



**National
Association of
Professional
Surplus
Lines
Offices, Ltd.**

1998 Income & Expense Survey
With Comparative Figures and Analysis

Confidential

This report has been prepared by Russell Miller, Inc.
601 California Street, San Francisco, California 94108 (415) 956-7474

NAPSLO Members are encouraged to respect the confidentiality of the data.



Preface

The 1998 Income & Expense Survey is an analytical tool providing a basis for benchmarking your operations against others in the industry. For the first time, NAPSLO and AAMGA have united in this effort to create an even stronger base for the Survey, which is based on 1997 fiscal year operating results. As a result, eighty organizations participated by completing a detailed questionnaire covering their operations.

In utilizing this information, determine the premium volume segment which your organization fits into: Small (less than \$7.5 million), Medium (between \$7.5 and 15.0 million), or Large (over \$15.0 million). In addition, benchmarks are included for organizations that focus on MGA/Underwriting or Brokerage functions. Upon comparison, you will be able to determine areas of strength and need, which will form a foundation in planning for the future.

In the fourteen years which Russell Miller, Inc. has conducted the Income & Expense Survey, the industry has experienced numerous challenges and environments. We are confident that the enclosed analyses and benchmarks give you a vital tool with which to successfully meet the competitive challenges of the future.



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Section I
Analysis of
Successful
Agencies and
Historical Trends



NAPSLO

1998 Income & Expense Survey



A. Profile of Respondents

Eighty agencies responded to the 1998 survey. With premium volume of the agencies ranging from about \$1.2 million to over \$500 million, the results presented in this report are broken into three size categories.

| Size of Agency | | | | |
|-----------------------|----------------------|------------------------------|---------------------------|------------------------------------|
| Size | Premium Range | Number of Respondents | Average Commission | Average Number of Employees |
| Small | < \$7.5 M | 30 | \$329,770 | 10 |
| Medium | \$7.5 - \$15.0 M | 16 | \$548,938 | 21 |
| Large | > \$15.0 M | 34 | \$3,866,135 | 75 |
| All | | 80 | \$1,792,638 | 40 |

Detailed results by size of agency are presented in Sections III through V.

Results are also separated by type of agency, MGA versus Wholesale Broker. Results by type of agency are presented in Sections VI and VII.

| Type of Agency | | | |
|-----------------------|------------------------------|---------------------------|------------------------------------|
| Type | Number of Respondents | Average Commission | Average Number of Employees |
| MGA / Underwriting | 50 | \$985,462 | 28 |
| Wholesale Broker | 30 | \$3,439,290 | 61 |
| All | 80 | \$1,792,638 | 40 |

B. Profile of Top Performers

A new aspect of the 1998 Survey is an in-depth analysis and comparison of companies that have achieved superior operating results relative to the entire population. By identifying Top Performers, keys to success are brought to light so that all Survey users will be able to continue to add value to their agency.

Top Performers were identified using criteria of growth, profitability and balance sheet liquidity. The primary screen was growth, identifying the top 25% in annual revenue growth in 1997. This limited the field to the top 20



based on growth. Further screening was based on profitability and liquidity. Eleven agencies survived the three-step process and were selected as Top Performers.

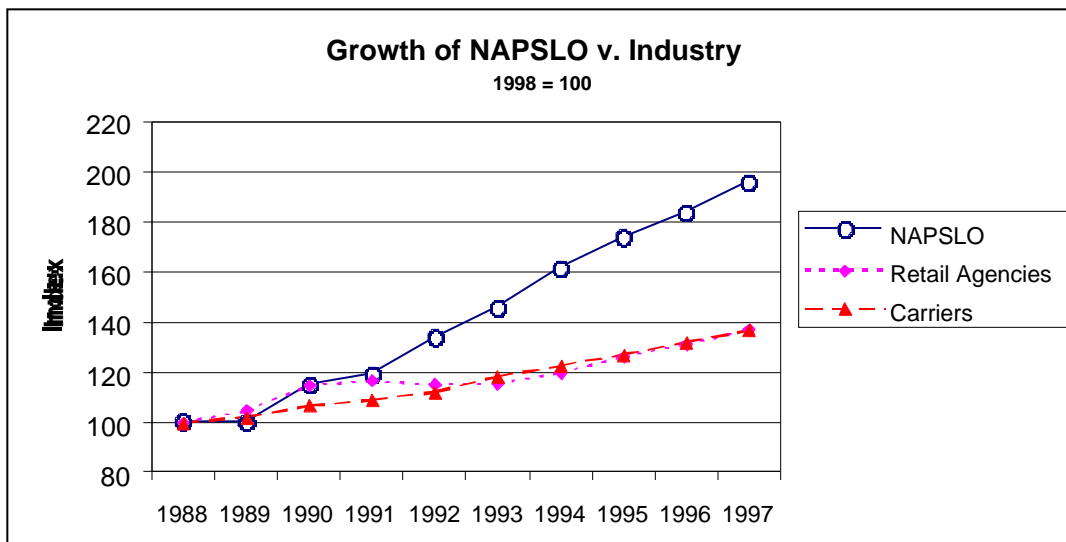
Profile of Top Performers

| Segment | Percent Commercial | Number of Respondents | Average Commission | Average Number of Employees |
|----------------|--------------------|-----------------------|--------------------|-----------------------------|
| All Agencies | 79.4% | 80 | \$1,792,638 | 40 |
| Top Performers | 89.9% | 11 | \$4,171,740 | 44 |

The eleven Top Performers were comprised of eight MGA/Underwriters and three Wholesale Brokers. Six were in the small premium volume category, and five were in the large premium volume category. Interestingly, no medium sized agencies qualified as Top Performers.

C. Revenue Growth

Wholesalers are not dead! NAPSLO members continued to grow net revenues faster than both retail agencies and insurance carriers. The entire insurance industry has experienced a compound annual growth rate of 3.5% over the last ten years, while NAPSLO members have experienced 7.7% growth. As demonstrated in the graph below, NAPSLO agencies have maintained their superior rate of growth since 1992.





Large agencies experienced the fastest growth in 1997, with 8.5% revenue growth. Medium-sized agencies, with a median growth of 4.3%, experienced the slowest growth. Overall, 75% of agencies experienced positive growth in 1997 and 25% showed no growth or negative growth.

Examination of Top Performers demonstrates that there is potential for double-digit growth. This is especially true with small agencies, where the average Top Performer grew 20.7% in 1997. As expected, it is harder for established large agencies to attain relatively high levels of growth on a percentage basis.

