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**SOME ACTUARIAL OBSERVATIONS ON
AGENCY MANAGEMENT PROBLEMS**

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IN INDUSTRY, the technician has in recent years played a more and more important part in the broad problems of management. His activities have extended far beyond the confines of the laboratory and the production processes. The technician now enters in an important degree into the manifold problems involved in promoting, distributing and selling the product. The technological progress which has made America the greatest industrial nation in the world has been brought about by the cooperation of the engineers, scientists, and various other technicians with the great sales organizations which have arisen through the incentives inherent in the private enterprise system.

The actuary's position in the life insurance business is quite like that of the engineer in industry. He designs the product, advises management regarding prices, analyzes the quality of the business, performs the technical processes involved in servicing the product, is responsible for research in a wide field, and generally acts as the technical adviser to top management. In the course of his duties, he frequently encounters problems in which he requires the advice and cooperation of other specialists on the staff, including lawyers, economists, physicians, planning engineers, accountants, and perhaps most important of all, salesmen.

This paper is an attempt to review some of the phases of agency management in which the actuary can help the sales executives. It is a field which, in the past, was rather neglected by actuaries, but in which they are now beginning to play a more important part.

Apart from the design and servicing of the product, there are six fields in which the actuary can make important contributions to management in the general area of sales problems.

1. Market research.
2. Controls for measuring the quality of the sales force and of agency management.
3. Measurement of the quality of business.
4. Analysis and control of distribution costs.
5. Merchandising methods.
6. Compensation of agents, supervisors and managers.

In this paper, I shall confine myself to the first five topics, since the compensation problem has been so thoroughly and ably dealt with by McConney and Guest in their two classic papers in *TASA XLIII*, 287, and *TASA XLVI*, 315. My comments will be restricted to ordinary business, although much of the discussion would doubtless apply also to other lines of business.

1. *Market Research*

I believe there is, in the life insurance business, a good deal of skepticism as to the value of market research. This same attitude was rather evident in other industries a few years ago, but today market research is accepted as an indispensable management tool in American business. A similar change in attitude is likely to take place over the next few years in the life insurance industry.

The term "Market Research" covers a very wide range of topics. Among these are:

(1) Analyses of the economic areas in which sales are made, *i.e.*, according to age, sex, marital status, income group, urban and rural, and so on. Studies of this kind, correlated with such economic facts as are available, may disclose areas of the market which a particular company, or the industry generally, may not be adequately covering. We need to define the size of the market according to locality by measuring purchasing power in excess of the subsistence level after taxes; by a comparison of the size of the market with the number of agents under contract by the entire industry, we should obtain the degree of saturation. Such a study would have to take account of industrial and group insurance, pension plans, government insurance and various forms of private coverage, and is evidently a mammoth job of consumer research. As pointed out by Stahrl Edmunds in his article in the October 1946 *Journal of Marketing*, at the present time we lack many of the basic statistics needed for this purpose, such as:

1. A periodic census of life insurance agents by geographic locations.
2. Current sales information by metropolitan areas and counties.
3. Consumer spending and budget studies by regions.
4. Income distribution data by families in various regions.
5. Current income payments to individuals by geographic regions.

It is evident that we cannot get very far in this field until the necessary statistics become available, or we uncover them by an elaborate program of research on a sample basis. This is so costly a job that it would have to be done on an institutional basis.

- (2) The whole field of consumer research, which has seen so great a

development in industry in recent years, has hardly been scratched by the life insurance industry. There are distinct limitations to the value of the results obtained from opinion surveys in predicting people's future action. We have already had examples of the fact that what people say and think is not always a reliable forecast of what they will actually do. However, they have proved quite reliable in determining existing preferences as to products, business practices and so on. As the market becomes more saturated and the competition of various other forms of saving grows keener, this type of research is likely to assume more importance. It would cover opinion surveys conducted among agents, policyholders, and persons who do not carry insurance, and would reach into a broad field of things which affect public relations. It would seek to uncover the reasons for the purchase of insurance, reasons for failure to sell, the causes of terminations, opinions about service rendered by the company and the agent, the attitude toward government insurance, the types of policy desired, and so on.

(3) Advertising research does not appear to have had as much attention in the life insurance business as in some other industries. Millions of dollars are being spent by the life insurance industry, and we should know what is its effect and whether the money is being wisely spent. We should know which are the most effective media to use and what types of advertising have the greatest impact on our market. Techniques have been developed for measuring the effect of advertising and the results should be regularly checked by these means.

(4) Another type of market research has to do with the way an agent develops his individual market. W. R. Jenkins has described a study along these lines in Vol. III, No. 1, of the *Journal of the Chartered Life Underwriters*. He approached the matter by finding out, from extended personal interviews with the agent, all the pertinent facts about each sale made by that agent from the time he started in the business, depicting the development of each agent's market on a large chart on which was shown the relationship of the clients to one another and the sources from which the clientele developed. One of the most interesting conclusions of this study was that most of the business of successful men came, not from the prospecting techniques which are normally taught, but through the agent's doing those things which he himself enjoyed and in which he took particular interest. The best sources of business were formal or informal groups in which the agent himself was active.

(5) Quantitative analysis of the markets in which we operate is a very important field. This refers, not to forecasts of the total volume of business to be expected in the future, but rather to a break-down of the present market according to location as measured by past performance.

It is difficult to see how the sales executive can intelligently plan the development and maintenance of a sales force without a quantitative measure of the size of the market in the territories covered by the various agencies. How can he possibly know in what areas the sales organization is underdeveloped or overdeveloped relative to the organization as a whole? The present size of the total market is measured by the total sales of the industry, which are available by states. The varying economic prospects of different areas for future growth may enter into the picture at a later stage.

