

# Burand's Insurance Agency Adviser

Resources and Information for the P&C Insurance Industry

Vol 31, No 8

June 16, 2026

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### Ethics and Branding

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## Digging the Industry a Deeper Grave

I read an article written by the president of a large national carrier on the importance of agents and insureds recognizing the value of risk mitigation for their homes. The article went on and on, ad nauseam, given the context, about how fortifying homes, undertaking wildfire mitigation, and so forth are so valuable, and how homeowners should see the value in spending so much money to achieve this goal.

At no point did the carrier executive write, "And we'll be first in line to provide large



credits to every homeowner that takes these steps and buys a policy from us.” Preaching to homeowners to take these steps without offering material credits is asking to have their cake and eat it too.

What do these risk mitigation steps achieve? Obviously, losses will decrease. What happens for the insurance company? They make more money. The policyholder, though, pays for risk mitigation while paying the same premium as someone who hasn’t taken any steps to mitigate risk. That is unfair for the policyholder. My suggestion is that if any carrier executive is going to preach risk mitigation, put their money where their mouth is and offer correlated discounts.

Roofs now exist that are virtually hail-proof. The last discount I saw for these extremely expensive roofs was immaterial. Yet the carrier’s risk of a hail claim has gone to virtually zero, compared with their neighbor with a five-year-old regular asphalt shingle roof. How in the world can those two houses require the same premium?

This particular insurance company likely needs some profit help from their policyholders because they have one of the worst profit and growth records in the entire industry over the last ten years. They virtually never make a profit. In fact, their underwriting profit over the last five years, as of this writing, is in the negative billions.

Whenever that first carrier puts their money where their mouth is, move your business to them. This will get the other carriers to pay attention, because most will otherwise try to milk the homeowner who spends the risk-mitigation money to increase the carriers' profits. When your carriers preach whatever message they’ve been assigned this month, ask them to put up or shut up.

Carriers made \$171 billion in net profits in 2025, so it is not as if they need more profits, especially profits based on not giving credits to insureds with good risk management practices. Regulators should force carriers to offer these credits if carriers will not step up and do what is right.

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## Ethics and Branding

A year ago, I spoke at a limited membership insurance conference. The organizer introduced me as the best consultant, but the worst consultant ever at branding

themselves. Maybe because I've lived in cattle country most of my life, I'm a little hesitant about the thought of branding myself.

But he was 100% correct that I've done a horrible job creating a big brand. I find it frustrating that people with a much better brand get a lot of work because of their brand. However, sometimes the quality of their work is not only marginal but downright unethical.

A few months ago, a client gave me an idea for a brand. He said I'd carved a unique position for myself as pretty much the only consultant in the industry without conflicts of interest, especially conflicts that come from being a business broker and owning agencies that may or may not be disclosed to agency and carrier clients. I like that! But I still haven't figured out how to turn that idea into a snazzy brand.

Then, a couple of weeks ago, a major national news outlet interviewed me in depth regarding how certain types of insurance companies are being created in a manner that enriches founders but leaves little true surplus available to pay claims, especially after a catastrophe. The reporter had read a lot of my articles critical of insurance company practices, especially those that unjustly enrich founders while leaving policyholders short in a catastrophe. He asked me how in the world I survive consulting for an industry for which I am critical.

I told him my success was due to only working with ethical people. I told him this industry is full of people at the company and distribution levels who really want to do the right thing. They want to take care of people, and to do so, they want to provide products that will help people recover after what might be the worst day of their lives.

Insurance has always had more than its share of unethical players. Today, the industry seems to have extra unethical parties, especially in the alternative risk transfer space, including self-funding benefits and creative new carrier/distribution models.

I am a huge fan of alternative risk transfer and many of the new carriers' capital structures. However, the lack of competent regulation and the complexity of these structures make it easy for unethical parties to mimic ethical players' structures. The devil is always in the details.

All ethical markets and agents have the same struggle in branding their honesty. People don't generally trust insurance, which is why comical characters sell more new personal insurance than "trust me" brands. It is very difficult to create proof-of-trust measures until after someone has had a trust-testing experience.

What do you do to prove you are truly competent, trustworthy, and ethical? How do you brand this beyond token website adages? How do you prove your competitor, who you know is cheating but uses clever marketing, is not ethical? Are you direct, or do you try to show a prospect how you're better and hope they see the light? There's an entire economic theory built around the idea that the less ethical will win unless a boutique brand is created. What is your boutique brand?

