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RESEARCH

Creating the first 50% margin insurance brokerage.

Why transforming placement is the next — and largest — lever of brokerage margin expansion.

WRITTEN BY

Matt Antoszyk / Herald CEO

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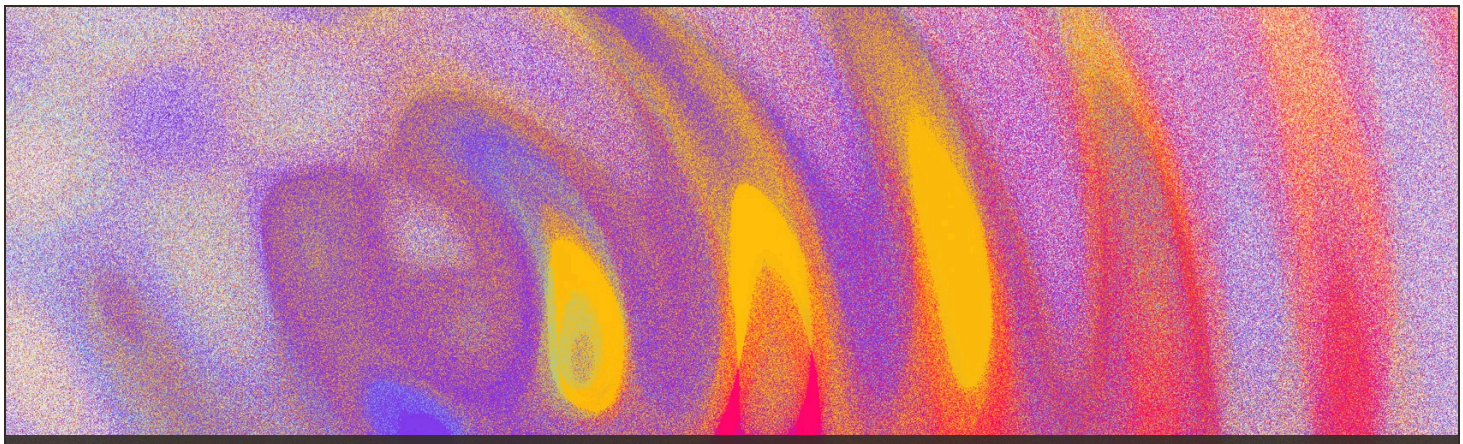

THE THESIS

Placement functional improvements compound into both cost efficiency and revenue growth. Improvement in placement productivity combined with commission optimization creates a credible path to 50% EBITDA margins, a level never achieved in insurance brokerage history.

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INTRODUCTION

The ceiling no one has broken

The best-run US insurance brokerages have reached an economic ceiling. After three decades of technology adoption, offshore outsourcing, PE-backed consolidation, and operational discipline, the industry's most efficient firms have converged on a single cost structure: roughly 50% compensation, 15% other operating expenses, and 35% EBITDA margin. No firm has sustainably broken through.

The productivity gains have been real. Revenue per headcount has grown 2–3× over the past 30 years. But compensation has held at ~50% of revenue even at frontier firms. Productivity rose, and so did the cost of talent.

