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THE FINANCIAL CRISIS IN LIFE INSURANCE DISTRIBUTION SYSTEMS

*Moderator: JOHN E. TILLER, JR. Panelists: JAMES C. H. ANDERSON, JACK PECKINPAUGH**

1. The crisis

   a. Does it exist?
   b. What is it?
   c. What are its roots?

2. Recruiting and training

   a. What is the impact of current trends?
   b. Who is responsible?
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3. Agents' income

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4. Alternatives

   a. For the company.
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MR. JOHN E. TILLER: The purpose of this open forum is to examine conceptionally the financial crisis in our life insurance distribution systems. We will not present extensive statistics or numerical analysis. The speakers do not intend to make long formal presentations with all the answers. Instead, they will make observations based upon their unique perspectives. The audience will also participate extensively in the discussion of each question before we go on to the next topic. The first question will deal with the existence of the crisis and its causes.

MR. JAMES C. H. ANDERSON: The crisis, if it exists, is manifested in two ways: (1) the failure of agent incomes in constant dollar terms to at least remain level, and (2) increased expense levels leading to unacceptable financial results or unacceptable levels of product pricing.

Due to the lack of available facts permitting a consistent comparison of agent incomes over time, a demonstration that the crisis exists is not feasible. Impressions based on appearances must be relied upon to evaluate the situation, Ruskin notwithstanding.

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The problem is that in an age where single company representation is declining, it is impossible to assemble credible data to conclusively demonstrate what is happening to agents' incomes. Moreover, to the extent that the crisis has caused changes in the behavior patterns of agents once hired and the companies hiring them, it is unlikely that even if the data were available, it would truly be comparable over, say, a 10-year period.

In the home service sector of the life insurance distribution systems, there is clear evidence of a decline in agent income levels expressed in constant dollars. Many companies have taken action to offset the decline by enhancing agent compensation formulas. But, there is a limit to how far this process can be continued, and it seems to represent a temporizing strategy rather than a permanent one. Other companies have engaged in major consolidations of debits to achieve the same result with consequent shrinkage in total manpower. This has been undertaken both internally, through the consolidation of debits, and externally, through acquisitions of other life insurance companies.

In the ordinary sector of distribution systems, credible data is scarce and difficult to interpret. The flow of brokerage business, in both directions, taints the information. Here, too, the activity of companies operating through personal producing general agents has tended to increase commission rates for producers. Fewer and fewer companies are engaged in the business of manufacturing from scratch full-time life insurance agents. Significantly, most of this activity is taking place among mutual companies licensed to transact business in New York, where the inhibitions of Section 213 place restraints on the alternative personal producing general agent approach.

Information concerning company expense levels is available but requires considerable analysis to determine whether or not there has been a meaningful increase in expenses. Information shown in the "Life Insurance Fact Book" for all lines of business relating total expenses to total income, not just premium income, suggests that expense levels remained unchanged from 1978 to 1979 but decreased in 1980. This information is, however, substantially distorted by the aggregation of all lines of business and particularly the inclusion of annuities on which expenses are markedly lower, and which have expanded rapidly in recent years.

Perhaps a better measure of the expense tolerance of individual life insurance products is their reception by consumers. In recent years, to a growing degree, consumers have been voting their preferance by opting for larger proportions of term insurance, annuities and other nontraditional products which generally carry sharply reduced sales and other expense loadings. The evidence implies strongly that the financial crisis in the life insurance distribution systems cannot be solved by increases in expense margins at the expense of product price.

Finally, there is the most serious problem of all -- the capital cost of maintaining existing life insurance distribution systems. Four and one-half years ago, I participated in a debate sponsored by the Society of Actuaries regarding the future of the life insurance business. One observation which I made, which stirred up a certain amount of controversy at the time, was that the cost of manufacturing from scratch a full-time established agent was $100,000 to the nearest $100,000. Time may have vindicated my critics, though not in the direction they anticipated - today

I would be tempted to say that the cost of manufacturing from scratch a full-time established agent is $200,000 to the nearest $100,000! While it is true that the experience of companies differs widely, the point is clear. The cost of maintaining existing distribution systems is well beyond the level required to be economical.

