

Burand's Insurance Agency Adviser

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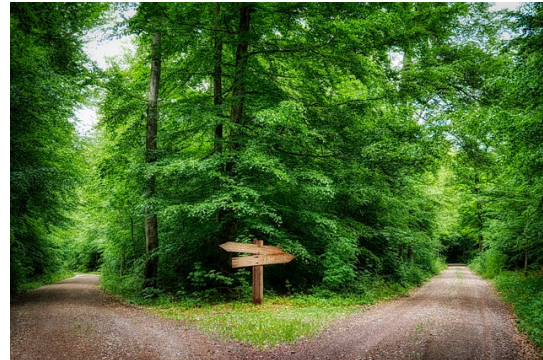


I'm an Ignorant Idiot

Which is why I get to ask the following questions.

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Two Agencies. Two Sales Outcomes.

Recently, two of my clients sold their agencies, and they contacted me post-sale to share their thoughts. The conversations were coincidental. However, the outcomes they shared were very different.

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The Data Is Clear. Carrier Selection Matters More Than Ever.

The newly released **2026 Carrier Metrics and 2027 Forecasts** provide an unprecedented look at which carriers are creating sustainable competitive advantages and which may be falling behind.

My proprietary algorithm identified a group of insurers, **The Competitors**, that are outperforming their peers by a wide margin, growing roughly **twice as fast** as most other carrier groups while maintaining the financial strength necessary to continue expanding.

For agencies, this creates an important strategic question: **Are your primary carrier partners positioned to win over the next five years?**

Financially stronger carriers often have greater capacity to:

- Invest in distribution

- Support agency growth
- Remain competitive in soft markets
- Build long-term value for their partners

The agencies that align themselves with growth-oriented, financially strong carriers are positioning themselves for future success.

Don't build tomorrow's strategy around yesterday's winners. Get the 2026 Carrier Metrics and 2027 Forecasts and see how your carriers compare against the industry's fastest-growing and most profitable insurers.

Know where your carriers stand. Know where the market is heading. Act accordingly.

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I'm an Ignorant Idiot

Which is why I get to ask the following questions.

I read in *PitchBook* that private equity was limiting its borrowing to pay dividends. This has been a long-time strategy of private equity. It likely would not be feasible if the tax code did not have a carveout specific to private equity. This carveout has bipartisan support in Congress, and yet there are no known benefits to the public of this carveout – at least none known to me, and again, I'm ignorant.

Beyond the tax carveout, how many business owners think it makes sense to borrow money so they have a paycheck? If an agency owner can't afford to pay themselves, they obviously lack cash flow. If an agency owner lacks the necessary cash flow, odds are they're running their agency incompetently. This isn't a start-up situation where no revenue is generated, and only expenses are incurred. These are established businesses with significant revenue streams.

Dividends are supposed to be an indication of financial health, proof a company is well-run and investors can count on stable returns. Historically, borrowing money to afford dividends is a sign of weakness. If you examine publicly traded companies that pay good dividends, you're unlikely to learn they're borrowing money to pay them.

If operational cash flow cannot support dividends, and private equity dividends tend to be large, and borrowing is required, then the balance sheet tends to become lopsided toward liabilities, especially compared with real assets. By this I mean assets that are not self-appraised.

A number of quality studies (at least to me, these are quality studies, but I'm ignorant) show that self-appraised assets are materially overvalued. Denial is plausible if, per accounting rules, the PE firm commits to holding those assets long enough because OTTI (Other than Temporary Impairment) accounting rules do not seem to apply. One really has to appreciate the tax loopholes and accounting rules. In my ignorance, I wonder what would happen if regular tax rules and accounting rules applied?

This brings me to another question: if this model of borrowing money to pay dividends is so great, or even if the operating cash flow is sufficient to afford high multiples, why won't private equity provide buyers of their equity with audited financial statements?

I may be ignorant, but I won't give someone hundreds of thousands or millions of dollars if I am not allowed to review their audited financial statements. This is the PE model, and buyers of agencies usually require the agency seller to take material portions of the price in the buyer's stock. But they refuse to provide audited financial statements. Instead, they show a piece of paper "proving" the value of such stock has increased 100%+. They do not disclose that this is a self-appraisal, possibly based on the last round of capital raise.

The parties that are giving them more capital get audited financial statements. The seller is giving them capital by taking a portion in stock rather than demanding cash, so why not treat both parties giving them capital the same?

I know no one ever loses money except for fraud and for this one other reason and maybe for these one or two other reasons, so no one needs to ask these needling questions. That is why I know I'm ignorant, because that is what I've been told by entities that refuse to share financials and must borrow to pay dividends and so on and so forth.

The Securities and Exchange Commission (SEC) has a sophisticated investor rule which is supposed to limit investments by unsophisticated investors. To me, an unsophisticated investor is someone who buys stock without any review of financial statements, or at least without a third party offering an opinion. I believe Madoff sold investors on the same promises without disclosing financials.

If a company is legitimate, it should easily offer financial data. In effect, when selling an agency to private equity, the buyer completes thorough due diligence of the agency's financials. And then an exchange happens. Some portion is in cash and promises.

Another portion is literally an exchange of stock, but only one party knows the true value through financial due diligence of the other party's value, while the seller is totally blind. Which entity is more sophisticated, and who is unsophisticated and blind?

Again, I totally understand that only an ignorant person like me would ask these questions because if I were knowledgeable, I would not question any aspect of these transactions. I know almost everyone makes a lot of money in these deals, so questions are pointless and, worse, a waste of time and energy. This is why being ignorant with nothing better to do gives me the opportunity to address these obvious points.

