COVID slowdown puts insurance agents, companies on collision course

While State Farm and Allstate reap windfalls, their agents cut costs as commissions fall.

While State Farm and Allstate reap windfalls, their agents cut costs as commissions fall.

One of the few industries benefiting from this time of economic hardship is auto insurance, as fewer cars on the road reduces insurers' loss payouts. But a key segment of that business—thousands of agents across the country who staff storefront offices and sell and service policies—is suffering.

The hardship is taking different forms. The 19,200 agents of Bloomington-based State Farm, the largest U.S. car insurer, will see their commissions drop substantially once the company's nationwide rate cut averaging 11 percent takes effect.

A State Farm spokeswoman declines to comment.

Agents are paid a percentage of the premiums their customers pay, so State Farm agents will see their revenue fall along with the insurer's rates. To cope, those agents, who pay fixed costs for the property they lease among other items, likely will have to reduce staff or their workers' hours.

For the 10,500 agents of Northbrook-based Allstate, the fourth-largest U.S. auto insurer, their woes are multifaceted, caused mainly by the home office's strategic decisions. At the outset of 2020, Allstate agents saw their commissions reduced 10 percent when their policyholders renew—the lion's share of most agents' income.
More recently, Allstate has confirmed to agents that consumers will be able to buy the same coverage at a cheaper rate when they purchase online or over the phone through Allstate Direct than when they buy from an agent, according to agent sources. Allstate is in the process of rebranding its online auto insurance unit Esurance as Allstate Direct. CEO Tom Wilson hopes that will catalyze faster growth online, the sales channel by which Chevy Chase, Md.-based Geico and Mayfield Heights, Ohio-based Progressive have overtaken Allstate in recent years in terms of market share.

The pricing decision is raising concerns among agents that consumers will be able to get insurance for a reduced price and then get assigned to a nearby agent for their future service needs. When that happens, agents are paid a sharply reduced commission for handling those accounts.

Additionally, Allstate recently launched an initiative in which it's hiring agents to work from home and drum up new business. They are being paid an average of $50,000 in annual salary, with added commissions for the business they create, and are receiving health and retirement benefits, according to an April 1 message from the company to agents.

Traditional agents, by contrast, aren't employees. They are contractors responsible for having their own offices and staff, and paying for benefits for themselves and their workers.

In the memo, the company wrote, "From the test, we hope to learn how customers respond to a local agent serving their community with service supported virtually by a back-office Allstate team, and how changing the capital requirements, availability, location and staffing structure may influence the kinds of candidates interested in the role."

**AGENTS SPEAK OUT**

Allstate agents increasingly are voicing unhappiness. "How come all the change needs to come at the agents' expense?" Ted Paris, executive director of the National Association of Professional Allstate Agents, says in an interview.

Paris, who retired as an agent three years ago and took over the agents' association, recently wrote Allstate's board. "Clearly, Allstate's vision for its agents comes from a belief that they know what is right for them," he wrote June 2. "But just as clear is the reality that thousands of agents' businesses have been financially harmed. Allstate agency owners are a very loyal group. They love Allstate, but they are struggling with the current direction management has taken them."
Asked at Allstate's May 19 virtual annual meeting about how his new strategies are hurting agents, Wilson said agents need to be open to change to stay competitive. "What agents do locally needs to change," he said, according to a recording obtained by Crain's. "For example, there's a lot of service work done locally that we can either dispense with by use of technology . . . or we can centralize it."

"It's about doing it cheaper and better for (customers)," he added. "One of the most important considerations for buying auto insurance is price. So we have to continually reduce our costs to meet their needs. But we need to do it together. That means both the company and the agents have to embrace change."

There was little evidence that consumers were seeing more competitive pricing from Allstate in the first quarter, when the commission reductions took effect. Allstate raised auto rates an average of 6.5 percent in 16 jurisdictions in the quarter, according to investor disclosures. That was before the COVID-19 pandemic reduced driving and Allstate began providing monthly rebates to drivers. But its underlying rates haven't changed.

Wilson emphasizes to unhappy agents that the company boosted commission payouts for new customers as it cut pay for retaining existing ones. Agents running larger operations say there's no way to produce enough new business to make up for a 10 percent revenue hit on renewals.

An Allstate spokesman didn't respond to a request for comment.

The company can't afford to lose agents' production while it tests other means of generating growth. Allstate agents still generate the vast bulk of the company's insurance business. Agent-sold auto policies alone last year accounted for 49 percent of total revenues, including investment returns.

Archivial State Farm's agents are losing revenue because their customers are getting the savings. Allstate can't say the same. Yet.