

BANK-INSURANCE VIABILITY INDEX

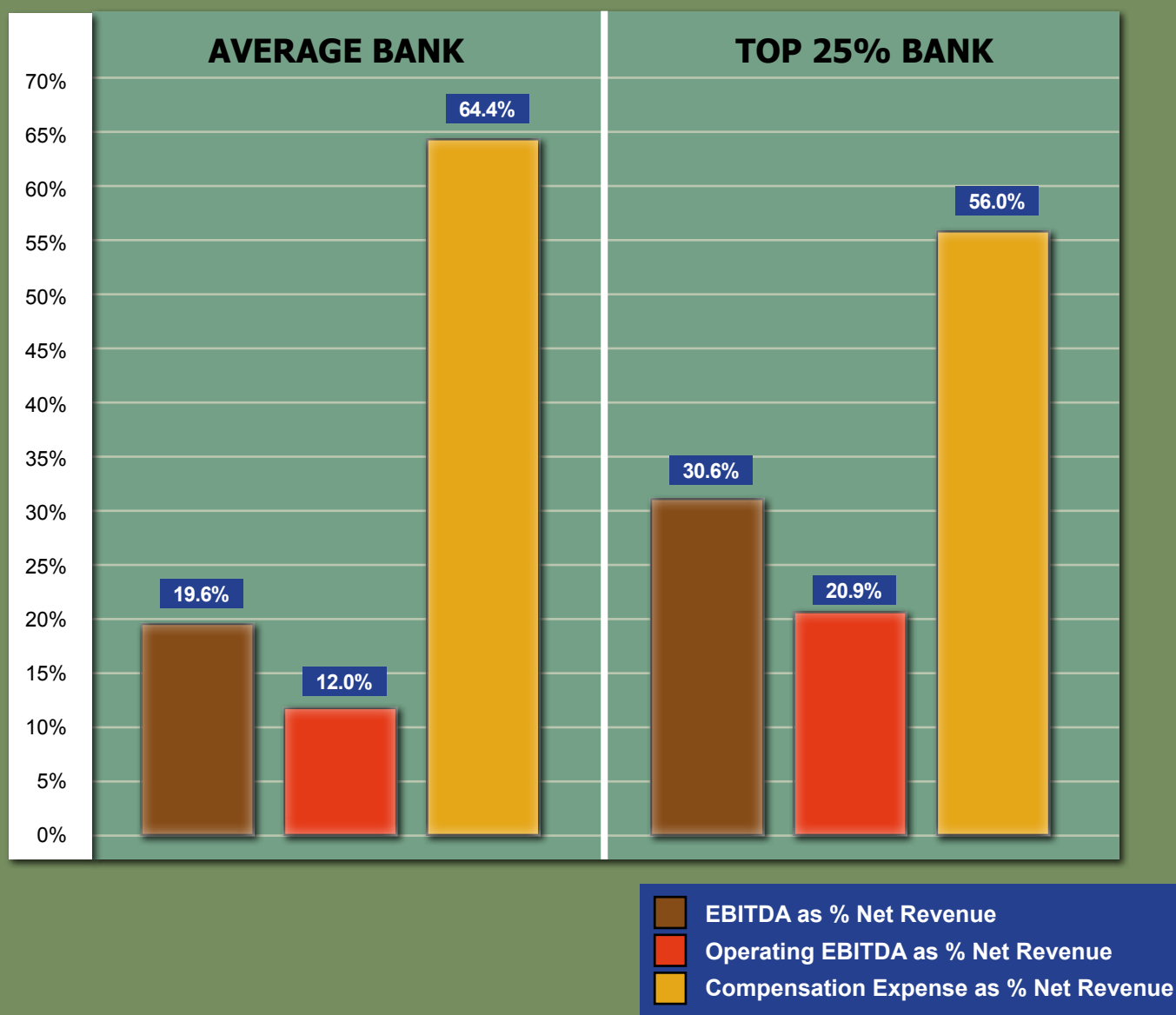
Minding Your Margin

Maintaining and improving agency profit margins is critical in today's economic climate. As illustrated below, there is a significant difference of 11 percentage point's improvement between the EBITDA margin of Top 25% performing bank agencies and the Average bank-owned agency. This is further confirmed by the Operating EBITDA, which is profitability excluding contingent income, being 8.9 percentage points better than Average. While contingent income does add to the margin in both the Best and Average Agency, this ratio confirms that agency profitability is driven by factors other than contingent income. So, if it isn't contingent income, what differentiates agency profitability?

This month's feature illustrates that profitability is driven by the productivity of an agency's staff. Compensation costs are 8.4% lower in Top 25% Bank Agencies, when compared with Average. Our statistics prove that producer compensation costs do not vary significantly between Average and Best 25%; it is the service and support staff driving this expense load. While there may be differences in pay ranges, the headcount of insurance agencies is driven by the productivity of the staff which then drives the overall payroll cost. At relatively comparable per-employee payroll costs, the best agencies operate at a high service and support productivity producing lower overall compensation expenses. Fewer employees also enables the agency to maintain a lower level of expenses in many areas, including rent, telephone, equipment rental and employee benefit expenses.

To improve profitability, it is critical that Bank Agencies understand the relationship between Profitability and Productivity compared to peer agencies.

Critical Performance Indicators Organic Growth Percentile Ranking - \$20M + Example



Productivity is driven by many factors, including the commission threshold of the select business unit and the average account size of the agency. A higher small business threshold reduces producer compensation tied to accounts that are not touched or should not be touched by producers and enables the select unit to build critical mass and operate efficiently. Savings stemming from reduced producer compensation and economies of scale enables high performing agencies to allocate higher quality staff to the select department which improves productivity and retention. In addition, producers and the servicing staff assisting producers have more capacity to over serve larger customers, write larger accounts and improve the agency's average account size. Understanding your staffing makeup and how your organization compares to the Average and Best 25% is critical to improving your profitability. Service staff and support staff employees can enhance agency growth by taking work away from producers, then efficiently servicing customer needs. Organizations that concentrate processing in key locations and limit the number of service and support staff in small branches are able to improve productivity by better utilizing staff at all times.

Organizations addicted to higher than average levels of contingent income have been lucky due to geographic location, a key insurance market or a specialty program. Others proactively manage carrier relationships, negotiate better contracts and leverage risk mitigation solutions to reduce the frequency and severity of claims. It is common that agencies with high contingent income have become complacent and rely too heavily on contingent income and as a result have higher compensation costs due to poor employee workload and accountability management. High performers manage to a profit budget excluding contingent income, reflecting contingent income "below the line" on the financial statements. While leaders focus on maximizing operating profitability, strategies are aggressively executed to maximize contingent receipts. And, high contingent income is never an excuse to accept low staff productivity and a lazy producer compensation program. Higher performers generate contingent income in excess of 20% of P&C contingent income while the bottom 20% of agencies in the nation generates contingent income of only 6% of P&C commission. While the intoxication of contingent income is prevalent in any agency, peak performers manage to a healthy operating margin excluding contingent income.