MR. JACK PECKINPAUGH: Does the crisis exist? Yes and no. I am looking purely as a life insurance general agent in a small community. From the agent's point of view, he does not have a crisis as much as the general agents and the companies do. The problem for the agent is his productivity. The idea of a man producing one application a week is terrible. Productivity is the answer for the agent. He can produce more business to keep in line with inflation. But the general agent and the companies have the problem and are in a tight squeeze. Expenses are going up more than the additional income we receive in expense allowances. So the biggest crisis is for the general agent in a distribution system, rather than for the agent himself.

MR. ANDERSON: I agree with Jack that the general agent running a traditional agency is probably at the sharpest end of this problem.

The next issue on our program asks "what is the problem?" I have a fairly simplistic view of it. The members of the distribution system are saying that they cannot maintain their existing standards of living and hence require, and are entitled to, higher compensation levels. This translates into higher commission rates, be they expense allowances or commissions.

The companies are saying that they cannot tolerate a reduction in profit margins. Many companies, on their current new business, will never recover their acquisition costs together with an acceptable rate of return to the policyholders, or shareholders who are financing the new business. In other words, viewed realistically, new business is being sold by most companies at a loss today.

The consumer is saying that he prefers not to buy higher margin products. An attempt to increase margins by increasing prices would accelerate consumer rejection.

What are its roots? The crisis is rooted in the inherent inefficiencies of traditional life insurance distribution systems. They are too manpower intensive and their efficiency has not changed significantly in generations. One sale a week continues to be an accepted norm for success.

MR. PECKINPAUGH: The big problems have been inflation and productivity. We must work harder. We must sell more and see more people. The roots of this problem are in inflation and lower premiums. Premiums came down and the commission rates remained the same. I do not believe life insurance companies can pay me a higher commission. I must work harder to keep up.

MR. TILLER: Would anybody in the audience like to comment on the crisis itself?

MS. ELIZABETH TOVIAN: There seems to be a contradiction in what the two panelists are saying. On one side, the roots of the problem are in the

*Ms. Tovian, not a member of the Society, is associated with the Life Insurance Marketing and Research Association.

fact that the agents cannot produce enough; one sale a week is not working anymore. But Jack believes that agents can solve this by increasing their productivity. The roots of the problem, therefore, are somewhere in the company, not in the field. This distinction was not made clear.

Another comment is that the cost of an agent all depends on what you assume about agent retention. It is true that there are general agents who play the numbers and recruit the whole world in order to keep a few agents. But other general agents handle their recruiting carefully. When they have the guts to withstand from the policies of other companies with more numbers, costs are probably $70,000, not $100,000 or $200,000.

MR. PECKINPAUGH: The agent has to work harder. It is a known fact that, given inflation, lower premiums and constant commission rates, we must work harder and sell more. We can do it. We must in order to stay in the business under the same market system we have today.

MR. HAROLD INGRAHAM: In my company, general agents find that some of our competent people are quite productive. The problem is that they are productive in other companies. About one-half of their business goes outside. It is going outside to find low cost term insurance, universal life, etc. It does put the general agents in a squeeze.

MR. PECKINPAUGH: I agree with you. I did not say agents were unproductive. But they will have to be more productive to make a living in this business. The general agent has a tremendous crisis, especially if the agents broker half their business through somebody else and the general agent is not receiving the overrides.

MR. ANDERSON: There is another relevance of Harold's comment that has to do with the cost of manufacturing agents. If one is manufacturing a whole agent, incurring all the costs, and getting half of his business, the mathematics double adversely. There is a good deal of that happening. Consider how few companies today are actually developing new manpower. It is a very concentrated and rather homogeneous group of companies. If substantial out-brokerage continues, will many of these companies continue to supply the entire manpower needs of the whole industry?

