

2016 BEST PRACTICES STUDY

Summary of Key Benchmarks

- ▶ Be the leader others want to follow.

Conducted by:



Independent Insurance Agents
& Brokers of America, Inc.



2016 Study Sponsors

We wish to thank the following companies for their sponsorship. The funding provided makes possible the development of the 2016 *Best Practices* Study and the *Best Practices Gateway* website.

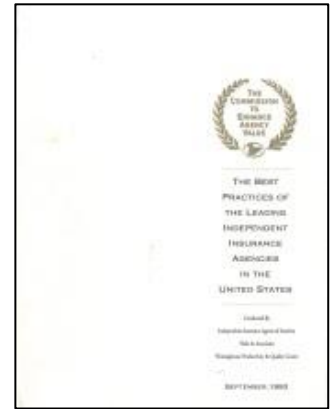


The 2016 *Best Practices Study*

Introduction & Overview

About the Study: the History & the Process

The annual *Best Practices Study* (“BPS”) originated in 1993 as an initiative by the Independent Insurance Agents & Brokers of America (or “Big I”) to help its members build and maintain the value of their most important assets, their agencies. By studying the leading agencies and brokers in the country, the association hoped to provide member agents with meaningful performance benchmarks and business strategies that could be adopted or adapted for use in improving agency performance, thus enhancing agency value. The Big I retained the principals of Reagan Consulting to create and perform the first *Best Practices Study*. Annual updates conducted by Reagan Consulting continue to provide important financial and operational benchmarks and the Study is recognized as one of the most thoughtful, effective and valuable resources ever made available to the industry.



The 1993 *Best Practices Study*

Once every three years the Big I asks insurance companies, state association affiliates, and other industry organizations to nominate for each of the study’s revenue categories those agencies they consider to be among the better, more professional agencies in the industry. The nominated agencies are then invited to participate. They must be willing to share key business practices/philosophies and to complete an in-depth survey detailing their financial and operational year-end results. Those results are then scored and ranked objectively for inclusion on the basis of operational excellence.

In 2016, the beginning of the current three-year study cycle, over 1,000 independent agencies throughout the U.S. were nominated to take part in the *Best Practices Study*. Although participation took extensive time and effort, 255 of the nominated agencies qualified and were designated as *Best Practices* agencies. These top-performing agencies’ results serve as the foundation for the 2016 *Best Practices Study*. Benchmarks for these 2016 *BPS* agencies will be updated annually in 2017 and 2018.

Participation in the *Best Practices Study* is a prestigious recognition of superior accomplishments. Firms that believe they have the qualities of a *Best Practices* agency and wish to be nominated in 2019 for the next study cycle should contact their state association or an insurance carrier and ask that their name be submitted.

New in the 2016 *Best Practices Study*

This year, the *Best Practices Study* was redesigned to better address areas of critical importance to the independent agent & broker industry and to present benchmarks in a more graphical and accessible format. The 2016 *Best Practices Study* is made up of three main sections:

1. **Brokerage Industry Perspectives.** An analysis of the four key challenges facing the insurance brokerage industry is provided along with perspectives on how *BPS* agencies are responding to each.
2. **Executive Summaries.** Key benchmarks and perspectives are presented in summary form for each of the six revenue categories.

The 2016 *Best Practices Study*

Introduction & Overview

3. **Cross Category Comparisons.** The entire spectrum of *Best Practices* benchmarks for all six revenue categories is presented in a side-by-side format that allows for a quick comparison of metrics across revenue categories.

In addition, the 2016 *Best Practices Study* introduces several new metrics in areas of critical importance for insurance agents and brokers. These new metrics include:

- *Sales Velocity* – to assess sales culture
- *Age Banded Sales Velocity* – to assess generational contributions to Sales Velocity
- *Weighted Average Shareholder Age (WASA)* – to assess perpetuation readiness
- *Weighted Average Producer Age (WAPA)* – to assess perpetuation readiness
- *Effective NUPP (Net Unvalidated Producer Payroll)* – to assess producer investment effectiveness

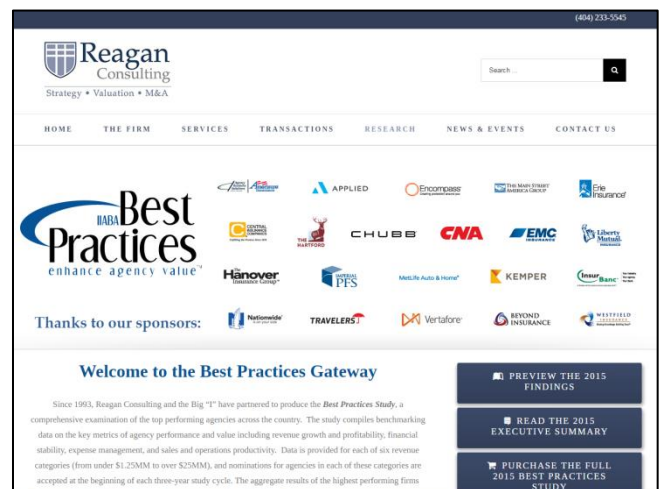
The *Best Practices* Gateway

Key benchmarks from the 2016 *Best Practices Study* can be previewed by visiting the *Best Practices Gateway*, www.reaganconsulting.com/research/best-practices. Findings are presented in summary form for each of the six revenue categories.

To purchase the full version of the Study (instant electronic or hardcopy shipped), please visit the Big “I” website, www.independentagent.com.

In addition to the annual *Best Practices Study*, many other useful studies, resources, and tools are available to help agencies improve their performance and enhance the value of their businesses. Two of the most frequently used tools are *The Agency Self-Diagnostic Tool* and the *Joint Agency Company Planner*. These *Best Practices* tools are part of a complete line of *Best Practices* products and services.

If you have questions about the information published in the 2016 *Best Practices Study* please contact the Big I Education Department at 800-221-7917 or Reagan Consulting at 404-233-5545.



The *Best Practices Gateway*: <http://bp.reaganconsulting.com>

Executive Summary

Key Metrics by Agency Revenue Category

Executive Summary

Agencies under \$1.25 million in revenue

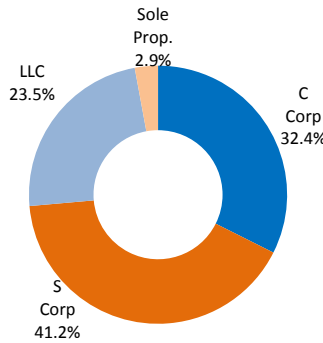
Profile

Regional Distribution



■ Northeast	17.6%
■ Midwest	35.3%
■ West	2.9%
■ Southeast	41.2%
■ Southwest	2.9%

Corporate Structure



Average Revenues

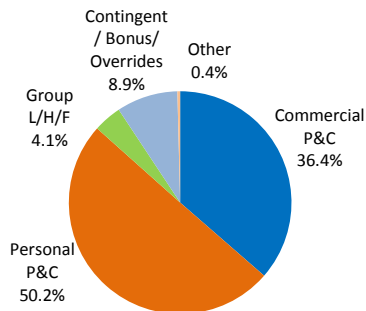
\$822,626

Weighted Average Shareholder Age (WASA)

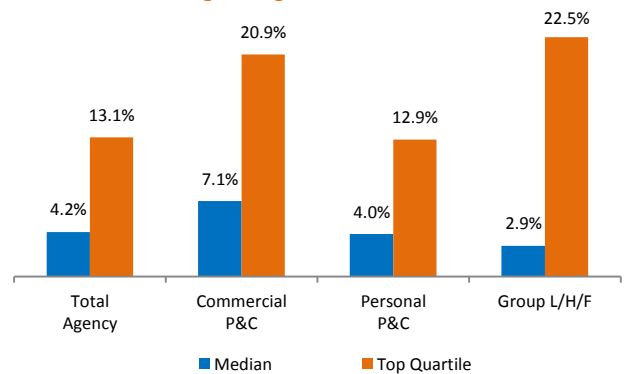
53.0

Revenue and Growth

Revenue Distribution (as a % of Gross Revenue)

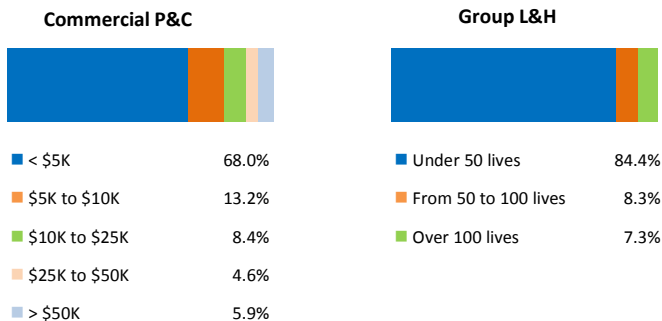


Organic Growth in Net Commissions & Fees (excluding contingents, bonuses & overrides)



Note: Commercial P&C includes Bonds / Surety. Group L/H/F includes Group Medical, All Other Group, and Individual L/H/F.

Account Stratification



Notes

- The under \$1.25M revenue group is the only revenue size category in the BPS for which Personal P&C is the largest revenue source.
- With median organic growth of 2.9%, Group L/H/F was the slowest growing business segment for agencies in this revenue group.
- This smallest revenue group has the highest concentration of C corps in the BPS (32.4%).

