Embracing Differentiation to Drive Organic Growth

Service Timeline Stewardship and Compliance Auditing

Strategies for maximizing new business production and retention

MARSHBERRY

Exceeding the Standard

Leveraging Organic Growth Through Value-Added Differentiation

Growth and Consolidation

Whether public or private, agents, brokers or carriers, growth and consolidation are increasingly shaping strategic initiatives across the insurance distribution system for 2007 and beyond. Growth is important as a vehicle to drive earnings, provide reinvestment capital, diversify product and service offerings, capture market share and ensure long-term sustainability.

As agents, brokers and carriers alike seek enhanced growth opportunities, differentiation is the name of the game. Agency/broker organic growth rates continue to decline as both P&C and Benefit premium rate advancement slows. While insurance distributors rode the hard market wave during 2002 to the tune of a 14% increase in net written premium, reality is now hitting home. Average organic growth rates during 2006 for all distribution segments ranged from 4.5% to 6.5%. The good news, however, is that the marketplace has become a more level playing field. Long-term agent/broker relationships with insureds are being broken every day based on service, not just price. It is safe to say that the soft market is not something to be feared, but rather embraced as an opportunity to differentiate and lead organizational revenue and earnings enhancement. Those first to embrace a regimented differentiation pitch and process will be well positioned to capture market share.

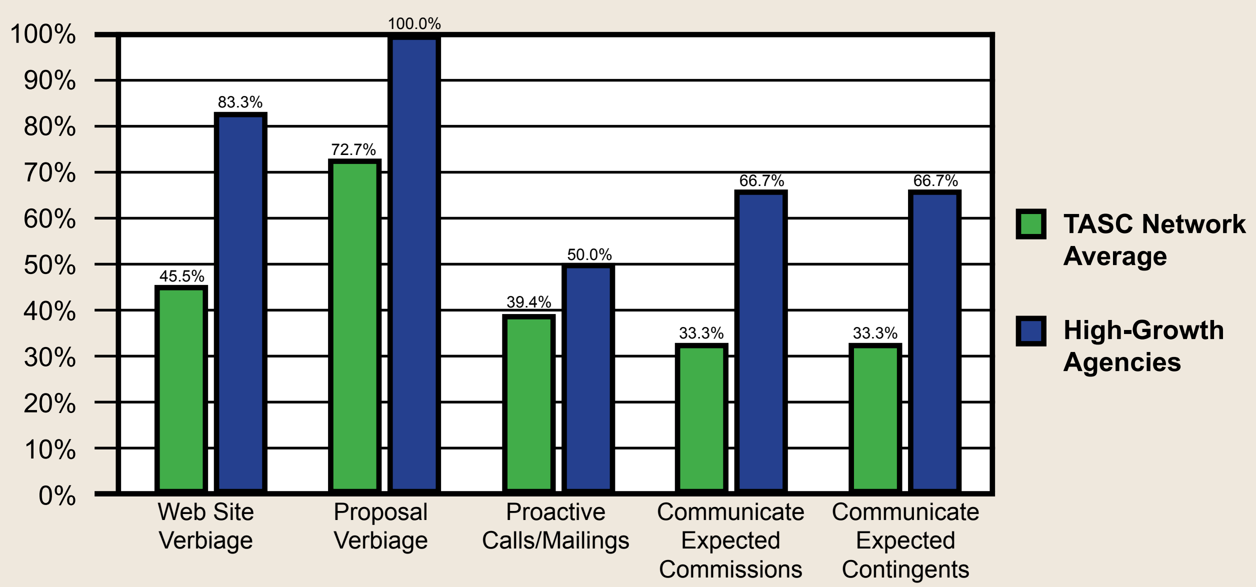
Transparency and disclosure has solidified itself at the forefront of insurance distribution along with compensation justification to insureds. Leading agents and brokers have turned these market challenges into opportunities and are proactively designing, implementing and executing differentiation strategies through value-added service timelines. While 72% of leading banks and 70% of large, regional independent agencies are traveling down this path, few have a fully functional program in place. Community-based independent agents are just beginning to enter the race as well. And as you know, it's a long process.

Over 60% of *high-growth* agencies are fully disclosing commissions and contingents to insureds through web-sites, proposals, and other communications. Why? Because they are comfortable with the service-to-price value proposition.

Transparency and disclosure is no longer a matter of "if" but "when." Public brokers who have sworn off contingents are now questioning prospects as to why the incumbent is still taking contingents. Carriers are increasingly requiring that agents disclose compensation before binding coverage. Agents and brokers are already selling differentiation to justify disclosed compensation. What all this means is that transparency and disclosure is inevitable, whether driven legislatively or by insureds.

Chart 1

How are You Handling Transparency and Disclosure?



The Total Agency Sales Culture (TASC) Network is an association of the nation's leading organic growth insurance agencies. The High-Growth Agencies are comprised of the Best 25% of TASC Network Partners as determined by organic growth rates.

