

RECORD OF SOCIETY OF ACTUARIES 1980 VOL. 6 NO. 1

SUCCESSFUL DISTRIBUTION SYSTEMS OF THE FUTURE

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The session will be a discussion of what life insurance distribution systems will look like in 1990 under the inflation scenario.

1. Traditional agency distribution systems
 - a. which ones will survive the 1980s
 - b. changes in the systems
2. New agency distribution systems
3. Direct response marketing
4. New methods of selling insurance

MR. JACK P. BARGER: Some of the things that I might say this morning may seem a little startling, but I am saying them from my vantage point as a marketer and not an actuary. In an era of change such as we have been experiencing in our industry in the past few years, and estimating what the 80s portend, a long-range plan with any degree of reliability should probably encompass about 90 to 120 days. To look ahead to 1990 is indeed a frightening experience, particularly if we extrapolate the change curve that we have been experiencing for about the last 60 months. But recalling one major company's slogan of a few years back, "The future belongs to those who prepare for it," let's take a stab at it anyway. The outline that you have in your program has been well thought out, and provides more than enough subject matter. I will try to follow it with a guide for my comments.

First of all, let us discuss the traditional agency distribution systems. The question is asked in the program, "Which distribution systems will survive the 80's?" I would suggest first of all that the debit system will be dead by 1990. With pressures from consumers and the cost of home service skyrocketing I just don't see the economics working out for that type of system to survive. I think the next most endangered species is the branch or the career agency system. Here we will combine the traditional general agency with the company branch. I know I am not going to be very popular in saying this but, except for a very specialized operation, I do not think we are going to see the career agency around in 1990. The 80's are going to bring continued pressures for more and more competitive product pricing, and one of the ways that this is going to come about is through the agent's pocket-book. The general agency system is predicated roughly on a 100% first year commission on an ordinary life premium. I do not see the industry being able to enjoy that luxury in ten years. And if pricing will not affect the agency system, full disclosure will. I do not think it is going to be

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too many years until a life insurance policy will have to have not only disclosure of the various benefits but also disclosure of commissions.

Moving on to the next group, property and casualty agents will probably certainly maintain their position in the marketplace, perhaps increase it slightly. The large property and casualty firms are going to utilize their contacts, particularly in mass merchandizing programs, in a way they never have before. This, however, will not affect the independent property and casualty agent. I see many career agents we have today also becoming property and casualty agents as one way of surviving in the marketplace.

That leaves us with PPGA's and brokers, whom I'm going to lump together. They will be the major distribution source of life insurance in 1990, and I will speak a little bit more about that in a moment.

As I mentioned before, the distributor of life insurance is going to get a smaller piece of the premium than he now does. I foresee this being something like 25% of the first year premium and 5% of the renewal. I don't think fees are going to replace commissions except in very highly structured financial planning situations.

In regard to product mix, we are going to have fewer products but the distributor will be selling other financial products, non-life products, or perhaps be engaged in a business other than life insurance or financial planning.

The most significant development will be in the area of the new sources of distribution. Several of these have already begun to emerge, but some of the major distributors of life products in 1990 are not even in the marketplace today. One major development over the past few years has been the relaxing of the New York Stock Exchange rule to allow member firms to sell life insurance products. In 1973, I put together a small pilot group of Account Executives with the E. F. Hutton company and in six months we had sold \$50,000,000 of deferred annuity premium. From that start it has mushroomed until today the best estimate we could find for 1979 was a billion and a half dollars of single premium annuity business sold by member firms. As these member firms get a greater number of their Account Executives licensed to sell life insurance and actually selling these products, we are going to see that this one source will have a dramatic impact. Life sales have not been nearly as dramatic as annuity sales at this stage but that same explosion could take place during the next ten years. By 1990 you will find that 80% of the stockbrokers in the U. S. will be licensed to sell life insurance and 75% of those will be actively soliciting life insurance sales. Their expertise will not be as great as the career agent we know today, but their access to potential buyers through their large client base is going to give them a strong selling advantage. To put it another way, they have solved the prospecting problem which is still the biggest problem in the industry today. It is estimated that the typical agent spends 90% of his or her time prospecting and 10% of his time selling.

Another rapidly growing distribution source is the so-called Financial Planner. This person is generally licensed to sell securities through an N.A.S.D. firm. He or she sells primarily mutual funds and tax shelters

along with life insurance and some other related financial products, including annuities. I see this group as a major factor in the distribution of life insurance in 1990. These people will work either for a small N.A.S.D. firm which has a general agent's contract or contracts with several different companies, or they will represent an N.A.S.D. firm and have their own direct PPGA contracts.