Executive Summary

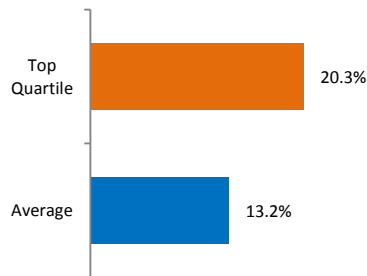
Agencies under \$1.25 million in revenue

Production

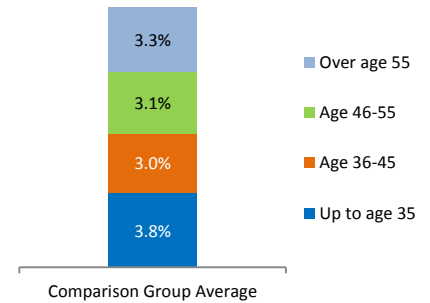
Definitions

- Sales velocity is a critical metric in determining organic growth. It is defined as this year's written new business *divided by* last year's commissions and fees.
- Age banding Sales Velocity can help a firm assess where new business and growth are coming from and prepare for perpetuation.

Sales Velocity



Age Banding of Sales Velocity



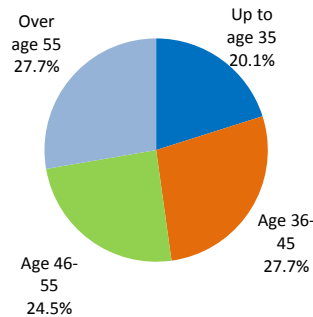
Notes & Definitions

- Effective NUPP, which is the product of an agency's investment in unvalidated producers (NUPP) and success rate in hiring producers (Producer Success Rate), is expressed as a percentage of net revenue. It is the best overall measure of an agency's effectiveness in recruiting and developing sales talent.
- Agencies under \$1.25M in revenue had an incredibly even distribution of Sales Velocity among the producer age bands. No age group accounted for more than 29% of Sales Velocity and no age group contributed less than 23% of Sales Velocity.
- Multi-line producers in agencies under \$1.25M posted the highest new business totals and had the largest average book sizes – their book sizes were at least twice the size of all mono-line producers.

Book of Business per Producer (commissions and fees)

	New Business	Average Book
Commercial P&C	\$22,358	\$143,178
Personal P&C	\$23,109	\$172,821
Life/Health/Financial	\$31,720	\$75,965
Multi-Line	\$42,417	\$348,506

Book of Business by Age



Effective NUPP

Comparison Group Average:

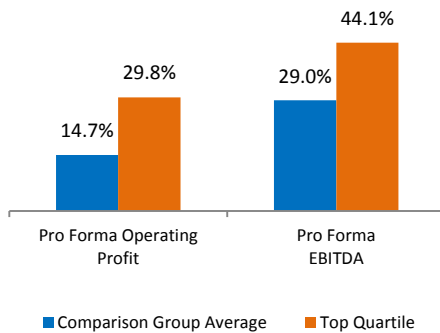


Executive Summary

Agencies under \$1.25 million in revenue

Profitability / Productivity

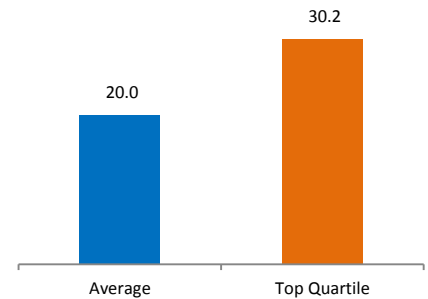
Profitability



Employee Productivity

Pro Forma Metrics:	Average	Top Quartile
# of Employees	7.22	
Revenue per Employee	\$120,324	\$159,501
Compensation per Employee	\$61,658	\$35,908
Spread per Employee	\$58,666	\$85,238

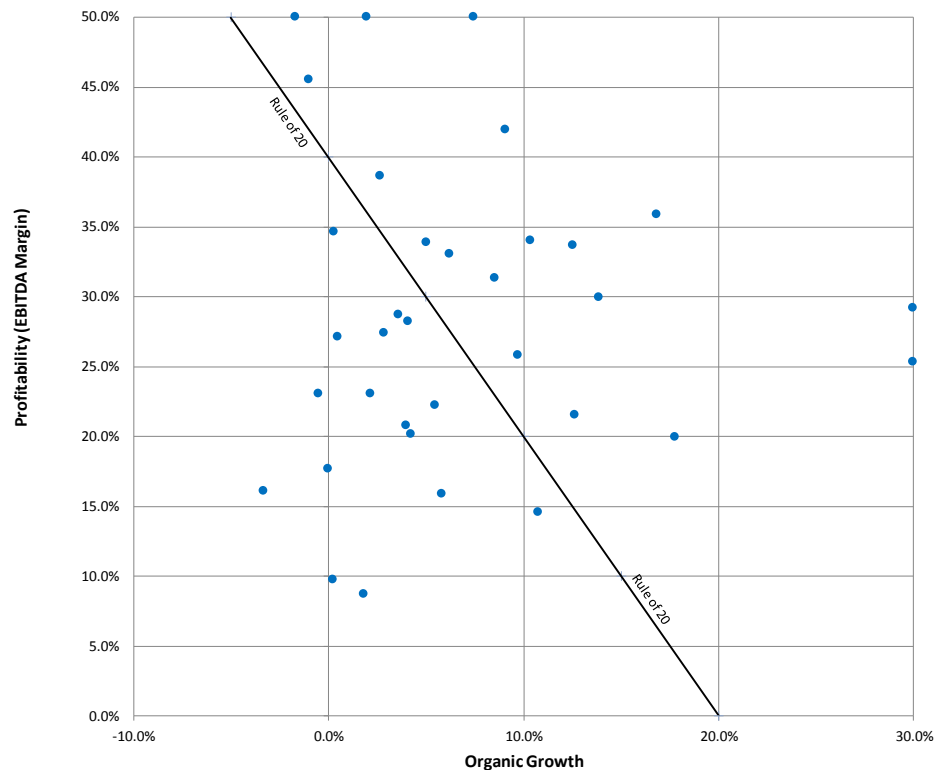
Rule of 20 Score



Notes & Definitions

- Pro Forma Operating Profit is reported pre-tax profit normalized to account for non-recurring or non-operating income and to exclude contingent / bonus / override income.
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- The Rule of 20 measures an agency's shareholder returns. It is calculated by adding 50% of an agency's Pro Forma EBITDA margin to its organic commission & fee growth rate. An outcome of 20 or higher means an agency is likely generating, through profit distributions and / or share price appreciation, a shareholder return of approximately 15% - 17%, a typical agency / brokerage return under normal market conditions.

Organic Growth & Profitability Scatter Plot



This graph provides a look at the Rule of 20 results for agencies in this revenue category. The solid black line represents all combinations of organic growth and EBITDA margin that result in a Rule of 20 score of 20.

NOTE: Firms identified as outliers have been set to have a maximum growth of 30% or a maximum profitability of 50%. They appear on the graph line bordering the chart instead of plotting their actual results.

Executive Summary

Agencies between \$1.25 million and \$2.5 million in revenue

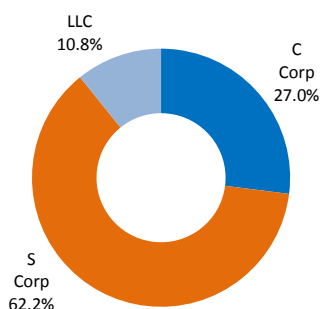
Profile

Regional Distribution



Northeast	13.5%
Midwest	29.7%
West	16.2%
Southeast	32.4%
Southwest	8.1%

Corporate Structure



Average Revenues

\$1,827,251

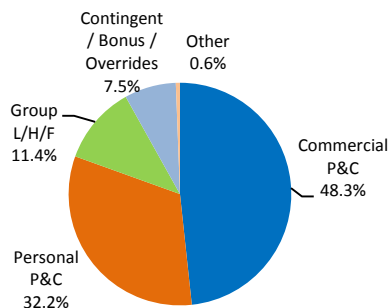
Weighted Average Shareholder Age (WASA)

53.2

Revenue and Growth

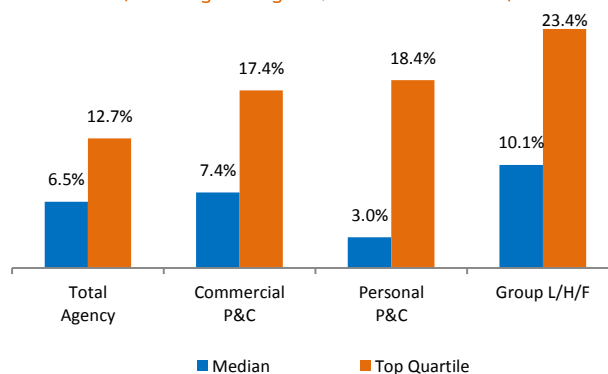
Revenue Distribution

(as % of Gross Revenues)



Organic Growth in Net Commissions & Fees

(excluding contingents, bonuses & overrides)



Note: Commercial P&C includes Bonds / Surety. Group L/H/F includes Group Medical, All Other Group, and Individual L/H/F.

