

AGENCY BENCHMARKS PROVING GOOD (OR BAD) MANAGEMENT

Agenda

First – Do No Harm

Second – You Actually Do Need to Understand Some Statistics If You Are Going to Use Benchmarks – Benchmarks ARE Statistics

Third – The Right Benchmarks to Use

DO NO HARM





Do No Harm

The First Rule of medicine is to do no harm. This should also be the first rule of a consultant.

- Unfortunately – this is not the first rule of most consultants – I’m throwing them under the bus.
- Most consultants’ first rule is to make money.



Do No Harm

To do no harm:

- Do not preach:
 - *Standards*
 - *Models*
 - *Goals*
 - *Practices*
- Use only metrics that are based on strong statistical research and methods, unless disclosed.
- There is not any other consultant that does this – but for me.



Do No Harm

To not use rigorous methods is malpractice and you shouldn't pay for junk science – but many of you do.

My goal today is to convince you, at least, to quit wasting your money on bad benchmarks.

CONSISTENCY IS REQUIRED PRIOR TO USING MOST AGENCY BENCHMARKS

Benchmarks without consistency – unless they test for consistency, are useless

Consistency

“For Progressive this meant focusing on highly reproducible events…” Glenn Renwick, former CEO of Progressive

Gallup's Gigantic Study

Gallup's Gigantic Study

*Per Gallup, in a study of 500,000 businesses, **Customer Engagement** was the key predictor of sales growth.*

Gallup's Gigantic Study

Engagement is about “...the ability to provide consistent, near-perfect performance...” Gallup

Forbes

“Consistency is often overlooked but is the secret ingredient to making customers happy” 10-15-23

Stun & Awe

**“Consistency is more achievable
and sustainable than perfection”
1-15-25**

Why is Consistency So Important?

- *Consistency means professional*
- *Consistency means safe*
- *Consistency means long-term relationships*
- *Consistency means customer engagement*

Why is Consistency So Important?

E&O

- Consistency means less probability of being sued.
- Consistency means less probability of losing if sued.

The Problem with Insurance Benchmarks

Data Consistency DOES NOT EXIST

- Without data consistency, quality benchmarks cannot exist.
- Not even individual agencies have consistency in their operations which exacerbates the problem.



Insurance Benchmarks

**Not only is the data poor,
the methods are horrible**

- I will first prove this because I really need to erase what you now value from your brains.
- Then I will show you that beyond consistency, where your eyes and brain should focus.



**Bad Statistics –
Never Use
“Average” Again
– Never, Ever
Again!**

1. The Income Illusion

Imagine ten people sitting in a bar. Nine of them earn \$40,000 a year. One earns \$4,000,000. The average income in that bar is roughly \$436,000, a figure that describes nobody in the room.

Bad Statistics – Never Use “Average” Again – Never, Ever Again!

1. The Income Illusion

This is the defining problem with income data. Because a small number of very high earners pull the mean upward, it consistently overstates what a typical person earns. The US median household income and the mean household income often differ by tens of thousands of dollars for exactly this reason. When headlines report that average incomes are rising, they may be capturing the gains of the wealthiest earners while the lived experience of most households stays flat.

**Bad Statistics –
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2. The “Average American Family”

For decades, surveys and government reports have referenced the average American family as having somewhere around 2.5 children. That number is statistically correct and practically meaningless. No family has half a child.

The average here is arithmetically valid but describes no actual family. It emerges from combining very different households: families with zero children, two children, ten children, and everything in between. When a single average is used to represent a population containing genuinely distinct groups, it can land in a gap where nobody actually lives.

Bad Statistics – Never Use “Average” Again – Never, Ever Again!

3. Survivorship Bias in Salary Data

A university proudly reports that graduates from its computer science program earn an average starting salary of \$95,000. That sounds impressive. But consider who is included in that average.

If the calculation only captures graduates who responded to the alumni survey, and those graduates are disproportionately the ones doing well, the average will be inflated. Graduates who are unemployed, underemployed, or working outside their field are less likely to respond. The data survives a filter, and that filter systematically removes the lower end of the distribution.

