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MARKETING SYSTEMS

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1. How does the basic job of agent differ among:

   a. Organizations

      i. Combination Companies
      ii. Ordinary
      iii. Multi-Line

   b. Types of Agent

      i. Career
      ii. PPGA
      iii. Broker
      iv. Direct Mail

2. What are productivity records of various systems? Basic level of production and earnings? Recent trends?

3. Can productivity increases be expected to keep earnings growth commensurate with alternative job opportunities?

4. How will accelerated inflation (6%+) affect the distribution of business throught various marketing systems?

5. Will part-time agents become an important marketing force? (Accountants, stockbrokers, etc.)

6. Is direct mail solicitation a serious threat to the career agent?

MR. JOHN E. TILLER, JR: During This session, we will explore various marketing systems in an attempt to discover differences and similarities in the agent's role as well as the productivity results and the trends for the future. Our emphasis today will be on the ordinary life insurance line of business and we will investigate the following channels of distribution:

- Career Agents
- PPGA's
- Brokers
- Multi-Line/Exclusive Agents
- Mass Marketing

Implicit in this analysis is the hypothesis that through selective marketing focus--including such things as competitor analysis and a study of industry trends--a company can build a stronger distribution system and attain superior profit performance. Those of you who wear white hats and work for mutual companies may substitute "contribution to surplus" or "increased dividend performance" for the word "profits" if you prefer.

My comments assume a company's distribution strategy is a pivotal element between its home office--which provides the designing, pricing and administration of products--and its various markets. As a pivotal element, that strategy is the main element of the value--added component of profits which can enure to the company's benefit and it opens up vast competitive opportunities. My company is in the midst of a major marketing study involving a consulting firm and a number of our own people. While this study is not yet complete, I would like to share some initial conclusions.

Life insurance is basically a mature industry and as such the larger companies are characterized by:

1. Similar average growth rates, generally no greater than growth in disposable income;

2. A narrow range of profitability--something in the range of 2% to 4% on assets;

3. The rates of return which reflect the basic risk and volatility of the industry rather than a return on venture capital.

Exceptional performance on the high side has generally been limited to smaller companies which are focused in specific segments of the market or to companies which are leaders in identifying higher growth markets and more cost effective methods.

We have found that stock companies which have exhibited exceptional positive performance are those which had a unique feature, such as:

1. Upmarket agencies - (higher average income clients with estate and tax problems);

2. Associated sales--such as mutual funds;

3. Vast contacts with property and casualty, multi-line or exclusive agencies;

4. Mass marketing--both life and A & H.

5. Low cost term market via brokers;

6. Specialized thrust, such as reinsurance.

Each of these companies showed a favorable blend of a specific market channel focus, a special--and usually lower cost--distribution system tuned to that distribution channel and a tailored administrative system. Such companies were also found to be growing faster and to be more profitable than average. This study has also identified many problems facing the typical middle-market ordinary agent of today. The cost of life insurance has steadily decreased over the past two decades both in the aggregate and by type. I don't think I need to show any of you the statistics to back up this statement, but I would like to point out some major factors underlying this trend. They include productivity gains--resulting from such things as EDP, better management and larger average size; better experience, at least in the mortality and interest elements; and a different product mix where term insurance and inflation have had tremendous impacts.

Coverage has simply not risen fast enough to off-set this rate decline. When stated in 1977 dollars, ordinary volume per case increased only .3% per year over the period of 1962 to 1976, while the rate per thousand declined 2% per annum and premiums per case declined 1.8% on the average. Since an ordinary agent's income is almost entirely dependent upon production of premiums, he or she is faced with a declining income unless he can:

1. Become more efficient - sell more cases;

2. Become more selective - sell bigger or more profitable cases; or

3. Become more varied, in other words, sell something else in addition to life insurance.

Selling more cases--especially for the middle market agent--is restricted by the same factors which depress his real premium per case. These elements include the growth in group life insurance, expansion of social insurance and the habits developed over years of selling. The combination of declining premiums per case, the difficulty of moving upmarket and the difficulty of selling more cases all lead to a squeeze on the middle market agent. Why do I say it is difficult for an agent to move upmarket--to sell larger cases? That difficulty exists because such a change requires a shift in clientele to an upper income segment of the population. The ability to make this shift is inherently limited by the training of the agent (he has to know more about taxes and estate planning). Secondly, his background limits him. Identification with a client via a combination of education, environment and income--all of these require a more sophisticated than average agent. And again, the sales habits of the individual can be inhibiting. Can an agent accustomed to thinking in terms of a $15,000 of coverage now easily raise his sights to $100,000?

There are also many problems inherent in becoming more varied. The agent is prohibited by product availability. Does his company have a vast range of the products or just individual life plans? Again, the agent's training and background come into play as well as the company's attitudes--will the company encourage or discourage the selling of other products? And lastly, that old specter--sales habits; can an old dog be taught new tricks? If we are to have agents who can sell more varied products, must we start training them to sell a wide line right from the start or can he be persuaded to add new products as he matures?