Growth of NAPSLO Members

| | All Agencies | Top Performers |
|--------------------------------------|--------------|----------------|
| Revenue Growth (1996 to 1997) | | |
| Small | 6.4% | 20.7% |
| Medium | 4.3% | - |
| Large | 8.5% | 11.4% |
| All | 6.4% | 16.8% |
| Expected Growth | | |
| Top Product Line | 10.4% | 10.7% |
| Second Product Line | 10.0% | 20.0% |
| Third Product Line | 11.8% | 18.1% |

Responses on expected growth by product line indicate that future growth will come primarily from secondary lines of business. This is the key to both continuous growth and lowering the dependence on a single line of business. As demonstrated above, Top Performers expect to grow their second and third largest product lines almost twice as fast as their largest product line.

D. Competitive Advantage

Sustainable growth creates value, and sustainable growth is the result of exploiting a competitive advantage.

What drives growth? The results indicated that Top Performers have been able to outperform their counterparts, primarily by growing newer, diverse product lines. But, why do some agencies grow faster than others?



Source of Competitive Advantage

| | All Agencies | Top Performers |
|--|--------------|----------------|
| <i>Average Rank (Absolute Rank: 1 = most important, 5 = least)</i> | | |
| Price | 2.3 (1) | 1.9 (1) |
| Quality of Service | 2.9 (2) | 3.2 (3) |
| Turn-around time on Quotes & Policies | 3.1 (3) | 2.7 (2) |
| Access to Markets | 3.6 (4) | 3.3 (4) |
| Availability of Coverage / Limits | 4.3 (5) | 4.4 (5) |

In ranking their sources of competitive advantage, survey respondents demonstrated one overriding theme: Price is king! Interestingly, Top Performers placed an even higher emphasis on price, as evidenced below in an average ranking of 1.9, versus 2.3 for agencies overall.

Another distinguishing result was that Top Performers ranked Turn-around time on Quotes & Policies a close second, while it was ranked third by agents overall. Top Performers deliver concrete service in the form of turn-around time, not just the harder to measure “quality of service.”

Product Diversity

| | All Agencies | Top Performers |
|--------------------------------------|--------------|----------------|
| Concentration in Top 3 Carriers | 58.7% | 52.3% |
| Concentration in Top 3 Product Lines | 69.5% | 61.8% |

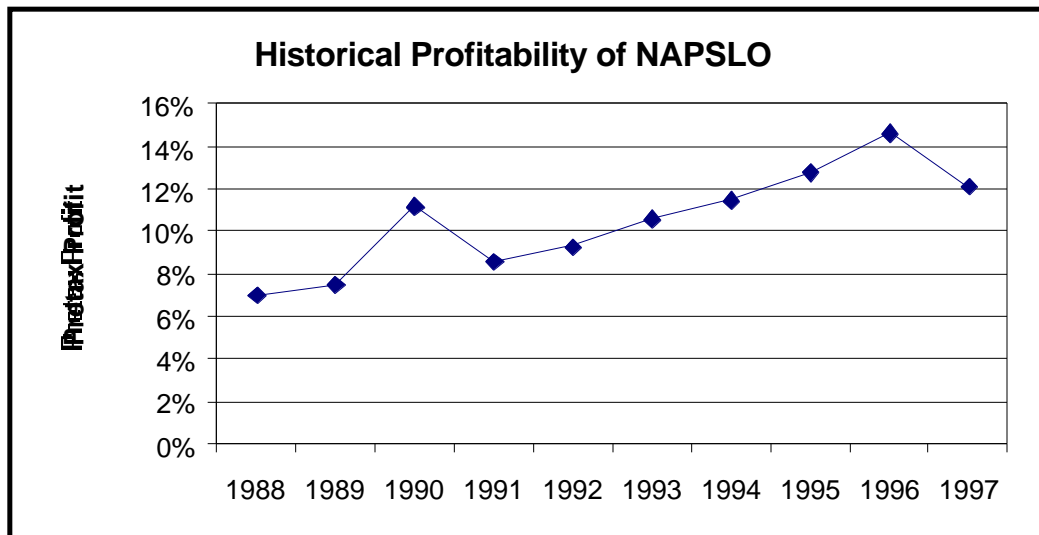
Top Performers have less dependence on their top three carriers and product lines than do agencies overall. A significant factor for success is having the ability to serve diverse clients with widely varying products and multiple carriers.

E. Profitability and Productivity Indicators

The ability to produce profits is the lifeblood of any agency. It generates cash flow to the owners. It provides capital for investment and expansion. Most importantly, sustainable profits enhance value.



The historical profitability of NAPSLO agencies has risen significantly since 1991. In the last five years, the average pretax profit margin has been consistently above 10%.



But, pretax profit margins do not give the complete picture of profitability. Profit margins of privately held agencies tend to be understated as a result of strategic decisions to reinvest cash flows in growth initiatives and because of strategic tax decisions. As a result, we have found that revenue per employee is an excellent benchmark for comparing the inherent profitability of agencies. A high level of revenues per employee is a good indicator of profit capability, even if an agency's tax and investment strategies have yielded a low published profit margin.

| Ten-Year Growth in Productivity | | | |
|--|-----------------------------|-------------|-------------------------------|
| | Revenue Per Employee | | Compound Annual Growth |
| | 1988 | 1997 | |
| Small | \$55,707 | \$65,859 | 1.9% |
| Medium | \$60,350 | \$55,276 | -1.0% |
| Large | \$87,956 | \$96,297 | 1.0% |
| All | \$80,095 | \$88,940 | 1.2% |

The comparison of productivity over ten years presents interesting results: 1) large agents have significantly higher revenue per employee than small or medium agencies, 2) medium agencies have declined an average of 1% per year over the past 10 years, and 3) wholesale brokers have significantly higher revenues per employee than MGA/Underwriters (\$98,274 vs. \$76,541).



In comparing the profitability of all agents to Top Performers, we utilized three measures: 1) pretax income, 2) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), and 3) EBITDA plus owner compensation.

Profitability & Productivity

| | All Agencies | Top Performers |
|-----------------------------|--------------|----------------|
| Profitability | | |
| Pretax Income | 6.3% | 14.0% |
| EBITDA | 10.1% | 15.6% |
| EBITDA + Owner Compensation | 20.6% | 41.1% |
| Productivity | | |
| Revenue per Employee | \$88,940 | \$119,666 |
| Compensation per Employee | \$52,493 | \$62,354 |
| Accounts per Employee | 188 | 151 |
| Commissions per Account | \$225 | \$378 |

Top Performers are significantly more profitable than agencies overall in all three categories. This is even more evident when looking at EBITDA plus owner compensation, where Top Performers outperformed agencies overall 41.1% to 20.6%. This 20.5% differential was realized in the form of 5.5% EBITDA and 15.0% of owners compensation. Top Performers make 5.5 percentage points more in profit, as measured by EBITDA (15.6% vs. 10.1%). In addition, owners of Top Performers make 14 percentage points more (25.5% vs. 10.5%).

Productivity of Top Performers as measured by revenue per employee is 34.5% higher than the average agency (\$119,666 vs. \$88,940). The survey points to two significant reasons for this increased productivity: compensation per employee and commissions per account.

