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FIELD COMPENSATION—LIFE INSURANCE AND ANNUITIES

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1. Considering all the players involved in the distribution of individual life and annuity products, what is the impact on the system of field compensation and related distribution costs of:

   a. Inflation

   b. Economic and demographic changes

   c. Competition

   d. Consumerism

   e. Regulations

2. What changes are occurring or are likely to occur as a result of the above, e.g. revised training allowances/financing methods, flattened or reduced commissions, fees for service, and variations by size?

MR. SAM GUTTERMAN: To provide what we hope will be an interesting and challenging session, we will discuss this subject from several vantage points. We will attempt to simulate an agency/home office meeting, which are notorious for the production of a great divergency of opinions. Our panelists and I will play the following roles for our hypothetical company:

Mr. Kenneth J. Clark - Actuary
Mr. John G. Turner - Career Agent
Mr. Gregory S. Strong - General Agent/Branch Manager
Mr. Sam Gutterman - Head Agency Officer

Let's begin on a topic which has probably been the most talked about, but at the same time the least popular of topics over the last several years - inflation. Inflation has had many invidious impacts on both life insurance companies and their distribution systems. Assuming that we here can do little to solve the problem, let's discuss briefly how it impacts us and what we can do about these impacts, working together as a team. In general terms, inflation hurts everyone - the company and the agent - in terms of higher unit expenses. For many products, the company can offset this to some extent by higher overall investment earnings and higher sales. The agent can only offset this by higher sales. Let's start with the actuary in our discussion of this topic.

MR. KENNETH J. CLARK: Of all the problems that inflation has caused me as the actuary, field compensation is not one of the most important ones. Commissions are one of the few expense items that are not affected by inflation. Obviously, the costs of all other non-commission sales functions are up, but average face amounts are up sharply too, holding functional costs fairly level. The annual LOMA Studies show that there has been very little increase in acquisition costs on a per $1,000 basis. The average face amount for the first quarter of 1980 is up 18% over the corresponding period last year, and this has had a dramatic effect in holding acquisition costs down. Obviously, we are talking about first year costs, so inflation has little impact on our pricing for future increases. What inflation does do for the actuary is recognize that he cannot afford to have in his agency force or his field force a marginal full time producer. They are simply unprofitable. The amount of production that they must produce to cover the fixed costs associated with each agent are affected by inflation. We have to find ways to compensate the field to encourage, motivate, and retain the big producer and drive away (or help fail) the small producer. We can use production and persistency bonuses, quality bonuses, or whatever you want to call them, to shift more of the total compensation to the big producer and less toward the marginal small producer. Again, of all the problems that I as an actuary face, field compensation is one of the least important in terms of inflation.

MR. GREGORY S. STRONG: From the standpoint of the general agent or branch manager, our costs are being squeezed like everybody else's. Something that should help agents combat inflation is to improve their productivity. More often than not the agent is being asked to spend a great deal of valuable time doing paper work, preparing proposals and doing things that are not utilizing his selling skills. One thing that we can do from an agency standpoint to help improve his overall compensation is to allow him to spend more time doing those things which result in sales. Let's help him open cases, do his paper work for him and prepare his proposals (hopefully using some of the advanced technology that we are seeing these days in terms of mini-computers and telephone communications), so that he can spend his time taking our paper work out and closing the sales that he has opened. We can improve his closing ratio. He does not have to spend any more time in front of the client. He should be able to improve his overall compensation. Perhaps this is a pipe dream, but one change in our compensation pattern should be to put more emphasis on persistency, especially long term persistency. Actuaries have told me that companies do not start making money off policies until they have been in force for quite awhile. Companies should share some of those profits if we can keep the policies in force. Maybe agents do not like to service contracts, but if there is enough compensation out there, they will provide the necessary service.

MR. JOHN G. TURNER: Agents' costs of business have increased substantially due to all the aspects of inflation, but particularly due to increased energy costs. If our actuary says that one of the problems he is least concerned about is agent's compensation, then he is going to be without a distribution system. Higher front end compensation and higher total compensation are needed. If the agency manager wants to emphasize persistency in agent's compensation plans-that is fine, but we need more on the front end also. Renewal commissions and service fees which once appeared to be substantial have been rendered essentially meaningless by the ravages of inflation over the past years. I have a tremendous amount of in force business that I literally cannot afford to service because the renewals simply are not sufficient to cover my costs. Since premiums per $1,000 have decreased and people have less to spend on life insurance, an increase in commission percentage is necessary in order for agents like myself to maintain any kind of a decent standard of living. In my own company, the average premium on new cases has remained level for the past year. There is an additional impact on first year commissions because a great percentage of the business is term insurance, and the first year commission rate on term insurance is less than it is on permanent. In terms of first year commissions on a new case, I have had an actual reduction in compensation. Both LIMRA and MDRT have recently completed studies on agent's income which indicate a 25% reduction in agent's real income over the past 4 years. In order to help the situation, companies should pay more bonuses for high production. In order to encourage high production, companies should be doing more to help their agents in the area of training, development of sales ideas, and more computer-based support for estate analysis, programming, etc. In other words, companies should be coming up with ways to help the agents use their time more efficiently in the sales process.

