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AGENCY STRATEGIES FOR MARKETING SUCCESS

Moderator: JESSE M. SCHWARTZ. Panelists: JOHN T. BIRKENSHAW, CARL T. FURNISS. Recorder: STEPHEN H. CONWILL*

1. Field Compensation Patterns - Trends in compensation

2. Organization and Operation of Field Offices

3. Product development

4. Marketing techniques designed to:

    a. improve agent productivity

    b. increase market penetration

MR. JESSE M. SCHWARTZ: Welcome to Open Forum Forty-One on Agency Strategies for Marketing Success.

I am Jesse Schwartz from MONY with responsibilities for individual life, annuity and disability income product development.

Our panelists are John Birkenshaw, who besides being a Fellow of the Society of Actuaries is also a Fellow of the Canadian Institute of Actuaries. Jack is President and Chief Executive Officer of MONY Life of Canada since its formation in 1973. In addition, he is a director of the same company.

Carl T. Furniss is a CLU and is manager of the Hartford Agency of the Connecticut General Life Insurance Company. In January of this year, Carl was appointed Marketing General Manager for the Southern New England branch, and his responsibilities include managing the branch offices in Connecticut, Massachusetts and Vermont.

Jack will lead off covering field compensation. Carl will cover organization of agency offices, and I will cover product development; and we all in one way or another will talk about marketing techniques to improve productivity.

MR. JACK BIRKENSHAW: I really feel this is an excellent program topic for every actuary, not just those who are involved in product pricing, but anybody who is involved in the remotest way in the development of individual life insurance lines. A few years ago I suspect this topic would have been treated in a very theoretical manner. We would have spent all kinds of time on lapses, on interest rates, on theoretical problems with regard to persistency, and on competition and what the opposition was doing.

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None of these things can be ignored, but I feel the problem is very much more a practical one. Just as we have found with the introduction of new investment products, every investment officer of every life insurance company must become more field oriented and product oriented. New products and new commission scales are going to make every actuary much more marketing oriented than heretofore.

Now my own background in this area does not necessarily make me an expert in the practical world, but I have been involved in a number of changes over the last few years, some more successful than others. At the risk of boring you on the one hand, but on the other hand possibly stimulating some more questions later on, I would like to review briefly my own experience in individual insurance. I started my first twenty years in a large Canadian career agency life insurance company. My first job, in the individual side of the house, was in actuarial product pricing. I emphasize the word actuarial because it was an actuarial department. It was associated very loosely to marketing in one way or another. At that time, you recall, we could use mortality tables that were about twenty years old. You then added a contingency margin for safety, you referred to your investment officer for an interest projection and you felt very bad when you only got one for about a year. Now you are lucky to get one for three months. You were able to make use of the rate by adding some margin in the form of lower rates over the next three to five years, since no guarantee was available from the investment officer. The only thing that was a formal given were the commissions, which were given through the medium of the commission scales directly within the agents' and the managers' contracts. There was very little discussion in this regard. My next position was as a superintendent of agencies operating in the United States for the same company, at which time we were opening up on a general agency basis. Needless to say, by this time, the relationships between actuaries and field organization had changed considerably because of the type of marketing we were into. Finally, in that company, my last three years were spent in investments. To say the least, this was a different relationship. You have to experience the investment side of the house to understand that you are being sold half the time rather than doing the selling. It is not until you appreciate the difference that you recognize how difficult it is for investment officers to get together and understand field offices. Ten years ago I moved to my present company, the newly incorporated Canadian sub of MONY, and putting on my sales hat, that's M-O-N-Y, as you can hear in the electronics giant SONY (SŌNĒ), S-O-N-Y. We had no policies in force, but we did have a good small Canadian US trained career agency force. It did not grow in the first seven years. Three years ago, this company moved to a managing general agency brokerage type operation which I will discuss later.

To set the stage for a discussion on compensation patterns for agency success, I believe it is necessary to review some of the broad changes in the life insurance industry. In so doing, I hope I will do more than just touch on some of the points my fellow panelist will make.

As a starting point, let me say that the title "Agency Strategies for Marketing Success" conjures up in my mind the traditional housed career agency. In this arena I do not think compensation patterns have changed significantly in the last two decades, and I do not see much change in the near future. However, I do think some changes will be dictated by the marketplace, economics, and the products being sold.

As a Canadian, I read most of what is going on in the Canadian Life and Health Insurance Association. Recently, our Chairman - while addressing an audience in the United States - said, industry is no longer insulated from short term economic fluctuations and pressures - it has now changed forever."

The bottom line pressures that are being experienced in the 1980s are not a temporary aberration. All of these forces have eroded the stability of our business and have created an entirely new environment.

With the emphasis on short term, obviously some of our traditional approaches - namely front end loads in commission patterns - have to falter. But who will lead? Consider what happened in the airline industry in this regard. American Airlines decided they could save a tremendous amount of money by changing their travel agents' commissions from 10% to 9%. It lasted 24 hours and 10% had to be reinstated. Obviously, they found who their clients really were, their travel agents.

Very briefly, with regard to products, the traditional mainstay of any agent - whole life to life to 65 - is representing a smaller and smaller portion of sales. Prospectively, companies will likely be marketing primarily some form of the following five products:

1. Universal Life
2. Variable Life
3. Minimum Deposit (traditional)
4. Term Insurance
5. Annuities

A portfolio such as that does not leave much room for high first year compensation.