Account Stratification

Notes

Commercial P&C



< \$5K	48.1%
\$5K to \$10K	18.5%
\$10K to \$25K	15.6%
\$25K to \$50K	9.4%
> \$50K	8.4%

Group L&H



Under 50 lives	73.2%
From 50 to 100 lives	17.9%
Over 100 lives	8.9%

- Although the smallest business segment for agencies in this group, Group L/H/F commissions & fees grew at a faster rate than all other lines of business, with a median growth rate of 10.1%.
- Best Practices agencies with revenues of \$1.25 - \$2.5M posted the highest median growth rate (7.4%) for Commercial P&C of all the revenue categories in the BPS.

Executive Summary

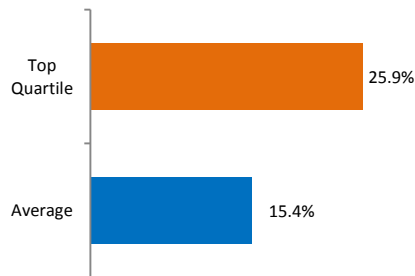
Agencies between \$1.25 million and \$2.5 million in revenue

Production

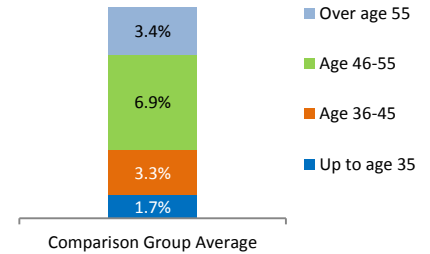
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Sales Velocity



Age Banding of Sales Velocity



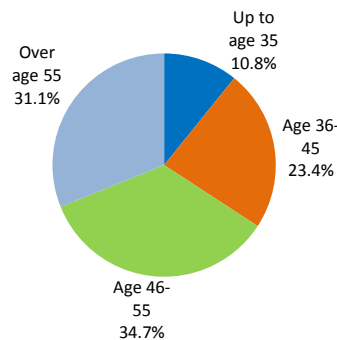
Notes & Definitions

- Effective NUPP, which is the product of an agency's investment in unvalidated producers (NUPP) and success rate in hiring producers (Producer Success Rate), is expressed as a percentage of net revenue. It is the best overall measure of an agency's effectiveness in recruiting and developing sales talent.
- This \$1.25 - \$2.5 million revenue group has the most unbalanced distribution of Sales Velocity by producer age bands, with 67% of Sales Velocity generated by Producers over age 45.
- Agencies in this group boasted the second-highest Producer Success Rates of any size category in the BPS.

Book of Business per Producer (commissions and fees)

	New Business	Average Book
Commercial P&C	\$41,105	\$339,112
Personal P&C	\$32,362	\$209,564
Life/Health/Financial	\$39,565	\$208,393
Multi-Line	\$41,799	\$285,418

Book of Business by Age



Effective NUPP

Comparison Group Average:

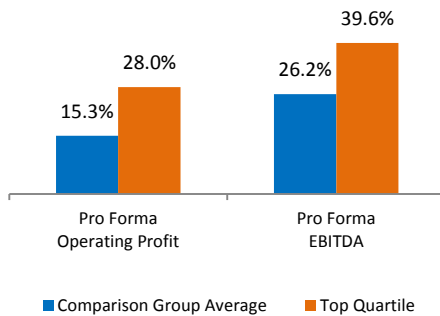


Executive Summary

Agencies between \$1.25 million and \$2.5 million in revenue

Profitability / Productivity

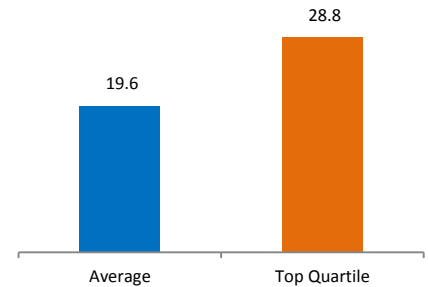
Profitability



Employee Productivity

Pro Forma Metrics:	Average	Top Quartile
# of Employees	13.92	
Revenue per Employee	\$141,028	\$201,858
Compensation per Employee	\$75,579	\$51,862
Spread per Employee	\$65,449	\$109,313

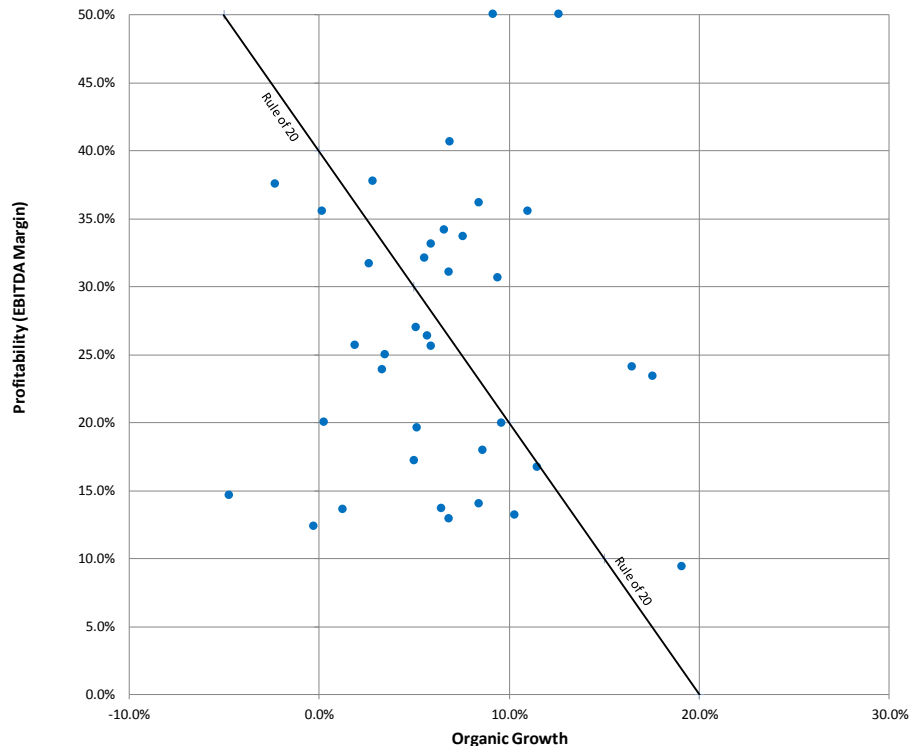
Rule of 20 Score



Notes & Definitions

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Organic Growth & Profitability Scatter Plot



This graph provides a look at the Rule of 20 results for agencies in this revenue category. The solid black line represents all combinations of organic growth and EBITDA margin that result in a Rule of 20 score of 20.

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Executive Summary

Agencies between \$2.5 million and \$5.0 million in revenue

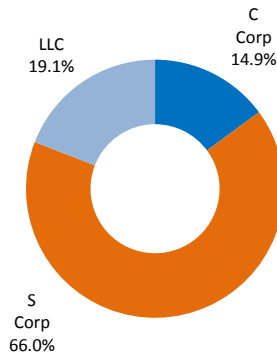
Profile

Regional Distribution



Northeast	25.5%
Midwest	25.5%
West	10.6%
Southeast	29.8%
Southwest	8.5%

Corporate Structure



Average Revenues

\$3,562,603

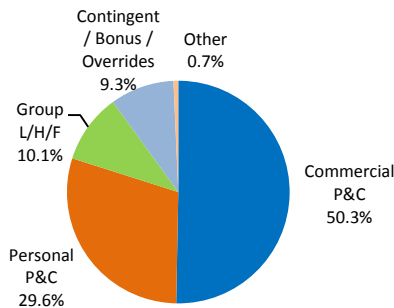
Weighted Average Shareholder Age (WASA)

53.0

Revenue and Growth

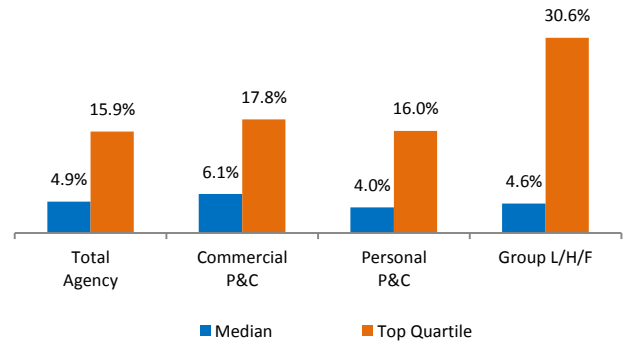
Revenue Distribution

(as a % of Gross Revenue)



Organic Growth in Net Commissions & Fees

(excluding contingents, bonuses & overrides)



Note: Commercial P&C includes Bonds / Surety. Group L/H/F includes Group Medical, All Other Group, and Individual L/H/F.

Account Stratification

Commercial P&C



< \$5K	44.4%
\$5K to \$10K	14.3%
\$10K to \$25K	16.8%
\$25K to \$50K	9.6%
> \$50K	14.9%

Group L&H



Under 50 lives	59.2%
From 50 to 100 lives	15.5%
Over 100 lives	25.3%

Notes

- Over half of revenue for agencies in this group came from Commercial P&C, which posted a median growth rate of 6.1%.
- This \$2.5 - \$5.0M revenue group generated the highest Contingent/Bonus/Override contribution (9.3% of revenue) of all the BPS revenue categories.
- Two-thirds of agencies in this group are S corporations.

