

REAGANVIEW

Authored by: Bobby Reagan



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What Defines a Great Insurance Agency?

I have spent a career doing one primary thing: assessing the quality of insurance agents and brokers. Let me offer some observations on this topic that may be helpful to you. We (Reagan Consulting) assess agency quality for two primary purposes: (1) to ascribe value to a firm (for internal transfers of ownership or for third party sales) and (2) to offer advice on how firms can elevate their performance/quality. The assessment of the quality of an agency can get fairly detailed (and confusing) with our having over 50 specific performance metrics that we evaluate. These performance metrics fall into four categories:

- 1. Current Operating Results:** Growth and Profitability (i.e. the key drivers of value)
- 2. How the Current Results are being Achieved:** Sales Velocity/Retention Rates, Rev/Comp/Spread per employee, Results by Department, Divisions, Office, Amount of Specialization, etc.
- 3. Capacity for Future Results:** Weighted Average Producer Age, Net Unvalidated Producer Payroll, Age Banding of Sales Velocity, Average Staff Age, etc. (i.e. how much gas you have in the tank)
- 4. Underlying Health:** Leadership/Leadership Succession, Quality of your Staff, Capacity for Recruiting and Training, Culture, Technology Utilization, Uniform Systems and Procedures, Strength of Carrier Relationships, Value-Added Services Offered, Balance Sheet Health, Restrictive Covenants and Perpetuation Health (i.e. prepared for your desired outcome), etc.

These categories of performance metrics can be thought of a lot like an iceberg with the Current Operating Results being on the exposed top and the other “layers” of performance metrics falling in succession under the waterline (i.e. less visible to the principals of some firms or to some of those that have an interest in them).

If you are an agency principal looking to remain privately held and to have superior performance, my recommendation will be to focus your attention below the waterline, starting at the bottom of the iceberg. Sustainable top line results will not come without building a strong foundation (i.e. Underlying Health). Building that foundation will come when principals understand their performance relative to best practices and are willing to act to narrow the gap between the two.

The top three layers of the “Performance Iceberg” are readily quantifiable. The fact that most of the Underlying Health issues are not readily quantifiable, can make them more difficult to assess. Don’t draw the conclusion that makes them any less important. As a matter of fact, long term, they are significantly more important. Experience has shown that, as the Underlying Health issues improve, performance metrics above will improve as well, and that improvement will be sustainable.

If you are an agency principal looking to sell or merge your firm, one of the reasons you may be doing so is the recognition that you have Underlying Health issues that you don’t have the ability, interest, or time to address. Actually, being honest and recognizing this fact is healthy and not a bad reason to sell or merge and become part of an organization that can bring you capabilities to address many, if not most, of those Underlying Health issues.

For those that are acquirers, or that are looking to be an acquirer, you better focus your attention on building your Underlying Health. Not only will your foundational health drive your long-term success, it will also position you to be a more successful acquirer of agencies needing help in addressing some of their foundational challenges. It can allow agency acquirers to take an agency, largely incapable of perpetuating internally, and make them a very attractive acquisition/merger candidate.

Bobby Reagan

Executive Chairman, Reagan Consulting

[Click here to email Bobby directly.](#)



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Reagan Consulting
3495 Piedmont Rd NE Ste 920
Building 10
Atlanta, GA 30305-1717

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