Selling on Value

Each insured has different needs. That is why it is important to facilitate a needs assessment before designing a value-added service timeline. By first conducting a needs assessment with each prospect or insured, you can align internal value-added services and profitability with external client issues and desires. Producers and Account Executives should not simply provide a client with a list of everything the agency offers. Doing so limits the value the client perceives in the insured-agency relationship while diminishing the profit potential of the account for the agency.

Agents and brokers with the highest quote-to-close ratios employ a needs based consultative approach. Instead of merely selling the prospect insurance, successful producers have instead taken on the trusted advisor role of helping clients buy proper insurance coverages and programs to mitigate risk. They are approaching prospects by offering a needs assessment meeting to determine the risk management services that would be most beneficial for the client's specific organization and then explaining the value-added services the agency offers that address those needs. Be cautioned: The presentation to the client should not be centered on what each service you are providing costs your operation. Instead, the presentation to the client should be more focused on how such services can serve to reduce the insured's loss ratio, hidden costs related to claims, the perception of the risk profile by the underwriters and subsequently the insured's long-term premium dollars.

Remember, most insureds have been trained to buy on price. As such, agents and brokers need to "sell" the value of agency/broker involvement by illustrating how the process reduces "long-term premium" AND "hidden costs absorbed by the insured." To communicate the ability to lower long-term premium, high performing agencies illustrate how certain value-added solutions are aimed toward an insured's past experience, current exposure and market representation process and how such a process will reduce the long-term severity and frequency of claims. Insureds also need to understand how certain value-added services reduce "hidden costs," or expenses of the insured related to areas such as absenteeism, employee morale, business interruption and claims diversion. Once agents and brokers can correlate the services provided to an insured with a reduction in long-term premium AND hidden costs, compensation justification becomes reality.

A value-added service platform also affords agents and brokers the ability help clients reduce current risk exposure and the severity of claims by designing a comprehensive risk prevention program for each insured. When these converge with adequate market representation, insurance agents and brokers are in a position to compete on both price (through lower long-term premium pricing) and service. Competitive advantages are gained through new business production differentiation and increased account retention. Many agents and brokers are laying the foundation. Those first to the finish line will be best positioned to achieve double digit organic growth rates in any rate cycle.

The Importance of a Value-Added Service Platform

Value-added service timelines and stewardship reports come in many forms. For some, loss control, claims review, fleet safety programs, wellness programs, HR consulting and the like are the value-added services of choice. For others, value-added services can simply represent quarterly phone calls, monthly e-newsletters, invitations to semi-annual presentations and commitments to return phone calls and e-mails within 24 hours. Depending upon internal capabilities and insured account size, the differentiation story varies widely. Many agents and brokers provide a vast array of services to clients, but have no process to consistently and formally communicate this externally. Many agents and brokers already differentiate themselves relative to the competition – but few are communicating it systematically to insureds.

Let's take a simple statement and recognize an inherent truth. "Your prospects only need you for what they do not already have." So the question becomes, "What makes you different or better than your competitors?" If you could list five things that make your agency different or better, what would they be? Now, if you asked five of your producers or service staff to do the same, would their answers match yours? Quite often, the quick answers to the above questions may sound something like "We are local, we are privately held, our agency has been around for 56 years, we have great people, and we have solid carriers."

Now picture sitting in front of a prospect and listing the above. The prospect then responds, "That's great, but my current agent is located down the street, is private, has been around 60 years, and has great people and carriers too. So does the guy coming into my office in 30 minutes to sell me insurance. Thanks for your time." Agents and brokers need to take a step back and truly quantify and identify why their organization is different when viewed from the perspective of an insured. The agency/broker then needs to ensure that everyone in the organization understands and buys into that differentiation message. The four-step process to communicating your differentiation to the marketplace is:

1. *Know what makes you different*
2. *Know how to articulate it*
3. *Be able to show it*
4. *Require employees to share it consistently*

This leads us to the importance of a value-added service timeline and stewardship reporting system:

- *Transparency and Disclosure*
- *Compensation Justification*
- *New Business Sales Differentiation*
- *Proactive Retention Strategy*
- *Identification of Cross-Selling Opportunities*
- *Establishing Meaningful and Consistent Communication*

The keys to a differentiated process reside in the 10 C's of designing, implementing and executing a successful Value-Added Service Platform as illustrated in *Figure 1* below.

Capability Inventory

The first step in developing a value-added service program is identifying those services your agency is capable of providing. Services offered may apply to all clients or to specific clients. For example, organizations may dictate that all insureds be offered monthly industry newsletters or invitations to semi-annual presentations. An agent or broker may also mandate that all voice mails and e-mails be returned within 24 hours. While these may not necessarily be viewed as value-added services by many agents and brokers, they can indeed provide a consistent "touch" process while delivering superior service relative to competitors. More comprehensive value-added services should be categorized by specialty (energy, trucking, or construction) or by line of business (P&C or Group medical). Some examples of value-added services could include:

- *Quarterly meeting to review reserves and open claims*
- *Exposure Review*
- *Review of Risk Management Goals & Objectives*
- *Facilities Assessment*
- *Wellness Programs*
- *Risk Transfer Alternatives*

The first goal is to define all service-related activities that the agency can provide as part of an overall servicing relationship.