There is a strong correlation between productivity and compensation per employee. But, which is first, the chicken or the egg? Do higher paid employees lead to higher productivity, or does more profit allow for higher pay levels? Whichever is it, as \$9,861 compensation difference results in a \$30,706 productivity difference. That's leverage.

Another positive correlation is the link between increased productivity and the size of account, as measured by commissions per account. Larger accounts generate higher revenues per employee.



F. Balance Sheet Indicators

Agents who make and retain profits will have strong balance sheets. Unprofitable agencies will eventually suffer liquidity problems.

Four liquidity measures are utilized:

- 1) The cash & receivables / premiums payable (“trust”) ratio, measures the ability of agencies to meet carrier trust obligations and cover daily operating expenses. Agencies above 1.0 are in a positive trust position.
- 2) The receivable / payable (“collection”) ratio highlights the ability to collect receivables fast enough to meet payables. A ratio of 0.6 is a good benchmark, with lower ratios being even better.
- 3) The current assets / current liabilities (“working capital”) ratio shows the ability of an agency to meet short-term obligations - a level of 1.0 is acceptable. Higher ratios provide an even greater cushion.
- 4) The number of days of working capital measures how many days of operating expenses are covered by net working capital. Thirty to forty-five days of working capital is often the benchmark required in merger or acquisition deals.

Top Performers maintain a much stronger balance sheet, with a focus towards immediate working capital. For example, Top Performers had 112 days of working capital compared to an average of 31 for agencies overall. This indicates that they have retained earnings far more than their counterparts.

Balance Sheet Ratios

| | All Agencies | Top Performers |
|---|--------------|----------------|
| Liquidity Ratios | | |
| Cash & Receivables / Premiums Payable | 1.13 | 1.17 |
| Premiums Receivable / Premiums Payable | 0.64 | 0.67 |
| Current Assets / Current Liabilities | 1.08 | 1.28 |
| Number of Days Working Capital | 31.2 | 112.4 |
| Capitalization Ratios | | |
| Net Property, Plant & Equip (as % of Revenue) | 7.3% | 5.0% |
| Long Term Debt (as % of Revenue) | 7.2% | 10.0% |
| Shareholders' Equity (as % of Revenue) | 22.1% | 32.3% |



Capitalization ratios simply measure the level of capital utilized in supporting operations (net property, plant & equipment), and the sources of that capital (debt & equity).

Top Performers have utilized their profitability to raise more capital in the form of borrowing and equity (retained earnings). But, they did not spend this capital on property, plant and equipment since they show significantly lower levels of property, plant & equipment. Those retained profits have been utilized to maintain excellent short-term liquidity, while debt has been utilized to shore up longer-term capital needs.

G. Automation

There seems to be little correlation between automation expenditures and success. Top Performers have spent only slightly more on automation in the past, and expect to maintain that level in the near future.

| Automation | | |
|--|---------------------|-----------------------|
| | All Agencies | Top Performers |
| Automation Expenditure (prior 3 years) | 5.9% | 6.7% |
| Automation Expenditure (next 3 years) | 5.5% | 6.4% |
| Year 2000 compliant (% Yes) | 71.3% | 72.7% |
| Web site (% Yes) | 33.8% | 54.5% |
| On Line Connectivity (% Yes) | 23.8% | 18.2% |
| Automated Quotes (% Yes) | 42.5% | 36.4% |
| Automated Policy Issuance (% Yes) | 53.8% | 27.3% |

Apparently, surveyed agencies have spent more effort on year 2000 compliance (71%) than web site construction (34%). Even among those 29% who are not yet compliant, 90% have indicated they have a plan to become so.

Top Performers are significantly further along in web site construction. This is consistent with their marketing orientation and higher growth rates.

Conversely, Top Performers have not focused their automation efforts on connectivity and automating of quotes and policy issuance.



H. Preparing for the Future

There is one simple observation in regards to planning: Top Performers do more planning! All Top Performers have a yearly budgeting process, and a strong majority has a long-range plan.

| Planning Process | | |
|-----------------------------------|---------------------|-----------------------|
| | All Agencies | Top Performers |
| Yearly Budgeting Process (% Yes) | 82.5% | 100.0% |
| Long Range Plan (% Yes) | 52.5% | 63.6% |
| Perpetuation Plan (% Yes) | 46.3% | 45.5% |

Section II
All Agencies
Combined



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1998 Income & Expense Survey



Operating Profile

All Agencies Combined

Commission Rates

| | |
|------------------|-------|
| MGA/Underwritten | 11.4% |
| Brokered | 9.8% |

Premium Volume Breakdown

| | |
|-----------------------|--------------|
| Non-Admitted MGA | 35.1% |
| Non-Admitted Brokered | 22.4% |
| Subtotal | 57.5% |

Business Mix

| | |
|--------------------------|-----|
| Percent Commercial Lines | 79% |
| Percent Personal Lines | 21% |

| | |
|-------------------|--------------|
| Admitted MGA | 32.7% |
| Admitted Brokered | 10.5% |
| Subtotal | 43.2% |

Retention Rates

| | |
|-------------------|-----|
| Premium Retention | 65% |
| Policy Retention | 70% |

| | |
|-------|---------------|
| Total | 100.0% |
|-------|---------------|

Personnel

| All Agencies Combined | Average Number | Average Compensation: | | Combined |
|----------------------------|-------------------|-----------------------|----------|----------|
| | | Salary | Bonus | |
| Position | | | | |
| Executive & Administration | 3.1 | \$69,362 | \$11,627 | \$80,989 |
| Brokers | 5.9 | \$63,647 | \$12,010 | \$75,656 |
| Brokers Assistants | 4.9 | \$32,544 | \$1,962 | \$34,506 |
| Underwriters | 7.4 | \$36,863 | \$6,251 | \$43,114 |
| Underwriters Assistants | 4.9 | \$23,460 | \$1,203 | \$24,663 |
| Accounting | 3.3 | \$32,067 | \$3,762 | \$35,828 |
| Claims | 1.1 | \$24,537 | \$1,787 | \$26,324 |
| Clerical | 8.5 | \$19,419 | \$952 | \$20,372 |
| Data Systems | 1.0 | \$34,305 | \$2,908 | \$37,214 |
| Total | <u>40.0</u> | | | |



Growth

All Agencies Combined

Growth (1996 to 1997)

| | |
|------------------------------------|-------|
| Net Revenues | 6.4% |
| Expenses | 7.3% |
| Pretax Income | -8.4% |
| Pretax Income & Owner Compensation | 0.1% |

Productivity

All Agencies Combined

Marketing Productivity

| | |
|-----------------------------|-----------|
| Accounts / Employee | 188 |
| MGA Accounts / Underwriter | 795 |
| Brokerage Accounts / Broker | 285 |
| MGA Comms. / Underwriter | \$230,411 |
| Brokerage Comms. / Broker | \$193,958 |

