2021 Property & Casualty Insurance Brokerage Report

BROKER RESILIENCE IN TURBULENT TIMES

Smythe

ADVISORY

Contents

Smythe Property & Casualty Insurance Report

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Preface

Dear Readers,

This is the 8th Edition of the Smythe Property & Casualty Insurance Brokerage Industry Report. The report will provide you with information on the financial performance of insurance brokerages collected from a Canada-wide sample. Our report provides information on a variety of current economic trends and conditions in the industry.

The data was collected from 101 brokerage companies, representing over 400 branches and year-end results between January 2020 and March 2021. We believe it is the largest available database of independent brokerage financial performance in Canada.

We have endeavoured to present the information in a meaningful and user-friendly format. However, we understand that the interrelationship between data may be complex and difficult to understand and we welcome inquiries and comments from readers who require specific data presented in this report. Please direct your queries to **advisory@smythecpa.com**

Our report also contains a significant amount of editorial opinion based on the collective experience of the Smythe Property & Casualty team that includes Chartered Professional Accountants (CPA), Chartered Business Valuators (CBV), M&A Advisors and Tax Specialists.

All information provided to us is held in the strictest confidence and is only presented in the aggregate. In some cases, we have excluded data that was unique as we believed might have identified participants.

This report would not have been possible without the trust of brokerage owners from across Canada who took the time and effort to complete our survey and provide their financial data. We would like to thank all those who participated.

Sincerely,
Smythe Advisory

About Smythe's P&C Insurance Group

Formally established in November 2013, the Smythe Property & Casualty Insurance Group has been providing our insurance industry clients with a full range of professional services including accounting, tax, corporate finance, valuation, and M&A consulting.

Our Property and Casualty Team

Alex Wong

Advisory Partner & Practice Group Leader, CPA, CA CBV

Alex focuses on M&A advisory services with a specialty in P&C brokerages. Over the past five years, Alex has been involved with over 15 transactions in the P&C industry with enterprise value ranging from $5 million to $150 million. His expertise includes negotiation and execution of M&A transactions, financial due diligence, business valuations, financial modelling and succession planning.

Alex is a founding member of Smythe Advisory. He has over 15 years of experience in advising private companies on acquisitions, divestitures, valuations, tax and accounting.

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Maggie Puhacz

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Maggie provides tax compliance and tax planning services to private and public companies in a variety of industries. Her focus is on personal and corporate tax planning for owner-managed businesses, as well as mergers and acquisition transactions.

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Mike Berris

Advisory Partner, CPA, CA, CBV

Mike has over 25 years of experience in providing accounting, valuation, and mergers and acquisitions advisory services. He specializes in the Canadian property and casualty insurance industry and is recognized nationally as a leading advisor on the financial issues related to the distribution of insurance products.

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Kyle Inman

Assurance Partner, CPA, CA

Kyle is focused on providing business advisory, assurance and taxation services to privately owned businesses. He has over 20 years of experience providing services to a variety of industries with a focus on property and casualty insurance brokerages.

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Gagan Ahluwalia

Senior Manager, CPA, CBV

Gagan provides advisory services to P&C brokerage owners across Canada in the contexts of succession planning and strategic advisory. His focus includes business valuations, benchmarking, and M&A deal execution including management buyouts. Over the past three years, Gagan has advised on transactions totaling over $300 million in aggregate value, including acquisitions, divestitures, and equity and debt financings.

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Our team frequently speaks to industry groups and contributes articles and papers to various insurance publications. At Smythe LLP, our goal is to add value to our clients on every engagement we perform.

Industry Basics

Property & Casualty Industry Overview

Property and casualty (P&C) insurance is known as general insurance, as it provides protection for a wide array of interests. Property insurance provides financial protection in the event of damage to physical property such as automobiles, buildings or other valuable possessions and casualty insurance mainly covers legal liability against individuals and organizations for negligent acts or omissions. Insurance is an effective way of spreading risk by having an entire group share the losses of a small group.

Property and casualty companies collect premiums upfront for insuring risks. This pool of funds is used to pay insurance claims and other operating expenses over time. The timing difference in the collection of premiums and the payment of claims and operating expenses creates a capital pool that the insurance companies can invest. Almost all the profit earned by property and casualty insurance companies results from investment returns.

The Broker's Role in the P&C Industry

A broker acts as an intermediary between the customer (individual or business) and the insurance company. The customer is charged a premium for the insurance policy and the premium is paid to either the insurance broker (agency bill) or directly to the insurance company (direct bill). Insurance agents are like brokers; however, they represent a single insurer. Some insurance companies also sell and deliver policies directly to policy holders, known as direct writers.

Other Key Participants in the P&C industry

Brokers are generally the final link in the insurance distribution chain. Their ability to provide insurance coverage to their customers depends on other industry participants, some of which include;

- **Insurance companies** (Underwriters or Insurers) – evaluate risks, coverage, and premium rates and ultimately provide insurance policies to the customer.
- **Managing general agents** (MGAs) – generally have access to specialty insurance markets that they make available to brokers for a split of the commission.
- **Managing general underwriters** (MGUs) - Specialized agent or broker who works with an insurer as an underwriter. Often used for professional liability and other surplus lines of insurance.
- **Reinsurers –** provide protection against large claims and catastrophic losses that may negatively affect an insurer's financial position.

Broker Compensation

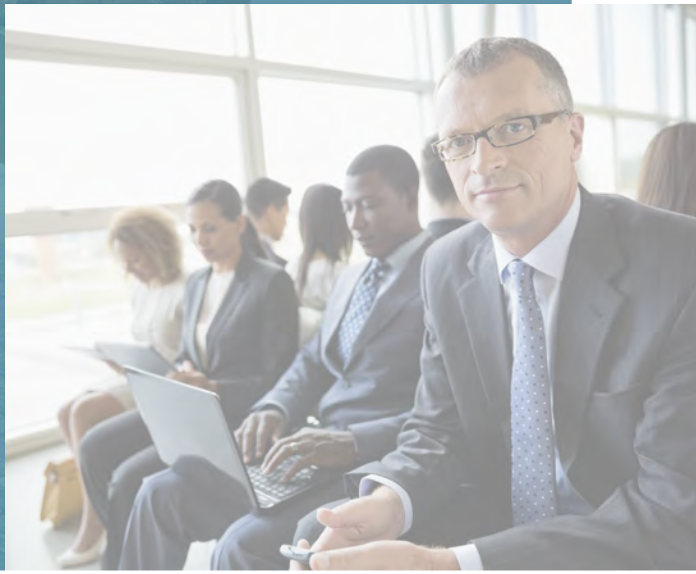
The bulk of compensation for brokers comes in the form of premium-based commissions, usually a flat percentage of premiums, which varies across lines of business and insurers. The commission typically ranges from 11% to 25% depending on the type of policy purchased. In the case of agency bill, the broker collects the premium and remits to the insurance company net of the agreed commission. With a direct bill, the insurance company collects the premium and then pays the broker the commissions earned.

Insurance brokers may also receive contingent profit commission (CPC). A CPC is paid if a broker places profitable business with the insurer. A CPC is generally calculated based on the percentage of claims paid to premiums earned (earned loss ratio) along with the volume of business placed with the underwriter. The lower the earned loss ratio, the greater the CPC. These payments can vary significantly from year-to-year.

While the above outlines the mechanics of the brokers' role, it is important to understand the importance of the customer/broker relationship. In most transactions, the broker plays the role of a "market maker". The broker helps the customer identify their coverage needs and then matches those needs with insurers that have the capability of meeting those needs at the lowest price. While it is natural for an insurance company to want to protect their markets, the brokers' mandate is to represent their customers. The integrity of the competitive bidding process is critically important to the health of the marketplace.

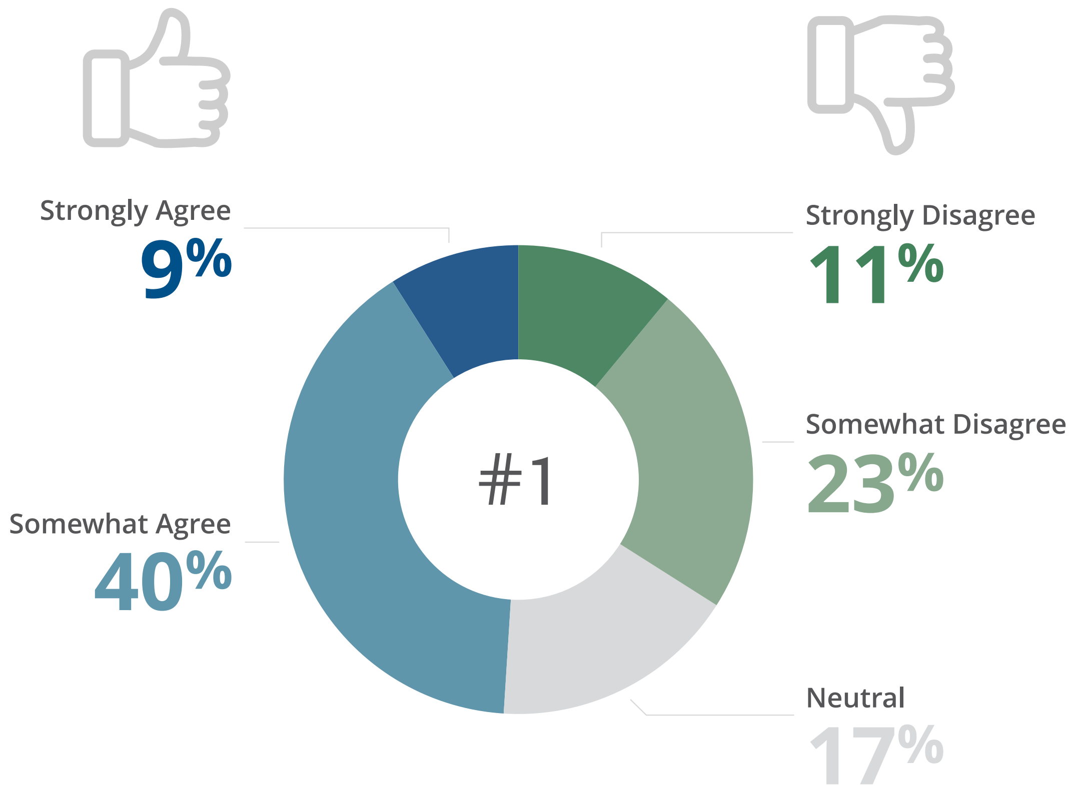
Survey of Canadian P&C Executives

In December 2020, we conducted a survey of 70 insurance brokers and industry executives from across Canada with the intention to provide insight from an insurance professional’s point of view on the current state of the industry. Of particular interest to us were the views on the impact of digital insurance distribution, hard market conditions, the long-term impact of COVID-19 and brokerage management.



Question #1:

COVID-19 will be the catalyst for more consumers to migrate from traditional broker channels to more direct or online distribution sources:

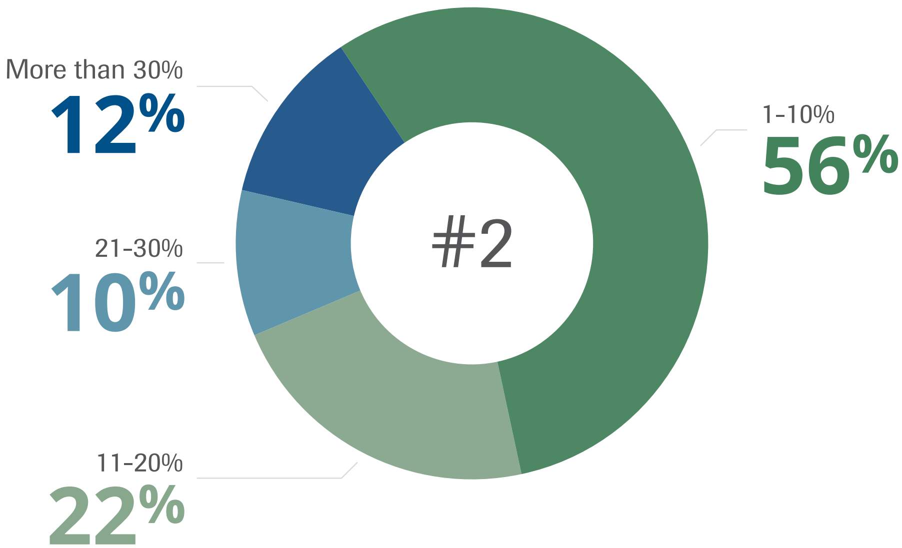


Observation:

We have seen increased utilization of portals and online assisted renewal functions offered by brokerages. Executives noted that COVID-19 has accelerated the investment in online distribution. At the same time they acknowledge there is a lot of work still to do and progress will be gradual.

Question #2:

Currently, 10% to 15% of the Canadian P&C market is distributed online. By your estimate in the next two years, this will increase by:

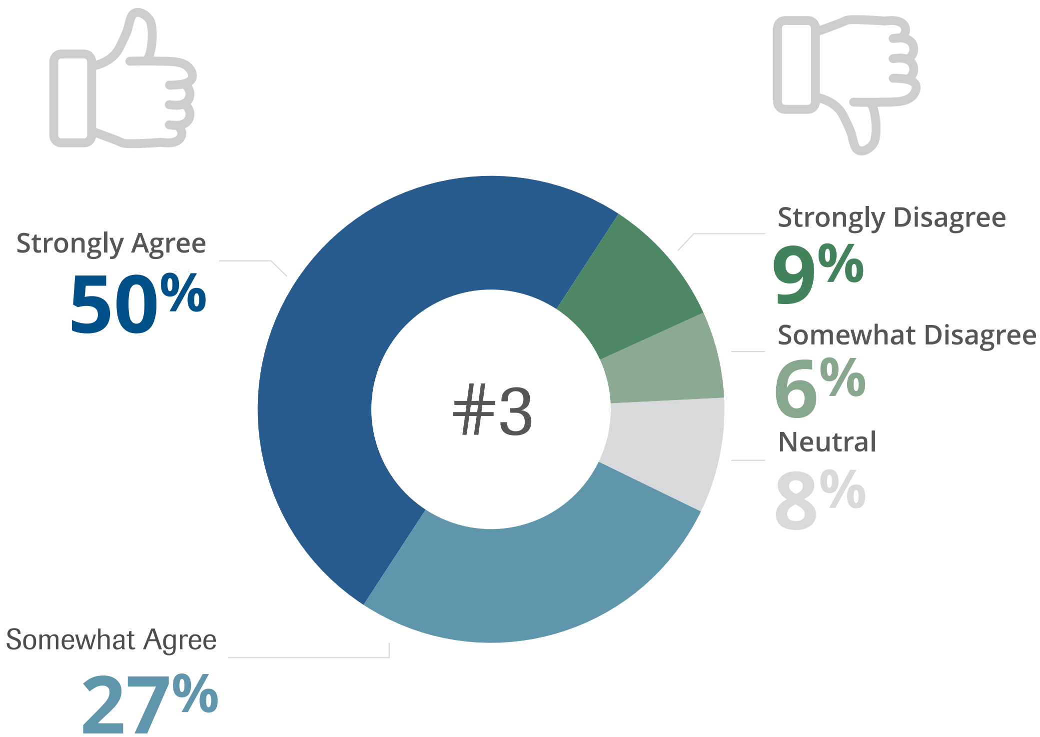


Observeration:

There is general consensus that more insurance will be distributed online, but change will be gradual. Brokers expressed confidence that traditional brokerage distribution models will remain relevant even as some lines will migrate to online distribution.

