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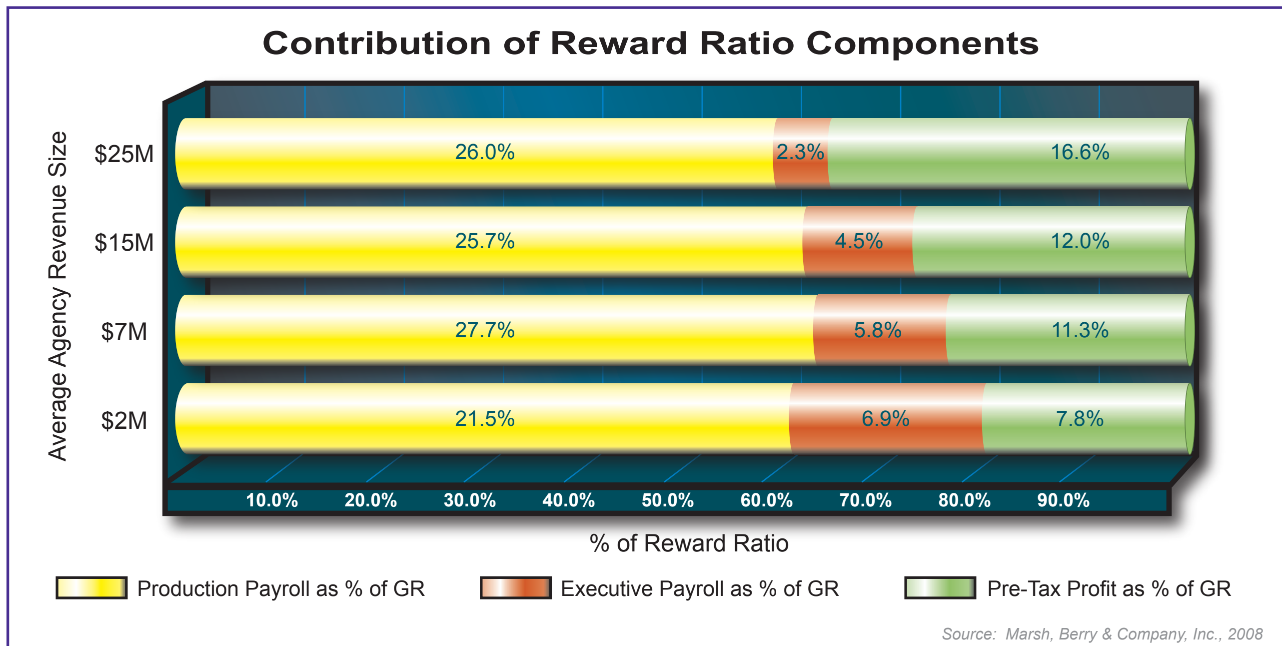
Contributions to Short-Term Return

Since compensation expenses are the largest expense for insurance distributors, proper fiscal management is critical for ensuring earnings and reinvestment capacity. February's issue of For The Record described the Reward Ratio, which measures the short-term return-to-owner of an insurance operation. Remember, the components of the Reward Ratio are the sum of executive payroll, producer payroll, and pre-tax profit as a percent of gross revenues.

The chart below shows the average contribution of each of the Reward Ratio components for various sized agencies. Notice that production payroll's contribution is about 60% for each revenue group. Additionally, the contribution of executive payroll decreases and the contribution of pre-tax profit increases as the agency revenue size increases. This indicates that as agencies grow, a larger percentage of the short-term return-to-owner (Reward Ratio) is kept in the agency so it is available to invest back into the business.



While producers are typically paid commission splits averaging 40% of new business and 28% of renewal business, executives are typically compensated in three ways:

- *Compensation for the CEO/COO responsibilities of the agency*
- *Commission splits for any book of business handled*
- *Dividends/distributions for the risk as an agency stockholder. The above figures include such dividends/distributions.*

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