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AGENCY COMPENSATION AND CONSUMERISM

1. What are the objectives of a compensation system and how is the consumer affected by it?

2. What changes will be expected as a result of current consumerism and regulatory action?

MR. JOSEPH F. CROWE: While I think it is very interesting to look at the objectives of a compensation system separately from the agent, consumer and company points of view, I feel that the three sets of objectives cannot be in conflict in the long run. The company can't ignore the concerns of its agents and consumers in developing its compensation system.

A compensation system by itself will not solve our problems or achieve our objectives. It is a very important part of the overall strategy, but we need consistency among such things as pricing, disclosure policies, training, recognition and awards, managing and company policy.

To state it very simply, the objective of a compensation system is to get people to do what you want them to do by paying them for the right things. This may seem too general, but because objectives of individual companies can vary from each other and the objectives of a particular company can vary over time, I think this broad definition is the one common to compensation systems.

In actually developing a compensation system, we have to get much more specific. For example, we may want the agent to sell as much business as possible. His compensation will be based heavily on the amount of business produced. If we are interested in paying the General Agent for developing people, a measure of the General Agent's performance in recruiting and developing people will be included in the compensation system.

To a large extent the consumer is affected by the impact that the compensation system has on what the agent does, because the consumer's contact is with the agent.

The compensation system applicable to General Agents or Managers and Staff impacts what the agent does. For example, General Agents whose compensation is heavily weighted towards renewal business will tend to develop agents who are more concerned with persistency than General Agents whose compensation is solely related to sales. My remaining remarks are restricted to Agent Compensation. It is, however, very important that other compensation formulas be consistent with the Agent Compensation formula.

In Agent's Compensation generally in use in the Individual Life Insurance area, there is a high first year commission, which is a percentage of premium, and lower renewal commissions again related to premium. There may or may not be some kind of a persistency bonus and there may or may not be vesting involved in the renewals. The compensation system generally pays an agent for getting new premiums, usually more for Permanent than Term premiums, and it also pays an agent more for more persistent business.

As I stated earlier, the objective of a compensation system is to get people to do what you want them to do by paying them for the right things. If this is true, we are telling our agents that we want them to sell Life insurance. Once it is sold, we would like them to help keep it in force, but they should continue to spend the bulk of their time selling. Further, we want them to sell large policies and we would prefer to have them sell Permanent rather than Term.

There are several areas where I think this impacts on the consumer:

1. It is not very attractive for an agent to sell small policies, because the average premium is usually small. There is a danger of having a void in the market for small policies. This would generally be the lower income market. If this exists, it not only hurts the consumer, but in the long run can hurt the company and the agent, as this void may be increasingly filled by the expansion of government programs.
2. Another problem that the consumer is faced with is high lapse rates. Obviously, this is not entirely the result of the compensation system. Because of the high lapse rates on policies, insurance policies cost more. Also, if insurance is needed and sold properly, it's hard to understand the reason for the high lapse rates. To the extent that agents are paid much more for selling business than for servicing it and keeping it in force, the compensation system leads to or aggravates this problem. Further, high lapse rates can result if commission pressures influence the agent to sell inappropriate coverage.
3. The high front-end load or high first year commission which we pay the agent is one very important reason why in most policies there is very little or no cash value in the early years.
4. The fact that the commission rate is lower for Term than for Permanent tends to make it more attractive for an agent to sell Permanent. This may not always be to the advantage of the consumer.

Our system of Agency Compensation can be modified to correct existing problems. It is one area in the Life Insurance Industry where Incentive Compensation has worked effectively, and I think incentive should be the basis for any revised system.