The territories of life insurance agencies usually overlap state boundaries or cover only part of a state. No statistics of life insurance sales by county of residence of the insured are available. All we have are industry figures by states. The problem, therefore, is to break down state sales into county sales by some suitable available index. A great number of indices is available by counties, including population, number of tax returns, income tax payments, bank debits, retail sales, drug store sales, electric power consumption, etc.

The following is a short description of the type of quantitative market analysis carried out in the Mutual Life. We first tested the various indices by multiplying the total U.S. ordinary insurance sales by the value of the index in each individual state, to see how closely this index reproduced the actual life insurance sales by states. After experimenting with various quantities, we found that the index which most closely reproduced the actual ordinary life insurance sales in the United States was the estimate of retail sales compiled by Sales Management Inc., adjusted for the proportion of white male population between ages 15 and 59, as explained below.

Although this index was not very close in a few states, it had a correlation coefficient of .994 with ordinary life insurance sales by states. In the final analysis we used this adjusted index only *within* each state separately to divide the *actual* sales in that state by counties, simply multiplying the total ordinary insurance sales in the state by the percentage of the adjusted retail sales in each county, to find the assumed ordinary life insurance sales by county.

The adjustment for the proportion of white male population at ages 15 to 59 based on the latest census was made as follows. Suppose we are dealing with a state which accounts for 10% of U.S. life insurance sales and that it has three counties.

The last column provides us with a figure for each county showing the percentage of the total life insurance sales in the state which should arise from that county, assuming uniform development. Knowing the propor-

tion of the total business of the industry written by the Company in *all* the states where it operates, we finally arrive at the "expected" business in each county on the basis of the total production of the Company in past years, or on the basis of some specified objective as to total production. Adding up the appropriate counties, we get the "expected" business for the territory covered by each agency, and the ratio of actual to expected business gives a measure of the relative degrees of development in the various agencies. The difference between the "expected" and actual production shows the new development required.

County	(1) Total Population	(2) White Males 15-59	(3) % of White Males	(4) % State Retail Sales	(5) (3) × (4)	Col. (5) Adjusted to 100%
A.....	500,000	100,000	20%	30%	6.0%	24%
B.....	500,000	100,000	20%	20%	4.0%	16%
C.....	1,000,000	300,000	30%	50%	15.0%	60%
Total.....					25.0%	100%

By calculating similarly the expected production in the districts classified by the Census Bureau as Metropolitan Counties and comparing the actual production in those areas, we can find whether each agency has a properly balanced development between urban and rural business.

In the case of agencies which are underdeveloped, projections of the new manpower needed to produce the difference between "potential" and actual business can be made on the basis of the company's experience as to production performance and termination rates of new agents.

Such analyses are invaluable, not only to the Home Office, but also to the agency manager in pointing out the areas in which he should concentrate his plans for development. They are also helpful in deciding how to divide up the territory of an agency into districts and in locating sub-offices and supervisors.

The results may be further refined by introducing a factor to reflect the prospects for future growth as revealed by population movements and economic analysis of the industries and resources in the various territories. In our Company such studies had been made in connection with mortgage investments in a large number of cities and this enabled us to classify each city in each agency according to potential future growth.

2. *Measuring the Quality of the Sales Force*

This topic covers a tremendous field, including the selection, training and maintenance of the field force, both at the company level and in the

individual agencies. A large amount of valuable research in this field is being done by the Agency Management Association and the results of their work should be studied by all actuaries. There is no area in the business in which as much money can be saved, or unwisely spent, as in the acquisition and maintenance of the field force.

(a) *Selection Techniques.* The Aptitude Index of the Agency Management Association, recently revised, has been in use by most companies for many years. Old habits die hard, and it is difficult to convince many managers that the Index has been sufficiently validated so that, in the long run, it is folly to hire men who rate low on this Index. They tend to argue that the particular case they have on hand is the exception that proves the rule. Many companies allow extra compensation to managers on business produced by new agents; a very effective deterrent to the hiring of men who rate too low on the Aptitude Index is to disallow this extra compensation on men who rate below a certain figure, such as C on the new Index.

In addition to the Aptitude Index, the Mutual Life has been using a battery of other tests on new agents during the past two years and we are accumulating statistics to see which of the tests is predictive of success. We are also using a "Guided Interview" technique in hiring new men which is a method of conducting the interview designed to induce the prospective agent to disclose all the facts of his background and character. All too often an agent fails because of some weakness which the manager failed to uncover when he was hired. We believe this can be minimized by the use of a proper interview technique.

In connection with selection of new agents, it may not be out of place to remark that in this day of elaborate life insurance programming there seems to be a tendency in some quarters to recruit new men at so high a level of economic, social and educational background that very large segments of the market will not be tapped. Obviously, if there is a market among Ukrainians, an agent who is an Irishman is not likely to get very far. Correspondingly, a graduate of Groton and Harvard is not the type of person who will sell insurance to truck drivers. In selecting new agents, the manager should endeavor to build a diversified sales force suited to the market in which he operates.

Even more important than selection of agents is the choice of competent managers and general agents to recruit and train the agents. We have a great deal yet to learn about the characteristics of successful managers and the types of tests which will select them. About the best way we now know to select them is by appraisal of their performance as assistant managers in recruiting new agents and developing them. A company

which does not have agencies large enough to support assistant managers cannot even use this method and must try to pick its managers from successful agents, even though it is well known that a good salesman often makes a poor manager.

(b) *Training.* In recent years most companies have established regular training programs for new agents in an attempt to better fit the salesmen for the increasing complications of the modern market and to cut down the high rate of turnover. As an example of the type of thing being done, the Mutual Life has an elaborate Training Program under which a new agent may qualify to attend six schools during his first three years. The schools are held at various parts of the country and conducted by Home Office instructors who later become agency managers. The schools teach the fundamentals of the business, Social Security and the various Veterans Benefits, Employee Benefit Plans, taxation, programming and business insurance. We operate on the basis of a standard sales presentation based on needs and the sale is generally made on a two-interview system.

