

Rent Extraction by Insurance Brokers: Evidence from Brazilian Car Insurance

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Abstract

We exploit a comprehensive database on car insurance in Brazil to study the pricing behavior of independent insurance brokers in this market. In Brazil, car insurance companies are forbidden from selling directly to consumers and must instead sell their policies through independent brokers. These brokers, in turn, are required to sell policies on behalf of all insurance firms. Using information on insurance premia and brokerage fees, as well as on individual characteristics and claims data, we find that while insurance premia are positively correlated with accident risk, brokerage fees are *inversely* related to accident risk. We take this as evidence that independent brokers price discriminate on different dimensions than the companies offering the insurance. We explore the implications of this finding for vertical contracts in this industry.