With this background you can see my concern with regard to agency compensation - it must change, and I will put forward some ideas on this. But equally important for success - the definition of the agency must change as well as products and services, as my colleagues will describe.

In assessing compensation patterns, we have to look at what the company and the agents want. First, let me look at what my company wants, and I do not think we are unique. You probably all have the same wish list.

1. To attract quality agents
2. To retain quality agents
3. To Maintain low (or reducing) acquisition costs - our largest single expense item
4. To retain the business - i.e., persistency
5. To obtain a good return (profit - bottom line - see quote)
6. To respond quickly to the demands of the marketplace
7. To obtain an increasing volume of new business

Now as I said, we are not unique in struggling to obtain this. In Canada probably 170 companies are competing in this pool - a pool of agents which is decreasing. In order to be competitive, we must proceed to examine what the agents want and/or what they are saying are some of the problems they have to overcome.

1. They are faced with inflation - continually increasing costs
2. Lower premiums per thousand
3. Lower or slowly decreasing commissions
4. Life insurance career is passé
5. Although promoted as independent business people in most areas, they have no equity buildup.
6. No accrued value
7. Because of replacements, many agents are suffering from insecurity

What is happening in Canada at the present time to answer some of the above mentioned problems:

1. There is a lot of talk about level compensation
2. There is no unanimity about "what is level compensation"
3. Some companies have tried or are trying to move to level compensation - to my knowledge with very limited success

   a) one large company tried to make the move very quickly -
      - lost a lot of agents
      - had some lawsuits with agents
      - backed off and is now, I believe, trying again.

   b) One company has introduced significantly lower first year commissions but arranged with a bank to permit a loan on the present value of some future commissions - it is not very popular.

   c) My own company for various reasons introduced a level compensation scale equivalent which we attempted to introduce gradually, i.e., large cases first, all cases over a period of years.

      Our reception would indicate the market - the pool of agents - is simply not ready for it.

4. At what "level" will agents accept "level compensation" is certainly an unknown. Even though I think a change in this direction must come, agents at this time will not accept the word "level". Do not use it in your presentation.

5. The majority of the competition still pay front end heaped compensation.

6. The "now" attitude of agents has not changed, in light of their history, and current concern for new products, inflation, replacements, etc.

Having now established many of the problems, what are some of the possible solutions? First, let me say that depending on the type of organization you have, i.e., direct mail, brokerage, career, PPGA, you might package these ideas differently, but in the final analysis I believe some of these ingredients become a must.

I am reminded of the story of the beautifully packaged dogfood. It passed all of the simple marketing tests, but it did not sell. After a great deal of research it turned out the dogs simply did not like the ingredients.

The ingredients of any compensation package must address the needs as much as possible, of the company and the needs of the agent, as expressed earlier.

1. With the trend to "unbundled" products, i.e., universal life there will be a movement to lower compensation of the investment portion of the contracts in particular.

2. On traditional as well as new products, there will be a movement to some form of level compensation.

   Items 1. and 2. address the corporate problems of too high acquisition costs but will not be enthusiastically endorsed by the agents. It is necessary to find other ways of filling the gap.

3. Vesting of commissions: In the case of career agencies, this will probably occur earlier, for brokerage from the first policy.

4. Loan privileges or assignability of commission by the agent.

5. Equity Buildup

It is necessary for the company to make it easy for the agents to do business with them, and for the agents to expand their own productivity with the aid of the company. Some ways in which this might be done are:

1. Streamline procedure, i.e., via computer terminals, to make it less expensive for the agent to do business with us.

2. Maintain competitive products throughout the rapid changes taking place.

3. Provide new products or an expanded line, i.e., investment lines, to give the agent a chance for synergistic marketing.

4. Create some products which are more a "demand" type to give the agent an opportunity for a sale in less time.

5. Provide training for agents to be able to collect fees for financial planning on a very professional basis.

Actuaries, in explaining this area of product pricing plan design involving compensation to agents, must not fall into the pit usually attributed to us on examining where we have been to give us the best direction of where we should go.

It is the actuary who is innovative, imaginative and cognizant of the concerns of the agents and the short term economic pressures in the marketplace, who will help in designing the best compensation plan for the success of his company's agents and agencies, compatible with the needs of his company.

MR. CARL T. FURNISS: The organization and operation of a field office has to take its form and shape based on the market it serves. I will try to illustrate this by taking our office as an example. Before we do that,

I would simply observe that the determination of the market to be served and the allocation of resources to build a marketing plan must be done by the company.