All agents in the training program must keep up a schedule of study and turn in written assignments, and we also require a detailed weekly report of work activity. Similar reports on work activity form the basis of our financing plan and these cover the number of contacts, referred leads, fact-finding interviews, and closing interviews each week, each of these types of work being carefully defined in the plan. These reports have been analyzed on several occasions and, while there is extremely wide variation in the work habits of individual agents, we hope eventually to establish a standard work pattern of successful agents.

Closing interviews are actually of two types: "First Contact Closing Interviews" are defined as those where an attempt to close is made in the first interview, *i.e.*, usually a package sale. "Planned Closing Interviews" are those which have been preceded by a fact-finding interview in which a life insurance need has been established and the facts required to prepare a program have been obtained. We find that agents whose closing interviews are of the "First Contact Closing" type have a substantially lower average size policy than those who use the two-interview method with a "Planned Closing" interview. We also find that the number of interviews required to make a sale is lower under the second method. There is some evidence that as the new agent gets more mature his work habits change and he requires less units of work to obtain a sale. There is also evidence that the large producers require about half as many calls to secure a sale as do the low producers.

Incidentally, our experience under this financing plan on which we pay fees for various types of work units has been astonishingly favorable from

the cost standpoint. In a group of 183 agents hired four years ago, over 90% of the total incentive fees paid, both to those who failed and to those who succeeded, has been recovered from commissions earned on the business they wrote—an exceedingly low rate of loss.

Regular reports, showing for each type of work unit the average weekly performance of agents in each agency, provide a valuable tool in controlling the quality of the supervision of the manager and his assistants.

(c) *Survival Rates and Performance of New Agents.* We make periodic studies of the rates of survival of new agents and the production performance of survivors and terminators. Our results, shown in Tables 1 and 2, are not greatly different from those of the industry as published by the Agency Management Association. The percentages shown relate to the number of agents originally hired. The rate of failure is still appallingly high and it is evident that we have much to learn about selection and training techniques.

The termination rates shown by these tables, which are based on over 2,000 agents, are slightly higher for financed agents than those of the McConney-Guest Table, and slightly lower than that Table for non-financed agents. The combined rate, taking the mean of the rates for financed and nonfinanced men, is exactly the same (43%) as the McConney-Guest rate in the first year and about 10% higher in the second and third years.

There is a very marked difference between the performance of financed and nonfinanced agents. The former have higher termination rates, partly due to the automatic termination provisions of the financing plan and partly to the fact that managers tend to hold on to nonfinanced agents after it has become evident that they cannot make a living in the business. The better performance of financed agents may be due to "class selection," since only the better men will be financed, and in our Company may be due in part to the regular work habits forced by our financing plan, but in the present state of our knowledge we cannot be sure what is the explanation.

There is some reason to believe that termination rates of salesmen in other industries are about as high as in the life insurance business, but this is no reason for complacency. It is a sorry state of affairs when a manager has to hire about 30 new men in order to have a reasonable expectation of \$1,000,000 new production from about 8 survivors 3 years hence, which is the result under these experiences.

Another disturbing fact is that there is no evidence of an increasing rate of production among those agents who survive. Another study of a group of our most successful men who have been in the business seven or

eight years showed that, although there are exceptions, production does not increase as the agent gains experience. This was true even in years when the Company's business showed a substantial increase. It almost looks as though the average life insurance agent, quite early in his career, attains a level of production which gives him an income adequate for his way of life, and he does not make the extra effort needed to achieve a higher rate of production. One reason may be the fact that a level production results in an increasing income due to the effect of increasing renewal commissions. In a study of the work habits of agents in their first three years, we found a decided decrease in the actual work performed in the second and third years as compared with the first, as measured by the number of calls made. This lends support to the idea expressed above.

(d) *Projections of Manpower.* The results of survival rate studies may be used to project the sales manpower picture into the future on various assumptions as to the performance of new men, the rate of recruitment and the rate of attrition in the present sales force. Such studies are invaluable to the agency executives.

They may also be used to project the situation in individual agencies. Many managers of what are now good agencies fail to realize how the sales force will gradually disintegrate if they fail to recruit, particularly if the average age of the existing agents is high. A useful guide in this connection is a record over a period of years of the average age of the agents in each agency weighted by their production. The projection of the sales force in an agency may be done in three parts, production being projected, say, 5 and 10 years hence.

- (1) Current production of men in their first 2 or 3 contract years may first be projected for 2 or 3 more years using high termination rates derived from company experience based upon production rather than number of agents. Thereafter, the projection is made on the basis of a flat annual rate of decrement, which is quite close enough for the purpose.
- (2) The production of agents over age 60 is then separated and a rather high flat annual rate of decrement applied to reflect the effect of both mortality and declining production.
- (3) For the balance of the organization, a flat annual rate of decrement in production is used, derived from the company experience on all agents who have completed two years.

If the resulting decline in total projected production is plotted on a chart, this brings home to the manager the need for continued recruiting.

The results of the market analysis may also be used to determine the

number of new agents required to bring the production of an agency up to the potential of the territory. Such projections will reveal the need for establishment of new agencies in cases where the new manpower needed is so large that one manager cannot be expected to cope with it.

(e) *Average Production Performance.* The level of average production per agent is perhaps the most important single factor in controlling agency costs. Nowadays, with the increasing volume of low rate plans, the average amount of first year commissions per agent is a more significant figure. Such figures are still more valuable if they exclude the leading producer. In order to encourage the building of new career agents, rather than mere volume, a substantial part of our Manager's Compensation formula consists of a percentage of the first year commissions earned by each agent between \$800 and \$6,000, nothing being paid on the first \$800 of commissions or on any amount over \$6,000. The use of first year commissions automatically corrects for plan distribution and for first year lapses. This type of formula gives a strong incentive to build successful men rather than mere volume, as shown in the following table, based upon 25% of commissions.