As a result of these consumer concerns, I see some possible changes in Agent Compensation:

1. Commissions may be related not only to first premium, but also to the number of policies and/or amount of insurance. This would tend to give a little more weight to the small policies and a little more weight to Term insurance where the premium per $1,000 is lower. The elimination of the difference in commission rates between a dollar of Term premium and a dollar of Permanent premium would be desirable.
2. I think it likely in the years ahead that attempts will be made through the compensation system to improve persistency. Examples of possible changes are:
   a) Make a more clear-cut split between the selling and servicing of policies and break out a fairly substantial portion of the renewal compensation to be paid to an agent or other employee who actually does the servicing, with a much smaller part being paid to the selling agent. It would be possible in this situation for a selling agent to be the servicing agent, but if he does not do the servicing, the policy could be assigned to another agent who would do the servicing.
   b) It is also possible that we'll see a continuation or a speeding up of a trend towards fairly flat commissions over the first few years.

c) I think more companies will charge back part or all of the commission on first year lapses.

3. I said at the beginning that the compensation system cannot solve all problems. An example of another possible change is in the small market area where, in addition to looking at how the commission system might be changed to help us address this area, we might look at the distribution system for a type of mass marketing that can be used to sell individual policies through employers. Here an agent can talk to a number of employees in a short period of time so that it would be worth his while.

How can these changes take place? Section 213 of the New York law severely restricts experimentation, and changes to this law come very slowly. One company cannot change unless the industry changes.

How true are these often repeated concerns? Section 213 is restrictive, and I personally think it is an unnecessary law. It does allow some flexibility, however. Companies can make Term and Permanent commission rates the same, or at least bring them closer together. They can also use the transferable service fees that I discussed.

I believe that a company can pioneer change. Communication plays an important role in any change in compensation systems. Changes are made for a purpose and if the purpose is logical and sound, General Agents and agents will understand and probably accept it.

As we face the general question of how the Life Insurance Industry fulfills consumer needs, it is critical that an on-going dialogue occur between the industry, consumers and regulators. The more we communicate with each other, the better the chances of productive change.

MR. BERNARD FENSTER: How do you narrow the gap between permanent and term insurance?

MR. CROWE: One way would be to lower the commissions on permanent. In the first year there would be an allowance based on volume in addition to the commission payment. There is more flexibility than a lot of people think.

MR. CHARLES F. PESTAL: I think the biggest concern from the consumers' standpoint is servicing of the policy. With a fixed service fee and the agent's costs increasing, how can you encourage the agent to service the policy?

MR. CROWE: Two percent service fees may not be enough. I think more than that would be required.

CHAIRMAN SHERWOOD Z. SMITH: It seems today, particularly in the General Agent system, we are talking about heaping commissions to the General Agent. We have been cutting back on service fees at the soliciting agent level. We have also been heaping commissions and talking about maybe maintaining or increasing the service fees. On the other hand the question arises, should the agent be the one who does the servicing? Might somebody else be performing that particular function?

MR. CROWE: When we talk about a service fee, I do not think a service fee necessarily has to be paid to an agent. Pay the fee to anyone who provides the service.

MR. EDWARD G. FARMER, JR.*: My place on this panel comes about, I am sure, because of my position witn the National Association of Insurance Commissioners. As Chairman of the "Task Force to Study Agents' Compensation Systems," I have been assigned on this panel to present the problem of agents' compensation as it affects the consumer. In the two years that I have been Director of Insurance for the State of Missouri, I have tried to represent the consumer but have discovered that it is extremely difficult. I can see the outraged public as viewed through the eyes of the investigators working on complaints, and I can see the consumer as represented by letters from Congressmen and State Representatives and Senators whose constituents have particular problems.

It is, however, very difficult for the regulator to effectively represent the consumer, and I want to explain that. Herbert Dennenberg represented the consumer only by pointing out certain shortcomings in the insurance industry. At a time when he should have been preaching faith in our institutions, he was preying upon their shortcomings.**

Richard Stewart who was Superintendent of New York felt that insurance regulation had become a closed system which left little room for questions to intrude from the outside. His view was that the regulator and the industry worked within a closed circuit and stated (I quote), "Inevitably, both regulator and regulated came to measure their effectiveness by their impact on each other and came to live often quite comfortably within a closed system."

Among my fellow regulators I have discovered a tendency now, after Dennenberg, to measure their effectiveness by the pressure they put on industry and pride themselves on the fines they levy and the difficulty that they cause.

