United Policyholders
Empowering the Insured

Is your independent insurance agent truly an independent agent?

It’s no secret that independent insurance agents — who sell auto, home and other types of coverage from more than one insurer — earn their keep through a commission each time a customer signs up for a policy. After all, they need to be compensated for matching a consumer with the proper coverage.
But what consumers may not know is that independent insurance agents can earn more than one commission when a policy is sold. Aside from regular commissions, agents also can get bonuses known as “contingent commissions” from insurance companies if the agents meet certain criteria, such as selling a certain number of policies or retaining a certain percentage of policyholders.
An independent insurance agent sells policies from perhaps dozens of insurance companies.
Critics: Commissions sway agents’ decisions
Industry watchdogs complain that commission arrangements aren’t always disclosed to customers and that independent agents may recommend policies that aren’t the best deals for the consumers — but, rather, are in the best financial interest of the agents.
A big difference in the commission structure from one insurance company to the next “will sway even the most ethical agent,” warns Amy Bach, executive director of United Policyholders, an advocacy group for insurance consumers.
Bach says consumers should make sure they ask about an agent’s commission setup before buying a policy.
“If the agent … recommends more than one company, ask what the different commissions will be for each one,” she says. “Ask specifically about contingent commissions — who they are getting it from and how it will be calculated.”
Trade group: Commission conversation should be voluntary
Timothy Dodge, a spokesman for Independent Insurance Agents and Brokers of New York, disagrees with Bach’s view of commissions. He says that steering customers toward more expensive policies with less coverage for the sake of making an extra buck would quickly put an independent agent out of business.
“No independent agent or broker who wishes to stay in business can afford to engage in that kind of

activity. If they do, they won't get away with it for very long," Dodge says. "There's always another … agent with a better proposal and better price."

Dodge says his trade group doesn't support a "one-size-fits-all regulation" requiring require insurance agents to disclose commission information even if a customer hasn't asked for it. Instead, he says, this discussion should be voluntary. A customer who asks about an agent's commission structure "has a right to this information, and the agent … should be willing to tell them," Dodge says.

Independent insurance agent Steve Brooks, president of B&B Premier Insurance Solutions Inc. in Southern California, deals with dozens of insurance companies. He says base commissions of about 10 percent to 15 percent on auto and home insurance policies, for instance, are far more common than contingency commissions are.

"I am a true independent agent," Brooks says. "I represent about 40 companies, so I do place my clients … where it is best for them."

The history of contingent commissions

Contingent commissions in the insurance industry are nothing new. They've been around since the 1960s. These commissions emerged when claims were rising faster than the rate of inflation and insurance companies were cutting agent commissions to save money. Contingent commissions were created to make up for that loss revenue.

Controversy over the practice in the insurance world made headlines in 2005, when New York's attorney general exposed corporate insurer bid-rigging and the practice of tying commission to the volume of business.

While doling out contingent commissions is perfectly legal, most states don't require that commission details be revealed to insurance consumers.

In only one state, New York, do state regulators mandate that independent agents tell their clients upfront about their commissions. Independent Insurance Agents and Brokers of New York and the Council of Insurance Brokers of Greater New York are fighting this regulation; they say it's burdensome and unnecessary.

How can you get around commissions?

Daniel Schwarcz, an associate professor at the University of Minnesota Law School, testified in September 2011 before a U.S. Senate committee about commissions and other insurance industry practices. In his testimony, Schwarcz says consumers are rarely informed that an insurance agent has a financial incentive to steer them toward certain insurers, even though those companies' policies may not be the best options. The problem is common in the auto, home and life insurance markets, he says.

"The best idea is to find an independent agent who is really willing to be your agent and who you pay directly a set amount that does not vary based on the coverage you get," Schwarcz tells InsuranceQuotes.com. "Not many agents in consumer markets provide this financial arrangement, but some do."

Robert Hunter, director of insurance for the Consumer Federation of America, a consumer advocacy group, offers another approach.

"Agents will say they do the shopping for you … but that is not true," Hunter says. "You need to shop yourself."