Executive Summary

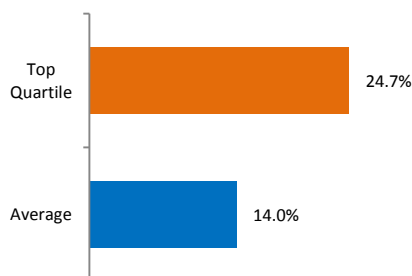
Agencies between \$2.5 million and \$5.0 million in revenue

Production

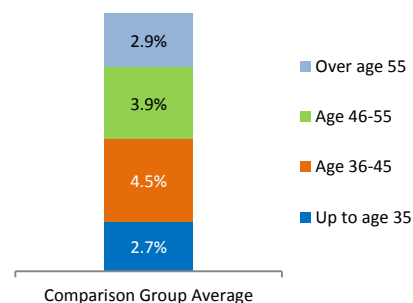
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Sales Velocity



Age Banding of Sales Velocity



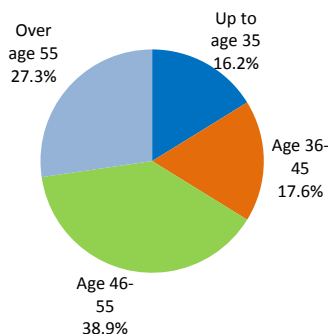
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- Agencies in this \$2.5 - \$5.0M group had the lowest Effective NUPP (0.6%) of all size categories in the BPS.
- Commercial P&C producers in this revenue category wrote more new business and had larger books of business than all other line-of-business producers, including multi-line producers.

Book of Business per Producer (commissions and fees)

	New Business	Average Book
Commercial P&C	\$65,275	\$492,265
Personal P&C	\$44,674	\$285,280
Life/Health/Financial	\$50,852	\$420,507
Multi-Line	\$56,803	\$461,101

Book of Business by Age



Effective NUPP

Comparison Group Average:

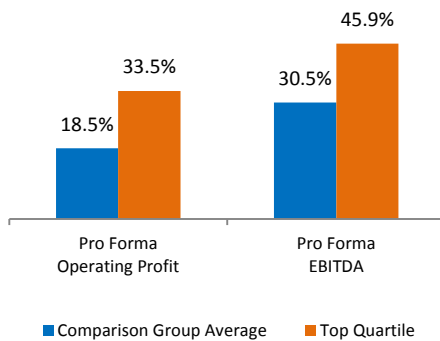


Executive Summary

Agencies between \$2.5 million and \$5.0 million in revenue

Profitability / Productivity

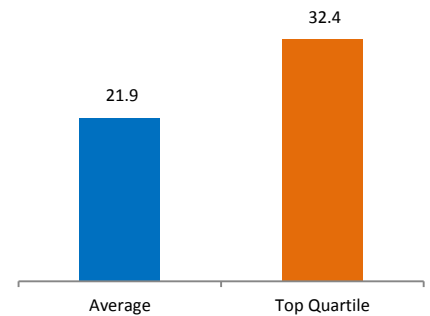
Profitability



Employee Productivity

Pro Forma Metrics:	Average	Top Quartile
# of Employees	22.55	
Revenue per Employee	\$177,994	\$268,761
Compensation per Employee	\$91,187	\$58,643
Spread per Employee	\$86,807	\$150,187

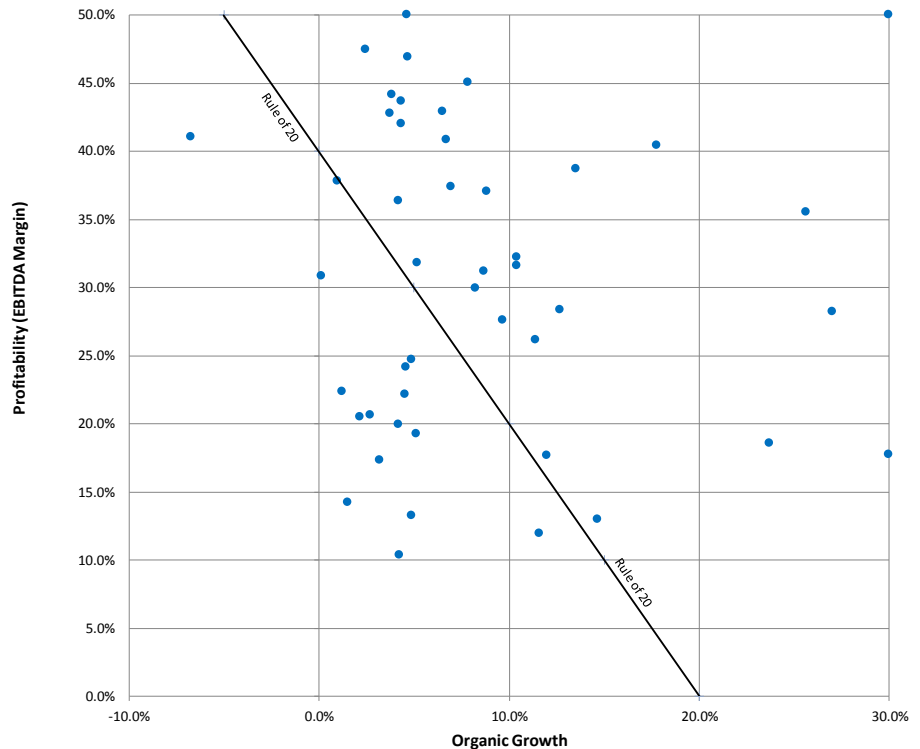
Rule of 20 Score



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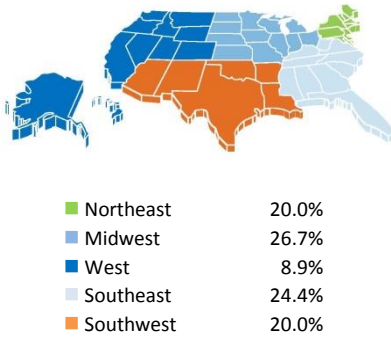
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Executive Summary

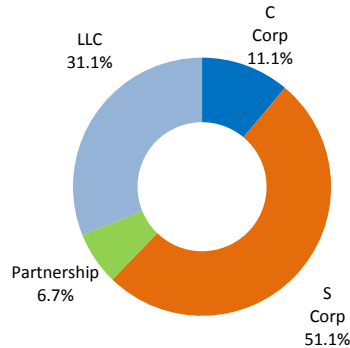
Agencies between \$5.0 million and \$10.0 million in revenue

Profile

Regional Distribution



Corporate Structure



Average Revenues

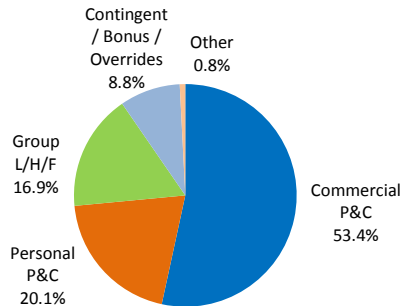
\$7,067,721

Weighted Average Shareholder Age (WASA)

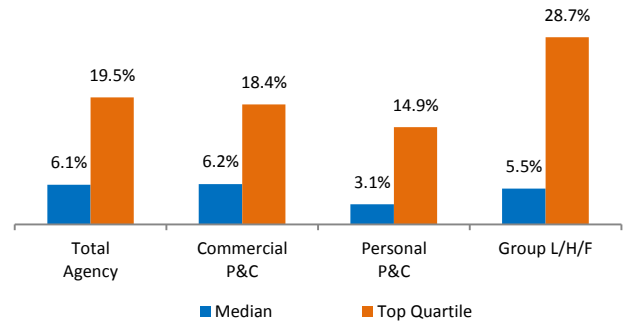
54.5

Revenue and Growth

Revenue Distribution (as % of Gross Revenues)

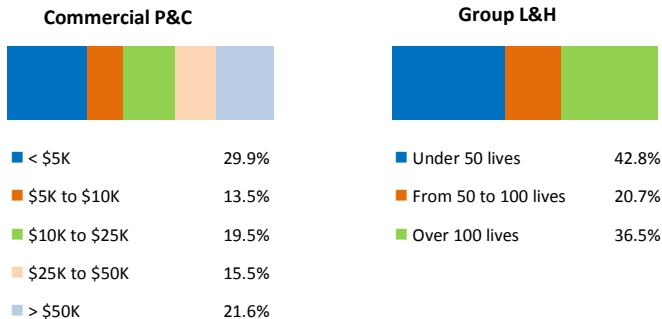


Organic Growth in Net Commissions & Fees (excluding contingents, bonuses & overrides)



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Account Stratification



Notes

- With a WASA of 54.5, agencies in this \$5.0 - \$10.0M size group had the oldest average shareholder profile in the BPS.
- This group's Commercial P&C books contributed the greatest share of revenue (53.4%) and the highest median organic growth rate (6.2%) of all lines of business.
- This is the smallest study group for which a majority of Group L/H/F commission is not derived from small accounts (under 50 lives).