This, in my opinion, is not consumerism and has definitely hurt the image of the insurance industry. On the other hand, a regulator is criticized by his peers if he becomes overly friendly with industry and promotes their well-being. Punishment of the companies we regulate has become synonymous with consumerism.

To get to the task at hand, and with those words of wisdom concerning my fellow Insurance Commissioners, for which I will not be praised or even thanked, we shall discuss the Task Force to Study Agents' Compensation Systems. At the Las Vegas NAIC meeting in December of 1973, four permanent Task Forces were appointed to study the following: (1) Causes, Effects and Cures for Life Insurance Policy Lapses; (2) Agents' Compensation Systems to determine the impact that compensation structures have on the sale of various classes of life products; (3) Reinsurance Activities; and (4) Standard Non-Forfeiture and Standard Reserve Valuation Laws.

It was determined at the first meeting of the Task Force on Agent's Compensation Systems that we would limit ourselves to studying the present system rather than consider reform, because that consideration would dilute the group's ability to completely comprehend the present system and its impact on the delivery of the product.

An Advisory Committee was set up and it met in Kansas City and then in June in San Francisco. At that time a report was adopted wherein these questions were set out to be asked and answers to be sought:

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**Now, would he have done more for the consumer actually if he had praised the industry and led the industry into a different path. I think that is a question we have to ask.

1. In an environment where the life insurance consumer is uninformed, and where he is unable to become adequately informed, are there indications that the compensation of agents, either directly or through bonuses, travel awards, etc., create market influence hostile to the interests of the consumer?
2. In such an environment (or in any environment), does the competition among insurers for more effective salesmen result in a version of "reverse competition" which creates higher rates or prevents rates from falling?
3. Does competition among insurers for agents lead to the proliferation of policy forms or competitive gimmickry more for the purpose of enticing agents away from other insurers than for serving the needs of life insurance consumers?
4. Where statutory or regulatory constraints are placed upon insurers as regards expenses, Section 213 in New York, are bulges created in other lines such as accident and health?
5. Assuming a concerted and successful movement toward more meaningful information for life insurance consumers, are trade-offs possible whereby the compensation of agents might be maintained either through vesting them with proprietary interests in the business produced for longer periods of time, or otherwise?
6. What implications has the compensation of ordinary agents for the burgeoning of group and wholesale insurance?

You can see from these questions that the Task Force is aimed at protection of the consumer and probably will set guidelines for a proposed model regulation or legislation sometime down the line. We felt that it would be impossible to give an overall view of the impact of the compensation system on the delivery of the product without actually knowing what compensation systems existed. So our work so far, work of the Industry Advisory Committee, has been to compile a complete report on all existing compensation systems. Knowing what compensation systems exist, we hope to determine what is their impact on the consumer.

The work of our Task Force will bring us in a complete circle back to consumerism about which I spoke earlier, and when finished we will still be debating regulation vs. free enterprise. In other words if we determine that there is an impact on the consumer by a particular compensation system, should the answer be to adopt more statutes and regulations or is the answer - let's let free enterprise and competition solve that problem. To discuss this, I want to return to a time immediately prior to the Elizabethan Era in England when merchandising of all products was strictly regulated. The number of threads to be in a piece of wool was predetermined by the guilds, and the price for the sale of that wool was strictly controlled. The amount of money that a man received from his labors was exactly prescribed, and commerce was conducted completely under the shadow of the local ordinance, statute, or ruling of a guild. Printed calico, for instance, was excluded from the market place in order to support the existing industry, and it has been recorded that to prevent the distribution of printed calico, 77 were hanged, 52 broken on the rack, and over 500 were sent to the galleys. In our country as late as 1644, we find a record of one Robert Keane being put on trial for making a six-pence profit on a shilling, and he probably would have been excommunicated for his sin of avarice if it had not been for his prior good character. He was eventually fined 200 pounds.

