

San Francisco, CA | June 9-10, 2014

SUMMARY.

The Council's CFO & Finance Managers Conference was held June 9-10, 2014, at the Mandarin Oriental in San Francisco. The conference was staffed by The Council's CFO Ce Harrison, VP of Business Development Webb Milward and Meetings Manager Susanna McElroy.

PARTICIPATING FIRMS

Thirty-eight (38) participants from the following 37 member firms were in attendance:

ABD Insurance and Financial Services	Heffernan Group	The Partners Group
Ascende, Inc.	Hylant Group	Payne Financial Group
Beere & Purves Inc.	IMA Financial Group	Propel Insurance
Brooks Insurance Agency, Inc.	Insurance Office of America, Inc.	RCM&D
BW Insurance Agency, Inc.	International ProInsurance Holdings, LLC	Regions Insurance Groups, Inc.
Cobbs Allen	Keenan & Associates	Rutherford/MMA
Corporate Synergies Group Inc.	The Leavitt Group	TrueNorth Companies
Cottingham & Butler, Inc.	McGohan Brabender	Wells Fargo Insurance Services
Crawford Advisors, LLC	McGriff, Seibels & Williams, Inc.	William Gallagher Associates Insurance Brokers
Crystal & Company	Murray Securus	Woodruff-Sawyer & Co.
DiBduo & DeFendis Insurance Brokers, LLC.	M3 Insurance Solutions, Inc.	Worldwide Facilities.
Frenkel & Company	Old National Insurance	
Haas & Wilkerson Insurance	Oswald Companies	

EXECUTIVE SUMMARY

The CFO & Finance Managers Conference continues to grow in numbers and evolve in market power. Of the 46 total participants (including speakers, guests and CIAB staff), nearly half were first-time attendees or from new CIAB member firms, underscoring the importance and strength of the group's collective intelligence and value of peer-to-peer exchange. The agenda included one full day of peer dialogue on top industry issues such as organic growth, mergers and acquisitions, finance tools, profitability and sales culture, and featured important and insightful speakers from Reagan Consulting, Wintrust Commercial Banking and MarshBerry. The second day of the conference was centered on professional executive development and leadership, facilitated by the Wharton School's Dr. Todd Henshaw, one of The Council's most sought after [Select Consultants](#).

FINANCE TOOLS FOR INDUSTRY FINANCE PROFESSIONALS

Ben Rubin, vice president of Wintrust Commercial Banking, led a session on current banking and funding practices for agencies and carriers. Wintrust is the parent company of First Insurance Funding, which provides premium financing tools for CIAB members, as well as a product used in financing CIAB member dues.

Rubin discussed premium trust account requirements for agencies, which is an area where the regulatory requirements vary widely state by state and has led to some confusion and many questions from agency finance personnel in the past. Rubin referenced [this compliance chart](#) located on The Council's website.

Rubin then covered the goals of cash management and some of the possibilities for meeting the goals of liquidity, reduction of bank fees, interest income, reducing float and securing funds. He described some common tools used in liquidity management such as concentration accounts, loan, repurchase and interest sweep accounts, and zero balance accounts. He also covered various returns on liquidity including interest income, staggered CD's and the use of bond portfolios.

In addition, Rubin reviewed management of accounts receivables using policies for producers to collect funds (producer liable or commissions earned), premium financing products and keeping accounts current, and other collection options such as ACH debit, credit cards, and check by phone.

Rubin then reviewed statistics on fraud and tools available from banks and other providers for use in combatting fraud, as well as considerations for internal controls including daily reconciliation, multi-approval levels for check writing, cyber security, hiring procedures and dual controls. He completed his presentation by discussing with the group the interest rate environment and how the economy and rates have affected their agencies in terms of carrier profitability, premium pricing, liquidity management, cost of financing, and transaction multiples.

ALL THINGS FATCA

The Council's Director of Government Affairs, Joel Kopperud, provided an update on developments regarding the implementation of the Foreign Account Tax Compliance Act (FATCA), which goes into effect July 1. In response to the new law, The Council is developing an online portal, www.w8bene.com, for brokers and carriers to more easily meet the IRS reporting requirements. Kopperud informed participants that The Council is hosting an exclusive webinar on June 26 at 11:00 a.m. ET to demonstrate how its new W8 portal works.