My company began in 1980 to put together a strategic plan to solve the problems created by a changing environment in our business. Data was gathered by a task force, options reviewed and a plan devised in 1981. This plan went through the review process and was presented to the field in the spring of 1982. Basically, the plan called for selling and servicing financial planning products in the affluent marketplace. It called for some dramatic departures from tradition. An example: The company concluded that it would not manufacture all the products it would need to distribute in supporting the financial planning process. Thus, a new organizational set-up took place in which product manufacturing and distribution were separated and a corporate general agency established to obtain the products needed from other manufacturers. The manufacturing side has been divided into two parts - traditional products, i.e., life, disability, etc. and non-traditional or investment-type products such as mutual funds, limited partnership (public and private) in Real Estate, Oil and Gas, etc. In addition to these organizational changes, we went through a consolidation process in our field offices. Our two marketing forces (branch and brokerage) were combined and the number of managers reduced from 100 to 35. This was obviously done in response to the need to be efficient in distribution, to address the cost issue and to foster vertical growth in field offices. At the same time, a pilot operation testing a fee-for-service concept was initiated in six different market areas. This pilot (experiment) is another facet of a possible solution to the cost problem in which the charge for the financial planning process is being separated out from the product price.

So much for the company strategy. What does this mean operationally at the agency level? I'll try to keep in mind, as I address this topic, that I am dealing with a single agency which works only in a small segment of the total market.

We are organized in sales units and located in several different locations. We cover all of Connecticut except Fairfield County, Western Massachusetts and Vermont. We have 100 producers and a management staff of eight, in addition to myself. Most of the producers are experienced - only 15 with less than three years experience. All are licensed NASD representatives and most of the experienced are CLU's with many of those as ChFC's. The training process is conducted locally and has an objective of developing a competent financial planner. I am going to assume that most of you probably have a good idea of how an agency like ours is organized and functions. This will allow me to concentrate on the changes which our strategic planning and implementation brought about at the agency level.

a) The impact on agency recruiting and training. The financial planning world is much more complex than life insurance was. To begin with, in addition to life and health licenses, we now need NASD registration for both Section 6 and Section 22. In addition to Estate Planning, we now need to train extensively in income tax planning and investment counselling. While the Company can provide some help, the major burden of the increased training must be carried out at the agency level. Gradually, as training materials develop, this burden may shift to the Company,

especially if this shift offers some savings in cost. The increased training requirement has caused us to decrease the number of recruits. We are looking for essentially the same kind of recruit - college trained, preferably with sales experience. We are also looking at more professionally trained people - accountants and lawyers. So, the change is - recruiting fewer people and training more.

b) Agent support required to offer complete financial planning. The second change brought about by our new process is the amount of support needed for the agent to do advanced financial planning. Over the years, we had gained a great reputation for training agents in advanced Estate Planning. These producers were trained to do the planning job by themselves or with helpers. The financial planning process requires more complex support. Most producers need help in categorizing the data and working with computer processing. For example: When the producer comes from a client interview with a completed data sheet and supporting documentation (income tax return, etc), he or she needs to be de-briefed. The person doing that de-briefing completes the input sheets for computer processing. We can then look at the existing situation - income taxes to be paid, cash flow and impact on balance sheet. In short, the debriefer is the link between the producer and the systems necessary to do the processing of the data. This same process has to be followed when we work through the solution to be recommended. This support must be built at the agency level with the attendant costs and training requirements. This may be only a temporary need as the agent training process closes the gap. For example: I like to think that we could train agents to take data on computer input forms. This kind of sales support is not unlike the support many agencies and companies built to support pension sales.

c) Supervision of sales activity, particularly the suitability of product for the customer's need. The third aspect of change from a traditional ordinary agency comes from the fact that we are using investment products to solve the accumulation need. Financial planning introduces a whole new world - the world of compliance. While many life insurance companies may think they can escape this world with various types of universal life products, the jury is still out on that question. Suppose the next generation of universal life products involves a registered product? Because of our involvement with investment products, we have been forced to face the challenge. The responsibility for passing on the suitability of the product recommended by the producer has to be handled at the agency level. The organization of agency supervision has to address this need.

We use "pre-qualification" forms - completed at the time we develop our financial plan, which describe the need (for investment product) in that situation. The need is in one of four categories - safety of principal, income, growth or aggressive growth. The regulatory process also introduces another new factor in agency supervision. Many jurisdictions will not permit dual registration (i.e, being registered with more than one broker-dealer). Thus, the agent and agency has another challenge if the broker-dealer with whom they are registered does not have an adequate supply of product. Some home offices may look on this as a blessing - there cannot be an "outside" business problem. I would rather refer to it as a challenge.

The next issue in the regulatory scene to be faced is the "investment advisor" role. This is complex; and operating within the current definition, requires an entirely different sales behavior pattern for the producer.

d) Continuity of service opportunity. So far, we have been addressing changes in the agency operation - all of which involve additional responsibilities and consequent additional costs. Where are the opportinities? These last two points I want to make address the opportunities.

Most of us in our life insurance operations will have to admit that we have been unsuccessful marketing new products to old customers. For some reason, our agents simply do not want to go back. Not so in the world financial planning. A person only dies once; but everyone has to deal with the tax collector annually so this is one factor forcing annual reviews. In addition, investment products mature and reinvestment opportunities are presented. A constant pattern of activity makes continuity of service not only mandatory, but profitable to the producers and the agency. Some actual examples may help reinforce this point. Through eight months, our sales results are as follows:

FIRST COMMISSIONS	
Life	$ 745,000
Health	35,000
Group	350,000
Equities	1,020,000

In mutual funds (part of equities) new 60% repeat 40%

e) Impact of investment planning on traditional product sales.