Executive Summary

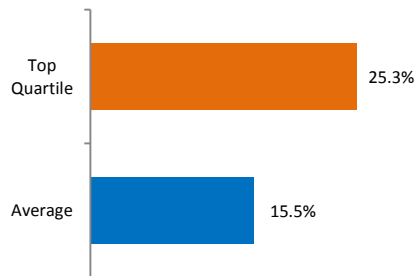
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Production

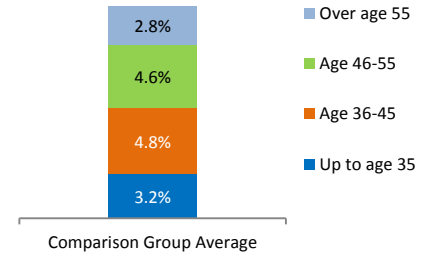
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Sales Velocity



Age Banding of Sales Velocity



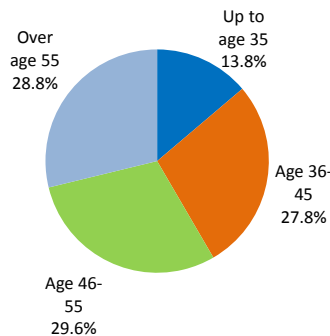
Notes & Definitions

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- Life/Health/Financial producers were the strongest contributors in this revenue category, both in terms of new business written (\$112,591) and average book size (\$600,437).
- Agencies in this \$5.0 – \$10.0M group generated the highest Sales Velocity (15.5%) of all the BPS groups.
- This group's youngest producer age band (under 36) contributed more to Sales Velocity than even the most mature age group (over 55).

Book of Business per Producer (commissions and fees)

	New Business	Average Book
Commercial P&C	\$61,926	\$503,908
Personal P&C	\$42,182	\$326,633
Life/Health/Financial	\$112,591	\$600,437
Multi-Line	\$63,406	\$468,267

Book of Business by Age



Effective NUPP

Comparison Group Average:

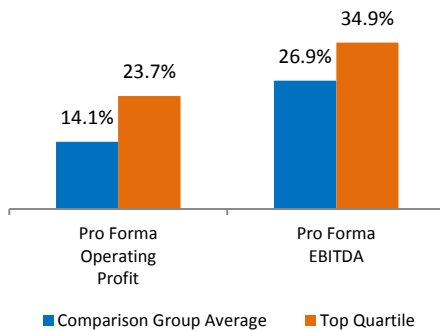


Executive Summary

Agencies between \$5.0 million and \$10.0 million in revenue

Profitability / Productivity

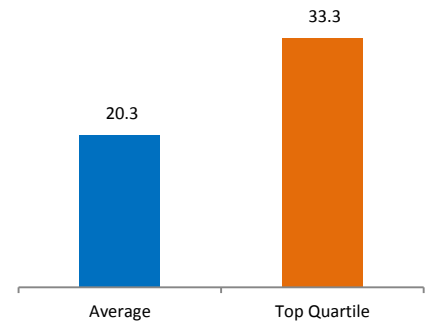
Profitability



Employee Productivity

Pro Forma Metrics:	Average	Top Quartile
# of Employees	42.02	
Revenue per Employee	\$177,093	\$243,355
Compensation per Employee	\$103,515	\$75,087
Spread per Employee	\$73,578	\$112,661

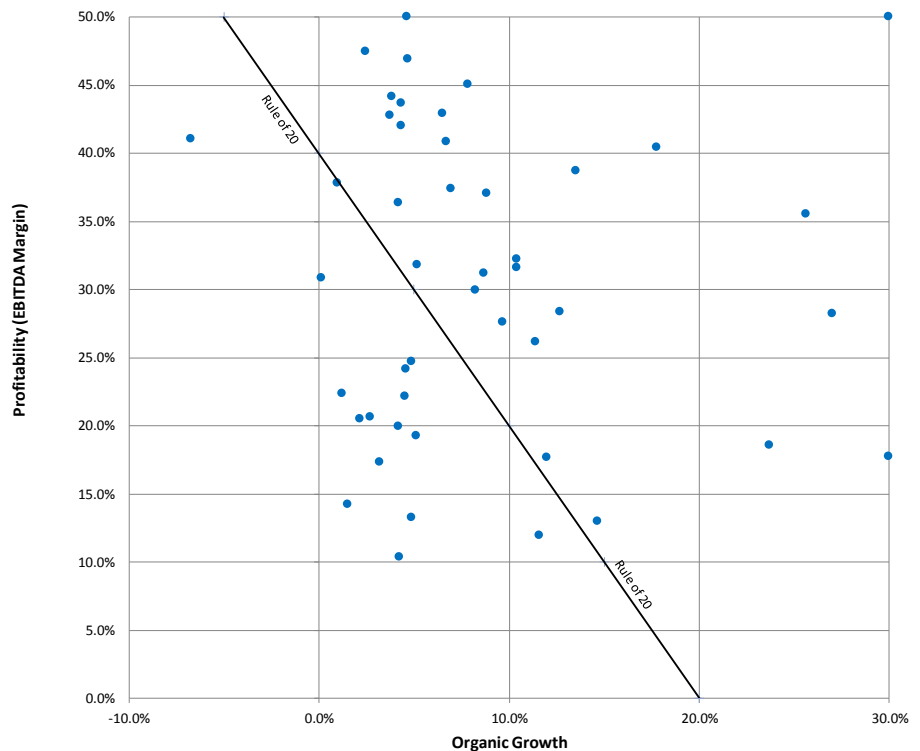
Rule of 20 Score



Notes & Definitions

- Pro Forma Operating Profit is reported pre-tax profit normalized to account for non-recurring or non-operating income and to exclude contingent / bonus / override income.
- Pro forma EBITDA is Earnings Before Interest, Taxes, Depreciation and Amortization, adjusted to add back discretionary owner expenses and to normalize non-recurring or non-operating income and expenses.
- The Rule of 20 measures an agency's shareholder returns. It is calculated by adding 50% of an agency's Pro Forma EBITDA margin to its organic commission & fee growth rate. An outcome of 20 or higher means an agency is likely generating, through profit distributions and / or share price appreciation, a shareholder return of approximately 15% - 17%, a typical agency / brokerage return under normal market conditions.

Organic Growth & Profitability Scatter Plot



This graph provides a look at the Rule of 20 results for agencies in this revenue category. The solid black line represents all combinations of organic growth and EBITDA margin that result in a Rule of 20 score of 20.

NOTE: Firms identified as outliers have been set to have a maximum growth of 30% or a maximum profitability of 50%. They appear on the graph line bordering the chart instead of plotting their actual results.

Executive Summary

Agencies between \$10.0 million and \$25.0 million in revenue

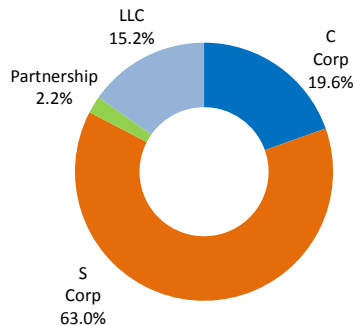
Profile

Regional Distribution



Northeast	21.3%
Midwest	19.1%
West	10.6%
Southeast	31.9%
Southwest	8.5%

Corporate Structure



Average Revenues

\$15,440,231

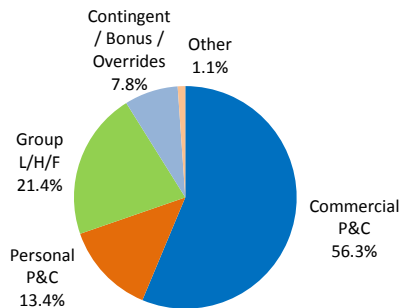
Weighted Average Shareholder Age (WASA)

52.0

Revenue and Growth

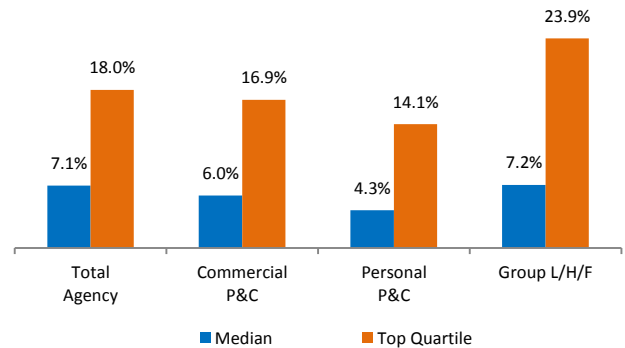
Revenue Distribution

(as % of Gross Revenues)



Organic Growth in Net Commissions & Fees

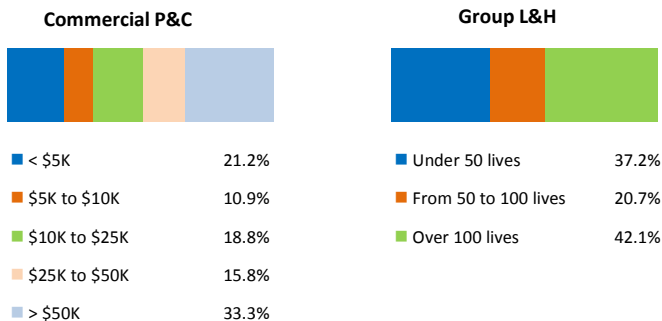
(excluding contingents, bonuses & overrides)



Note: Commercial P&C includes Bonds / Surety. Group L/H/F includes Group Medical, All Other Group, and Individual L/H/F.

Account Stratification

Notes



- With a 7.1% median total agency growth result, this \$10 - \$25M revenue group posted the highest organic growth results among all BPS revenue groups.
- This revenue category boasted the youngest shareholder profile in the study, with a WASA of only 52.0.
- Accounts with over \$50K in commission & fee income made up a third of the commercial P&C books for agencies in this revenue category.