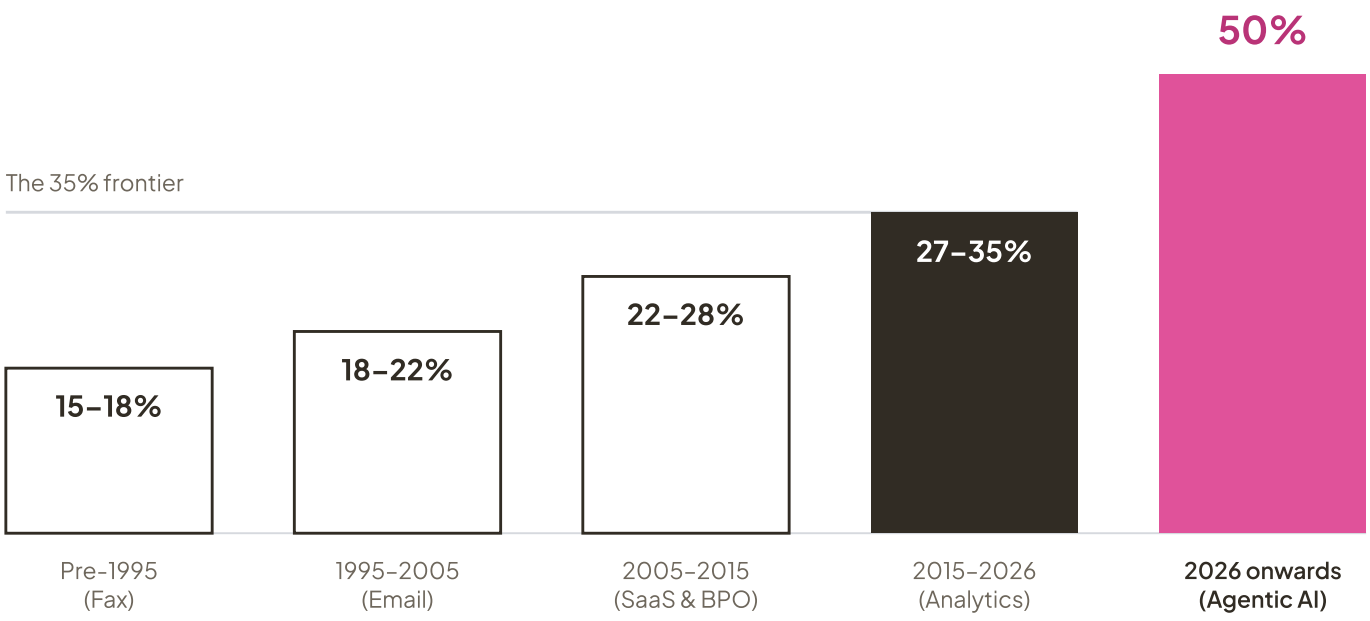
Two questions now define the industry's next chapter. What unlocks the next wave of growth? And how can that growth be captured at a new margin frontier?

AI answers both by transforming **placement** — the document-heavy process of matching risks to carriers that sits at the intersection of sales and operations. The history of the last 30 years of brokerage evolution shows us how we got to the frontier today, and why AI makes possible the path to break through it.

The Fifth Era of Brokerage Productivity

Every wave of technology adoption has delivered a step-change in brokerage profitability and productivity. The pattern is remarkably consistent.

FIG 01 **Five eras of brokerage productivity**



Public broker adjusted EBITDA margin, upper end of each range; pre-2005 estimated. Source: SEC filings.

Each era drove revenue per employee up roughly 50% from the pre-1995 baseline and expanded margins by several points. Brokerages ran on mainframe terminals and fax machines before 1995; the defining changes of that era were organizational — mega-mergers among top firms — rather than technological. Email displaced fax through 2005, while the Spitzer investigation forced transparency in broker compensation.[1] Cloud systems and offshore BPO reshaped

operations through 2015: policy checking, certificate issuance, data entry, and endorsement processing moved to low-cost centers, standard across the top 50 brokerages by mid-decade. Digital placement platforms and analytics then carried the most disciplined firms to the ~35% EBITDA ceiling, with industry-wide revenue per employee reaching nearly $296K by 2025. [2]

FIG 02 **Revenue per employee, top brokers**

COMPANY	~2000	~2015	~2024
MarshMcLennan	$179K	$217K	~$280K
AON	$145K	$170K	~$268K
Gallagher	$140K	$245K	~$290K
Brown & Brown	$174K	$211K	~$276K

Source: SEC filings, company reports (2000, 2015, 2024).

