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Deductibles ... Friend or Foe?

As Insurance Brokers we take for granted, deductible clauses in policies. Many policies have mandatory deductibles with minimum deductible amounts. To a client, however, the deductible may be perceived differently. After a claim a client may be unhappy when the policy deductible is applied. Clients sometimes view deductibles as a "way the insurer gets out of paying all or part of a claim".

Brokers can benefit from taking the time to explain the application of various deductible amounts that maybe selected. This is one method by which the broker can offer better service and not be an "order taker" which may be the practice with direct dialing and bank insurers.

Automobile rate increases are on the horizon and there is no better time to introduce the deductible options. In reviewing one insurers auto rates, I notice that the difference between \$300.00 deductible and \$100.00 deductible comprehensive was a premium difference of 42%! For a particular class the premium difference was \$67.00. When you analyze this difference the client who buys the lower deductible is spending an additional \$67,00 to protect a \$200.00 difference in deductibles. That relates to a rate of 33%, assuming only one claim in a policy period. Going to a \$500.00 deductible offers a 14% reduction or, in this case, a reduction of \$26.00. Again comparing the \$500.00 deductible to a \$300.00. The client who selected the \$300.00 is paying an additional \$26.00 to protect the \$200.00 difference. A rate of 13%.

Similar differences can apply to a homeowner. One insurer offers a difference of 10% comparing a \$300.00 and \$500.00 deductible. On a \$500.00 homeowner policy, the dollar difference is \$50.00 and is protecting the difference in deductibles of \$200.00. That equates to a 25% rate!

A client should be counseled to purchase the highest deductible that is financially comfortable to them. Relating the actual rate that the difference indicates can help your explanation to amend deductible amounts. When you point out the actual rate of 25% to 40% for the lower deductibles, the broker can also equate this recommendation to loss experience. For the Homeowner example, if the client has no claims in 4 years, he will be the winner from then on, after taking the savings of \$50.00 each year.

For the commercial client, there is an additional factor to consider when advising of premium savings by increasing deductibles. Insurance premiums are an expense item for tax purposes for a commercial client. When a premium is reduced (in this case by a higher deductible), the savings reduce expenses and therefore increase bottom line profits. The true savings will be the premium dollar savings minus the applicable tax rate for the client.

One last thought! From the book, Insurance Words and Their Meanings, the definition of a deductible, states "the amount which he (the client) must lose first is deducted from the total of the damage to determine the amount the company must pay and thus becomes the deductible ". When the glass and auto repair shops advertise that they will pay all or part of a deductible, they

are not in concurrence with this definition. If a repair shop is willing to reduce the cost of repairs by all or part of the amount of a deductible, this saving should go to the insurer. Whatever the repair costs are, the deductible will be the same for a particular insured and is the amount the insured contributes to the loss.

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