MR. BENJAMIN WHITELEY: It seems there is an anomaly in what Mr. Anderson said. People are gravitating toward a distribution system which will not be supported. There is a gravitation toward lower premium, yet in monitoring the attitudes of the public, there seems to be a liking for one on one selling. How will we solve that anomaly?

MR. ANDERSON: It is undeniable that the public has demonstrated repeatedly over long periods of time their wish for continuation of a personal interface with the agent. If the current system is to continue, an important part of the answer must be to make the same amount of effort create more sales by number as opposed to just size. Multi-product operations may be the answer. A complete transformation of the pricing of this industry may be necessary. There will be fewer agents, and simply having fewer people servicing the same market place will lead inevitably to an increase in net productivity.

MR. ANDREW BODINE: In order to generate additional income, agents are selling term insurance policies and then moving the insurance to a different company each year, resulting in new first year commissions to the agent annually.

MR. TILLER: We should move on to the recruiting and training part of the program.

MR. PECKINPAUGH: What is the impact of current trends in recruiting and training? The impact is that we will have fewer agents in the future. We are recruiting fewer agents but we are recruiting a better quality agent. About 25% of our new recruits are women. My agency has given many aptitude tests this past year, but we have not hired anybody. It may be because I demand a lot. All I am concerned about now is recruiting quality, not quantity. Most life insurance companies are doing that and feel the same way. So do most general agents I know.

We get many figures on what it costs to have a successful agent after four years in the business. It may take $150,000 to $200,000 to have an agent successful in the four years but the company can plan on receiving approximately $3 million in premiums from that agent in a lifetime. A $150,000 investment toward a $3 million premium income is not too bad. We will have fewer bodies. They will be better equipped and better educated. They will do a better job and be more productive.

What is responsible for this? Lower premiums and inflation are responsible. It costs so much to house an agent, provide secretarial help and backup material, etc. Companies cannot afford to waste time recruiting mediocre agents. They must recruit somebody, who at the minimum, will qualify for the million dollar round table. You must go for the top quality people.

The responsibility is with the general agents and managers in the companies. They should not bet on somebody who does not have a chance of winning. The days are over of recruiting fifty a year or twenty-five a year regardless of aptitude. As a general agent who also writes life insurance, I cannot take any time to train somebody who is not a quality product.

Who will pay for this? Indirectly, all recruiting has been paid for by the policyholder. But the general agents will pay too. It will take much time and money to recruit these people. It will also take more front money than before to get agents started in the business.

MR. TILLER: Who will do this recruiting in the future? Betty commented earlier on the pressure to recruit. Do the companies need to change their attitudes on that? Do you feel there is too much pressure to recruit?

MR. PECKINPAUGH: I have no pressure to recruit. In the past, there were general agents who did have pressure. Based upon their territory, they were told to recruit a certain number of agents a year. Now that is changing. They now look for quality, not quantity.

MR. CALVIN JORDAN: The quality agent that you recruit will be the kind of agent who is very responsive to new products that are developed. If you go after the quality agent, you must be prepared to back up your recruiting efforts with serious product development efforts. Recruiting will no longer be a problem if you have product development that is responsive to the times. Agents, many already in the business, will be attracted to your products.

MR. TILLER: Who is training these agents to begin with if you are attracting them from somebody else?

MR. JORDAN: The purpose of product development should not be to attract agents away. However, you will have to recruit far less people if you keep those you recruit.

MR. ANDERSON: There is an article that appeared two years ago in the Harvard Business Review that I recommend to all. The title of the article is "How To Succeed in a Stagnant Business". It was written by a professor at the business school and an executive of General Foods. The general thrust is that the ingredients for success in a stagnant business are very different than they are in an expanding business. (The life insurance industry, by all of their measurements, is a stagnant business and has been for quite some time.) Let me give you an example that you will find is close to home in terms of your own personal observations. Ten years ago there were new gas stations sprouting at every vacant corner of every growing city in this country. Well, look around you today and see how many closed gas stations or converted gas stations you see. This is a phenomenon that is the result of the difference between an expanding market and a stagnant market.