Survivorship bias appears whenever you measure outcomes only for the people or things that made it through some selection process. The mean of survivors is not the mean of all participants, but it's frequently reported as though it were. The same pattern shows up in mutual fund performance data, startup success stories, and clinical trial dropout rates.

**Bad Statistics –
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4. Simpson’s Paradox

This one is genuinely counterintuitive. A treatment, policy, or group can perform better on average in every single subgroup and still perform worse in the overall average. That’s Simpson’s Paradox.

A well-known historical example involves UC Berkeley admissions data from the 1970s. When researchers examined overall admission rates by gender, men appeared to be admitted at a noticeably higher rate, suggesting a pattern of bias. But when they broke the data down by individual department, women were being admitted at equal or higher rates in the majority of departments. The aggregate average reversed the direction of the real trend.

**Bad Statistics –
Never Use
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4. Simpson’s Paradox

How? Women were applying in greater numbers to the more competitive departments with lower acceptance rates across the board. Combining those groups without accounting for their different sizes and base rates produced a misleading overall figure.

When you aggregate across groups, the mean can point in exactly the wrong direction. The lesson isn’t that averages can’t be trusted, but that aggregating across subgroups without thinking about what those subgroups represent can produce conclusions that are the opposite of true.

**Bad Statistics –
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Never, Ever Again!**

5. The Average Temperature Problem

A city reports an average annual temperature of 60°F. That sounds pleasant. But imagine the city experiences brutal winters reaching 10°F and scorching summers hitting 110°F, with relatively few mild days in between. The average is 60°F, but 60°F days may be genuinely rare.

This is the problem of using a mean to summarize data that has high variability or a bimodal distribution, one with two separate peaks rather than one central cluster. The average settles in the middle of two very different states and describes neither of them accurately.

**Bad Statistics –
Never Use**

**“Average” Again –
Never, Ever Again!**

6. Insurance Savings

“The average person who switched to ABC Insurance saved \$1,000!”

That might mean five people while 95 people avoided ABC because their rates were too high!

The above claim to fame is useless! Except for tricking people to ask for a quote.