First Year Commissions per Agent	25% of Excess over \$800	% of Total Commissions
\$ 1,000	\$ 50	5.0%
1,200	100	8.3
1,500	175	11.7
2,000	300	15.0
3,000	550	18.3
4,000	800	20.0
6,000	1,300	21.7
8,000	1,300*	16.3
10,000	1,300*	13.0

* Maximum.

3. *Measurement of Quality of Business*

Most companies produce a punch card for new business which contains a mass of valuable information about the business of the various agencies, which all too frequently is not compiled and analyzed. We make extensive use of these statistics and each year a book is sent to the manager of each agency giving a variety of statistics for his own and all other agencies. The following are some of the more valuable indices of the quality of an agency's business:

(a) *Lapse Rates.* Lapse rates vary according to many factors, some of which are controllable by the manager and agent. However, at least four of them are not controllable. Certain geographic regions, e.g., the Mountain States, have inherently high lapse rates. Rural business has higher

lapse rates than urban. The business of new agents has substantially higher lapse rates than that of mature agents. Finally, economic conditions, which affect lapse rates, are not controllable. However, these factors can be allowed for in interpreting the results. Lapse rates should be compiled every year for each agency; the second year rate is perhaps the most suitable for this purpose. We also compile lapse rates by individual agents as a by-product of our compensation-plan procedure.

In this connection, I should like to make some comments on the lapse rates published by the Agency Management Association. I doubt whether it is generally realized that the so-called "average" rate is not an average at all. Instead of being the average of the rates of the several companies in each group, it is the *total* lapses of all companies divided by the total exposure and is, therefore, very heavily weighted by the experience of the giant companies. The median rate for each group of companies would be much more useful. Furthermore, the formula which is used for the annual rate involves the new business of nearly three years, that in the middle of the period receiving the most weight. If the total volume varies substantially from year to year, the figures given may be seriously in error, the lapse rate given being lower than the true rate if business is decreasing in volume and higher than the true rate if business is increasing. The reason for these distortions is that as the volume of business changes, the amount of lapses changes more rapidly than the denominator of the formula, because lapse rates are highest in the first few months on fractional premium business.

The basis of the lapse rates published by the L.I.A.M.A. is as follows:

The formula for the quarterly rate is (a) policies lapsed during the quarter before completion of two full years' premiums, divided by (b) one-eighth of the new business in the two-year period ending two months prior to the beginning of the quarter in which the lapses occur. The formula for the annual rate is the total lapses during the year divided by the sum of the quarterly denominators defined above. This means that, in determining the 1948 lapse rate, the first and second year lapses in 1948 are divided by the following:

$$\begin{aligned} & \frac{1}{8} \times \text{new business for (Nov. 1945-Jan. 1946) + (May-July 1948)} \\ & + \frac{1}{8} \times \text{new business for (Feb.-April 1946) + (Feb.-April 1948)} \\ & + \frac{3}{8} \times \text{new business for (May-July 1946) + (Nov. 1947-Jan. 1948)} \\ & + \frac{1}{8} \times \text{new business for (Aug. 1946-Oct. 1947)}. \end{aligned}$$

We made a test of the effect of increasing or decreasing volume upon the lapse rates produced by this formula and the distortion is quite marked. We used the Company's actual lapse rates for each premium frequency

separately, our own distribution by premium frequency and the following new business assumptions:

- (1) \$100 million the first year, \$200 million the second, \$300 million the third.
- (2) \$300 million the first year, \$200 million the second, \$100 million the third.
- (3) \$100 million in each of the three years.

The results were as follows:

QUARTERLY LAPSE RATES—L.I.A.M.A. FORMULA

New Business	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Increasing.....	14.7%	14.9%	14.3%	13.1%
Decreasing.....	9.7	8.9	8.9	9.5
Level.....	11.6	11.6	11.6	11.6

The correct rate is, of course, the rate for level new business and the errors in the other two cases are quite large.

Another distorting factor now present is the effect of automatic premium loan provisions on the new CSO policies with values in the first and second years. This produces a lower lapse rate for companies in which a large part of the business is subject to automatic premium loan as compared with companies in which the extended term option predominates. It also distorts results between companies with high and low early cash values.

I think serious thought should be given to changing the basis of these industry figures to cover only the first, instead of the first two policy years, *i.e.*, policies on which no part of the second year's premium is paid.

Still another factor of increasing importance is the treatment of decreasing term and family income coverage. Some companies include this business in the statement for its initial commuted value, some ignore it altogether and the majority use half the initial value or some such approximation. For a variety of reasons it would be most desirable to establish uniform procedures in the treatment of this item which now represents a very substantial proportion of the business of many companies.

(b) *Average Policy.* Owing to the effect of average size on the profitability of business, this is an important item in the quality of an agency's business. The most effective way of raising the average size is to grade the rate of commission according to the size of policy. Many of our agents tell us they can in most cases sell a larger policy when formerly they would have been content with one of the minimum size.

(c) *Distribution of Business by Plan.* The distribution by plan varies widely in the various agencies and such analyses are helpful in correcting an unbalanced distribution. A tabulation each year of the percentage of business written on Term, Family Income Riders, Juvenile, Half-rate Life, Substandard, etc., in each agency is quite revealing. Other useful measures are the average first year commission per thousand of business and the average annual premium per thousand. It is not generally practical to obtain premiums on a revenue basis and if the volume of business varies substantially from year to year, there will be distortion in the results if cash premiums are used, owing to deferred premiums collected in the current year on last year's fractional premium business. However, if the results depart very substantially from the company average, the results are still likely to be significant.

