

Broker versus Agents cost analysis

The last page shows an example cost model for a broker and agent for comparison purposes. Some of the information is based on OMIA data, reasonable assumptions and actual dollars spent today. This summary outlines most of the categories and what we based it on:

Direct Written Premium

The 2019 OMIA survey shows the average agent portfolio is just over \$1.1 million dollars, so we used a \$1.0 million portfolio for our example as a good overall target for a premium to agent ratio.

Compensation & Benefits

We put in a salary amount that is higher than our current agents are paid because we are not at the volume of \$1M that would demand a higher salary. We added 30% of the pay to cover all benefits, pension and other salary costs. For brokers, we used our current commission rates against 66% of the premium being property and 34% auto, which is our current split for our agents. By using the agents' ratio of business, it makes the comparison fair against a broker's commission, as auto is a lower commission rate.

E&O

Is based on our current program where we have the actual costs.

Technology

This includes some hardware amortized over 3 years as well as software licensing. For brokers, we simply took the approximate broker access software costs based on the proportion of the \$1m portfolio over the company total premium.

Mileage

This is variable and depends on the policyholders visited by the agents as well as education being attended off site, such as Cambridge.

Office supplies & Other

These are estimates for various office needs as well as a catch-all for unallocated expenses.

Rent

This is based on current cost as well as known future rental cost divided by 4 agents.

Education

An estimate providing a significant training/education budget to ensure our agents remain up-to-date on coverages and customer services as well as ad hoc training opportunities.

Phone

Based on a cell phone cost today.

Bonus

The bonus for an agent is calculated differently than a broker. What you are seeing is the maximum bonus available for an agent at 30%, or lower, loss ratio and an equivalent broker bonus at 30%. We show a 50% and 70% loss ratio calculation as well. The broker's CPC will continue to go higher, the lower the loss ratio goes below 30% shown.

Other bonus

An agent's program includes small opportunities based on their salary for growth and quality of their work. We show the maximum available in this report based on the salary. For brokers, it the marketing program and we showed this cost at an amount where HTM has allocated \$50,000 minimum for the program. This amount can only go higher based on our underwriting profit as it did in 2020.

Total Expense

This just shows the total expenses under each of the loss ratio examples, which captures the varying profit sharing costs.

Percentage of Premium

This relates the cost to the premium dollar. As premiums rise, there's opportunities for improved economies of scale on the agent side. On the broker side, only technology, in-house training and broker forum provides for an improvement (on only 2.0% of the costs, excluding bonus).

Other considerations

Depending on our strategic plans, we would want to spend money advertising our agents. This has not been included. We do some 50/50 advertising with our brokers from time to time and this has not been included.

Agent versus Broker Cost Comparison

	Agents	Brokers		
Direct Written Premium	1,000,000	1,000,000		
Compensation + Benefits	84,500	174,500	Commission (66% property)	
E&O	2,500			
Technology (Hardware/Software)	5,000	2,941	Broker connectivity by % of total premium	
Mileage	2,500			
Office Supplies	1,000			
Rent (2 people per location)	9,000			
Education	2,500	50	In-house training	
Phone	1,000			
Other	1,000	882	Broker forum	
	109,000	178,374		
Bonus				
30% Loss Ratio	22,500	47,472		
50% Loss Ratio	7,500	19,560		
70% Loss Ratio	-	-		
Other Bonus	Growth & Quality <u>Maximum</u>	3,250	1,471	Broker Marketing @ \$50,000
Total Expense				
30% Loss Ratio	134,750	227,316		
50% Loss Ratio	119,750	199,404		
70% Loss Ratio	112,250	179,844		
Percent of Premium				
30% Loss Ratio	13.5%	22.7%		
50% Loss Ratio	12.0%	19.9%		
70% Loss Ratio	11.2%	18.0%		