SOCIETY OF ACTUARIES

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New York Expense Limits

(Continued from page 4)

"yes," the company should work through a trade association to make its position known and try to achieve the passage of whatever legislation it feels is appropriate.

Anna M. Rappaport

Mrs. Rappaport pointed out that Section 213 has strongly influenced the distribution system for life insurance. This system currently has a number of deficiences. First the interest of the agent often conflicts with that of his client and with that of his company. Second, the agent is not paid to provide service. Third, it is very difficult for an agent to earn a decent living. Consequently, it is very difficult to get new agents into the business. A good distribution system must provide an adequate level of compensation for the field force and at the same time have a reasonable cost in relation to the total money available out of premium income. The compensation system should differentiate between products so that the interest of the client, the agent, and the company, can be met on a consistent basis. It should reward the agent for those duties the company wishes him to perform.

There are a number of questions to be considered by the industry and the regulators in facing the challenges of the future. Is personal insurance selling an economically feasible way to sell relatively small amounts of insurance to individuals? Because the total premium is insufficient to provide the margins needed for adequate compensation of personal selling, the insurance needs of a large segment of our population are being substantially ignored. Any change in the legal limits on agents' compensation should permit reasonable equality between payment for different products that provide alternative solutions to various client needs, thus keeping to a minimum the extent to which the interest of the agent is adverse to that of the client. As life insurance competes for savings dollars with other savings media, an increasingly sophisticated public will be looking more critically at the relative distribution costs of life insurance in deciding whether to choose it over other savings media. Future legislation regulating the distribution system should allow a variety of creative approaches so that better solutions can be found to the challenges of the future.

Discussion

Following the presentations by the four panelists, there was a lively and stimulating discussion of Section 213 by the panelists and from the floor. One of the reasons cited for the fact that no company had taken advantage of the four year training period for new agents allowed by the law was that in most cases it is quite evident after a period of about two years whether or not a trainee will become successful.

Mr. Hazelcorn noted that the sale of equity products with life insurance had whetted life insurance agents' appetites for a "piece of the action." As a result there is a growing trend to acquire and incorporate general agencies so that agents can receive stock in addition to cash compensation.

It was also noted during the discussion that Section 213 had been amended this year so as not to apply to the Canadian business of those companies who had an approved plan for accounting for their Canadian business separately from their United States business. It was suggested from the floor that if the Canadian business of New York companies could be removed from the restrictions of Section 213, perhaps the law should be amended to provide for the removal of all non-New York business from the expense limitations, provided it is properly segregated from the New York business so as to protect New York policyholders. In this way, the New York companies could have the same competitive advantages as the non-New York companies who have established New York affiliates.

Another observation was that it is very difficult to get all the life insurance companies to get together to do something as monumental as change Section 213. This seemed especially true today, because the field forces have become relatively more independent of their home offices as exemplified by the trend toward corporate general agencies, diversification into equity products, and the placement of new business with more than one life insurance company. Under such conditions it will be difficult to get a unified approach to any sort of change in Section 213. □

DEATHS

Beginning with this issue, deaths of members will be reported in *The Actuary* as notices are received by the Society's office.

Harold C. Horne
John T. Hoyt
Clair C. Kirkpatrick
Estella C. King (Mrs.)
John W. Lincoln
John B. St. John

Letters

(Continued from page 3)

Reinvestment Rate

Sir:

John C. Fraser in the January 1971 edition of *The Actuary* has set the foundation for further research into the problem of a reinvestment rate which differs from the investment rate.

If I had $1,000 to invest in a 5% five-year bond, and really believed that the coupon falling due one year hence could be reinvested at 10%, I would wait one year and invest the entire $1,000 at 10%.

Stuart J. Kingston

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Sir:

I wonder if John C. Fraser's "Interesting Dilemma" in the January, 1971, issue does not result from asking the wrong question. Using his examples, we are presented with a choice of using $1,000 to purchase at par either (a) a 5-year bond with $50 annual coupons or (b) a 10-year bond with $44.13 annual coupons. Bond (a) therefore has a nominal yield of 5%, while bond (b) yields 4.413%.

If we felt that the reinvestment yield rate beginning one year from now would be 10%, then clearly our best choice would be to invest the $1,000 in any type of secure one-year note and reinvest in one year at 10%. Neither of the alternative bond purchases would be wise.

The fact that the 5-year bond yields 5%, while the 10-year bond yields only 4.413%, however, says something important about what the "market" feels the reinvestment rate will be. If i is the reinvestment rate, we have the following

(Continued on page 6)