The www.w8bene.com portal will provide a single place for participating carriers and brokers to upload and download the required W8 forms. Carriers can both upload their forms and make rolling changes as needed. More information can be found on the www.w8bene.com FAQ section.

| W-8BEN-E PORTAL

UPDATE! FATCA went into effect on July 1, and The Council's W8BENE Portal, www.w8bene.com is now live. We encourage you to register for the portal (Use your CIAB member code: CIAB15) and spread the word to the carriers you do business with to get on the portal and upload their forms. The more participation we have from brokers and carriers alike, the more comprehensive the portal will be.

M&A UPDATE

Kevin Stipe of Reagan Consulting led a session on mergers and acquisitions activity among agencies, and forecasted another climate-changing year. He went over options for obtaining financing for agency acquisitions, perpetuation, and typical covenant structures to facilitate M&A.

TAKEAWAYS

- Capital gains have left firms in a lower-than-average year, despite having more buyers than ever before.
- Absent some kind of rogue event in the economy, this activity is likely to continue.
- A lot of firms are clamoring to get acquisition capability and doing what they can to get in shape.
- The most active acquirers, by virtue of their experience with M&A, have a “greenfield” opportunity to deliver timetables to build large organizations, smooth cultural transitions, and elevate brands.

Driver #1: Private Equity

- ▶ Currently private equity firms are the most active acquirer of agencies, but that hasn't historically been the case (changes year over year based on the situation).
- ▶ Private equity is a creative use of leverage; ability to get favorable financing terms.
- ▶ Built around moderate broker performance and significant margin growth.
- ▶ Important to understand how different pricing is from a \$4-5 million agency vs. a multi-million dollar agency (those getting all the headlines).
- ▶ Investments are coming in at better than 30-point margins.

Driver #2: Dynamics of Pricing

- ▶ When valuations are high, it's easier to sell investments.
- ▶ An internal valuation is always going to be at a discount compared to an external valuation.
 - *Delicate balance to remain independent*
- ▶ Bar in 2013 is 20 percent higher than 2012.

Driver #3: Broker Performance

- ▶ 2013 had high organic growth rate and high EBITDA margin.
- ▶ Younger CEOs want to stay private as long as possible.
 - *Pressure on internal perpetuation*

Five Attributes that Drive Value

1. Leadership
2. Sales culture
3. Specialization (products that have a lasting competitive advantage)
4. Attractive geography
5. Operational capabilities (ability to make money)

CURRENT STATE OF THE MARKETPLACE

Kevin Stipe of Reagan Consulting led a session on agency performance. He addressed the economic environment affecting the brokerage market, noting that growth has accelerated during each of the five years since the U.S. economy melted down in late 2008. Stipe covered top performer benchmarks for the first half of 2014 and trends for the future.

TAKEAWAYS

- Organic growth Median in 2013 was 6.2 percent.
- EBIDTA Median in 2013 was 19.3 percent.
- If you want to be a high performer and want your valuation and independence locked down, you need to find a way to maintain consistent high levels of organic growth.
- 11 percent metric is average – this number must increase if you want a dynamic sales culture.
- Aspire to 15 percent annual new business. This drives more value than anything.
- It takes time to really move on sales culture.
- Success rates on new producer hires – 50 percent is high but becoming more typical. Needs to get better.
- What has changed recently:
 - ▶ Technology-driven productivity
 - ▶ Low performers being replaced more quickly
 - ▶ Specialization
 - ▶ Service levels are increasing (more effectively serving clients)
 - ▶ Creativity and infusion of young talent remain good for the industry

SPECIALIZATION TRENDS IN INSURANCE BROKERAGES

Kevin Stipe of Reagan Consulting led a session on industry specialization and told the group that the industry's top performers are taking specialization to the next level. Stipe explored with the group how they could play a key role in moving on a continuum of specialization in their agency.