MR. GUTTERMAN: We always struggle to keep our new agent training levels and agent or agency financing up-to-date. It seems we continually increase our per agent and per agency outlays in this area, responding to our competition and to field clamor. We often wonder if this spiral will ever cease. Is the only way a company can grow through increased agency/agent representation by using seemingly compounded increases in these levels of financing? Isn't there any other way?

MR. TURNER: Most companies already spend too much on agent financing. Rather than increase the amounts, financing of most new agents should be discontinued. Many companies have cut back on training new agents. However, more money should be spent training agents who are currently selling so that they can sell more. Higher levels of financing should be used for the occasional individual who is exceptionally well qualified for a career in life insurance selling. Life insurance selling is a tough business. You are required to work nights. The business is very competitive, and with rates decreasing it is harder to make a decent living. What the company should be doing is providing more support for experienced agents so they have more time to sell. Such support would be in the area of training, computer support and computerized communications which would allow me to design a plan suited for a client right on the spot, thus eliminating additional sales calls. New agents could be brought into the business by being assigned service work on in-force orphan policies and work on policies of an active agent who has too much service work. In this way, apprentices could be brought into the business by helping the company with the service problem, and also helping the veteran agent so that he can spend his time more effectively in the sales effort.

MR. STRONG: We have to look beyond the end of our noses from a management standpoint to make sure that we maintain a viable agency force. We can not just concentrate on the agent who is already successful. We must find a way to bring new people into the profession. One thing we must do is to be a little more selective in who we bring in. Maybe we do not need to decrease the total dollars we are spending on financing, but we should make those dollars count more by making more successful people. We must pick the right people. We should not just bring in our relatives and the person who is selling shoes down on the corner to sell life insurance because he is tired of selling shoes. We must find a way to find the people who can make a commitment to a very rewarding profession, and who are also willing to spend the time learning what you have to know to sell life insurance successfully. One thing we must do is to improve the quality of our field management. We have got to make sure that we weed out the unsuccessful field managers so that they do not damage those agents who do have a chance of succeeding. Most of the successful ones will agree that at some point in their career they had a very good field manager that helped them learn life insurance. A few of them did not and were successful in spite of that, but many good potential agents are going to be lost because of ineffective managers. We can concentrate on better quality field management and better selection techniques, and make better use of our financing dollars.

MR. CLARK: Our subsidy program costs for every completer are approaching $200,000, and if you talk about a company hiring 1,000 agents a year, that is a substantial sum. But I do not see any alternatives. I will have to admit that if you are a company that is trying to maintain a career agency force you only have two choices - you recruit inexperienced people or you proselytize. We have tried both over the years at different times and we are satisfied that you have better end results through hiring inexperienced people, subsidizing them, training them, and making them loyal agents.

MR. TURNER: I want to respond to the agency manager about better management. My company has been pouring money down the drain for years trying to train management and it has never worked. Good agents do not need managers. The money can be much better spent by additional training of agents and increasing their productivity. In addition, in terms of attracting new agents and new people into life insurance selling, currently the companies can not afford to pay enough to attract good people. Therefore, in order to keep their volume of business up, they ought to be working on increasing the productivity of veteran agents.

MR. GUTTERMAN: I would just like to summarize this first section of our discussion. The most effective way to tackle inflation's problems is to improve productivity, both of the agent and the agency as well as that of the home office. I think we all need to work on this topic. This includes efforts on the company side toward better field and agency management methods as well as better agent time management. The company must be able to better select and train new agents and agencies to cut down on total costs and at the same time getting a better return on its investment. Although I may agree with John on the importance of improving the average production of our existing distribution system, we still must expand, to achieve our long range objectives of growth and competitiveness, and to continue to be a vibrant organization in which new blood is continuously needed.

More of our production is coming from term sales as opposed to permanent sales. Our average premium levels for both term and permanent are decreasing. Because our compensation system is based so heavily on a percentage of premium basis, both our agencies and agents are getting squeezed in terms of amounts of commission dollars being earned. Several questions arise. Do agents have to diversify and sell other products also, e.g., property and casualty (P/C) products and financial services? Is this a real problem? Or are we just imagining it? If it is, what can be done?

MR. CLARK: In a macro sense, the life insurance industry is not a growth industry. Look at the number of companies being formed, the proportion of consumer income that is being spent on insurance, the number of career life insurance agents, etc. In a micro sense, though, there are an increasing number of successful full time professional life insurance salesmen. An agent does not have to branch out and sell other products. The converse may be true - the products he does sell become more complex and he really needs to focus all his energies on life insurance and annuity products. I do not think that in every case the answer will be P/C. In fact, in most cases it will not be. It gets back to making those few agents that you do have bigger producers if we are going to succeed in the narrow market of life insurance and annuities.

