Burand's Insurance Agency Adviser

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Playing Checkers when the Game is Chess

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True Motivations

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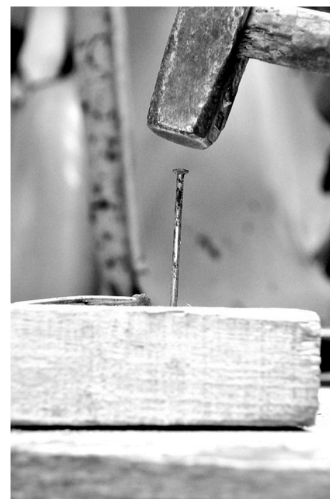
What does the future hold?

The headline in the May 14, 2016, *Business Insurance* was, "Slow organic growth, soft market hit public brokers." The article went on to state that publicly traded brokers are now trading at 12-13 times EBITDA and that their stock prices are down 10%-45% for the year versus the S&P being up 8%.

It's going to be interesting to see whether they admit impairments on prior acquisitions for which they paid more.



Another nail in the coffin for order-taker agents'

And it will be interesting to learn if the PE backed buyers have a reckoning with their backers. The softer market is not likely to end soon so this is not likely a temporary impairment.

Accounting loopholes can make all the difference in earnings. It'll be interesting to see if those loopholes are only used to go up.

A Great Book!

I highly recommend Michael Gay's and Patrick Wraight's new insurance book, "Risk-Proof Your Business." (Available on Amazon and other online bookstores.)

It is a great primer for new hires and even to give to clients to help educate them on making better decisions, including choosing the right broker.

The book is written for commercial consumers and giving it to them shows you're not afraid of educating them–provided of course, you're not the kind of agent that is hiding something.

commission rates.

For $99 a year (renewal pricing) Tugboat (tugboat.claims) will address YOUR clients' claims issues mostly for homeowners.

Why should an insured pay an order-taker agent 15% commission (which is around $200 commission on a middle-class home nationally, varying hugely geographically) and feel they must pay another $99 (a 50% premium) to get good claims support? Isn't that they job of the agent?

This company just raised $2.8 million. It seems a lot of consumers and investors see agents as failures. How long will it be before carriers see order-taker agents as only being worth 9% like Progressive does?

On the other hand, professional agents are worth far more than 15% and the fact a market exists where people are willing to pay another 50% relative to commissions for a claims advocate proves the opportunity exists for charging more!

Be sure to pay attention to the legalities of charging fees and know that you need to provide actual services in admitted markets to charge fees.

Chris Burand
Certified Business Appraiser (CBA)
Certified E&O Auditor and Instructor
Burand & Associates, LLC
HC 66 Box 605
Mountainair, NM 87036
719/485-3868
chris@burand-associates.com
Visit us at: burand-associates.com

Playing Checkers when the Game is Chess

I read an article in *Carrier Management* (Dec 18, 2025) about how insurance companies are pairing AI and process engineering to drive subrogation outcomes. The immediate thought that came to mind is that carriers are not culturally or intellectually ready to do this.

Most insurance companies and agencies are horrible strategic planners. Sure, they go through the motions, and many pay hundreds of thousands to consultants to build strategic plans. What is missing besides a lot? A key element frequently missing is consideration of what the competition will do in relation to your move. Carriers seem to expect that if they lower rates, no one else will.

The best example of this is how virtually every commercial carrier is slobbering over small commercial. When every single carrier wants so much small commercial, the U.S. economy needs to materially expand to fulfill all those appetites, it indicates no one has thought through all their competitors wanting exactly what they want. At this point, carriers are holding agencies hostage by requiring that if they don't generate $X small commercial, they are unlikely to earn a material contingency. If a carrier cannot develop a better strategy than this, you know it doesn't have one.

A true strategy, one that requires deep versus shallow thought, requires consideration of what happens when you take an action. What is the response of your agents and your competitors? If you decrease rates by 10%, do your key competitors decrease rates by 10%? If they decrease rates 10%, are they in a strong enough financial position to hold that decrease, or can they only hold their breath for a short time? Is this a game of attrition, or do you need blitzkrieg success? If these points are not in your strategic plan, you do not have one. You have a wish list.

This lack of thinking through reactions applies to AI usage. Let's make a few large assumptions. First, let's assume that every carrier employs high-quality AI and can provide the system with high-quality data. Let's also assume that AI generates success, whether in subrogation or any other facet.

If all firms use AI to drive success in subrogation, what happens next? Against whom are they subrogating? If it is other insurance companies and they have employed quality AI, I'm not so sure success is guaranteed. The article assumes the other parties do not use their own sophisticated methods to avoid writing a check. No one needs AI if the other party is willing to write a check, or even if they just forgot to put it in the mail. There is a reason they haven't paid, and AI or whatever magical system they buy might just be cheaper than writing checks, especially if the other parties are insurance companies and large companies.

The expectation seems to be that carriers can move their bishops into vulnerable positions that are not vulnerable in their minds because they cannot fathom that the other side will deploy their own forces. Every strategy requires anticipating what the other party will do.