The message that these gentlemen outline in their article is that the appropriate strategy for an expanding business is very different from the appropriate strategy for a stagnant or shrinking business. The only way you can increase your business in a stagnant business is by getting a market share at somebody else's expense. With an expanding business the winners are those who spend the most money on marketing. In a stagnant business, the winners are those who are best at manufacturing.

MR. LARRY STERN: Will the types of products that are developed by companies in the eighties, such as universal life products, have any influence on the type of people we recruit? Does it take a different kind of person to sell the new types of coverages?

MR. PECKINPAUGH: I would say not. I want my company to develop good products. But, regardless of the product you sell, you must recruit quality people to sell it. A quality person can sell anything. That person can adapt to universal life or any product.

MR. JACK MOORHEAD: There are two problems that are quite different. There is the agent who starts with a company, and then leaves it to go with another company. There is also the agent who starts with a company, stays with the company, but writes some of his business outside of the company.

Harold spoke particularly about the second of the two problems. But, if the products of a company are competitive and cover the range of the market, the company should pick up as much business from full-time agents of other companies as it loses from its own full-time agents. It is entirely practical to finance or operate an agency force where the agents write with other companies. The company, net, will not lose from that mix. The company whose products are good would not find that the cost of operating is any higher than if it managed to retain captive agents.

MR. ANDERSON: We are involved here with two zero sum games. The first zero sum game is the aggregate investment that the industry makes in manpower. The second is the aggregate amount of business that is written for the industry. If all companies participated equally in development costs, what Jack is suggesting would be correct. But there are many companies, more than 90% of the companies by number, who are spending nothing whatsoever on manpower development. Yet they are obtaining a share of the market, and a growing share of the aggregate market. So those who are still involved in the manpower development business are paying for the entire industry's manpower needs.

MR. INGRAHAM: Perhaps some companies cannot sell competitive products because of tax efficiencies. In that case, they may create stock subsidiaries, or acquire other companies in order to compete.

My company concentrates particularly on the manufacturing side. We have begun to see evidence of some business we were not otherwise seeing, because of the quality of on-line services we provide.

I represent a big company. But in this room are representatives of little companies. If you want to hire a quality agent, the agent will require that there be competitive products and a broad scope of quality services. Many of the little companies simply cannot provide those services. They may be product vendors. The agent then must negotiate outside for services. This in turn dilutes his loyalty and results in the agent placing more business with the company that can provide the services.

MR. TILLER: Does it matter what tax position you are in, in terms of the expenditure for recruiting and training? Most of the companies that are doing the heavy recruiting and training are phase I companies and receive no tax deduction. Recruiting and training appear to be more feasible if you receive a deduction for this expense and the government underwrites it for 46%.

MR. HENRY RAMSEY: There is a training burden on a few companies. Is a professional training program possible? Can we look to our industry for training agents in a thorough way, along the lines of a medical school approach with internships? Is that at all practical?

MR. PECKINPAUGH: It could be practical for the established agent to maintain his educational process. But it is not practical for the new recruit. The training must be financed by the company and general agent.

MR. BRUCE NICKERSON: The distinction was made between the large company whose agents place part of their business with other companies, and the large company which acts as a trainer but loses its agents to other companies. In every industry, including the life insurance industry, it is necessarily the role of the large, established successful organizations to train the next generation. You cannot start a new company and train your agents and home office employees as you go. This is inherent in our capitalist system.

Every large company needs to evaluate to what degree the people it is losing are the best people. Is the company losing the number two level people and keeping the best? As long as the company performing the training function is keeping a substantial portion of its best people, it will be okay.

MR. PECKINPAUGH: I cannot speak for the industry on this, but I can think back to the agents or general agents we have lost from my little company. Most of the top drawer we have kept. The ones we usually lose are the third and fourth line. The most productive agents and general agents we keep year in and year out.