TAKEAWAYS

- Growth differentials in organic specialty firms are performing better than all other organic growth.
- Different pillars of specialization, but specialty accounts generally worth 56 percent more than general accounts.
- Can't force specialization areas; let them happen organically.
- When they begin to develop, they'll need help in the initiation stage.
- Ability for a finance manager to take the lead is increasingly valuable.
- Specialty practices develop over time in distinct developmental stages:
 - ▶ **Unorganized Concentrations**
 - *Organic; no leveraging of experiences or resources*
 - *This is one stage where the CFO can play an important role – you can spot areas of concentration and build numbers around what the opportunities might be*
 - ▶ **Tracking and Organizing Accounts**
 - *Leads and resources are shared; beginning to build something*
 - *Give shape to the particular specialty*
 - ▶ **Dedicated Personnel**
 - *Personnel identified to specific specialty area*
 - ▶ **Value-Added Resources**
 - *Practice leader designated, branding developed, marketing begins*

PRODUCER RECRUITING AND DEVELOPMENT

Kevin Stipe of Reagan Consulting led a session on recruiting and retaining producers. With a record number of baby-boomer producers retiring over the next five years, certain firms with strong growth aspirations have concluded that they must hire an unprecedented number of producers during that same time period. Stipe led the group through a discussion of how to manage the challenge of recruiting and retaining great producers.

TAKEAWAYS

- Reagan Consulting study underway examining game-changing producers.
 - ▶ 32 producers from 20 different firms (average book: \$327,000)
- Study is looking at success rates as well as key elements of what makes a successful producer.
 - ▶ Everyone struggles with recruitment
 - ▶ Industry demographics are not particularly encouraging
 - ▶ Consider replacing more quickly, those who are going to retire or wash out (because they're not effective) to help create growth in your production rate
 - ▶ The industry standard for validation changes, depending on the market
 - *Generally give producers three years to validate. This may be too slow.*
- Traits that differentiate successful producers:
 1. High-performing specialists
 2. Don't think of themselves as insurance brokers
 3. Love what they do, have an interest in their clients, understand, think and respond to client values
 4. Don't think of themselves as the 'cold-calling model' producers
 5. Hard workers
 6. Real, defined sense of their value proposition

BLACKWING PERPETUATION FUND

John Wepler, president of MarshBerry, gave a presentation on Blackwing – a broker perpetuation fund currently in development with The Council.

ACA IMPACT ON AGENCIES

Kevin Stipe and Ben Rubin evaluated the current health care landscape and discussed with attendees how their firms can most effectively respond to the continuously changing marketplace for benefits brokerages. The group discussed how their firms are being affected and how they are handling the changes internally.

GROUP BREAKOUTS

An open roundtable discussion, in an exchange of information format, concluded the first day of the conference. Topics of discussion included the following:

ACCOUNTING STAFFING LEVELS

- How to track and evaluate metrics, levels of staff (percentage of revenue/headcount/expenses)
- How to find new good people – discussed possible Council online recruiting board.

SUCCESSION PLANNING

- How to handle succession planning within firms and manage the process. Discussed ways to identify appropriate individuals for growth and development up the chain. The group would like more interaction with the HR Working Group on this topic and information sharing.

RECEIVABLES MANAGEMENT/PAYABLES MANAGEMENT

- Creating accountability through the producer chain.
- Many firms are increasingly outsourcing their payables, policy checking and other administrative tasks. Many others are considering doing the same.

CORPORATE ALLOCATIONS

- Who is doing it and what are they allocating and timetables.

TECHNOLOGY

- Software woes – ongoing unhappiness with database software.
- Dashboard for management reporting.
- Electronic statements from carriers.

SOCIAL MEDIA

- Social media policies. Who has them and how are they used?
- The group would like more interaction with the CIO Working Group on this topic and templates.

PERPETUATION STRATEGIES

- The group discussed ways they handle the issues internally and the need for planning and structured goals within the firm.
- Stay independent or not, charting the course with executive leadership.
- Equity arrangements/vesting periods.

REPORTING IN PRIVATELY HELD FIRMS

- Are there different needs for financial tracking/dashboards?
- Dashboards in daily use.

The group would like to share reporting tools and continue to have other discussions like these, if possible, through private social media for the Working Group, or on a bi-monthly self-participatory Working Group call. The Council's Ce Harrison will follow up on this idea with the group later in the summer.