Question #3:

In the next two years your brokerage will be using some form of digitized platform for quote, bind and issuance of policies:

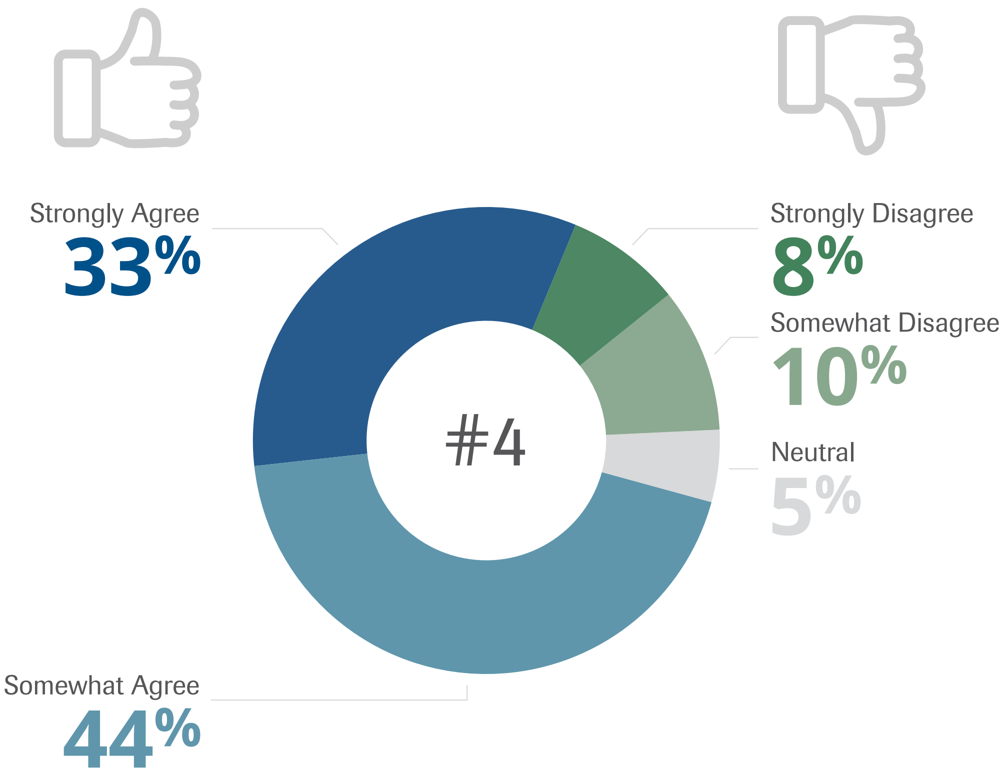


Observation:

The investment in online distribution is accelerating. Despite confidence in the continued viability of brokerage distribution, brokers understand that certain functions need to be be offered realtime. This includes access to policy information, simpler renewals and the ability to purchase products such as travel insurance. The difficulty in hiring and retaining employees has also played a role in the development of digitized platforms.

Question #4:

The hard markets will continue and we should not expect additional capacity or downward pressure on premium rates in two years:

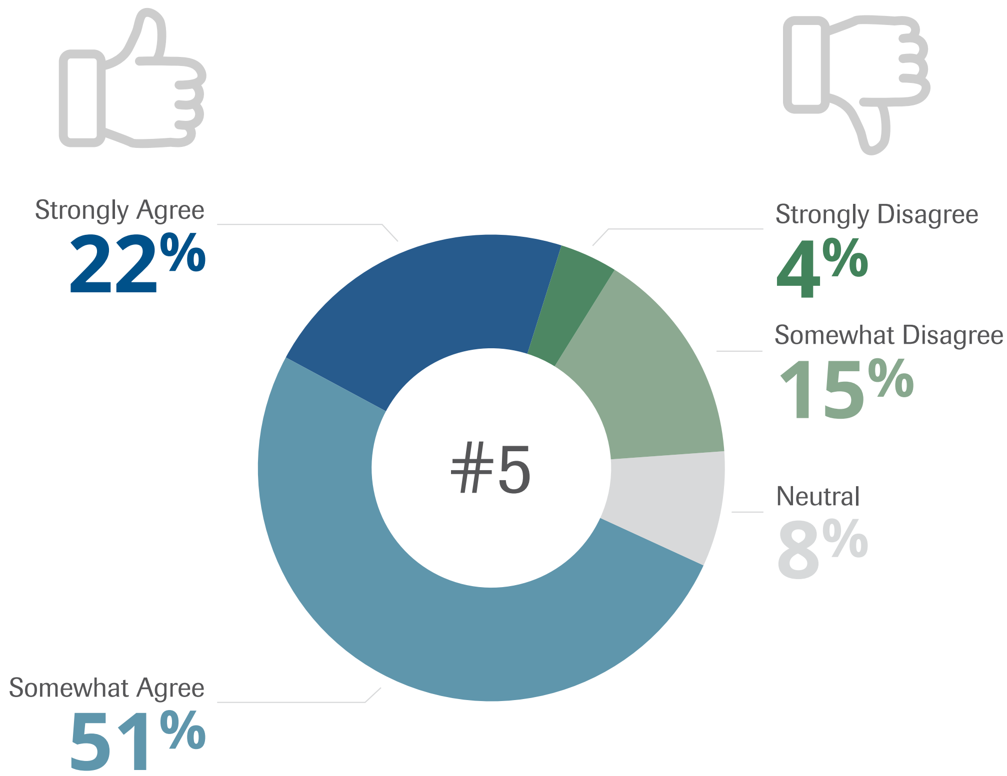


Observation:

Insurance executives and brokers see no sign of a softening market and have noted that in certain lines premiums continue to increase. We have noted that commercial lines premiums increased by approximately 5% in the first quarter of 2021.

Question #5:

The shift to having employees work from home will continue after the pandemic has been resolved:

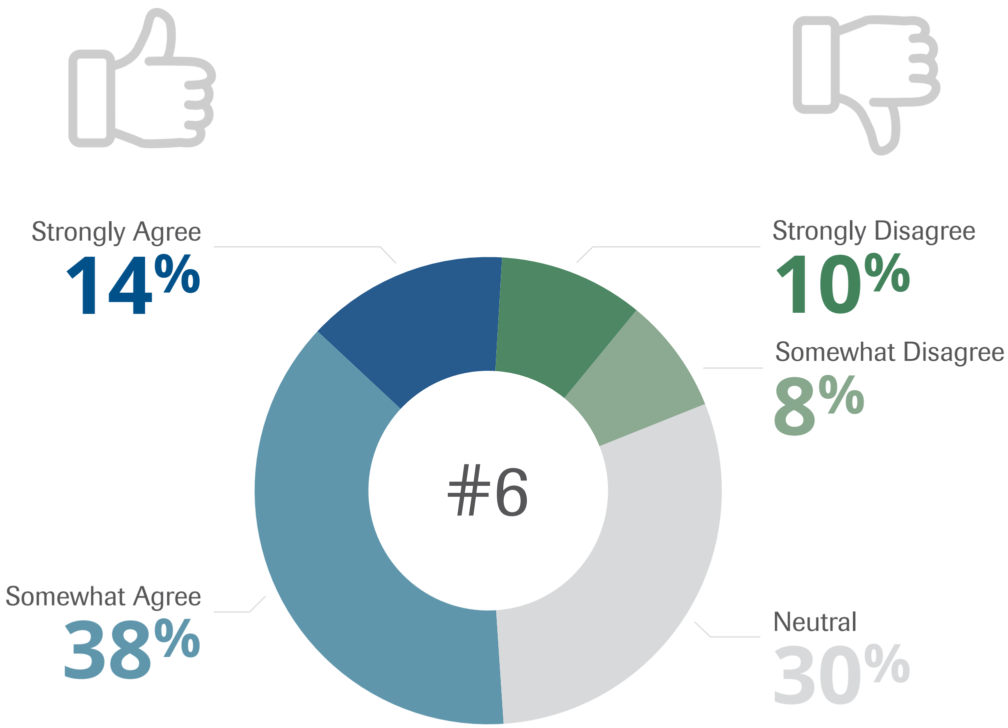


Observation:

Respondants acknowledge that alternative work arrangments would remain post-pandemic. In follow up questions, most respondents indicated their organizations intended to fully re-open offices when health authorities allowed and intended to carefully monitor the effectiveness of work at home or hybrid work arrangements.

Question #6:

In light of COVID-19, your organization has implemented robust employee engagement and productivty metrics:

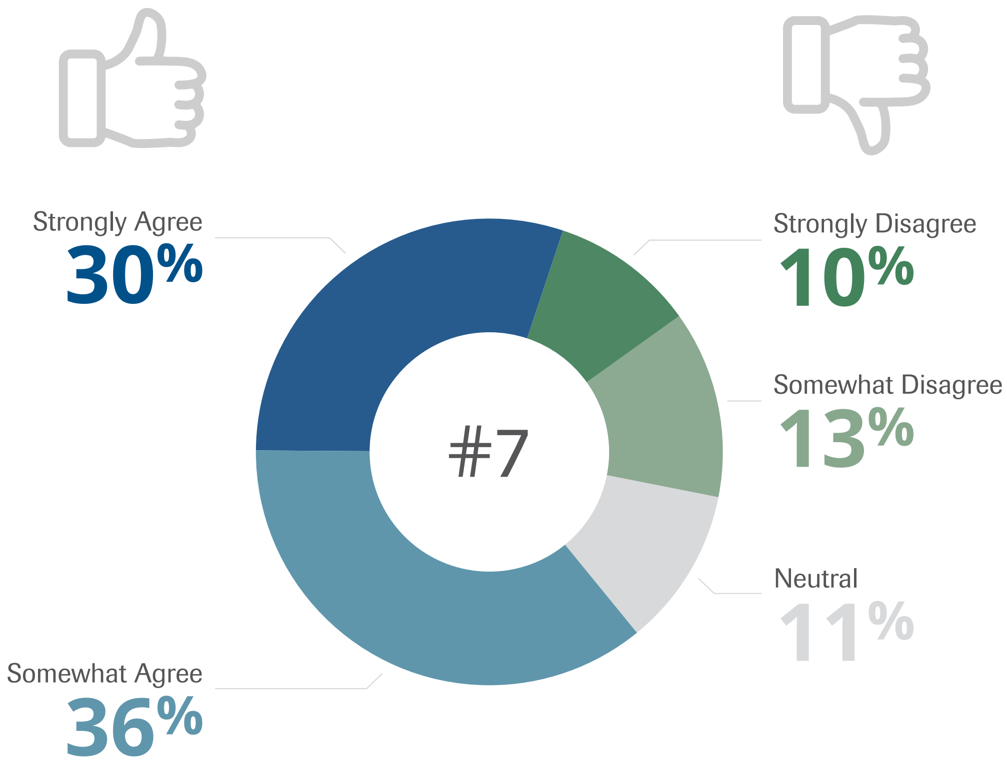


Observation:

Hiring and retaining skilled staff has become more challenging and alternative work arrangements may have a positive effect on the industry. Many brokers have undertaken employee engagement surveys and have, with some success, implemented programs and processes to increase employee satisfaction and accountability.

Question #7:

Your organization uses customer data to analyze and plan marketing and sales activities:

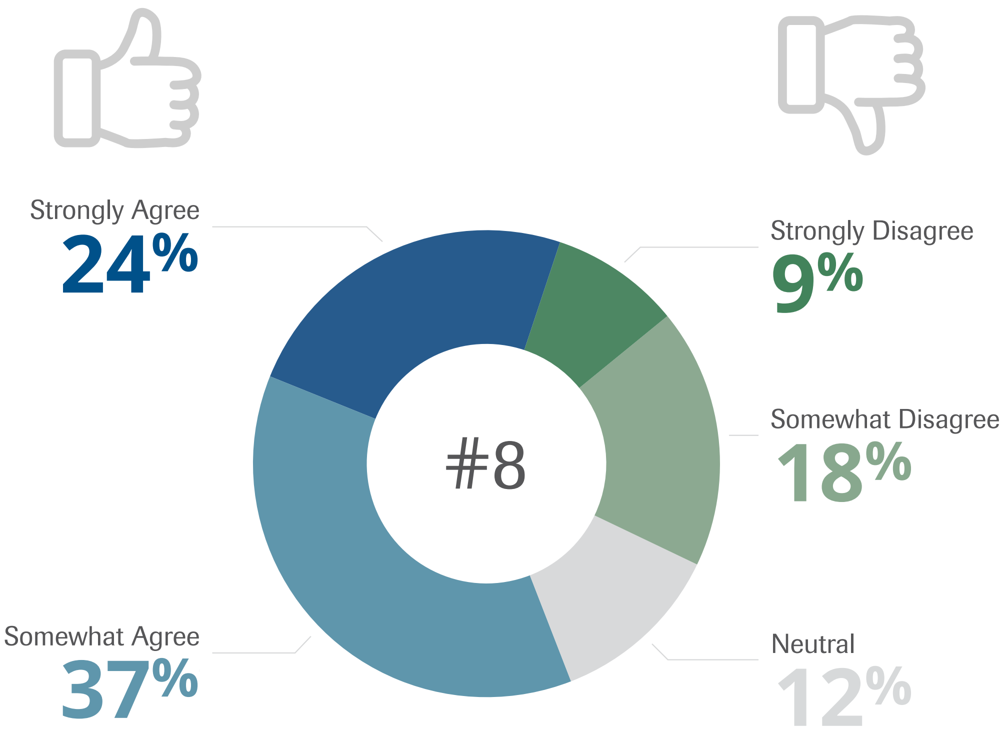


Observation:

With the introduction of better brokerage management platforms such as Applied's *EPIC* system, brokerages are increasingly using marketing analytics to develop sales strategies that can earn a greater share of individual customers' insurance spend. Analytics can go beyond cross selling. They can also be used to identify coverage gaps and other sales opportunities.

Question #8:

The quality of your customer data is adequate to support marketing and sales initatives:

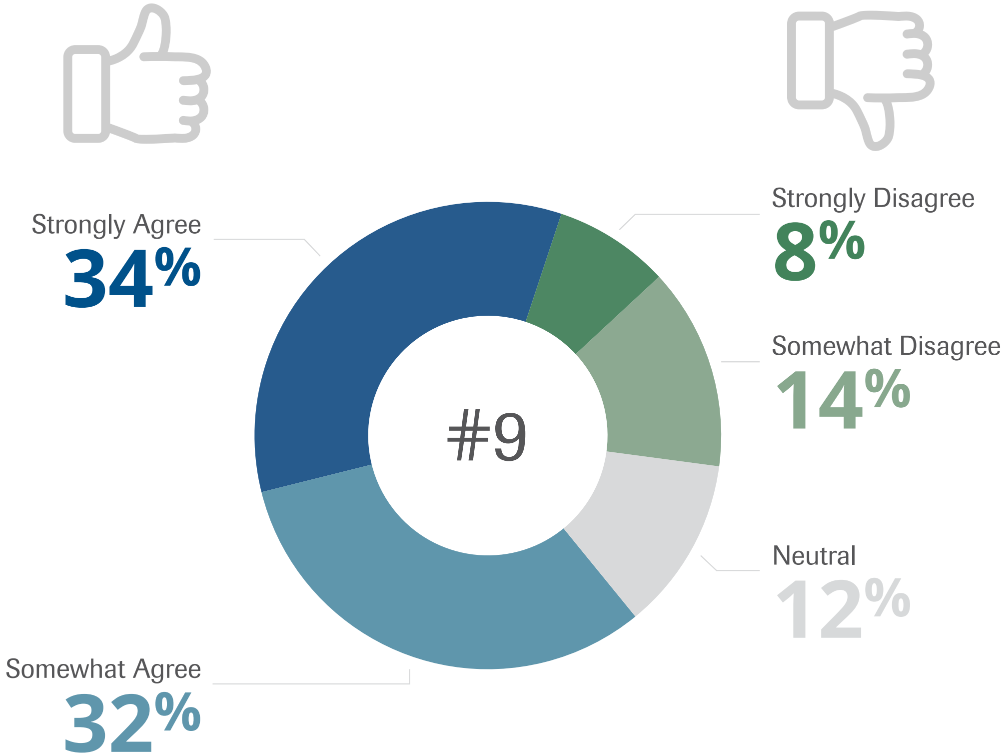


Observation:

Brokerage owners and executives are taking steps to better utilize customer data when developing sales strategies. Some of our clients believe they are constrained by legacy systems that have not been properley configured to yield useful information. This has led to delays in developing data-driven sales strategies.