Another Reason to Avoid Using Averages

Pareto Curve - Better Known as the 80/20 Rule

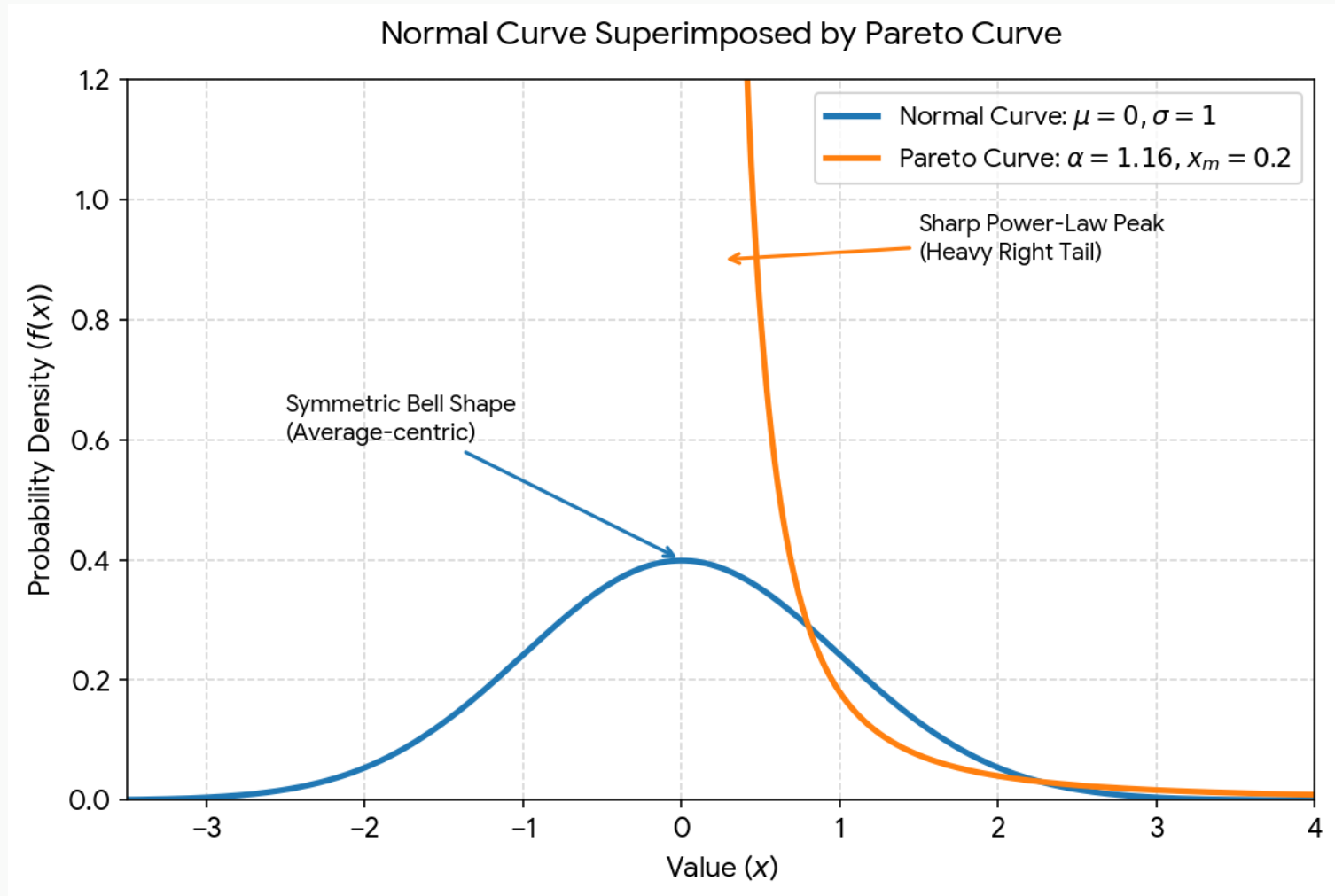
Averages ONLY apply, as can be seen in the prior examples, to a universe spread equally, i.e., along a normal curve. You must know the shape of the curve before you can know which statistical applications are most appropriate.

In competitive environments, the normal curve rarely exists.