MR. ANDERSON: We see the inner workings of a number of companies, and prior to a year or two ago, most agent turnover was among marginal producers. Some evidence in the last two years shows the turnover rate among the better producers has increased. This is probably due to the high cost of doing business and other items associated with inflation.

MR. TILLER: Let us go to the agents' income topic.

MR. PECKINPAUGH: The current trend is that as premiums are going down, agents' incomes are going up. They are selling more business. There is more productivity. (I am not referring to the general agent). As the premiums go down, products are easier to sell.

In my agency, our premiums are down and our agents are selling more business. One young man in 1980 paid for three million of volume with $45,000 in premium and 159 policies. At the end of September, 1981, he has four million of volume, $37,000 in premium and 142 policies. If he keeps writing, he will write more policies this year. But the volume is not yet up as much as the premiums are down. Consequently, he must sell more to make as much money. But he is doing it. He is more productive.

What is the impact of new products and consumerism on agents' incomes? With some new products, the income will be way down so you will have to sell much more. But it may be easier to sell. It can make a big difference in the total income.

Can agents survive? The good ones will make it and the poor ones will not. Agents will survive if they are productive.

MR. ANDERSON: I have two items from the "Life Insurance Fact Book". One is the very dramatic increase in renewal lapse rates that took place in 1980. From 1979 to 1980, the renewal lapse rate increased about 15%. In 1981 it will probably increase by an even larger amount, such as 20%. Clearly, this has an impact on agent renewal earnings.

Another item from the fact book is that, for 1980, the aggregate amount of commissions for all lines, including group and annuities, increased by 3%. The total dollar payout increased by 3%.

MR. PECKINPAUGH: Some of the renewal income problem may be that the agents are not giving enough service. They may not be wedded close enough to their clients. We service our clients and therefore experience few lapses in our company.

MR. PETER MOELLER: My company specializes in low cost term insurance distributed through brokers and personal producing general agents. It appears companies like ours are doubling the volume of insurance that they are writing. This must come from one of two places. There is rewriting of existing business or there is diversion away from the old line mutual companies.

The lapse rates are increasing substantially from last year. This may not cause agents' incomes to decline because they receive commissions from the rewrites.

MR. SAMUEL TURNER: Just a note on the Universal product, since we have been one of the companies with a career agency force that has been selling the product now for over a year. We recently did a study of the top ten agents in our organization who sold Universal. The answers to questions as to whether they had seen any changes in frequency, incomes, etc. were pleasant. We found that their frequency of sales was up 66%, the average size policy was up 141%, and their earned commissions were up 44%. For the company as a whole, our annualized premium sales so far this year are up 50%, and Universal only represents 40% of our production.

MR. MICHAEL WINTERFIELD: It has been our experience with flexible annuities that the simple concept of lowering the cost to the consumer, and simultaneously lowering the rate of compensation, does work both for the companies and the agents. Our explosion in flexible annuity sales in the last few years occurred because we moved away from the traditional 8 1/2% load annuity to a no front end load annuity. The message from our experience is clear. When the agents are able to work with a competitive design, it is easy. They do not have to spend time hiding or talking around the high costs of marketing that previously were obvious to the consumer.

MR. TILLER: We have become more competitive in the past few years. Are we now at the point that we are selling our unique product, which is death benefits, too cheaply? Is that part of the problem affecting our agents' incomes?

MR. TURNER: Many general agents have said that our industry has always had the commission equation screwed up. We pay the highest commissions on savings oriented products and the lowest commission on the protection element.

The one problem we have as an industry is that we only have two products to sell, protection and savings. We have the strategic advantage in the savings area of the deferred tax roll-up which we have never exploited in a life insurance product. To do so you must lower the load. We undercompensate on the component of the product where we have anything but a monopoly.

MR. DAVID CARPENTER: One particular strategy, as Jack Moorhead stated, would be to have very good products, therefore losing some business from your agents, but gaining enough back from other companies' agents. This might lead us down the road to an ultimate number of companies somewhere in the area of thirty. In other words, you would have a scenario with just a handful of companies, each one specializing in being a wholesaler of the best product of its variety. That would be all the companies you would need.

