TRANSACTIONS OF SOCIETY OF ACTUARIES
1962 VOL. 14 PT. 2

Group Field Operations

A. What means are used to measure the results of field operations in respect to:
   1. New business?
   2. Service and conservation of existing business?
   3. Market and producer development?

   What are the indexes of measurement—premiums, commissions, other? Against what criteria are they measured—salaries, total expenses, other? Is underwriting profit or loss a suitable measurement of results?

B. What are the considerations, financial and other, in developing formulas for incentive compensation or bonus systems for salaried field personnel? Of what significance is the experience of the individual, both in the industry and with the particular company, and the geographical area and market?

C. What specific considerations influence expansion in respect to the over-all group operation or expansion to a given new city or area?

Jacksonville Regional Meeting

MR. J. DARRISON SILLESKY: On section C, some of the considerations in any sort of field expansion are (1) Company goals and objectives, (2) Company financial condition, and (3) the strain on the executive staff and supervisory force and their ability to handle efficiently and effectively an expansion at any particular time.

Considering the actuarial aspects of the problem, we have available some very good statistics from the Department of Labor, the Social Security Board, the National Office of Vital Statistics and such insurance sources as L.I.A.M.A., I.L.I. and H.I.I. From these, it is possible to make rough estimates of existing and potential coverage by area or region, type of industry, size of group, etc.

At the John Hancock, we established a card for every group account and punched into it such things as size, duration, type of account, source and type of business, area, region, office and detailed financial statistics related to the gain or loss experience. These were sorted and tabulated in a variety of combinations to give us detailed pictures of the characteristics of our business by area, region and office. We can compare the sources and types of business in these cells and can also compare the financial results of any given source or type of business in the various cells. By considering these results in relation to our ability to sell in particular areas and the apparent business potential of the areas we can get some idea of where it might be advisable to expand.

Chicago Regional Meeting

MR. IRVING S. WOLFSON: The most important initial decision in developing a compensation system for group field men is to decide whether the field man is to be considered primarily a salesman or primarily a home office technician located in the field. At the Massachusetts Mutual we have the country subdivided into eight regions and have a group regional manager in charge of each region. He is more or less a home office sales manager located in the field. His salary, therefore, corresponds to that of top sales management in the home office but also includes an opportunity to earn a bonus based on sales results.

The regional manager receives no business credits on any of our cases. The man who receives these credits we think of primarily as being a salesman and hence his compensation is based on a relatively small base salary with the possibility of earning substantial bonuses, if successful. Our compensation system recognizes both sales and service efforts. The relative weights placed on these must tie in with your over-all goals and undoubtedly will change as circumstances change.

In attempting to control the cost of our field operation, we establish a budget for each man's expenses at the beginning of a year. If a group field man exceeds the expense budget which has been established, the excess expenses can be deducted from the business credits he otherwise would receive.

Our main determining factor in deciding whether to open a new group office is: Will it break even financially within three years? We then determine the level of production required to make the office break even by equating expected expenses with the amount available at trial-and-error production levels in our dividend formula. We also expect a general agency to develop a certain amount of production before we will place a man on a full-time basis in that city.

Individual sales results are tested by comparing production with the quotas set at the beginning of the year. An activity report is kept, comparing each man's proposals submitted, new business developed, new brokers developed and cases actually sold. In this manner we keep a close control over what each man is doing. For example, if the number of cases sold is small in proportion to the number of proposals, an expert may be sent out to analyze the man's closing technique.

MR. HENRY KNOWLTON: My remarks are on the first part of this section regarding measuring performance. Prior to 1960 Occidental, to measure the performance of a field office with respect to expenses, made a comparison each year of the expenses for that office, including all salaries, rent, light, telephone, overhead, travel, and so forth, with 35 percent of the operating expense margin in the retentions on the business written through that office.

The problem we ran into with this measurement was that, even though this gave us a direct comparison between the expenses of an office and the margins available to cover those expenses, the comparison was too direct and our company management would look at a given office that failed to meet its expense quota and assume that this office lost so much money.

This was taken as too meaningful, so we revised our method and in 1960 began to compare premium in force for each office with the premium required to produce the allocated expenses. This avoids the question of the dollar and cents loss, and gives us much the same type of figures, but puts it in a form which is not so apt to be misleading.

Our new report shows premium in force December 31 each year for each of our group offices for four years, and new business written in each office is shown as well. This is compared to the premium "quota" at the end of the current year so that our management, looking at this report, can see if an office is going towards its quota.

Although the revised report is subject to less criticism than our previous report, it is nonetheless of limited value since it doesn't reflect at all the profitability of the business in the different offices and we have found that this varies considerably. Within two years after our 7070 becomes operational, we plan to prepare gain and loss for each group office, breaking down the gain and loss into excess interest earnings, profit and risk charge, excess of deficits recovered over deficits incurred, and lastly this excess of margin for field expense over actual expense.

Being a stock company primarily interested in profits, we concluded that this gain and loss by office is the most meaningful measure of our field operations, but I am frankly fearful that part of our conclusion is based on the fact that this is something we don't have, and we want, and that after we have it we will find it subject to almost as many shortcomings as our present methods.