Cost-Based Option List

Identifying cost/time of services

Once you have identified the services your agency can provide, you should estimate the cost or time of delivering each solution. The goal is to understand internally how much money or time it takes your agency or brokerage to deliver a particular service. You could use a dollar amount, time allocation, point system, or another way to rank these services. The more time and resources needed for a specific service, the more cost/time/points should be allocated to that service. For example, using the point system, an Annual Exposure Review may have an assigned point value of 40 points, while a Quarterly Claims Review meeting to review reserves and open claims could have an assigned point value of 140 points.

Aligning client profitability with the cost of services provided

The next step is to group your insureds into buckets based on account size or profitability. When analyzing each account relative to the cost/time/points for services provided, you will have a much clearer understanding of

Figure 1

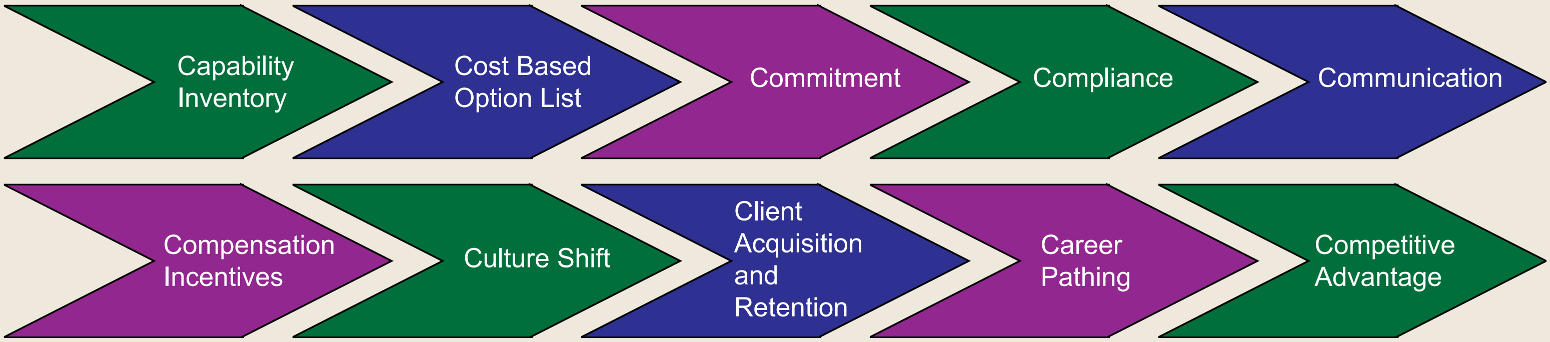


Figure 2

Account Type	Account Size	Available Points
Jumbo Commercial	$250K and above	1,000
Large Commercial	$30K - $250K	750
Middle Market Commercial	$10K - $30K	500
Emerging Commercial	$3K - $10K	250
Small Commercial	$3K and below	100

the resources you can efficiently dedicate to a particular account. Again, it is also critical to conduct a needs analysis with each client in an effort to design a custom-tailored service program that will benefit that specific insured. Agents and brokers should not waste time and resources delivering a service that the client never asked for nor wants. The producer and service team must dissect client needs, understand what the agency can afford to offer a client, and then design a customized program to align external and internal objectives.

Using the point system, you can assign a point value to each insured and for each prospect. One way to do this is to group clients by commission dollar size and complexity of client. *Figure 2* above is just one example of how an organization may group clients to align profitability with services offered.

Establishing a point system can ensure that all services provided to an individual client are below the designated "available point" threshold. It will also enable leadership to make certain that the agency will be profitable relative to overall commissions received.

Commitment

Writers Note: Please note that staff titles are different by geography and agency. In the following, when we refer to "account executive," we are referring to a staff position filled by a relationship driven, technical professional who is external and manages accounts on behalf of producers with large books. The account executive also serves as the liaison between the customer and the internal customer service representatives. This individual manages service timelines, engages the team responsible for delivering the risk mitigation consulting services and preps the producer prior to each meeting where the producer is present. For high production producers, we often see a four-tiered team of professionals (producer, account executive (AE), CSR and internal tech support). The individual roles can be found later in the article under the "Career Pathing" section.

The most critical step in successfully executing a value-added service timeline is securing a commitment by both the internal organization and the client to participate in such a program.

Internally, agents and brokers must be committed to expending the resources necessary to fully leverage a value-added service timeline. Such resources include buying or building the technology to administer such initiatives, training agency personnel, overseeing the process, and holding people accountable. Agencies must be committed to allowing the account executives to have responsibility over managing the client service process. Often producers spend so much time servicing their book of business that there is limited time to generate new business, thus hindering agency growth. With a value-added services platform, agents and brokers must empower quality service personnel to manage and "own" the process. This proactive service position (Account Executive) is ideal for agency personnel who are solid technicians and relationship driven, but may not be great hunters or closers. Such people are often current account executives, high-level CSRs, or even existing producers who are no longer generating new business.