Ratios per Employee

| | |
|------------------------|----------|
| Revenues | \$88,940 |
| Personnel Expenses | \$52,493 |
| Non-Personnel Expenses | \$25,672 |
| Pretax Profit | \$10,775 |

Average Account Size

| | |
|----------------------------|-------|
| Revenues / Account | \$472 |
| MGA Commissions / Account | \$290 |
| Brokerage Comms. / Account | \$680 |

Liquidity

All Agencies Combined

| | |
|--|------|
| Cash & Receivables / Premiums Payable | 1.13 |
| Premiums Receivable / Premiums Payable | 0.64 |
| Current Assets / Current Liabilities | 1.08 |
| Number of Days Working Capital | 31 |



Income Statement

| All Agencies Combined | Dollars | Percentage of Revenue | Top Performers |
|--|------------------|--------------------------|-------------------|
| Revenues | | | |
| Retained Commissions & Fees | 1,792,638 | 75.1% | 79.2% |
| Contingents | 110,033 | 4.6% | 4.7% |
| Fee Income | 338,012 | 14.2% | 10.3% |
| Interest | 92,783 | 3.9% | 4.8% |
| Other Income | <u>54,849</u> | <u>2.3%</u> | <u>1.0%</u> |
| Total Revenues | 2,388,365 | 100% | 100% |
| Personnel Expenses | | | |
| Executive & Owner Compensation | 289,955 | 12.1% | 13.5% |
| Office & Staff Salaries | 944,974 | 39.6% | 34.6% |
| Benefits & Payroll Taxes | 174,640 | 7.3% | 6.3% |
| Retirement Plans | <u>346,415</u> | <u>1.5%</u> | <u>2.8%</u> |
| Total Personnel Expenses | 1,444,214 | 60.5% | 57.2% |
| Business Development Expenses | | | |
| Advertising & Promotion | 29,645 | 1.2% | 1.3% |
| Travel & Entertainment | 77,537 | 3.2% | 3.0% |
| Telephone & Facsimile | 64,637 | 2.7% | 2.2% |
| Postage | 41,622 | 1.7% | 1.5% |
| Automobile | 20,476 | 0.9% | 1.0% |
| Education | 7,453 | 0.3% | 0.2% |
| Contributors | 3,404 | 0.1% | 0.2% |
| Dues & Subscriptions | 11,674 | 0.5% | 0.3% |
| Total Business Development Expenses | 256,497 | 10.7% | 9.7% |
| Operating Expenses | | | |
| Bad Debts | 8,518 | 0.4% | 0.4% |
| Interest | 17,651 | 0.7% | 0.4% |
| Data Processing | 32,577 | 1.4% | 1.0% |
| Depreciation & Amortization | 55,605 | 2.3% | 1.8% |
| Insurance | 55,443 | 2.4% | 2.2% |
| Leased Equipment | 15,653 | 0.7% | 0.4% |
| Licenses & Taxes | 21,899 | 0.9% | 1.2% |
| Office Supplies & Printing | 52,239 | 2.2% | 1.9% |
| Professional Services | 44,229 | 1.9% | 1.3% |
| Outside Services | 26,246 | 1.1% | 1.8% |
| Rent & Utilities | 133,784 | 5.6% | 4.5% |
| Repairs & Maintenance | 24,054 | 1.0% | 0.9% |
| Miscellaneous | <u>49,273</u> | <u>2.1%</u> | <u>1.3%</u> |
| Total Operating Expenses | 538,210 | 22.5% | 19.1% |
| Total Expenses | 2,238,921 | 93.7% | 86.0% |
| Pretax Income | 149,444 | 6.3% | 14.0% |
| Pretax Income and Owner Compensation | | 18.4% | 27.5% |
| Return on Equity | | 28.0% | 55.1% |

Section III
Agencies with
Premium Volume
Less than \$7.5
Million



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1998 Income & Expense Survey



Operating Profile

Agencies Less than \$7.5 M Volume

Commission Rates

| | |
|------------------|-------|
| MGA/Underwritten | 13.8% |
| Brokered | 12.4% |

Business Mix

| | |
|--------------------------|-----|
| Percent Commercial Lines | 81% |
| Percent Personal Lines | 19% |

Retention Rates

| | |
|-------------------|-----|
| Premium Retention | 65% |
| Policy Retention | 60% |

Premium Volume Breakdown

| | |
|-----------------------|----------------------|
| Non-Admitted MGA | 41.9% |
| Non-Admitted Brokered | 23.3% |
| Subtotal | 65.2% |
| Admitted MGA | 27.8% |
| Admitted Brokered | 7.8% |
| Subtotal | 35.6% |
| Total | <u>100.0%</u> |

Personnel

| Agencies Less than \$7.5 M Volume | Average Number | Average Compensation: | | Combined |
|--------------------------------------|-------------------|-----------------------|----------|----------|
| | | Salary | Bonus | |
| Position | | | | |
| Executive & Administration | 1.0 | \$54,501 | \$9,446 | \$63,947 |
| Brokers | 1.1 | \$54,865 | \$10,035 | \$64,901 |
| Brokers Assistants | 0.3 | \$35,808 | \$6,000 | \$41,808 |
| Underwriters | 3.0 | \$32,124 | \$8,667 | \$40,791 |
| Underwriters Assistants | 1.4 | \$19,851 | \$1,528 | \$21,379 |
| Accounting | 1.0 | \$30,006 | \$2,256 | \$32,262 |
| Claims | 0.4 | \$20,117 | \$2,085 | \$22,202 |
| Clerical | 2.1 | \$18,007 | \$1,350 | \$19,358 |
| Data Systems | 0.1 | \$27,125 | \$2,806 | \$29,931 |
| Total | <u>10.4</u> | | | |



Growth

Agencies Less than \$7.5 M Volume

Growth (1996 to 1997)

| | |
|------------------------------------|--------|
| Net Revenues | 6.4% |
| Expenses | 7.6% |
| Pretax Income | -31.3% |
| Pretax Income & Owner Compensation | 1.2% |

Productivity

Agencies Less than \$7.5 M Volume

Marketing Productivity

| | |
|-----------------------------|-----------|
| Accounts / Employee | 232 |
| MGA Accounts / Underwriter | 554 |
| Brokerage Accounts / Broker | 683 |
| MGA Comms. / Underwriter | \$108,104 |
| Brokerage Comms. / Broker | \$150,459 |

Ratios per Employee

| | |
|------------------------|----------|
| Revenues | \$65,859 |
| Personnel Expenses | \$40,687 |
| Non-Personnel Expenses | \$22,173 |
| Pretax Profit | \$2,999 |

Average Account Size

| | |
|----------------------------|-------|
| Revenues / Account | \$284 |
| MGA Commissions / Account | \$195 |
| Brokerage Comms. / Account | \$220 |