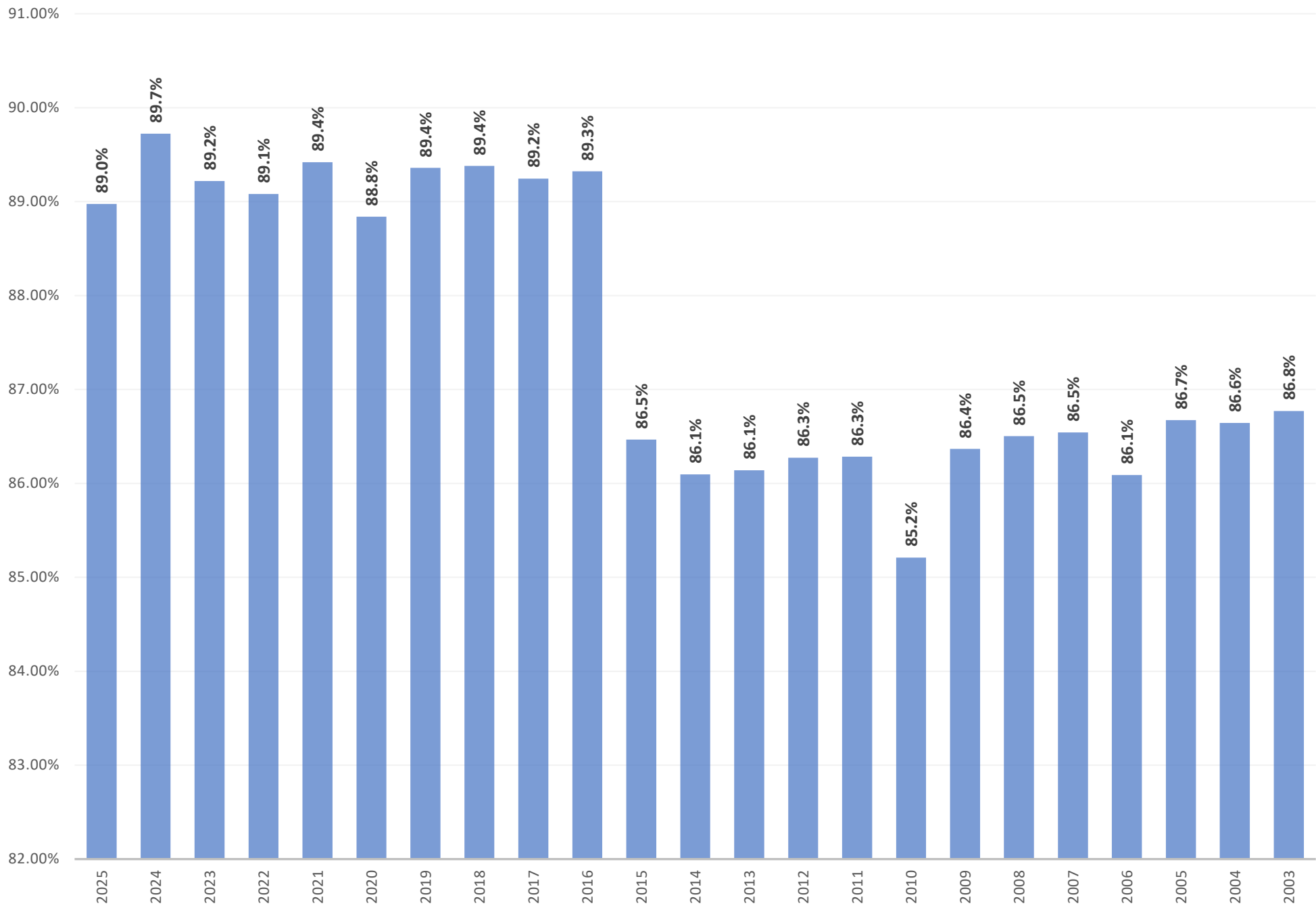
In sales, especially producers and carriers, 20% generate 80% of sales. Therefore, “average” should never be used when the universe maps along a Pareto Curve. The average will always be skewed, and your resulting decisions WILL BE WRONG!!!!!!

Do you want to be wrong?