Agency owners often focus exclusively on producers with respect to organic growth. With a value-added service timeline, however, the service staff is critical to internal growth initiatives. As AEs assume much of the control over the service process (not necessarily over the entire client relationship), producers have more time to prospect new accounts. In order for this to work, the AE's must be given the *responsibility* and *authority* to execute the service timeline process. In summary, agent/broker commitment must include:

- *Executive level oversight*
- *Defined training and education programs for internal employees*
- *Accountability programs where the AE has responsibility for managing the client service process versus the producer*
- *AEs commitment to capture, assist, design and manage the program*
- *A service timeline requirement on all accounts above a certain size*

- *Providing the insured with committed dates, assignments for individuals on the service team and contact information (formal service agreement)*
- *Where possible, the service program should embody an 18 month timeline that is longer than the expiration date of the policies in force. Critical value-added services can fall in the timeline after expiration to break the renewal cycle and the ability, tendency, or desire to shop the account*

At the same time, securing insured commitment is essential in implementing such a program. All too often, agency/broker executives believe a value-added service timeline is being executed for certain clients. The harsh reality is that the process is often broken from the start because the insureds themselves have not committed to participating in the program. Typically, insureds have not participated for one main reason: agency personnel have never properly "sold" the value of a value-added service timeline. Many insurance distributors surmise that their best clients would not participate in such a program due to time constraints. Others become too comfortable relative to the perceived stickiness of a long-term existing relationship. By taking such relationships for granted, agency and broker personnel need to ask themselves the following two questions:

1. *If my client will not participate in this program, do they really understand risk mitigation and long term pricing?*
2. *Am I willing to lose a long-term account to a competitor who is proactively selling and communicating such a program?*

These questions can be addressed by ensuring that insureds are:

- *Willing to dedicate the time to allow the agency/broker to design a risk prevention program that will reduce the long-term frequency and severity of claims*
- *Willing to allow the agency/broker to conduct confidential interviews with employees to identify risk concerns not typically shared with the leadership of the insured*
- *Willing to sign a service covenant page embedded within the timeline that explains the execution of the timeline is a joint responsibility*
- *Committed to reviewing service timeline progress on a regular basis*

Compliance

With the services, costs/time, and pitch identified, your organization can now maintain a united front in your prospecting. It is essential that your producers and service personnel approach this program consistently. There should not be different services or point values assigned to different producers nor should each person create their own personalized structure for standard services. That said, each timeline should be customized for each insured based on needs and governed within the cost/time/point parameters. Management should mandate that the service timeline delivery process is well defined, properly communicated internally and externally, conforms to corporate standards before delivery, and is periodically reviewed for corporate consistency.

Many agents and brokers have implemented a value-added service program, but haven't seen the expected benefits through increased production or enhanced retention. Quite often, services are pitched or promised, but not delivered. The key to retaining these accounts is delivering the services you said you would provide when you sold the business. One way to oversee delivery is to establish a formal service timeline that breaks down what services will be provided, target dates for delivery, and who from the agency is responsible for deployment. To help establish mutual accountability, the formal service timeline should be presented to the insured and signed by both parties via a service covenant or commitment contract. This provides insured buy-in to the service timeline and gives each party confidence that program execution is a joint responsibility.

The service timeline also holds your organization accountable by providing a system for personnel to manage the process internally. Your sales manager and/or other executives must implement a compliance process to track and ensure that "promises made are promises kept." In better agencies, management can run a compliance audit exception report at any time to proactively track which promised services are upcoming, which have been completed by the target date and which are behind schedule. By reviewing such exception reports, agencies can be proactive in the service delivery. To facilitate compliance:

- *Train entire staff on the importance of value-added service timelines, consistency, and use*
- *Set up all value-added service timelines on a common technological platform*
- *Implement compliance audit reporting processes to establish activity reminders, monitor completion, and flag exceptions or delinquencies*

- *Publish compliance audit performance rankings by staff member*
- *Publish compliance audit performance to insureds*

Communication

All of these services are useless if you are not delivering a formal Stewardship Report to the insured to close the loop. A Stewardship Report is an extension of the Value-Added Service Timeline, but includes activity completion dates and notes and your compliance audit score. While you may be comfortable that you completed all assigned service timeline activities, it is imperative that the key decision makers at the insured know you have delivered on your promises. Your competition already is, or will be soon, pitching value-added services to your best clients. Despite execution and current relationship strength, you need to ask yourself whether you're willing to lose an account because you did not take the final step of "forcing" a formal and defined Stewardship Report review. One way to help force the insureds participation in the communication is to have them sign the one-page service covenant as part of the overall timeline that mandates joint participation in the plan.

