Burand's Insurance Agency Adviser

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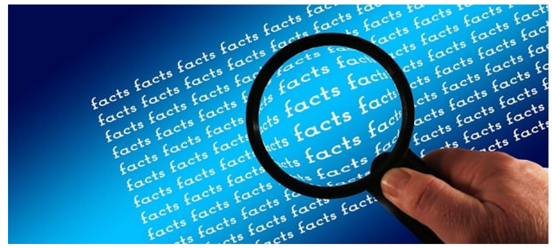

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Join us this winter in the Rocky Mountains to participate in great discussions and networking with industry leaders.

This opportunity consists of a small group of industry professionals who meet only during the morning. The group discusses critical agency management topics, as well as attendees' ideas, roundtable topics, successes, questions and concerns. The schedule leaves the afternoons free for skiing and enjoying the breathtaking Colorado Rockies.

The registration fee for this two-day meeting is $800 per person. Please contact me at chris@burand-associates.com for a registration form.

This meeting is a tremendous opportunity to network with a select

Seating is limited, but I have a few more openings for the **2026 Rocky Mountain Agency Management Meeting**, Feb 26-27, 2026 in Breckenridge, CO. **group of industry professionals. If you're interested, don't wait. Contact me today!**

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Chris Burand is an expensive but good consultant

This is how the phone call began. The prospective client told me that I'd been recommended as being very good, but expensive. He was not sure if "very good" was worth "expensive."

That caught me by surprise because in the scheme of things, I am definitively not expensive. My hourly rate might be high, but I'm not expensive. Many moons ago, when I was just getting started consulting, I had the great luck of finding the best mentor anyone could ever hope to find. He was a true genius. One of the stories [lessons] he told was how to measure expensive.

A bank called him to solve a problem. He told them his hourly rate, which 25 years ago, was higher than what I generally charge today. The bank told him he was too expensive and they instead hired a large consulting firm that charged much less per hour. He asked how many hours that large firm would take. They did not know.

One way to measure "expensive" is hourly rate times hours. That firm charged half the rate, but they ended up charging over three times the number of hours.

Furthermore, that large consulting firm failed to solve the problem. The bank spent well over $50,000, and this was 25 years ago. The bank called my mentor back and asked him to solve the problem. They acknowledge his rate was now reasonable. He then said his rate had doubled. Would they pay that rate? The bank president, and this was a large well-known bank, said his price was still a bargain. The bank President had been educated based on his prior decision and I credit that President for putting his ego aside.

When hiring advisors, my suggestion is to not focus solely on the hourly rate. Pay attention to the number of hours required times the hourly rate and whether the advisor is likely to do the job well.

Which brings me to another recent call. It was a tough situation that required, by law, a high-quality appraisal of the agency. All appraisals are not equal. High-quality appraisals require reports that meet certain criteria regardless of whether the appraised value is correct. The client chose someone else to do the appraisal because they guaranteed a fairly low price.

I know that firm and the work they do does not always meet the required guidelines as established by the business appraisal standards boards nor the IRS. I have even seen their reports state that the report is only an indication of value or some other disclaimer. Most business owners do not understand that an "indication" means the report does not meet the required standards. The report costs, let’s say, $5,000. The agency owner thinks they’re getting a quality report for $5,000 and maybe they saved $2,000 or even $10,000 and they’re happy!

But they have a report that is worth $0. And when they learn they can’t use that cheap report for diddly, they have to then start over and pay for another report they can use. How much should you pay for diddly? Is $5,000 for diddly cheap or expensive?

I was recently working on another agency valuation and notified the owner they might not have the right E&O coverage. Besides possessing what I believe is the highest business valuation criteria of anyone specializing in insurance valuation (the typical failure rate of applicants for my certification is over 95%), I also am certified to conduct E&O audits and training by the largest E&O carriers in two countries. My identification of a huge gap in their E&O coverage potentially saved the agency from bankruptcy. Is that worth an extra $5,000? Is that expensive?

Some situations are very sad. I saw a situation where the agency owner died, and someone offered to value the agency for a low price. The widow agreed, not knowing the appraiser was actually a business broker working for the buyer and being paid a commission by the buyer! Where do you think the price was set, low or high?

I am frequently asked how many hours this or that will take. My answer is most always the same, “I don’t know. It depends on how good the data is.” Quite a few advisors will not say that upfront, if at all. Why is this even important? Frankly, the quality of data is not that important unless you need to defend the value. If the IRS disagrees, or the other litigant does not agree, or if the buyer does not agree, and it turns out the data your appraiser used was poor or contradictory, the odds your value will be upheld is low. To that end, is it expensive to spend extra time verifying the data? A loss can be very expensive relative to the extra cost of developing the correct data.

Two factors are at force. The first is the number of advisors who are incredibly willing to take advantage of people who do not know better. They do not know the required appraisal standards. They do not know the tax requirements. This is not their world, so they don't know, and they are either scared of spending too much money or they're too cheap. And these folks take advantage of them.

But if people will even hire someone to just educate them, we can eliminate ignorance as a reason for making a bad determination of "expensive". I'm not sure how to eliminate cheap other than to encourage people to look at the bigger picture.