(d) *Not Taken Rates.* Three other useful measures for judging the quality of an agency's business are the percentage of policies issued which are not paid for (standard and substandard business separately), and the percentage of cases in which the first premium is collected with the application. Various devices may be used to reduce the percentage of policies not taken. Inducements may be incorporated into the plan of agents' compensation. Even as simple a device as printing a blank check at the foot of the application may have an important effect. By using both these methods, my company is now obtaining the full first premium with the application in over 50% of the cases.

(e) *Premium Collection Frequency.* The importance of the average collection frequency is too well known to need comment. However, it is not perhaps always realized that this item is much more important in a General Agency than in a Branch Office operation. If the charge for fractional premiums is adequate, the company does not lose money on this business, though it may have a higher lapse rate than annual. The general agent, on the other hand, receives additional remuneration on fractional business only to the extent of the commissions on the extra charge for fractional premiums, which is far less than the extra expense of collection as compared with annual business.

(f) *Mortality.* It is fairly obvious that the business of an individual agency is rarely large enough to provide significant mortality rates, even if studied over a long period of time, especially as there may well be a change of manager during an extended period. Three simple measures of the quality of business from the mortality standpoint are: (1) the percentage of the number of policies issued substandard, occupation extras being ignored, (2) percentage of business declined, by number of policies, and (3) average numerical rating. A tabulation by agencies of death

claims arising in the early policy years will sometimes show up an agent who is submitting doubtful business.

(g) *Quality Rating Chart.* Many companies use the Quality Rating Chart prepared some years ago by the Agency Management Association, or some modification of it, to draw the agent's attention to the quality of the business he is writing. As is well known, this chart assigns a rating to each application which reflects the probable persistency of the policy in relation to average persistency as measured by various characteristics which are known to affect the lapse rate. Among these are age, sex, occupation and income of the insured. If the occupation and income are coded on the new business card, it is possible to obtain quite revealing information about the type of business written in an agency or by an individual agent. Correlation of this kind of information with such economic facts as are available might disclose important areas of the market that are not being developed.

Since lapse rates vary rather widely between companies it is desirable for each company to investigate its own experience before adopting the ratings in the chart published by the Agency Management Association. We recently completed a very extensive study of lapse rates and the results differed rather substantially from those shown in the study entitled "Persistency 1942-1947" published this year by the Association.

4. *Analysis and Control of Costs*

The life insurance industry has been rather ill-informed, for the most part, on the subject of operating costs in general, and field costs are no exception. In spite of the excellent work done over the years by the Agency Management Association, it is a striking fact that only a handful of companies were able to contribute information about agency costs to a study begun last year by the Association. It is even more surprising when one realizes that in a General Agency operation, and that is the system under which the majority of companies still operate, the cost picture is of paramount importance to the general agent.

From the actuarial point of view, in a General Agency company, field costs are simply the commissions and expense allowances paid to the general agent, and the actuary is not concerned in his work on premiums, cash values, dividends, etc., with the acquisition and maintenance costs of the business to the general agent. The costs entering the actuary's calculations are fixed by contract. The Branch Office company is not in the same position and it is difficult to see how the actuary can perform an intelligent job of testing a dividend scale or a table of cash values unless he knows the first year and renewal costs with reasonable accuracy. Actually, the in-

cidence of costs to the company is quite different in a Branch Office from the incidence in a General Agency operation. In a Branch Office operation, acquisition costs to the company are substantially higher and maintenance costs lower than in a General Agency company, and the incidence by age and plan differs substantially. The differences between the acquisition costs in Branch Office and General Agency companies are much greater at the young than at the higher ages. There is some evidence that Branch Office companies have not been able, for competitive reasons, to fully reflect the high acquisition costs at young ages in their dividend scales. The reasons for this situation are fairly obvious. The general agent receives remuneration on renewal business substantially greater than his maintenance expenses and uses the balance to make up the deficit on new business, what is left over being his take-home pay. At a time of rising prices, higher average premium frequency and a trend toward cheaper forms of insurance, the general agent must have accurate information on costs to know whether the margins he is building up will be adequate to cover his first year and renewal expenses and leave sufficient margin for profit.

The problem of analyzing agency costs is not nearly so difficult as many people suppose. Four items, *viz.*, rent, clerical salaries, travel and supervisory salaries, comprise from 75% to 90% of the total acquisition costs. All the other items such as postage, telephone, telegraph, printing, stationery, supplies, advertising, and so on form so small a part of the cost that a laborious and painstaking analysis between acquisition and maintenance would affect the final result so very little as not to be worth while. The Appendix contains a description of a simple method of analysis which satisfactorily breaks down expenses between acquisition and maintenance.

The question as to the form in which the expense rates should be expressed depends upon the use to which the figures are to be put.

(a) For the purpose of the general agent himself, in judging his progress from year to year, the acquisition expenses may be expressed (1) as a percentage of first year premiums (excluding single premiums), or (2) as a percentage of first year commissions paid to his agents, or (3) per \$1,000 of new business. The first two measures will best reflect the margins from which the expenses are met, since they make allowance for lapse. The first one may be misleading if the plan distribution of the business changes. Renewal expenses may best be expressed as a percentage of renewal premiums, since that is the basis of the general agent's remuneration.

(b) For the purpose of the Home Office in either a Branch Office or General Agency company, any of the measures suggested for the use of the general agent may be satisfactory for acquisition expenses. However,

renewal expenses do not, in fact, vary with the amount of premium income. Careful cost analyses in more than one company show that very close to 50% of the total renewal expenses are caused by functions connected with the actual collection of premiums, which depend directly on the collection frequency rather than the number of policies. The other half of renewal expenses arise purely from service operations other than premium collection and depend directly upon the number of policies. The service expense may be smaller on paid-up than on premium-paying business and if it is desired to obtain a refined result the number of paid-up policies may be weighted one-half, the service expenses being measured on a per policy basis. However, this refinement is not essential. These are the types of measure needed to uncover the real facts, but in a General Agency operation the Home Office should also know the total rate of renewal expense as a percentage of premiums, since that is how the general agent is paid.