Question #9:

Your organization regularly shares appropriate financial and production information with employees:

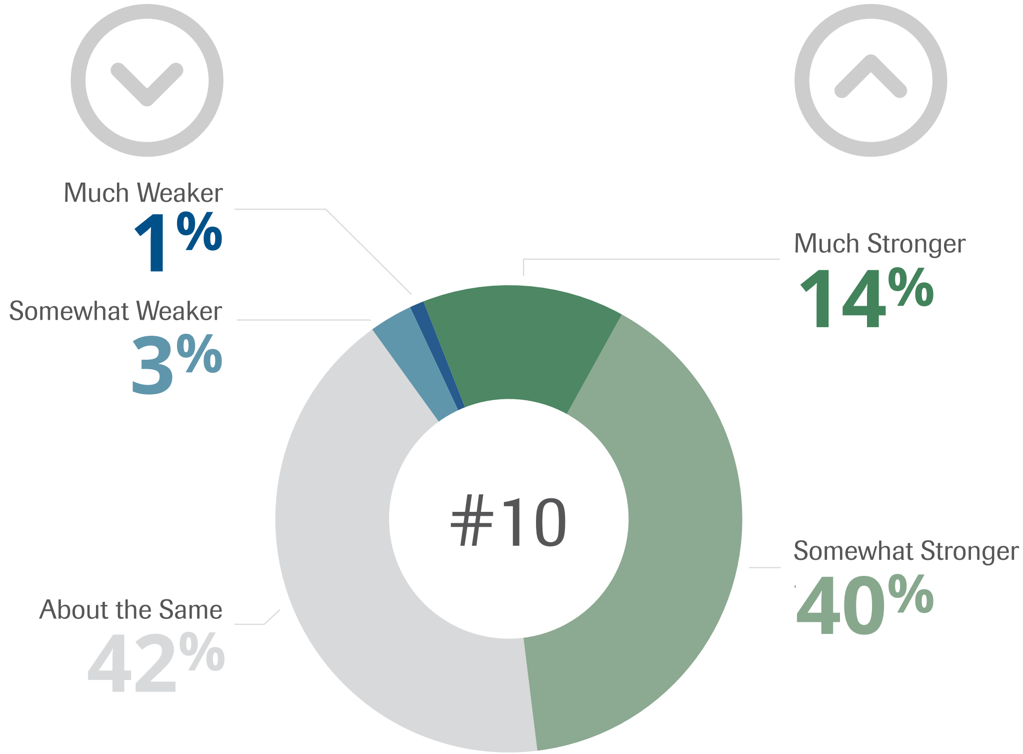


Observation:

Participants have indicated they are doing a more effective job in sharing appropriate information with employees. It has become more common to share department contribution and sales information especially if it is tied to variable compensation.

Question #10:

The M&A market demand for brokerages, books of business and MGAs will remain robust for the next two years:



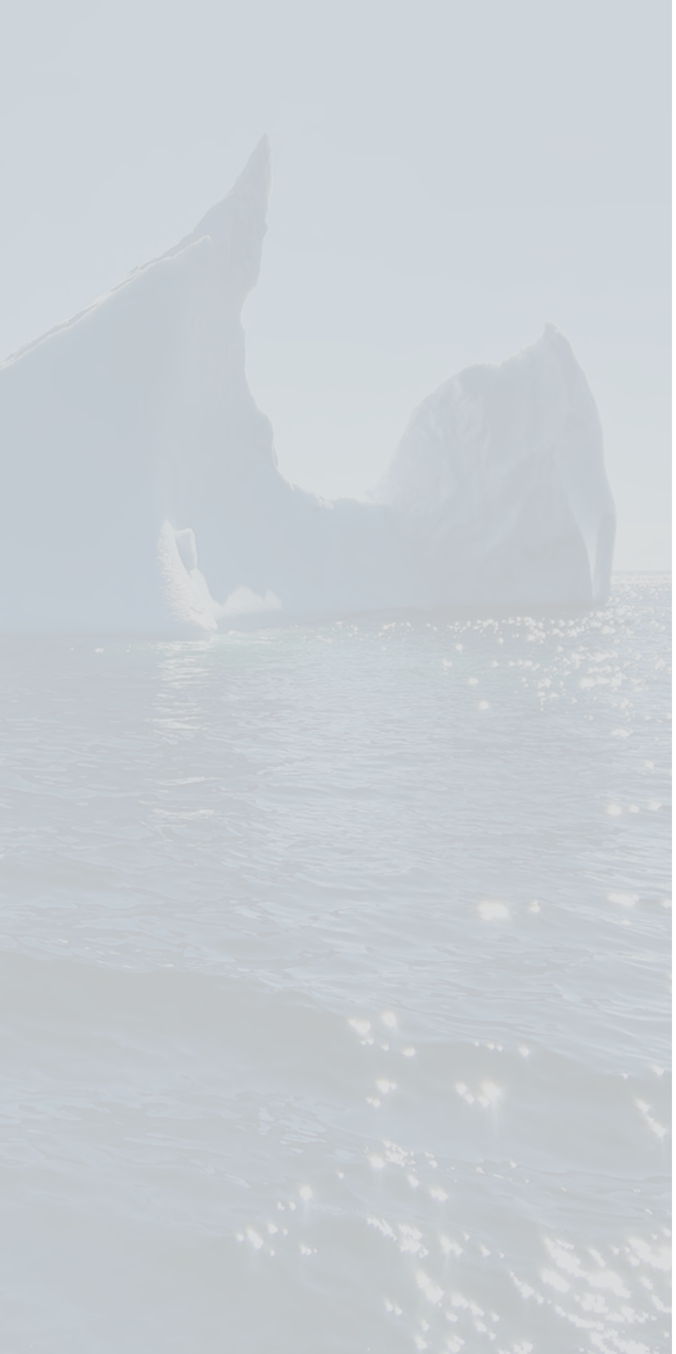
Observation

We would agree with participants that the M&A activity will continue to be the main focus for brokerages that wish to obtain scale.

Canadian P&C Landscape

The P&C market in Canada can be viewed as a mature industry that is highly competitive. With overall industry growth generally tied to GDP, individual companies are limited in their ability to increase premiums and must grow through either acquisition or the development of new distribution channels.

Canadian P&C Landscape (continued)



The total premiums written in Canada in 2020 were approximately $71 billion excluding ICBC and MPI, with 190 competing insurance companies. The top ten insurers have direct written premiums that account for approximately 63% of the market, which is an increase from 2018 when they controlled 59%. It is also worth noting how companies compare in terms of growing their market share. While the top ten underwriters as a group saw a five-year compounded growth rate in premiums of approximately 6.9%, their relative share of the overall market increased by 5.2% with no company gaining more than 1%. 2020 was marked by a continued hard market with premium rates continuing to rise for most classes of business. Underwriters have shown significant resolve in maintaining rate increases and underwriting discipline which has been reflected in overall improved industry results.

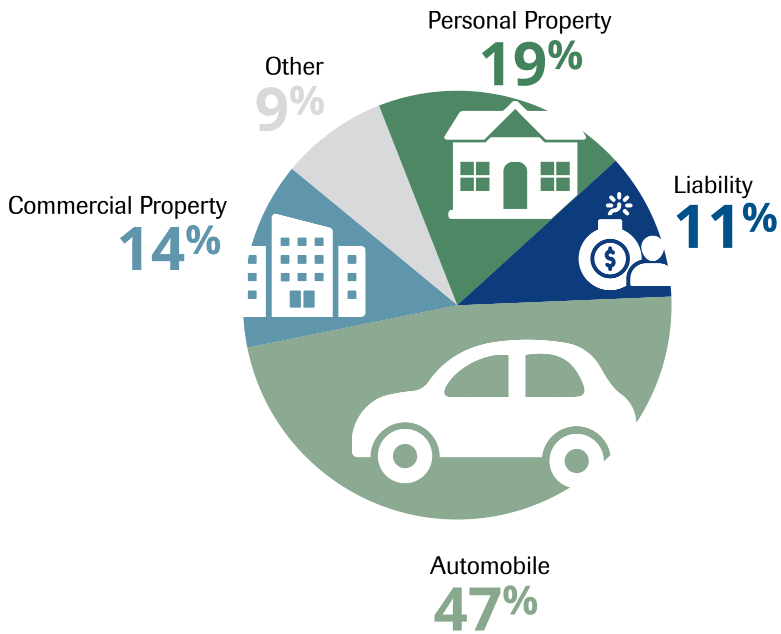
While the following chart indicates premium growth for most industry participants, the overall market is still competitive with no one insurer controlling more than 15% of the market.

2020 MARKET SHARE

DIRECT PREMIUMS WRITTEN (MILLIONS)	DWP	MKT SHARE	5YR - CAGR PREMIUMS	5 YR - GAIN OR LOSS
Intact	10,300	14.5%	4.7%	0.7%
Aviva	5,726	8.1%	5.1%	0.5%
Desjardin	5,620	7.9%	4.2%	0.2%
Lloyd's Underwriters	3,908	5.5%	6.6%	0.7%
Co-operators	3,907	5.5%	5.2%	0.4%
TD Insurance	3,867	5.5%	7.5%	0.9%
RSA Canada	3,257	4.6%	6.8%	0.6%
Wawanesa	3,097	4.4%	2.3%	-0.3%
Economical	2,812	4.0%	6.2%	0.5%
Northbridge Financial	2,299	3.2%	10.7%	0.9%
Other	26,004	36.7%	0.9%	-5.2%
TOTAL	**$70,797**	**100.0%**	**3.7%**	**0.0%**

Canadian P&C Landscape (continued)

The Canadian market can be broken into four major lines of business: automobile, personal property, commercial property, and liability as follows:



The overall market growth has approximated 4.6%[1] over the five-year period ended December 31, 2020. This is significantly higher than the average nominal GDP growth rate of 1.9%[2] over the same period (or 3.9% if we exclude 2020 where COVID contributed to a 7.8% decline in the 2020 nominal GDP).

1 *MSA Researcher data*
2 *Statista portal 2020*

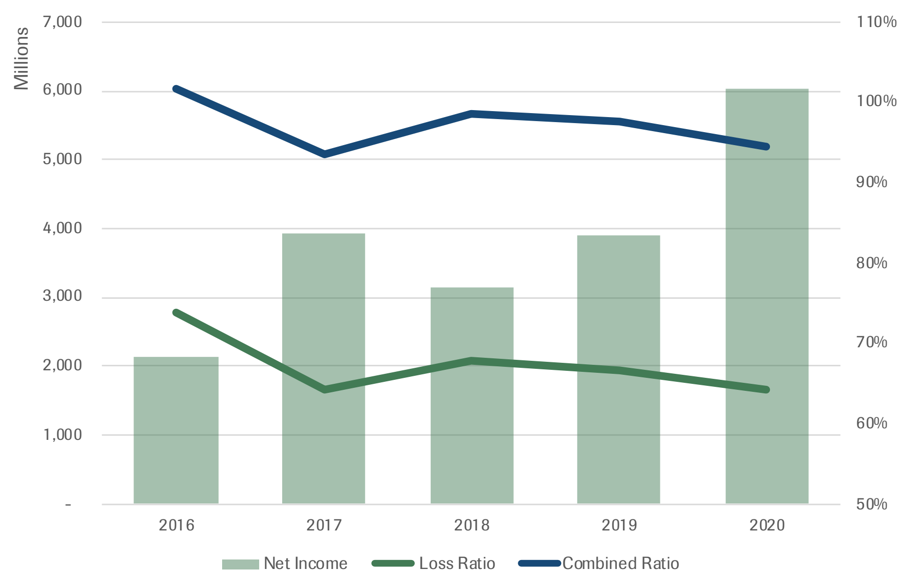
Industry Profitability

The Canadian P&C industry tends to have consistent profitability with an average pre-tax return on equity over the five years ended 2020 of approximately 8%.

Insurance company underwriting profit equals premiums less claims and claims related expenses. In a competitive environment, underwriting profit will trend to less than 1% of net premiums. An important key performance indicator (KPI) is the combined ratio, which is the inverse of the underwriting profitability (claims plus other operating expenses divided by net premiums). The average combined ratio over the five-year period ended 2020 was approximately 98%. This suggests that the industry is competitive with market forces keeping premium levels in check which forces companies to earn profits through their investment portfolios.

As mentioned previously, there was a hardening of the market that began in the latter part of 2018 and has continued into the first quarter of 2021. This has likely been an important contributor to the strong results in 2020. Overall loss ratio was approximately 64% (68% five-year average) and a combined ratio of approximately 95% (98% five-year average). This resulted in strong 2020 industry profitability of approximately $6 billion of net income and a 11% ROE.

We have summarized various profitability measures as follows:



Estimated Market Size for Commissions

Assuming direct premiums written of approximately $80 billion, we have estimated the amount of P&C commissions available to the brokerage industry using commission data obtained from various sources[3]. The commissions available have been calculated using a commission factor as follows:

- Private automobile: 11%
- Public automobile: 2019 Annual Reports
- Personal property: 20%
- Commercial property: 17%
- Liability and other: Various

While we acknowledge that commissions can vary widely depending on the insurance company, use of MGAs, Lloyds, special programs and the negotiating leverage of the brokerage, we found our estimated commissions to be consistent with data available from MSA. MSA reported net commission expense, excluding CPCs, of approximately $11.3 billion, or 14% of written premium in 2020[4].