All the time, while confronted with these daily problems, our friend--especially the typical career agent or PPGA--is also faced with direct and severe competition from many sources. Those sources include:

- The brokerage market--lower cost products which are especially effective when used in direct competition.

- Secondly, the property and casualty or multi-line agents. I include here both the independent agents and those agents who have exclusive marketing contracts for all lines of insurance with a single company. Such an agent can afford low commissions on life insurance because it is often a marginal line. Also, he is sometimes forced to sell a certain amount of life insurance to qualify for conventions and bonuses. This agent also has a built-in clientele who are more receptive to him--the man who sold their homeowner's or auto coverage--than to cold canvas approach from a "pure" life insurance salesman.

- The third major form of competition is from the securities brokerage houses. While no one has yet acquired a significant portion of this market, in-roads are being made. Enormous potential exists for life insurance sales, especially in the upmarket area. Again there is supposedly less sales resistence to the broker who handles a prospect's stock portfolio than to a cold canvas from a life insurance salesman.

- Bankers are making some in-roads also especially through the area of savings banks, mortgage insurance and credit insurance--higher and higher limits on these are becoming common.

- Finally, other forms of mass marketing such as salary savings, direct mail or third party sponsored activities are constantly eroding the individual sales market and adding to whatever private layer of coverage is necessary in addition to group and social insurance, all without benefiting this middle-of-the-road agent.

Each of these is an effective, low cost distribution channel--the result, at least in part, of the fact that any single life represents only marginal income to the agent on top of a supposedly secure base.

Special problems exist in each of these areas also and I am not yet ready to become "the voice of doom and gloom" to what is currently our major distribution system. But it seems self-evident that a stagnant distribution system is in great danger of extinction. Just as physical evolution eliminated the mighty dinosaur, economic evolution can fossilize both the agent of today and the tradition steeped, unresponsive company which propagates him unless we and other responsible officers of our companies look at our current organizations with some thought as to what tomorrow's markets will require.

With those comments as background, I would like to move on to our major topic--the analysis of today's situation in light of the recent past and our estimates for the future.

Sam, you represent a large multi-line company dealing with a variety of agent types. Can you share some of your thoughts and experience?

MR. SAM GUTTERMAN: Before I get into a discussion of the functions of the agent in a multi-line organization or a brokerage operation, it would be best if we could define what we mean by these two terms.

A multi-line insurance organization sells both life and casualty insurance products through at least two companies that are related in some way. Its sales management can be organized in many different ways to accomplish different business objectives such as different product mix, different market place and different sales of particular products. At one extreme a life and casualty sales management would not talk to each other. I have seen this happen very often. At the other extreme it could be the same person. Most often, the situation is somewhere in between these extremes, normally closer to the first situation. Often there are corporate plans for synergism, a term used often in the 60's and early 70's, between the generation of life and casualty insurance sales. Unfortunately, this does not happen often enough to the eyes of these multi-line companies.

Earlier multi-line groups were formed due to the need of a property and/or casualty insurance company to have a life outlet for its casualty agents; in the 60's, either for diversification or investment purposes, or as a source of stable cash flow or equity; more recently, to provide additional income for the agency plan to the large life career agency companies by selling casualty insurance products. There are as many ways to market and organize sales of these products as there are companies in the market. It can be done via career agents, company employees selling over store counters and rural salesmen, to urban or suburban casualty or life specialists.

There is also more than one type of broker. In general, a broker can be defined as an agent who can sell insurance for more than one company. A broker can be a single person or a large corporate agency operating nationwide. We have found that there are at least four types of brokers. Most importantly, is the broker whose primary insurance product line is casualty insurance; either personal lines, commercial lines or both. This type of broker can be separated between one with a person devoting full-time to selling life insurance on the staff sometimes called the Life Department Manager or LDM and one without such a full-time staff person. Such a broker can be either urban, rural, or suburban based; either sophisticated in its approach to the life market, more commonly the one with an LDM in the office, or relatively naive about life insurance which includes the majority.

Secondly, there is the life broker, who generally specializes in selling to upper-income individuals on an estate planning or business need basis. This has developed into a sophisticated market, as John mentioned, which is highly urban/surburban based and which often consists of former career agents or PPGA's who have gone out on their own.

Thirdly, is the agent of another company, more commonly expressed as AOC. This type of broker is usually a full-time agent of another company who writes an occasional case outside of that company. This is often a sophisticated agent, who for reasons of underwriting, product, or price, feels that another company should be used for a particular case. In the past, this occurred due to a substandard rating, lack of a certain class of business or particular product, or uncompetitive rates for a product of the AOC's company. Although an AOC can run the gamut of unknowledgeable to sophisticated life salesman, normally he or she is closer to the latter. This may include other company's career agents, PPGA's, or in fact General Agents.

Fourth is an all other category. This includes the part-time agent, who writes an occasional insurance case, but whose full-time job is something other than insurance. This broker is generally not a sophisticated estate planner or business insurance specialist and usually needs some help in placing a case, but who has a captive client or at least a strong lead.