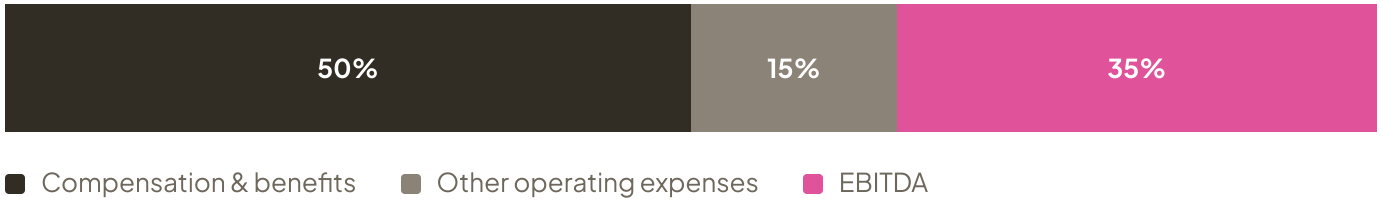
A note on growth. The industry did not just become more efficient — it grew substantially. [3] Organic growth hit a record 10.3% median in 2023, [4] fueled by a sustained hard market. Top brokers scaled from single-digit billions to $10–25B enterprises through organic growth and aggressive M&A. More than 10,000 brokerage transactions have closed since 2008, [5] and PE-backed firms now account for 70–87% of all deals. [6]

02 — WHERE EVERY FIRM ARRIVES

The 50/15 frontier

Well-run brokerages converge on a remarkably consistent cost structure: roughly 50% of revenue to compensation and benefits, 15% to other operating expenses, and the remaining 35% flowing through as EBITDA.

FIG 03 **Brokerage cost structure at the frontier**



Some firms reached this frontier decades ago. Others arrived more recently through consolidation, centralization, and operational discipline. None has sustainably broken through. 50/15/35 is the ceiling — public and private brokerages alike. SEC filings make the pattern explicit:

FIG 04 The frontier in the filings

FIRM	COMP RATIO TREND (% OF REV)	OTHER OPEX TREND (% OF REV)	MARGIN TREND
Brown & Brown	Flat 49–52% for 25 years	Already low (13–16%) throughout	Already at frontier (33–39%)
Gallagher	Flat 51–54% for 20+ years	Compressed 19–24% → 13–15%	Expanded 23–27% → ~35%
AON	Compressed 55–62% → 52–53%	Compressed 22–24% → 13–17%	Expanded 14–23% → 31–34%

Source: SEC 10-K filings, 2000–2024.

The story is one the industry already knows. Every firm that expanded margins over the past two decades did so by compressing opex toward ~15%. Once there, expansion stopped. The compensation line held at ~50%. Firms arrived at different times. They all arrived at the same place.[7] [8]

03 — THE EXHAUSTED LEVER

The 15% is maxed out

Other operating expenses — occupancy, technology, BPO vendor fees, travel, professional services — have already compressed from 20–25% to 13–15% at frontier firms.[9] Three decades of technology adoption, offshore outsourcing, COVID-driven real estate rationalization, and PE-backed operational discipline have done the work.

Little room remains to squeeze. The residual 14–15% is largely fixed or semi-fixed: lease obligations, software licenses, compliance costs, E&O insurance, and essential infrastructure. Further margin expansion cannot come from this line.

04 — INSIDE THE BIGGEST LINE

Breaking down the 50%: where can comp actually move?

The ~50% compensation line is not monolithic. It breaks down as follows:

FIG 05 Who earns the compensation line

EMPLOYEE CATEGORY	% OF HEADCOUNT	% OF PAYROLL	WHAT THEY DO
Production (producers)	21–25%	40–45%	Selling, client relationships, new business, renewals
Service staff (AMs, AEs, processors)	55–60%	35–40%	Placement, post-policy servicing
Support (admin, HR, finance, IT)	10–12%	10–12%	Back office infrastructure
Executive & management	5–8%	10–15%	Leadership, strategy, oversight

Source: MarshBerry 2024 Compensation Study. Headcount and service/production payroll splits are directly sourced; support and executive payroll shares are estimates.

Production compensation (40–45% of payroll) will not compress. Producer pay is commission-based by design — it moves with revenue. This is structural and desirable: producers are the revenue engine, and paying them less per dollar of new business would drive top talent to competitors.[10]

Support and executive compensation (20–27% of payroll) is a small target — essential functions with limited headcount and modest absolute dollars.