MR. TURNER: So far companies have either continued the same percentage commission on term insurance and permanent products, or they have reduced the commission percentage. They will recognize, however, that they will lose their distribution system if they continue to reduce agents' earnings. At some point in the future companies will begin to pay higher levels of commissions on the traditional products. In addition, some agents will begin to charge their clients for estate planning and for providing other financial services. Agents cannot afford to continue trying to live on a decreasing real income. There are many agents who have begun selling P/C products in order to maintain their standard of living. This will be the most popular alternative. There are some people who say that it is difficult for life insurance agents to adjust to the property and casualty business. It is believed by many that it is very difficult to continue writing life insurance on a sophisticated level while writing P/C business. However, there are other alternatives available. Some agents will experiment in other forms of financial services and planning. This might include mutual funds, stocks, bonds, oil exploration deals, joint venture real estate deals and other similar financial services. If I had my way, my agency would have an expert available to me in each of these areas, so I would not have to be familiar with the details of these various financial service products. I could do the selling, get the commission, and let the expert take care of the details.

MR. STRONG: We need or can expect to have agents diversify their attentions somewhat from traditional life and annuities sales only. We need to try to develop some kind of a training program, perhaps supported by some technical assistance within the agencies or maybe on a regional basis, so that when an agent leaves a sales call, he has picked up all the available premium dollars that are available to him in his product lines. Maybe it is too much to ask an agent to be able to sell oil lease or joint venture deals, but certainly not to handle items such as mutual funds, annuities, other accumulation vehicles, disability income, life insurance, etc. I think you can develop programs so that the agent can make sure he is not leaving some dollars sitting on the table when he leaves the call. Asking life insurance agents to sell P/C business may be self defeating. A number of my cohorts in the industry view P/C salesmen as order takers and paper shufflers, and if you let a life insurance agent get involved in selling P/C business, he will fall into that same trap. I think that one thing that companies can do to help agents in this kind of environment is to develop products like adjustable life where an agent has a product that will meet a client's needs not only now, but in the future. He will have a client who will be coming back to him as his needs change (hopefully increasing) and the agent can realize additional income from that same client. We can apply this concept to disability income in addition to life insurance. Bring in some guaranteed issue approaches so that there is a real incentive for the client to come back to the agent and stay with the company in that one product.

MR. GUTTERMAN: Going back to the term and permanent question, most of our permanent commission rates are currently higher than our term commission rates. Is there a trend to equalize them now that term sales are of increasing importance? What should we be doing? Should we be reducing term commissions even more to become more competitive in this area?

MR. STRONG: The commission levels should be identical for term and permanent. We must remove the temptation from ourselves and from our agents to sell the product with the highest commissions even if that is not the appropriate vehicle for the client. I do not know whether we are going to end up with commissions on permanent coming down to the term levels or term commissions going up to permanent, or somewhere in between, or have them both going up. Part of the answer depends upon how much productivity increases we can get through other means, but we must have the same commission levels. One of the beauties of an adjustable life product is that they have the same commission levels - there is not that dilemma. You go out and sell $1,000 of annual premium, and the agent gets the same commission regardless of the plan of insurance that is initially derived out of that product.

MR. CLARK: The agent can not afford lower permanent commission rates. On the other hand, we can not really increase term commission rates. I think the marketplace pressures with revertible term (with the ultimate probably being annually renewable revertible term) will mean level commissions, so I do not really see any equalizing of the term and permanent commissions. I did think that was the right thing to do, but I do not think it can be done in the market place. Our public relations/governmental relations people would like us to make them equal for the obvious consumerist reasons. One attractive idea, at least to the actuary, is the compensation scale that is used by the total life products which pays x dollars per policy, y dollars per thousand of face amount at risk and z percent of premium. In that concept you have different commission rates for term and permanent, but you really have a common basic compensation scale that applies to all products. In the future with all the flexible/ variable type products that are being developed, we may need a formula like that to avoid having thousands of different commission rates for all the different plans of insurance that we develop, have on the marketplace for a year or two, and then discontinue. That kind of arrangement makes a good deal of sense and avoids this question of term versus permanent.

MR. TURNER: Term commissions must be increased to the level of commissions on permanent products, and if agents are to maintain their standard of living, commission percentages on permanent products must be increased. So far the trend seems downwards in both areas. However, in order for companies to survive, agents must survive. Therefore, the trend will have to be reversed. My company has adjustable life on which the same commissions are paid on term and permanent. In addition, first year commissions are paid on premium increases after issue. Some of these premium increases are directly related to increased amounts of life insurance that are tied to inflation, so there is an automatic adjustment in renewal compensation on adjustable life. This is a step in the right direction. Some companies are talking about level first year and renewal commissions on term and even on permanent products. Agents close to retirement think this may be a good idea, but all the younger agents say they would quit the business rather than go with the level commission, or any reduction in first year commission. The idea of tying compensation to a per policy, percent of premium and amount of insurance basis may have some merit, particularly because the amounts of insurance might rise with inflation. However, it is my suspicion that the company would work this around to effectively reduce agent's compensation. Therefore, I would be against it.