Executive Summary

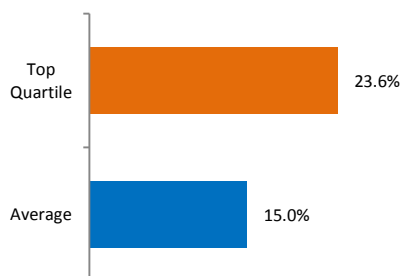
Agencies between \$10.0 million and \$25.0 million in revenue

Production

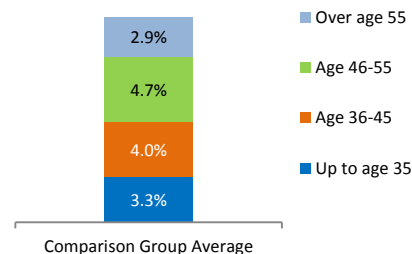
Definitions

- Sales velocity is a critical metric in determining organic growth. It is defined as this year's written new business *divided by* last year's commissions and fees
- Age banding Sales Velocity can help a firm assess where new business and growth are coming from and prepare for perpetuation.

Sales Velocity



Age Banding of Sales Velocity



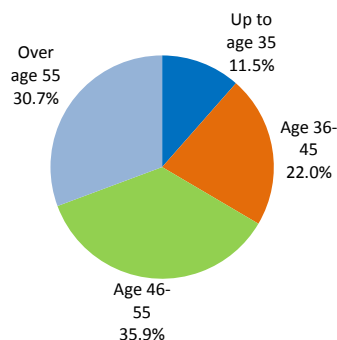
Notes & Definitions

- Effective NUPP, which is the product of an agency's investment in unvalidated producers (NUPP) and success rate in hiring producers (Producer Success Rate), is expressed as a percentage of net revenue. It is the best overall measure of an agency's effectiveness in recruiting and developing sales talent.
- Life/Health/Financial producers in this revenue category posted the highest new business averages (\$121,700) among producers of all lines of business.
- Multi-line producers had the largest average books (\$898,731) in this group of agents among producers of all lines of business.
- The most mature producers for agencies in this revenue category (over 55) controlled the second highest concentration of business (30.7%) of all the BPS revenue groups.

Book of Business per Producer (commissions and fees)

	New Business	Average Book
Commercial P&C	\$97,934	\$836,694
Personal P&C	\$55,675	\$346,589
Life/Health/Financial	\$121,700	\$835,943
Multi-Line	\$114,521	\$898,731

Book of Business by Age



Effective NUPP

Comparison Group Average:

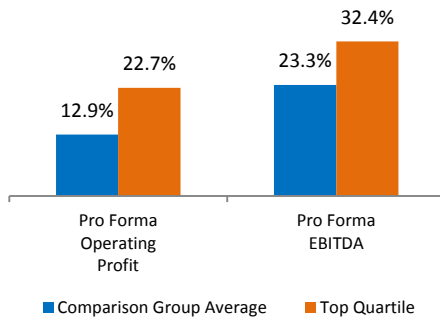


Executive Summary

Agencies between \$10.0 million and \$25.0 million in revenue

Profitability / Productivity

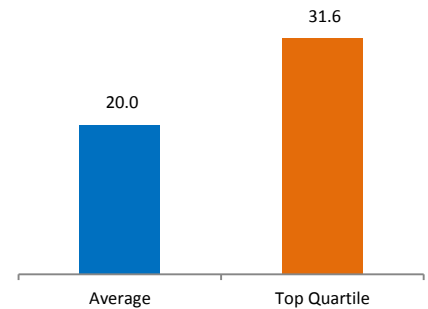
Profitability



Employee Productivity

Pro Forma Metrics:	Average	Top Quartile
# of Employees	80.61	
Revenue per Employee	\$200,978	\$264,523
Compensation per Employee	\$123,727	\$93,294
Spread per Employee	\$77,251	\$115,770

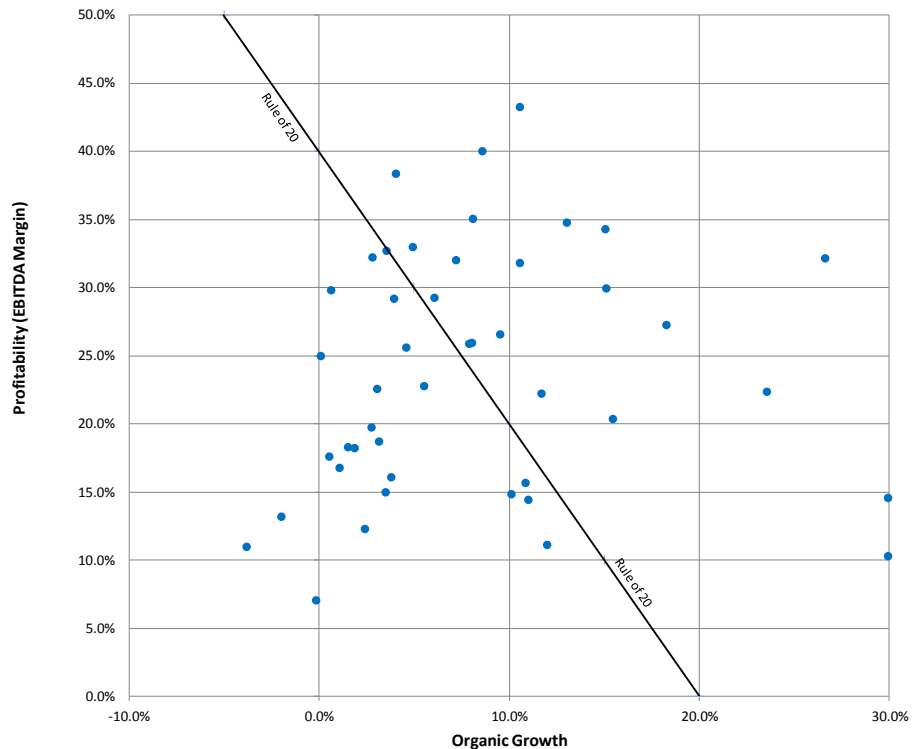
Rule of 20 Score



Notes & Definitions

- Pro Forma Operating Profit is reported pre-tax profit normalized to account for non-recurring or non-operating income and to exclude contingent / bonus / override income.
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Organic Growth & Profitability Scatter Plot



This graph provides a look at the Rule of 20 results for agencies in this revenue category. The solid black line represents all combinations of organic growth and EBITDA margin that result in a Rule of 20 score of 20.

NOTE: Firms identified as outliers have been set to have a maximum growth of 30% or a maximum profitability of 50%. They appear on the graph line bordering the chart instead of plotting their actual results.

Executive Summary

Agencies over \$25.0 million in revenue

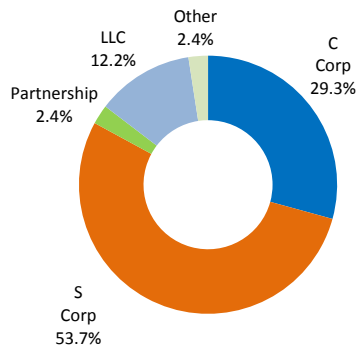
Profile

Regional Distribution



Northeast	17.1%
Midwest	29.3%
West	19.5%
Southeast	14.6%
Southwest	4.9%

Corporate Structure



Average Revenues

\$55,265,868

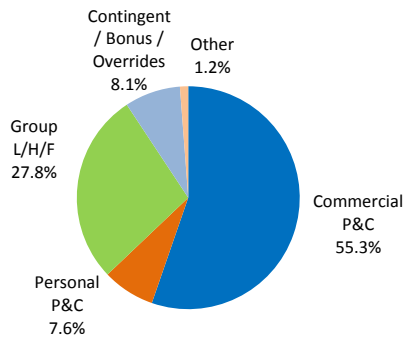
Weighted Average Shareholder Age (WASA)

54.3

Revenue and Growth

Revenue Distribution

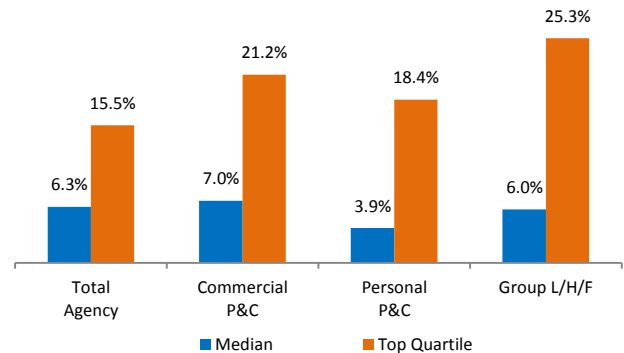
(as % of Gross Revenues)



Note: Commercial P&C includes Bonds / Surety. Group L/H/F includes Group Medical, All Other Group, and Individual L/H/F.

Organic Growth in Net Commissions & Fees

(excluding contingents, bonuses & overrides)



Account Stratification

Notes

Commercial P&C



< \$5K	14.4%
\$5K to \$10K	8.8%
\$10K to \$25K	17.1%
\$25K to \$50K	15.5%
> \$50K	44.1%

Group L&H



Under 50 lives	23.7%
From 50 to 100 lives	18.7%
Over 100 lives	57.7%

- Personal P&C contributions to revenue (7.6%) for agencies in this revenue category were by far the smallest of all the BPS groups.
- At 53.4, this group's Weighted Average Shareholder Age (WASA) is the second highest in the BPS.
- Less than 25% of Group L&H business is concentrated with small accounts (under 50 lives) in agencies included in this revenue category.