Finally, I look for life insurance to be distributed through outlets to which we have not yet been exposed. I look for life insurance to be distributed through banks and savings and loans. Of course we do have savings bank life insurance in several eastern states today, but I am not talking about that. I'm talking about a very aggressive marketing operation across the country in banks and savings and loans. I envision the day when every bank, branch office and every savings and loan will have a desk where an insurance agent will sit and talk to people about their life insurance needs. They will also make housecalls. And again, their advantage will be that they have a list of names of the institution's clients and have solved the prospecting problem. We experienced just a potential taste of this just about a year or so ago in California when several savings and loans began to market a wrap-around annuity. It was like an investment annuity into which you can put the CD and shelter it from current income taxes. The sales they created within months were beyond anyone's expectations. They were literally selling millions of dollars a day of new business in one savings and loan office. If the IRS had not stepped in and put the ax to the concept, it would be commonplace today to see insurance agents with a desk in every major savings and loan.

I see salary deduction as a major outlet from which the working man can purchase life insurance, and much of this will be sponsored by the big property and casualty firms which already handle the employer's general lines. I see people in this mass merchandising area paid on a per case basis, a flat fee, rather than on a direct commission basis. Finally, I see accountants and attorneys selling life insurance in 1990. This, of course, is a new phenomenon for us in the U.S., but it is done elsewhere around the world and particularly in the United Kingdom.

Now, perhaps you see a common denominator among the distributors. I see basically two things that they have in common. First of all, they do not depend exclusively on life insurance as their sole source of income. And secondly, they already have a client base to call on. In other words, prospecting will not be a problem. As I mentioned before, lower commissions are going to make it difficult for the career agent -- the person who is selling only life insurance -- to survive unless he or she has easy access to a large number of prospects and can spend most of his or her time selling and not prospecting.

Now let us move to direct response marketing. This has been a growing segment of the market in the past, and all the innovative ideas have not been used up. We are going to see far more activity in this area that will stimulate growth. Yesterday it was estimated that direct response marketing accounted for about 5% of the market share. I see that figure doubling but that still is not a major impact on the market as a whole.

Our fourth area of discussion was new products and new methods that you may use selling insurance. Most of us will be surprised at what the product will look like in 1990. The makeup of the product will have an effect on

how our products are distributed. Computer capability will enable all policies to provide the ultimate in flexibility, and there will be no such things as term or whole life as we know it today. The agent will have a portable, probably telephone-linked, computer hookup where he or she can assist the client, either at home or in the office, to "roll his own" unique policy for his individual set of circumstances. Replacement is going to be a major problem in the 80's, but by 1990 the products sold will be so flexible that there will be little advantage in shifting from one to another. The computer will be the key to both selling and to servicing the policy, and if there is an agency left in 1990 it will be fully automated. Prospecting is going to be made easier through computer assisted pinpointing of specific markets. Prospecting letters and servicing of accounts will all be automated. I see Federal intervention primarily in the areas of disclosure and licensing. I do not see either Federal or state governments in competition with the private sector as far as life insurance and annuities are concerned, but I do see most of the health insurance needs of the nation being dominated by the Federal government. What I've said may border on heresy--I realize that. But it is one man's opinion, and I know there are a number of like-minded people in the industry.

So, on the one hand, we find that change is frightening; on the other, it is exciting because it spells opportunity to those who can take advantage of it. I think that is why each one of us is here. I close with this one little thought: in product selling, as well as product design, this is no time to be putting new wine into old wineskins.

MR. PAUL A. CAMPBELL: I have prepared some comments on the assumption that today's instability, levels of economic activity, and inflationary pressures will continue into the 80s. My comments are based on discussions with my LIMRA colleagues, as well as with consultants and senior marketing officers in about 20 major life insurance companies.

My responsibility is to consider the effects of the inflation scenario on the exclusive agency distribution system. By exclusive agency companies I refer to those companies who recruit, select, and train new agents. In effect, we are discussing the impact of this scenario on companies who invest in developing a field force.

I would like to consider with you three observed criteria of success for the insurance industry: market acceptance, profitability and the survival of the exclusive agent. As we enter the 80s, I believe insurance executives are observing priorities for these criteria in the order that I introduced them: market acceptance, profitability, and agent survival. Management's operations within that order of priority will have a major impact on the exclusive agency system, and it will be necessary to respond in ways that will assure its survival in those marketing situations where it continues to be an appropriate vehicle for bringing our products to the marketplace.

What will be the impact of the 80's on exclusive agencies? Let us look first at market acceptance; this criterion of success is receiving the highest priority today and that it will continue to do so for the near term future. Inflation, the consumerist movement, increasing involvement by regulatory agencies, and growing public awareness are shaping our industry's marketing thrust for the 80's. LIMRA's Buyer Study and other data indicate a decided trend toward lower premiums and higher policy values. There is also a move toward the dissection of permanent forms into protection and savings components,

at least in the more sophisticated marketplaces. As this unbundling continues, the mix of product forms will be determined more than ever before according to each individual's perception of his own circumstances. With market influences, a decided shift in the mix of products has occurred and will continue.

Management has found cause for increasing concern about the second criterion of success, profitability. At the company level, the result of management's response to the market, described above, will be lower unit profits. In addition, we have probably utilized some earnings components -- mortality and investment gains in particular -- to their maximum yield, and the dramatic gains of the past probably cannot be continued. Other elements of the profit equation will either be inflexible or negative for the future: persistency and anti-selection are a real source of management concern, and unit expenses continue to mount at a faster rate than productivity increases.