MR. GUTTERMAN: More annuities are being sold. Single premium deferreds, flexible premium deferreds and riders, partly because they can more easily be compared with alternative investment vehicles. Commissions are much lower than for other individual insurance products. If sold extensively, annuities could cut very deeply into agency income. How much will this trend impact agent or agency income? If this is a problem, should we do anything about it or can we do anything about this trend?

MR. STRONG: If a company continues to sell low commission, low premium term plans and flexible premium annuities which have a low load and high interest rates, it is going to have an impact on ordinary life sales and perhaps even on commissions. There are agents around that are very willing to sell these products because they can either afford to or because that is what their companies are selling. The agent who doesn't have that combination available to him or who can not afford to sell that kind of combination and make a living, is really going to be put in a competitive bind. Fortunately, I think that in a lot of situations the agents are not running into that particular kind of competition in every sale that they make. One possible alternative might be to only offer flexible premium annuities as riders to life insurance policies, so that at least you get some kind of a base life insurance policy (hopefully ordinary life) if a client wants to have the accumulation vehicle on a no load, high interest rate basis.

MR. TURNER: I know that commissions on flexible premium annuities with no load or low load cannot be heaped. Commissions on these products must remain level by plan year because of the low loads. If they continue at the same low level, the agent's income problem will just get worse. The level of the level commissions on these products should be increased, and so should the surrender charge so that the company will not have any adverse financial effects. Agents do not particularly like this approach, but the consumer is looking for products in which there is direct interest crediting. Products such as these are necessary in the market, and I expect we will see more such products. I think that the consumer's view of cash value life insurance is increasingly negative, and there is no way for the consumer to understand the interest credited indirectly on cash values. There are some who say that there is a limited capacity in the industry for writing annuities on a low load or no load basis. As far as I am concerned, the companies have plenty of surplus.

MR. CLARK: I would like to categorize the annuity products into two types. The first is the tax sheltered annuity (TSA) speciality market, a mass marketed product sold by relatively few companies. The other is the flexible premium retirement annuity type product on a non qualified basis sold as a rider, or a policy sold by the life insurance salesman as an ancillary sale to his main occupation. I do not think either of these groups will impact much on agency income or on the compensation pattern for agents. In the first category, you have salesmen who effectively are like the P/C specialist who works a special market. He is accustomed to the low income, but he makes it up in volume. On the other hand, the non qualified product is a very small market and is sold as a rider or as a policy in a very unique situation. I do not see either of those trends affecting overall compensation for agents. On the surplus question, I seriously doubt whether any company can be active very long in the market place on a growth basis. The surplus strain is overwhelming.

MR. GUTTERMAN: Flexible premium annuities are mostly sold on a level commission rate basis. So is most property and casualty insurance. Can our distribution system afford to receive more flattened compensation arrangements? I keep hearing that our older agents might be interested in this. Would they really?

MR. TURNER: The worst thing that could happen for young agents would be a flat commission scale. This would cause young agents to be unable to afford to stay in the life insurance business. The life insurance business has been built on a higher first year commission. Some people say term insurance will force commissions to be level. This concerns all agents. Even the older established ones should be concerned because of the drop in income which such a switch to level commissions would cause. Premium rates for life insurance have continually decreased in spite of inflation, which has affected all other prices in the opposite direction. A change from the historical approach would be bad for the new life insurance agent and would be bad for the life insurance business. Consumers and companies do not understand the problems of the life insurance agent. Practices with respect to P/C commissions should not affect the life insurance commission scales because the two are entirely different. Much more service is required with P/C insurance than is required with life insurance. Who is going to provide the service in the P/C business? Someone must be compensated for it. I think one factor which we have to face is the high probability of level commissions on term insurance.

MR. STRONG: I keep hearing people talking about trying to find a way to design a life product with low level commissions and selling it through P/C agents. People also talk about trying to find some mechanism through limited underwriting or prepackaged sales where you can get a P/C agent who does not depend upon heavy front end life insurance compensation to support himself to sell a very competitive low commission life product. You are not going to get too many career agents to sell that kind of product and still survive, but you keep hearing companies talk about trying to find that magic answer to tap that large market of casual life insurance sales that the P/C agent has access to. From a regulatory standpoint, one thing that I think that could happen that would have some impact on our compensation levels would be disclosure of commissions at the time of sale. Depending upon how we represent our selling costs, we could look bad or good in comparison with other industries and other products. If we were simply to show the level of commissions and selling costs (first year and renewal), we might look pretty bad. If we could somehow arrange to have disclosure of selling costs and commmissions represented as a present value of selling costs versus the present value of premiums, I do not think we would look so bad in comparison with some other industries and businesses, especially if you include the heavy costs of advertising of other industries. I do not think life insurance would look too bad if we were to explain our selling costs in the proper fashion. Maybe with that we can avoid the pressure on early first year compensation.