Liquidity

Agencies Less than \$7.5 M Volume

| | |
|--|------|
| Cash & Receivables / Premiums Payable | 1.14 |
| Premiums Receivable / Premiums Payable | 0.54 |
| Current Assets / Current Liabilities | 1.15 |
| Number of Days Working Capital | 51 |



Income Statement

| Agencies Less than \$7.5M Volume | Dollars | Percentage of Revenue |
|--|----------------------|-----------------------|
| Revenues | | |
| Retained Commissions & Fees | 329,770 | 73.4% |
| Contingents | 19,877 | 4.4% |
| Fee Income | 76,709 | 17.1% |
| Interest | 17,845 | 4.0% |
| Other Income | <u>5,181</u> | <u>1.2%</u> |
| Total Revenues | 449,383 | 100.0% |
| Personnel Expenses | | |
| Executive/Owner Compensation | 68,104 | 15.2% |
| Office & Staff Salaries | 170,326 | 37.9% |
| Benefits & Payroll Taxes | 31,506 | 7.0% |
| Retirement Plans | <u>5,955</u> | <u>1.3%</u> |
| Total Personnel Expenses | 275,892 | 61.4% |
| Business Development Expenses | | |
| Advertising & Promotion | 5,455 | 1.2% |
| Travel & Entertainment | 15,047 | 3.3% |
| Telephone & Facsimile | 11,935 | 2.7% |
| Postage | 7,549 | 1.7% |
| Automobile | 3,981 | 0.9% |
| Education | 632 | 0.1% |
| Contributions | 314 | 0.1% |
| Dues & Subscriptions | 2,335 | 0.5% |
| Total Business Development Expenses | 47,250 | 10.5% |
| Operating Expenses | | |
| Bad Debts | 2,457 | 0.5% |
| Interest | 2,327 | 0.5% |
| Data Processing | 5,824 | 1.3% |
| Depreciation & Amortization | 8,670 | 1.9% |
| Insurance | 11,750 | 2.6% |
| Leased Equipment | 2,291 | 0.5% |
| Licenses & Taxes | 6,550 | 1.5% |
| Office Supplies & Printing | 10,336 | 2.3% |
| Professional Services | 7,420 | 1.7% |
| Outside Services | 5,793 | 1.3% |
| Rent & Utilities | 28,225 | 6.3% |
| Repairs & Maintenance | 4,940 | 1.1% |
| Miscellaneous | <u>6,555</u> | <u>1.5%</u> |
| Total Operating Expenses | 103,138 | 23.0% |
| Total Expenses | 426,279 | 94.9% |
| Pretax Income | <u>23,104</u> | <u>5.1%</u> |
| Pretax Income and Owner Compensation | | 20.3% |
| Return on Equity | | 3.5% |

Section IV
Agencies with
Premium Volume
Between \$7.5 and
\$15.0 Million



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1998 Income & Expense Survey



Operating Profile

Agencies Between \$7.5 and \$15.0 M Volume

| Commission Rates | | Premium Volume Breakdown | |
|--------------------------|-------|--------------------------|---------------|
| MGA/Underwritten | 10.4% | Non-Admitted MGA | 40.5% |
| Brokered | 8.6% | Non-Admitted Brokered | 8.7% |
| | | Subtotal | 49.2% |
| Business Mix | | Admitted MGA | 48.4% |
| Percent Commercial Lines | 81% | Admitted Brokered | 5.3% |
| Percent Personal Lines | 19% | Subtotal | 53.7% |
| Retention Rates | | Total | 100.0% |
| Premium Retention | 65% | | |
| Policy Retention | 76% | | |

Personnel

| Agencies Between \$7.5 & \$15.0 M Volume | Average Number | Average Compensation: | | Combined |
|---|-------------------|-----------------------|---------|----------|
| | | Salary | Bonus | |
| Position | | | | |
| Executive & Administration | 2.1 | \$66,937 | \$3,983 | \$70,921 |
| Brokers | 1.3 | \$66,726 | \$633 | \$67,359 |
| Brokers Assistants | 0.7 | \$21,895 | \$0 | \$21,895 |
| Underwriters | 5.1 | \$36,021 | \$1,830 | \$37,851 |
| Underwriters Assistants | 3.5 | \$26,762 | \$1,050 | \$27,812 |
| Accounting | 1.9 | \$31,835 | \$1,450 | \$33,285 |
| Claims | 0.8 | \$21,668 | \$1,175 | \$22,843 |
| Clerical | 4.4 | \$20,875 | \$1,025 | \$21,900 |
| Data Systems | 0.5 | \$27,711 | \$1,775 | \$29,486 |
| Total | <u>20.3</u> | | | |



Growth

Agencies Between \$7.5 and \$15.0 M Volume

Growth (1996 to 1997)

| | |
|------------------------------------|--------|
| Net Revenues | 5.3% |
| Expenses | 2.8% |
| Pretax Income | -64.9% |
| Pretax Income & Owner Compensation | -7.4% |

Productivity

Agencies Between \$7.5 and \$15.0 M Volume

Marketing Productivity

| | |
|-----------------------------|-----------|
| Accounts / Employee | 228 |
| MGA Accounts / Underwriter | 577 |
| Brokerage Accounts / Broker | 1349 |
| MGA Comms. / Underwriter | \$96,236 |
| Brokerage Comms. / Broker | \$266,063 |

Ratios per Employee

| | |
|------------------------|----------|
| Revenues | \$55,716 |
| Personnel Expenses | \$33,539 |
| Non-Personnel Expenses | \$23,909 |
| Pretax Profit | -\$1,731 |

Average Account Size

| | |
|----------------------------|-------|
| Revenues / Account | \$244 |
| MGA Commissions / Account | \$167 |
| Brokerage Comms. / Account | \$197 |

Liquidity

Agencies Between \$7.5 and \$15.0 M Volume

| | |
|--|------|
| Cash & Receivables / Premiums Payable | 1.00 |
| Premiums Receivable / Premiums Payable | 0.65 |
| Current Assets / Current Liabilities | 1.03 |
| Number of Days Working Capital | 8 |