At the exclusive agency level the verdict is not yet in on vertical growth, mergers and spinoffs of district agencies, but as an industry we probably have not realized the economies of scale we had hoped to achieve with size. The agency system is still very people-intensive, paper bound, and costly. LIMRA's Aggregate Expense Study shows that productivity increases lag behind the increasing costs associated with change. Our response to the marketplace, inflationary pressures, and unsatisfactory cost benefit ratios in exclusive agencies are prompting remedial action aimed at improving unit profits. Efforts are being made to render our agencies more cost effective.

The impact of these priorities on the career agent will be two-fold. First, at the individual agent level, unit commissions will reduce, threatening to lower total income at a time when costs of self-support are ever increasing. In effect, exclusive agents who do not improve their productivity may not be able to sell enough life insurance to survive. This situation could be particularly difficult for the new agent, where inflation will increase needs for financing and validation will become increasingly difficult.

Second, at the agency level, companies may attempt to shift cost burdens from the home office to the field, trying to walk the tight rope between cost-efficiency and loss of loyalty and control. This pressure on the agency will probably increase the burden on the individual agent. As a by-product, experienced agency managers and agents will seriously consider moving to independent status.

Adding to this pressure produced by today's priorities will be fundamental changes in some market sectors, a developing perception in certain markets that the agent is no longer necessary since a marketable substitute product and service may be available without his or her involvement.

We should also recognize some major external forces: technology, diversification activities from related fields, personal taxation, and group coverages. As one illustration, marriage of computer technology and communication systems will create direct buyer access, competing against the career agent. The recent joint venture between Warner Communications and American Express, the parent of Fireman's Fund, has actually opened the door for this possibility.

As a second external force, the efforts of property/casualty companies to expand into life marketing has resulted in some powerful competition in our own arena. As an example, how many of us here are aware of State Farm's standing in the life insurance industry for new sales, or the impressive average income of the State Farm agent.

Finally, any proliferation of group or social benefits will cut down the scope of possible expansion by life companies marketing primarily individual products. In the 80's, fringe benefits could become a significant portion of compensation packages. And to the extent that personal levels of taxation increase, insurers will be competing for less discretionary dollars.

The combined effect of the forces we have just described will be pressure on the exclusive agency system as an institution, and diminished survival expectations for individual exclusive agents. Without an intelligent response the exclusive agency system may not survive. Management must respond, because its failure to do so may mean far-reaching consequences. To appreciate those consequences, we must recognize that many, if not the majority, of today's trained independent producers originally came from exclusive agency organizations. The failure of the exclusive agency system would mean the loss of a future supply of experienced salespeople for other distribution systems, such as those involving personal-producing general agents, independent agents and brokers.

Life insurance will always be a complex product, further complicated by its tax aspects. If the exclusive agency system disappears as a source of trained salespersonnel, new independent agents, the inexperienced recruits of the future, will have less opportunity to learn and sell on an enlightened basis unless someone is willing to make substantial investments. Without a continuing supply of informed salespeople, abuses could increase dramatically, extending an invitation for even more governmental intervention.

However, there is a response to this evolution; there are steps that can be taken to support the survival of exclusive agencies in those areas where they continue to be appropriate. There are market sectors that can be compatible with the economics of the career agency system, and broad marketing strategies that can also be used.

Turning first to strategic levels of activity, some companies will focus their efforts on those markets that are perceived as responsive to the value of the agent -- the upper income markets, the small business owners, and to a lesser degree, middle income groups and occupational specialties. In order to survive in the two latter segments, agents may need to focus on sponsorship opportunities, such as salary allotment business, as well as individual leads. Not all career agents will want to or be able to operate in this environment, but many can.

The upper income sector continues to grow dramatically, and to demonstrate favorable attitudes toward life insurance. The small business owner market appears to be relatively untapped (our LIMRA joint study with U.S. News and World Report in 1977-78 indicated that a large percentage of small business owners have inadequate life coverage). However, it is not a practical possibility for all companies to operate there.

Performance standards operative in a selected market must be met, and those that are not perceived as "the best" may not survive. We can thus probably expect a number of mergers as career agency companies flood these sectors, and some fail.

Other companies will turn to multiple-line operations in an attempt to support exclusive agency systems through client control and better productivity. Integrated services will make the exclusive agent part of a team as companies switch to a "total service" concept. More tools will mean more opportunity to build a survivable income.

Diversification will occur in two dimensions: by product-type and by individual/group lines. Two obvious paths to diversification involve investment/financial services and property/casualty operations. Unfortunately, some companies may misinterpret the success of property/casualty companies who have moved into life operations, getting badly burned by a surprisingly tough business or losing some good life agents to property/casualty dominated activity. But many companies have used and will use this avenue as a successful strategy for agent growth and survival.

In building products and services around a distribution system, though, there should be a sequential relationship in their presentation and relevance to the buyer. The agent must also have credibility in each area. This means completely unrelated products such as computer terminals or encyclopedias will probably be inappropriate diversifications. Furthermore, training for all product lines must be provided on supportable bases.