Just as compliance audits are meant to hold internal staff accountable for executing services promised to the insured, the Stewardship Report holds the agency accountable for communicating delivery. Many successful agencies periodically meet with insureds to review the service timeline, track progress (whether completed on time or not) and discuss next steps. There is risk in approaching a client and stating that a defined target date was missed or that you have a low compliance audit score. But, most insureds will be understanding if you are open and honest about what has not been completed, why, and what you plan on doing to correct it in the future as you strive for customer service perfection.

Compensation Incentives

A common drawback in offering a value-added service platform is the fear of making promises that may not be kept. Working under the assumption that an account executive is ultimately responsible for executing such programs so that a producer can focus on new business production, an agency can tie compensation and bonuses to the proper fulfillment of agency service promises. The following is a three step process through which agents and brokers can encourage producers to sell and account executives to manage service delivery while maximizing the propensity for organic growth.

Step 1: Circulate Producer Performance Relative to Plan – Public posting is meant to drive peak performance. It affords everyone in the agency the opportunity to proactively offer assistance to producers so that producers can focus their time prospecting and closing. Posting is NOT meant to demean or embarrass individuals, but rather encourage everyone to participate in the growth process. *Chart 3* below illustrates the percentage of TASC Partners who currently post producer performance relative to annual goals.

Step 2: Non-Production Staff Bonuses Tied to Producers Attaining New Business Production Goals – Based upon the team-based concept of driving growth, the agency can create a system to tie all non-production staff bonuses to new business production and activities that enhance retention.

Chart 2 **Do You Maintain a Defined Stewardship Reporting System?**

(i.e. value-added services, timelines, individual responsibilities)

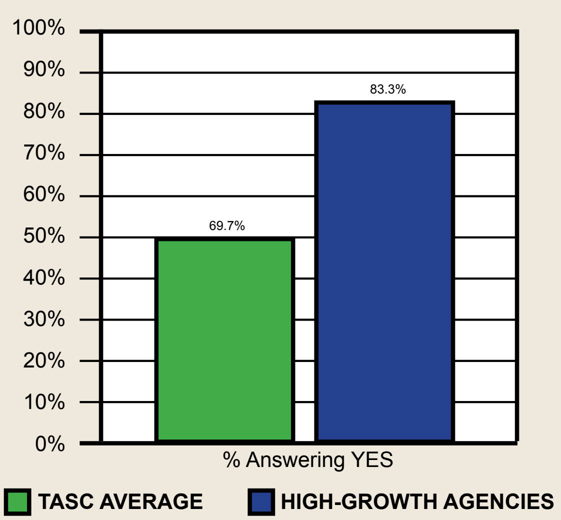
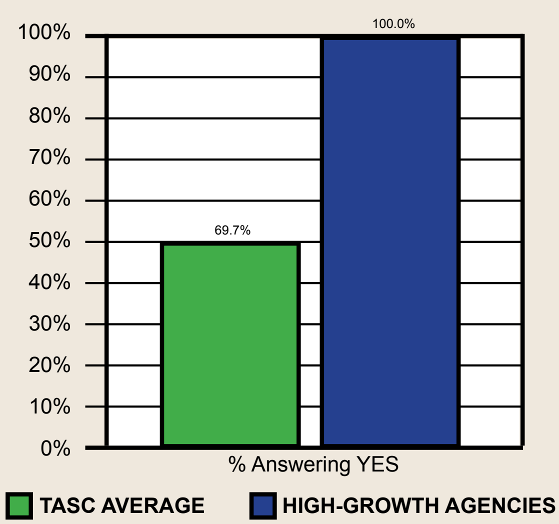


Chart 3

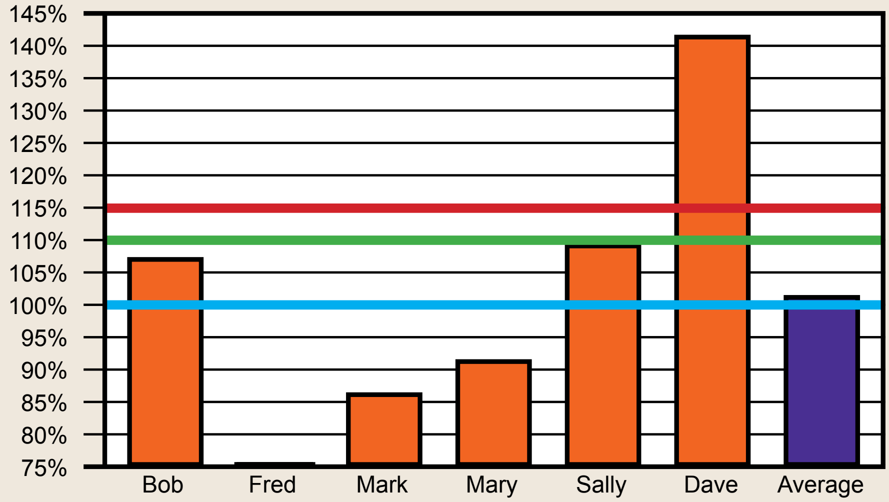
Do You Publicly disclose Producer YTD New Production?