In some ways, it is like purchasing the correct insurance. If you never need it, did you waste your money? Maybe, but if you have a claim that gets paid, you're very happy you had the coverage. The main difference is that people usually only get appraisals when they must get appraisals, meaning when they know they must defend against a potential disagreement. Therefore, you will use the appraisal so it makes sense to figure out for yourself, upfront, what your definition of "expensive" is.

When that prospective client told me he heard I was expensive, I immediately thought about all the wasted money spent on more "economic" advisors. I then thought about how much business brokers charge. I am not expensive, but I am very good.

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Insurance Company Profitability: The Truth

I saw an item on the news recently regarding medical malpractice rates being approximately 4 times higher than normal, too few doctors as a result, and so on. The story covered the entire litany of bad things that happen when the litigation environment is too favorable for plaintiff attorneys.

The reporter then interviewed a plaintiff attorney who made all the same comments plaintiff attorneys always make. "Insurance companies make billions." "Consumers will be harmed if caps are instituted" (because they won't be able to sue for enough money). "Attorneys should not have caps on how much of the settlements they get."

I'm going to set a few things straight. The following are points that I never hear either side make and there is likely a purposeful reason they won't make these points.

First, to address the plaintiffs' bar's points. Insurance companies do make billions. But they do not make billions based on the premiums they charge consumers. Over the last 20 years, according to A.M. Best, insurance companies have about broken even on their underwriting with an average annual combined ratio of approximately 100%.

If the insurance lobby truly understood the insurance industry, they would point out that those billions of profits are actually subsidizing many states and lines of business. In fact, carriers would make billions more if they simply quit writing business in many states (GA and CO are particularly bad states), certain lines of business, and then specifically the combination of specific lines in specific states, like medical malpractice in NM (where I saw the news story).

A great question to ask is, why do carriers stay in obviously money losing lines/states? One reason may be that people in the C-suite are often paid based on revenues, not profits. The correlation between their pay and revenues is much stronger than the correlation between their pay and profits. Don't forget this point. It is important.

The trial attorneys always say unlimited awards benefit consumers from the big bad insurance people. Sometimes this is true. But what they don't say, and this is the critical element, is that all the consumers who do not win the lottery with a huge settlement pay for that settlement. In other words, if ABC insurance company pays out $10 million and they insure 500,000 people/businesses in that line, every other policyholder will pay $20 more next year.

This is important because no one really notices the $20 until one day, someone realizes their premiums have tripled and yet they have never had a claim.

Insurance is a pass-through business. It's a cost-plus industry, and cost-plus industries are awful for consumers. It does not matter that an insurance company must pay a $10 million claim in this scenario provided the following:

- They don't have to pay too many $10 million claims
- The state allows for reasonable and timely rate increases
- Their losses otherwise are reasonable

If these three conditions are met, the carrier will increase rates by $10 million and probably a little more to adjust for inflation. The CEO's pay might increase because the company's premiums are now higher. This is why neither side wants to tell a reporter, "These large claims work to the benefit of the trial attorneys, certain individuals within the insurance industry, and the insureds receiving the large settlements. We all get to skim off the backs of regular insureds paying $20 more for every claim."

Typically, what happens is the trial attorneys succeed too much. This causes rates to rise too fast. At that point, insurance companies cannot raise rates fast enough so the environment is no longer habitable. They pull out of the state or line and then you have an economic problem because some portion of the economy stumbles. This is fairly easy to track when the number of doctors falls suddenly or when rate increases greatly exceed GDP growth. This is not rocket-science to figure out, but again, neither side really wants these points out in the open.

If the carriers think they can raise rates fast enough to at least breakeven, a typical result is that consumers will not be able to afford the insurance. We're already seeing that for homeowners in large portions of the country. I imagine too that if we had good UM data (the NAIC changed the coding on UM data three years ago so we don't have much to go on), we'd see a commensurate increase in UM claims.

Also, a carrier must increase their surplus materially to increase their rates materially, at least the carriers managed ethically do. Surplus costs a lot of money. It is not free. Surplus is like bank capital. The banks seem to be whining a lot about having to carry extra capital. This is because carrying extra capital is expensive. It's likely less expensive for insurance companies for a variety of reasons, but it is expensive. If they cannot increase surplus commensurately, then raising rates to regain profitability is impossible.

What happens then is an insurance desert is created. Rates are too high for too many people to afford and yet, rates are not high enough for insurance companies to make money or even breakeven, assuming they can increase their surplus which is not a given. No one wins at this point. But the conversations involve little more than finger pointing and no one, literally no one in my experience, is willing to state the reality.

Insurance companies can fix these situations pretty easily if management possesses a backbone. For casualty with bad litigation environments, pull out of the state/line. Create pain. This is likely the only solution. Always be telling the politicians that all those billions are actually subsidies decreasing the cost of insurance. Do they want that subsidy to go away?

The only people I actually see working toward a quality solution are the agents' associations. Keep in mind, agents are paid cost plus, too. The higher the rates, the more money they make. So, to argue that rates need to decrease means they are arguing for their own pay to be cut. Politicians should look to advocates like this for guidance.

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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

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