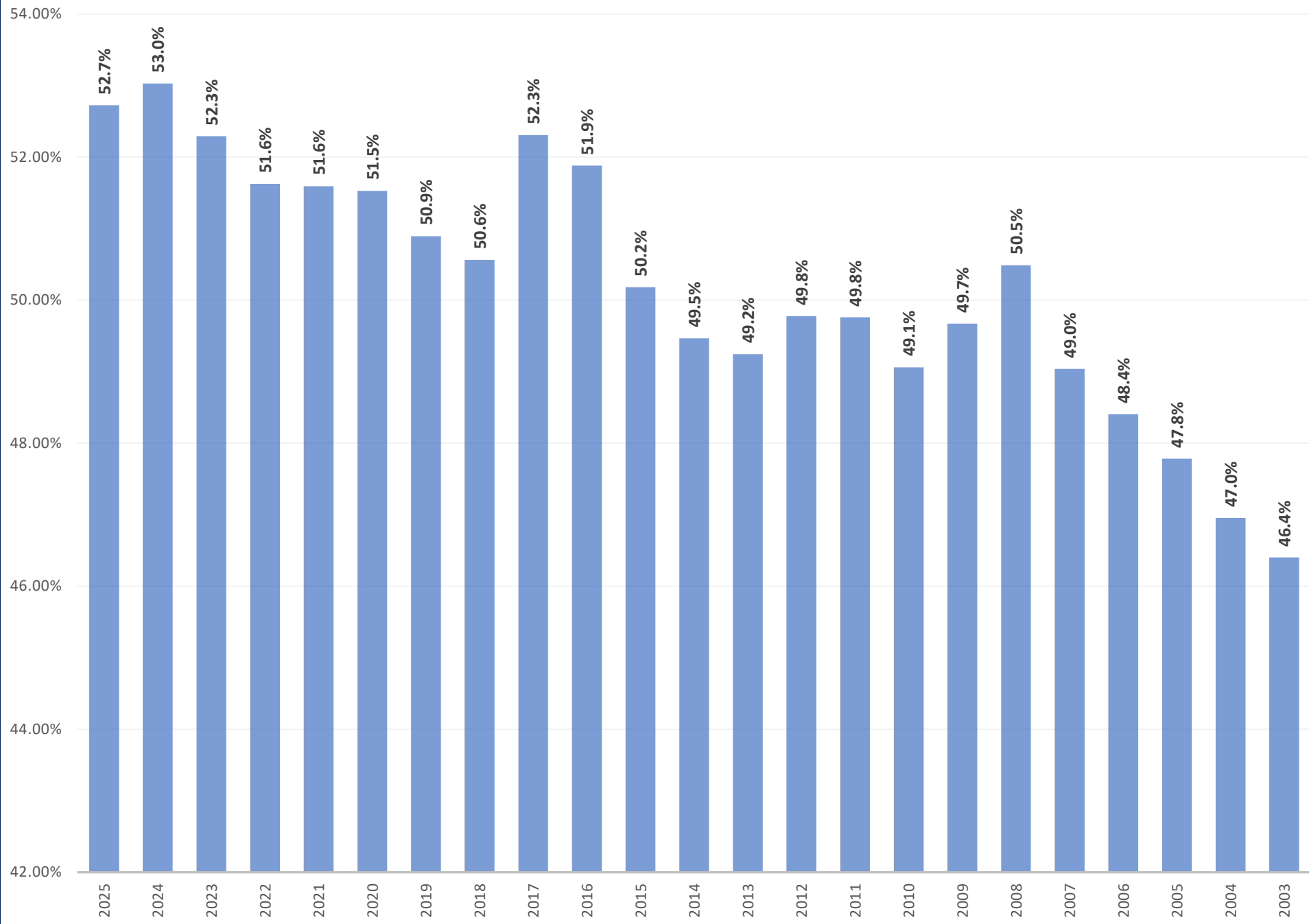
It's easy to
see how you
can make the
wrong
decision if
you haven't
mapped your
universe
first!



Market Share of the Top 90 Insuror Groups



Market Share of the Top 10 Insuror Groups



Ignore Quartiles Even More

Quartiles generally should be laughed at 😊

At the very least, if you are going to use quartiles, verify the underlying quartiles do not change from one measure to another.

If you use Best Practices, they change the agencies around.

In other words, because the top 25% in profit have revenues per person of \$400,000, this is not the same 25% that have growth rates of 20%. Quartiles should be kept constant or at least the other data should be shown specific to each measure.

Isolation, like the way Best Practices reports, leads to false conclusions and bad decisions.

Ignore Quartiles Even More

Quartiles generally should be laughed at 😊

Furthermore, what is the correlation? And even if a correlation exists, which averages never prove and are not designed to prove, where is the causation?

I have a solution for shark attacks! Quit eating ice cream. It is an easy solution because as ice cream consumption rises, so do shark attacks.

Ignore Quartiles Even More

Quartiles generally should be laughed at 😊

These quartiles cause a person to think a correlation and causation exist, but no proof is ever offered.

I have a solution for headaches. It has been found that sleeping with one's shoes on is highly correlated to awakening with headaches. Therefore, don't sleep with your shoes on!

Simple solutions is what you want, right?

To get this right, you must think.

And a third reason to avoid averages!

Averages ignore inconsistency!

If averages are to be used, then one needs to know the standard deviation.

I know no one in this room got into insurance because they love statistics – only maybe actuaries do that. But you use all this data, most of which is some form of averages and your lack of knowledge means you taken advantage of.

Do you like being taken advantage of? Ignorance is how people become victims and you can cure ignorance.