Executive Summary

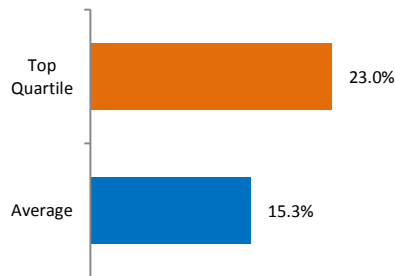
Agencies over \$25.0 million in revenue

Production

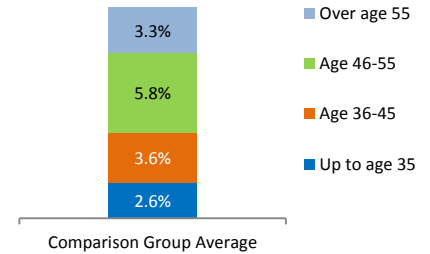
Definitions

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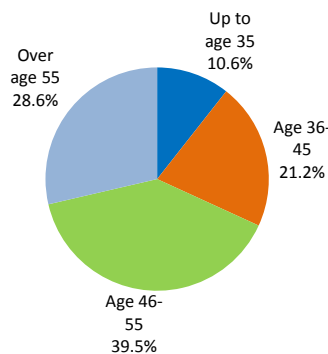
Notes & Definitions

- Effective NUPP, which is the product of an agency's investment in unvalidated producers (NUPP) and success rate in hiring producers (Producer Success Rate), is expressed as a percentage of net revenue. It is the best overall measure of an agency's effectiveness in recruiting and developing sales talent.
- For all lines of business other than Personal P&C, producers in this revenue category have books of business that average close to \$1.0 million in commission & fee income.
- Producer Success Rates for agencies with over \$25.0 million in revenue were the lowest of all the BPS revenue groups.
- Almost 70% of commission and fee income for this revenue group is controlled by producers age 46 and over. These same producers generate almost 60% of the average agency's Sales Velocity.

Book of Business per Producer (commissions and fees)

	New Business	Average Book
Commercial P&C	\$121,881	\$959,571
Personal P&C	\$47,068	\$317,484
Life/Health/Financial	\$157,515	\$983,160
Multi-Line	\$118,608	\$1,121,549

Book of Business by Age



Effective NUPP

Comparison Group Average:

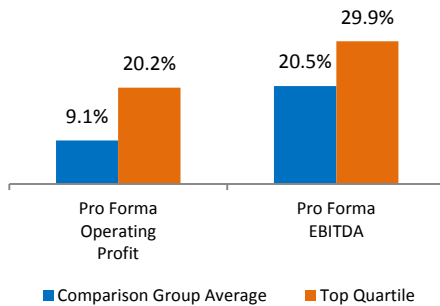


Executive Summary

Agencies over \$25.0 million in revenue

Profitability / Productivity

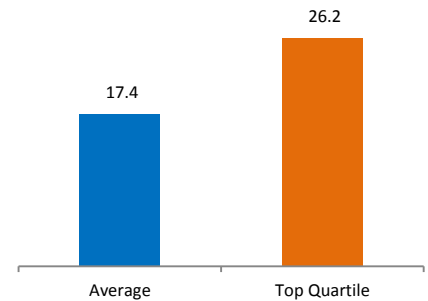
Profitability



Employee Productivity

Pro Forma Metrics:	Average	Top Quartile
# of Employees	273.02	
Revenue per Employee	\$207,548	\$261,253
Compensation per Employee	\$131,161	\$100,902
Spread per Employee	\$76,387	\$107,832

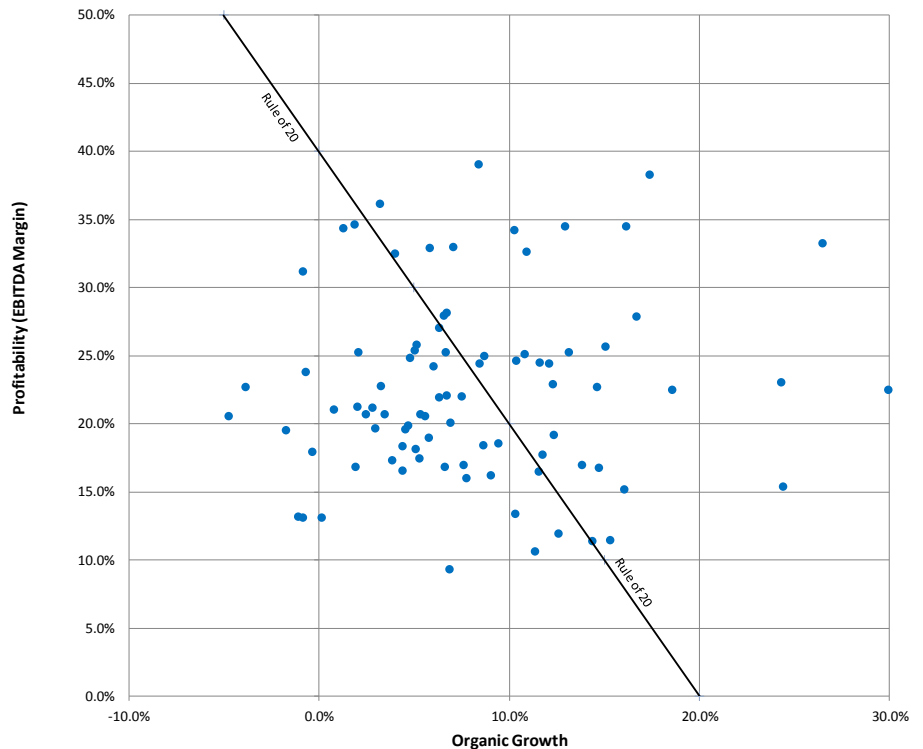
Rule of 20 Score



Definitions

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Glossary

Definitions of Frequently Used Terms

Glossary

Definitions of Frequently Used Terms

In addition to the average results for each study group, the BPS provides insights on how the “best of the best” are operating. This table will help you understand the terms used to report this information.

HEADING	REFERS TO
Average	The average result achieved by all the firms in the study group for a particular factor.
Low	The lowest result achieved in the peer group for a particular factor.
High	The highest result achieved in the peer group for a particular factor.
Top Quartile	The average results achieved by the Top 25% of the firms in the group for that particular factor or line item.
Median	The mid-point in a list of results achieved by all the firms in the study group for a particular factor.

REVENUES

(As reported for most recently completed fiscal year-end and stated as a percentage of gross revenues)

Property & Casualty:

- 1) Commercial Commissions & Fees — Commissions and fees for the sale of commercial P&C insurance. Includes P&C value-added services income (workers' comp. TPA, loss control engineering, risk management, consulting services, self-insurance programs, underwriting and claims services, etc.).
- 2) Bonds / Surety — Commissions from the sale of bonds (surety, fidelity, etc.).
- 3) Personal Commissions & Fees - Commissions and fees from the sale of personal P&C insurance.
- 4) Contingent / Bonus — Profit sharing, bonus, and supplemental income received from insurance carriers.
- 5) Total P&C — The sum of items 1 – 4.

Life & Health / Financial

- 6) Group Medical Commissions & Fees — Commissions & fees from the sale of group health/medical insurance.
- 7) All Other Group Commissions & Fees — Commissions and fees from the sale of all other employee benefits products and services including group life, dental, disability, pension, 401k, PEOs, investment products, and any revenue from delivery of value added services (benefits TPA, HR, wellness, actuarial services, etc.) and any other income related to group employee benefits, life and health, or financial services.
- 8) Individual Commissions & Fees — Commissions & fees from the sale of individual life, health, dental, disability & investment products.
- 9) Bonus / Overrides — Bonus or incentive payments paid to agency for L&H production (usually for volume, persistency, growth, etc.).
- 10) Total L&H / Financial — The sum of items 6 – 9.

Glossary

Definitions of frequently used terms

- 11) Investments — Income from interest, dividends, premium finance, late charges, gains/losses on sales of marketable securities.
- 12) Miscellaneous — Income from gains/losses on fixed or intangible assets, life insurance proceeds and other income not included in one of the other revenue categories.
- 13) Gross Revenues — The sum of items 5, 10, 11 & 12
- 14) Brokerage Commission Expense — Commissions paid to other agencies or outside brokers. Does NOT include in-house 1099 producers, who are included with “Payroll - Non-Employees - 1099 Producers / Outsourced Labor.”
- 15) Net Revenues — Gross Revenues less Brokerage Commission Expense.

EXPENSES

(As reported for most recently completed fiscal year-end and stated as a percentage of net revenues)

Compensation

Payroll: The following payroll breakdown is for the entire agency, including agency owners:

- 16) Employees — All expensed payroll, including salaries, commissions, bonuses, management fees, and discretionary owner compensation. Does NOT include "S" corporation distributions.
- 17) Non-Employees - 1099 Producers / Outsourced Labor — Commissions, bonuses for agency’s producers compensated on 1099. Also includes expenses for outsourced labor, outside temporary staffing, temp-to-perm staffing expenses, etc.
- 18) Total Payroll — The sum of items 16 – 17.

