TMPAA Program Administrator Town Hall - Bonuses/Compensation Key to Growth

April 29, 2012 BOSTON--At the TMPAA annual mid-year conference in April, the leaders of five program brokerage agencies outlined bonus plans and compensation philosophy to more than 200 conference attendees.

For program administrators, the producer/broker bonus remains at the heart of the agency's compensation strategy and its focus is on gaining new business. Compensation issues become increasingly important as organic growth remains a challenge for program administrators.

Prices remained flat in 2011 or grew only slightly although the outlook for 2013 looks a bit better. So it falls to producers and underwriters to gain substantial new business for an agency to stay even, no less grow revenues to replace accounts that were lost. Declining exposures and lower premium income that further keeps revenues down.

That issue isn't lost on Program Administrators. Five of the successful agency executives outlined their firm's bonus and compensation strategies at the April Mid-Year meeting in Boston.

Led off by Jeremy Hitzig, CEO of New York's Distinguished Programs Group and president of TMPAA, he said members have common compensation issues based on the results of an informal survey. "But there are lots of different solutions," he said. Hitzig, who moderated the panel, said the survey found that everyone who responded had some kind of bonus system, but most bonus compensation focused on producer/brokers.

At his shop, for example, Hitzig said they pay bonuses to producers and only for meeting or exceeding new business goals. Renewals are not considered in their formula. To measure broker performance, "we look at outputs such as a brokers' production numbers and inputs such as the number of sales calls per week."

At The Distinguished Programs Group the bonus structure is a combination of base salary and bonus a common feature of all the presenters' compensation plans.

Matt Schiefferly of Paul Hanson Partners said his compensation system pays bonuses on new and renewal income, but there is additional emphasis on professional development. "We work to develop a career path for our employees and classes and other options aim to develop better, competitive skills among our employees." He added that the professional development factor is a "good part of our bonus plan." Half or more of the bonus is for growth of new business.

Bob Arowood, principal of Appalachian Underwriters, said that his firm's strategy separates sales from production and underwriting. Appalachian Underwriters differentiates among lines of business, for example, with specific requirements for workers' comp compared with other lines. For underwriting, Appalachian looks at the question of profitability. The strategy for sales does have a focus on new business – to qualify for the bonus the broker must meet a minimum of level of new sales and accounts.

At one point in the presentations, the crowd of about 200 was asked whether they also paid a bonus on profitability and about six hands went up.

Bob Mackoul , CFO and principal of the New Empire Group, explained that there is a corporate goal for revenue that applies to the whole organization. "Everyone shares in the bonus if we reach 100 percent of our sales goal." There are added incentives, such as a trip to a tropical location to help motivate the staff. For the individual, the firm has developed a point system based on five factors which also includes professional development. "We found it works better or us to isolate the annual employee evaluation from the bonus plan."

Dusty Rowland, founder of Fulcrum Insurance Programs, explained that his firm uses a planning process to develop what they call "The Sales Plan."

"We look at sales and marketing activity such as sales calls and face-to-face meetings with clients. "For each employee we outline sales practices that focus on finding new business and those become part of the compensation plan." The goal numbers involve "give and take" on the commitment to new business. "We also track submissions." He also pointed out that the bonus payout is staggered over four quarts with 40 percent of the bonus paid in the 4th quarter. To qualify for a bonus, the producer must meet at least 90 percent of the sales plan on a quarterly basis.

Most companies, according to the informal survey, pay bonuses based on both new and renewal business, but with most firms, the emphasis is on gaining new business.

While there are certainly no definitive answers on the best compensation strategy for a program agency, the attendees at this Town Hall Meeting were provided with a good cross section of what their Program Administrator peers are doing in their operations. The trick appears to be finding the correct combination of the options discussed that fits the existing agency culture.

Submitted
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