The survival of the career agency system depends, to an even greater degree, on a more effective field management organization. We can, and we must, improve our selection and training performance. Better retention of qualified agents and better productivity of our entire career agency force will follow as by products. The tools for successful field management have been known for years, but only a few companies (the very successful ones) have insisted on their implementation.

Two LIMRA studies, Where Do They Go? and The Agents Who Terminated, clearly indicated that insurance companies have been concentrating too heavily on "bodies" and not enough on quality of hires.

Data from LIMRA's Aptitude Index Battery and Recruiting Analysis Survey strongly suggest that companies must be more selective. Our studies also show that much of the poorer quality business sold has been produced by terminators. Pre-contract training should also be utilized much more than it has been. On a very simplistic level, there are certain pressures and working conditions that agents need to accept before they decide to sign a contract; successful companies have required as much as 90 hours of pre-contract training.

Productivity can and must be increased. By productivity, I refer to an increasing number of policies sold as well as production of larger premiums per sale. We must attack our agents' tendencies to cut back applications following "big ticket" sales. We must motivate and encourage our experienced agents to break the 50 application level and structure the position so that new agents never set up this artificial barrier. A recent LIMRA study on this subject clearly demonstrates that good producers do consistently produce 80, 90 or 100 or more applications per year and a 1979

survey indicates that a growing number of companies now have an annual quota of 100 or more applications. At least one company now feels "lives" is the most important index of production.

The objectives we have discussed require more effective agency middle management and better training. LIMRA's 1976 and 1978 Surveys of Agent Opinion (SAO) underscore this need. An increasing number of agents are now indicating a need for better quality of field management training.

The compensation systems of the 80's for both career agents and career agency management will reflect these needs. We will see more effort to reward managers for quality recruiting instead of collection of bodies. Tomorrow's system will motivate agents toward both productivity and profitable sales through graded commissions (particularly on jumbo sales), productivity bonuses, and bonuses reflecting the quality of each agent's book.

In addition, we will see a shift in field compensation from top management to middle management. This shift in compensation may be necessary to build and operate the kind of support system that will encourage retention, productivity, and quality production.

Finally, and perhaps most important, we must learn to manage our life companies better. Too many top officers are saying, "Keep the world the way it was; don't ask me to change." Rather than this, we must see the world as it really is and stop operating in a vacuum. This means learning to manage change, continually developing systems and techniques for rapid response to changes in markets and buyer needs. There is a need for effective strategic marketing planning, as well as development of the capability to translate planning into action. We need to learn to distinguish between "doing things right" and "doing the right things". The latter strategy is often neglected and both are vitally important if we are to emerge from the 80s with healthy, active, career building agencies.

Perhaps there are lessons to be learned from non-life insurance industries. Perhaps we can learn from the ways they have managed and anticipated change, as well as from their ability to recognize the normality of change. Maybe we need to occasionally infuse our often in-bred structure with resources from outside, and learn from the experience.

Finally, to end on a note of optimism, let me observe that LIMRA's Ownership Studies, Policyholder Attitude Surveys, Surveys on Buyer Initiated Sales, and Sales Surveys, point conclusively to an ever increasing market place, growing demand for life insurance coverage and a high acceptance of the agent. Career agency systems have a definitive role to play in the marketplace of the 80s and beyond. Their profitable markets will probably shrink, and the number of companies operating career agencies profitably may dwindle, as some companies fail to meet the challenges.

But the best companies and their agency systems will survive the 80s in healthy fashion. In LIMRA's membership we can now point to over 140 exclusive agency companies. We estimate that they are responsible for over 70% of the business produced by LIMRA members.

Among our international member companies operating in countries where inflation has run rampant, interest in career agency systems continues to

grow, and our agency management schools are increasing dramatically in popularity in those nations. In fact, the top career agency companies in Great Britain have employed a strategy of expansion during "hard" times -- not to retrench as is so tempting to do. The exclusive agency system can survive the 80s and beyond, but it will require a commitment to better market strategies, better agency management and better company management.

MR. T. RAMON PERDUE: We have discussed, this morning, possible changes to come about in the life insurance industry, relative to its distribution system, in the next decade, focusing primarily on the exclusive agency organization as we have just heard, and perhaps even new pictures and changes beyond that point. It's easy, in a period such as this, where we are surrounded as we all know with high interest rates, lower profit margins, without any question definite trends toward the sale of term insurance, a real consumerist environment, and a not insignificant amount of federally mandated cost disclosure problems to come up with a situation that we view as a need for a change. One of my colleagues made mention of the fact that a former company used the slogan that "The future belongs to those who prepare for it." I can remember that same company. It is the one that afforded me my basic training. They used, for all sales contests, the idea of "Reach for the stars, you may not get one but you won't come up with a hand full of mud." Perhaps we ought to key in on that a little bit for the coming decade. Things may not be totally bad. There may be some positives that we are overlooking.

