



Consumer Federation of America

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HIGHER AGENT/BROKER COMMISSIONS IN HOME AND AUTO INSURANCE OFTEN MEAN HIGHER RATES, BUT NOT BETTER SERVICE

CFA Study Finds Insurance Consumers Often Don't Get What They Pay For -- Offers Tips to Consumers Shopping for Low Prices and Great Service

Washington, D.C. – The Consumer Federation of America (CFA) today released a detailed study of home and auto insurance commission payments to agents and brokers. The study found that insurance companies that pay higher commissions usually have higher rates, with some exceptions. CFA also found that higher prices for insurance do not translate into better service for consumers. (*The Impact of Commissions on Prices and Service Quality for Home and Automobile Insurance* can be found at http://www.consumerfed.org/commissions_home_auto_study.pdf.)

“This study shows that consumers should shop very carefully for insurance,” said J. Robert Hunter, CFA’s Director of Insurance. “The good news is there are insurance companies that pay minimal or no commissions, offer low prices and have great consumer service,” said Hunter. “However, we also found plenty of companies where high commissions translate into lofty rates, with no gain in service quality,” he said. “Great rates and service can be found if consumers take the time to comparison shop.”

Findings

CFA reviewed commission data from the 20 leading writers of insurance for both private passenger auto and homeowners insurance. This total commission data combined regular commissions (flat rates paid at the time of sale and built into the price of the policy) and contingent commissions (paid after policies are sold and based on special sales or profitability goals). The report compared total commissions with price, insurer profitability and service quality as measured by complaint data and consumer satisfaction indices. CFA found that:

1. **Insurers with lower commissions tend to have lower rates.** This is not always the case, so consumers must shop carefully. Analyzing rate data for 30 territories around the country, CFA found an average commission of 3.9 percent for those insurers with personal auto insurance rates below the average rate. The average commission paid by the insurers with above average rates was 7.7 percent. In home insurance, the average commission for those insurers with below average homeowners insurance rates was 0.3 percent. The average commission paid by the insurers with above average rates was 11.4 percent.
2. **There is no evidence that paying higher commissions to an agent or broker produces either better service or higher consumer satisfaction.** In fact, there appears to be no correlation between the amount of commission paid and the quality of service rendered.

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For example, the average commission for personal auto insurers with far fewer complaints than average (less than 50 percent of the average complaint ratio) was 5.6 percent. Among other insurers with complaint ratios below the national average, the average commission was 8.4 percent. Among insurers with complaint ratios that exceeded the national average, commissions averaged 7.1 percent.

3. **Some insurers offer particularly good deals. Others have rates that are consistently high.** United Services Auto (USAA) is a consistently low-rate insurer with excellent service ratings. Military personnel and their families who qualify for USAA insurance should be sure to get a quote from USAA. By contrast, **Nationwide** tends to have high rates. Traditionally, **State Farm** has offered very competitive rates but it now appears that State Farm is offering rates overall that are slightly above average. CFA has observed large State Farm price hikes during the last few years. This finding is surprising since State Farm has been known for its competitive pricing for decades. State Farm policyholders may want to shop around now if their rates have significantly increased over the last few years.

“In less competitive markets, some insurers may be tempted to attract market share by offering higher commissions to agents or brokers along with higher prices and, often, higher profits for the insurer,” said Hunter. “Credit insurance is one area where this kind of ‘reverse competition’ is particularly common.”

Tips for Consumers

CFA offered a number of tips for consumers when shopping for insurance:

1. **Shop around!** This study found that premium charges tend to rise with commissions, but this is not always true. Consumers should be sure to get quotes from some of the lowest premium insurance companies, including the direct writers of insurance that typically do not pay commissions. (See step 3.)
2. **Consumers do not have to pay more to get excellent service.** Some of the companies with the best service records have low prices and low or even no commissions. It pays to shop among the companies with the lowest prices and the highest consumer satisfaction/lowest complaint ratios. (Step 4 shows how to shop for better service insurers.)
3. **For information on insurance rates, check state price information guides.** Most states have these guides. Typically, consumers can download them from the state’s insurance department website.¹
4. **For complaint information on insurance companies, check with the National Association of Insurance Commissioners’ web site.** (www.naic.org)²

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¹ These web sites can be found at the home page of the National Association of Insurance Commissioners: www.naic.org. Consumers can click on “state insurance web sites” found on the upper right hand side of the page. Then, click on the appropriate state’s insurance department web page. Price guides for home and auto insurance can typically be found under “publications.” CFA urges consumers to complain to their state insurance department if no such price guide is available.

² On the left hand side of the home page, consumers should click on “Consumer Information Source (CIS).” Once on the CIS Home Page, consumers can compare company complaint ratios by typing in the company name and their state of residence. Consumers can then look at complaint information (as well as licensing and financial information) for the insurance company. By clicking on “Closed Complaints,” a consumer can look at complaint counts by state, by code (the type of complaint lodged against the insurer), by complaint ratio and by trends in complaints. “Complaint Ratio” information is the most helpful. Consumers can choose the line of insurance they are interested in and the most recent year (2003 or, in late March, 2004). By clicking on “create report” consumers can see complaint information. The complaint index is an index to the average complaint ratio for the nation for all insurers. An index of 1.00 is average. Less than 1.00 is better than average (signifying a lower level of complaints). Greater than 1.00 means that the level of complaints is worse than average.

5. **Beware of going to just one agent or broker for insurance, even if that producer represents several insurance companies.** Consumers should be aware that some producers representing more than one insurer could place the consumer in a higher priced insurer with larger commissions even when the consumer qualifies for a lower price. States do not require agents or brokers to place the applicant with the best policy for the customer.
6. **Ask agents and brokers the right questions:**
 - Do you represent me or do you represent the insurance company you are suggesting I use?
 - What commission are you earning as a percentage of the cost of the policy you are suggesting I purchase?
 - Am I receiving the lowest price among all the insurance companies that you represent for which I qualify?
 - What other insurance companies do I qualify for that you represent? What are the prices I would pay at those insurers and what commission would you get with each company?
 - Do you have a contingency commission arrangement with the insurer you are recommending? Please fully explain that arrangement to me.
 - If I have a claim, do you represent me or the insurer in the claim process? Is your compensation in any way related to claims filed by me and other clients of yours?

Shopping Pays Off – The \$100 Hour

When Mr. Hunter was Texas Insurance Commissioner, the Texas Insurance Department tried an experiment. “We brought in 25 auto and 25 home insurance policyholders with their policies. We gave them our shopping guides and a telephone and one hour to read and shop. On average, the auto policyholders saved \$115 and the home policyholders saved \$85. Overall, the hour of effort was worth \$100. We announced a \$100 Hour program and the thousands of Texans who called in saved significant dollars. America’s consumers can do the same,” said Mr. Hunter.

CFA is a non-profit association of more than 300 organizations that, since 1968, has sought to advance the consumer interest through research, advocacy and education.