From that then we move into the world of Adam Smith. Adam Smith was the first economist to point to competition as the regulator of the market place, and at the present time he is revered by industrialists as the great advocate of the free market system. I am not sure that Adam Smith really was the friend of the industrialists that they believe him to be. He said that 18th Century industrialists "generally have an interest to deceive and even oppress the public." Adam Smith throughout said that open competition, a free market, should be the regulator and that the true benefactor of open competition was the consumer. He said, "Consumption is the sole end and purpose of all production." This is a very short sentence, but it is in fact in my way of thinking what consumerism is all about. It should indicate to the regulator that too long laws have existed to perpetuate a method of doing business or a rate charged for a product or a method of selling a product, when, in fact, the laws and regulations should have been aimed at consumption and what was best for the consumer.

When I was in college, I worked weekends at a clothing store. The company always had items that didn't move, and they paid a premium to the salesman who sold these items. In other words, in order to sell those items, the clothing store was forced to pay the salesman to create the need in the consumer's mind. Life Insurance is a product in which one must create a need first before that product is sold. I do not oppose the high first year commissions paid to life insurance salesmen for that reason, and because by using our present compensation system the life insurance industry has become tremendously successful in the United States. Compared to other countries, the American public is better served than any other country. I have no doubt but what there are salesmen out this very minute selling to a consumer a product that he neither needs nor can afford. I have no doubt but what trips to Spain have created 20-year endowments in families where term insurance probably was more advisable. I have no doubt but that the greatest competition in the life insurance industry at the present time is for salesmen rather than for business. I have no doubt but what some of the products on the market today are more designed for company profit than for consumer protection.

I am also, however, looking at the job that the life insurance industry has accomplished overall and feel that I should not disturb its forward progress because of the few inequities that it has created.

I know that this is a conservative stand, but I view my job as a regulator to be much less that of a policeman and more of one who is in partnership with all elements of the industry and the consumer as well; and that the industry, the agency force, and the consumer can watch together carefully the changes in our surrounding society; and that I can, as the representative of all of these elements, encourage and guide and, where it is needed, require industry or the agency force to respond to current needs of the society at large.

I feel that regulation can be responsive and at the present time needs to be responsive. This is a challenging job and a thrilling one. I look forward to working with the companies and their agents, and feel that that can eventually be the greatest help to the consumer.

CHAIRMAN SMITH: How far down the road do you see results coming from the Industry Advisory Task Force and some recommendations being made to the NAIC?

MR. FARMER: The Advisory group will meet again in April. As far as answers to the problem, at this point it is very difficult to say that there will be any answers. I think we will just know more about the problem.

CHAIRMAN SMITH: Do you see changes in the entire compensation/consumerism relationship as a result of your activity or do you see a lot of skepticism being voiced by maybe the industry or even some of the regulators at this point.

MR. FARMER: I see objection to Section 213. I don't see a strong enough objection to Section 213 to do anything about it at this point.

MR. L. B. LEACH*: Since we will be dealing with agency compensation, it might be well to define "agency." In my remarks, "agency" pertains to agents and general agents or managers.

One thing that we've learned in working with a number of companies is that the term "compensation" means different things to different people: To the company, agency compensation is an expense, and like any expense, it is something to be minimized. To the consumer, agency compensation is an added cost to the product or service that he buys and he also would like to see it minimized. To the field force, however, compensation is income and they want to see it maximized.

Since it takes all three parties to make this business go, we must come up with some sort of a compromise that: Provides the product and service the customers want at a price that they are willing to pay. Provides an income attractive enough to the field that they are willing to sell our products and service our policyowners. And do all of this at a cost that the company can live with and still keep its products competitively priced.

I am going to try to stick pretty close to the areas of concern listed in your program, so the first is the objective of compensation.

