Cookson Walker Consulting

The Productivity Push

What separates the best from the rest in today's brokerage industry? When it comes to productivity, the answers are surprising.

By Bruce Rabik

"I spent $150,000 on a computer system. A year later, I still have the same number of staff and my profits are exactly the same as before. Oh sure, now we upload and download and send e-mail but, bottom line, nothing has changed. What should I have done differently?"

As a consultant, I have heard this question many times from brokers. The disappointment in their rather significant technology investment is almost palpable. And many other brokers simply have no answer if you ask them what rate of return they have experienced from new technology. The underlying question is whether brokerages are more productive because of this strategy.

As any economist will note, "labour productivity is the key to growth." Investments in technology, workflow design and human capital are the factors that make workers more productive and lead to growth, whether in the economy as a whole or in a small brokerage in Nova Scotia.

A brokerage can grow, but if productivity does not increase, an owner cannot afford to give staff salary increases without cutting into his or her profits. Without productivity, increased sales become more difficult as brokerages begin to choke on the "backroom stuff" – the data entry and the paperwork it takes to get a policy out the door to a client. Productivity is the key to growth in a competitive environment. In fact, productivity is survival.

After only marginal increases for the better part of the 1990s, labour productivity has shown significant growth in the last few years in both Canada and the U.S. The common wisdom (backed up by some convincing data) is that the increase in productivity has been mainly the result of massive investments in information technology though the 1980s and 1990s. What about insurance brokerages? Has their productivity reflected trends in the broader economy?

Unfortunately, that's a tough question to answer. Statistics Canada provides hints, but aggregates its data on insurance brokers with other intermediaries. The U.S. Department of Labor tracks labour productivity in over 50 industries, but not insurance. Without hard data we must rely on other evidence and that evidence is disappointing if you are a fan of the brokerage distribution channel.

In privately funded research, Cookson Walker determined productivity benchmarks for personal lines operations in Ontario and Alberta. Traditional measures, such as number of policies or volume per customer service representatives (CSR) were found to be unsatisfactory because of the differing methods in which brokers structure their workflow and administration. Instead, Cookson Walker created a simple benchmark of “total number of personal lines policies divided by the total number of staff involved.”

This indicator goes beyond measuring CSR productivity to include the processors, claims representatives and other staff who assist in the delivery of policies and service to the clients. The research results indicated the average productivity of traditional brokerages was 850 policies per staff, but there was considerable variability in the performance. The results ranged from a low of 450 to a high of over 1200 policies. Further, the distribution was not normal (i.e. bell-curved) but instead tended to cluster around both the average and the two extremes.

This non-normal distribution or “wave” pattern to the results suggests that there is no easy path to increasing productivity within a traditional brokerage. Productivity appears to “leap” from the low end of 480-600, up to the average of 850, and then from there to 1100 policies and beyond. The pattern does not appear to reflect brokers who have steadily increased their productivity along a continuum. Instead, it shows some brokers have jumped to greater levels of productivity by fundamentally changing business practices. Cookson Walker has observed that brokers in the last wave of productivity have a greater adherence to “best practices”, which we discuss later in this article.

Of interest is that brokers at the upper end of the productivity scale did not use different technology than those at the lower end. In other words, they all used broker management computer systems common in the industry. Different technologies or higher spending alone bestowed no competitive advantage on brokers.

Also of interest, the data contained evidence that transactional filing, direct bill and moderately experienced staff all contributed to productivity. At the same time, there was no evidence that upload/download of policies to insurers or that the size of the firm was correlated to productivity.

The realization that upload/download has not helped the average broker become more productive has to be a major disappointment to all those who have invested significant time and money. While anecdotal evidence suggests that upload/download can increase productivity, research appears to indicate the poor implementation of the process has resulted in little or no impact on productivity.

Similarly, brokers who believe that growth or acquisitions will solve many of their current problems must be disappointed that there is no correlation between size and productivity. Cookson Walker believes there are theoretical economies of scale in personal lines insurance brokering, but these are rarely realized in practice. Size poses management challenges of its own that brokers struggle to overcome.

So much for traditional brokerages; what about other forms of brokers? Cookson Walker looked at two other types – “program-based brokerages” and “call centre-based brokerages.” Program-based brokerages derive the majority of their revenue from one or more affinity groups or programs. Call centre-based brokerages are those that are organized as true call centres with completely automated files and just-in-time service. Both have exhibited significantly higher productivity than traditional brokerages.

These results do not mean the end of traditional brokerages. Productivity is not the same as profitability (program and call-centre based brokerages often have higher cost structures). It does, however, mean that traditional brokerages cannot afford to be complacent about productivity.

What can brokers do? One thing leading brokers have realized is that technology is but one factor in productivity. Contrary to the current industry IT fixation, there may be other ways to increase your firm’s productivity.

According to the U.S. Department of Labor, there are seven factors that impact productivity – technology, capital investment per worker, utilization of capacity, lay-out and flow of material, skill and effort of the workforce, managerial skill and management/labour relations. Note that the last three factors fall under what could be called human resources management and that “lay-out and flow of material,” or in other words “workflow,” is heavily influenced by human resource management. This may be a key to greater productivity for many brokerages.

Recent research shows that in the economy as a whole, firms with best practices in human resource management, including effective recruiting, clear rewards and accountability, the creation of a collegial and flexible work environment and communications integrity, enjoy an average 90 percent greater return to shareholders than firms which do not utilize such best practices.

Another multi-year study of Fortune 1000 companies found that “firms that make greater use of ‘employment involvement’ practices have significantly higher financial performance on measures of total factor productivity, return on sales, return on assets, return on investment and return on equity.”

Poor human resource practices are evident throughout the brokerage industry. It is not hard to see why. Most brokerages began as one-person sales organizations – the “sales hero” model. If they survived and grew, it was because they had one or more persons who excelled at personal selling.

Unfortunately, personal selling is a different skill set than managing people. Inevitably, brokers would grow to a certain point before they stalled, even though they were capable of selling far more. They stalled because they began to choke on the necessities of managing the people and systems that came with growth.

Poor human resource practices do not mean that brokerage principals are ill-intentioned or that their staff are abused or disloyal. Often the opposite is true – brokerages in general are reasonably happy places to work as principals take ‘good care’ of their staff. Instead, poor human resource management practices mean that staff are not given the training, tools and direction they need to be as productive as they could be.

The brokerages in the last productivity wave generally have staff who are better trained, know what is expected of them and receive ongoing coaching, according to Cookson Walker research. Their staff receive regular appraisals or feedback that is objective and constructive. Their employees are engaged in improving the brokerage; not only are they encouraged to make suggestions, but their ideas are often implemented.

And what about the brokers who wondered what they should have done differently in their technology investment? The answer is that the right technology when combined with the right people, training, coaching and communications becomes a powerful force for productivity. Technology is but one of several tools that the highly productive staff of leading brokerages have at hand.