Let's discuss for the remainder of this time, the personal producing general agency approach and I am going to tie that in somewhat with "the broker." I think they are going to become almost one and the same as we view the coming decade. I think when we rather loosely describe this system as PPGAs or Personally Producing General Agents we will realize that they are alive and well and I think they are going to do very well during the next decade. There are going to be many changes. We are going to have many new looks that we'll discuss in some detail as I go on this morning. The changes in most part, in my opinion, are going to be made by the general agents themselves. This is a very resourceful crowd. I think they have undergone bad times before. I personally have great faith in the system and I think if you go back 20 years you will see that most of them, in the sixties, even outlived Bernie Cornfeld and John King and they will figure out a way to survive in this coming decade.

We are going to see new and innovative products. We've already seen them. Every company has seen the need to go to new ideas such as perhaps non-guarantees, and the idea of adjustable premiums. You are going to see changes, as we have heard already this morning, in the compensation system. I think without question you are going to see leveling of commissions, grading of commissions on larger sales, perhaps even negotiated commissions on the jumbo sales.

We are going to see a move into a partial fee system. Since the advent of ERISA in 1974 this is already more than obviously come about in the pension business. That's another loose definition, but I refer to those agents that are actively involved in the administration and sale of qualified plans. Nineteen seventy-four and the advent of ERISA did more to professionalize this group than any one thing. At that point in time, we were all, and I will include myself in that category, afraid that we had seen the end of our business. We thought nothing was good about the coming of that law. But I would call

attention to the fact that one of the main results of the passage of that rather infamous act at that time was that it forced you to either get all the way in or all the way out of the pension or qualified plan administration sales business. Consequently, I think the ones remaining are better qualified and have far better administrative systems and the clients and the companies are better off. I think we will see more of this in the next decade.

The biggest thing that you are going to see is a continuation of a move toward independence of the PPGA's or general agents, brokers if you will. We will see the end of what I would refer to as "blind loyalty" on the part of a personally producing general agent to a company that he might have represented for more than a few years. This is not directed in any "anti-fashion" toward the company. Rather it is a positive move toward developing the loyalty to the client, and I can not see anything but good coming out of that. Perhaps this is coming about for not the greatest of reasons. The situation almost exists now in which the better producer is literally forced to act or play the part of a truly independent broker, one specializing in certain areas of the market, one representing far more than one company in an effort to deliver the best product for that client's specific needs. This has been mentioned before this morning, and I certainly share that feeling.

Whether or not a company is going to go the route of the PPGA or the broker it is going to find very quickly that in the coming decade the very best that it can do is to achieve, to warrant, to justify, 75% of the general agent's business. Consequently we might refer to this from now on as a primary carrier relationship, rather than a company that this broker or PPGA represents. He is going to represent more than one company. He has to, and I think it is about time that most companies, including our own, quit walking on eggs, and turning our head to the fact that no longer are we going to get 100% or even 85% of the good producing agents' business.

The system is geared really to the independence of the PPGA and as I have mentioned previously, the consumerist market almost mandates that he not represent one company 100% of the time. The term "independent general agent" or "independent agent" is going to become as important to the producer as we saw in the property and casualty field in the last decade. You remember the ads of the big "I"; the idea of the independent agent. This is very compelling to the consumer and you are going to see it more and more in the life insurance business. The PPGA is going to become, in truth, a real independent contractor and not in name only. Going back to the previous speaker for just a minute, the State Farm agent does not really justify the term independent contractor since the majority if not all of his business is supposed to go to that company. I really mean independent contractor in its true sense, both IRS wise and production wise.

You are going to see a trend toward the independent general agents operating as partnerships or corporations. They will become larger; they are going to need and to have more and more sharing of expenses. They are fighting the same problem as every home office and that is the advent of higher and higher costs of the distribution system, whether at their level or whether at our level. We are already seeing a number of booklets, a number of articles, a lot of the consulting firms going in and trying to perpetuate general agencies. They are trying to perpetuate the agency when the man whose

name is on the door goes out of the picture. You are seeing more and more common stock sales, where the incorporated agency is being sold to a second principal and survives the death or the leaving of the main principal. The on-going of the agency has a very good result as far as the home offices are concerned: better quality, better persisting business, and hopefully, a great deal more intensive vertical growth or larger volume coming from these agencies.

As I said, you are going to see more effort to reduce overhead by the incorporating of multi-member organizations, sharing of expenses by partnerships, or simply by just two independent contractors, perhaps two sole proprietors, going together in sharing expenses.

Let's take a look now at some of the new looks that this one particular agency officer sees and I want to say from the very beginning that this is a personal thought, this is not necessarily one from the company with which I am employed.

At this point in time we are beginning to see the emergence of a new character on the scene. And I want to describe that this morning by using the name of a loose association of agencies, remembering that most of them are probably incorporated or partnerships. This is over a multi-geographical area. I am really referring to something I have seen emerging in the last four or five years. Perhaps it has its foundation in study groups where several different organizations interested in the same marketing concepts, interested in doing business the same way, just perhaps liking and enjoying one another's company, get together to share ideas. One of the outgrowths of this seems to be a very loose association of such agencies, usually 10 or more. The one I have in mind started out at about eight and grew to about 23.