3 *MSA Researcher P&C Software; ICBC, P&C Software: including ICBC and MPI premiums and MPI annual reports and other proprietary data.*

4 *2020 MSA Research P&C Software*

We have summarized the estimated commissions by line of business and province as follows:

2020 P&C INSURANCE BROKERAGE INDUSTRY REPORT
ESTIMATE OF SIZE OF CANADIAN P&C BROKERAGE COMMISSIONS AVAILABLE (IN MILLIONS)

PROVINCE	"PRIVATE AUTO"	"PUBLIC AUTO"	PERSONAL PROPERTY	COMMERCIAL PROPERTY	LIABILITY AND OTHER	TOTAL COMMISSIONS	"MARKET SHARE"
Newfoundland and Labrador	51		48	24	22	146	1.3%
Prince Edward Island	13		8	10	6	38	0.3%
Nova Scotia	86		81	39	44	250	2.2%
New Brunswick	72		59	37	36	203	1.8%
Quebec	494		617	351	371	1,833	16.3%
Ontario	1,703		1,114	576	989	4,382	38.9%
Manitoba	1	96	97	73	56	324	2.9%
Saskatchewan	132		101	95	56	384	3.4%
Alberta	591		480	367	328	1,765	15.5%
British Columbia	35	527	446	388	351	1,747	15.4%
Yukon	4		3	3	5	16	0.1%
Northwest Territories	3		3	7	3	16	0.1%
Nunavut	1		1	4	2	8	0.1%
Outside Canada	73		14	30	37	154	1.4%
Total	**$3,260**	**$623**	**$3,072**	**$2,004**	**$2,308**	**$11,266**	**100%**

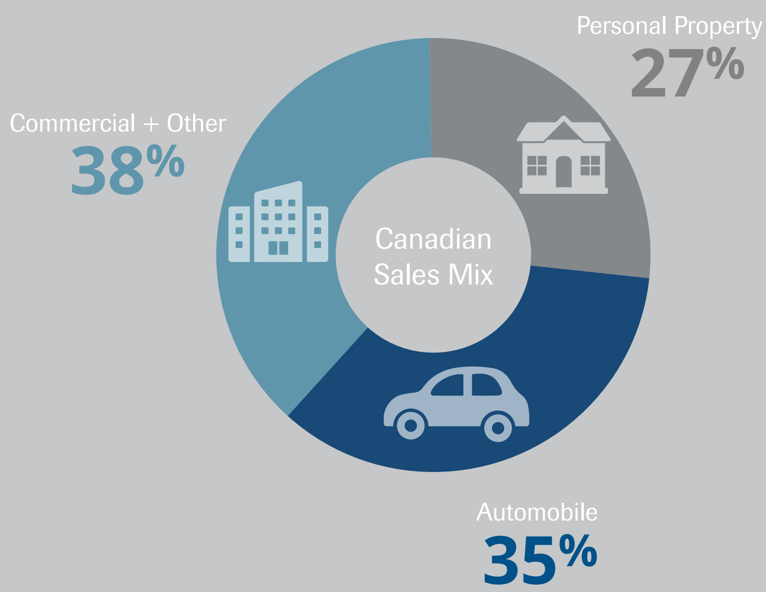
CPC revenue is not included in the above table but is an important component of brokerage profitability. In 2020, underwriters reported paying approximately $740 million in CPC[5]. This represents approximately 1.2% of written premiums, translating into 7% of total commission income available (excluding public auto).

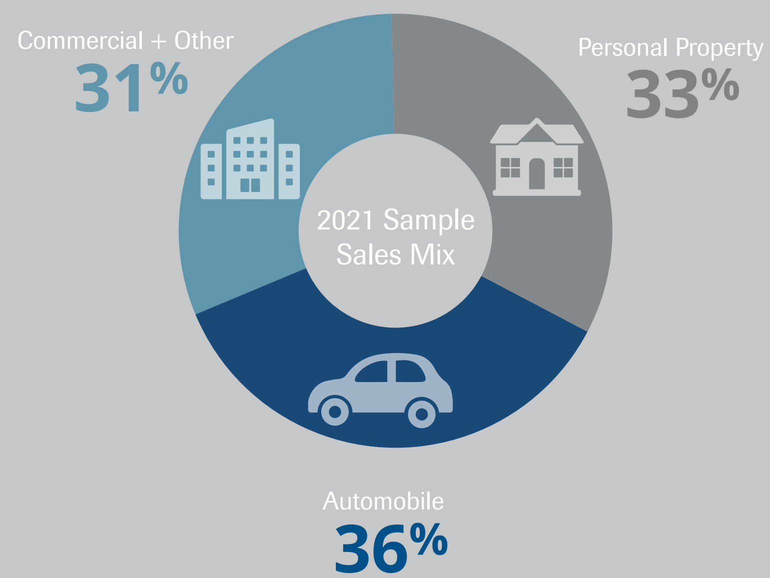
It is important for brokers to understand their CPC agreements. Those brokers who deliver a large volume of premiums with consistent underwriting results have more leverage in obtaining a favourable CPC arrangement with underwriters.

5 *2020 MSA Research P&C Software*

Market Composition

We have compared the revenue composition of our survey sample to the estimated overall Canadian commission market. We believe our sample is representative of a typical larger retail brokerage. It should be noted that automobile insurance comprises approximately 48% of the premium market, however, lower commission rates reduce its impact on the potential commission revenue sales mix.





The Future of Online Insurance Distribution

The insurance industry is in the process of a digital transformation. What that will ultimately look like is an open question, but brokers will need to both embrace the changes and make certain adjustments as the digital marketplace evolves.

Since 2016, the insurance ecosystem has seen dozens of new entrants with different offerings that range from standard home and auto to micro-policy offerings. Some of these include:

- **Sonnet and TD Insurance:** a fully digitized online platform from Canadian underwriters.
- **Apollo:** a fully digitized online commercial broker, MGA, and white label platform.
- **Nude Solutions:** a fully digitized online white label platform for home and auto.
- **Metromile:** a fully digitized online auto insurer based on miles driven.
- **Laka:** a fully digitized online platform for bike equipment and accident coverage with premiums adjusted based on claims.
- **Coverhound:** a fully digitized online broker that provides competitive bids from insurance partners.
- **Lemonade:** a fully digitized online insurer that offers renter, pet and homeowner coverage with high quality AI bot and donation program.
- **Canopy:** an online broker that provides landlords with tenant credit and occupancy history for free to market tenant deposit and contents insurance.

While most, if not all, domestic insurance carriers and national brokers are investing in or building out their digital capabilities, the pace of technological transformation has been slow compared to other industries. In 2020, it has been estimated that $243 billion in policy premium is being issued in fully digitized process (quote, bind and issue) in the USA. While the number is impressive, it only represents 15% of the $1.6 trillion in available premium.[6] In Canada, approximately

6 Statista research

$9 billion or 12% of insurance premium is being issued fully digitized, surprisingly, this represents only 1.3% of all policies issued[7]. The Canadian data is based on the 2019 calendar year, so the numbers are likely higher in 2020 due to COVID. It has been projected that fully digitized distribution is expected to more than double by 2024.

In addition to fully digitized insurance offerings, there is another large subset of platforms that we can view as online but requires some personal interaction with a licensed broker. While the numbers vary depending on the class of insurance, it is estimated that approximately 20% of Canadian insurance is purchased online. If 12% is fully digitized, then 8% of transactions would require interaction with a licensed broker. While this is certainly a point of friction there are lots of advantages as well.

7 Canadian Council of Insurance Regulators

The broker will generally have a higher closing ratio; they are able to provide professional advice, potentially cross sell and finally the personal contact is a good protection against fraud. There is little doubt that technology enables brokers more time to focus on delivering an improved customer experience when the documentation and transactional execution processes are automated.

We are increasingly seeing innovative use of technology by small to medium-sized brokers that is either self-developed or provided by third-party platforms. Larger brokers, whether developing their own technology or not, have begun making strategic acquisitions or partnerships with Insurtech-focused companies. Many of these innovations could fundamentally change how brokers interact with their clients.

Five Trends in Online Distribution

We have noted some trends in online distribution:

1. **White Label Platforms –** These are generally third-party platforms that have quote, bind and issue capability created by insurtech developers. The key to these platforms is that the developer has arranged an application program interface (API) with the underwriter that allows a seamless transaction. The obvious advantage is that a broker can brand it under their name and leverage the platform to offer insurance to a wide geographic area with minimal personal handling for lower cost than developing their own platform. One issue with these platforms is that the broker needs to drive traffic to their website. This is typically accomplished by purchasing leads from third-party aggregators, however as a consumer's propensity to transact online continues to increase, we expect a shift towards traditional digital marketing strategies. One obvious area of concern is that the underwriter relationship is with the platform and not the broker. This may put the broker in a vulnerable position in terms of markets.

2. **Broker Developed Platforms –** These are generally developed by the broker and allow for the customer to enter their application and obtain quotes from several insurers. To be effective, these platforms require an API into the underwriter's system and the ability to do this depends on the carrier relationship and capabilities. It might be the case that a broker has an API with some carriers, but not with others.

Once the customer completes the application and receives a quote, it may need to be reviewed and approved by a licensed broker prior to binding and issuance. While there are certain cost inefficiencies on having a broker involved, there is the benefit of having better front-line underwriting and relationship building potential. The question in developing one's own platform is whether the development costs will be rewarded with higher sales and lower transaction costs.

3. **Third-Party Platforms –** Much like the white labeled platforms, developers have created online brokerages and MGAs that offer the public and brokers access to insurance products with digitized quote, bind and issue capabilities. While originally focused on personal lines, this is being offered for small commercial policies as well.

4. **Automated Renewals –** Automated renewals is another area that is getting some traction. Once the customer opts-in, the policy is automatically renewed and issued with no handling by the brokerage. This can result in significant cost savings.

5. **Specialized Programs –** This is quite common for specialty brokers who have developed programs with insurers where the customer logs into the brokerage website and completes a short application. If the underwriting criteria is met, the policy is paid for, bound, and issued immediately. Typically, the policy will be underwritten through a Lloyds broker or syndicate, but in some cases, domestic insurers will develop programs with brokers.

There is significant investment in the development of online insurance distribution. We believe that some of these digitized underwriters and distribution platforms will be successful in improving access and lowering transaction costs; especially those who can focus on under-served segments in the marketplace.

Where Does the Market Go from Here?

From an overall industry perspective, the question is whether there will be market disruption at the scale seen with the rise of Amazon or Uber. We think the economics of the insurance industry will ultimately dictate how this plays out.

Some important questions are:

- With claims and operating costs close to 100% of premiums, how much savings can ultimately be passed on the consumer to compel them to make a switch?
- Is insurance the type of product where an improved purchase experience will fundamentally shift consumer behavior?
- Do consumers value professional advice offered by licensed insurance professionals or are they primarily motivated by ease of purchase and price?

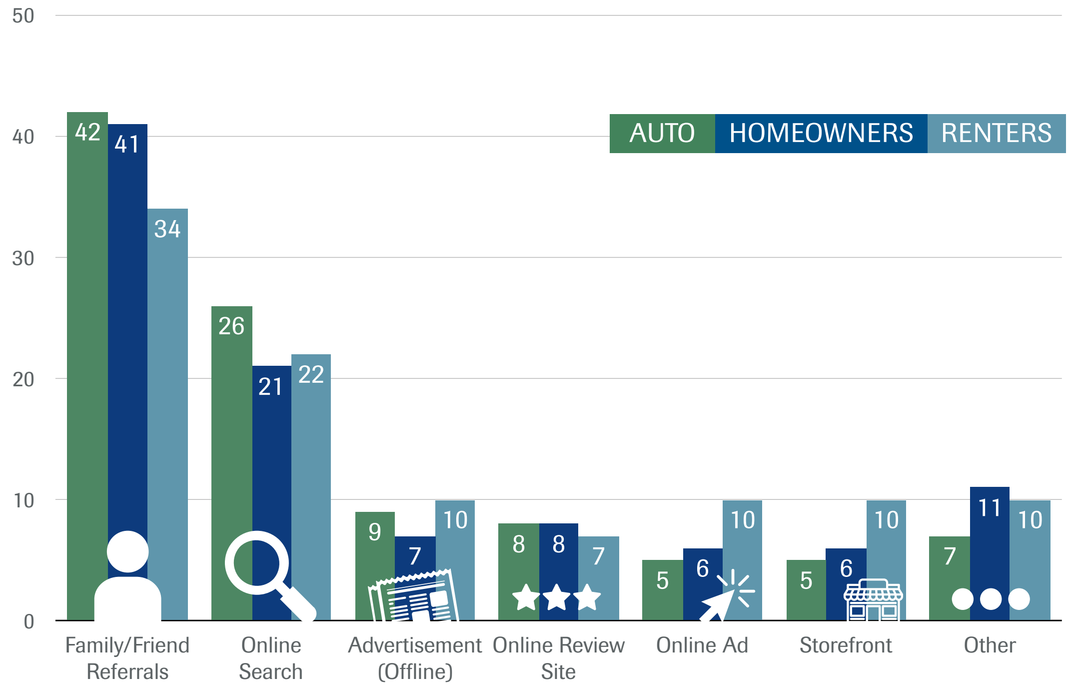
A survey of young adults including Millennials (born in 1981 to 1996) and Gen Z (born in 1997 to 2006) published by **Applied Systems** in 2018 had some interesting results:

1. Young Adults typically pick insurance providers through personal referrals combined with online searches and reviews. More specifically, they are less trusting of brands and want individual relationships.
2. The customer experience and service are critical. They expect quotes, policy changes and access to their information almost in real-time.
3. There must be multi-channel communication options including in-person, phone, internet, or mobile apps.
4. They are increasingly skeptical of advertising. Authenticity and transparency are critical as is wanting to do business with those who share their values.

This response to this question in the Applied Systems survey should be of special interest to brokers.

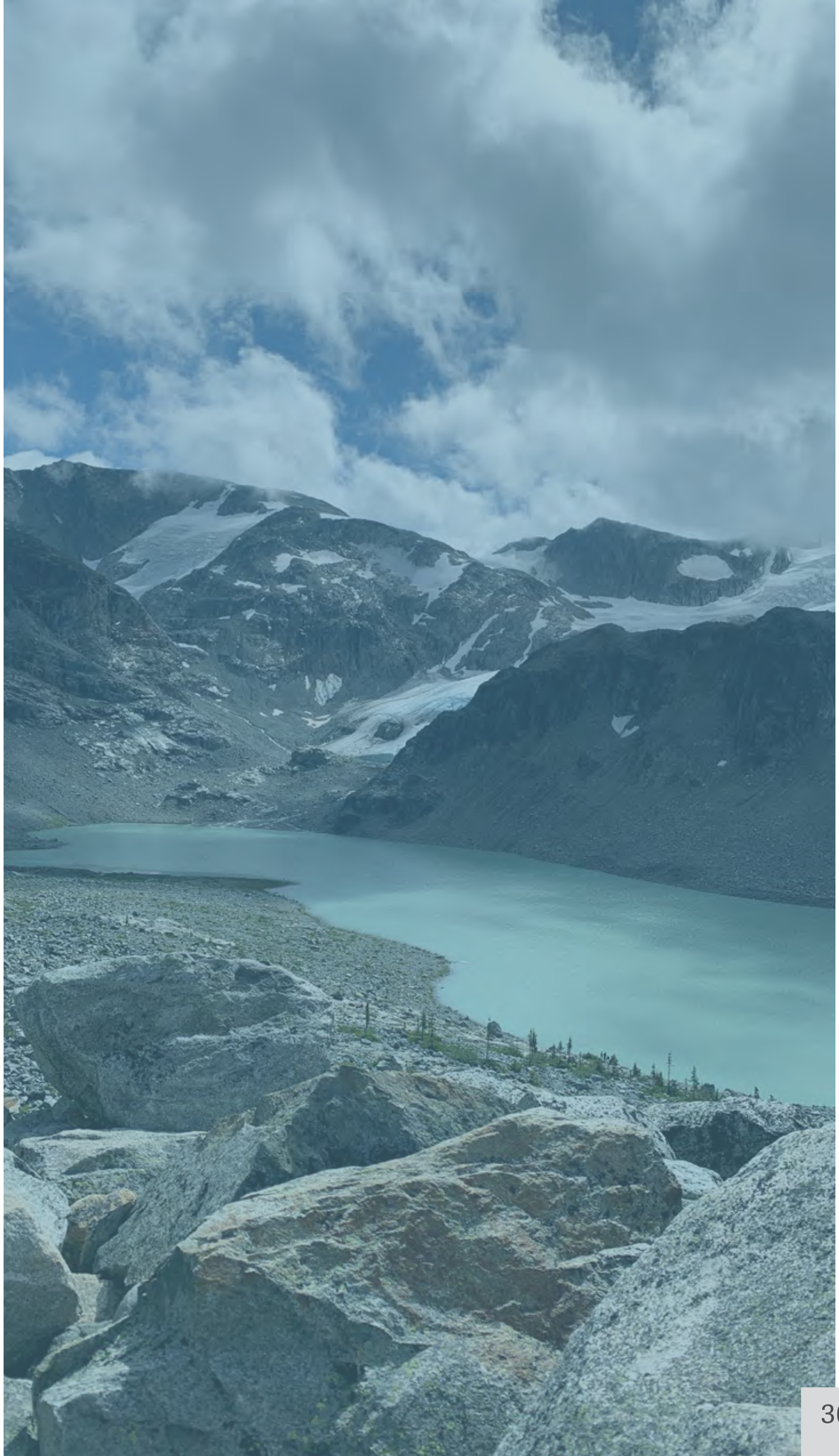
From our perspective, the traditional bricks and mortar brokerage is still relevant in today's marketplace. Certain classes of insurance might naturally migrate to a digitized issuance model such as renters, pet, travel, individual assets, and automobile policies. However, there are many opportunities for brokers to adjust, introduce online platforms, improve online presence and develop multichannel access to both information and documents. From our observation, online insurance distribution is going to continue to evolve and take market share, but there is no reason why brokers cannot play an important role and thrive during the evolution.