Income Statement

| Agencies Between \$7.5 and \$15.0 M Volume | Dollars | Percentage of Revenue |
|--|-----------------------|-----------------------|
| Revenues | | |
| Retained Commissions & Fees | 548,938 | 76.2% |
| Contingents | 21,347 | 3.0% |
| Fee Income | 111,613 | 15.5% |
| Interest | 22,025 | 3.1% |
| Other Income | <u>16,939</u> | <u>2.3%</u> |
| Total Revenues | 720,862 | 100.0% |
| Personnel Expenses | | |
| Executive & Owner Compensation | 96,858 | 13.4% |
| Office & Staff Salaries | 260,099 | 36.1% |
| Bonuses & Payroll Taxes | 66,236 | 9.2% |
| Retirement Plans | <u>8,717</u> | <u>1.2%</u> |
| Total Personnel Expenses | 431,910 | 59.9% |
| Business Development Expenses | | |
| Advertising & Promotion | 10,903 | 1.5% |
| Travel & Entertainment | 23,379 | 3.2% |
| Telephone & Facsimile | 24,864 | 3.4% |
| Postage | 14,032 | 1.9% |
| Automobile | 8,469 | 1.2% |
| Education | 3,682 | 0.5% |
| Contributions | 1,223 | 0.2% |
| Dues & Subscriptions | 3,904 | 0.5% |
| Total Business Development Expenses | 90,477 | 12.6% |
| Operating Expenses | | |
| Bad Debts | 2,309 | 0.3% |
| Interest | 10,857 | 1.5% |
| Data Processing | 10,297 | 1.4% |
| Depreciation & Amortization | 21,464 | 3.0% |
| Insurance | 17,374 | 2.4% |
| Leased Equipment | 8,733 | 1.2% |
| Licenses & Taxes | 10,163 | 1.4% |
| Office Supplies & Printing | 15,974 | 2.2% |
| Professional Services | 24,006 | 3.3% |
| Outside Services | 5,290 | 0.7% |
| Rent & Utilities | 56,152 | 7.8% |
| Repairs & Maintenance | 6,671 | 0.9% |
| Miscellaneous | <u>27,716</u> | <u>3.8%</u> |
| Total Operating Expenses | 217,007 | 30.1% |
| Total Expenses | 739,394 | 102.6% |
| Pretax Income | <u>-18,532</u> | <u>-2.6%</u> |
| Pretax Income and Owners Compensation | | 10.9% |
| Return on Equity | | 34.8% |

Section V
Agencies with
Premium Volume
Greater than \$15.0
Million



NAPSI

1998 Income & Expense Survey



Operating Profile

Agencies over \$15.0 M Volume

| Commission Rates | | Premium Volume Breakdown | |
|--------------------------|-------|--------------------------|---------------|
| MGA/Underwritten | 10.0% | Non-Admitted MGA | 24.9% |
| Brokered | 7.7% | Non-Admitted Brokered | 30.0% |
| | | Subtotal | 54.9% |
| Business Mix | | Admitted MGA | 28.4% |
| Percent Commercial Lines | 78% | Admitted Brokered | 17.3% |
| Percent Personal Lines | 22% | Subtotal | 45.8% |
| Retention Rates | | Total | 100.0% |
| Premium Retention | 65% | | |
| Policy Retention | 71% | | |

Personnel

| Agencies over \$15.0 M Volume | Average Number | Average Compensation: | | Combined |
|-------------------------------|----------------|-----------------------|----------|----------|
| | | Salary | Bonus | |
| Position | | | | |
| Executive & Administration | 5.3 | \$79,683 | \$14,902 | \$94,585 |
| Brokers | 12.3 | \$72,858 | \$14,637 | \$87,495 |
| Brokers Assistants | 11.0 | \$33,042 | \$1,833 | \$34,874 |
| Underwriters | 12.1 | \$41,177 | \$5,562 | \$46,739 |
| Underwriters Assistants | 8.6 | \$23,882 | \$1,032 | \$24,914 |
| Accounting | 5.9 | \$33,832 | \$5,280 | \$39,111 |
| Claims | 1.7 | \$27,388 | \$1,841 | \$29,229 |
| Clerical | 15.9 | \$19,915 | \$702 | \$20,617 |
| Data Systems | 2.0 | \$37,736 | \$3,199 | \$40,935 |
| Total | <u>74.8</u> | | | |



Growth

Agencies over \$15.0 M Volume

Growth (1996 to 1997)

| | |
|------------------------------------|-------|
| Net Revenues | 8.5% |
| Expenses | 7.3% |
| Pretax Income | 0.5% |
| Pretax Income & Owner Compensation | -2.6% |

Productivity

Agencies over \$15.0 M Volume

Marketing Productivity

| | |
|-----------------------------|-----------|
| Accounts / Employee | 177 |
| MGA Accounts / Underwriter | 893 |
| Brokerage Accounts / Broker | 199 |
| MGA Comms. / Underwriter | \$252,890 |
| Brokerage Comms. / Broker | \$225,690 |

Ratios per Employee

| | |
|------------------------|----------|
| Revenues | \$96,297 |
| Personnel Expenses | \$56,516 |
| Non-Personnel Expenses | \$26,351 |
| Pretax Profit | \$13,429 |

Average Account Size

| | |
|----------------------------|---------|
| Revenues / Account | \$543 |
| MGA Commissions / Account | \$283 |
| Brokerage Comms. / Account | \$1,137 |

Liquidity

Agencies over \$15.0 M Volume

| | |
|--|------|
| Cash & Receivables / Premiums Payable | 1.14 |
| Premiums Receivable / Premiums Payable | 0.72 |
| Current Assets / Current Liabilities | 1.06 |
| Number of Days Working Capital | 49 |



Income Statement

| Agencies over \$15.0M Volume | Dollars | Percentage of Revenue |
|--|-----------------------|-----------------------|
| Revenues | | |
| Retained Commissions & Fees | 386,135 | 76.7% |
| Contingents | 272,730 | 5.4% |
| Fee Income | 524,375 | 10.4% |
| Interest | 213,677 | 4.2% |
| Other Income | <u>162,038</u> | <u>3.2%</u> |
| Total Revenues | 5,039,014 | 100.0% |
| Personnel Expenses | | |
| Executive/Owner Compensation | 474,281 | 9.4% |
| Office & Staff Salaries | 2,096,366 | 41.6% |
| Benefits & Payroll Taxes | 339,938 | 6.7% |
| Retirement Plans | <u>95,491</u> | <u>1.9%</u> |
| Total Personnel Expenses | 3,006,036 | 59.7% |
| Business Development Expenses | | |
| Advertising & Promotion | 56,658 | 1.1% |
| Travel & Entertainment | 161,889 | 3.2% |
| Telephone & Facsimile | 119,020 | 2.4% |
| Postage | 85,119 | 1.7% |
| Automobile | 34,453 | 0.7% |
| Education | 18,033 | 0.4% |
| Contributions | 10,100 | 0.2% |
| Dues & Subscriptions | 21,100 | 0.4% |
| Total Business Development Expenses | 506,431 | 10.1% |
| Operating Expenses | | |
| Bad Debts | 12,424 | 0.2% |
| Interest | 27,400 | 0.5% |
| Data Processing | 67,865 | 1.3% |
| Depreciation & Amortization | 115,936 | 2.3% |
| Insurance | 107,016 | 2.1% |
| Leased Equipment | 24,933 | 0.5% |
| Licenses & Taxes | 22,293 | 0.4% |
| Office Supplies & Printing | 102,225 | 2.0% |
| Professional Services | 63,202 | 1.3% |
| Outside Services | 53,752 | 1.1% |
| Rent & Utilities | 203,851 | 4.0% |
| Repairs & Maintenance | 48,173 | 1.0% |
| Miscellaneous | <u>84,087</u> | <u>1.7%</u> |
| Total Operating Expenses | 933,156 | 18.5% |
| Total Expenses | 4,445,633 | 88.2% |
| Pretax Income | <u>593,331</u> | <u>11.8%</u> |
| Pretax Income and Owner Compensation | | 21.2% |
| Return on Equity | | 29.4% |