Since I am ignorant, I asked Google's AI for its opinion on buying stock blind. The response was succinct: "No, it is a very bad idea to buy stock if the seller refuses to provide financial data." I refined the question to specify buying a private company's stock, and the answer was just as succinct: "Buying stock from a private seller who refuses to share financial data is a very high-risk gamble and generally a bad idea." There you have it from a source that is not ignorant like me.

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Two Agencies. Two Sales Outcomes.

Recently, two of my clients sold their agencies, and they contacted me post-sale to share their thoughts. The conversations were coincidental. However, the outcomes they shared were very different.

Both made good money on their sales, so that wasn't a differentiating factor. Both had an opportunity to keep working. But one was far more enthusiastic about the outcome than the other, and he got a much better deal. That conversation began with something like, "You made my retirement go from good to great!"

In that agency, the owners did not necessarily get along, which turned out to be a benefit. Because they didn't get along, they were not insular. They did not feed each other's feel-good news and outcomes. They did not believe that, as a group, they had all the answers. Each had all the answers, but no one trusted the others' answers. They did not believe, as a group, again, that some consultants had all the cheery solutions because no one trusted anyone else's choices.

The second agency was incredibly insular. With insular management teams, they very often choose advisors who tell them what they want to hear. That way, there's much less work. There is less emotional work, and usually less work getting the agency in shape to sell.

I've also noticed that management teams who prefer to avoid conflict usually choose advisors with material conflicts of interest. A number of prominent business brokers (and I don't do business brokering, so I don't have anything to gain by calling out these conflicts) have serious conflicts of interest. Some own their own agencies. Some get paid by the

buyer. How can they be unbiased when they own agencies and represent the buyer? I'm sure they always disclose these conflicts, too, right?

And they almost never get the full deal they deserve. But they don't ask enough of the right advisors to even know what they are missing. Ignorance is bliss.

Insular sellers get along with everyone and avoid conflict at all costs. The agency with the insular management team did not address critical, multiple management shortcomings because doing so would have involved conflict. They avoided dealing with producers who cost them more than they generated because that would have involved conflict. They avoided negotiating with carriers because it would have required stepping outside their comfort zones.

And what did it cost them? Retroactive history is subjective. However, they clearly missed out on making hundreds of thousands more per year. They sold for probably around \$3 to \$7 million less as a result.

The saying that you can lead a horse to water, but you cannot make them drink, might be a metaphor for leading agency owners to a much better outcome, but they won't get that outcome if they don't follow through.

Thinking back over these situations, this second agency had historically worked with consultants who always told them they were right, great, strong. They had a serious accounting problem, and they asked why none of their previous consultants or CPAs had addressed it. How does one answer that? The others were incompetent, lazy, or unwilling to rock the boat. And a lot of agency owners prefer that kind of advice rather than advice that makes them better.

Can you imagine playing sports, being marginal, and your coach telling you there is no need for improvement? Great coaching, right? And then consider the thousands of dollars you're paying for it!

The insurance distribution industry is changing fast with all the consolidation. In theory, the result should be much more professional management that pays for truly quality advice and insights, people who can handle the work physically and emotionally. Many of these firms, though, have management with the same old mindset, but they are in charge of a lot more people and value.

However, those who have climbed the emotional ladder and manage their organizations constructively and proactively are just starting to realize the results of this huge competitive advantage. I don't think the story about all these agency sales, consolidations, and aggregations ends with the sales, consolidations, and aggregations. The differences between management teams are too great. Some have the psychological strength and leadership to make difficult decisions and listen to criticism constructively.

The client who called and told me how much better I'd made his and his wife's retirement made my week. My other client honestly depressed me because I couldn't figure out how I could have made them listen. And their retirement was far less than it could have been, especially given how many people got a piece of the pie.

The takeaway? If you prefer to seek advice from people who simply confirm that you are already great, be aware that your emotional comfort comes at a dollar price. If you truly want to seek greater success and are willing to be proactive, call me, and we'll work together towards that greater success.

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Chris Burand is president and owner of Burand & Associates, LLC, a management consulting firm that has been specializing in the property/casualty insurance industry since 1992. Burand is recognized as a leading consultant for agency valuations and helping agents increase profits and reduce the cost of sales. His services include: agency valuations/due diligence, producer compensation plans, expert witness services, E&O carrier approved E&O procedure reviews, and agency operation enhancement reviews. He also provides the acclaimed Contingency Contract Analysis® Service and has the largest database and knowledge of contingency contracts in the insurance industry.

Burand has more than 35 years' experience in the insurance industry. He is a featured speaker across the continent at more than 300 conventions and educational programs. He has written for numerous industry publications including the Insurance Journal, American Agent & Broker, and National Underwriter. He also publishes Burand's Insurance Agency Adviser for independent insurance agents.

Burand is a member of NACVA, a department head for the Independent Insurance Agents and Brokers of America's Virtual University, an instructor for Insurance Journal's Academy of Insurance, and a volunteer counselor for the Small Business Administration's SCORE program. Chris Burand is also a Certified Business Appraiser and certified E&O Auditor.

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Burand & Associates, LLC is an advocate of agencies which constructively manage and improve their contingency contracts by learning how to negotiate and use their contingency contracts more effectively. We maintain that agents can achieve considerably better results without ever taking actions that are detrimental or

disadvantageous to the insureds. We have never and would not ever recommend an agent or agency implement a policy or otherwise advocate increasing its contingency income ahead of the insureds' interests.

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