

BANK-INSURANCE VIABILITY INDEX

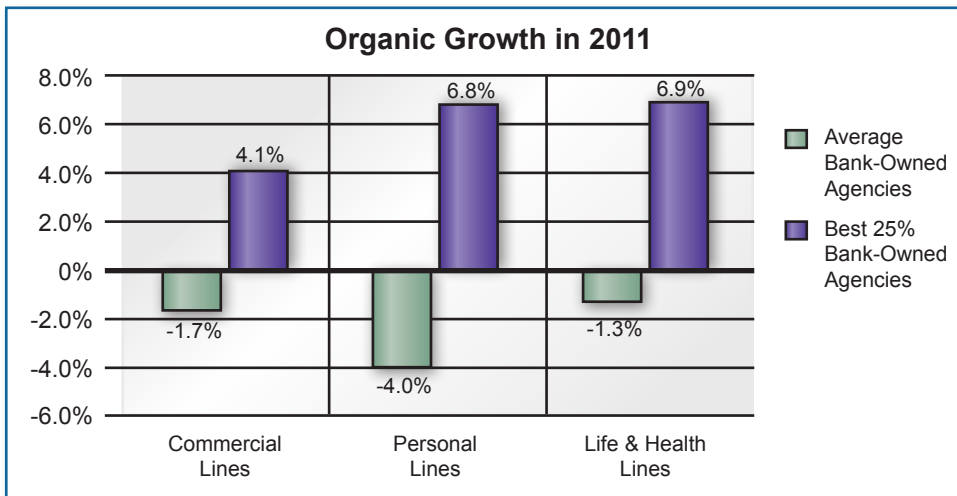
Where did the Profits Go?

For the twelve month period ending September 30, 2011, Average EBITDA of bank-owned agencies fell 2.8%, even though contingent income rose 7.4%. Adjusting the EBITDA by removing contingent income, Operating EBITDA was down 8.5% for the year. What happened to the profit from the contingent income?

Commission & Fee (Organic and Acquisition)	+0.7%
Contingent Income.....	+7.4%
Gross Income.....	+1.2%
EBITDA.....	-2.8%
Operating EBITDA.....	-8.5%

Agency gross revenue was up only 1.2% last year, as modest acquisition activity provided some lift to weak organic growth. Less than 15% of bank-owned agencies acquired revenue last year, as banks continued to preserve capital. Commission and Fee growth was lackluster with a -1.4% organic growth rate for the *Average* bank-owned agency, while the *Best 25%* grew organically by 4.9%.

By line of business, organic growth of the *Average* and the *Best 25%* bank-owned agencies showed the following results:



Therefore, we can surmise that Operating EBITDA was not helped by organic growth. But where are those contingent income dollars if they didn't show up in the bottom line? An analysis of bank-owned agency payrolls reveals that while producer payroll was flat and support payroll down 1.0%, service payroll increased 2.0% for the year ended September 31, 2011.

As mentioned, less than 15% of bank-owned agencies completed an acquisition during the year, so the increased payroll is coming from the payroll of existing staff. To find the hidden profit, it is critical to improve efficiencies and capture those dollars, either as increased profit or for reinvestment.

2012 must be a year of selective reinvestment by banks as their capital continues to recover. Many banks have not focused on perpetuation of the foundation agency management team hired with their original acquisition.

In addition to management reinvestment, it is critical to reinvest in sales talent to improve organic growth by replacing retiring or non-performing producers with proven sales talent from outside the insurance industry.