The final point I want to make, concerns the synergistic effect of investment planning on the sale of life and disability coverages. Frequently, in solving an income tax planning need, we make a client illiquid. What better way to solve illiquidity than life insurance in event of death? The need for disability protection jumps out at you from the planning process. In addition, the client data is more complete so that finding premium dollars is not as difficult.

This is a report from one company and more specifically from one agency to the changing environment. Many other responses are possible. Clearly, the company must be responsibile for defining the market or markets they expect to serve, and their agencies must organize and operate to carry out that strategy. If my company has decided to concentrate on the IRA market, I would have had to organize entirely differently - or found another company. It is equally clear to me that companies have a greater problem adjusting to the changing environment than agents or agencies. We (agents and agencies) are closer to the marketplace and know where we belong in the scheme of things. We get reminded every day by our customers where our strengths and weaknesses are; and thus, what we can do for them. Companies have more difficulty doing this; and in many, such wide diversity exists in their distribution process that market definition is a large task.

My observation among the ordinary companies of which I have a personal knowledge is that we are trying to get into the same marketplace. Clearly, we can't do that because that marketplace is simply not large enough to support all of us. The bottom line from the point of view of organization and operation of a field office is that we have to be market-driven and efficient. We are no longer competing with others within the life insurance industry. Our competition is from other financial institutions who are neither burdened by our past nor blinded by tradition. You see Jack, I am not so sure that the commission thing does not have to change faster. We are going to have to compete; and my personal prediction is that the survivors will be those who clearly meet the needs of the public most efficiently and effectively.

One final comment - based on having been in the field management process for over 36 years and a manager for 26 years. The major obstacle in our industry in assessing the marketing issue is a lack of competent field management. In my opinion, the companies must accept the responsibility for this condition through their failure to develop adequate training programs. Again, in my opinion, the company who recognizes this fact and the problem inadequate field management gives them in determining the market to be served is on the way to a solution. Dramatic changes will probably occur. The future belongs to that part of our industry which decides to serve the public with good products, fairly priced and delivered through an efficient process. We must - or the consumer's savings dollars will go elsewhere

MR. SCHWARTZ: Jack gave me a couple of lead-ins to some of the things I wanted to talk about. One of the phrases that I am fond of posing is that from the point of view of an industry, up until the present we had no competition from other financial institutions for the acquisition of the risk portion of the life insurance dollar. There was really nobody who was competing with us, and from our point of view, competitively, our distribution costs could be whatever we felt was proper to support our distribution systems. On the other hand, in the current environment, with interest rates going up, we began to have more and more competition from outside financial institutions with much lower acquisition costs. This fostered universal life and a number of other products that we are seeing. I have to say that the former phrase about competition for the risk element probably is not true anymore, or soon will be out of date. The agents will be wondering where they are going to get their commissions. Are they going to get it on their risk element, or on the savings element?

The other comment that Jack made was on the American Airlines example, and I guess that is a perfect lead-in to my remarks because what I really believe is that, fortunately, or unfortunately, we are getting away from the concept that the agent is our customer. It is the market that is our customer, and I believe that strongly. I also believe that from the point of view of supporting the field force, we have gotten kind of myopic by saying that our job is to preserve a specific compensation pattern rather than to view it as the job of the home office to support the agent's efforts to become wealthy, and this is not necessarily inconsistent.

The identification of the new products which will contribute to marketing success requires an understanding of the environment in which these products will be marketed.

The consumer movement will continue to have a significant impact on product design. As the movement evolves, more markets will demand products which are most cost effective. TO be cost effective will not necessarily require the lowest cost product initially. It will require a product responsive to consumer needs.

We live in a society where the need for insurance will fluctuate over the lifetime of the insured. In addition, because of the uncertainty of the economy and the more frequent changes in desired life style by the individual, the ability of the consumer to fund life insurance coverage will vary over the policyholder's lifetime. The policy which provides for uncertainties on a cost effective basis will be most attractive. A product which only responds to a presumed stable life insurance need over the insured's lifetime may initially be less expensive than a flexible product which initially provides for the same need. This should not be a surprise since the more flexible product is probably burdened by a costly administrative system designed to support variations in need. However, it is unlikely that the cost of individual policies, each of which is intended to respond to a change in need,will be less costly than a plan which accommodated these changes within one policy.

In addition, the need for disclosure of all life insurance changes will be a necessity. The consumer will demand an ability to identify all transactions during the policy year which affect the economic position of the policy. Not necessarily because it will help them to make a decision about relative product competitiveness, but because they believe its their right to know. It is the same thing when you look at the packaging of a can of soup. They spell out for you the ingredients, but how many people really look at it, but rather, they judge on taste. From the point of view of these products, and I am trying to avoid the two words "universal life" because I am not sure they are correct in this context, but you are in an environment where the sale is off of an illustration. In spite of the difficulties of comparisons, the consumers will demand that they see it, for the same reason that soup packaging lays out for you all of the vitamins and ingredients as well, they believe its their right.

From a competitive viewpoint, insurers will market permanent life insurance plans which stress its advantage of providing life insurance on the most favorable cost basis possible when its tax advantages are reflected versus simulated permanent life insurance packages marketed by other carriers and/or financial institutions. To the extent permanent life insurance maintains a tax advantage over other savings medium, it may be possible for permanent life insurance products to bear somewhat higher distribution costs to support a field force responsible for a complicated sales process.