Benefits

- 19) Payroll Taxes — All payroll taxes (SS, FICA, FUTA, etc.).
- 20) Retirement — Expenses related to a 401(k), ESOP/ESOT, miscellaneous retirement benefits.
- 21) Insurance — Health insurance, medical reimbursements, life insurance, disability insurance, etc. Does NOT include Officer or Key Person life, which is included with “Administrative - Officer Life.”
- 22) Other – Wellness programs, health club memberships, employee gifts, etc.
- 23) Total Benefits — The sum of items 19 - 22.
- 24) Total Compensation — The sum of items 18 & 23.

Selling

- 25) Travel & Entertainment/Conventions — Airfare, meals, hotels, social/country club dues, convention related expenses. Does NOT include professional dues/memberships, which are included in “Operating - Dues/Subscriptions/Contributions.”
- 26) Automobile Expense - Lease, gas, maintenance/repair, employee parking, mileage allowances, etc. Does NOT include depreciation, which is included in “Administration – Depreciation.”
- 27) Advertising / Promotion — Promotional / advertising materials, target marketing services, fees paid to advertising or public relations agencies, media buys, contest rewards, customer relations functions, gifts, telemarketing, etc.

Glossary

Definitions of frequently used terms

28) Total Selling — The sum of items 25, 26 & 27.

Operating

- 29) Occupancy Expenditures — Total rent, utilities, building/grounds maintenance, property taxes, janitorial services, storage & other building related expense, net of rental/sublet income. Does NOT include building depreciation or leasehold amortization, which are included in “Administration – Depreciation.”
- 30) Office Equipment Expenses — Leases and expensed equipment purchases including copier leasing/maintenance, telephone & fax leasing/maintenance, postage meters lease/maintenance, office furniture & fixtures leasing/maintenance. Does NOT include leased IT equipment, which is included in “Operating - IT Expenses.” Does NOT include depreciation, which is included in “Administration – Depreciation.”
- 31) IT Expenses — Expensed/leased computer hardware, software, license fees, maintenance and maintenance contracts, website development/maintenance, website hosting, internet connections, automation related training, regularly outsourced IT support, etc. Does NOT include equipment depreciation, section 179 items, or software amortization, which are included in “Administration – Depreciation.”
- 32) Telephone — Local & long distance, cellular telephone, and fax expenses. Does NOT include leased telephone equipment, which is included in “Operating - Office Equipment Expense.”
- 33) Postage — Postage, Express mail, FedEx, UPS, courier services. Does NOT include postage machines, which are included in “Operating - Office Equipment Expense.”
- 34) Supplies / Printing — Office supplies, paper, copying/printing, coffee/soft drinks/break room expenses.
- 35) Dues / Subscriptions/ Contributions — Professional dues/membership fees, periodical & information services subscriptions, contributions.
- 36) Taxes / Licenses — Miscellaneous local & franchise taxes, sales tax, other property taxes, license fees. Does NOT include occupancy-related property taxes, which are included with “Operating – Occupancy Expense.” Does NOT include payroll-related taxes, which are included with “Payroll – Payroll Tax.”
- 37) Insurance — Property & casualty insurance, including employee auto insurance, and payments for E&O claims /settlements.
- 38) Professional Fees — Expenses for CPAs, lawyers, consultants and other outside advisors. Does NOT include directors’ fees, which are included in “Administrative – Other.”
- 39) Bad Debts — Bad debts written off and agency-paid claims. Does NOT include E&O claims/settlements, which are included with “Operating – Insurance.”
- 40) Outside Services — MVRs, bank fees, employment fees, moving expenses and all other outside service expense including those used to deliver value added services to the agency’s clients (e.g. Zywave, actuarial services, COBRA administration, etc.).
- 41) Education / Training — Registration fees, materials, in-house training programs, etc. Does NOT include training on how to use your agency management system or other agency technology, which is included with “Operating – IT Expenses.”
- 42) Miscellaneous — Other non-specific miscellaneous operating expenses not included elsewhere.
- 43) Total Operating — The sum of items 29 – 42.

Glossary

Definitions of frequently used terms

Administrative

- 44) Depreciation - All depreciation of fixed tangible assets to include current year depreciation related to autos, building depreciation, depreciation of equipment, furniture and fixtures (including section 179 purchases), depreciation of computers, servers, software, leasehold improvements, etc. The write-down of certain tangible assets may be called amortization, but it is included here if it involved a tangible asset.
- 45) Amortization of Intangibles — Acquired expirations, covenants, non-competes, etc.
- 46) Officer Life — Premium paid by agency, agency is beneficiary
- 47) Interest — Interest expense incurred
- 48) Other — Directors fees, non-specific overhead allocations to parent companies, deferred compensation, and any other miscellaneous administrative expenses
- 49) Total Administrative — The sum of items 44-48.
- 50) Total Expenses — The sum of 24, 28, 43, & 49.

GROWTH AND PROFITABILITY

- 51) Pro Forma Revenue — Net Revenue after the agency's revenue categories are normalized by eliminating non-recurring or non-operating activity.
- 52) Pretax Profit / Loss — Net Revenues less Total Expenses.
- 53) Operating Profit — Pretax Profit less contingent and bonus / override income.
- 54) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) - An agency's profit before interest, taxes, depreciation and amortization expenses are included.
- 55) Pro Forma EBITDA — Adjusted EBITDA after a) Pro Forma Revenue adjustments are accounted for, b) discretionary expenditures made for the benefit of the owners are added back, and c) expense categories are normalized to eliminate non-recurring and/or non-operating activity. Pro Forma EBITDA excludes all Administrative expenses (Depreciation, Amortization, Officer Life, Interest, and Other).
- 56) Sales Velocity — A Reagan Consulting metric used to gauge a firm's new business results. Expressed as a percentage, Sales Velocity is current year New Commission and fee income written divided by prior year Commissions and Fee income.
- 57) Banded Sales Velocity — Sales Velocity contributions by producer age segments (35 and under, 36-45, 46-55, over age 55).
- 58) Rule of 20 Score — a Reagan Consulting valuation metric that is the sum of the agency's Pro Forma EBITDA margin times 50% plus the organic commission and fee growth rate. It provides a quick means of calculating whether or not an agency is creating significant returns for its shareholders.

FINANCIAL STABILITY

- 59) Current Ratio — Current assets divided by current liabilities. A current ratio greater than 1:1 indicates that cash and assets with short term maturities are sufficient to meet a firm's short-term obligations.

Glossary

Definitions of frequently used terms

- 60) Tangible Net Worth (TNW) — Total tangible assets minus total liabilities. The tangible net worth represents the net value of the agency's balance sheet if it were liquidated. A low or negative tangible net worth impacts an agency's ability to invest in new opportunities, develop new products, hire new employees, make other capital expenditures and facilitate shareholder redemption obligations.
- 61) Receivables/Payables Ratio — Accounts receivable divided by accounts payable. This ratio measures the collection practices of an agency, with a lower ratio representing more timely collections of those amounts due from insureds.
- 62) Aged Receivables — Measures the length of time that receivables are past due (over 60 days, over 90 days). Receivables aged greater than 60 days tend to have a magnified impact on the agency's liquidity as payments are most always due to insurance companies on or before 60 days, thus forcing the agency to use its own funds to pay carriers.

EMPLOYEE PRODUCTIVITY

- 63) Total # of Employees (FTE) — Total number of full-time equivalent employees, including agency principals.
- 64) Pro Forma Revenue per Employee — Pro Forma Net Revenue divided by the total number of full-time equivalent employees.
- 65) Pro Forma Compensation per Employee — Pro Forma Compensation divided by total number of full-time equivalent employees.
- 66) Pro Forma Spread per Employee — Pro Forma Revenue Per Employee less Pro Forma Compensation Per Employee. While Revenue Per Employee is a standard for measuring productivity, the Spread Per Employee measures the dollars per employee available to pay all other agency expenses and generate a profit for the agency.

PRODUCER METRICS

- 67) WAPA (Weighted Average Producer Age) — A Reagan Consulting metric designed to assess the relative age of an agency's production force. WAPA is calculated using the sum of the product of the agency's producers' ages and the percentage of the agency's "produced" business handled by each. House business is excluded for the WAPA calculation.
- 68) Validated Producer — A producer whose book of business is sufficient to cover his/her wages under agency's commission formula.
- 69) Unvalidated Producer — A producer whose production does not yet cover his/her wages under agency's commission formula.
- 70) NUPP (Net Ivestment in Unvalidated Producer Pay) - Expressed as a percentage of net revenue, the NUPP is the difference between what an agency pays its unvalidated producers and what the producers would earn under the agency's normal commission schedule.
- 71) Producer Average Compensation — The portion of a producer's total W-2 compensation that resulted from the producer's production responsibilities. Management and other non-sales compensation is excluded.

Glossary

Definitions of frequently used terms

OWNERSHIP AND STAFF INFORMATION

- 72) WASA (Weighted Average Shareholder Age) – a Reagan Consulting metric designed to assess the relative age of an agency's ownership team. WASA is calculated using the sum of the product of the agency's owners' ages and their ownership percentages.
- 73) Service Staff — Typically non-commissioned personnel who are responsible for providing service to the agency's clients and/or supporting producers in the sale of new business and the retention of existing business.



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