All four types of brokers, as well as agents or agencies, perform five major functions with respect to life insurance: (1) Identification of potential clients via leads from other sources or internally generated leads; (2) Identification of the insured's needs and convincing the client that these needs are real; (3) Identification of the cost of the product to be sold to fit those needs; (4) Closing the sale or convincing the client that the product proposed is cost-justified on an absolute basis or relative to other products available; (5) Servicing the account or client after the sale is made. Agents and brokers must perform all five of these major functions, although they may approach each of these in a different way or at a different level of sophistication. Any broker or agent must locate potential clients, for example, the casualty broker through existing casualty policyholders clients, the life specialist and AOC in the same way as a career agent or PPGA gets business. Methods of identification of needs are varied by the individual agent or broker. There are various selling systems in the market for simple sales presentations, particularly in use of the property and casualty agent. Identification of needs and prices is an area where the company's field management can become active. Once a lead is developed or a client's insurance needs are discussed, a brokerage company's brokerage or sales representative may help make the initial or final sales call depending upon the sophistication of the broker. This joint call may be made for or with a less sophisticated broker for quantifying needs or to explain a complicated ledger statement or for the sales call to help even the sophisticated broker. The company's sales representative, on the other hand, may get only minimally involved, possibly only in helping to fill out needed forms, or more importantly, in selling the broker the advantages of the company and its products. The broker is indeed independent and does use his or her choice of companies to place business. There is and will continue to be a great deal of competition in this market.

In summary, there are many different methods multiple line insurance organizations can take to approach their sale. There is more than one type of broker utilized by brokerage companies. All brokers and agents must perform the same basic functions, but they do them at different levels of sophistication, with different techniques, and with different levels of Company support.

MR. ROBERT P. HILL: Prudential's sales force is divided into two parts. We have an ordinary agencies sales force that has about 25% of our business and a District Agencies organization that does about 75% of our business. The former is a typical branch manager ordinary agencies organization. The only respect in which it is not typical is that it is multi-line in terms of products; our ordinary agents sell life, health, property, and casualty products. The District Agencies organization is the descendent of our original debit organization from which Prudential began in the home service business. In terms of products the District Agencies sells life insurance on both a mail-pay and a home service or debit basis, health insurance, annuities, group insurance, automobile, homeowners, and very little mutual funds. The basic structure of the District Agencies is built around two principles. First, the assignment of policyholders in a particular area to agents for continued service and sales. This brings the district agents into contact with policyholders on a regular basis and it helps them to establish a relationship which makes it easy to get a sales interview. Our goal, of course, is for each agent to sell in a household all the product lines--life, health, property, and casualty. Compensation for district agents is in part based on the inforce business in that territory; service compensation coming from both debit collection commissions and property and casualty continuation or renewal commissions. In other words, debit and Property and Casualty (P&C) business are assigned by territory.

MR. RONALD K. CURLEE: I would only comment with regard to the first subject of how the basic job of the agent differs among the various organizations, and point out some differences that our company has with respect to our combination agent and ordinary agent.

The most obvious difference, of course, is that the combination agent is spending a significant amount of his time collecting premiums. Some of our marketing people estimated that our current combination agent is spending around 30% of his time collecting premiums, and that is a big difference. There are some other differences with respect possibly to the environment in which the agent operates and the manner in which the agent performs his task. Some of these differences are the result of the premium collecting process; others might be a peculiar characteristic just to our operation. For example, I have found and seen that the combination agent works under more supervision than the ordinary agent; he is more strictly supervised during his entire career. The ordinary agent is supervised during the financing period; certainly the first year and then less so but continues to be supervised in the second year and after that he is basically totally independent. The other item of difference that Mr. Hill touched upon is that the combination agent is assigned a certain area in our case that is exclusive. It is exclusive to the extent that with few exceptions does he ever sell outside of that area. The ordinary agent has basically no assigned territory.

As far as the type of agent and the differences that might exist, it depends upon the type of broker, the type of PPGA, and the type of career agent that you are talking about. The individuals that I have been involved with quite often do and have worn all three hats. In other words, I know several agents who are career agents with one company, have a PPGA contract with another, and broker contracts with several others. As a consequence, those particular individuals are not doing a different job while they are brokers, while they are PPGAs, or while they are career agents, however, they possibly are using different product lines. The major difference is in the type of market that the agent is involved in and not whether he be called a broker or a career agent or a PPGA. By type of market, such as the up-market or big volume sales market, various forms of business insurance, pension, tax qualified plans, mass marketing and so forth, those particular types of markets are the determining factors as to the difference in the agent.

MR. ROBERT L. WHITNEY: I am from National Home Life Assurance Company, one of the companies in the National Liberty Group. I am currently spending 100% of my time on the Agency part of our business, but came to National Liberty as Chief Actuary with both Direct Response and Agency responsibilities and I intend to speak to both areas. By Direct Response we mean that we sell directly to the public with generally no agent involvement. We do have people that are licensed agents involved on telephone conservation activity. Our direct response Accident & Health (A&H) premium in 1978 was $165 million which is double what it was in 1975. Direct response life premium income was $33 million which has exactly tripled what it was four years ago. Agency premium income (we are much smaller on the agency side) was $6.5 million for A&H and $17.6 million for Life and that represents about a 75% increase over 1975.