Section VI
MGA/Underwriter
Composites



NAPSLO

1998 Income & Expense Survey



Operating Profile

MGA / Underwriter Composite

| Commission Rates | | Premium Volume Breakdown | |
|--------------------------|-------|--------------------------|---------------|
| MGA/Underwritten | 12.1% | Non-Admitted MGA | 45.7% |
| Brokered | 8.3% | Non-Admitted Brokered | 11.6% |
| | | Subtotal | 57.3% |
| Business Mix | | Admitted MGA | 42.0% |
| Percent Commercial Lines | 75% | Admitted Brokered | 2.2% |
| Percent Personal Lines | 25% | Subtotal | 44.3% |
| Retention Rates | | Total | 100.0% |
| Premium Retention | 65% | | |
| Policy Retention | 60% | | |

Personnel

| MGA / Underwriter Composite | Average Number | Average Compensation: | | Combined |
|-----------------------------|----------------|-----------------------|----------|----------|
| | | Salary | Bonus | |
| Position | | | | |
| Executive & Administration | 2.5 | \$72,521 | \$11,933 | \$84,454 |
| Brokers | 1.5 | \$50,325 | \$13,327 | \$63,652 |
| Brokers Assistants | 0.8 | \$32,565 | \$1,784 | \$34,349 |
| Underwriters | 7.4 | \$33,072 | \$6,176 | \$39,248 |
| Underwriters Assistants | 4.1 | \$20,651 | \$1,309 | \$21,961 |
| Accounting | 2.8 | \$30,627 | \$4,710 | \$35,338 |
| Claims | 1.0 | \$21,763 | \$2,173 | \$23,936 |
| Clerical | 6.5 | \$18,233 | \$1,009 | \$19,243 |
| Data Systems | 1.0 | \$32,370 | \$2,853 | \$35,222 |
| Total | <u>27.5</u> | | | |



Growth

MGA / Underwriter Composite

Growth (1996 to 1997)

| | |
|------------------------------------|--------|
| Net Revenues | 7.5% |
| Expenses | 7.9% |
| Pretax Income | -8.4% |
| Pretax Income & Owner Compensation | -10.0% |

Productivity

MGA / Underwriter Composite

Marketing Productivity

| | |
|-----------------------------|-----------|
| Accounts / Employee | 339 |
| MGA Accounts / Underwriter | 1148 |
| Brokerage Accounts / Broker | 507 |
| MGA Comms. / Underwriter | \$173,628 |
| Brokerage Comms. / Broker | \$147,553 |

Ratios per Employee

| | |
|------------------------|----------|
| Revenues | \$76,541 |
| Personnel Expenses | \$45,178 |
| Non-Personnel Expenses | \$24,370 |
| Pretax Profit | \$6,993 |

Average Account Size

| | |
|----------------------------|-------|
| Revenues / Account | \$226 |
| MGA Commissions / Account | \$151 |
| Brokerage Comms. / Account | \$291 |

Liquidity

MGA / Underwriter Composite

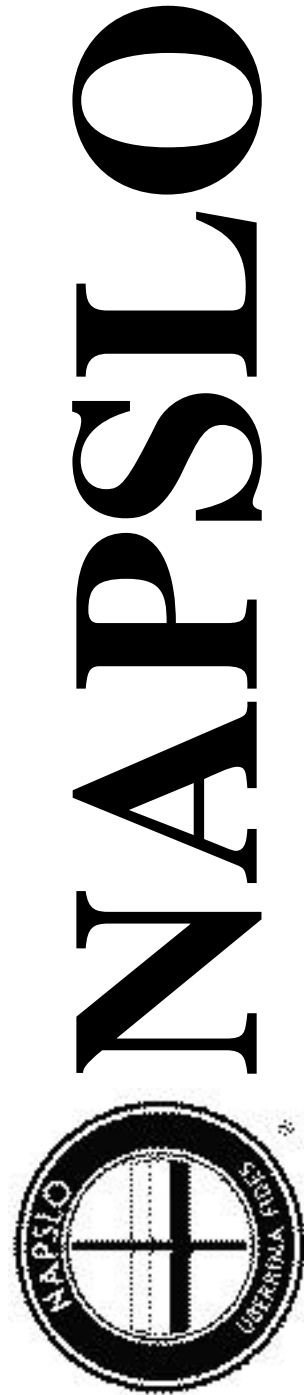
| | |
|--|------|
| Cash & Receivables / Premiums Payable | 1.13 |
| Premiums Receivable / Premiums Payable | 0.56 |
| Current Assets / Current Liabilities | 1.07 |
| Number of Days Working Capital | 13 |



Income Statement

| MGA / Underwriter Composite | Dollars | Percentage of Revenue |
|--|----------------------|-----------------------|
| Revenues | | |
| Retained Commissions & Fees | 985,462 | 72.8% |
| Contingents | 71,122 | 5.3% |
| Fee Income | 217,839 | 16.1% |
| Interest | 47,849 | 3.5% |
| Other Income | <u>31,165</u> | <u>2.3%</u> |
| Total Revenues | 1,353,438 | 100.0% |
| Personnel Expenses | | |
| Executive/Owner Compensation | 183,341 | 13.5% |
| Office & Staff Salaries | 523,774 | 38.7% |
| Benefits & Payroll Taxes | 95,074 | 7.0% |
| Retirement Plans | <u>16,928</u> | <u>1.3%</u> |
| Total Personnel Expenses | 819,118 | 60.5% |
| Business Development Expenses | | |
| Advertising & Promotion | 18,631 | 1.4% |
| Travel & Entertainment | 45,413 | 3.4% |
| Telephone & Facsimile | 37,280 | 2.8% |
| Postage | 25,700 | 1.9% |
| Automobile | 12,749 | 0.9% |
| Education | 4,282 | 0.3% |
| Contributions | 2,085 | 0.2% |
| Dues & Subscriptions | 6,403 | 0.5% |
| Total Business Development Expenses | 152,543 | 11.3% |
| Operating Expenses | | |
| Bad Debts | 5,207 | 0.4% |
| Interest | 12,092 | 0.9% |
| Data Processing | 20,181 | 1.5% |
| Depreciation & Amortization | 28,708 | 2.1% |
| Insurance | 28,426 | 2.1% |
| Leased Equipment | 8,812 | 0.7% |
| Licenses & Taxes | 10,027 | 0.7% |
| Office Supplies & Printing | 33,140 | 2.4% |
| Professional Services | 29,780 | 2.2% |
| Outside Services | 17,661 | 1.3% |
| Rent & Utilities | 67,920 | 5.0% |
| Repairs & Maintenance | 15,400 | 1.1% |
| Miscellaneous | <u>28,151</u> | <u>2.1%</u> |
| Total Operating Expenses | 305,605 | 22.6% |
| Total Expenses | 1,277,166 | 94.4% |
| Pretax Income | <u>76,272</u> | <u>5.6%</u> |
| Pretax Income and Owner Compensation | | 19.2% |
| Return on Equity | | 28.9% |