Service staff compensation (35–40% of payroll, 19–20% of revenue) is the opportunity. Service staff are the largest employee group by headcount and perform the most improvable work in the brokerage.

05 — THE HIGHEST-IMPACT TARGET

Two types of service work — and why placement matters most

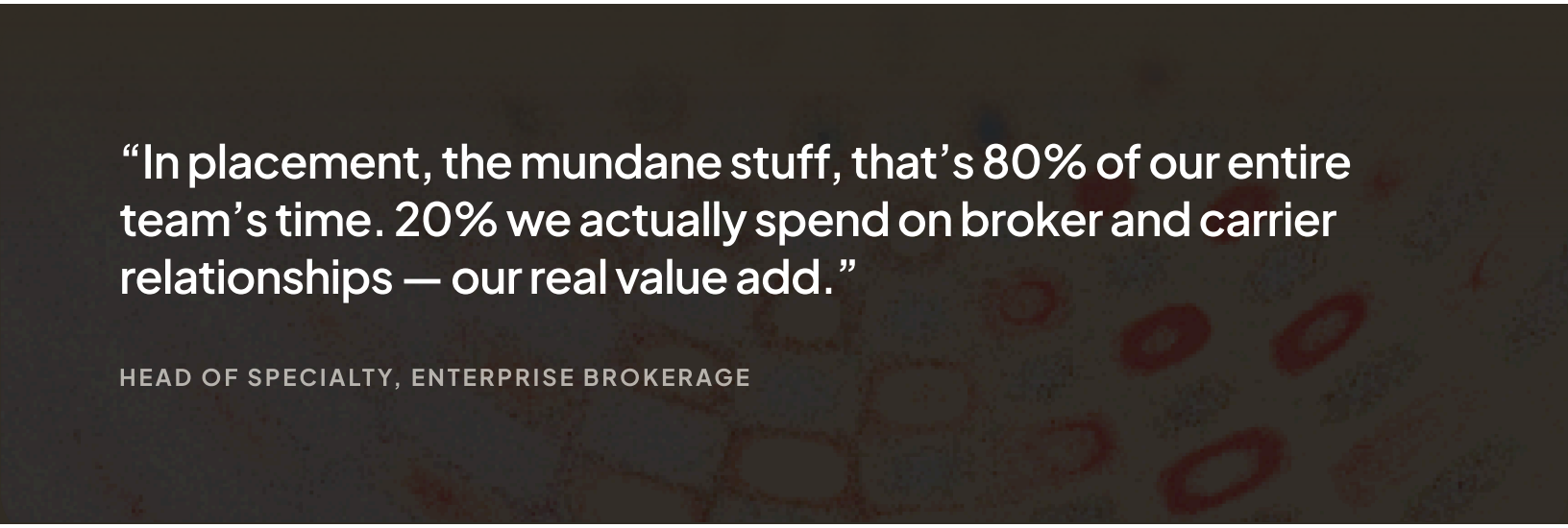
Service work at a brokerage divides into two functions. **Placement** (~half of service cost, ~10% of revenue): matching risks to markets, preparing submissions, shopping to carriers, chasing quotes, comparing terms, negotiating with underwriters. **Post-policy servicing** (~half of service cost, ~10% of revenue): certificate issuance, endorsement processing, policy checking, renewal preparation, data entry, billing support.

Both present productivity opportunities. Placement is the far more compelling target, because gains there reduce cost *and* drive revenue growth. A faster, more accurate, more comprehensive placement process delivers:

- **More producer throughput**, because the placement bottleneck is removed.
- **Larger, more complex accounts**, because brokerages gain capacity to serve them.
- **Higher win rates**, because submissions are higher quality and reach more markets faster.
- **More cross-sell**, because coverage gaps are identified during placement.

