Hit Ratios Drive Costs
by Chris Burand

Hit ratios are an integral cost driver in insurance agencies. To illustrate, consider how an insurance agency is similar to a factory with a lot of quality problems. For example, a widget factory has a production success rate of 20%. To make and sell two widgets then, the factory must make ten widgets because eight do not work. The factory employs extra people, uses extra materials, buys additional equipment, and uses extra real estate to make the eight widgets that do not work. If it costs $1,500 to build one widget, then it costs $15,000 to build the two widgets they can actually sell.

In an insurance agency, hit ratios on new business average 20% to 30%. Assuming an agency is quoting a material number of new accounts (which many agencies are not), the agency will spend a lot of money on accounts it will never write. For example, in studies of more than 100 agencies, the average time required to quote a new commercial middle market account generating between $1,000 and $2,000 commission is eight hours for CSRs and ten hours for producers. If an agency quotes fifty such accounts per year (one per week), 400 CSR hours are spent quoting these prospects. At a 25% hit ratio, the agency will write twelve accounts and spend 300 CSR hours or thirty-seven days of CSR work that generates zero revenue. Thirty-seven days equals 15% of all working days. If an agency has six CSRs, one CSR is effectively spending all their time doing work for which the agency will never recieve a dime.

Just like the widget factory needing extra space, materials, tools, and people to manufacture defective widgets, all these misses require extra resources too. For example, the CSR that spends all their time quoting business never written requires a salary of $20,000 to $35,000, benefits of 10% to 15% of wages, a work station, a computer, office supplies, and furniture. These extra resources increase insurance costs and management time, which in turn decreases the owners' time for selling.

By improving hit ratios, not only do costs and management hassles decrease, but most agencies could forego hiring new CSRs and producers. This is an important advantage given the shortage of good CSRs and producers throughout the country.

Low hit ratios are an incredible drain on an agency's resources. The benefits of increasing hit ratios directly impact the bottom line and agencies have many opportunities to make improvements. Here are some suggestions:

- Pre-qualify accounts!!!

- Do not pay producers for sales. Pay producers for profits. Include a bonus/penalty for good/ bad hit ratios.

- Train your people. Many agencies do not offer anything other than on-the-job training. Good training for a good producer will make a difference.

- ➢ Focus your producers' efforts on the customers and types of business at which they are most likely to succeed. Discourage them from soliciting other types of accounts.

Do not be a widget factory with poor quality. Increasing your hit ratios is well worth the effort. It will decrease costs and increase productivity. Headaches related to hiring and managing people will decrease. Best of all, improving hit ratios will increase your profits!

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