Agency costs vary according to a number of factors. A rural agency generally has low rent and high travel costs, which are about balanced by the higher rent costs in a metropolitan operation. The one item which is perhaps most important in determining costs is the average production per agent. As far as supervisory help is concerned, in a General Agency operation the point at which a supervisor or assistant manager can profitably be hired depends upon the margins inherent in the general agent's contract, as explained by Mr. Linton in his paper "Returns under District-Agency Contracts" in *RAIA* XIV, 198. The risk involved in hiring a supervisor in a rural area, where suboffice rent, travel and other expenses may be incurred, is no doubt greater than in a metropolitan market, where the supervisor may acquire a substantial volume of brokerage business at a modest cost. In a Branch Office operation the point at which a supervisor should be provided is a matter of opinion, depending partly upon the company's method of operation, partly upon one's view as to the number of men who can be properly supervised by the manager, the policy as to expansion and whether or not the company writes brokerage business. Even in a Branch Office operation the cost of the supervisor should be reflected in some way in the manager's salary so that costs do not get out of line. In other words, there should be some deterrent against hiring too many supervisors in relation to the size of the agency or keeping a supervisor who is not doing a satisfactory job.

In the absence of information to the contrary, one might expect that the production expense rate would vary inversely with the size of agency, the lowest rates being obtained in very large agencies. Such information as we have does not support this view. Our experience is that, while small

agencies, say under \$2,000,000 production, have high expense rates, the very large agencies have expense rates slightly higher than those of medium-sized agencies, the lowest rates in our case generally being found in agencies producing from about \$3 million to \$4 million. The low point in expense rate according to size of agency will, of course, vary in different companies and will depend on the type of agency organization and method of operation. A very large agency is usually located in a large city where rent costs are high, and after a certain point the expenses for supervisory help become substantial. Another point bearing on the question, suggested by L. S. Morrison of the Agency Management Association, is that very few men possess the rare combination of qualities needed to operate an economical large agency; after a certain point the job becomes too big for one man to handle efficiently.

We have a great deal to learn about the factors which affect agency costs and this can only be remedied by cooperative research.

5. *Merchandising Methods*

There are many questions touching upon merchandising methods in which the actuary has an interest.

The first broad question has to do with the relative merits of so-called package and needs selling. In the old days, when the main problem was to cover with life insurance a huge undeveloped market, it did not seem to matter much how the business was sold, what kind of policy was recommended or even how it was serviced, so long as the amount of insurance in force on the lives of a grossly underinsured population increased. In those days, our economy was immature, and the insurance business was so simple that we should hardly recognize it today. Group insurance had not been invented, social security and veterans' benefits in their present forms had not been thought of, pension plans were a rarity, settlement options if in the policies were hardly ever used, taxation both of income and estates was at a low level and the insurance agent did not have to worry about any of these things. Today the picture is vastly different. Millions are covered by group insurance, social insurance, veterans' benefits and pension plans, and the competent life insurance agent must be well informed on all of these things. So many people already carry substantial amounts of life insurance—Social Security Benefits alone may be equivalent to as much as \$15,000 of coverage—that it is necessary for the agent to obtain many facts before he can properly advise the prospect as to the amount and kind of insurance he should buy. Today most companies have realized the need to provide educational and training facilities and to su-

pervise closely the work of a new agent. We are trying to develop career men who are properly trained to give sound advice to the insuring public.

The actuary must play his part in all these developments. He must devise contracts to meet the modern market, to fit in with the varying needs of those who have the wide variety of basic coverage provided by the government or the employer or the union. He must assist in the technical aspects of the training and educational programs. He must interest himself in the problems involved in devising income programs to fit in with the various needs and keep these within bounds, so that the company does not get involved in situations which call for guarantees or procedures under which a minority of the policyholders may gain an advantage at the expense of the majority.

At this point we should pause and consider the danger of setting our sights too high in this matter of programming insurance. It is of paramount importance that we teach our agents that neither they nor the policyholder can afford to try to foresee the future. Far too many programs are set up in a rigid pattern on the assumption that all of the policies that are needed to complete the mosaic will be in force when the breadwinner dies. The need for frequent reviews of the program is obvious, but there is a real danger, especially in view of the high turnover rate of agents, that necessary revisions may be overlooked. In too many cases the widow is left with nothing but income and no capital to use in emergencies. While it is desirable to protect the widow against the temptation of dissipating the proceeds, it is equally undesirable to assume that all women are fools and to leave them no discretion at all in handling the life insurance estate.

The method of selling based on needs can be overdone. An agent should be taught when to sell a policy and when to plan a program. If the prospect has little or no insurance and has a modest income, there is no use in proceeding with an elaborate presentation designed to blueprint all the needs when it is obvious they cannot be met. And if a policy is sold, there is no sense in trying to make a rigid program of it when the widow will need all the cash to adjust the family's life immediately after the husband dies. We should keep some control on the quality of work our agents do in programming insurance by a periodic case analysis.

The preceding discussion raises the question as to whether, in today's increasingly specialized market in which the training of the salesmen is becoming so important, brokerage business is desirable or not. In order to discuss this question, we must first define brokerage business. It is of three types:

- (a) Life business written by insurance brokers who handle various lines of general insurance such as fire, accident, health, automobile, etc., who hold contracts with a number of life companies.
- (b) Business written by specialists who do not handle general insurance but may specialize in estate planning, corporation insurance, pension trusts, etc., who wish to remain independent and are not prepared to give all their business or to promise first refusal on all business to any one company.
- (c) Business written by so-called full-time agents of a particular company who choose to submit certain types of business to other companies because of competitive advantages or more favorable underwriting practices.

