Auto Insurance Examined Again
By Philip Stoddard Brown
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Our Changing Economy

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By Philip Stoddard Brown

SOME WEEKS ago, in writing about auto insurance in Washington, I mentioned that the rates of mutual companies were less—in some cases, a great deal less—than those of stock companies which sell through independent agents, but did not comment on the role of these agents and the special services which they may perform for their clients.

Brown

Not *every* independent agent in Washington phoned me after this article appeared, but I got the impression that the displeasure of this fraternity was unanimous. . . . To cap this criticism, I received a note from a hawk-eyed staff member calling attention to a line of poetry I had misquoted. (This, by the way, was the only communication I received from the Post, whose publisher and editors no doubt heard from those agents that did not phone me, and from some that did.)

What precisely is the role of an independent agent and what services does he perform?

Such an agent may represent several stock companies engaged in underwriting casualty risks—maybe as many as 12 or 15. Usually, most of his business will go to one company, because this gives him prestige. A big agent whose firm writes possibly $200,000 of annual premiums for one underwriter is usually in a strong position. He can expect special consideration, because the underwriter knows that if he is dissatisfied the agent can take his entire business elsewhere.

The independent agent is a middleman. This has advantages, and disadvantages, for the underwriter. Some underwriters prefer to have their own organizations. They figure they can save on selling expenses, be more selective in the risks they assume—by retaining complete control of their underwriting—and get more business in the long run by offering lower rates.

Some Use No Agents

A few mutual companies have dispensed entirely with field salesmen. They sell directly by mail or telephone, or by having the customer come to them. But most mutual companies employ agents who sell only for one company and are paid on a commission basis.

One large stock company sells through salaried representatives, but other stock companies rely on independent agents. They compensate these agents by allowing them to retain perhaps 25 per cent of the premiums they collect. (Some agents wangle a little more—perhaps even get their printing and telephone bills paid by the underwriter—if they are big and in a good bargaining position.) These companies all quote the same rates—25 per cent or more above those of a few direct-selling mutual companies and 10-20 per cent above those of others that sell through their own agents.

What services can independent agents perform that justify paying these higher rates for auto insurance?

• If you give an agent all your casualty insurance, he will regard it as "a package" and persuade his underwriter to do the same. The "package" may be profitable, even though the auto policy by itself promises to be unprofitable.

• An independent agent may decide that you are a better risk than your record indicates and so inform his underwriter. (Some agents see the "inspection reports" made by outside investigators, and can correct any mistakes or misleading impressions they create.) Consequently, you may get adequate insurance at standard rates that you could not get otherwise.

• Similarly, a friendly agent may protect you from cancellation if you have a succession of accidents, or have several children reaching driving age. Or, he may delay cancellation until he can place your insurance with another underwriter.

• An agent may take it upon himself to renew your policies, add new coverage as it becomes available, adjust the limits of your insurance and generally oversee your insurance needs.

• In case of accidents your agent may be helpful in filling out the necessary reports and may expedite the payment of claims. (A few big agents have claim-investigating and compensation authority.)

Some independent agents are middlemen in the best sense and their customers gladly forego the savings they might realize by shopping for lower rates on identical coverage. On the other hand, some are just "sellers" of insurance.

Many agents of mutual companies, despite their closer home-office ties, are just as helpful. They too may look upon your insurance as "a package." They too, if they are big sellers, can expect some "flexibility" on the part of their underwriting people. They too have an interest in "looking after your needs"; seeing that you are properly covered and that your claims are fairly and quickly adjusted.

Company Standards Vary

Much depends upon the agent—and also upon the underwriter. The largest direct underwriter in this area, which operates without any agents, cancelled only 8/10 of 1 per cent of its policies in 1958. This company continues to renew the auto insurance of some people 80 years old and of others with substantial accident records. On the other hand, it has cancelled in the past year the policies of persons with a single accident, where the record shows they were driving at excessive speed, and of others, who had no accidents but whose driving permits were revoked.

At a time when auto insurance generally is so unprofitable and when some underwriters are arbitrary and quick to cancel, a friendly agent can reduce the risk of your finding yourself uninsured. This risk is greatest for older people, for parents with offspring between the ages of 16 and 25, for persons with accident records and for others who are regarded by underwriters as "unstable."

An independent agent who gives one underwriter a lot of profitable business and, in consequence, is given a fairly free hand in the selection and retention of risks, can be a strong advocate in your behalf—if he chooses. If he is your friend, or if you in turn have the power to shift a lot of business to another agent, he may choose to go the limit in protecting you.

But ordinarily, an agent will not press too hard for the acceptance and retention of very many bad risks at standard rates. His contract with his main underwriter probably provides for his sharing, say 50-50, the profits that result from a lower-than-average loss ratio. Then too, he knows that the underwriter values him only so long as the aggregate insurance he sells is profitable.

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