Encompassing the entire U.S. with offices all over the area, they bind themselves together primarily by these methods we have talked about and they combine their production or "clout" and they begin to be able to negotiate for contractual commission agreements from companies, for new changes in products and even the design of specific products that they may want. It is interesting to note that generally all the parts of these loose associations keep their primary carrier affiliation. They still primarily give most of their business to one carrier as no attempt is being made to lure them away. Nevertheless, they are beginning to attract company agency men, almost like ants to a picnic, when they have organizational meetings. Simply by combining their production, by zeroing in on one market, it is remarkable what they have been able to generate at this point in time.

I would like to read one paragraph without divulging any name of the company, from a letter that I fell heir to a couple of weeks ago offering a contractual relationship to a very loose association of 22 offices in the qualified plan business. "A summary of what we are offering in commissions is as follows: a first year total package of 144% of which 130% is payable as earned, 2% more semi-annually, and up to an additional 12% payable annually, based upon persistency. Renewal commissions are between 10% and 14% the second through the 10th year and between 5% and 9% beginning the 11th year. The amount of the renewal commission depends on the aggregate production of the entire group." They were only asking for \$40,000 of annualized premium per office and a quarter of a million dollars of annualized premium from all 22 offices. The point I am making is this,

we may see a trend toward reducing commissions for the agent, but you are going to see the emergence of a lot of loose organizations, perhaps not so loose in the long run, where we are beginning to put together associations of agencies that combine their interest and clout and their expertise and are able to negotiate unusual contracts. This is not a small company; this is a major life company operating in the entire U.S. that I just quoted from.

Another interesting newcomer is what I would like to call a managing general agent. I do not want to bore you with the details of this but I want to point out that each of the four or five characters that I introduce this morning is something that we have had personal experience with within the last six weeks. None of this is old hat. This seems to be the beginning of a group of offices or better still a group of PPGAs who have been almost packaged by an entrepreneur who approaches the home office of a company and indicates that he has already recruited and trained about 15 agencies or 15 PPGAs in different parts of the country. The one that I remember best was reporting that he had approximately 20 in about 17 western states. He indicated that he had these people that were interested in doing business with no more than one, two or three companies, that they wanted to generate the business and direct it to the carriers on the basis of product need. In other words, they wanted an A&S or disability type product from one carrier, hopefully the best; they wanted an RLR type product; and they wanted a straight vanilla ordinary and term type contract or product. He indicated that since he wanted to do business with no more than 2 or 3 companies he was promising \$500,000 of premium annually. He started out by indicating that he wanted no advances, and no particular arrangements of loans. All he wanted is the genuine best contract for his people. And he obviously is asking for payment in excess of the G.A. contract in some form of overwrite to him. He is promising to act as almost a home office in the field. He indicated that he will do the administration for qualified plans and he is really going to act as a sales or support office away from your home office. The intriguing point about this is that he can sell you on the idea that you are paying only for the business that you are receiving and you don't have any of the problems and, this is important, they stress that they do not want the so called "frills or goodies." He is asking for the top front-end commission, the top renewal concept and he will forcefully tell you in the very beginning that he will handle the company cars, he will take care of the conventions and the group insurance, etc. Interesting! You are going to see more and more associations of agencies around the country, and I think you are going to see the advent of the managing general agent for the simple reason that it is less costly to produce a field distribution system

We will see in the future PPGA's structuring themselves for more specialized markets such as salary savings or payroll deduction. There are going to be more and more efforts in this area and I do not mean coming from the companies, I mean coming from the PPGA's or the brokers themselves. One of the interesting things, from a company aspect, that I have seen lately is one company from the northeast that is offering two PPGA's an exclusive right to a particular state. It is giving them a great deal of support in the area of audio visual and prepared slides, that they might go around and sell the wrap-around, or the Reserve only, portion of the RLR case to existing automobile dealers. They have the limited endorsement of an automobile dealers association, and they are selling the wrap-around to what they call the factory term or the term insurance given to automobile dealers, which is generally

\$200,000 to \$500,000 of pre-retirement death benefit. It is an interesting idea in that they have zeroed in on a specific market. They have cured the prospecting problem. But it is interesting to me that PPGA's are the ones selling it. In other words, they are almost franchizing a territory and that PPGA then has the right to sub-lease this out to other producers, no advances, no great deal of cost, the prospecting is handled, and an almost territorial arrangement is made, and they are selling unusual specialized product on almost a mass market basis.

One of the more interesting things that I have run into is the advent of reinsurance arrangements on the part of the retailer, or the sales end, for personal producing general agents. This takes one of the bigger organizations, in this particular instance one of the national brokerage groups has approached a company home office and since they have their own charter for a life insurance company they are asking the main carrier to reinsure not only the product that they are selling but to cede back to them 10% or 15% of the reinsurance. Well, it is easy to see the method that they are using, both from the angle of how to be paid and also how to profit on an on-going long term basis as far as the sale or retail effort involved.

