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Are You Preparing for Growth?

To our friends and clients,

Last year, the COVID-19 pandemic led to a once-in-a-generation shock to our economic system. Full-year GDP growth of negative 3.5% represented the sharpest decline in the US economy since 1946. Yet, insurance brokers demonstrated remarkable resilience, improving margins in 2020 while generating respectable organic growth of 4.3%.

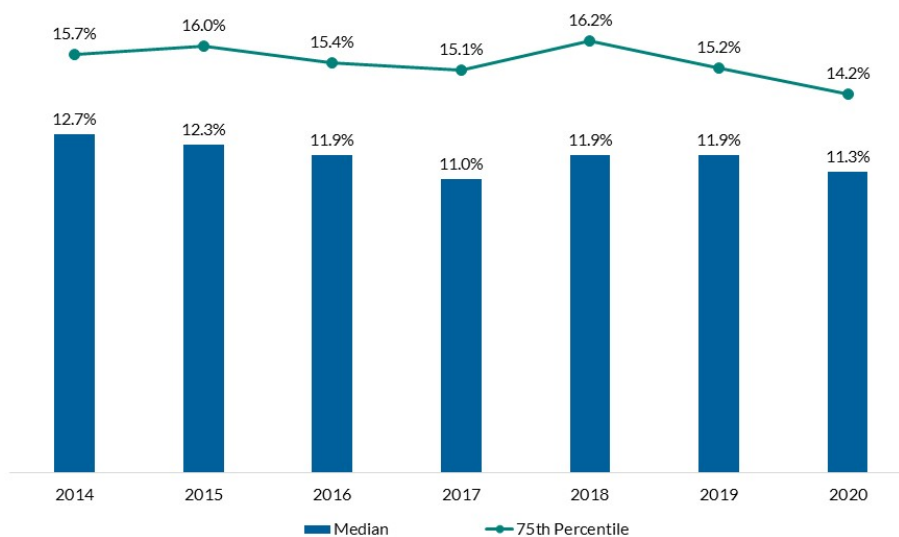
By comparison, in 2009, during the worst of the Great Recession, the contraction of the US economy was less severe with GDP growth of negative 2.4%. But the impact on insurance brokers was greater in 2009, with organic growth falling to negative 1.9%.

What made the difference? In 2009, the economic contraction coincided with softening P&C pricing. These double headwinds proved too much for most firms to overcome, driving growth into negative territory. Conversely, the pricing environment in 2020 was far more favorable with P&C premiums increasing at an average of 10.6%. Without the benefit of this hard market, growth for brokers might have turned negative last year for only the second time on record.

Hard markets don't last forever and history suggests this current hard market, which has now been running for 13 quarters, is getting a bit long in the tooth. While increases in P&C rates could continue through this year, there are signs that rates are plateauing in some lines and

Of the three primary drivers of growth for insurance brokers, only one is within your control. None of us can control the economic cycle or the P&C pricing cycle. But you can control the third growth driver, your Sales Velocity. Sales Velocity is a measure of your rate of new business production, calculated by dividing new business written in the current year by the prior year's total commissions and fees. A high Sales Velocity is a hallmark of high-growth firms. Top performers consistently generate a Sales Velocity of 15% or higher, but the industry median fell last year to only 11.3%. This is the second-lowest level recorded since 2014 and a continuation of a downward trend in Sales Velocity over this period.

Sales Velocity, 2014 – 2020



Source: Reagan Consulting's Organic Growth & Profitability Study, Q4 2020 results

So, how's your Sales Velocity? Now may be a good time to assess your firm's readiness to generate positive organic growth regardless of the external trends. Here are a few questions to consider.

- What was your Sales Velocity in 2020 and how has it trended over the past 3 to 5 years?
- What should your Sales Velocity target be to achieve your annual organic growth target, assuming a neutral P&C pricing environment and your historical attrition rate?
- How many producers do you need to achieve your Sales Velocity target this year? Next year?
- How many new producers should you hire now, considering the average success rate for new producers in our industry is just over 50%?

For the remainder of 2021, the external growth drivers may remain favorable. P&C pricing could continue to increase through the year and most economists are projecting US GDP

growth engine will be ready when the external trends become more challenging.

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