How did you find your current insurance provider?



2020 M&A Update

The insurance intermediary M&A landscape continues to be robust with lots of interested buyers willing to pay high prices. This does not mean that the deal landscape isn't constantly evolving, as we are seeing new trends emerge and some old trends resurface.



Some of our observations are:

- Consolidators are accounting for most reported transactions.
- The pricing and demand for smaller retail brokerages with revenue under $1 million has softened.
- Offers with working capital targets have become a common occurrence for mid-sized and larger deals.
- Strong competition and higher prices are being paid for commercial and specialty lines brokerages.
- Good front-line underwriting and a continuation of management is being reflected in pricing.
- Those brokerages with scalable online capabilities are being richly rewarded in prices being offered.
- Remaining independent brokers are increasingly looking for alternatives to a full divestiture.

Consolidators

Most consolidators are either larger publicly traded or private-equity backed brokerages, or insurance underwriters. While their investment strategies can be quite different, they are all looking for quality brokerages with management in place, good front line underwriting and are well positioned to grow.

Unfortunately, regional and other stand-alone brokerages are far less active in M&A. The current valuations and fewer opportunities to take advantage of scale can make it difficult to successfully participate in auctions. Of course, there are exceptions. Sometimes smaller or specialized brokers will have a personal or professional relationships with a specific acquirer. This might not result in the highest price but there can still be a good outcome for everyone.

Private equity owned and financed brokerages have had a large impact on the M&A activity. Low cost of capital and an aggressive acquisition strategy has seen these consolidators consistently roll up brokerages into their organizations. If they like what they see, they will pay at the high end of the offer range in any auction process and it has been our experience that doing deals with these groups is generally straightforward with few surprises and low closing risk. Another interesting aspect of a private equity transaction is that with certain players, there are opportunities to stay invested either in your brokerage or by exchanging your equity for theirs. For those brokers who want to remain with the organization, it allows the opportunity to remain a shareholder, take some money off the table and be part of a larger entity.

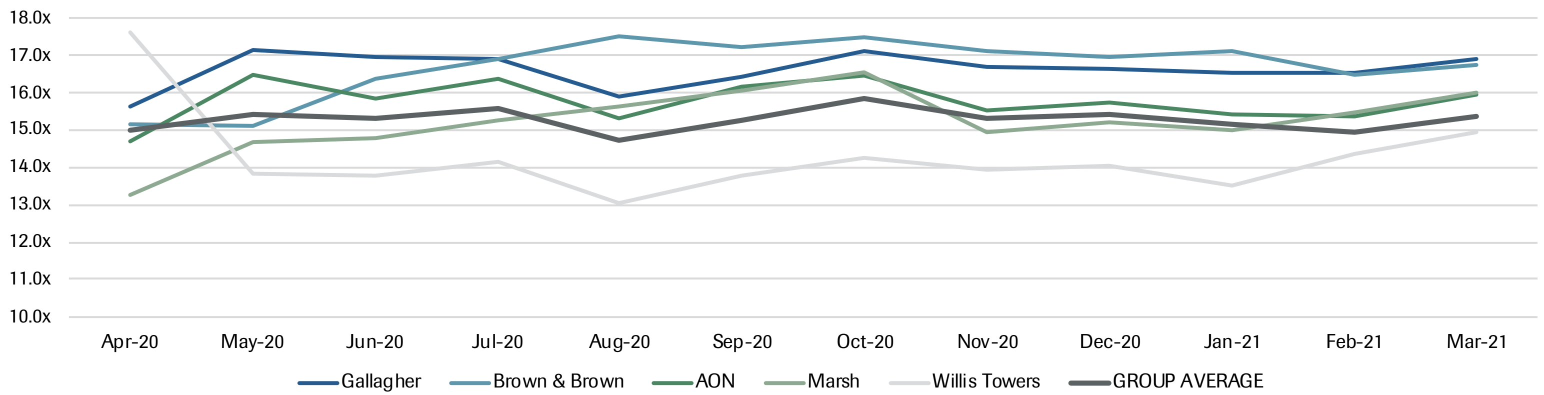
Publicly traded brokerages are also active participants in M&A. For the most part we have found them to be disciplined in terms of offering price and deal terms. If a potential deal is well aligned with their strategy, they are capable of aggressively pursuing a potential acquisition, but they will not chase every deal.

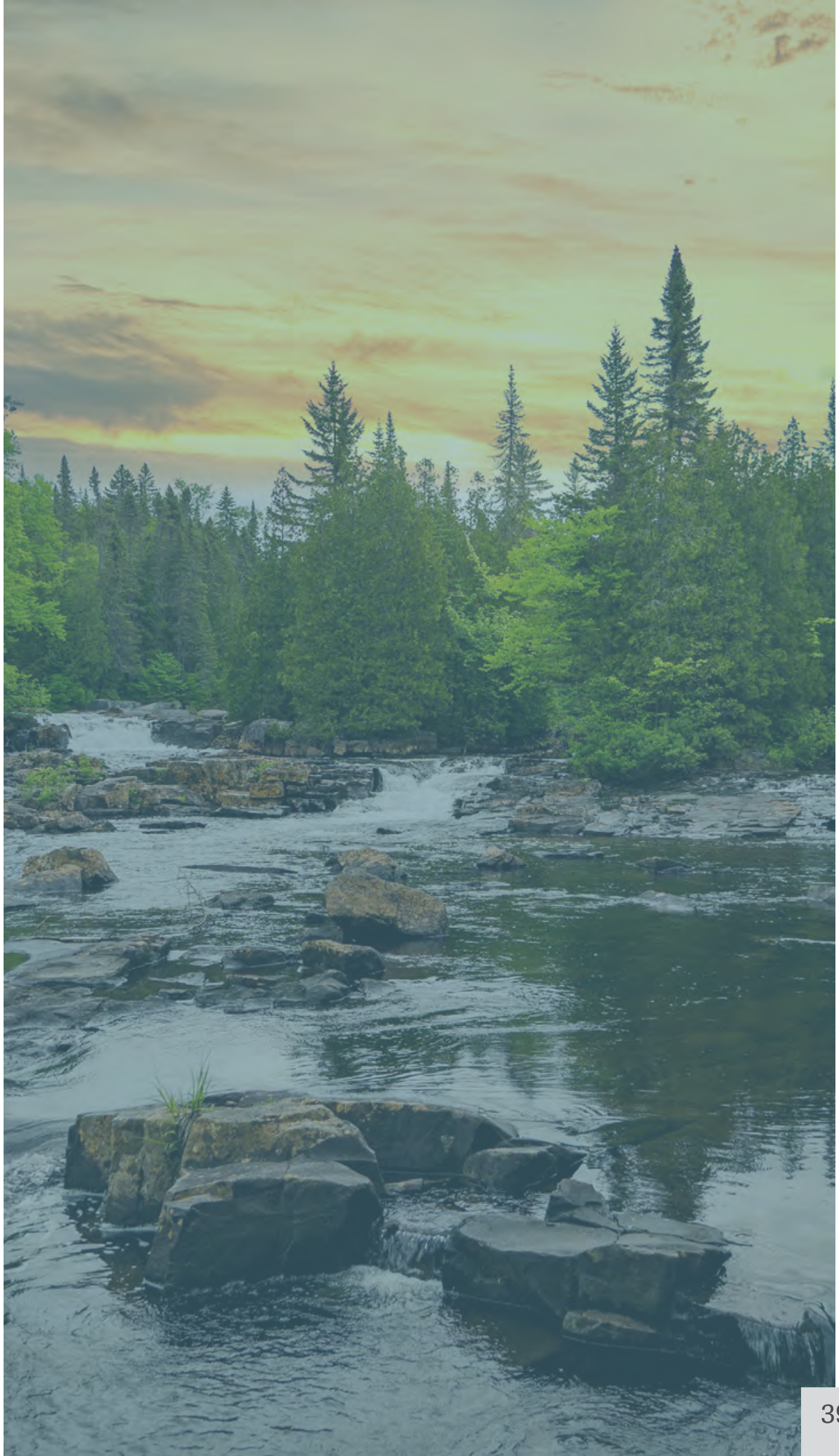
Some of the prices being paid for larger commercial brokerages have been surprising. We have observed pricing as high as 14x earnings before interest, taxes, depreciation, and amortization (EBITDA). While we cannot say if this pricing is sustainable, we can see that a high EBITDA multiple makes sense if we look at the trading price for publicly traded brokerages. The following chart shows trading prices for five publicly traded brokerages for the twelve months ending March 31 2021[8].

You can see that four of the five selected companies have average stock prices at 15x EBITDA or higher. If we move up the distribution chain to the insurance companies, there is additional value created through underwriting profit and the underlying value of the related premium volume. Ultimately, while a typical broker should not expect to receive a 14x EBITDA multiple, there is certainly an opportunity to get high multiples if the conditions are right and multiple parties are bidding.

8 S&P Capital IQ, 2021

MV/EBITDA MULTIPLES FOR PUBLICLY TRADED BROKERAGES





Market for Smaller Brokerages

Three years ago, we were seeing smaller brokerages regularly selling for 4x revenue to national consolidators. Today, those same purchasers are passing on these opportunities for a couple of reasons. Smaller retail brokerages tend to have a mixed book that is focused on personal auto and habitational rather than commercial business. Acquiring a small brokerage can be almost as much work as buying a larger entity and the time and effort to close a deal might not be worth the volume of business they are acquiring.

That is not to say there isn't still demand for the smaller brokerages. They just need to be marketed differently and sellers need to be both creative and flexible when putting together deals.

Working Capital Targets

Typically, when a business is sold, it is priced on a cash free, debt-free basis with an agreed working capital target. Working capital is generally defined as current assets minus current liabilities. The premise of a working capital target is that the new owner is paying a price for the business that can sustain itself without having to contribute additional funds. Once the working capital target is agreed upon, the price is adjusted either up or down depending on if the working capital is greater or lesser than the target.

For many years in insurance M&A, it was accepted that a working capital target of $nil (current assets equal current liabilities) was sufficient. The logic was that there would be enough funds to sustain the business because accounts receivable was generally collected within 30 days and insurance companies didn't have to be paid for 60 days. In provinces with premium trust requirements or books that are direct billed, the $nil working capital assumption requires a good system to collect receivables or maintain excess cash to cover expenses, at least in the short-term.

In recent years, purchasers have become more strident in demanding working capital targets greater than $nil. In our experience, negotiation of an appropriate target can be contentious.

Online Capabilities

We discuss the impact of digitized insurance services earlier in the report, but it is worthwhile to highlight how online capability impacts M&A activity. If the brokerage's distribution model is focused on their ability to sell insurance online, we see a wider range of potential purchasers and significantly higher prices being offered. In addition to the standard purchaser pool of underwriters, publicly traded brokerages, and other strategic investors, we are seeing interest from technology focused financial investors that would not normally be in the insurance space. Ultimately, they are pricing in the potential of market disruption through online distribution of insurance.

There are also brokerages that have some online capacity focused on improving customer services and lowering transaction costs. We believe that these brokerages are viewed as traditional brokerages leveraging technology to improve EBITDA rather than insuretech platforms.

Internal Succession

Despite the high prices and frenetic M&A activity, there is a significant segment of the market where the current shareholders want the business to remain independent. Reasons to remain independent might include: having children active in the business, presence of a capable team of producers and management who are capable of moving the business forward. Finally, there are some owners who are not ready to retire but they understand they need help to maintain the business when they no longer want to work full-time.

A good succession arrangement generally has the following components:

- Willingness of the current ownership group to enter an arrangement that will ultimately reduce their control and provide for a clear and agreed path to exit the business
- Agreement as to the fair market value of the Company's equity
- A clear methodology to value equity for subsequent transactions
- Creation of a long-term business plan for the current shareholders to extract their full fair market value from the business, subject only to timing related to their on-going involvement and financing limitations
- A financial institution that can put a credit facility in place to finance the current and future transactions.
- Development of an appropriate tax strategy
- A shareholder agreement that protects the interest of all parties and creates a methodology to acquire/dispose of shares
- Institution of a corporate governance model
- Development of a financial plan
- Equitable sharing of financial risks

While there are challenges in developing a succession plan, we have found that the benefit can be well worth the effort. Generally, the organization is re-invigorated with growth in both revenues and profits. This growth allows existing shareholders to ultimately extract more than their original fair market value and do not have to second guess when it is best to exit.

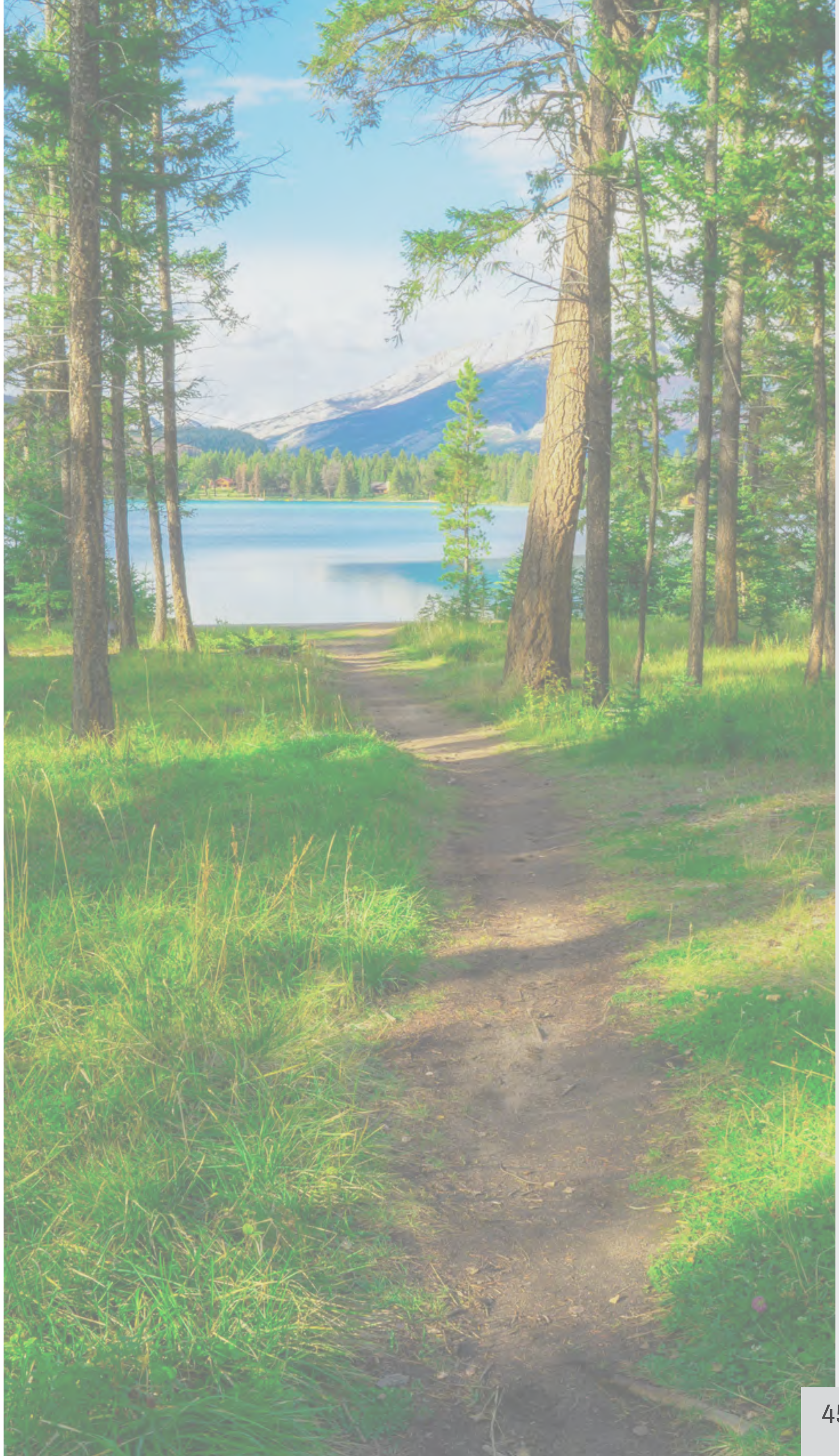
Pricing of Brokerages

In recent years, we have seen a wide variation in pricing that ranges from 8x to over 14x EBITDA. Brokerages that achieve the higher end of the range generally perform well in the following areas:

- Consistent growth in policy count and revenue
- Retention over 90%
- Total revenue over $5 million
- Good loss experience
- Operating profit greater than 30%
- Well balance portfolio with a substantial commercial book
- Continuance of management
- Expense discipline

In closing, insurance has been, and will continue to be, an attractive industry to invest in, especially for strategic purchasers. Ultimately the valuations will be influenced by the anticipated future cash flow of the business, the costs of capital and the perceived risks associated with both the industry and the subject business.