One of the other marketing methods being used by the PPGAs is to obtain a third party endorsement, usually by a national association but not always. One of the more recent experiences we've had there is being approached by an organization that had the endorsement of a 13,000 man association that had handled their medical insurance, and wanted to sell group life or individual term life products. It worked out very well. It was over a territory of 7 states and here again, the PPGAs put it together. They approached the Home Office with what they had. They had cured the prospecting problem. They wanted to sell it, they wanted the product, and they were willing to use that company's PPGA sales force.

Probably one of the newest moves that has already been mentioned this morning, and the last one that I would like to talk about in some detail, is the advent of the federal savings and loan associations into our market. I'm going to use that reference instead of bank holding companies because here again it's a personal reference from the last two or three weeks. A very large federal savings and loan has decided whatever the laws are at this point in time that they can fight it out and they want to enter the sale of life insurance business. They want to do so openly on a basis of having their own licensed commissioner officer, and have him assign his contract to the savings and loan institution. This is almost a holding company approach because they do business in the state in more than one city. They are forcefully asking companies to almost annuitize their CD's. This could not be very attractive to an insurance company, but what was heard that piqued my interest is they want to get into the qualified plan business. They literally want to have an agent, a full-time officer of the association, developing, administering, and going out and selling qualified plans. They want to go right back to the old split funded approach and simply use their certificates of deposit as the side fund. I do not think it takes much understanding on the part of any of us to realize what they are trying to do. In these days of almost non-existent mortgages, or almost 16% interest, I would imagine they are looking for a new profit center. They are specifically looking to what they could do or what they could develop in this area and they want to hire qualified men to do it. This particular institution was making no bones that their interest was to hire qualified PPGA's experienced in the qualified business to come in and work

for them. I agree with what was said this morning that in the next 10 years you are going to see the sales desk in the lobby or in the trust department. lobby or in the trust department.

More carriers are going to have to become more wholesale oriented. I don't think everybody can be everything to everyone anymore. You have to make the determination quickly as to whether you want to go into the blue chip market, whether you want to appeal to the so called "top of the table member" to sell to the big ticket buyer, whether you want to stay in the qualified plan business, whether you want to get into the small corporation business or the public corporation market, or whether you want to appeal to the mass market (\$20,000 to \$25,000 of income earning capacity) and attract your sales that way. In theory the PPGA system is supposed to be less costly than others. One of our associates in the Home Office has a saying that I particularly enjoy. He says, "You find yourself, unfortunately, dealing with 590 Michelangelos." This is unfortunately very true. A PPGA is fiercely independent; he does not want necessarily the same support as others, he does not want the same commission as others, and you find yourself forced to spend all of your time making exceptions. Your underwriters probably spent all their time on the telephone!

I am just trying to give you some of the negatives this morning to the PPGA end of the business. It almost gets to the point that you have a fixation on the distribution system, so much that you lose sight of corporate interest; sometimes product suffers and it is very difficult to maintain a balance. I would say however that notwithstanding anything that we have said this morning the PPGA system seems to attract the genuine great sales person, the entrepreneur, the guy that makes it happen. He is uniquely qualified and very experienced in "rolling with the punches", and he is going to be uniquely qualified to operate in this period of certain change coming in the next 10 years.

MR. BENNIE W. BAUCOM: At this point we will entertain any specific questions or discussion from the floor.

MR. DAVID R. CARPENTER: I find Mr. Campbell's comments to be thought-provoking. Although I feel the same about the comments of Mr. Barger and Mr. Perdue, it is very apparent that what they see ahead for us is colored significantly by where they have been.

It seems that the potpourri of ideas we are receiving may at least partially be caused by the fact that most of us simply cannot make a decision concerning who it is we are trying to please--the agent or the consumer. Depending upon our current distribution systems and our basic beliefs, we each need to come to a conclusion in this matter. If you decide that your customer is actually represented by your agent, then your strategy will be to concentrate on giving him the kinds of products and services he needs in order to be happy. If, on the other hand, you determine that your customer is the consumer, then your plan of attack switches to one of products and services the consumer will find attractive. Of course, at any point in time, your real world will look a little more gray than this, but your strategy must be specific if you wish to determine exactly where it is you are going. As Gordon Gaddy reminded us yesterday, "If you don't know where you're going, any road will get you there."

Instead of lamenting that they have lost the exclusive attention of their field force, company managements should be asking themselves why they lost exclusivity, how important that loss is, and whether or not they are prepared to pay the price to return to anywhere near the situation of receiving 100% of each career agent's writings. Some companies have shown an ability to write a lot of business by receiving a relatively small percentage of the business from a relatively large number of agents. It seems to me to be the time-proven principle that we often forget or avoid--be honest with yourself; maximize your strengths while neutralizing your weaknesses. We cannot expect the various elements of our distribution systems to remain unchanged through time nor can we expect them to return to their original form. The companies that will do well in the 80s will be the ones that accept all of the significant factors of their business environment as they really are, as opposed to how they wish them to appear, setting their strategies accordingly.

Moving on to a couple of specific comments, my perception of PPGAs, contrary to Mr. Perdue's, is that they are much more loyal to themselves than they are to their clients. Of course they want a low premium, but they also want a high commission. I have yet to hear of one of them begging a company for a product with, say, low level commissions, so their client could get a better deal on premium, cash value, or both.