With regard to the basic job of agents, I would like to note that our agency operation is divided into a captive (career) field force and a general agency division. The captive field force originated in the early 1970's and got started primarily with leads based on Direct Response lists of active and lapsed policyholders. It has since expanded its prospecting methods and utilizes referred lead techniques with perhaps more discipline than the typical life company. It retains the heritage of selling a large portion of guaranteed issue products--both Life and A&H, and even for non-guaranteed issue products we emphasize one-stop sales with little, if any, estate planning.

In some ways, this operation is roughly similar to Monthly Debit Ordinary. Our General Agency Division emphasizes Deposit Term, in fact I would say over 75% of our sales in this division are from the Deposit Term area. Incidentally, we try not to use that word "deposit" anymore because of its misuse and association with saving fund accumulations, rather than the up-front rental monies. We talk about our Mod-Life series and additional first year premiums. The Mod-Life agent usually makes two calls, especially where replacement is involved. On the first call he collects data and on the second he presents computer proposals; the first showing how much insurance is needed to provide for the prospects needs and if a replacement is applicable and the second involves a very elaborate comparison of existing insurance with the proposed "buy term and invest the difference" program. Depending on proficiency and training, the closing ratio on the second appointment ranges from 60% to 80%.

MR. HILL: The next area concerns productivity increases, past records, and what the future holds. Let me give you first some statistics and here I will be concentrating on our District Agencies organization. During the last five years the growth in first year commissions has been at a rate of 8% per year. Over all agent earnings have been growing at 8% per year. Volume of sales has been going up 13% per year. The average district agent is now producing at a rate of $1.1 million in face amount per year. Average earnings are $18,250. Some other statistics that may be interesting, the average debit ordinary life sale last year was for $12,000 face amount. Persistency on our debit ordinary business 13 month rate runs somewhere around 16% to 18% which is roughly comparable to the results of many ordinary companies in the middle income market.

Now I would like to comment about what the trends have been and get back to some of the comments that John made about how to respond to the challenge of increasing productivity. John mentioned three factors which can lead to increased productivity. The first one involved writing more cases in order to increase productivity. In the case of Prudential, our agents have been writing fewer cases over the last 30 or 40 years. After World War II there was a trend to get away from the industrial lines and more emphasis was placed on writing ordinary insurance on either a mail-pay or home service collection basis. As a result, district agents wrote fewer and fewer cases following World War II. Recently, we have added Property and Casualty so there has been an increase in the total number of cases in the last few years. Specifically, the average district agent now writes about 50 life and health applications a year and about 35 property and casualty applications.

The second factor that John mentioned in terms of increasing productivity was larger average size and as I mentioned we have tried and have been successful in up-grading the market of district agents. It was recognized after World War II that the growth of group insurance and the government programs was starting to cut into the lower income market and as a result we had to move to more of the middle income market. In the District Agencies we have advanced underwriting training, that would be our terminology for John's up-market. We have a limited number of district agents who are in the advanced market, but it is growing every year. We have the training and support now available to those who can up-grade their markets and get into things like estate planning, small pension cases, etc.

The third factor in terms of productivity increase is, as John mentioned, diversification of product line and that really has been our primary response to trying to get productivity increases. I think we can trace it back actually to the 1950's when Prudential got into the health insurance business and agents started selling group insurance plans to small employers. Currently those two sources account for about 15% of the agent's new business commissions. About 10 years ago with National Health Insurance on the horizon, we were looking for another home service product and a task force assembled at that time recommended that we get into the property and casualty business. It was a business we felt that we could sell, since our district agents were already in the home providing home service. Furthermore, we felt that it would help in regards to inflation because as we all know, property and casualty premiums for automobile and homeowners insurance go up with inflation and therefore the commissions that ride off the property and casualty products have a built-in inflation hedge. We have gone into property and casualty over the last six or seven years and property and casualty commissions now account for 10% of the average district agent's earnings. This is expected to continue to grow. Our current ten year planning calls for a 50% increase in productivity of property and casualty business from our district agents. Assuming we can achieve this with little or no affect on our life insurance business, we believe we can increase agents' earnings by a rate 1% higher than inflation.

In regard to accelerated inflation, our basic response to that is the property and casualty line along with health insurance as long as there is such a market plus the attempt to provide increased productivity by the agent having the ability to sell multiple products in the same household.

MR. CURLEE: There was an article in the February issue of Best's Review entitled "How Security Analyst Evaluates Life Insurance Stocks" in which the author sights several possible road blocks to increasing premium production. Some of these road blocks have been in existence for some years now and I will mention them briefly:

1. Many families earning under $20,000 a year are, in effect, fully insured by Social Security.

2. The continuing trend towards a sales mix with more term insurance.

3. National Health Insurance would reduce the need to provide individual health insurance.

4. Increased competition from banks, savings and loan associations, trust companies, etc. in the retirement market.

5. Increased employment participation by the housewife. He quoted some statistics that showed a smaller amount of insurance being purchased by the combined husband and wife who both worked than by couples with just one spouse working.