MR. CLARK: We are going to have to continue to pay agents high first year or front end compensation. At the same time I think we are going to have to pay less renewal compensation and less service fees. We can not afford to have our agents providing service. With the amount of money that goes into their training, financing, and continued housing and management, we can not afford to have them providing routine service on small policies. They must decide when to provide service, and they will often do that. More and more of the servicing function has to be done by the company through its organization, be it out of the home office or out of its field people. We have to pay for that by cutting back renewal compensation, but continue, or even possibly increase, front end compensation. We should separate the compensation into sales compensation and servicing compensation. I think currently most of the renewal compensation is viewed as deferred selling compensation. The agent, however, needs the cash up front.

MR. GUTTERMAN: Regarding competition in the field, is it really as competitive as we have all heard? Is it more competitive in getting new agents or in placing business once we have people employed? How important is field compensation in attracting agents and agencies and properly motivating them once they are on board? Is there anything in addition to what we are doing now that we can do to improve our competitive positions? Can we use competition between our agents and agencies to provide more incentive to sell more (and to sell more of what we feel is more desirable business) through sales contests, meeting attendance, or agency rankings or specific agency contests?

MR. TURNER: The situation in the field from a sales standpoint is more competitive than it ever has been. There are more companies with low rates than there ever have been before. It seems many times I identify a promising prospect, and some other life insurance agent either has already called on the individual or calls on the individual while I am developing the sale. Or, they do it after the sale is made. Almost any agent has access to competitive products. Other agents are not beyond taking my business insurance or estate planning proposals and using them with their own products. There is an ethical problem also. I have to ask - am I doing the best job for my client? Sometimes this means I must shop the business in order to protect myself, because my company's product will not stand up in the market-place. When I do this, sometimes I am forced to take a lower commission than my own company would pay. The earnings level of life insurance agents is not high enough to attract good new people into life insurance selling anymore. I believe that the main motivational force is compensation-not contests, trips or other non-compensatory arrangements.

MR. CLARK: Competition is a subject that occupies probably too much of our time. It is interesting that in our observations and discussions with the field, the agent who seems to have the most price competition is the young agent who lacks confidence in his company, who does not have the buyer/client relationships that the more experienced agent has, and who is selling to the young 30-35 year old buyer who has grown up in the era of consumerism, Nader, comparative shopping, and buyers guides. Our more established agents are selling what you might think of as the more competitive product - they are selling the quarter million dollar permanent estate planning or deferred compensation business type sale. In that market-place the competition in some ways is not as keen. They can sell their services to some degree and, in fact, they are, in designing the package for the client. They have to be in the ball park. It is amazing that at the lower end of the spectrum (the $100,000 term policy) if you are off by $5, you have lost the sale. The competition is actually keener at that end of the market-place. At the top end you are competing for the agent and his faith that you have got a reasonably good product.

The agent's contract is important. We designed a contract that has some very attractive production and persistency bonuses, and it was a far better contract for the big producer. We have however, had a difficult time getting them to give up their old contract that was signed by an old friend 30 years ago, and they believe anything the company is trying to push off on them has to be in the company's favor. We have run programs and charts and tables and had meetings to try to make them switch to the better contract (which will cost us more money but would be a better long term investment for us), and we had a very tough time getting our best producers to take that contract. There is a fear on the part of the agent that in the compensation area, they do not even want to accept what you want to do for them.

MR. STRONG: In addition to competition at the point of sale, as an agency manager I see considerable competition for agents. When I am out trying to recruit experienced agents, I find they are looking at three things: 1) compensation package; 2) products that I have to offer through my company; and 3) the services that I can provide to them. They look at them in that order. If I am out of the ball park on compensation package, I can not even talk about the other two. If I am in the ball park, however, and have products that are reasonably competitive, I can often convince an agent to come into my agency because I can provide superior services to him in selling business. I can not just say that I have got the better service - I have to prove it. Sometimes my existing agents have spread, by word of mouth, the kinds of services I can provide. But more often than not I must have examples of that extra service right in my office to demonstrate that I can deliver, because if you can provide the right kinds of service, the agent can often be more productive and sell products that are not at the lowest price in the country.

Another aspect of competition deals with motivating your agents and agencies to produce business through competing with each other. I sometimes find myself surprised at how well I respond to sales contests. If I have this list of prizes that I can win, I respond a little differently than if I had to spend my own money on them. We all have egos. One successful technique that my company used recently was to pit agencies against each other in a contest. As a matter of fact, we even had officers of the company identified with an agency, and the officer could win prizes if the agency won their little one-on-one contest. I remember one general agent was rather surprised when he was pitted with the senior vice president and actuary and even commented that if they can get an actuary excited about sales, there must be something going on. But it was very successful. We had the agents and agencies competing with each other; we can use competition to our advantage in many cases.

MR. GUTTERMAN: We have heard a lot about the possible use of agency fees for service on top of, or partly in place of, commission. Is this happening and will it happen in the future? There are obviously impacts on the agent's method and agency's method of doing business if this system of compensation is used. Why is this happening? Is it in response to inflation, competition, or consumerism?