Also, a word of caution concerning the welcoming with open arms of associations of these independent agents, as well as managing general agencies. My experience has been that these organizations offer a company the possibility of establishing a distribution system overnight in a market or geographical area into which it has always wanted to move but did not have the resources. Many of these sales groups are extremely talented and can do the job; however, take great care in wording your contract with them and give great thought to the type of product or products they will write for you. If you do not take such care, you may well find that the organization you have under contract will leave you for a more lucrative contract a few years down the road and subsequently proceed to rewrite the business. Such a development could be devastating.

MR. PETER F. CHAPMAN: I came to this session with an active curiosity, but without preconceptions. As I listen to the panel, a forecast of a pattern begins to emerge. I would appreciate the panel's response to my perception.

First of all, you have talked about disclosure of first year commissions and the need to be competitive resulting in a restructuring of commissions in the direction of leveling. This obviously complicates the financing problems of newly recruited agents.

Then you predict weakening of the "exclusive" with a company getting no more than, say, 75% of the business of an agent or agency with whom it is contracted and is housing and otherwise subsidizing. This will inevitably reduce the amount of direct company financing.

Finally, you cite "associations" or regional groupings of personal producing general agents whose purpose is to negotiate commissions and other items with the home office.

Doesn't all this point to the creation of "super agencies", either by growth, by consolidation, or by expansion of the character of the PPGA association, with the resources to recruit, train, finance, and house new agents independently of the home office? Doesn't this forecast a significant reorientation of the home office-field relationship?

MR. CAMPBELL: I want to go after the first part of your comment, and then I am going to let someone else tell about the super agencies. You were talking basically about how these agents are going to replace the foregone front end loads and about the motivations for those loads decreasing, or the commissions decreasing. I would say that this relates to at least my personal assessment of where priorities are placed today. The priority of giving the agent that front end money is third behind market acceptance and unit profits and that is the underlying reason we are seeing that trend, not just disclosure, although that is a contributing factor. The source of additional financing, is not going to be forthcoming in some kind of basket of goodies, but rather it is going to come from helping that agent become more productive at using his time. And for those companies that are interested in surviving within that framework, that has to be the solution for them, productivity. That comes from marketing efforts as well as better field management and better field training.

MR. BARGER: I would like to address the latter part of your question. You are right that there will be super agencies and they will be rich enough to do some of their own training and their own financing. There will be more of a salary structure than a pure commission structure in some of these situations. For example, savings and loans and banks will train their own people. Financial planning firms will also because they have a large number of products to sell. But you will not have the same quality of training that you have today; you will have a person who is selling life insurance from a narrower perspective than today and not trying to be all things to all people as a typical agent does today.

MR. PERDUE: I would just add that you described it very well to me. You are going to see more emphasis on training and financing at the distribution level and more and more emphasis from the life insurance company into what we would call a wholesale arrangement.

MR. J. ROSS HANSON: I want to make a couple of comments and ask a question of Mr. Barger. The comment is prompted by remarks about the no-load idea. When I was interested in variable life insurance a few years ago, I used to get into arguments with lawyers about the notion of load in life insurance. I maintain that there is no such thing as load when you are discussing a life insurance premium. That's a security idea. The point is that we must resist in the insurance business to the death the disclosure of agent compensation. It is none of the consumer's business. What we have to disclose is price and benefits and obligations of the insurance company. We must avoid disclosure of compensation. It has nothing to do with the value of the product. It is a business concern; it has to do with the way we operate our business. It does not harm in any way the consumer, whatever we pay our distribution force, if it does a job in his interest. I believe that there will be no-load life insurance, in that there will be life insurance where the amount paid to the insurance company is immediately invested in a reserve for the policyholder with no deduction for the company's account. There will be a great deal of that kind of business before 1990.

I would like to ask Mr. Barger a question. You referred to the savings and loan wrap-around notion. I have always thought that the investment annuity approach was very suitable to life insurance, and I would like to see that idea come back. The question I wanted to ask you is about the reference to the IRS putting that type of business out of business. Will that be remedied by the efforts now being made to get the Supreme Court to review the investment annuity court ruling, and will it be remedied by the new bill in the Congress? Will those things help us in any way to get the investment annuity revived?

MR. BARGER: I am sure many of you know Tom Kelly, and no man has worked harder to get his brainchild revived than he has. What the IRS did in that situation was reverse 11 years of prior commitments it had made to the American public. Thus far, the courts have not been too much help to him and I do not have high hopes that he is going to be able to pull it off. It would be a good thing for the industry and a good thing for the American public if we did have a wrap-around annuity and were able to sell life insurance within it.

MR. BAUCOM: Our objective this morning has not been to define what the distribution system is going to look like in 1990. Rather it has been to look at possible futures and, whether we like it or not, the comments made here this morning do, in fact, describe possible futures. They are not the only ones, however. I hope we have encouraged you to think about other possible futures as they affect you in your respective environments and that you will structure your efforts over the next 10 years to meet whatever challenges the future may bring.