In recent years the investment element of permanent life insurance has been emphasized by consumers. To respond, insurance companies have responded with products which emphasize the investment return of the policy. I believe this marketing concept will change as the insurer stresses the extent to which the savings element of permenent insurance contributes to lower cost of insurance protection.

We are not selling a savings product. We are selling a product which, packaged, provides the lowest cost of insurance protection possible. That is a very important difference in comparision with these ads which show ten, eleven, or twelve percent rates of return.

Consistent with this observation, I believe insurance companies will emphasize long term performance in marketing permanent life insurance . This will lead to policies designed with surrender charges so that performance improves with persistency. Consumers with an interest in short term performance will be encouraged to gravitate toward term insurance.

From the company viewpoint, more emphasis will be placed on products whose underlying design is based on financially sound bases. In product design, greater attention will be paid to market value risk and mortality/morbidity anti-selection.

Legislation may be a most critical issue on new product design. It will be very important for insurance companies to have the support of sensitive state legislatures to design plans of insurance which will enable insurers to optimize performance of product while maintaining profitability requirements.

Products will be designed to support the merchandising efforts of agents in the market they operate. These merchandising efforts will continue to include such sales concepts as split dollar - minimum deposit, vanishing premium, et al.

It is probably easier to identify the ultimate wave on new products:

- a back loaded flexible premium/face amount separate account life insurance plan including a variable policy loan rate provision

- variable deferred annuities

- yearly renewal term insurance

- no cash value life insurance

Theoretically, the first product appears to have everything

- flexibility

- consumer control over cost of insurance to the extent the consumer controls the investment choices

- market value protection for the company

- a back loaded charge so that performance may be optimized for persisting policyowners. As an aside, the product should be premium flow rather than policy year oriented. By this I mean that back-end loads will be amortized based on premium flow, and the front-end loaded plan will provide for loads applied to cash flow according to a formula unrelated to policy year. The premium flow concept is important. The concept of loads amortized over duration is inconsistent with the concept of a flexible premium life insurance product. Loads, hence commissions, must be totally beyond the control of the policyowner so that the agent is not faced with a conflict of interest between compensation requirements and policyowner needs.

The primary argument against these plans will be the lack of safety of principal. Companies will attempt to minimize this argument by offering a separate account of diversified investments, but resistance will be significant, although this resistance will lessen with increasing market sophistication. The second product has the same market value risk protection from the company's viewpoint ... with the opportunity to the client to optimize commensurate with the risk taken. This contract will continue to be back-end loaded.

Term insurance will be provided on an attained age basis for brief periods of coverage with liberal conversion privileges. The reason for the brief period of coverage is two-fold. It will be very difficult to provide on an attained age basis a premium rate for a new issue at the older ages which is equally appropriate at the same age for a policy which has been in force for a lengthy period. Therefore, to maintain the most competitive rate at all ages, the period of coverage must be shortened. This will lead to a levelizing of first year commissions. Secondly, the design of permanent insurance plans should make it obvious to the consumer with a long term insurance need that term insurance is too costly. If the term coverage is too long, we may again be faced with a persistency/mortality problem.

The only hindrance to this grand design will be the reluctance of agents to sell and consumers to buy non-guaranteed cash values. For this reason, legislation to permit life insurance marketed with reduced paid-up and extended term values, but without cash surrender value, is critical. This policy is the ultimate in a product marketed for its low cost of insurance protection rather than its investment yield.

Barring the availability of this product, I foresee the continued sale of guaranteed cash value life insurance, with and without the flexibility provisions and guaranteed cash value deferred annuity contract. From a marketing viewpoint, I am concerned with the impact on product performance of these plans versus the separate account plan as insurance companies develop investment strategies which reflect the risks associated with guaranteed cash values. If the performance of these plans become inferior to separate account plans, we may experience significant replacement problems as the dissatisfied purchasers of the guaranteed cash value plans replace them with the separate account plans.

One other observation before I close. While this grand design is in place, we will continue to see guaranteed cash value products which are designed for the minimum deposit market, we will see low premium plans, we will see products designed for the vanishing premium market, and all will be with a variable loan rate because that is a response by the insurance industry to their market value risk problem. I have seen many products in the high income market which, as the result of a variable loan rate, have performed better than with a fixed loan rate because the after tax cost of the increase in loan rate is more than offset by the non-taxable improvement in the dividend.