**I'm told that some
clients ignore me
because I make
them think.**

**Thinking is
working. I can't
cure lazy.**

When you are making management decisions using benchmarks, the benchmarks should at least prove correlation and preferably causation.

Regression – and I know you think I’m being an egghead!

Regression analysis is the simplest approach for non-math people like me. And it gives us a convenient, easy to understand single number measure: R^2

R^2 is measured between 0 and 1 with 1 being a perfect correlation – though not proof of causation.

I see a lot of trend lines in this industry where the author will not show the R^2 . I know though the number is low and therefore, the trendline meaningless.

When you are making management decisions using benchmarks, the benchmarks should at least prove correlation and preferably causation.

R^2 shows whether the variance is high or low and this can be done with just two variables or dozens of variables. This is a linear regression equation. These equations can then be combined into an algorithm, which no one builds for agency benchmarks – except me.

For example, the following variables correlate to the probability of an accident, but no single variable is that important. Each has its own R^2 score and the total score determines the rate:

- R^2 score x number of tickets +
- R^2 score x number of miles driven +
- R^2 score x address (which is given a score based on a different algorithm) +
- R^2 score x age and gender+
- R^2 score x profession (scored based on a different algorithm)+
- R^2 score x type of vehicle(s) (scored based on a different algorithm)

Where to go

Rule #1 Measure What Is Actually Important!

You cannot adequately measure anything without consistency.

Therefore, begin by measuring your agency's consistency.

My PEP is a great tool

How to become consistent?

- Good procedures

- Use file audits to maintain consistency

What is Important?

Rule #2 Figure Out What is Actually Important

A huge study without bias is a good place to begin using correlation analysis.

I have tested most of the popular benchmarks for correlation to growth and profit, and I rarely find any correlation (other than the fewer carriers represented, within reason, the higher the profits and growth rates).

I have tested the popular benchmark sources even including the publicly traded brokers' 10-K's and correlations really do not exist.

Why? Inconsistent data and everyone has their own business model.

What is Important?

Rule #2 Figure Out What is Actually Important

A good example is revenue per person. The idea is the higher the revenue per person, the higher the profit margin. But no material correlation exists.

This is because many retailers with high revenues per person achieve high revenues per person by spending more on IT, leads, advertising, marketing, risk management, and so forth.

The one correlation that does track with high revenues AND high profits? Consistency of procedural adherence. The results are amazing.

What is Important?

Rule #2 Figure Out What is Actually Important

What is important varies by agency.

Even if all of you had great data, the applicable benchmarks would vary because of the mixture of:

- PL/CL/Benefits
- Admitted vs Surplus Lines
- Small accounts vs large accounts
- Fees vs commissions
- Whether you have carriers that create friction or make it easy
- And so forth

What is Important?

Rule #3 Leadership and Execution

Everyone in this room is here because I've asked you to be here and I asked because I am 100% positive each of you, in your own way, have something of value to offer everyone else.

You might need to look closely because the value is not always in the ideas presented.

What is Important?

Rule #3 Leadership and Execution

Weaknesses.

I was working with an Insurtech startup last month and the founder told me the best piece of advice he received, and this was a man in his 50's, was that he was not cut out to lead the company.

He hired a CEO and the company is taking off.

Few agency owners are capable of developing producers. If you feel like you've failed, don't. This itself is not the failure. The failure is possibly not hiring the right entity or entities that can do this for you.

Leadership recognizes their own limitations.

What is Important?

Rule #4

Focus on where to not fish first.



**Where should
you absolutely
not fish if you
want to
increase
profits?**

Negative Correlations to Actual Profit

- Limit the number of “Other” staff. This includes positions like accounting, reception, claims, and so forth.
- Do not spend so much on compensation. This is strongly negative and includes owner compensation being too rich.
- Higher compensation relative to commissions for commercial staff has a negative correlation whereas for personal lines, no correlation exists.

**Where should
you fish if you
want to
increase
profits?**

Positive Correlations to Actual Profit

- Revenue growth is positively correlated to actual profit, and commission growth less correlated. Think fees and contingencies.
- Larger commercial accounts are slightly correlated to higher profits.