Secondly, with regard to recruiting and training, this is an individual company problem. If there is an economic need for it, the companies will find a feasible way to recruit and train. In the future, the best recruiting and training will not be done by the companies, but by the general agencies or large corporate agencies. They will then be compensated for it with higher commissions then at present.

I agree with Jim Anderson; if you are in a mature industry, your strategies should change. Sometimes, we impose restrictions on ourselves. It was mentioned earlier how we could change annuities to make them competitive. That expands the market. If we consider that we are in a financial security business and change our products so that they compete well, we increase our potential market ten-fold. In other words, for a specific company, the market need not be mature.

MR. TILLER: That is an excellent lead into the alternatives topic.

MR. ANDERSON: For individual companies that make up the life insurance industry, there are both active and passive alternatives. Perhaps the most attractive alternative, because it is also the most familiar, is a continuation of existing products and distribution systems with minor modifications. To be successful, this strategy requires a distribution system of much above average quality, concentrating almost exclusively in sophisticated markets, particularly tax-driven ones, where expense tolerance is higher. To be successful also requires a commitment to superior fundamentals affecting price, since this strategy would surely attract a significant number of competitors. Competition can be expected to be intense. Initially, the strategy implies shrinkage in the size of ordinary established distribution systems. Those agents not sufficiently skilled to operate in sophisticated markets are weeded out. Eventually, as weaker competitors fall by the way side, their agents may transfer allegiance to the stronger competitors whose distribution systems might then expand. While many companies might try this strategy, only a few will succeed.

A second alternative is the brokerage strategy, with many variations. Perhaps in stages, existing full-time agency systems will be dismantled by companies dropping this strategy in favor of a personal producing general agency system or brokerage system with increased emphasis on direct commission compensation, decreased emphasis on supporting sale services, and no emphasis whatsoever on manpower development. This too is likely to become a crowded field and an intensely competitive one. An important variation of this strategy is the product oriented approach to the broker market with extreme emphasis on rapid product innovation and fundamental elements affecting price. In the ultimate sense, all of the variations depend on the existing pool of agent manpower with whatever increments are provided by those who pursue the first alternative.

The multi-product strategy represents a greater departure from the traditional path for most companies. This development is accelerating and will continue to do so. The emphasis here is on the addition of product lines which can be sold incrementally along with life insurance products, thereby enhancing agent incomes. Health insurance products, personal property and casualty lines and investment products are already being sold by many agents who sell life insurance primarily or secondarily.

The revolutionary alternative would seek to provide income support to the distribution system, whether full time agents, brokers, or multi-product agents, by achieving a quantum increase in agent productivity through a major cut in prices. This would be financed in part by a cut and redistribution of commission rates, making the product more attractive to consumers. Variations on this alternative would include mounting a deliberate raid on the business of competitors, particularly if the company mounting the raid had very little business in force of its own.

The fifth and final active alternative is the development of an entirely new distribution system, some form of mass marketing which could operate at a much higher level of productivity than existing distribution systems. Failing all of the above, the one passive alternative, the most menacing alternative of all, is a slide into an all term life insurance industry. The existing distribution systems would implode because of radical reductions in agents' earnings. The great majority of existing agents would either leave the business or become part-time agents. Eventually, a substantial reduction in the number of agents could lead to the re-birth of the full-time professional life insurance agent.

The alternatives for the agent are not entirely within his own control. They will be influenced by the alternatives chosen by the companies making up the industry.

For the professional life insurance agent already operating in sophisticated markets, there will be companies that adopt the alternative compatible with the continuation of this role. Some will succeed. For agents in this category, who may number as many as 50,000 today, the future may be much the same as the past. Fees for service may ultimately play a greater role in compensation. Competition will probably force the use of products providing compensation lower than traditional levels. There will be a significant rearrangement of company affiliations within this group. Although negative income pressures will be felt, this is the group of agents with the highest discretionary income. Hence, this group will be able to withstand downward pressure on incomes. Moreover, there are few alternative occupations offering equivalent rewards.