The objectives of compensation from the agents', general agents', and managers' point of view would include: To provide an opportunity for better-than-normal earnings. To provide an additional incentive for outstanding performance. To provide stability of income. To provide pay for the job to be done. To provide independence that minimizes the effect of arbitrary home office decisions affecting the financial well-being of the agent, general agent, and manager:

a. The field force wants protection from arbitrary decisions made by people whom they don't know -- decisions that can substantially change the rules after the game has started.
b. This is often expressed as wanting some "ownership rights" in the business, such as

    1. Vesting for agents and general agents, or
    2. Some buyout agreement, or
    3. A stock-ownership arrangement, or
    4. For managers, it might be a pension plan with early full vesting.

c. It is also expressed as mistrust of contract provisions that seem "manipulative," arbitrary, or where measures of performance can be changed by home office fiat (e.g., production clubs).

To provide adequate administrative and sales support services. To provide an acceptable security benefit package including group insurance and pension benefits.

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In addition, the general agent and manager would add to the list of objectives: To attract and retain good agents.

Obviously, some of these objectives are in conflict so it's not only necessary to identify the objective, but also to determine their relative importance.

How does all of this affect the consumer? The type of service that the customer requires, the products that the consumer gets, and the price that is paid, must be consistent with the customer's needs and the company's marketing plan.

If the customer requires a one-on-one distribution system to help identify problems, recommend solutions, persuade him or her to act, and to provide follow-up service, these services must be paid for.

If a group of customers for some reason or other does not truly require all of the services the one-on-one system delivers, they should not have to pay.

Since compensation is one of the most powerful communication devices available to the company, it is essential that it be consistent with the company's marketing plan and that it clearly define what the company wants the agency to do. Then, hopefully, the desire to maximize personal income will cause the agent to perform in the manner that the company wants.

If this marketing plan has been carefully thought out, then the customer will receive the type of buying help and service needed and at the appropriate cost for that type of service.

What changes will be expected as a result of consumerism and regulatory action? -- Crystal ball gazing is always risky -- but here goes.

From the companies that we have been working with, it is quite clear that there will be an increased concern with marketing cost. This is the biggest part of the expense dollar and will get the most critical attention.

Any real attempt to get control of marketing costs must start with a well-thought-out marketing plan. A plan that identifies the markets that the company wishes to reach, making sure that the products, price, methods of distribution, customer service, and compensation are appropriate for that market.

For the career agency system, it means much greater attention to our everlasting problem -- agent retention and productivity. We simply no longer can afford to keep marginal agents and marginal agencies.

From the extensive use of our LIMRA agency models and from company experience, it is clear that this area of agent retention and productivity has probably the greatest potential for improving marketing efficiency.

For example, other than in New York State, we are seeing a much greater use of production and persistency bonuses coupled with a lower base contract. This puts the pressure on the marginal agent to get up to standard, live on a reduced income, or get out.

Even in New York State, you can have a persistency bonus graded by production and paid on renewal premiums that gets at the same problem.

We will probably end up with fewer, better paid agents, but from our experience, we will also expect to end up with more business and a much more efficient marketing system.

As far as the general agents and managers are concerned, we see a significant trend toward more emphasis in compensation on successful manpower development and agency cost control. Several of the managerial contracts that we've worked on lately have handled agency expenses almost the same as for a general agent.

In the urban centers, we are seeing companies developing compensation to encourage much larger, more efficient agencies not only through the traditional use of the unit supervisor, but with a great deal of attention being given to the functional supervisor approach.

There will be consumer pressure to increase the early cash values so that the loss to a policyowner will be reduced in event of early surrender of the policy. Because of this pressure, some companies will be tempted to reduce the first-year commission to the field.

Because of competition with New York companies and the possibility of disclosure laws, I believe that the non-New York first-year commissions will come down and will stabilize at about the New York level.

For life products, I believe that it would be a mistake to go much lower than the New York levels for first-year commissions.

a. First of all, the customer wants higher earlier surrender benefits. The customer really isn't concerned with where the money comes from or the portion of the loading that goes to the agent's commission, actuarial salaries, or consultants' fees.
b. Increasing early surrender values should not come solely out of the agent's first-year commissions.
c. You pay for what you want done. Most companies want the agent to sell, and a relatively high first-year commission and heaped renewals carries this message loud and clear.
d. It also avoids the "holding agent" -- the older agent living well on his renewals and bringing in only a marginal level of new sales.
e. Substantial reduction in first-year commissions would compound your financing problems with new agents.
f. The agent's job is a tough one, and agents are going to have to have the opportunity for a better-than-average income in a very short period of time.