**Where should
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profits?**

Negative Correlations to Pro Forma Profit

- Producer compensation needs to be managed carefully.
- Average commission per account has a negative correlation to profit. Small commission per account is a problem and it creates E&O exposures.
- Compensation is not as highly negatively correlated because the pro forma assumptions include no longer overpaying.
- The higher percentage of commercial versus personal lines + benefits correlates to lower pro forma profitability because of the extra compensation required in commercial.
- This means commercial must be managed carefully.

**Where should
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profits?**

Positive Correlations to Pro Forma Profit

- Contingencies have the highest correlation to pro forma profit.
- Personal lines as a percentage of commissions – the higher the better.
- A strong top 10 account commission, within reason.

**Where should
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profits?**

Negative Correlations to Commission Growth

- Total compensation as a percentage of revenue. IF your payroll is too high, odds are your growth and profits will suffer.
- Key takeaway, manage your payroll well.
- Producers who are too old and have been there too long negatively correlate to growth.

**Where should
you fish if you
want to
increase
profits?**

Positive Correlations to Commission Growth

- Managing producer compensation well.
- Growth and profit are slightly correlated which is a correlation – not a causation. The causation is better management and leadership.
- Co-efficient of commission sales volatility.
 - The standard deviation of annual commissions/average annual commissions.
 - The more consistent, not volatile growth, the better the growth rate.

Leadership

Leadership for organic, sustainable and profitable growth is about consistency

- Consistency of process
- Consistency of customer experience
- Consistency of employee engagement and management

Leadership

But there probably needs to be Four Leaders

- Directional
- Strategic
- Team Building
- Operations

Leadership

Who are you and who are the other leaders?

Directional Leader:

- Excel at communicating a compelling vision
- Excite people about the way things could be
- Are effective public speakers
- Make decisions on behalf of the group
- Keep people pumped up and hopeful about the future
- Have little patience for process and details
- Favor action over reflection
- Are often impatient with in-house debates and procedures
- Want to make good things happen—now!

Source: Jay Brenneman - SageQuest

Leadership

Who are you and who are the other leaders?

Strategic Leader:

- Excel at creating initiatives to bring a vision into reality
- Craft scenarios and recommend optimal alternatives
- Develop and shape vision, but not conceivers or communicators of vision
- Turn a compelling vision into viable plans to make the future a reality
- Analyze reality to find solutions that will facilitate the vision
- View emotions as a sign of weakness and intellectual inferiority
- Can take too long to make decisions
- May be more loyal to the vision than to people
- Capable of juggling many details and conceptual possibilities

Source: Jay Brenneman - SageQuest

Leadership

Who are you and who are the other leaders?

Team Building Leader:

- Excel at helping people work together to implement the vision
- Blend vision and personal abilities around the vision and a common cause
- Upbeat personality, optimistic perspective, and encouraging demeanor
- Energize others, helping them find their place and feel heard
- People-savvy and motivate people by their presence
- See each person as a piece of the puzzle to make the vision happen
- Use their charisma to motivate people to get involved
- Struggle to execute on plans, ignore paperwork, and waffle on decisions
- Get burned out by over investing in people who don't produce

Source: Jay Brenneman - SageQuest

Leadership

Who are you and who are the other leaders?

Operational Leader:

- Excel in building systems that help execute on the vision
- Create new routines that maximize work efforts in light of the vision
- Build systems that tie everyone's contribution together
- Create new opportunities and solutions that result in breakthroughs
- Conceive of and introduce new routines to accomplish the vision
- Get bored with oiling old machinery and want to build new machines
- Concrete thinkers who devote time to practical details that drive vision
- May avoid delivering bad news to maintain momentum
- Can get bogged down in details and manage rather than lead

Source: Jay Brenneman - SageQuest

Leadership Benchmarks

Benchmark Your Leadership Skills

Fill the gaps

Apply the few fundamental benchmarks that
correlate to success

Strive for consistency

-Unless you like drama and if so, ignore everything
I've just advised!