Productivity Killers

By Chris Burand

Did you know insurance agencies are one of the last bastions of socialism? The industry's benchmark studies for years have shown that insurance agencies practice socialism with vigor. For evidence, simply examine producer productivity and profitability. In most agencies, an experienced producer generating less than $200,000 ($250,000 in many cases) in commissions is killing productivity and profitability. Here's why:

Producer compensation at 40%:	$80,000
CSR's wage (average Midwestern Commercial CSR per BMG survey of agencies with $1.25 million to $2.5 million revenue, senior position)	$49,000
Benefits (15.6% of wages per 2007 GPS study)	$20,000
Sales expense (5.2% of commissions per 2007 GPS study)	$10,400
Administrative expense (22.3% of commissions per 2007 GPS study)	$44,700
Total Cost	$204,100

One might claim a $200,000 producer would not have his or her own CSR. However, according to the 2007 GPS study, the average agency surveyed had 5.8 producers (including owners) with an average book size of $258,000 (including commercial lines "house" business). The average agency had 8.1 CSRs. The average agency then has more than one CSR per producer.

How many experienced producers do you employ that are not earning their keep? Why pay someone more than they are worth? Many agency owners have explained to me that they pay their poor performing producer so much because that's what it takes to employ a producer. The producer needs that much to survive. Paying someone based on their needs rather than their value is a lynch pin of socialism.

Severely exacerbating this problem is that producers begin believing they deserve that compensation. They do not see how they are overpaid and once a human believes they are owed something, try taking it away. It's not easy.

This problem is a direct result of poor producer management and very poor producer compensation plans. **Agencies should pay producers based on the value they bring, not what the producers need to survive–**and, the value producers bring is not equal for all sales. Smaller books generally are not as profitable and smaller accounts are definitely not as valuable if a producer is paid for them. Smart agency management means producer compensation cannot be a simple 40% new and 30% renewal. Producer compensation must vary depending on the circumstances.

Every agency must tailor its producer compensation plan to its situation. This means agency owners who simply copy other agencies' producer compensation plans are making a huge mistake. A great example of how important this is can be seen in very large agencies. Large agencies tend to spend much more on advertising, marketing, and building competitive advantages than smaller agencies. Larger agencies also generally pay their producers much less. Most of the time though, the producers are not paid enough less to cover the cost of the extra services. The result is lower profit margins because they are inadequately tailoring their producer compensation plans.

Proper compensation applies to owners as well. As an owner, are you contributing your fair share? Of course you are, in your opinion. But do your partners share this opinion? A fiery catalyst to many partnership dissolutions is one partner is not earning their keep. Many times partners originally set up their compensation to be fairly equal. The philosophy behind this is that while the partners contribute differently, each is important so the fairest way to compensate is to pay each owner equally. Very often though, as years pass, the disparity between the owners' contributions grows larger and larger. As this disparity grows, so does resentment. When one owner produces three times as much as another or when one owner produces hardly anything, working relationships tend to deteriorate.

The good news is, the owners do not need to destroy their partnership or the agency to achieve more equitable compensation. The owners do, however, need to accept, apply, and implement a reasonable owner compensation plan tailored for their agency.

While measuring owner compensation to contribution is often difficult, good rules of thumb exist. One such rule is that unless an owner's responsibility is 100% dedicated to management, they should not be paid more than five percentage points more than their producers on their books of business before bonuses. For example, if the producers are paid 35%, the owners should not be paid more than 40% on their books before bonuses. Furthermore, all owners should have to meet minimum annual qualifications such as producing at least $x commissions. Insurance agencies' profit margins are generally too small to allow anyone making a lot of money to coast. If you do not allow a receptionist making $18,000 to coast, why allow someone making $200,000 to coast?

Additionally, my personal observation after visiting hundreds of agencies is that when an owner feels they deserve a job, a wage, a fancy car, and/or a big house just because they are an owner and not because they are generating value, those agencies typically have very poor morale, high employee turnover, high E&O exposures, and are generally just not good places to work.

Insurance agencies are truly one of the last bastions of socialism. Socialism does not work and for insurance agencies it is nothing more than bad management. Find a brighter future by paying each what he or she is worth!

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