In spite of these road blocks that have been in existence, production has increased. The LIMRA statistics indicate that for our ordinary companies, or at least the ordinary companies that contribute to LIMRA, the premium production has increased approximately 42% in the three year period between 1975 and 1978. The combination companies that were contributing to LIMRA showed basically no increase in premium growth. With respect to Southland's operations, it has been just the opposite. Our combination area has, as far as increases are concerned, out produced the ordinary agents. They are not producing at the level of the ordinary agents, but their increase has been much higher. It has been closer to 32% over a four year period in premium growth, whereas, the ordinary agent has experienced a 27% increase. The total compensation for the combination agent has kept pace with his production. That is contrary to the ordinary agent. The ordinary agent has increased his production over a four year period by 27%, but his commissions have decreased over that period of time so that the increase in his first year commissions has only been 23%.

I attribute this to more term business. We have realized a fairly significant decrease in our average premium per thousand which is more or less born out by overall inter-company statistics. Our current ordinary premium per thousand is close to $12 and it has been decreasing each year. There are some facts about the combination versus ordinary comparison with the production of our company, but I am not sure should be taken as a fair comparison of the combination versus ordinary in most companies, for instance, in our combination area there is basically very little brokerage; it is by company policy not allowed. If a combination agent brokers a case and this is determined either by the district manager or the Home Office, that agent is fired. There is a significant amount of brokerage that is being done by our ordinary shop. Consequently, the 27% increase that we see in our company as the increase for the ordinary agent is more than likely not indicative of his true growth in that period of time.

With regard to the question--can productivity be expected to increase to keep earnings growth commensurate with all alternative job opportunities, I would say there are two aspects. One is in the recruiting area itself. In other words, recruiting a neophyte agent and the extent that you are having to compete at the time of recruiting with an alternative job situation. We are receiving numerous complaints, worried comments, etc. from our field force both in the combination area and the ordinary area that indicate that they are having a great deal of difficulty competing for the type of agent that they want. I talked to a manager just recently and he said that the type of individual that he was looking for, that he felt would be a success in his operation, was making a minimum of $15,000 a year. Our financing plan can provide that much initial financing, however, the validation requirements are such that to put a neophyte on a financing plan that would give him $15,000 a year dooms the average guy to failure. He can't really keep up so we have got to take another look, which means more money is going to have to be spent in that area. The other aspect of alternative job opportunities is whether or not the individual agent, who is already in existence, can keep pace with the possible alternative job opportunities. I am concerned in that regard from our standpoint. We do not have the multi-line operation other than the health insurance to help offset inflation and I feel concerned because our people are selling more and more term insurance and in our case he is making less commission on the dollar premium sale. Coupled with that, is the fact that the term premiums themselves are decreasing in some instances at a rather remarkable rate. I have performed some projections with respect to our branch office setup and these indicate that if inflation continues at the current level and if we expect to realize the same level of profit on new production then the productivity of our ordinary branch office field force will have to increase at a higher rate than it has over the last five year period. We ran the projection using basically the statistics that we had gathered over the last five years of productivity. We further put in the assumption of a 12% premium growth rate and it indicated that we had to hire an abnormally high number of new agents. This meant that we would have to pay an abnormally high amount for financing, which we were inflating in the projection, and it did not look very good. We have got to do something to help the productivity of our current field force or at least to keep some of this productivity.

As far as my comments regarding the accelerated inflation and the effect it is going to have on the distribution system, I will go back to the trend that I discussed with respect to term and that is that term insurance is representing a growing proportion of the total insurance sales. These premiums along with the permanent premiums are reducing and as I said the decrease in the term rates has been dramatic. I have recently reviewed some sets of annual renewable term products which do not contain, in our opinion, sufficient margins to finance a branch office type operation where the branch office is dealing with recruiting, financing, and training neophyte agents. We do not have the multiline or casualty operation which could help offset some of these trends and I feel that something like that is going to be needed in the future if this trend continues.

MR. WHITNEY: Within our direct response operation the sale of supplemental hospital indemnity through direct mail, newspaper supplements, television advertising, associations and other means continues to be our largest operation. For example, in 1978 we spent over $90 million on direct response marketing. That would represent a lot of commissions, branch managers salaries, and other sales support salaries on the more traditional agency side. I would not be allowed to tell you how that $90 million pie was carved up, but suffice it to say the biggest piece is for supplemental hospital indemnity. However, new business from such sources is leveling off; because we have become more successful and have learned how to sell life insurance directly to the public and are diverting marketing funds into that avenue, and also because of competition. Direct response tends to be cyclical; a number of companies seemed to copy us and then backed off when they saw we were having problems. The market improved in 1976, 1977, and 1978 and now the competition is coming back in and making the field more crowded.

A&H sales to existing policyholders, again we are emphasizing supplemental hospital indemnity with our existing policyholders, are increasing at a fairly steady rate of about 20% per year. The sale of life insurance to new direct response prospects through credit card groups (Shell Oil is our biggest one), associations, and affinity groups such as businessmen, working women, and veterans essentially did not exist in 1975, but are now growing rapidly and are competing with the sale of Mod Life in our agency operation with the best growth record within our group of companies. Sales of life insurance to existing A&H and life insurance policyholders has quadrupled since 1975. Primary vehicles here are a graded death benefit, guaranteed issue product, and a "birthday" whole life offer which is mailed shortly before the birthday with emphasis on "buy now before your premium goes up".