MR. BIRKENSHAW: I would like to comment myself if I can, Jesse, since you each took a shot at my remarks on the way through, I think I should get equal opportunity. First, with regard to my reference to the American Airlines. You recall I said that the American Airlines reduced their commissions to travel agents from 10 to 9% and it lasted 24 hours because they found out that the travel agents were their clients. Jesse takes umbrage with this, arguing that the market is our customer. Our philosophy and the company's is that our general agents are our customers. And I think this is being verified by Carl as he noted that companies have a greater problem adjusting to the changing environment than agents and agencies. We agents and agencies are closer to the marketplace and know where we belong in the scheme of things. Now from our very brief experience if you can't get through to your agents and G.A.'s or what have you, your producers are not going to get through to the marketplace. We have a very simple example of this. We introduced what I thought was an excellent, very modern plan, it was priced competitively. It had an adequate total compensation, but the compensation split between the G.A. and the broker was unsatisfactory so that the G.A. wasn't getting his share and the net result was that the broker was lucky to ever hear about it. The product just plain bombed! We did get through to some brokers, and in spite of their G.A.'s, they are selling a fair amount of it; but by and large, it is not a satisfactory experience, unless you decide who your client really is. My second comment is with regard to how rapidly I think thing are changing. I think that I said things are changing very rapidly in terms of product design and, therefore, compensation. Therefore, we have to examine services in the total compensation package. Traditional companies and traditional products have not changed their stands with regard to the high front end compensation, and I think they are going to be product driven by other types of more modern products than the traditional ones we have been experiencing over the last 50 years.

MR. Obviously we are making some changes in the front end commission because when I tell you that we paid out over 1 million of commissions on investment products, you know that is at the 4% level. That is an investment type commission arrangement, so it is not a heavy front end load. So what I am saying is we are making an adjustment by different products.

MR. SCHWARTZ: Carl, could you comment on the following observation: When universal life first came out, it came out with low commissions and very good performance. As more and more companies got into it and they became concerned with their agents, there began a trend towards increasing compensation. I am not sure where we are now in that trend, although I know my company's universal life plan compensation would be categorized as being on the low side. Yet I have heard other companies saying that if they want to attract agents, especially with a universal life plan, they better have the most competitive product on the street, even if it means lower commissions, because truly the agent will make it up in volume. Could you comment on that?

MR. FURNISS: Jesse, I sometimes think we are in a giant poker game, and it is just going to be the ability to last that determines the winner. What we are afraid of, of course, is that if we keep the commissions down, you are going to steal all my agents, and there is some truth to that. But there is not any point kidding ourselves as we continue to drop that price

to meet the consumer demand. We are going to have to take it someplace, and in my opinion it has to come out of the distribution side, and yes, I think I have to make it up on volume. And I think I have to do that by diversifying products and helping agents sell more.

MR. PAUL BAILEY: I would like to address a couple of questions to Carl Furniss. In the reorganization of your field force, where does second line supervision come in, and how are you compensating them if you have them? A second question is, with this new approach, you mentioned the problems with the long training period required for agents. How do you finance new agents?

MR. FURNISS: Okay, let me deal with the second one first. We are using a very traditional training allowance plan which I am sure John Hancock has that is a New York State Approved Training Allowance Plan. The average financing has gone up. We still write off only against the first $10,000 The rest of it is very much like any other draw against commissions, but we are writing off against only the first $10,000 of that training allowance plan.

MR. BAILEY: Have you found the need to extend the initial guarantee period? I mean, we have essentially a three month guarantee period, and then the agent is essentially on his own with commissions. The commissions are enhanced, and there are some other things in there, but the guarantee really only lasts for three months. We don't think that is long enough! Would you you comment on that?

MR. FURNISS: Well, we did not go that way with our financing, but we are writing off, which I think is what New York State provides, 24% of the total advance so that when I start a person I know how much right off I am going to have, and my job then is to manage that development, even if we go below what we call the red line where I have some liability. It is my job to manage that, and I can keep that person as long as I want to, as long as I manage it. Now, interestingly enough, because of the investment side of things, we are reaching a lot of prospects we never use to reach before. I have had less trouble with the investment product, less trouble validating agents, than I have ever had before. As far as second line management is concerned, as I indicated in my remarks, I have 8 staff people in my agency which is a ratio of about 10 to 1. Most of those will have some interest in progressing in management. Whether or not they stay will depend upon my ability to continue to compensate them well. Now this is one of the places I think that I am going to have to make some changes, and I think that change may have to be a commission splitting arrangement, or as we develop the fee piece, maybe most of that fee goes for staff compensation, but you have your finger on one of the very critical elements.

MR. BAILEY: Do you have salary plans for your supervisors, or they are strictly incentive?

MR. FURNISS: They are on a salary bonus arrangment, the bonus based upon their production in their unit.

MR. SCHWARTZ: Any other questions from the audience?

MR. STEVE COOPERSTEIN: With regard to first year commissions, I was selling insurance for about 6 months, and I did not become a professional salesman until about a year ago. I am not sure we pay high first year commissions. I think what we do is we take away from the first year commissions. When you are out there selling, there is only one thing in your mind, and you work, and you work, and you work quite hard to get to that point of sale, and what happens afterwards is really a take away rather than a give me, so to think about leveling commissions really is going in the wrong direction. I think the reason that we can pay 4% on the savings products is there are more hits. It is not as long term a sale. I am working with the stockbrokers now, and they hit more often, so with the right product they will take a 2% commission and be very, very happy with it because they can wholesale it. They are on the phone with 250 phone calls a day. It is just a whole different environment. Again, I think we come back to the marketplace, what is a marketplace in terms of the agent. I agree with you. You have to be with the agent, but you also have to be with the consumer. I get the feeling that we are talking about a lot of different things here, and we are not going to resolve anything. For instance, Carl you are in the higher income market, and what goes for the $75,000 over, does not necessarily go for the new recruit or for the person in any other market. I do have one question for you though: your policy fee arrangement. When I was out there, I had one very interesting case. I was ready to charge a very small fee for my services because I really was not a financial planner. I had another agent who was there about 20 years and was fairly good, and we were going to charge maybe $700 to $1,000 for his services. Then I had an ex-lawyer from Metropolitan, where I worked, and he was involved with an investment guy, and they had a computer operation, and they were really doing financial planning. He wanted to charge $1,500 and up. I presented it very honestly to a guy who really wanted financial planning. Well, he is still talking about it. He really cannot decide what he wants to spend, and he could save money in any of those degrees. But he is very hesitant to spend the money up front. Has your experience with charging fees worked, knowing that other agents are not necessarily all charging fees?

