Reality Check: Bank-Agency Returns

For the twelve months ending 6/30/09, the average total return on prior year value of a bank-owned insurance agency was a negative 10.2%. While total revenue slipped only 4.3%, the value of the intangible assets ("book-of-business value") declined by 18.8% primarily due to a drop in earnings. While a decline in the average EBITDA multiples had an impact on value, the average EBITDA itself declined by a sizable 14.8%. A drop in value of 18.8% plus average earnings for the year as a percentage of last year's value of 8.6% provides a total estimated return of negative 10.2%.

The key difference between the best and the worst was a direct result of poor management. Over the past 24 months, many bank-owned agencies have implemented short-term cost saving initiatives in hopes of preserving profitability, but instead destroyed organic growth and long-term sustainability. Servicing staff hiring freezes, wage freezes and a moratorium on producer reinvestment were implemented in order to improve short-term margin. However, this strategy has instead set the table for cascading impairment. Despite these initiatives, profitability slipped due to revenues declining faster than expenses could be cut. To add insult to injury, banks have increasingly been reluctant to deploy capital for acquisition which is a key outlet for securing talent and niche specialties.

Within peak performing bank-owned agencies, total return was preserved by revenue and EBITDA growth despite decreasing EBITDA multiples. Peak performing bank-owned agencies have also cranked down on expense ratios. But, this strategy was coupled with 1) service staff player trades versus wage / hiring freezes; 2) consistent reinvestment in next generation production staff; 3) employee accountability; and 4) strategic acquisitions.

Leading banks will continue to manage expenses, deploy capital, drive growth, embrace accountability and realize long-term equity enhancement within the bank-owned insurance agency. The harsh reality is that the masses that are implementing a short-term business plan to try to preserve margin without a strategy to maximize long-term value appreciation are managing a wasting asset. They are choking the life out of their insurance subsidiary.

Authored by Patrick T. Linnert, Executive Vice President, 440-392-6568
MarshBerry’s clients are committed to realizing their fullest potential with respect to growth, profit, survival and shareholder value. Our agent, broker and carrier clientele engage us to achieve their goals within the retail and wholesale channels of the insurance distribution system. Our unparalleled industry-specific services include consulting, performance benchmarking, peer-to-peer exchange networks, merger and acquisition intermediation and producer recruiting.