And maybe that is what AI can help with the most. Maybe it can think through what the other side will do. If so, we don't need the executives and consultants to develop a strategy. Maybe that's where the real savings will be generated.

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True Motivations

A recent ACORD report estimated that 75% of mergers and acquisitions by reinsurers and multiline insurers destroy value. The worst performers were motivated to do deals to acquire scale.

Scale is not a determining factor in this industry. Management intelligence and execution matter far more than scale. Scale enables management teams to hide poor results more easily, and no one should ever doubt that motivation.

At the carrier level, I've analyzed results of around 80 carriers that write around 80% of all premiums. I analyze these results in detail annually. Scale is not the difference maker in growth rates, profit margins, or even the cost of capital. Quality of management is the difference maker. That is what moves the needle. Scale is what executives say when they have run out of other options.

Scale may play a role for private equity by enabling a higher multiple in insurance distribution. But this is an interesting point. Adjusted for rate inflation, most of these entities, including more than one publicly traded broker, have achieved almost 0% organic growth in the last five years. I suspect that if I had access to their true financials, some would even be smaller. In these cases, they must keep buying agencies to hide their negative organic growth rate.

"Scale" is one of those wonderful terms used on Wall Street and taught in MBA programs with the aura that if used, the audience should not question the logic.

Another story that appeared in *Carrier Management* discussed how AI is changing the role of insurance brokers. I am certain it is too early to make any conclusions, but it will change the role at some level going forward. Human brokers will be forced to become more knowledgeable and more holistic because the only reason businesses or consumers should pay brokers a full commission price going forward is if the broker provides high-quality advice. The value of paying for transactions is on its way down.

Scale may therefore become important with distributors that are nothing more than transactional intermediaries. At low commission rates, scale becomes important, and most of the agencies these firms have purchased are nothing but transactional entities. Even if they were consultative, many of the consultative brokers were the owners who have now retired. There is rarely a strong program to replace them. This is because the short-term bump in EBITDA is more valuable than long-term growth.

The next day, *Carrier Management's* email headline was, "The Growing Gap between Insight and Execution." The point of the article was how carrier models are built for static worlds rather than dynamic reality (my words). Scale does not help here because the problem is not computing ability. The problem is executive IQ.

A very long time ago, I took a class from a world-famous economist who predicted we would run out of oil in 20 or so years. I was quite positive he was dead wrong, so I spoke up and made a rather garbled point that supply and demand are dynamic. His model was static, as if the same amount of oil was pumped at the same price, all the oil would be used in 20 or so years. I still cannot believe anyone could become world famous with such a silly model, but the same kind of model, a static model, even with AI, is being used today by insurance companies.

The model the professor should have been using was one of price elasticity for both production and consumption. The higher the price, the lower the consumption and the greater the production. This should have included the insight that, at a high enough price, new discoveries would be made. (And this goes beyond the scientific fact, even back then, that the DNA in some wells was different than the original oil, suggesting oil was not as finite as thought even today.) The result is that the world has more oil at a more affordable price today (adjusted for time and inflation) because, at some point, it became so expensive that more discoveries were made.

When modeling for insurance, elasticity must be considered, as well as the impact on competitors' motivations if the company achieves success. Currently, property prices are high. Price elasticity of demand is driving people to go bare. The market for property insurance is shrinking on a same-store basis. If insurance companies continue to increase rates, the market will continue to shrink and would shrink further if not subsidized by mortgage requirements. The rates are far too high for good underwriting. Good underwriting of property, where risk management is a real factor rather than a superfluous conversation, can increase supply at a lower rate. In other words, rates are high enough now that a dynamic model will identify the opportunity to use quality risk management to reduce rates and increase supply.

Moreover, the carriers using static models will be caught flat-footed. Their initial reaction will be to cut rates without improving underwriting. One specific carrier is doing that as I write this. Their combined ratios are averaging around 110%. The dynamic model recognizes this and assesses how much surplus it can acquire, enabling it to either reduce its profit margin and/or further improve its risk management. If the flat-footed carrier is large enough with enough surplus, this may be a war of attrition. Scale will help in a war of attrition, but the most important scale is the amount of surplus relative to premium, not the dollar amount of premium.

At the distribution level, those going for scale are so wrapped up in mergers and acquisitions and raising more money and fighting off competitors poaching their employees (why would good producers with large books opt for a smaller employer if

scale was so omnipotent?), that a dynamic model for smaller entities is not that important because no one is going to notice how they are taking clients one-by-one. The bigger distributors, though, are losing because their models are static and, given their scale, they need dynamic models, especially given how cutthroat the industry is at that level.

However, the price is not yet high enough to change the motivations of most established entities to develop the technology to drill for shale oil. This focus then on scale presents one of the best opportunities I've seen in this industry for more nimble, smarter executive teams who recognize and accept market dynamics and are willing to build dynamic models that take into consideration price elasticity for both supply and demand.

Consumers, especially smart commercial consumers, would rather spend money reducing losses if they can save enough on insurance premiums. Otherwise, they want to "use" their insurance, meaning having enough claims to pay back their premiums. Static carriers and brokers will, in the short term, write these accounts all day long. Let them.

Build dynamic models and take the best accounts without worrying about scale!

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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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