Canadian Tax Considerations on Transferring Ownership of an Insurance Brokerage



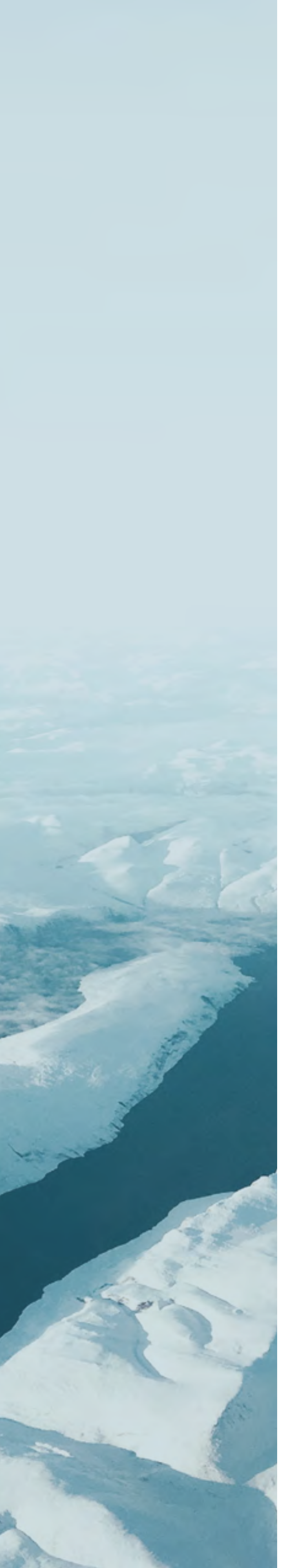
Transferring the ownership of an independent insurance brokerage in a tax-effective manner that minimizes corporate and personal taxes and maximizes after-tax cash flow can certainly be accomplished – with sufficient foresight, time, and planning. The tax considerations outlined here provide a brief overview of the types of planning available to owners of independent agencies, along with actions that owners can take now to ensure their businesses are optimally positioned for an eventual transfer. Brokerage owners should obtain detailed advice prior to executing any tax plan.

Hybrid Twist on a Share Sale

Individual vendors will generally find it advantageous to sell shares of their operating company so they can utilize their lifetime capital gains exemption (LCGE) of $892,218 (2021). In British Columbia, the ability to use the LCGE could generate tax savings of up to $238,668. By contrast, a purchaser will generally prefer to buy assets because the cost of intangibles such as an insurance brokerage's ICBC license, customer list and goodwill can be depreciated over time for tax purposes, generating tax savings. Also, by purchasing assets, the purchaser avoids potential corporate liabilities, including tax reassessments, breaches of contracts, and errors or omissions. In coming to an agreement with a purchaser, a vendor can often bridge this impasse by negotiating the ultimate purchase price.

In some situations, the difference between the purchaser and the vendor can be resolved by using a hybrid sales strategy. However, the planning involved is more complex as the operating company will first sell its intangible assets to a company controlled by the purchaser, allowing the purchaser to benefit from the increased cost base of those assets. The vendor then sells shares of the operating company to the same acquisition company, thus benefiting from the ability to claim the LCGE. The operating company and the purchaser's acquisition company may then be merged and consolidated on a tax-free basis.

Whichever sales structure is used, ensuring that legal contracts are executed, risks are regularly reviewed and managed, and financial processes, including tax returns, are well-governed – these types of actions facilitate the sale of shares to a purchaser at the highest potential value and pave the way for a vendor to minimize the tax liability on that sale.



Utilizing your LCGE

Accessing a vendor's LCGE requires that the shares of a brokerage company meet the criteria to be a qualified small business corporation (QSBC), namely:

- **The corporation must be a private corporation** not controlled by non-residents of Canada or public corporations.
- **At the time of sale,** 90% or more of the fair market value of the corporation's assets must be used principally in an active business carried on primarily in Canada (either by the corporation or by a related corporation), be shares or debt in a connected small business corporation, or be a combination of both.
- **In the 24-month period immediately preceding the sale,** more than 50% of the fair market value of the corporation's assets must have been used principally in an active business carried on primarily in Canada, invested in shares or debt of a qualifying connected corporation, or a combination of both.
- **The shares must not have been owned by anyone other than the individual seller or trust,** or a person or partnership related to the seller during the 24-month period immediately preceding the sale.

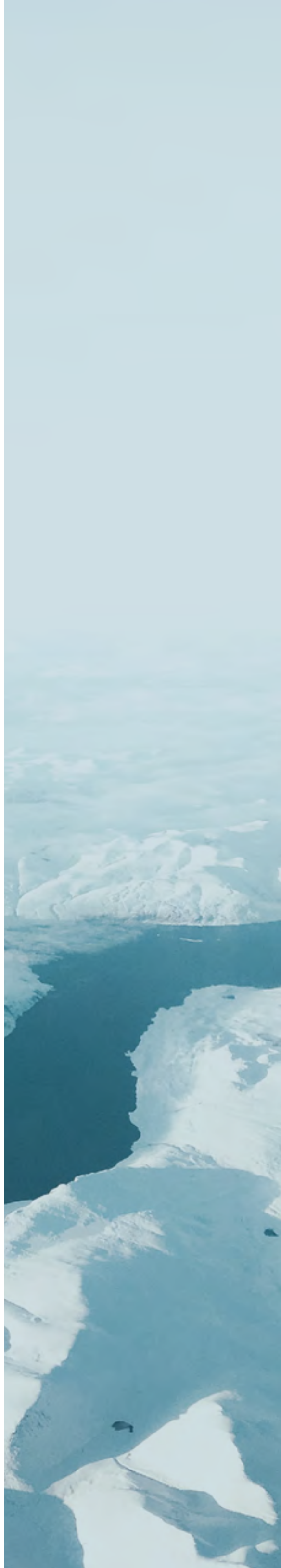
Only individuals can claim the LCGE. If the operating brokerage company is owned by a holding company rather than by an individual, the LCGE will not be available unless the purchaser agrees to acquire shares of the holding company. The LCGE may also be claimed by an individual beneficiary on taxable capital gains realized by a trust on the sale of QSBC shares.

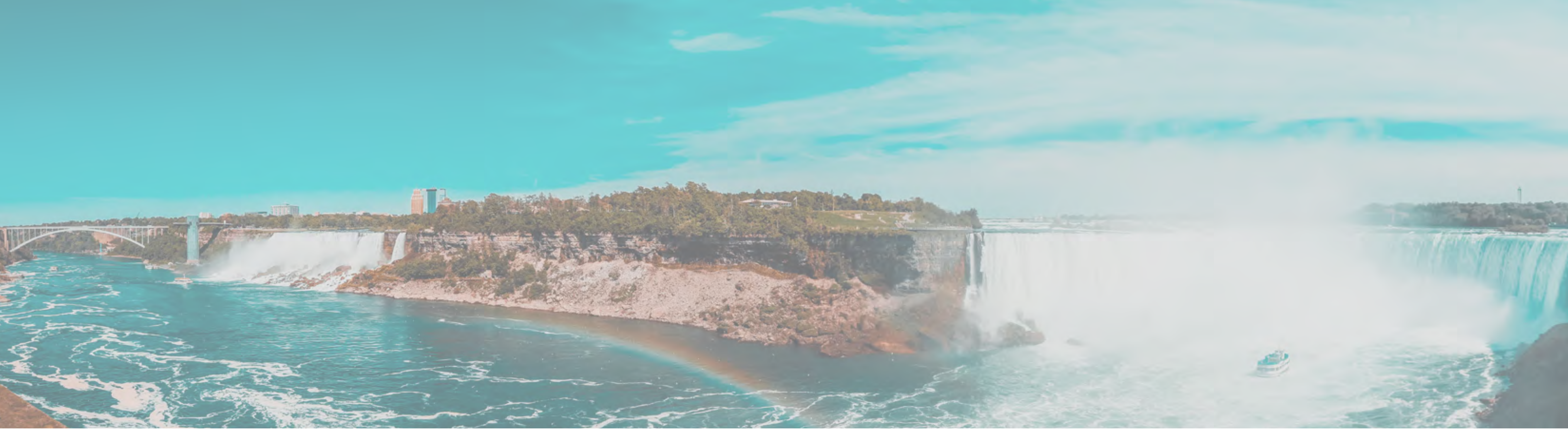
Owners of insurance brokerages may also multiply access to the LCGE by sharing the capital gain among their family members. Each additional LCGE could save an incremental $238,668 in taxes – for a family of four, potentially an additional $716,000 in savings over the sale by a single owner.

To accommodate this planning, an owner would "freeze" the current value of their interests in the brokerage company, exchanging existing common shares for new "frozen" preferred shares with redemption value equal to the current value of the brokerage company. At this point, participating equity in the operating company would have no value, as the company's current value would be attributable to the freeze preferred shares owned by the original owner. A family trust established for the benefit of family members may then subscribe for new growth common shares of the company at a nominal amount. Any appreciation in the value of the brokerage would accrue to those new common shares and could be offset using the LCGEs of the family beneficiaries of the trust upon sale. The key point here is that sufficient time must be allowed for the new common shares to increase in value – this strategy generally will not be effective if implemented a short time prior to a sale. Further, the family trust must also satisfy the 24-month holding period test for the beneficiaries to claim their LCGEs.

Accumulating funds in excess of what is required in the insurance business can put the operating company offside the QSBC criteria, jeopardizing a vendor's access to the LCGE. A vendor must "purify" the company at least 24 months prior to a sale so that it meets the 24-month active business asset test. In this case, it may be possible to use the after-tax retained earnings (referred to as "safe income") of the brokerage company to pay its surplus as a tax-free dividend to a new company via a family trust. The new company can then invest the excess funds without tainting the operating company's status as a QSBC. This may also be possible with selling the shares of an existing holding company.

If a current owner prefers to pass on their business to their younger family members rather than selling to arm's length parties, the structure described above for freezing the value of an owner's interest in their company also facilitates the transition of ownership to a family's next generation. Additionally, an estate freeze permits a retiring owner to prepare for the eventual tax liability that will be triggered on death.





Long-term sale

Planning for the sale of a business to occur over time is also an effective tax deferral strategy. In the simplest scenario, a vendor may agree to finance the proceeds of sale, taking back a portion of the proceeds in the form of a note receivable from the purchaser. Provided the purchaser deals at arm's length with the vendor, and the appropriate terms of the note receivable are in place, the vendor may defer the capital gains recognized on the sale over a maximum of five years. Of course, such vendor financing requires significant due diligence regarding the purchaser by the vendor. In other cases, the sale of shares can be affected over several years, depending on the vendor and purchaser's comfort with shifting share ownership proportions. Where a key employee is set to become an owner, a stock option plan may be an effective way to transition ownership over time. If the business itself is to be the primary source of funds for the employee's purchase of the business, planning is required to maximize deductions to the company and minimize the tax to the employee. Where the employee intends to fund the purchase using external debt, planning is also required to ensure interest on that debt is deductible.

The transfer of an insurance business is likely a once-in-a-lifetime event. Thoughtful and bespoke advance tax planning can maximize the value of an owner's post-sale funds.

2020 Benchmark Results

Presenting Benchmark Data

Our methodology for this analysis of the Canadian P&C insurance brokerage market involved us soliciting brokerages to provide internal operating income statements and to participate in a written survey. In addition, we used data from our proprietary data base.

We received financial information from 110 brokerage companies with over 400 individual branches or retail outlets. Brokerage revenues ranged from $200,000 to over $30 million, with operating profit margins from negative to 53%. After eliminating outliers, we used 101 companies for our analysis. The fiscal data entered included both 2020 and 2021 fiscal year ends.

Our objective is to present the data in this report in a clear and unbiased manner. We adjusted the data provided to make it as comparable as possible. Some of the adjustments include:

- EBITDA was considered the best measure of operational performance therefore we added back interest, amortization, and income taxes.
- Where possible, we normalized expenses to exclude non-market expenses and compensation.
- We reclassified certain expenses for sample consistency purposes. Having said that, inconsistent expense allocation is a limitation when comparing and aggregating data from different companies.

Overall Results

With total revenues of $650 million, we believe our report is a statistically valid representation of the overall Canadian market for privately-owned insurance brokerages.

In our analysis of the data we normalized income for unusual or one-time expenditures as well as adjusted off-market shareholder compensation. Our goal was to reflect the core business profitability of our sample in a consistent manner.

The operating profit margin of our sample stood at 32% which is a 5% increase from our 2019 report. This represents a significant increase in profitability. It is our view that the increase has been driven primarily from rate increases during the current hard market and to a lesser extent by expense discipline. The increase in profit can be traced directly to relative personnel expenses that fell to 50% of total revenue as compared to 55% in 2019.

