

Optimizing the Select Unit Threshold

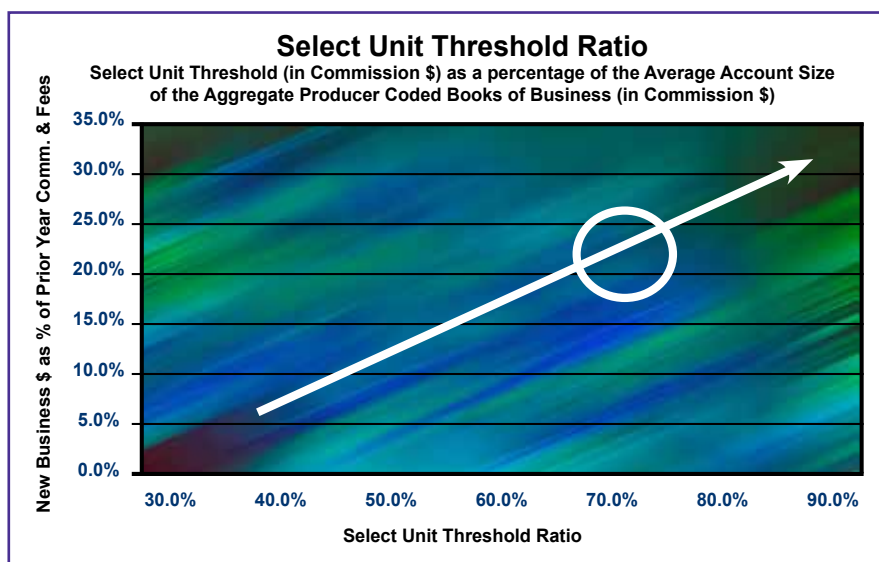
High-growth insurance agencies have a select unit in both commercial lines and health insurance. A select unit is comprised of accounts below a certain commission dollar amount (select unit threshold) that are handled by dedicated and segregated service staff. Select unit accounts are not comingled with producer books of business and producers do not receive renewal commission on these accounts. In high-growth agencies, the commission volume within the select unit increases over time due to the systematic trading down of the smallest accounts out of producer books of business, a deliberate increase in the select unit threshold over time to targeted levels and new business written below the threshold.

While growth is a byproduct of many factors, there is a direct correlation between the amount of new business written and the select unit threshold ratio (see chart for definition). The best agencies write new business equivalent to 20% of prior year commissions & fees and have a select unit threshold ratio approaching 70%. By contrast, the rest of the agencies in the industry on average write a smaller volume of new business, which is caused in part by maintaining a lower threshold.

The higher the select unit threshold, the more capacity producers have to focus on new business. Segmenting smaller accounts into a dedicated unit with an appropriate threshold optimizes the amount of time the rest of the service staff can proactively manage larger accounts. Producers in this environment are more comfortable with delegation and as a result, have additional time to focus on relationship development, prospecting and requesting referrals. Retention also improves given that accounts traded down receive better service attention. Simply put, smaller accounts are managed proactively within a select unit versus reactively within a producer's book of business.

The best producers in the industry voluntarily transition the smallest accounts out of their book on an annual basis. However, most producers play the victim when faced with trading down accounts, accusing leadership of reaching into their wallet. Forward thinkers recognize that the producer is not the victim. The producer is the beneficiary. Systematically cleansing out the bottom of producer books enables producers to drive more new business, a larger book of business and a bigger pay check. By contrast, agencies with a low threshold generally employ producers who have hit a book of business and compensation ceiling. Leadership in higher-performing agencies effectively communicates to the production staff the benefit of trading down accounts to secure producer buy-in.

Agencies across the nation are aggressively attempting to drive best practices organic growth by embracing change. Implementing a process to systematically increase the volume of commission handled by the select unit is one of many techniques that can be implemented to drive growth. Agency owners should evaluate producer books, calculate the optimal select unit threshold and contemplate refining the select unit plan as part of the 2011 organic growth strategy.



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**If these dates
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Tommy McDonald
to schedule a
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demonstration.**

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