Avg. YTD New Business vs. Goal	Quarterly Bonus
Below 100%	No Bonus
100% - 110%	3% of payroll during past quarter
110% - 115%	7% of payroll during past quarter
115% or Better	15% of payroll during past quarter

Chart 4

YTD Producer New Business as a Percentage of YTD Goal



In the organizational sample in *Chart 4* (next page), the average new business production relative to goal for the quarter (or year) was approximately 102% of goal. Thus, the service and support staff would be eligible for a 3% quarterly (or annual) compensation bonus. Before such bonuses are paid out, however, agency executives may want to look at step 3:

Step 3: Subsequent Modifier to Quarterly (or Annual) Bonus for Non-Production Staff - Next, agency management should run compliance or exception reports for each service person. An exception report should track how many client service activities were actually completed on time relative to how many were assigned. For example, if an individual had 47 client service activities assigned in a given period of time and completed 43 by the due date, that individual would have a 91.5% compliance audit score (43 ÷ 47). Thus, based on the bonus prescribed in step 2, this individual would only receive 50% of the potential bonus based on the weightings below:

Compliance Audit	Weighting
98% or Better	100%
94% - 98%	75%
90% - 94%	50%
Less than 90%	0%

Please keep in mind that the above percentages are for illustration purposes only. We are simply outlining a concept in this example versus dictating the proper scoring system. Each agency must make its own determination with regard to actual numbers.

A subjective element should also come into play when calculating the exception report and bonus payment. There may be valid reasons that a particular deliverable was not provided. The test for the "validity" of any noncompliant item will ultimately reside in your comfort level in communicating the rationale back to the insured. If the customer postponed a meeting for a week, there should be no penalties to the agency personnel as this was client driven, you feel comfortable reporting the non-compliance to the insured, and the client will accept it. However, if the noncompliance was an internal issue, you may be uneasy about reporting this through the Stewardship Report. Given that the client will know that you did not keep the promise, the internal individual should be held accountable. At the same time, imagine walking into an insured's office to deliver and communicate the Stewardship Report and saying, "It's been a great year. We delivered on 96% of our promises. Here is where we fell short and why, and these are the steps we will employ to strive for 100% service compliance in the future." Your differentiation becomes very transparent.

Culture Shift

In conjunction with a value-added service program, insurance organizations need to capitalize on a total agency sales culture. One mechanism for doing this is to change the AE or CSR perception of their personal roles and responsibilities:

Current CSR Perception

1. *New business means more work*
2. *I am processing paperwork so let my calls go to voice mail*
3. *Producers expect CSRs and AEs to do their work*
4. *Producers should spend more time in the office helping CSRs and AEs*
5. *I am entitled to an annual raise and a bonus*
6. *I am too busy to take on additional accounts*

Future CSR Perception

1. *New business will enable me to get a raise and a bonus*
2. *I can do paperwork later; calls to voice mail impact retention*
3. *Producers do too much work that CSRs and AEs can handle*
4. *Producers should spend less time in the office and delegate more*
5. *I can earn a raise and a bonus by helping producers drive new business and maximizing retention*
6. *I am too busy, but need to work smarter through workflow to handle more accounts*

Client Acquisition & Retention

Let us start this section by posing two questions. First, "How much does my organization strategize and budget for new business sales to generate growth?" Most agents and brokers invest a large amount of time, money and resources to plan for growth (planning meetings, sales meetings, hiring, training, advertising, marketing, technology, travel and entertainment, sales coaching, etc.).

While the aforementioned growth investments are sound when properly implemented, agents and brokers must also ask the second question, "How much time and money does my agency allocate toward retaining current customer dollars?" Many agencies need to think about this and question retention strategies. Answers may fall into hiring service personnel, entertaining current clients, marketing reinforcement, etc. However, we challenge companies to state what their retention budget is on an annual basis. Most companies we see will state that they invest in retention, but don't create a budget and business plan to retain customers, so in the end the retention activity becomes a reactive activity versus a *planned* one.

We believe that the number one reason customers leave is because there is no defined customer contact strategy.

From the account retention side of the house, retention should be maximized through two main vehicles. First, retention should increase through internally managed early warning compliance audit processes to ensure that promises made are promises kept. Secondly, differentiation will enhance hit ratios, and in turn, reduce wasted submission activities. Reducing wasted submission activity will then increase the amount of time available for service staff to focus on service timelines and stewardship processes.