MR. FURNISS: Steve, obviously we are experimenting. As I have indicated, we have different locations we are experimenting with with different fee structures. We started out, I think, with three of those at a flat $3,500 fee. Now we are experimenting with modularizing it, charging a set-up fee; let's assume a $750 set-up fee (that is for data collection, to get all the stuff on our system) and then for the investment planning piece a $1,500 fee, and for the estate planning piece another $1,500 fee. If we go into employee benefit planning, a $1,500 fee, modularizing it. But we are experimenting, we are testing. Obviously, it is simply another way of trying to help us with our cost problem.

MR. COOPERSTEIN: Just one other comment, Jesse, when you were talking about universal life, you talked about flexibility - that would be the design of the future - that we have to be flexible into the future, and yet the thing that came to mind is variable rate mortgages. I thought that was the right product at the right time for people who wanted to buy mortgages, and yet people did not understand what variable rate mortgages were about. Close friends that I was trying to advise at the time just would not accept the fact that they could not know what their future costs were going to be. I think that when a person buys a life insurance policy,

I don't think he really knows what he is buying. It is a complex area. For the most part, all consumers are different, but for the most part, I don't think most of them know, and we are selling to the agent, because he is the guy that is going to sell the product. We have been selling financial products to people for a long, long time, and it is the agent that has been selling it, and it is only perhaps in direct response marketing where you get a more direct interplay between the company and the consumer, in my opinion.

MR. BIRKENSHAW: I would like to make one comment on that and that is this 4% on investment products. This is exactly the point that I am making. In Canada we are hearing the words Consumer Accountable, which is described by unbundling the products so that you have a life insurance product, and you describe what is the definition of mortality in there, what is the maximum of mortality you would assume, what is the maximum interest rate level that will be assumed in the development of the funds within that product, etc., and it is unbundled. The more and more you become exposed to exactly what is the investment involvment, for example, you are going to end up with 4%. I feel there are two things everybody feels they are an expert on, one is personnel, and the other is interest rates. They all feel they can walk by their nearest bank or trust company and see an interest rate in the window, and they can get that over the counter in some instances on GIC's or what have you, so you have to be competitive. The only way to be competitive is to pay a relatively low, compared to what is historically in our business, front end load.

MR. FURNISS: Jesse, what has been the growth of NO LOAD life insurance? Do you know?

MR. SCHWARTZ: Well, first of all, there really is no such thing as NO LOAD life insurance. If you do not get it at one place, you are going to get it at another place. I do not think that NO LOAD life insurance exists, just like NO LOAD deferred annuities don't exist, because somebody is just taking more interest off of the earning rate. In essence, that would be my comment, it does not exist.

MR. BAILEY: One more question for Carl. When you hire a new agent, do you require him to have his NASD licensing completed?

MR. FURNISS: No, but we start that training process immediately and that has extended the initial training process quite a bit. It takes me now a couple of months before I get them out on the street.

MR. SCHWARTZ: One of the marketing techniques that you read about in the paper that is supposed to be a significant boon to agent productivity is the mass marketing of individual products in employer sponsored situations. Carl, in your company or even at the agency level, what do you see happening with this mass marketing from the point of view of an agency that truly believes in and is in the affluent market. I throw the same thing out to Jack from the point of view in Canada, the interest of companies in the mass marketing of individual insurance policies.

MR. FURNISS: Several years ago we tried a mass marketing experiment. I have forgotten what it cost us but quite a bit, and it did not work. On the fee piece we are doing some corporate executive planning at this point where we are trying to make the master sale to the corporation and offer

the planning process then to the senior executive level as a perk. We have closed some of those fees being paid by the corporation. In some instances there is, I think, a contributory arrangement; I have not gotten involved in it yet. We see that as a way to expand the activity because once the master sale is made we can cover that executive group with other types of people, less experienced people perhaps.

MR. BIRKENSHAW: I think that Mutual of New York has an excellent approach on this one. They sell strictly through their own agency force, but they do line up through a mass marketing medium, within the home office, association cases that are sold strictly through their agency force. This really ties in with the idea that the insurance companies should be trying to make it easier for the agent to do business with the company and try to be more productive. If you can sell a policy in a quarter of the time, even though it might not be the most affluent market, you can probably still sell four times as many policies if you have gotten the leads from some form of mass marketing contract.