DAY 2 LEADERSHIP DEVELOPMENT

Dr. Todd Henshaw, director of executive leadership programs at the Wharton School, facilitated the second day of the conference, focusing leadership development using Hogan self-assessment evaluations, which were administered to attendees upon registration.

The **Hogan Values Report** explores the core values and goals that ultimately drive a leader's behavior, aspirations, and expectations about life and work. The report helps individuals determine if they are in the right role and working in a culture that matches their personality. Part of the Values Report includes the **Hogan Development Survey**, which helps make people aware of their leadership style and how it can affect themselves and others in the workplace.

Henshaw conducted an overview of assessment scores and helped attendees understand which values influence the way they lead and how those values drive their leadership style.

TAKEAWAYS

- Being a CFO is more about finance and less about accounting; it's about being a leader in your firm.
- Even if you're not at the top of your organization, you can lead.
- A leader is not a role in an organization (just because you're a VP doesn't necessarily mean you're a leader). Leadership can come from anywhere. Leaders step up and organize people in times of crisis.
- Leadership is part of your identity. It's about being smart, and consistent in your values and convictions – doesn't matter where you are in the firm.
- Research shows leadership style of the C-suite affects the rest of the company culture. There are different levels of behavior (visionary, confidence in self and others, high performance expectations, etc.).
- As an environment becomes more uncertain, people need more leadership.
- Each of us has a different idea of leadership.
- The Kegan theories are very helpful when looking at leadership roles and models. Check out Robert Kegan's books for more information.
- Look for opportunities to be a power motivator and make an impact. CFO's must take charge and influence things.
- Balance work and play – environment where people enjoy their work, not just about the numbers.
- Leaders should exhibit a sense of altruism.
- Be open to collaboration – the goal is to capture what motivates and inspires you and others.

LEADERSHIP, STRATEGIC DECISION-MAKING AND ADAPTABILITY

In group and team-building exercises, attendees examined how their own decision-making styles are impacted by their values. The session emphasized inclusiveness and adaptability of leaders. They examined different decision-making processes, discussed problem-solving methods and engaged in the "judgment process" by deliberating a case study with multiple stakeholders in a firm. Attendees learned important communication skills, how they listen and are perceived, and how their leadership qualities impact others.

TAKEAWAYS

- People tend to surround themselves with pieces of culture that enforce their values.
- How we change/impact our culture:
Deciding who belongs and who doesn't (re: selecting and recruiting people).
- Indirect organizational things (design of office, layout of seating, etc.) have a powerful impact and influence on work patterns, relationships and behaviors.
- Consider people who influence your strategies and who are impacted by your strategies.

GROUP DISCUSSION

Several topics were selected for discussion tables, and attendees chose to participate at the table(s) where the topic most interested them. They included:

- How can firms increase engagement of the different levels and ages in the firm?
- How can firms better integrate acquisitions from a human perspective? Where are we falling short and how can we improve integration. Does anyone survey culture as part of the integration strategy?
- How can we better attract and retain Millennials at agencies?
- Who does succession planning well? How can we do a better job of it, and can, or should, it be incorporated at every level?

Each group reported out to the whole with their thoughts and takeaways on each topic.

The group also expressed interest in participating in an accounting survey for Council agencies. Mary Kay Caldwell of Regions volunteered to work with other group members to pull together questions for the survey. Ce Harrison will use the document to survey the Working Group, as well as all Council members' finance staff. Results will be shared upon completion.

Next Meeting

The CFO & Finance Managers Conference is held annually. In the meantime, please stay in touch with Ce Harrison at ce.harrison@ciab.com and let us know of topics you'd like to cover at the next meeting, or at upcoming working groups.

SHARE IT!: We encourage you to use this document as a reference tool and to share with your executive management and others in your firm who could benefit from this information.

ABOUT THE WORKING GROUPS.

Part of The Council's membership offerings, the CFO & Finance Managers Conference is an adjunct to the CFO Working Group, which is one of five working groups (CIO, HR in Insurance, International and Legal Counsel) open to employees of Council member firms. These working groups provide opportunities for peer-to-peer dialogue on relevant topics and market intelligence, and connection with others who face similar issues and challenges. Participants will walk away with insights and ideas on best practices, as well as a fresh network of professionals.

For more information, or to join, contact The Council's Julia Smith at julia.smith@ciab.com