Some agents, who are part of the group of 50,000 already described, may decide that single company representation or even primary company representation is not in their best interest. They will find many companies prepared to pay higher commission rates at the expense of services that these agents do not value equivalently. Some of the 50,000 may become professional life insurance brokers offering a wider mixture of product lines than any single company is likely to provide.

For the remaining agents, who may number 150,000, the alternatives are less attractive. Some may "graduate" to the ranks of the more sophisticated agents and successfully penetrate sophisticated markets. Some will convert to multi-product agents and provide income support in this way. Many, probably most, will leave the industry altogether.

For both groups of agents, the successful and the not as successful, the product revolution may afford a new avenue to success. If life insurance should become a demand product, the number of successful full-time life insurance agents could increase dramatically. The agents would not necessarily require the level of skill and training that today's successful life insurance agents require. At least in the initial stages of change, a large and easily accessible replacement market will exist. This will smooth the transition period for many existing agents. In this case, the implications for the companies are quite serious.

An agentless future? Not likely. Nevertheless, the size and shape of existing distribution systems will see the most striking of the changes which the life insurance industry is undergoing.

MR. PECKINPAUGH: Some companies will go into more specialized markets, such as estate planners selling life insurance. Other companies will go to more multiple lines and will try to service more people. As far as the agent is concerned, you will see more life insurance agents selling casualty insurance or having contacts with casualty insurance agencies.

MR. ROBERT WHITNEY: My comments pertain to the alternatives portion of this discussion. I would like to mention some characteristics of a company based here in Atlanta. This organization emphasizes part-time agents. This is changing a little bit at the middle management level as they recruit more and more people who have been trained by other companies. But for the most part, their tremendous growth comes from part-timers who have no subsidy needs.

It is true that their commission structure follows the pattern of too much on savings and not enough on term. They heavily serve the replacement market. This will change. The company will find it necessary to train their agents on how to pursue non-replacement sales.

Finally, this may surprise some of us, but they have a caring attitude towards people on all levels. It seems to be a hallmark of this organization that all people are mandated to care about the people who report to them.

This is not an alternative that all companies may want to copy, but since the organization is headquartered in Atlanta, it appeared appropriate to mention their unique characteristics.

MR. BODINE: I would like to mention four alternatives for coping with the distribution crisis which have not yet been mentioned.

1. At least one company, USAA Life Insurance Company in San Antonio, Texas, is apparently very effective in the way it markets products using an agency type of system operating with sales units located in their own home office. They depend on an effective advertising campaign which motivates people to call about their insurance needs. A wide range of competitively priced products is offered. This means of selling might be developed particularly in the market for smaller sized policies where the agent cannot afford to follow normal marketing procedures. Such sales effort from the home office would not necessarily conflict with an agency operation which is aimed at different basic markets.

2. Improved use of data processing facilities through home office and field office computers and terminals may soon be considered an absolute necessity for insurance selling. The insurance companies will soon see the need to have their major agencies tied in with the home office data processing facilities. Likewise, large marketing agencies will require that the companies they choose for affiliation be equipped to deal with them through computer terminals.

3. First year commissions determined as the combination of three or more pieces has much merit over the traditional concept of commission based primarily on just a percentage of first year premium. The percentage of premium approach provides too small an amount of commission for smaller policies and for policies with extremely low premiums per thousand, as with the current annual renewable term products with select and ultimate premiums. For larger size permanent plans, the percentage of premium approach often provides compensation in excess of an amount commensurate with the sales effort involved. By moving to a commission structure which is based only in part on premium,but which also has parts based on the face amount of insurance and an amount per policy sold, the result should be a good combination of equity and agent acceptability. It may take several years for the industry to work out the acceptable balance among the several compensation pieces proposed.

4. A large part of the financial crisis could be avoided with extra charges in the first year to match the costs of selling and issuing the policy. Possible results would be significantly reduced premiums for renewal years, more competitive twenty year cost indices, and less replacement activity. This approach of matching the incidence of incurred costs with the receipt of premiums could do much to reduce expense charges traditionally included in the calculation of renewal premiums.