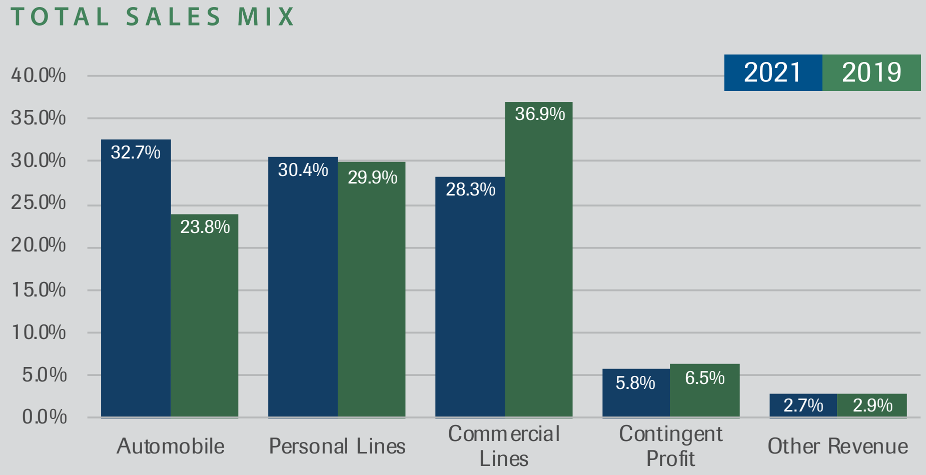
CPCs comprise 6.0% of total revenue and are a significant contributor to overall profit. It should be noted that approximately 1.2% of all premiums (excluding public auto) collected by Canadian insurers is returned to brokers in the form of contingent profits[9].

9 *MSA Researcher P&C Software*

The following schedule provides an aggregation of operating revenue and expenses for the current report and comparative data from our 2019 report:

AGGREGATE INCOME AND EXPENSES OF SAMPLE

	2021		2019	
NUMBER OF BROKERAGES	101		77	
(IN $ THOUSAND)	**TOTAL**	**%**	**TOTAL**	**%**
Automobile	213,568	33%	91,807	24%
Personal Lines	198,752	30%	115,286	30%
Commercial Lines	185,130	28%	142,006	37%
Contingent Profit	37,701	6%	24,881	6%
Other Revenue	17,933	3%	11,191	3%
Total Income	**653,085**	**100%**	**385,171**	**100%**
Total Personnel Expense	326,228	50%	211,633	55%
Total Premise Expense	38,374	6%	19,310	5%
Total Data Processing Expense	13,467	2%	9,141	2%
Total Marketing Expense	14,647	2%	9,444	2%
Total Administrative Expense	50,071	8%	31,949	8%
Total Expense	**442,788**	**68%**	**281,476**	**73%**
Operating Income	**210,296**	**32%**	**103,694**	**27%**



Sales Mix

The sales mix in this year's report was more weighted to automobile business. The overall sample sale mix is shown above.

In addition to renewable commissions, approximately 9% of income is derived from CPC and other revenue sources. Given the mature status of the industry, CPC and other income plays an important role in brokerage profitability. As mentioned previously, underwriters are distributing approximately 1.2% of premiums in the form of CPCs. Assuming an average commission rate of 15%, we would expect that the average broker would have approximately 8.0% of their income in the form of CPCs (1.2%/15%). Our sample results are slightly lower than expected, likely due to the heavy weighting to brokers that operate in a public automobile environment where no CPC is paid.

While most brokers are challenged to introduce new sources of revenue (e.g., life insurance), premium financing arrangements have proven to be very profitable to those brokers who have the resources and ability to manage it.

It is our view that the sales mix is less important than either the brokerage expertise or the ability to develop appropriate systems to efficiently handle the sales volume and mix of business.

Expense Breakdown

We have categorized brokerage expenses into five categories: personnel, premise, data processing, marketing, and administration. The following bar chart breaks down expenses as percentage of revenue for 2021 compared to 2019 results.

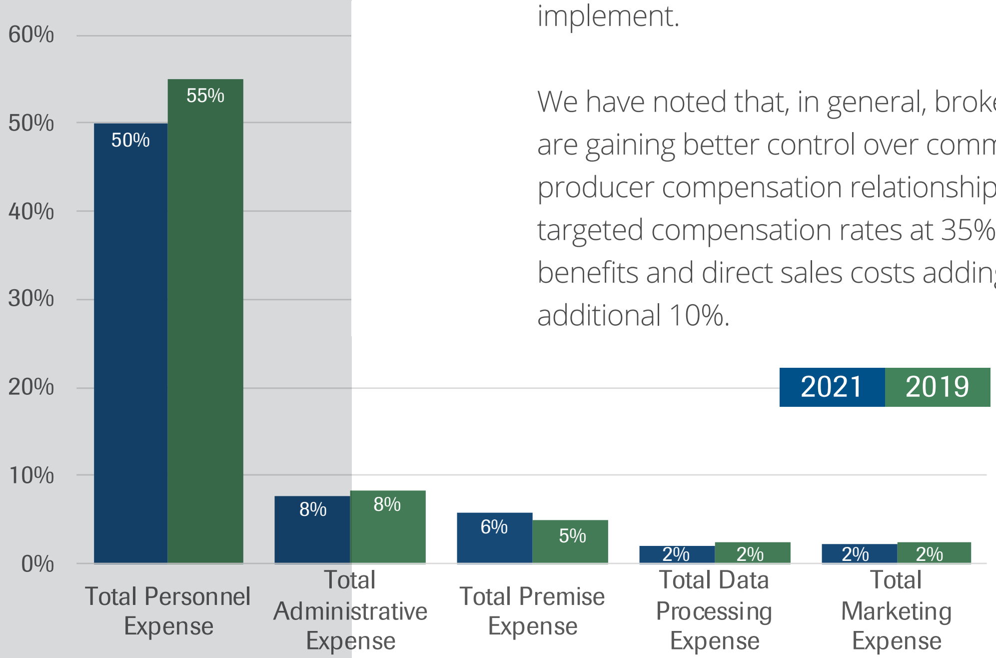
One of the structural advantages in the P&C industry is that expenses are relatively stable and predictable. Improvements in profitability margins are generally only achieved through improved processes, which are hard to implement.

We have noted that, in general, brokerages are gaining better control over commissioned producer compensation relationship with targeted compensation rates at 35% with benefits and direct sales costs adding an additional 10%.

The decrease in labour costs as a percentage of revenue relates directly to premium rate increases — while welcomed in terms of increased revenue, they may not be permanent and brokers are spending considerable time looking for alternative coverage for customers wanting premium relief. On average, P&C premium rates increased by 15% in 2020 but this would not necessarily translate into an equal increase for the predominately retail brokerages that make up our sample. Based on analysis Smythe has done during three divestiture assignments this year, personal lines premiums rose between 10% and 15% with auto falling 2% and commercial lines increasing by 15% to 20%.

The top 20% of performers continue to exercise strong expense discipline in all categories. As in our previous research, personnel costs continue to be the big difference in profitability for the top performers. Wage levels were not lower for the top performers. Instead, we attribute the profitability to employee engagement, scale of offices and systems.

TOTAL EXPENSE MIX



Profitability of Top Performers

In this year's analysis, the top 20% is comprised of the 20 top performing brokers. On average, the top performers enjoyed a 12% better operating profit margin, with labour efficiency driving most of the difference.

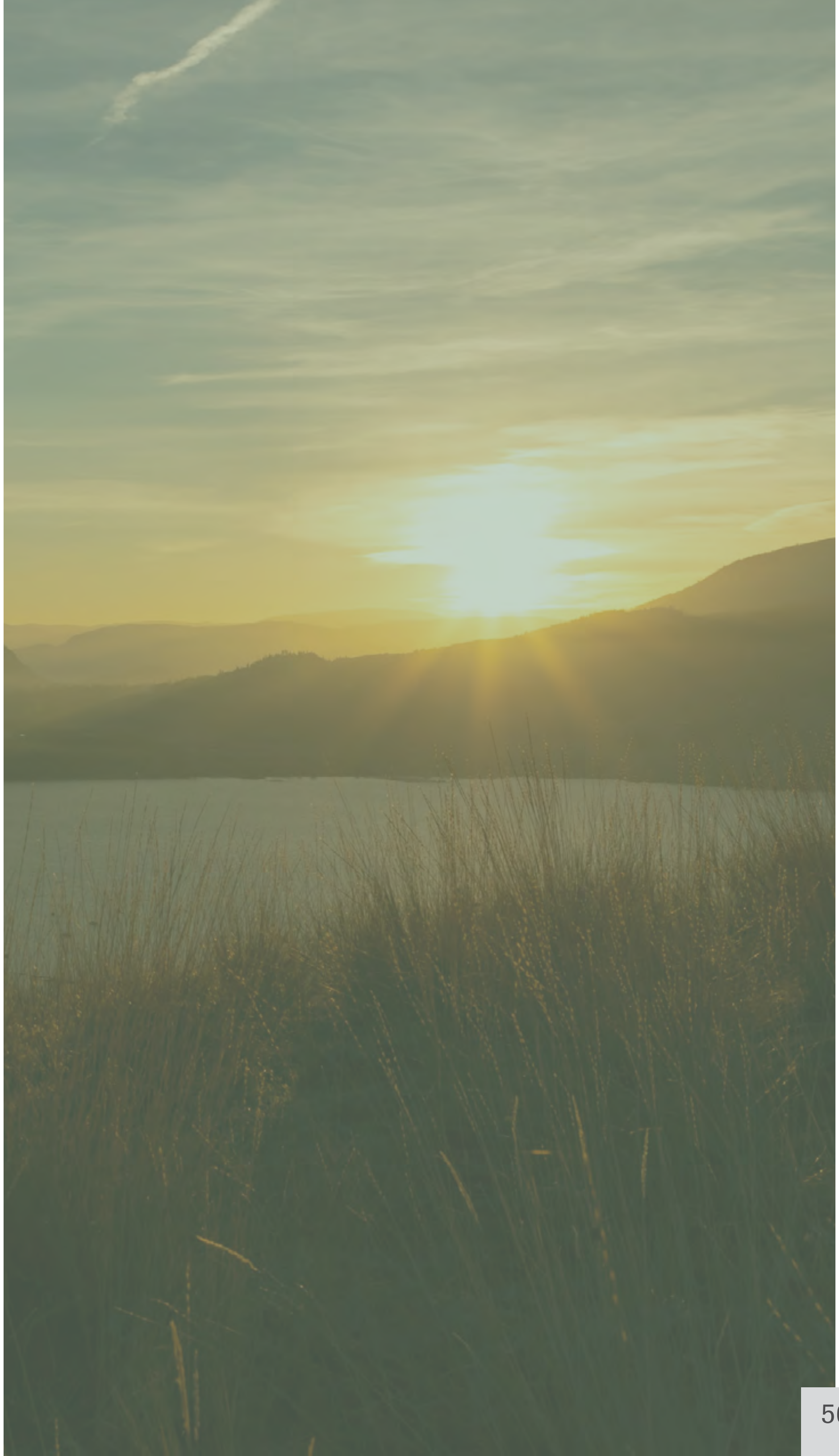
We have outlined the results on the right-hand side:

While it is difficult to definitively state what makes a top performer, we have noted that many of them possess similar characteristics that include, but are not limited to, the following:

- Well rounded books of business including a strong focus on commercial lines.
- Often have a focus or specialization in a particular line of business
- Tended to be smaller organizations which are easier to manage by a broker owner
- Created and maintained consistent processes
- Expense discipline

TOP 20% OF BROKERAGES OPERATING PROFIT MARGIN

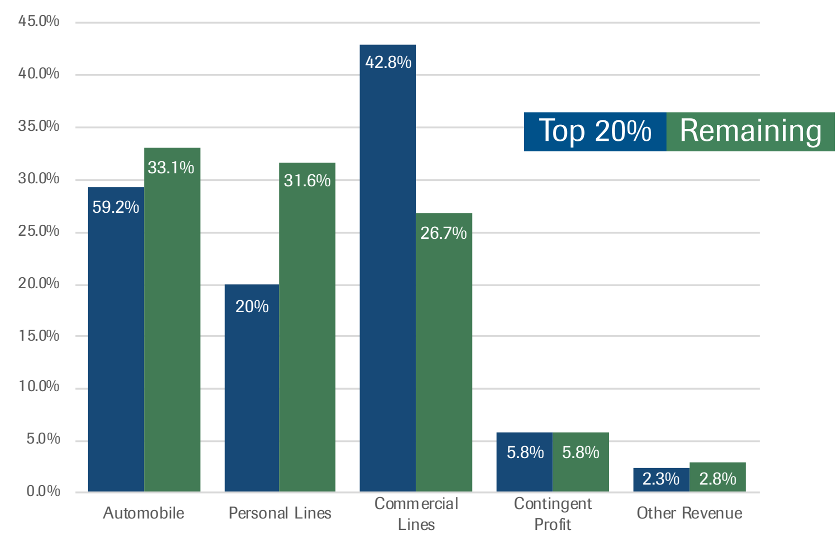
	TOP PERFORMING 20%		REMAINING SAMPLE	
(IN $ THOUSAND)		%		%
Automobile	19,466	29%	194,102	33%
Personal Lines	13,311	20%	185,442	32%
Commercial Lines	28,582	43%	156,548	27%
Contingent Profit	3,843	6%	33,857	6%
Other Revenue	1,508	2%	16,425	3%
Total Income	**66,711**	**100%**	**586,374**	**100%**
Total Personnel Expense	26,942	40%	299,286	51%
Total Premise Expense	3,372	5%	35,002	6%
Total Data Processing Expense	2,298	3%	11,168	2%
Total Marketing Expense	1,218	2%	13,430	2%
Total Administrative Expense	4,507	7%	45,564	8%
Total Expense	**38,338**	**57%**	**404,451**	**69%**
Operating Income	**28,373**	**43%**	**181,923**	**31%**



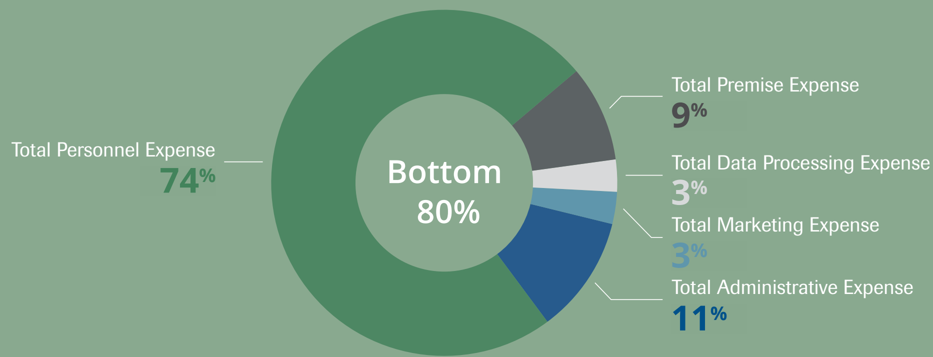
Sales Mix for Top Performers

We have prepared the following graph comparing the sales mix of the top 20% of performers from our sample to the remaining sample. It should be noted that there is a strong focus on commercial lines for the top performers.

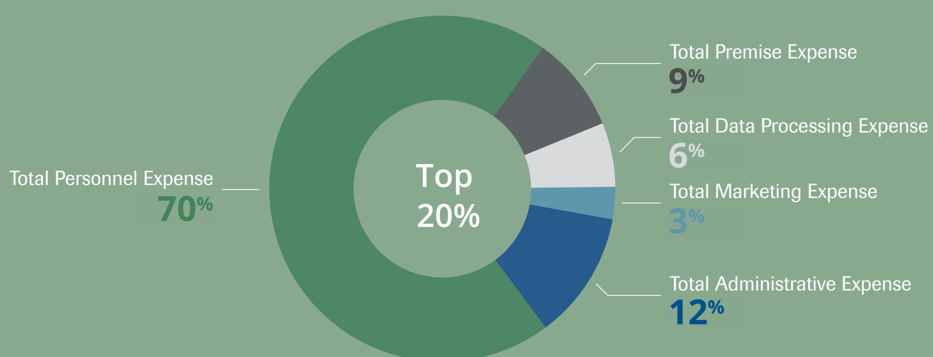
SALES MIX COMPARISON OF TOP 20%



Expense Investment Bottom 80% as a Percentage of Total Expenses



Expense Investment Top 20% as a Percentage of Total Expenses



Expenses Investment for Top Performers

The charts on the left-hand side outline the investment of total expenditure dollars to the five expense categories.