On the agency side, it has been expensive to build our captive field force. Little expansion is planned for 1979 and we anticipate production growth in 1979 of about 15% over 1978. I had the earnings record of our surviving captive agents analyzed by the year in which they were licensed (since 1975) and the year of experience. Obfuscating trends are the facts that the class we recruited in 1976 seems to be an usually good one. In addition, emphasis to the sale of a high commission annuity product during 1976 and the first of 1978 upset trends. There does seem to be a trend that shows earnings for surviving agents to be keeping pace with inflation and perhaps slightly, but not spectacularly, better. Production of Mod Life within our General Agency operation thus far, in 1973, is double over what it was in 1978 and prospects look good for this to continue. There has been too much change among our general agents movement to draw any conclusions about whether productivity increases keep pace with inflation or not.

Can productivity increases be expected to keep earnings growth commensurate with alternative job opportunities? This is not a difficult question to relate to, but it defies a simple yes or no answer. The production line worker sometimes becomes a foreman even in situations where he looses overtime or other perquisites of being on the production line. This could cause a reduction in his total compensation but he makes the change because he wants to. In other situations, the foreman might find his total compensation increased and even if he does not, it opens doors to other higher paying management opportunities. All of these facets apply in career field forces, including our own, with of course an added factor with insurance that highly successful agents could earn more than even highly successful top management. The largest agency within our general agency operation is expanding rapidly. It has become a way of life for the successful agent to become a district or area manager and the successful area manager to become a regional vice president and move on to start a new territory. The overrides payable at each level within the agency hierarchy coupled with obvious success stories create affective motivation. This is not to say that successful agents do not stay as successful agents, but this seems to be rare. I have a feeling that the discipline which exists within this agency, which is inundated with successful athletes and/or coaches, makes it possible for successful agents to become success managers to a higher degree than exists, generally, in the insurance business.

With regard ot accelerated inflation affecting the distribution of business, we find in direct responses elsewhere that as marketing cost increases, the company must either attract more insureds for the same marketing effort or sell larger policies. A company like my own with its emphasis on testing and research can improve its response rates in some areas, but this is not always possible. In other situations its like the record for the one hundred yard dash, you can improve, but the improvements are relatively slight and selling larger policies is not always the answer. There is definitely stronger anti-selection with a sale of higher guaranteed issue hospital and indemnity policies. It is possible as you offer higher indemnity amounts you are a victim to a higher degree of anti-selection, in other words, as you move up the scale of indemnity amounts being offered, even though inflation is going on in the background, you are still subject to an increasing amount of anti-selection that makes it difficult for this to be a total answer to combating inflation.

Accelerated inflation also highlights the need for efficient distribution of business on the agency side. It would probably be inappropriate for me to embark on a tangential discussion of the pros and cons of term insurance, but I do think it is appropriate to note that accelerated inflation does increase the need for consideration of whether a field force can more readily maintain the type of earnings it would like to maintain if it sells more Mod Life type policies. Such policies provide commission dollars intermediate between traditional term and traditional whole life, however, to the extent that the sale can be more readily made, the commission earnings can definitely improve.

Another somewhat tangential consideration is the evidence which suggests that the public is increasingly becoming more favorable in its attitude towards life insurance. Richard Neuschel of McKinsey discussed this point in a recent address to the ACLI Executive Round Table. One of his supporting pieces of evidence was a recent LIMRA research project involving some 30,000 buyers of life insurance. One of the findings is that 35% of the respondents stated they had initiated purchase of life insurance. The public is indeed becoming more favorably disposed to life insurance. A company may want to move to more innovative direct response type techniques in the sale of life insurance. Inflation here wouldn't be a direct cause, but it would be an important background for causing a company to move into more innovative type techniques.

MR. GUTTERMAN: First a comment on what someone said earlier about the inexorable increase in casualty premiums. Unfortunately, for the broker at the same time as premiums on personal lines have increased, the commission rate on those products have decreased in the last couple of years. There is a lot of growing agent resentment over that and I can only see that increasing as time goes on.

