TRANSACTIONS OF SOCIETY OF ACTUARIES
1961 VOL. 13 PT. 2

Financing Plans for New Agents

What criteria are reasonable for validation schedules in financing plans for new agents
(i) during the financing period,
(ii) at the end of the financing period?
Should the progression of earnings be in proportion to financing payments or should a different progression be expected of agents financed at higher levels? What are the merits of a schedule with higher relative requirements for the lower financing levels?

MR. EDWARD G. NEWCOMB: The most important period in evaluating an agent's chances of succeeding and validating his finance plan comes during the first few months. There is no substitute for good training, close supervision and continual analysis of sales patterns, especially during this period. Many of our successful general agents rely heavily on weekly reports of sales activity.

During the first six months, good patterns of activity are probably more important than actual financial results. Thus lives and volume may be better criteria than annualized commissions, within this time, in measuring future financial success. Thereafter the more direct financial bearing of annualized commissions, especially if there are charge-backs for any first year lapses, appears to be the best measure. Although a number of criteria are used informally, validation in the Northwestern's finance plan is based formally only on cumulative annualized first year commissions for each quarter-year throughout a three-year period.

Recently the Million Dollar Round Table published some statistics on the success pattern of its members which alarmed some of our general agents. One of them was quite concerned that a number of these men wouldn't even validate our $400 per month finance plan! These figures were, I'm sure, distorted by quite a mixture of production going back into the 1930's when a dollar was worth two dollars. Just to get some better evidence on this point as it might relate to the second part of this subject, we reviewed the production patterns of a group of fifty agents who were million dollar producers in our Company last year, who were inducted between the years 1946 and 1955, and who had no previous experience in the life insurance business. We compared this group with a similar group of half-million dollar producers. These facts seemed evident:

1. The million dollar producer shows only a small amount of superiority in production in his first year. Lives and premiums were only about 6% greater. Volume was more significant at 25% greater.
2. By the end of a three-year period, the difference is more marked but still not in proportion to the ultimate. Lives and premiums of the million dollar producer were about 20% greater while volume was 50% greater.

3. Most of the relative difference in ultimate production occurs after the financing period. While the typical million dollar producer continues to grow and reaches his first million about the seventh or eighth year, the half-million dollar producer tends to level off after three years.

These figures provide some evidence that the man who ends up a bigger producer has a steeper progression of earnings, but while he tends to show up better in the first year, he is not too much better.

In regard to the man who is judged to be of lower success potential with lower financing requirements, I think there is good evidence that a minimum validation schedule should be used. The L.I.A.M.A. has some good industry results showing that an agent must reach some minimum level of production in his first six months, regardless of financing level, to have much chance of staying in the business. Having a minimum validation schedule tied to lower financing payments would allow a man financed at the lower level to have an increased scale of earnings just for validating. If he doesn't produce these results, the odds are he won't be long in this business.

MR. LYALL M. SPRUNG: A report recently published by the L.I.A.M.A. on "Agent Financing" (File #344) gives an excellent résumé of the criteria to be considered when constructing validation schedules for agent financing plans. This discussion will therefore be limited to a brief review of the financing plan adopted by the Mutual Life of Canada at the beginning of December 1957 and the company's experience under the plan to date.

The career compensation plan provides a basic monthly allowance payable semimonthly during a two-year training period of an amount sufficient to meet the agent's normal operating expenses. Care is taken in establishing the allowance to determine the actual need of the agent and his family. The allowance paid is not a salary but is a guarantee that commissions during the two-year period will be at least equal to the amount of his allowance. There is a 10% increase in the amounts after six months, as experience has indicated that incomes of agents frequently require revision after a six-month period. The agent is entitled to an incentive increase when validation requirements are exceeded; these are determined at the end of six months and quarterly thereafter and are based on the agent's performance.

Validation is based on cumulative cash commissions. Validation requirements vary directly in proportion to the amount of financing.

Table A illustrates the survival history to date of agents who were appointed under the career compensation plan in the years 1957 to 1960, inclusive. The full two-year history is available for 1957 and 1958 appointees, and it is to be noted that the experience is similar.

Tables B and C illustrate the subsequent survival history of those agents who completed six months under the financing plan. Of the 1957 appointees, 76 completed six months under the financing plan; 28 of these, at the discretion of the company, had been allowed to continue under the plan although they were slightly below validation requirements. Only 5 of these 28, or 18%, successfully completed the two-year period of the financing plan, whereas 81%, or 39 out of 48 agents who were above the validation requirements at the end of the six-month period, survived the full two years under the financing plan. Likewise, for 1958 appointees, only 22% of those who were below validation requirements at the end of six months completed the two-year period, whereas 76% of those who were above validation requirements completed the two-year period. These figures indicate that if an agent is not successful in the business at the end of six months, the odds are against his being successful later on.