The expense investment spread between the top 20% of brokers and the rest is similar to previous reports where the most profitable brokers spend 4% less on personnel. One interesting note is the data process expenses are generally increasing with the top brokers, which might be an indication of a focus on improving systems and ultimately lowering wage costs as a percentage of revenue.

Profitability of Commercial Brokers

As noted above, the top performers' commercial book of business on average comprised 43% of total revenue. Having said that, we have also noted that a significant subset of commercial brokerages perform worse than the industry average. On closer examination we found that in most cases, the lower operating margins relate to producer compensation structure.

Despite potential issues with producer compensation, commercial lines-oriented brokerages are generally very attractive targets for consolidators and strategic buyers for several reasons, including:

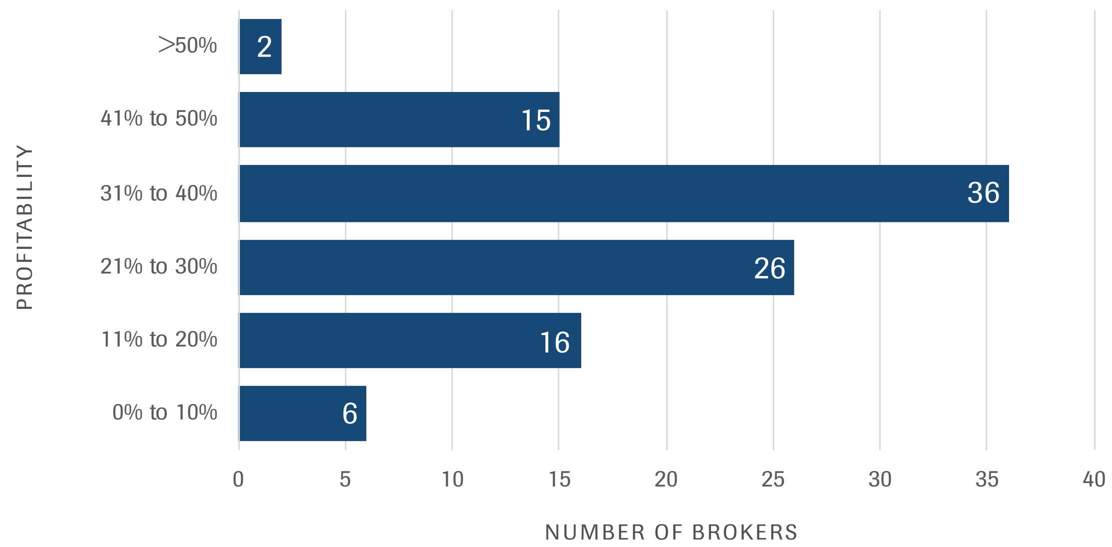
- **Contingent profit income** was double for commercial brokerages at 10% of revenue when compared to 5% for non-commercial brokerages.
- **If producer compensation is structured** appropriately at approximately 35% of produced revenue, the overall compensation including support services tend to be less than higher volume personal lines focused brokerages.
- **It is easier to scale revenue** as premium per policy is higher and the brokerage has more opportunity to grow revenue as the customers' business grows.
- **As long as the brokerage** has adequate markets, commercial business tends to have better retention than personal lines which increases the lifetime value of the future cash flow.

Those brokers who commit to building a commercial brokerage are well rewarded in terms of operating profit and enterprise value, if they are able to control producer costs.

Average Profitability Distribution

Of the 101 brokerages in our sample, the average and median profit levels were 32% and 28% respectively. We have summarized the distribution of our sample by level of profitability.

BROKERAGE PROFITABILITY DISTRIBUTION



Profitability by Brokerage Size

	SMALL < $2 MILLION		MEDIUM $2 TO 5 MILLION		LARGE > 5 MILLION	
NUMBER OF BROKERAGES	51		22		28	
(IN $ THOUSAND)	2021 TOTAL	%	2021 TOTAL	%	2021 TOTAL	%
Automobile	20,128	35%	18,272	27%	175,168	33%
Personal Lines	20,964	36%	19,985	29%	157,803	30%
Commercial Lines	14,709	26%	24,529	36%	145,892	28%
Contingent Profit	1,549	3%	4,669	7%	31,483	6%
Other Revenue	174	0%	461	1%	17,299	3%
Total Income	**57,524**	**100%**	**67,916**	**100%**	**527,645**	**100%**
Total Personnel Expense	28,588	50%	38,608	57%	259,032	49%
Total Premise Expense	3,480	6%	3,293	5%	31,601	6%
Total Data Processing Expense	1,076	2%	1,425	2%	10,965	2%
Total Marketing Expense	1,163	2%	2,121	3%	11,363	2%
Total Administrative Expense	4,978	9%	5,427	8%	39,666	8%
Total Expenses	**39,285**	**68%**	**50,875**	**75%**	**352,628**	**67%**
Operating Income	**18,238**	**32%**	**17,041**	**25%**	**175,017**	**33%**

The overall size or scale of a brokerage continues to be a key factor in insurance brokerage profitability. Traditionally, small brokerage offices tend to be profitable as they are directly managed by the owner and are often in smaller communities with lower cost structures. As organizations get larger, there are certain infrastructure costs that must be put in place. They tend to be fixed in nature but are scalable, resulting in greater profitability as the organization grows.

We also believe management ability becomes crucial as a brokerage grows. Those entrepreneurs who can seek out, attract, and then retain top managers are well rewarded.

The chart on the left-hand side represents operating metrics of different sized brokerages.

Conclusion

After many years of consistent operating profit margins, brokerages enjoyed a considerable improvement in results in this year's study. The improvements have been driven by increasing premium rates that have undoubtably come at a cost as brokers scramble to deal with customers facing 10% to 20% premium increases. It is up for debate on whether premium rates will remain high, but all indications point to a continuing hard market.

Online insurance distribution is likely to be one of the most interesting areas to watch in the years to come. Brokers and underwriters are investing heavily in ways to improve the distribution of insurance products and there are some industry players that are starting to have an impact on the market.

Demand for P&C brokerages continues to be strong with private equity funded brokerages leading the way. We also see that commercial and speciality lines brokerages are in the greatest demand. In closing, we want to be clear that we are confident the brokerage distribution channel is strong and will continue to be so in the years to come.

APPENDIX A:
Aggregate Income and Expenses of Brokerages in 2021 and 2019

	2021 TOTAL	% OF REVENUE	2019 TOTAL	% OF REVENUE
Automobile	213,567,827	32.7%	91,806,661	23.8%
Personal Lines	198,752,432	30.4%	115,285,838	29.9%
Commercial Lines	185,129,964	28.3%	142,006,339	36.9%
Contingent Profit	37,700,895	5.8%	24,881,145	6.5%
Other Revenue	17,933,474	2.7%	11,190,634	2.9%
Total Income	**653,084,591**	**100.0%**	**385,170,617**	**100.0%**
Salaries, wages and benefits	279,383,663	42.8%	167,768,132	43.6%
Commissions	45,588,859	7.0%	43,311,082	11.2%
Recruitment and Training	1,255,940	0.2%	553,509	0.1%
Total Personnel Expense	**326,228,462**	**50.0%**	**211,632,723**	**54.9%**
Rent	29,579,713	4.5%	16,560,935	4.3%
Repairs and Maintenance	3,608,040	0.6%	1,494,924	0.4%
Utilities	635,063	0.1%	631,585	0.2%
Other Premise	4,551,652	0.7%	622,616	0.2%
Total Premise Expense	**38,374,468**	**5.9%**	**19,310,060**	**5.0%**
Hardware	11,828,140	1.8%	4,235,598	1.1%
Software	1,638,380	0.3%	4,905,073	1.3%
Total Data Processing Expense	**13,466,519**	**2.1%**	**9,140,672**	**2.4%**
Advertising	12,620,943	1.9%	8,607,090	2.2%
Donations	402,634	0.1%	235,578	0.1%
Meals and Entertainment	1,623,726	0.2%	601,038	0.2%
Total Marketing Expense	**14,647,303**	**2.2%**	**9,443,706**	**2.5%**
Automobile and Parking	2,148,726	0.3%	1,651,197	0.4%
Bad Debt	1,403,057	0.2%	671,237	0.2%
Bank Charges	10,199,195	1.6%	4,962,807	1.3%
Insurance	6,723,002	1.0%	4,058,728	1.1%
Membership and Dues	2,573,918	0.4%	3,106,283	0.8%
Office	13,438,798	2.1%	7,013,844	1.8%
Professional Fees	5,490,724	0.8%	5,168,959	1.3%
Telephone	4,634,824	0.7%	2,670,157	0.7%
Travel	3,461,580	0.5%	2,089,847	0.5%
Other Administrative	(2,333)	0.0%	555,937	0.1%
Total Administrative Expense	**50,071,489**	**7.7%**	**31,948,995**	**8.3%**
Total Expense	**442,788,241**	**67.8%**	**281,476,156**	**73.1%**
Operating Income	**210,296,350**	**32.2%**	**103,694,462**	**26.9%**

APPENDIX B:
Operating Profit - Top 20% of Brokerages

	TOP 20% OF BROKERAGES (20)		REMAINING SAMPLE (81)	
	TOTAL	%	TOTAL	%
Automobile	19,466,150	29.2%	194,101,677	33.1%
Personal Lines	13,310,748	20.0%	185,441,684	31.6%
Commercial Lines	28,582,331	42.8%	156,547,633	26.7%
Contingent Profit	3,843,449	5.8%	33,857,446	5.8%
Other Revenue	1,508,239	2.3%	16,425,235	2.8%
Total Income	**66,710,917**	**100.0%**	**586,373,674**	**100.0%**
Salaries, wages and benefits	24,219,557	36.3%	255,164,106	43.5%
Commissions	2,564,590	3.8%	43,024,269	7.3%
Recruitment and Training	158,020	0.2%	1,097,920	0.2%
Total Personnel Expense	**26,942,167**	**40.4%**	**299,286,295**	**51.0%**
Rent	2,885,536	4.3%	26,694,177	4.6%
Repairs and Maintenance	412,346	0.6%	3,195,694	0.5%
Utilities	55,516	0.1%	579,547	0.1%
Other Premise	18,820	0.0%	4,532,832	0.8%
Total Premise Expense	**3,372,218**	**5.1%**	**35,002,250**	**6.0%**
Hardware	2,295,427	3.4%	9,532,713	1.6%
Software	2,643	0.0%	1,635,737	0.3%
Total Data Processing Expense	**2,298,070**	**3.4%**	**11,168,449**	**1.9%**
Advertising	1,005,699	1.5%	11,615,244	2.0%
Donations	19,306	0.0%	383,328	0.1%
Meals and Entertainment	192,703	0.3%	1,431,023	0.2%
Total Marketing Expense	**1,217,708**	**1.8%**	**13,429,594**	**2.3%**
Automobile and Parking	268,292	0.4%	1,880,434	0.3%
Bad Debt	174,309	0.3%	1,228,748	0.2%
Bank Charges	1,086,038	1.6%	9,113,157	1.6%
Insurance	701,662	1.1%	6,021,340	1.0%
Membership and Dues	137,439	0.2%	2,436,479	0.4%
Office	1,000,534	1.5%	12,438,264	2.1%
Professional Fees	313,962	0.5%	5,176,762	0.9%
Telephone	522,381	0.8%	4,112,443	0.7%
Travel	311,990	0.5%	3,149,590	0.5%
Other Administrative	(9,264)	0.0%	6,931	0.0%
Total Administrative Expense	**4,507,343**	**6.8%**	**45,564,146**	**7.8%**
Total Expense	**38,337,506**	**57.5%**	**404,450,734**	**69.0%**
Operating Income	**28,373,411**	**42.5%**	**181,922,940**	**31.0%**

APPENDIX C:
Aggregate Operating Profit By Size

	SMALL < 2,000,000		MEDIUM 2,000,000 TO 5,000,000		LARGE > 5,000,000	
NUMBER OF BRANCHES	51		22		28	
	2021 TOTAL	% OF REVENUE	2021 TOTAL	% OF REVENUE	2021 TOTAL	% OF REVENUE
Automobile	20,127,969	35.0%	18,271,655	26.9%	175,168,202	33.2%
Personal Lines	20,964,058	36.4%	19,985,266	29.4%	157,803,108	29.9%
Commercial Lines	14,708,752	25.6%	24,529,391	36.1%	145,891,821	27.6%
Contingent Profit	1,549,147	2.7%	4,668,610	6.9%	31,483,137	6.0%
Other Revenue	173,682	0.3%	460,617	0.7%	17,299,174	3.3%
Total Income	**57,523,608**	**100.0%**	**67,915,540**	**100.0%**	**527,645,443**	**100.0%**
Salaries, wages and benefits	21,506,347	37.4%	31,418,891	46.3%	226,458,426	42.9%
Commissions	7,034,210	12.2%	6,949,864	10.2%	31,604,785	6.0%
Recruitment and Training	47,280	0.1%	239,657	0.4%	969,003	0.2%
Total Personnel	**28,587,837**	**49.7%**	**38,608,412**	**56.8%**	**259,032,213**	**49.1%**
Rent	2,960,592	5.1%	2,847,268	4.2%	23,771,853	4.5%
Repairs and Maintenance	304,080	0.5%	324,502	0.5%	2,979,459	0.6%
Utilities	168,862	0.3%	81,269	0.1%	384,932	0.1%
Other Premise	46,245	0.1%	40,204	0.1%	4,465,203	0.8%
Total Premise	**3,479,779**	**6.0%**	**3,293,243**	**4.8%**	**31,601,446**	**6.0%**
Hardware	1,063,446	1.8%	1,420,091	2.1%	9,344,602	1.8%
Software	12,846	0.0%	4,924	0.0%	1,620,610	0.3%
Total IT	**1,076,292**	**1.9%**	**1,425,015**	**2.1%**	**10,965,212**	**2.1%**
Advertising	1,021,465	1.8%	1,842,699	2.7%	9,756,778	1.8%
Donations	26,742	0.0%	44,986	0.1%	330,906	0.1%
Meals and Entertainment	114,774	0.2%	233,403	0.3%	1,275,549	0.2%
Total Marketing	**1,162,981**	**2.0%**	**2,121,088**	**3.1%**	**11,363,233**	**2.2%**
Automobile and Parking	276,788	0.5%	431,840	0.6%	1,440,098	0.3%
Bad Debt	286,005	0.5%	154,778	0.2%	962,274	0.2%
Bank Charges	1,161,360	2.0%	786,534	1.2%	8,251,302	1.6%
Insurance	696,515	1.2%	803,262	1.2%	5,223,225	1.0%
Membership and Dues	191,148	0.3%	247,857	0.4%	2,134,913	0.4%
Office	1,246,096	2.2%	1,480,787	2.2%	10,711,914	2.0%
Professional Fees	523,925	0.9%	763,701	1.1%	4,203,099	0.8%
Telephone	377,953	0.7%	484,258	0.7%	3,772,614	0.7%
Travel	217,897	0.4%	258,780	0.4%	2,984,903	0.6%
Other Administrative	612	0.0%	15,038	0.0%	(17,983)	0.0%
Total Administrative	**4,978,297**	**8.7%**	**5,426,834**	**8.0%**	**39,666,358**	**7.5%**
Total Expense	**39,285,186**	**68.3%**	**50,874,592**	**74.9%**	**352,628,463**	**66.8%**
Operating Income	**18,238,422**	**31.7%**	**17,040,948**	**25.1%**	**175,016,980**	**33.2%**

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