Productivity for a broker cannot generally be equated with that of a career agent or a PPGA as life insurance sales are not the only product sold and often a broker is not a single individual. However, certain data that is interesting in this area has been gathered on life production for casualty brokers. In a 1977 LIMRA survey of Connecticut Independent Agents Association, 85% of the respondents sold at least some individual life insurance in 1976 and of these the median first year premium for individual life was $4,000, the number of sales was 10, and the total face amount was $274,000 or an average of a little over $25,000 in face amount per case. These figures covering property and casualty brokers are certainly not impressive, considering all their potential sales leads. This translates into an immediate income from life insurance of about $2,000 per year assuming a 50% average commission rate. According to LIMRA, the statistics that are available have not shown a positive increase in the amount of life business written by the typical independent property and casualty agency in the period from 1969 to 1975. Taking into account inflation, in effect, there has been a decrease in the amount of sales. This stagnation of production has come about, according to LIMRA, because even though there is an inexhaustible potential and generally positive attitude about life insurance from casualty agency principles, a catalyst is necessary to translate these into actual life sales. My personal impression is that this catalyst is beginning to be provided to these agents by multi-line companies in the form of life training, simplified products, sales tools, and other incentives. Multi-line companies will be successful in their efforts to produce more life business through casualty brokers. The only question in mind is to what extent? Production from the AOC market may decrease over time. However, this may not turn out to be the case if competition for brokers and personnel continues to increase. Production from the life specialist, another type of broker, will increase but by how much, it is difficult to tell. This is a relatively new type of broker. The future will be an interesting one to follow.

My major conclusion on the impact of high inflation in addition to the obvious one of increases in expenses is that competition will further intensify in an inflationary economy in most lines of business. First, the major life companies are expanding in the casualty lines in order to provide increased income for their career agents and at the same time increase their retention rates of newly hired agents. This, together with continued expansion of the direct riders or the casualty direct riders, in particular, will decrease the production in personal and casualty lines of the casualty brokers. This trend has been going on for the last several years and I cannot see any indications that it will not continue. This will in turn intensify the casualty brokers' efforts in the commercial casualty areas which are increasingly being dominated, particularly in the large accounts, by large national brokerage houses, who are emerging and acquiring small brokers and the casualty direct riders who are beginning to enter into the commercial lines area. This will in turn lead these casualty brokers to sell more life insurance, which was my major conclusion earlier. The large national brokerage houses are bound to eventually start selling more life insurance or other lines of business which will add another competitive feature to the market place. At the same time, it will become more expensive to attract new producers and keep within the insurance industry quality producers of all types. There are many more forces that are currently working in this area, which will further complicate the situation even more.

In summary, there will be more types of companies, and more types of agencies, writing more product lines resulting in more competitive pressures as well as more pressures on profitability for the company, the agency, and the agent.

MR. WHITNEY: On part-timer agents, there have been enough comments emphasizing the success of the multi-line operation or at least the potential success of companies that confined a way of adapting their own operation to that of some of the successful multi-line operations. I mention that because the sale of life insurance is really a part-time activity within a full-time profession. With regard to my own company I might mention the use of part-timers within the largest general agency that I mentioned earlier. I talked about the association with coaches and athletes and a lot of coaches and teachers start in the selling of life insurance on a part-time basis. This is one way of keeping down the financing cost. The only element of financing that we have here is the advance payment of nine months of commissions on pre-authorized check (PAC) business. There is a significant differential between the commission rate paid to part-timers and full-timers and I mention this because the differential does two things: (1) It creates an incentive to go full-time and (2) the higher overrides on part-time agents compensates the district managers for their recruiting efforts. I think some of the larger deposit term writers that we do business with are noting the use of part-timers here and they may be moving into that kind of recruiting activity. Also part-time agents may become more important within the frame work of the two-stop selling approach, we are at least giving some thought to using part-timers more on the initial call.

With regard to direct mail solicitation becoming a serious threat to the career agent, to the extent that direct mail and career agents continue their tendency to concentrate on different markets, the answer is "no". However, I honestly feel and predict that we will see an increasing use of combining direct response techniques and here I am thinking of telephones, television, mail, and other media to facilitate the agent's activity. Some of this will be aimed at the white collar and higher income blue collar workers' markets that agents traditionally work in. This will be a threat to the career agent who is not supported by his company in a similar manner. In making this prediction I must acknowledge that National Liberty has more failures than successes in what we call "combination marketing". We will continue to work at it and I believe break-throughs are possible. If we have a smashing success I look forward to being able to report at least some of the story to the actuarial profession.

MR. GUTTERMAN: In the future, part-time agents will in some cases become more important in the sale of life insurance. Many people who deal in financial services, particularly stock brokers, have already sold a great deal of individual annuities. They will continue to diversify, or at least attempt to diversify, in other financial services such as life insurance primarily in an attempt to stabilize and increase their income in the face of continuing stock market and other investment uncertainties and fluctuations. Those professions which are not in the area of selling financial services, for example, accountants and lawyers will not become an important sales force. Life insurance selling is currently too far outside their fields of interest and expertise. Also there could easily develop a conflict of interest situation if they are "independent"; financial recommendations generate commission income for themselves.

Although I do not believe that mail solicitation present a serious threat to life agents, group insurance will reduce potential increases in sales. Larger amounts of group insurance are being sold and are allowed to be sold and more groups are being solicited. This will tend to decrease the total sales potential of a large part of the life insurance market. The group insurance market is term oriented and as the emphasis on the individual market continues to move towards term these two areas will conflict more and more. Growth in group insurance, the rise of two worker families, and the growth of smaller families will put increasing pressure on the sale of individual insurance. Although limited due to political reasons now, savings bank life insurance, or its future equivalent, may also have a significant effect on the sales of the non-sophisticated life salesman, particularly the casualty broker, in the long run.