MR. STRONG: I think one reason we are hearing more about fees in addition to commissions is that many of our successful agents are getting more involved in sophisticated estate planning and financial analysis sales, and they need to justify the time they are spending laying out an estate plan or financial analysis for their client even if they do not make a sale as a result of that analysis. Some agents would just as soon take slightly reduced commissions on those kinds of sales and then charge a fee to the client, knowing that they can make more money than with the current commission level. One fear that I have as an agency manager is that if this approach becomes too widespread, we are going to find some agents charging fees for services that are not really worth much. They are going to do a considerable amount of damage to the image of the industry and perhaps ruin a good thing for the agents that are giving a very valuable service and can justify charging an additional fee for it.

MR. TURNER: I have heard a lot more talk about agents charging additional fees for service than I am aware of instances of it actually occuring. On the other hand, because of the general earnings problems of life insurance agents, there is bound to be an increase in the number of instances of this happening. It has commenced with respect to pension plans and complex estate planning services. One problem is that in some states it is illegal. However, this phenomenon may become more widespread as more corporations provide financial counselling services for their employees. It is a response to competition in that competition has continually forced life insurance premiums to be reduced without any adjustment in the level of compensation. It is a necessary means for agents to keep their earnings at a decent level. There is no sound reason why the practice should be restricted. When a fee is charged, the customer knows exactly what it is and why the charge is being made.

MR. CLARK: As the actuary, I think the fee for service idea makes sense. It allows us to keep our premiums at a minimum and to provide the service, either through the home office or through the agent or agency, to those buyers who need it, who can then pay for it on top of their premiums. It has obviously worked in the pension field, and I assume it could be extended to estate planning or to other services provided to clients who need extensive assistance in planning their insurance programs. It would not have to be the agent who provides those services. It could be an entity of the company.

MR. GUTTERMAN: We have already talked about competition and some of its impacts. Another impact has been a move toward negotiated or, more commonly, reduced commissions for jumbo size cases in order to be able to reduce premiums even below the generally banded level for those cases of, say, above a million dollars of face amount (cases that are often shopped around with many companies). It has been said that a smaller percentage of something is better than a larger percentage of nothing. Could a move to a lower commission rate for these jumbo cases, together with the premium reduction at those same sizes, increase our sales?

MR. CLARK: For years we have had analogies to this situation. Companies have had high minimum special policies which sometimes provided lower commissions. This is the way of not having banded commissions. The one thing that makes our agents madder than anything else is to suggest reducing the commissions or cutting the commission rates. We have found some success with levelizing, but as soon as you try to reduce the commission rate 1% you have mutiny on your hands. That occurs at the hundred thousand, quarter million, or half million dollar type sales. For the very jumbo sale (the million, multi-million dollar case), we have decided to put out some rules of leveling that we would require under certain circumstances. We decided that negotiating is undesirable and that it would be better to have some written rules. Mainly in cases where there is a third party buyer where you really suspect the need for insurance may terminate quite soon, you may want to impose a levelized 5-10 year spread compensation pattern. At the same time, this makes it possible to offer the levelized commission system to agents who want it. There is an occasional agent who, on a very large jumbo sale, wants to spread his commission income for tax reasons. In a case where an agent is willing to do this, he must have pretty good hopes of that case persisting; this is a case where we would like to accommodate him.

MR. TURNER: Basically, the same rate of commission should apply to all sizes of policies. There should be no reduction for large amounts because larger sales are more complicated, require more work, are more competitive, and the buyers are more sophisticated. Actually, the amount of effort required on the part of the agent tends to increase with the very large sale rather than decrease. As the actuary said, I do expect my company to be willing to make arrangements for the extremely large sale to protect me as far as income taxes are concerned. I believe my company and most others are willing to make such an arrangement.

MR. GUTTERMAN: Is there any better way to encourage the servicing of our existing clients? Our current commissions and service fees system obviously does not seem to be working to make our agents perform this function. Are we being unrealistic to even think of expecting these services? For individual life products, can it be done anywhere except in the home office?

MR. TURNER: As I have said before, the veteran agent really can not afford to spend time servicing his business. The way to deal with this problem is to develop an apprentice program such as the one that has been developed by the MDRT under which a new person would be brought into the agency and paid a salary and assigned orphaned business and business of veteran agents to service while learning about life insurance selling. This is by far the best way for companies to deal with the service problem. Productivity of agents presently in the field is the key factor, and if the service problem is dealt with in the way I have just described, this will help both as far as service and total agent productivity is concerned.

MR. CLARK: Inflation and the need for greater productivity make it imperative from the company's and the agent's long term standpoint that the agent not provide as much service as he has traditionally. I do not think we have found a way to provide that service yet, but we have to. If we are going to survive as a life insurance industry marketing through the professional career agency distribution system, we will have to provide this service. This could mean lower renewal compensation to provide that money for the alternative methods.