MR. MARTIN RUBY: Look at the different ways that someone can buy life insurance, through payroll deduction, ads on television, offers in credit card bills, stockbrokers trying to sell Universal Life, etc. We have come to the point where agents have two basic choices. They become specialists in the high income market, providing a very sophisticated service to people who are willing to pay for it, or they will have to broaden their line to the middle income market. The middle income market has so many ways to purchase insurance, that unless the agent can offer something more than just life insurance, the agent will have trouble.

MR. PECKINPAUGH: The wave of the future is mass marketing. If I had a life insurance company, I would develop a product to be mass marketed to small or large corporations, with liberal underwriting standards. That is a social responsibility the life insurance companies must face up to or the government will become involved. That would eliminate the small buyer of life insurance.

That market is not being served because most of us cannot run across town to sell a $5,000 or $10,000 policy. But we can sit down and give 10 or 15 interviews a day in the employer's office. This is a tremendous market.

MR. JAMES CONNORS: Most of us have installed or are installing a computer system tying in our sales office to the home office. To go a step further would be to provide a computer support service to the agents in their own offices. Many agents are not housed in the branch office, but are hundreds of miles away. The agents can have their own word processor or mini-computer system and can go off in a variety of directions.

If the company can offer guidance and support, they can tie in a system to the company's data base. The company can offer them a communications network in their own home or their own remote office. It will not only make the agents more productive, but a very important fringe benefit is that the agents will become more dependent on the company. They will broker less of their business to other companies because of the need for computer support from their home company.

MR. JAMES LEWIS: How about agents at the end of their careers. Is there a problem with former big hitters? Are they coasting?

MR. PECKINPAUGH: Most big hitters do not coast. Most of those agents who have been big hitters for years still hit that ball hard and will continue to do so. It is built in them.

MR. TILLER: Does anyone want to comment on mass marketing as a social responsibility?

MR. CARPENTER: I agree with Jack that one of the biggest problems we have as an industry is mass marketing versus using our own field force.

Jack defined mass marketing in a way that allowed the general agent or agent to get a piece of the action. That is probably the best way to go. It is a big step. We talk about social responsibility but there is no necessary need to go into mass marketing allowing for the agent. As a practical matter though, that is the way it should be.

As for Jim's strategy number four, it sounds like a strategy calling for significantly reduced price and increased volume. These strategies are not mutually exclusive. Most companies do not have the option of picking any one strategy. There are many other factors involved. For instance, number four is not necessarily do-able in most situations for a very small company with no distribution system.

MR. ANDERSON: I agree that not all companies have the choice of all the alternatives. Some companies are necessarily wedded to a marketplace either because of their size or their distribution system. Not all of the alternatives are mutually exclusive. The revolutionary alternative, involving major price cut, may be the easiest to do from a fresh company. There is a company based in Chicago that is an example of this. They have developed a one product company starting with an absolutely clean sheet of paper. It is a viable possibility.

MR. DONALD MARTINEAU: My company is involved in direct marketing. We have clients overseas and in the far east. Much of the mass marketing involvement is centered around productivity. With direct marketing, productivity is measured right away.

We are involved with products and a segment of the clients of the world that I think new products and agents have neglected in the past. It was pointed out earlier that insurance companies need to turn back to some sectors of the population with products for those people. Perhaps the only way to reach this clientele is through direct marketing. Some companies go along with direct marketing as an experiment and find out they can take in some additional business without hurting their agency force.

MR. TILLER: We have heard two strategies laid out. One is to become a specialist company and the other is to be all things to all people. How does a company make that decision? What is the criteria to look at? What are your options? Is it your existing force, financing, etc.?

MR. CARPENTER: No one company can be all things to all people. Even the large companies are finding that they are reducing the number of their markets. In answer to your question, there are two primary areas to consider: your distribution system and your management's mindset.