MR. HILL: The sale of life insurance requires personal selling. It is not easy. Those people who are engaged in some other occupation such as property and casualty sales, or other areas, probably find it hard to shift gears and get into life insurance on a significant basis because it is quite different. It requires a great degree of motivation in selling and even among life agents it is hard to change habits. The influence of part-timers, even in the future is still going to be quite limited because I don't anticipate that they will be comfortable enough with selling life insurance. They may provide life insurance, and that is what a lot of brokers or property and casualty agents are doing now if it is easy to sell, but they will not go out and sell 50 cases a year; they are more likely to end up with the ten cases a year that Sam mentioned.

MR. JOHN M. LOFTIS: Mr. Whitney, many companies have part-time agents who produce more than full-timers and vice-versa. How do you define a full-time agent in your contracts or in your compensation arrangement?

MR. WHITNEY: I think it really depends on how the agent's managers want to handle it. Basically, the manager determines whether the person is part-time or full-time and sets the commission rate accordingly. Within our general agency operation, we delegate quite a bit of responsibility for this sort of thing. We just pay the total commission and code the agent's master record according to how we are told.

MR. TILLER: Bob Hill, you stated earlier that about 10% of the agent's commissions came from the property and casualty sales. Would that be commensurate with his effort or somewhat disproportionate?

MR. HILL: I think agents are very good at maximizing the relationship of their work to their commissions, so there must be a strong relationship between the time they spend and their commissions. It is possible they are spending more than 10% of their time on property and casualty because the time may be more comfortable in terms of providing service and not getting into the cold canvas and other "negative" things involved with life insurance.

MR. ZAFAR RASHID: In my limited knowledge of direct response selling I have been able to come to two conclusions: (1) Direct response selling is more suited to a demand product such as health insurance than to life insurance. (2) The critical element in the success of a direct response operation is the response rate you get. (I define the response rate as the number of sales per thousand people reached by the mailers or newspapers or whatever.) Could you shed some light as to what kind of response rates you have experienced in this area and distinguish your answer between life insurance and health insurance.

MR. WHITNEY: I am no longer involved in the direct response activity on a daily basis, so I do not have statistics readily in mind. Even if I did some of our marketing people might get restless about my giving them out. I would say, without dodging the question entirely, that we have become more successful in the sale of life insurance than we once were. I do not know to what degree this is due to improved marketing materials--through messaging we were able to improve our response rate just by the kinds of kits and brochures we send out--and to what extent the improvements are due to the public becoming increasingly favorable towards life insurance. This favorable trend was mentioned at the recent ACLI Executive Round Table. Both forces may be at work in improving our response rate on life and moving to sell more life than A & H.

MR. JUAN F. PUNCHIN: Mr. Hill, do you find that your property and casualty line has increased or decreased the life productivity of the agents? I know our early experience at the Metropolitan has been that the amount of training that is required has actually decreased the life productivity. Also, do you think that the best method for distributing property and casualty products is through a distinct agency force separate from the life agency force?

MR. HILL: It is hard to actually measure whether there is any reduction in life productivity because you have to try to assume what would have happened had you not gone into the property and casualty market. During the initial period when you are training agents, particularly in some states which have very heavy requirements regarding licensing, there is a noticable decrease in productivity of life business. Thereafter it is hard to really estimate. There are some people in the Prudential who feel that a two for one rule applies; you get an additional $2 in property and casualty commissions, but you lose about $1 in life commissions. That may or may not be true. In some areas there has been no reduction at all as far as we can tell in life production and in other areas there has.

Your other question concerned the use of a separate marketing force for property and casualty versus our intention to provide a multi-line approach. Our thought is that the agent is in the household and we would like him to sell life, health, and property and casualty in the same household. That provides some opportunity for productivity increases, so our plan is not to have any distinct marketing force for property and casualty.

MR. W. BRYCE WALKER: I was quite interested in Ron Curlee's comment that in view of increasing salaries it was becoming more and more difficult to finance a new agent at $15,000. I wonder if that was supported by any data. We have just redesigned our financing plan and we continue to find that our success rates for agents recruited at the higher financing levels is better than at the lower financing levels. This difficulty you mentioned seems more imagined than real.

MR. CURLEE: I think it has to do with our financing plan which our agency people have asked to have reviewed. It has to be liberalized to the extent that the validation requirements are not as high because they increase rather drastically in accordance with our plan which is about four years old. As a consequence I think our problems are probably in the plan; we are just going to have to wait and see. I do not have any detailed statistics nor have I really gotten involved in a redesign of the plan, but under the current situation, I have been told by various people that they have a great deal of difficulty at a $15,000 and above level under our current plan. That is all I am going on actually.

MR. TILLER: We have touched from time to time government intervention, especially the role of social insurance. I think most of you are familiar with the "60 Minutes" television program on industrial insurance, the "Consumer Reports" attack, the FTC involvement both there and in cost disclosure, the Metzenbaum hearings. Has anybody, either on the panel or in the audience, given much thought to how this will impact our future distribution system? If not, we should all do so, for this could be the greatest single area of influence in the next ten years.