Section VII
Wholesale Broker
Composites



1998 Income & Expense Survey



Operating Profile

All Agencies Combined

Commission Rates

| | |
|------------------|------|
| MGA/Underwritten | 9.7% |
| Brokered | 8.4% |

Business Mix

| | |
|--------------------------|-----|
| Percent Commercial Lines | 87% |
| Percent Personal Lines | 13% |

Retention Rates

| | |
|-------------------|-----|
| Premium Retention | 70% |
| Policy Retention | 75% |

Premium Volume Breakdown

| | |
|-----------------------|---------------|
| Non-Admitted MGA | 17.4% |
| Non-Admitted Brokered | 38.5% |
| Subtotal | 55.9% |
| Admitted MGA | 17.4% |
| Admitted Brokered | 26.3% |
| Subtotal | 43.7% |
| Total | 100.0% |

Personnel

| Wholesale Broker Composite | Average Number | Average Compensation: | | Combined |
|----------------------------|----------------|-----------------------|----------|----------|
| | | Salary | Bonus | |
| Position | | | | |
| Executive & Administration | 4.0 | \$63,905 | \$11,059 | \$74,964 |
| Brokers | 13.2 | \$76,363 | \$11,002 | \$87,365 |
| Brokers Assistants | 11.8 | \$32,528 | \$2,051 | \$34,579 |
| Underwriters | 7.2 | \$44,808 | \$6,418 | \$51,225 |
| Underwriters Assistants | 6.2 | \$28,374 | \$974 | \$29,348 |
| Accounting | 4.2 | \$34,448 | \$2,233 | \$36,681 |
| Claims | 1.2 | \$28,871 | \$1,226 | \$30,097 |
| Clerical | 11.8 | \$21,601 | \$862 | \$22,463 |
| Data Systems | 1.1 | \$37,693 | \$3,006 | \$40,700 |
| Total | <u>60.8</u> | | | |



Growth

Wholesale Broker Composite

Growth (1996 to 1997)

| | |
|------------------------------------|--------|
| Net Revenues | 6.4% |
| Expenses | 4.5% |
| Pretax Income | -10.2% |
| Pretax Income & Owner Compensation | 24.5% |

Productivity

Wholesale Broker Composite

Marketing Productivity

| | |
|-----------------------------|-----------|
| Accounts / Employee | 75 |
| MGA Accounts / Underwriter | 188 |
| Brokerage Accounts / Broker | 242 |
| MGA Comms. / Underwriter | \$98,755 |
| Brokerage Comms. / Broker | \$328,149 |

Ratios per Employee

| | |
|------------------------|----------|
| Revenues | \$98,274 |
| Personnel Expenses | \$57,999 |
| Non-Personnel Expenses | \$26,653 |
| Pretax Profit | \$13,622 |

Average Account Size

| | |
|----------------------------|---------|
| Revenues / Account | \$1,311 |
| MGA Commissions / Account | \$524 |
| Brokerage Comms. / Account | \$1,353 |

Liquidity

Wholesale Broker Composite

| | |
|--|------|
| Cash & Receivables / Premiums Payable | 1.16 |
| Premiums Receivable / Premiums Payable | 0.76 |
| Current Assets / Current Liabilities | 1.13 |
| Number of Days Working Capital | 56 |



Income Statement

| Wholesale Broker Composite | Dollars | Percentage of Revenue |
|--|-----------------------|--------------------------|
| Revenues | | |
| Retained Commissions & Fees | 3,439,290 | 79.5% |
| Contingents | 144,829 | 3.3% |
| Fee Income | 448,094 | 10.4% |
| Interest | 197,762 | 4.6% |
| Other Income | <u>98,891</u> | <u>2.3%</u> |
| Total Revenues | 4,328,865 | 100.0% |
| Personnel Expenses | | |
| Executive/Owner Compensation | 406,456 | 9.4% |
| Office & Staff Salaries | 1,786,109 | 41.3% |
| Benefits & Payroll Taxes | 340,880 | 7.9% |
| Retirement Plans | <u>79,715</u> | <u>1.8%</u> |
| Total Personnel Expenses | 2,613,160 | 60.4% |
| Business Development Expenses | | |
| Advertising & Promotion | 42,269 | 1.0% |
| Travel & Entertainment | 131,572 | 3.0% |
| Telephone & Facsimile | 113,073 | 2.6% |
| Postage | 62,214 | 1.4% |
| Automobile | 29,942 | 0.7% |
| Education | 13,143 | 0.3% |
| Contributions | 5,195 | 0.1% |
| Dues & Subscriptions | 22,489 | 0.5% |
| Total Business Development Expenses | 419,897 | 9.7% |
| Operating Expenses | | |
| Bad Debts | 13,057 | 0.3% |
| Interest | 18,915 | 0.4% |
| Data Processing | 48,280 | 1.1% |
| Depreciation & Amortization | 118,801 | 2.7% |
| Insurance | 124,571 | 2.9% |
| Leased Equipment | 28,735 | 0.7% |
| Licenses & Taxes | 54,604 | 1.3% |
| Office Supplies & Printing | 72,545 | 1.7% |
| Professional Services | 50,650 | 1.2% |
| Outside Services | 30,125 | 0.7% |
| Rent & Utilities | 291,872 | 6.7% |
| Repairs & Maintenance | 32,525 | 0.8% |
| Miscellaneous | <u>87,608</u> | <u>2.0%</u> |
| Total Operating Expenses | 972,287 | 22.5% |
| Total Expenses | 4,005,345 | 92.5% |
| Pretax Income | <u>323,521</u> | <u>7.5%</u> |
| Pretax Income and Owner Compensation | | 16.9% |
| Return on Equity | | 27.8% |

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Russell Miller, Inc.

INSURANCE INDUSTRY SPECIALTY INVESTMENT BANKERS

601 California Street
San Francisco, California 94108
Telephone (415) 956-7474
Fax (415) 398-0620

P.O. Box 26533
Austin, Texas 75755
Telephone (512) 454-0008
Fax (512)454-0203

Offices in Jakarta, Edinburgh, and Tokyo