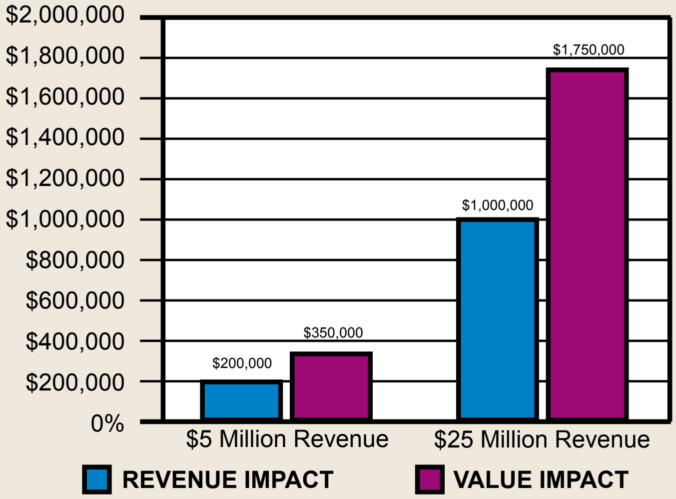
Chart 5 below illustrates the first year revenue and value impact to two separate insurance distributors (one $5 million in revenue and the other $25 million in revenue) if the agent or broker could increase retention from 90% to 94%.

In looking at the $5 million agency revenue firm, the first year impact of increasing retention by four percentage points could equate to an additional $200,000 in revenue and $350,000 in value. Now, consider the amount of time, money and resources your firm may pour into finding a producer to generate such numbers. Now ask yourself if raising your retention rate four (or even two) percentage points is worth the investment in a full time service compliance auditor. We pose this question because we believe that any agency seeking to properly design, implement and execute such a program needs to have a full time internal champion dedicated to ensuring consistency and maximizing retention.

In *Chart 6* (next page), we look at the long-term profit and valuation impact for the $5 million agency that increased retention from 90% to 94%.

Chart 5

First Year Impact on Increasing Retention from 90% to 94%



Calculation assumes 25% EBITDA and a valuation multiple of 7.0X EBITDA

Career Pathing

The first step in developing career paths for employees revolves around defining the various functions of personnel. Many high growth agencies are moving toward a four-tiered system of production and retention. The four tiers are as follows:

<u>Producer</u>: Proactively goes out in the market and finds and closes opportunities that otherwise would not have existed for the agency

<u>Account Executive (AE)</u>: Proactively manages accounts while identifying cross-selling opportunities

<u>CSR</u>: Reactively services accounts

<u>Tech Support</u>: Provides internal support for the production and service teams

Producers should produce. If someone is given a producer title, treated like a producer, and paid like a producer, then new business sales are the expectation, not the exception. The agent or broker needs to facilitate a sales culture and the producer must subscribe to it. To assist with the total agency sales culture, account executives should be tasked with proactively servicing accounts. Account executives typically have great relationship skills and solid technical skills. Most account executives are very similar to producers, but may not possess the right skill set to be hunters and closers. This is not bad, it is reality. Agents and brokers need to identify the strengths of each individual within the agency and align personal skills with organizational needs. Keep in mind that we are NOT advocating that producers reduce time associated with improving client relationships. As much as possible, the goal is to free producers' time to 1) enhance the overall customer relationship by transferring the proactive day-to-day servicing to account executives; and 2) focus on new client acquisition.

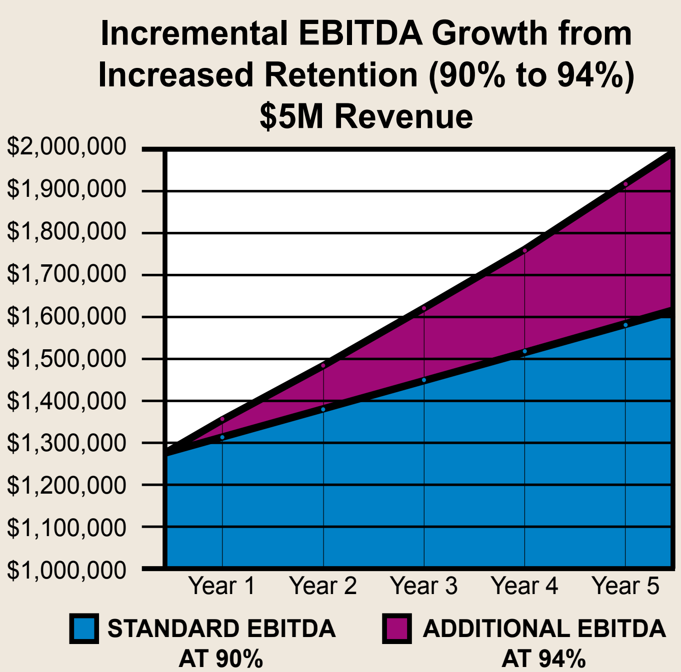
Once roles and responsibilities are defined and compensation plans are implemented to reward desired behaviors, career pathing can take shape. Through a value-added service program, career pathing:

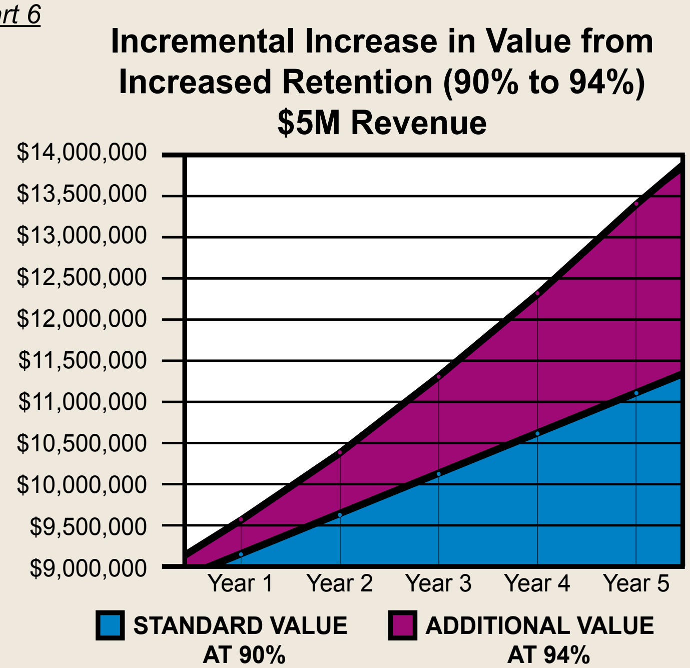
- *Enables the development and cataloguing of intellectual capital, roles, and responsibilities*
- *Provides a training mechanism with regard to compliance practices, procedures and accountability to satisfy service covenants*
- *Establishes a sales and service mechanism for producers to approach prospects*
- *Affords producers the ability to sell value, depth and breadth of a team in addition to individual capabilities*
- *Begins the culture shift process of outlining how non-production staff can advance from reactive internal service to proactive external client service management*

Competitive Advantage

The successful design, installation and execution of a value-added service program provides the respective agent/broker with a competitive advantage as it:

<u>Chart 6</u>





Calculation assumes 25% EBITDA, New Business Production of 15% of Prior Year's Commissions, and 7.0X EBITDA multiple

- *Elevates the entity to the highest level of trusted advisor status*
- *Virtually eliminates the ability of a competitor to use superior customer service to displace accounts*
- *Increases the ability to implement a referral request process as insureds have the ability to describe to peers tangible attributes of the superior service platform*
- *Enhances ability of the agent/broker to attract and retain high performing producers*
- *Improves employee retention and in turn client retention given career pathing, enhanced bonus potential and a process to ensure book of business growth and retention*

If everyone is moving down this value-added service path, how can it provide any competitive differentiation? While leveraging value-added services is not a new concept, very few agents and brokers have fully developed an executable program. Peak performing agencies have been walking down this path for the past 18 to 24 months, learning lessons along the way. To look at the competitive landscape, we have found the following:

- <u>*Public Brokers*</u> *have been utilizing value-added service programs for a number of years. But, execution is only a small fraction of what we would deem as a fully functional program. They have well-defined internal capabilities listings, are experts at selling the value of the services, and maintain well-documented roles and responsibilities within the organization. Where most public brokers are falling short, however, is within the consistent delivery and communication of the program. In general, they are making promises to insureds without ensuring that those promises are kept.*
- <u>*Large, privately held regional agents*</u> *have been working diligently over the past several months to design value-added service platforms. While very few have a fully functional program in place, these agents are leading the charge with respect to developing a comprehensive system inclusive of compliance auditing.*
- <u>*Bank-owned insurance agencies*</u> *are spending time and resources to develop value-added service programs, but are moving slowly and almost reactively. In general, these organizations have viewed value-added service programs as necessary to compete with public brokers and large regional agents/brokers for new and retained business. But, they have not yet invested the time needed to create a complete program inclusive of a compliance audit process. Some leading banks are almost there. The masses are not.*
- <u>*For most mid to small insurance agencies*</u>*, the value-added service concept is often revolutionary or even repulsive. Surprisingly, many in this category have just recently been exposed to the fact that their larger competitors are focused on these activities and will use this to steal business.*

  For other mid to small insurance agencies, the entire concept is pushed to the side as an unnecessary business practice that does nothing to augment a relationship-based partnership. What mid to small sized agencies need to keep in mind is that market share is becoming the name of the game. With a well-entrenched soft market and elusive organic growth rates, agents and brokers are now using value-added services to target larger AND smaller accounts than they previously would have targeted. They are in search of capturing more market share by profitably expanding their desired target account sizes.

For those that are currently leveraging a value-added service program, how is it working? Over eighty percent of respondents indicate that their current platform does indeed provide competitive differentiation within their marketplace. These agencies, however, have not yet completely institutionalized the entire process for administering a formal value-added service program, but are merely providing specific components of the overall service timeline. As they approach completion of an institutionalized process during 2007, their competitive advantage will only increase.

Summary

Value-added services are no longer the wave of the future. They are a current reality. Market differentiation will come to those insurance distributors that can proactively establish an institutionalized process to both sell the value of services provided and deliver on promises made. Such agencies are embracing transparency, seeking new business and retention differentiation, searching for cross-selling opportunities, defining customer communication plans, and openly holding themselves accountable to insureds through compliance auditing and covenant agreements.

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