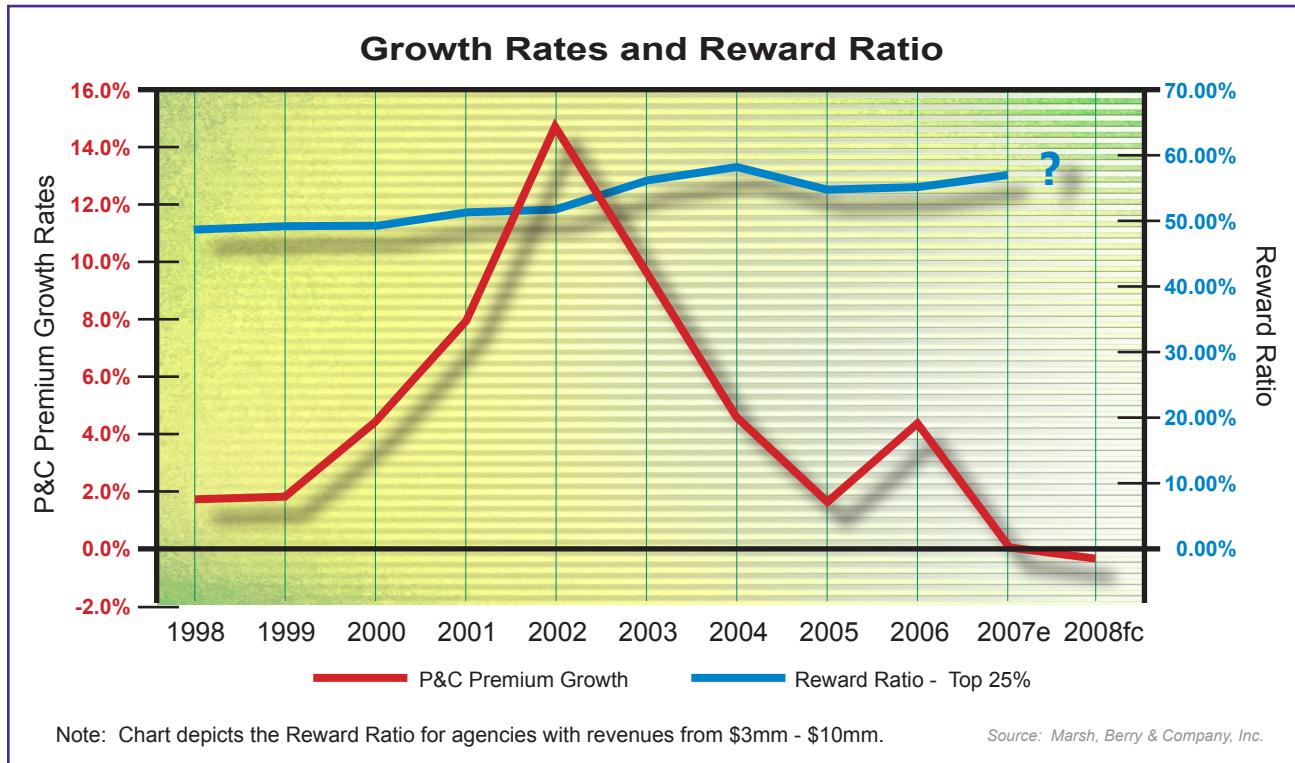


## Agency Value in an Unstable Rate Environment

The reward ratio measures how well an agency is satisfying the financial and growth requirements of its owners. The ratio is determined by adding executive payroll, production payroll and pre-tax profits, and then dividing this sum by gross revenues. The ratio gives a better view into the real rewards of independent agency ownership versus looking solely at pre-tax profits.

The chart below shows that over the past decade, high-growth agencies have managed to maintain consistent profit potential despite the fluctuations in the P&C premium rate markets. To do this, most agencies focused on automation, expense management and organic growth.



But now, with the 2008 forecast predicting negative growth in net written premiums for the first time since 1943, how will agencies maintain their value given past expense reductions and projected continued slow organic growth? It is imperative that agencies document a multi-year business plan to address continued value enhancement.

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