MR. STRONG: I have found that my agents have no problem in servicing their large clients. For the person who has bought a very large policy every couple of years over the last 10 years, the agent is very willing to go back and service that particular client because he sees a continuing opportunity to sell more insurance. We have to provide either from the home office or through the branch office/agency office some of the more routine services for our smaller clients. If we can find a way for the smaller client to come back to us for his future needs, like through adjustable life, we will find agents willing to go out and provide some service in terms of reviewing their needs because there will be a greater likelihood that the client will realize an increased need and buy more insurance. If we are paying first year commissions on the increase in premium, he can make it worth his while to do that. The more routine service - such as beneficiary changes, policy loans and address changes - cannot be done by our agents who can ill afford to spend their time doing those things.

MR. CLARK: I would categorize the former service activities not as service activities but as sales activities.

MR. GUTTERMAN: Keeping in contact with our existing clients at least once every couple of years has to be one of the best ways of improving our agents' productivity. This issue is particularly important because our best clients for new business are our existing clients, as well as being the easiest to prospect for. We already know that they exist. We know that they are usually medically qualified for insurance. This is one area that many agents have ignored. The better agents, however, have taken advantage of this area.

We, as well as most companies, devote much of our attention (in terms of product and sales methods) toward the sale of relatively large estate planning cases. We must move forward to try and reach the lower middle class and small employer markets where these sophisticated techniques are not as appropriate or will not take place. This is a large untapped market which needs life insurance, and we must go after it in order to grow as we would like. How can we motivate and assist our agents to go after these sales? Is the only method to accomplish this through completely alternative sales methods or distribution systems?

MR. STRONG: Regarding the medium size and the small estate planning cases, we can make use of existing and some of the developing computer technology to develop some sales tracks for agents to use in these smaller estate planning cases. This would take much paper work out of the agent's hands so that he can justify going into the $200,000 - $300,000 estate and make money without spending an inordinate amount of time on a four-call sale. We can use mini-computers and home office computers with a tele-communication facility to provide a considerable amount of updating service as laws change and other identified needs change, without causing the agent to be spending a lot of time reviewing his files.

MR. TURNER: The agent needs the company's help in selling in the middle income market. In this market, selling expenses increase, premiums decrease and so do commissions. At best, the willingness of people to spend money on life insurance stays the same. The company needs to participate in the selling process by identifying prospects and supporting us with mailings and other forms of third party endorsement so that we can make the sale in one or two, rather than three or four calls. One of the most important opportunities for agents is payroll deduction plans through employers who are group policyholders of the insured. This approach allows the agent to make a sale in one interview, and to have a number of interviews in one day, thus maximizing the effectiveness of the agent's time devoted to selling. The company needs the agent to sell life insurance. Life insurance does not sell itself. If companies could develop more imaginative ways of identifying prospects for their agents, the agents could perform much more effectively than they now do in the middle income market. One of the problems is that the companies tend to exclude the agents from the direct marketing process. Companies have plenty of prospects. They should learn to take better advantage of opportunities to identify these prospects for their agents. One idea is to use the apprentice concept and orphaned policyholders to develop activity in the middle income market. In most companies, orphaned policyholders represent the middle income market. For a sales apprentice, servicing such policyholders could produce leads which would result in additional sales in that market. This would be an ideal way to bring new people into the business and help the companies to address the middle income market. In addition, the agent's effectiveness in the middle income market will be helped by additional computerized sales support for the agent in the interview process. As more flexible products are developed to meet the specific needs of an individual prospect, the sales process in the middle income market should become more effective from the agent's standpoint. The ultimate objective would be for the agent to be in a position to totally make the sale in one call through the use of telecommunication techniques that possibly aren't available today.

MR. GUTTERMAN: I would like to summarize some of the key points in our simulated agency meeting. It is obvious from the session that there must be a team effort and more communication between home office personnel, including the actuary, and the field to identify problems and work toward a solution. We do a lot of lip service to this, but we do not take as much action. In the long run, if any of the players develop problems - whether it be the home office, the agency or the agent - all will. Also, impressions of problems - not whether they actually exist - are very important. We must define the roles each party should play in both the selling and the servicing of our business, and to compensate for these functions accordingly. Each party must strive to help improve each other's performance and productivity in order to help themselves. We have to be aware, however, that merely increasing compensation expenses does not necessarily lead to correspondingly greater sales. Increased costs must also be reflected in premium levels, eventually impacting competitive positions.

MR. E. JAMES MORTON: It is too bad that you were not able to include a consumer advocate or regulator on the panel, because I think that if you would have done that, you probably would have heard from them that whatever the needs of the field force may be, the front end sales load is doomed. It looks to some as if all the pressures from these people, and maybe even from the public and some segments of our own industry, are against the front end sales load. I wonder if anyone has thought about the way things are going to go in spite of the way we want to make them go. The other thing is that there were a lot of comments about compensation for casualty agents, and I think it would not hurt the life insurance industry to look pretty carefully at the casualty business. My understanding is that there are at least some casualty companies that have applicants for agencies waiting in line, and they have to wait a long time because their agents do not disappear. When they do get replaced, the casualty company has no financing costs because there is all that income from that block of business which is already there as an enormous incentive to keep the business in force, all of which seems to come from the level commission scale.