MR. COOPERSTEIN: I would like to follow up on that, and maybe Carl would like to comment or maybe you would like to comment. I am affiliated with a direct response company, direct response being mails, and one of the things that we are doing is trying to market a product, not necessarily an insurance product, which will be sold to the prospect. I will give you an example, a simple financial plan you might sell to the prospect for two hundred dollars. The prospect comes in, you test him, you give him the financial plan and out of that you might produce some leads, and you might do some telephone follow up and qualify the person. The person might show that he needs insurance at that point or a more extensive financial plan. This is the way in which the home office can do some marketing, at no cost presumably, and yet produce a lead which will have been qualified as to what the person needs, that they do want to see an agent and such things. How would you react to that considering the fact that you have an agency company and the word direct response is a dirty word with most agents?

MR. BIRKENSHAW: I must say that we as a G.A. brokerage company have just entered into one arrangement of this kind, so I cannot profess to be speaking from a great deal of experience, but it is a home owners organization that we are doing it through. It is one of our G.A.'s, but presumably out of that we will end up with a large number of leads. Whether we get into any major conflicts over this, we worry about it, but that is as far as we have gone so far. We are doing it.

MR. FURNISS: Well, that is one of those traditions we have as an agency company that sooner or later we are going to have to face and do something about. We haven't done anything about it yet. As you know, Connecticut General and I & S merged a year and a half ago. We have done nothing so far in merging any of the marketing activity. That is something that still has yet to come, and it could take place as Jack indicates under the P&C area, but we have not done anything at all.

MR. JULIUS VOGEL: I was just wondering if the investment you make in training agents sometimes results to the extent of a problem in the agents being trained and then placing a disproportionate amount of business outside the company. Is that a problem you expect to see in the future? In other words, do you guys think that you are like a training outfit on behalf of your own company sufficiently, or are you spending a lot of effort

to train people to sell other companies' products?

MR. FURNISS: We hope we are not training them for other companies, but you never know. One of the reasons for the corporate general agency was to be able to access on behalf of the agents those products which they found they needed from the planning activity they were involved in. Hence, I have an opportunity to manage the outside business and to collect an override on that as well as some allowances for the company. That is the theory. I think the danger that we face may be more than the outside business - the development of the boutique for financial planning - that is, I think, a very real danger. Now, to the degree that we are able to provide the kind of support needed, my agents are making more income now than they did last year. You know, there is not such a thing as copywriting a financial plan or the software package that goes with it. We are kidding ourselves when we think that we hang onto them that way. I think the real danger, frankly, is the boutique. And the only answer I have at this point is to support them well enough that they have the earnings and, therefore, do not have the desire to leave.

MR. SCHWARTZ: We have an arrangement which we call Total MONY. The way it works is, we have a general agency that we deal with for specific products that we choose not to make available or for substandard risk underwriting. The agents can go to this company or this general agency, and they will be paid through the agency, but the way that it works is that in return for Mutual of New York renting out its field force, we get something, the MONY branch manager gets something, and on top of that the agent gets what he would normally get as if he went through any general agency who was specializing in substandard underwriting, for example. The only problem with that which you have to be careful of is that you will find that there will be some agents who will resist that arrangement because they believe there are certain situations where, even though they have a parent product, they just cannot sell it. Let's say you have a competitive YRT, but to get the non-smoker discount you have to qualify for non-smoker and build. The client does not want to pay the build or the higher premium, so what happens is you have to have a feeling of confidence of your own company's products that when you run up against situations like that, you will have enough confidence to possibly give the insurance agent an exception because you know that ninety-nine percent of the time he will come back to you for the products you choose to offer. One of the things we talked about briefly at lunch was the concept that everybody is attacking the career agency system as being too expensive. Something like what we have, Total MONY, is contributing back some money where you do not choose to operate, that is a tremendous help. It is like a reward, and it is paying for itself.

MR. JAMES HARLIN: I would like to ask the panel or anyone else in the audience, for those companies not operating in the upscale market, what marketing strategies might be appropriate as we go into the eighties?

MR. FURNISS: I commented on that in my remarks. I think it is very difficult today, and I really do not know anything about the Horace Mann, but is it not essentially a school teacher's market? Okay, I have it pegged then. I think that is an example of one of the things companies have to do. They have to be pretty clear about the market they can reach through their existing distribution network and gear up to serve that market effectively. I just do not think companies can serve very many markets at one time. We

are trying to be too many things, and I don't think we have the horses to do that. If Horance Mann has been effective in the school teacher market, why not stick with it.

MR. COOPERSTEIN: As I said, I was with Metropolitan, and when I was there, I studied the question quite alot. Besides direct response, which has not really proved itself in terms of volume of sales in the traditional sales markets, it seemed to me when I studied the lower income market that between Social Security and group insúrance, in terms of life insurance coverage and even health insurance coverage, people were more than adequately covered. To a large extent, I think that diversification means not the way you would diversify into investment type products in the higher income market, but diversification into H&R Block type services, simple advice, retirement counseling on a simple basis, probate costs, things that people need in lower income markets. Then you can provide that customer that you already have in hand with additional services that they may need as opposed to trying to pipe down their throats something that they are really fully adequately covered for. At least that was what the statistical studies that I had done when I was back at Metropolitan seemed to indicate to me.

MR. SCHWARTZ: I am not going to keep you here any longer with all that sunshine out there. If you have no further questions, I want to thank you all for coming and for your attention. Thank you.