For annuities and products for the IRA market, I believe that eventually competition from banks and other financial organizations will force us to a level commission in the neighborhood of 3 to 5 percent. We have only to look to the North to see the lessons that were learned by our Canadian friends with their registered retirement savings plan.

To partially offset the charge that an agent is tempted to recommend the plan with the highest commission rates, there will be increasing pressure to make term and ordinary life commission rates the same, or closer together.

There will be a much greater attention on the part of companies to policyowner service, not just the administrative services such as address and beneficiary changes, but to providing advice or counseling service.

Policyowner service is the responsibility of the company. It is up to the company to decide what resources are used to deliver that service. Some companies have decided that service is to be made the responsibility of its agents. Other companies have decided that policyowner service should be done by special service representatives. Or some combination of the two.

From the compensation standpoint, the important thing is that, whatever the decision, the method of compensation must support that decision. This paying for service is a real problem. The nonvested renewal in the 10th and subsequent years that we presently call a service fee was originally developed during the depression years to stabilize the agent's income and to pay for efforts to keep old policies in force. Now, in 1975, we surely can come up with a better approach to service than this.

There will be further segmenting of the market into areas that can best be served by group insurance, mass marketing, and individual sales. <u>If</u>, in the mass-marketing area, it is possible to substantially restructure the agent's job so that there is much less dependence on personal prospecting ability and initiative, we may see companies experimenting with a salary or a salary and bonus plan.

There will be pressures from regulatory bodies to guarantee the so-called independence of the agent to place business in whatever company is best for the client. This sounds great and in general I would defend this philosophy -- in fact, many companies have already taken "exclusive" clauses out of their contracts, but it worries me for several reasons: Are you also going to limit commissions so that the agent or broker will not be tempted to place business with the company paying the highest commissions instead of offering the best product? If this philosophy is carried to the extreme, who is going to do any recruiting, training, and supervising of inexperienced agents? Who is going to finance new agents to the tune of about $10,000 only to see them continue to occupy your offices, take your benefits, and place with you only those policies where you are demonstrably better in net cost or policy provisions.

There will also be increased pressure from regulatory bodies for product standardization. Again, this one also worries me if it would inhibit companies from using their ingenuity to develop new products and services.

There are many methods of distribution such as mass marketing, advertising, and other approaches that may be quite appropriate for certain markets and certain products. But for a large segment of our market, there is still a need for the advice, persuasion, and service that can only be offered on a one-to-one basis. Personally, I like to think of agents as "manufacturers" in that they are taking a number of standard products and combining them into a program to the customer's own specifications.

If we are to continue to grow as an industry and to serve the public well, someone still has to make the substantial investment in new sales manpower with some relative degree of confidence that this investment can be returned with a profit.

Finally, agency compensation is important. But even more important is that compensation must be recognized as a communicating device. Compensation must be consistent with, and reinforce, the company objectives, philosophy, and marketing plan. Without this meshing of compensation, company goals, and individual goals, all the tinkering in the world, no matter in what name -- consumerism, saving the agency system, or whatever turns you on --, will not, in fact, improve the consumers lot one iota. Only through better performance on the part of the entire industry -- in the field and in home office -- will consumers get what they want, need, and deserve.

CHAIRMAN SMITH: One particular area we are trying to cover is the household market. Being a New York company we are pretty much limited as to what compensation we can pay. We are finding that to really cover this market we need to pay out the maximum margins and often find that we need additional margins to cover this particular market place. Is their anyone else facing this particular type of problem?

MR. DAVID CARPENTER: In regard to the household market, we don't feel any unusual pressure. I do know, however, that some of our most successful agents and general agents still work in a rural area. We still believe in the ingenuity and ability of the salesman to get to the household market. We are beginning to feel among our GA's (who really pick up their own expenses) some real earnings pressure caused by inflation.