MR. CLARK: Our product supports a very high initial commission scale. I do not know whether it could support the level of level commission scales that many P/C products support. I will admit that our discussion here was within the confines of assuming what was needed to continue to have a career agency force. If the consumerists or regulators mandated a lower level compensation, we would have to go to a different kind of distribution system.

MR. TURNER: If I can remove myself from the role playing as an agent, I would like to make a couple of comments from my true perspective. I think you are quite right, Jim, about the pressures that are in the process of being brought to bear on early front end compensation, A lot of the comments that were made really represent answers to that issue. The impact or pattern, for instance, of adjustable life compensation, even though it is still somewhat front-ended, may end up representing a pattern of compensation that is both acceptable to the regulators and viable as far as the life insurance distribution system is concerned. The answer is having our distribution system available and deriving income from the sales of products in addition to life insurance, and P/C insurance is certainly one of them. I am somewhat doubtful about the industry's ability to continue attracting people into its distribution system purely on the basis of life insurance and for some of the reasons you mentioned.

MR. CLARK: Many full time career agents would agree with that. We have had some interesting discussions with our successful agents about the future of their profession. It is really interesting to see those who are usually optimistic taking that position.

MR. GUTTERMAN: One small comment on P/C commissions. Particularly for independent agents, there is a large difference in terms of ownership of the business. In this case, the agents own the renewals. As a result, the agents are basically free to move the production from company to company, as opposed to the case in life insurance.

MR. W. DUANE KIDWELL: The comments that you have made, and maybe this was by design, seem to apply strictly to an exclusive company career force. You talked about the tremendous cost of hiring, training and the survival of agents. Are you rather apt to be pessimistic about the future of the career force and, if so, how would you modify the comments that you have made with respect to the possibility of having to go to brokers?

MR. TURNER: I believe that we will see a progressive separation of the company from the distribution system, and one of the comments I made from the agent's perspective is the idea of the agency being capable of or having expertise in a whole spectrum of types of products that financial services organizations would sell. That type of organization would almost by definition be a separate entity from the company. Life insurance companies would then become wholesalers, and the distribution system would operate unto its own. This would take the form of a relationship similar to the way we relate to brokers now. The problem of attracting new people into life insurance selling would then become not the problem of the company, but the problem of the distribution system itself. The successful ones would be attracting people into the financial service distribution industry rather than the life insurance sales industry.

MR. STRONG: I would like to respond to that question from the standpoint of Western Life. Western Life and our companion company, St. Paul Life, sell about 60% of our ordinary life business and 90% of our group business through the independent casualty agencies that are licensed with St. Paul Fire and Marine. Our primary thrust over the next several years is going to be developing regional sales offices (we would probably be talking about 35 or 40 of them around the country) that have in the office technical support for the independent agent and agency to sell individual and group pension products. We will be trying to provide the technology and sales support services to allow the agent who has access to that client to use our technical people in making the sale. We are talking about a lot of joint sales. We are going to go in and help actually close the sale where you need the expertise. At this point, we think it is going to be very successful. We have four pilot offices around the country now, and I think you do have to take a different approach in dealing with the brokerage market. We do absolutely no agent financing, and have not done any for years.

MR. GUTTERMAN: Distributions systems are going to be changing a lot in the next 10 or 15 years. They are going to be mixing and merging. General agencies which have primarily been career operations have said that they cannot afford to ignore the brokerage market. Companies also are moving in the direction of having multiple distribution systems. CNA has had primarily a brokerage operation very similar to what Mr. Strong has alluded to, and it has been highly successful. Even there, however, we see some pressures from P/C agents wanting to get financing, wanting to finance their life man, or putting the life person from the company into the casualty shop.

MR. CARY O. LAKENBACH: P/C companies have been very successful in keeping up with inflation by the use of cost of living additions to their policies and roll-on benefits. How do you assess the impact of cost of living riders or additions on life insurance companies and life insurance agents?

MR. CLARK: Earlier, we alluded to Adjustable Life, and we are developing some products that have roll-on benefits. One key to them is to be able to pay first year commissions on those roll-on additional benefits, and we will be doing that. The field wants those and sees them as automatic guaranteed insurability that automatically rolls on additional premium and additional commission dollars. The key to it is to make it automatic. If it involves agent's contract activity, then you defeat the whole objective of increasing productivity. I see a big future for those kinds of benefits and policies.

MR. GUTTERMAN: One of the biggest areas of discussion on compensation on the casualty side is the efforts of companies to reduce commission rates on personal lines, primarily auto and homeowners. This has been the trend for the last 10 years and I hope that it does not spill over to the life premiums side. This is because while P/C premiums have been increasing, life premiums have generally been decreasing. Reduction of commissions in this situation simply cannot be acceptable.

MR. CLARK: We are going to see more graded premium plans for that same reason. It is like selling more insurance since you are going back and getting more dollars, but on a fixed automatic basis.