In the discussion which follows, I shall consider only the first two types because much business of the third type may be of doubtful quality. There are two schools of thought on the subject of brokerage business. Those who favor it reason as follows:

- (a) The acceptance of business from brokers does not encroach upon the market for agents who devote their full time to the life insurance business, because full-time agents would not have access to that business anyway.
- (b) The development of an adequate volume of business in the large metropolitan areas cannot be accomplished at a reasonable cost without brokerage business.
- (c) While some brokerage business gives unsatisfactory mortality, there is a large volume of high quality business to be obtained from brokers and a competent selection department can underwrite the business so as to produce a satisfactory mortality.
- (d) A company writing group business must accept group from brokers, since they control the bulk of it, and the refusal of ordinary business would prevent the company from writing desirable personal business through its group connections.

Those who oppose it cite the following arguments:

- (a) Today the life insurance business has become so complicated that the only way a company can be sure that the public gets the proper advice in planning an insurance program is to train its own staff of full-time salesmen. It is impossible to force brokerage firms to undergo the training course prescribed by the company.
- (b) The company cannot control the type of service given to policyholders

- by a broker as well as it can direct the activities of its own full-time men. Indeed, the company cannot be sure that the broker gives any service at all.
- (c) Brokerage business is difficult to select from the mortality standpoint. Brokers tend to find out the types of case in which a company's practice is more liberal than the average and they will place cases in the company where underwriting is most lenient.
 - (d) Brokers are too conscious of commission rates and may pick the company which happens to pay most, irrespective of the interests of the client.
 - (e) Changes in a company's competitive standing have a serious effect on the volume of brokerage business. The only way a company can be assured of a steady volume of business is to develop its own sales force on a full-time basis.
 - (f) In practice, it is necessary to allow fully vested commissions to brokers. If the full-time agents operate under a contract which has production requirements and renewals are nonvested, it will be difficult to build a full-time agency force.

The whole field of mass coverage is one in which actuaries are becoming more and more active and here their work extends from the field of design right into the area of selling the product. Especially in pension plans, whether financed by group annuities, group permanent or individual contracts, many technical questions arise which the actuary must answer. It is in this field that it is so important for the actuary to be able to explain highly complicated matters in everyday language. From a broader point of view, the actuary must give sound advice as to the relative merits of individual and group contracts and the point at which one or the other should be recommended.

In recent years, there has been a tendency in some quarters to deprecate the spread of mass coverage. It seems to me that this is like trying to hold back the tide. If there is a public demand for a certain kind of coverage and if it can be soundly handled, then the actuary's duty is to devise ways of meeting the demand in such a way that the new forms of coverage will not be written at the expense of the general body of policyholders. If the insurance companies do not meet legitimate needs, the government will, and if we advocate restrictions by legislation upon the extensions of group coverage that are demanded by the public, to preserve what may formerly have been part of the market for ordinary insurance, we are standing in the way of technological progress.

CONCLUSION

It is apparent that the actuary's role in agency management involves a tremendously wide field of problems in our business. The actuary must approach these problems from a broad and understanding point of view, not overlooking the technical aspects of the situation, but also considering the point of view of the agents and the policyholders in the broadest sense. The actuary, like the engineer, cannot afford to stay in his laboratory. Before giving his advice to management, he must understand and weigh the problems encountered on the street from day to day when his product is distributed to the insuring public.

APPENDIX

AGENCY COST ANALYSIS FOR 19—

Page 1

Company _____

Agency City _____

Kind of Agency:

General Agency Branch Office (Salaried Manager) Collection Office Only
(No Sales)

Year Established _____ Year Present Manager Appointed _____

ANALYSIS OF BUSINESS BY CLASS

Give the percentage of business by class, according to first year premiums, or face amount, or both, according to records available.

Class	Face Amount	First Year Premiums (Excl. Single)
1. Ordinary (including Monthly Debit)	%	%
2. Industrial		
3. Group Life		
4. Group—all other lines	XXXX	
5. Accident and Health	XXXX	
Total	100%	100%
6. Percentage of Ordinary business from		
(a) Brokers		
(b) Manager—Personal Production		
(c) Pension Trusts		

TOTAL BUSINESS HANDLED IN AGENCY

Give any of the following data which are available on an exact or approximate basis.

Item	New Business	In Force at Beginning of Year
7. Ordinary Insurance—Face Amount		
8. Ordinary Insurance—Cash Premiums	*	**
9. Annual Premium Annuities—Cash Premiums	*	**
10. Ordinary Insurance—No. of Policies		
11. Annual Premium Annuities—No. of Policies		
12. Total Policies (10+11)		
13. Number of Premium Collections (see note)		
14. Collection Frequency (13÷12)		
15. Average Premium per M (8÷7)		
16. Average Policy (7÷10)		

Note: In Item 13, enter under "New Business" number of new policies; enter in next column total number of collections minus number of new policies.

* First Year, excluding Single

** Renewal Premiums

Which of the above items are on an *approximate* basis? Items _____

DATA FOR ANALYSIS

1. CLERICAL SALARIES (use salary rate in effect on December 31--omit cents)
See Instruction 1 on Page 4.

POSITION	SALARY	PORTION CHARGEABLE TO PRODUCTION		POSITION	SALARY	PORTION CHARGEABLE TO PRODUCTION	
		%	Amount			%	Amount

2. RENT OF AGENCY OFFICE (exclude District or Suboffice below)
See Instruction 2 on Page 4.

- A. Space occupied by:
 - 1. Agents
 - 2. Other new business activities (including conference rooms)
 - 3. General Agent or Manager
 - 4. Clerks and Cashier
 - 5. Subtotal
 - 6. All other space (files, passageways, etc.)
- 7. Total Space
- B. Rent, Heat, Light, Janitor Service, etc. (divide in ratio of items in line 7)

NUMBER OF SQUARE FEET		
Production	Maintenance	Total
	XXX	
	XXX	
\$	\$	\$

- C. Rent per square foot = $B \div A7 = \$$ _____
- D. How many Agents occupy desks _____, private offices _____, in the space in Item A1?
- E. How many additional Agents could be housed in space under Item A1?