## When you need a valuation done right, call the person who will do it right

Business valuations are complex, at least when done correctly. One reason for this complexity is that a business's value varies based on factors such as the parties involved, the purpose of the valuation, and what is being valued.

For example, if an agency is being sold between family members, the parties **MUST ABIDE** by the IRS valuation guidelines. This is not optional. This rule has been in place since 1959! I do not know why some accountants, and more importantly, some business appraisers, do not advise their clients of this mandate. That is blatantly a professional error.

Not only must the ultimate value meet IRS guidelines, but the report format and how it is written must also meet specific guidelines. Furthermore, the person conducting the appraisal must be an independent, third-party, certified appraiser.

Some CPAs advise clients they don't need a third-party valuation because the sale or estate is too small. Again, this is a serious professional error. To say this means the CPA or family determines the value, which violates the independent third-party certified appraiser rule. A great example of this was a portion of Michael Jackson's estate. That portion was appraised at around \$1 million, if I remember correctly. The IRS valued it at some enormous number. I'll use \$1 billion. The estate then had to prove the IRS wrong. This is because, under this aspect of tax law, the taxpayer is presumed guilty until proven innocent. In criminal law, the defendant is innocent until the state proves him guilty. The opposite is true in this part of the tax law, which means the taxpayer bears the financial burden of proving they are correct.

Therefore, if you follow your CPA's advice and don't get a valuation, and the IRS knocks on your door, you're guilty. They can place any value they want on your agency, just like they did in the Michael Jackson case. In the Michael Jackson case, the court ultimately ruled mostly in favor of the estate, but do you have hundreds of thousands of dollars available to prove your innocence?

I recently reviewed an agency's valuation report. The report did not meet the IRS's requirements on multiple levels, so the agency could not submit it to the IRS. But the agency owner still paid full price for a useless report. Most business owners do not know all these requirements exist, so they are prone to being taken advantage of.

Another factor is that, in these scenarios, the IRS requires a Fair Market Value (FMV) valuation. The values most often seen in the marketplace are Fair Values (multiplied by a lot, which I'll get to in a moment). Fair Value and Fair Market Value generally do not have

the same legal definition. If you have a Fair Value valuation completed when a Fair Market Value valuation is required, and if discovered, you'll likely have a problem.

Publicly traded brokers report what they pay and the valuation standard they use (at least some do) in their 10-K filings. By and large, they report they pay in "excess of" Fair Value. Not only do they not use or pay Fair Market Value, but they also do not pay Fair Value either. The "excess" varies, but, for example, if Fair Value is 8 times EBITDA and they pay 12 times EBITDA, the "excess" equals four times EBITDA. Those numbers are in the ballpark of what they are paying by category.

Also, it is important to understand what is being valued. In a family situation, equity is usually valued. Equity does not have the same value as assets, and assets are what third parties purchase almost 100% of the time.

An appraiser should explain all of this to agency owners up front, and the appraiser should understand the legal nuances. Also, don't hire business brokers doing free valuations unless you want them to market your agency. The conflicts of interest are huge.

Sometimes, potential clients seeking an appraisal do not hire me because they choose someone who promises an easier process. That's great, but in my experience, valuations should always be written with the expectation of litigation. (The only exception is if the valuation is for informal purposes or is only an Indication of Value, and you can never use an Indication of Value for any formal purpose!) Maybe a tax authority reviews the valuation, maybe a partner down the road gets upset, or maybe someone gets divorced and that valuation becomes a factor in determining how assets are split. When someone promises you an easy, less work, and maybe less expensive valuation, ask yourself if those corner-cutting, easy-button solutions will leave you with a defensible situation if litigated.

Business appraisals are like anything. Spend a little more and do it right because litigating an agency's value is an extremely expensive process. Is spending \$2,000 more and taking the time to provide the required data worth mitigating the potential for six-figure factors down the road? What is the value of risk mitigation?

And for all those optimistic people who think no one will ever come looking, I wish you the best. But it's foolish to think life will not take unexpected turns, resulting in the need for a quality valuation, a quality buy/sell agreement, and simply good advice to mitigate those unexpected life events.

I have long found that those professional advisors who tell people how much easier they can do things are often not being disingenuous, though some are. Instead, I find they simply do not know enough about what they're doing to understand the complexity. Either way, how are you best protected? By an advisor who is ignorant but honest or someone who is knowledgeable but disingenuous. I'd select the third option: hire someone who isn't ignorant, has no conflicts of interest, and is honest enough to tell you about all the complexities you are facing.

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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.

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