and surplus lines.
- ✓ **Think about your business succession plan and exit strategy.** At some point, you'll want to retire and possibly sell your agency or pass it on to the next generation. Keep these goals in mind along the way. A good network partner can help you plan ahead.

# Agency Networks Make It Easier – But They’re Not All Equal

An agency network can help with many of the challenges you'll face as an independent agent.

“First, they help you get started,” says Jeremy Powers, owner of Powers Insurance Experts. “It’s almost like plug and play. Second, they get you in front of great carriers that you’d unlikely have an opportunity to get in front of on your own. Third, they’re a hotline anytime you need them.” Many networks and similar organizations exist, but they’re not all the same. “There are lots of aggregator type groups out there, but I feel like many contracts tie you in much longer and much deeper,” warns Allan Miles, R. Allan Miles Insurance Agency, a Smart Choice Agency Partner.

You need an agency network that offers an agent-friendly contract and provides the support and carrier access you need to succeed.

“There are some carriers that are extremely frustrating to deal with,” says Mary Anne Connelly, owner of Connelly-Weiss Insurance Services. “My network has done everything they can to expedite matters with carriers like that. Even if the carrier is a pain, my network is not. They help me even when it’s not a new sale. They will help me on an existing policy, and, as an agent, that’s wonderful because business retention is so important to me.”

Whereas these agents feel that they chose well with their network – Smart Choice – agents in other networks may not have such rave reviews. There are roughly 150 insurance networks to choose from, each with different fee structures and contracts. When choosing a network, beware of fees. Being committed to paying too many fees can ruin your chances of success.

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According to a recent poll of networks:

- 81% charge monthly fees
- 52% charge initiation fees
- 20% charge separation fees
- 7% charge renewal fees

*Source: 2022 Insurance Networks Study*

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In addition, take a close look at commission structures. Some networks have an 80/20 split, whereas others have a 70/30 split. It seems like 80/20 would obviously be the best deal, but make sure you look closely. Some networks that offer 70/30 also include a commission cap. Once you reach that cap, you earn 100% of everything above it. This can be a huge difference once your agency is earning at a higher level, because you won’t continue paying enormous portions of your income to the network.

## Are You Ready to Make the Leap?

Now you’ve read this Ultimate Guide, it’s time to do some soul searching. Making the switch to the independent model is highly rewarding – albeit a little bit risky. Make sure you’re mentally and financially prepared for the challenges ahead and that you surround yourself with a strong support system.

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