Post-policy servicing improvements are pure cost savings — valuable, but one-dimensional. Placement improvements are both a cost lever and a growth lever. Placement is also exceptionally well-suited to AI: the majority of the activity is structured, repetitive, and document-heavy, while the human

judgment that matters most — understanding a client's risk profile, navigating carrier relationships, negotiating bespoke terms — represents a small fraction of total placement time. AI automates the former; humans focus entirely on the latter.



> "In placement, the mundane stuff, that's 80% of our entire team's time. 20% we actually spend on broker and carrier relationships — our real value add."

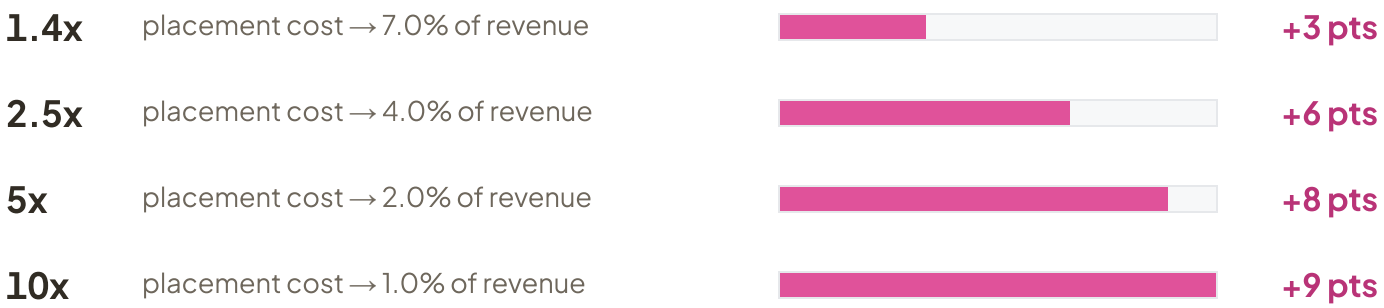
HEAD OF SPECIALTY, ENTERPRISE BROKERAGE

06 — THE CORE MATH

The placement productivity thesis

If placement-related service costs represent ~10% of revenue at a frontier firm, the margin impact of productivity improvements is significant:

FIG 06 **Placement productivity → margin impact**



For context: the entire brokerage industry gained approximately 6 points of margin expansion over the last 15 years — across every technology and operational lever combined. A 2.5× improvement in placement productivity alone would match that. From a single function.

A 10× improvement — achievable if AI automates the ~90% of placement work that is data gathering, document preparation, carrier matching, and administrative follow-up rather than human judgment — would deliver 9 points of margin from placement alone. That exceeds any single era's margin expansion in the industry's history. 10× sounds aggressive. But practitioners themselves consistently estimate that ~80% or more of their day-to-day work is low-value and repetitive. Compressing that layer is well within reach on a near-term horizon.

07 — THE KNOCK-ON EFFECTS

The compounding benefits of better placement

Transforming placement extends well beyond service staff productivity. Two knock-on effects further expand margins.