CHAIRMAN SMITH: One way to combat this is to heap the renewals, but of course inflation still eats into that. Dave, Occidental has really been in the forefront in heaping commissions. Can you give us an idea of your success or failure over the last several years?

MR. CARPENTER: It is too early to tell yet. One of our main trade-offs was increased persistency in years 2-5. Occidental, on every plan where it is advisable, has been paying renewals in years 2-5 of 25, 15, 10 and 10% with no commissions to the soliciting agent after that time, although there are service fees to the GA. Our first block of business is just reaching the end of the second year. The economic changes within the last two years are going to make our results a little hazy. If our persistency has not changed at all, it may be a plus because a lot of companies are feeling an erosion of persistency which they feel is caused at least partly by the economic conditions. Basically, we are concerned about what will happen to persistency after the fifth year. On the permanent plans I feel fairly comfortable but on the term plans I don't feel that comfortable. The only thing we feel may save us here is that, when it comes to servicing, we are going to be putting our money on the manager -- making it his responsibility to see that the business gets serviced. We feel that the key to persistency after the fifth year will be the servicing at the manager's level and not by the soliciting agent. So, if anything, we will find ways to increase the compensation at the manager's level more so than at the soliciting agent's level. We hope, too, that heaping of commissions will help the agent survival rate in years two, three, and four.

CHAIRMAN SMITH: We have found that many agents, once they discovered how the heaped renewals worked, have been switching from the level to the heaped.

MR. FENSTER: Has anyone considered the situation where the insurance company doesn't pick up the whole tab? Maybe the client pays something for the service. This is a break with tradition, but there are market segments which are more sophisticated and require more service, from the standpoint of advice. Why must the industry, or the company, pick up the tab when the consumer should be paying for services rendered?

MR. CROWE: There are a few companies charging for services performed on pension business.

MR. LEACH: There are some very good agents - good enough to demand a fee from their clients. This is usually on an individual basis. Oftentimes a set fee is charged and any commissions offset this fee. In Canada, the Ontario Life Underwriters recently held a series of meetings to determine what would be an adequate fee schedule. Up to now everything has been negotiated between the client and agent, usually involving pension business or very high-volume estate planning.

MR. WILLIAM HEZZELWOOD: It has been suggested that companies develop a wholesale rate and then the distributors load that rate to reflect the service required.

MR. FARMER: As a regulator, I would be opposed to this approach because the insurance consumer is almost totally uninformed as to what rates are available. An unscrupulous agent could do what he wants to with his product, to the detriment of the consumer. The consumer just can't look around and find who has the best price for a 20 year endowment. I don't like the type of advertising that insurance companies are using. Just saying "My company is Blank Blank Life" doesn't tell the consumer a thing. If you people in the insurance industry would just come out and say "This is what I have to offer and this is what it will cost you," then we could move toward a "wholesaling" system.

MR. CARPENTER: What is meant by equalizing commissions by plan? Does this mean dollar amount or percentage or per sale? The consumer may be asking for higher early cash values, yet the Interest Adjusted Cost Method does not recognize early cash values.

MR. LEACH: The percentage commission rate for term and ordinary life plans should be closer. There is static regarding agents pushing the customers into that plan which pays the highest commission rate.

CHAIRMAN SMITH: Has anyone found a solution to the problem of non-producing agents receiving vested renewal commissions?

MR. CROWE: This is one of the areas where things have changed in the last few years. Five or ten years ago, insurance industry groups were lobbying for more vesting. Now consumer groups feel there should be no vesting.

MR. CARPENTER: We might consider whether there would be any advantage in heaping renewal commissions. The effect of heaping renewals is to not only get the agent started faster, but to keep him running faster.

MR. LEACH: Not many brokers would go along with too many restrictions on vesting.

MR. HARRY M. SARASON: A lump-sum payment could be made in exchange for the non-producing agent giving up his future small renewal commissions.