Insurance brokers v insurers, size wise

While reading and researching stories for this issue of the IRL, it occurred to me that large brokers (today, they refer to their businesses as 'professional services' firms) are in a lot of instances much larger than the insurers they do business with.

Here are some of the strategic and structural reasons insurance brokers have grown larger than many insurance companies.

Insurance brokers offer a broad range of services beyond just selling policies. They often handle risk management consulting, claims management, and analytics, providing clients with more comprehensive solutions. This breadth helps brokers gain influence and expand their revenue streams beyond traditional insurance premiums, allowing them to scale faster than insurers.

The brokerage sector has seen significant consolidation in recent years, with mergers and acquisitions driving rapid growth. Large brokerages, like Marsh McLennan and Aon, have acquired smaller firms globally, enhancing their footprint and client base. This consolidation strengthens their market power and expands their reach, allowing them to operate on a larger scale than individual insurers that may be more geographically restricted.

Brokers have invested heavily in technology and data analytics, enabling them to deliver customized solutions and better manage client risks. With these tech investments, they're not only adding value to their clients but also creating efficiency and scalability that contribute to larger revenues and market valuations.

Brokers don't carry the underwriting risks that insurance companies do. Instead, they match clients with insurers and provide advisory services, avoiding the large capital reserves insurers must hold. This "asset-light" approach enables brokers to scale rapidly without the same regulatory or capital constraints, allowing them to generate high revenues without the need for large balance sheets.

As brokers grow and serve more large corporate clients, they gain substantial bargaining power with insurers. This client-centric approach lets them negotiate better deals and more competitive rates, giving them an advantage over insurers in terms of client loyalty and engagement.

Brokers have expanded into alternative risk transfer markets, such as captives and insurance-linked securities (ILS). These innovations allow them to serve clients who want tailored solutions outside traditional insurance products. This approach has drawn high-value clients and expanded broker influence in the insurance ecosystem.

Regulatory pressures, like Solvency II in Europe and similar rules elsewhere, require insurers to hold significant reserves, limiting their ability to grow quickly. Brokers, by contrast, are less regulated and have more flexibility, enabling them to grow at a faster pace.

In essence, insurance brokers have leveraged an asset-light, service-oriented model, supported by consolidation, technology, and flexibility, to achieve a scale that often surpasses individual insurers. This trend seems likely to continue, especially as brokers expand their value propositions across new areas in the insurance and risk landscape.