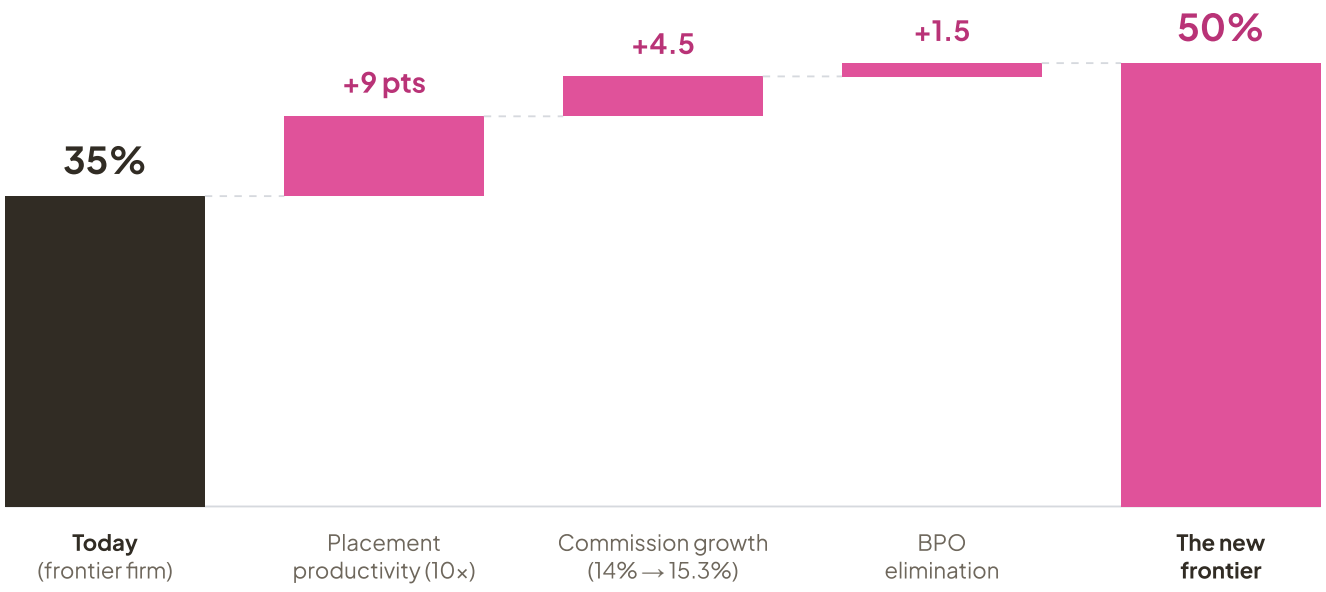
Placement-related BPO becomes unnecessary. A meaningful share of offshore outsourcing spend — estimated at 1–2% of revenue — supports placement activities. When AI handles the work directly, the BPO vendor cost disappears. That adds 1–1.5 points of margin on top of service productivity gains — and it comes from the opex line the industry already considers optimized.

Average commission per policy increases. An AI-standardized placement workflow enables brokerages to systematically route placements toward partner carriers with higher commission rates. This is not about pushing clients into inferior coverage — it is about ensuring panel carriers with top-tier products and strategic relationships receive the right flow of business. If average commission across the book rises from 14% to ~15.3% of premium, the resulting revenue growth on an essentially fixed cost base delivers 4–4.5 additional margin points. [11]

The path to 50% EBITDA

Taken together, placement transformation creates a credible path to 50% EBITDA margin — a level never achieved in the industry's history:

FIG 07 The path to 50% EBITDA margin



All three effects flow from a single strategic investment: transforming placement. The productivity gain is the primary driver. BPO elimination and commission optimization are natural consequences of the same transformation — not separate initiatives requiring separate investment theses. As AI automates placement, brokerages gain deeper visibility into — and control over — which carrier partners they prioritize, driving compounding commission gains over time.

09 — WHAT IT'S WORTH

The value at stake

The financial impact of moving from today's margins to 50% EBITDA is substantial at every scale of brokerage:

FIG 08 **Incremental EBITDA at 50% margin**

FIRM SIZE (REVENUE)	CURRENT EBITDA	EBITDA AT 50%	INCREMENTAL / YEAR
$50M (private, 26% margin)	$13M	$25M	**+$12M**
$100M (private, 26% margin)	$26M	$50M	**+$24M**
$1B (large/public, 33% margin)	$330M	$500M	**+$170M**

CONCLUSION

A new lever, for the first time

The insurance brokerage industry has spent three decades optimizing its way to a 35% EBITDA ceiling. Every available lever — technology, BPO, consolidation, operational discipline — has been pulled. Opex is compressed. The compensation ratio has held at ~50% through every prior technology wave.

For the first time, a new lever is available. Placement productivity drives cost efficiency and revenue growth simultaneously — a combination no prior wave offered. AI-enabled placement has the potential to break through the 50/15 frontier that has defined brokerage economics for decades. A 10× improvement in placement productivity — combined with the natural knock-on effects of BPO elimination and average commission growth — creates a credible path to 50% EBITDA margins. That would represent the largest margin expansion in the industry's history, driven by a single transformation in how insurance is placed.

NOTES & SOURCES

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