TABLE A

Year of Appointment	Number of New Agents Financed	Survived 6 Months	Survived 1 Year	Survived 2 Years
1957..........	122	76 (62%)	65 (53%)	44 (36%)
1958..........	142	91 (64%)	69 (49%)	52 (37%)
1959..........	113	81 (72%)	60 (53%)	(Not available)
1960..........	125	78 (62%)	(Not available)	"

TABLE B

Year of Appointment	Survivors below Validation Requirements at End of 6 Months	Survived 1 Year	Survived 2 Years
1957............	28	18 (64%)	5 (18%)
1958............	32	14 (44%)	7 (22%)

TABLE C

Year of Appointment	Survivors above Validation Requirements at End of 6 Months	Survived 1 Year	Survived 2 Years
1957............	48	47 (98%)	39 (81%)
1958............	59	55 (93%)	45 (76%)

MR. JOHN C. MAYNARD: Under the Canada Life training plan, the training allowance is a constant for each representative inducted and does not depend on the amount of financing. The result of this is that the commissions required for validation are relatively higher for the larger amounts of financing. We believe this feature has advantages over other plans for which the training allowance varies from individual to individual:

1. There is an automatic brake acting to restrain the amount of financing which is applied for.
2. It is easy to change from one financing schedule to another as the representative progresses through the training period.

However, if this system were followed completely it would result in commission requirements which would be too low at the lower levels of financing. As a result of this, the validation commissions at these low levels have been adjusted upward so that the validation commission at the end of the training period is at least equal to the amount of financing for the given schedule.

We feel that there are a number of reasons for a fairly steep grading down of the training allowance over the three years of the plan:

1. The debit balance is held to low figures.
2. The allocation of training allowance in the third year is quite low and it is then reasonable for the allowance to be dropped entirely at the end of the training period.
3. For a given amount of financing it is desirable to set the training allowance in the first year high enough so that full credit can be taken for training allowances in the inside limit of Schedule Q.

The validation requirements under our present training plan, which are on a cash commission basis, are currently being revised because of a substantial increase in the amount of new business being written on the preauthorized check plan. This problem is being resolved by annualizing the commissions on preauthorized check business at the time the third monthly premium is paid, and then making subsequent charge-backs if the policy lapses later in the first year.

As a result of this change a new schedule of validation commissions and allowances is required. It is planned that a new schedule will be adopted, depending on the following assumptions:

1. The proportions of business by mode of payment for the average new agent are: annual 22%, semiannual 9%, quarterly 12%, monthly 12%, and preauthorized check 45%.
2. The lapse rates for the average new agent will be higher than for seasoned agents. Separate lapse rates have been developed by mode of payment and made to conform to the following lapse rates for two policy years: annual 23%, semiannual 34%, quarterly and PAC 40%, and monthly 45%.

3. Production increases by 50% over the first year of the training plan, by 17% over the second year, and is level during the third year of the plan.

MR. ABRAHAM HAZELCORN: The Guardian has a salaried field representative plan which establishes a salary for the first year, but allows for future incentive compensation if earnings exceed such salary. The validation schedule, which incidentally is based on life and health cash premiums in the first employment year, actually has higher relative requirements for the higher salaries.

Our validation schedule, which doesn't begin until the end of the third month of employment, increases very steeply until the end of the twelfth month and levels off gradually thereafter. We hope thereby to help the man who is first introduced to the life insurance sales business during his first few months, but not to carry him too far so that he is with us for a couple of years before he finds that he is not suited for the business.

We reduce the relative validation requirements after the first employment year. We feel that our early requirements are sufficiently rigid so that a relaxation in later employment years is in order.

MR. HARRY D. GARBER: Under the Equitable's financing plan an agent receives a basic salary, which reduces over the financing period, plus one-half of the regular first year commissions and full renewal commissions. If his commission earnings exceed the validation requirements by a specified amount, he will receive more than the basic salary pattern. If his earnings fall short of validation requirements but meet 80% of them, we will still finance him, but at 80% of the basic salary.

Validation requirements are proportional to the amount of initial salary granted. We base our validation strictly on cash commissions, no special adjustments being made for those classes of business on which we annualize first year commissions—preauthorized check plan, salary savings, our assured home ownership, and armed service allotment. Because it is on cash commission basis, we don't have a validation requirement until four months have elapsed. The remaining validation requirements occur at six months and then every three months thereafter.

At the time of the last revision of our financing plan we studied the sales patterns during the first three years for our successful agents, classifying the agents on the basis of the amount of business which they are now writing. Using these data and a set of assumed lapse rates and distributions of new business by mode of premium payment, we developed the new validation schedule. We then fitted a salary schedule to the validation requirements such that the resulting combined income to an agent just meeting these requirements would be roughly level throughout the financing period.