3. DISTRICT OR SUBOFFICES

LOCATION OF OFFICE	ORDINARY PRODUCTION	EXPENSES			
		Clerical Salaries	Rent	All Other	Total

AGENCY EXPENSES (Omit Cents)

Page 3

ITEM	CHARGEABLE TO		TOTAL
	Production	Maintenance	
1. Clerical Salaries	\$	\$	\$
2. Rent, including light, heat, etc.			
3. Postage			
4. Telephone & Telegraph			
5. Travel			
6. Advertising & Sales Promotion		XXX	
7. Compensation of Supervisors or Assistant Managers		XXX	
8. All other expenses (except Items 10 and 11)		XXX	
9. Subtotal—Items 1 to 8			
10. Furniture & Equipment			
11. Losses on Advances to Agents		XXX	
12. Total Ordinary expenses, Items 1 to 11 Expenses Allocated to Lines other than Ordinary			
Total Expenses of Agency	XXX	XXX	

UNIT COSTS

<i>Production</i>	(1) Per M (Item 12 above ÷ Item 7 page 1)	\$	
	(2) % of first year premiums (Item 12 above ÷ Items 8 & 9 page 1)		%
<i>Maintenance</i>	(1) Per policy (Item 12 above ÷ Item 12 page 1)	\$	
	(2) % of renewal premiums (Item 12 above ÷ Items 8 & 9 page 1)		%
	(3) Per collection (Item 12 above ÷ second column of Item 13 page 1)	\$	

INSTRUCTIONS

- (a) This form should include *all* expenses arising from *Ordinary* business, except commissions to agents, and should include supplies and other items charged for by the Home Office. Reimbursements from Agents or Supervisors should be deducted.
- (b) All expenses in connection with a policy are Production up to and including the collection of the first *contractual* premium. All expenses of recruiting, training and maintaining agents are Production expenses. Expenses of collecting fractional first year premiums after the first *contractual* premium are treated as Maintenance.
- (c) Expenses for District or Suboffices should be included under the appropriate item above. In cases where a flat allowance for office expenses, not allocated by item, is made to the District Manager, charge the full amount to Rent.
- (d) The break-down between Production and Maintenance should be made as follows:

Item 1. Clerical Salaries. Each clerk should make a list of the operations he performs and the percentage of time devoted to each operation on the basis of an average month's work. This should be checked by the Cashier. Charge to Production the percentage of the time of each clerk devoted to the following items, and enter on Page 2 of this form:

- (a) All clerical and stenographic work for Agents, Manager and Supervisors, including sales promotion, illustrations, programs, leads, direct mail, analysis work, etc.
- (b) Agency Meetings, production records, advance accounting, agents' contracts and records.
- (c) Instruction of Agents.
- (d) Collection of first contractual premium and payment of commission thereon.
- (e) All work on new applications, including inspection reports, medical examinations, programming.
- (f) All counter and phone activities with agents on New Business.

Item 2. Rent. Include charges for light, heat, janitor services, etc. Alteration costs borne by the tenant should be included in Item 8, except where charged as part of rent; if this item is large, designate it separately. Allocate on the basis of the space occupied by actual measurement or from a blueprint of the space. (See Schedule on Page 2.) Space occupied by Clerks and the Cashier should be split between Production and Maintenance in the same proportion as salaries, e.g., if total clerical salaries are \$15,000 of which \$6,000 is chargeable to production, 6/15 or 40% of the space occupied by clerks is allocable to Production expense. Space occupied by the Manager is divided on the basis of his time and most of it is chargeable to Production. "All other space," Item A6 on Page 2, is split between Production and Maintenance in proportion to Item A5, i.e., the balance of the space already allocated. The rent of District Suboffices is almost always chargeable 100% to Production; in the rare case where premiums are collected by the District Office, allocate as above.

Item 3. Postage. Determine, by daily analysis if necessary, total postage spent for renewal premium collections and service of old policies and charge balance to Production.

Item 4. Telephone & Telegraph. Determine by analysis of calls and telegrams the proportion chargeable to Production and Maintenance.

Item 5. Travel. All chargeable to Production.

Item 6. Advertising and Sales Promotion. This covers advertising and other sales promotion, meetings, prizes, periodicals, dues, entertainment. These items are all chargeable to Production.

Item 7. Compensation of Supervisors. Includes salaries and overriding commissions. All chargeable to Production.

Item 8. All Other Expenses. This covers printing, stationery, supplies, express, license fees, etc., and is divided on the basis of the closest possible estimate.

Item 9. Furniture & Equipment. This is intended to cover repairs and depreciation, not the capital cost of new furniture or equipment. Items relating to Agents, Supervisors or the Manager are charged to Production; items for clerks in proportion to clerical salaries.

Item 10. Losses on Advances to Agents. This covers only amounts actually written off in the year, according to whatever system of bookkeeping is used.

DISCUSSION OF PRECEDING PAPER

RICHARD C. GUEST:

Each time I reread this paper by Mr. Richardson, I become more and more impressed with the thoroughly painstaking way in which he has developed the technical aspects of many important phases of agency management. I might say that in collaboration the process is not only mutually helpful but is, I believe, a most satisfying experience for agency officers and actuaries alike. I might also stress what is mentioned in the paper but what cannot be mentioned too often, particularly in the proceedings of a technical body like our own—that we are guilty of oversimplification in its most extreme sense if we do not keep forever conscious of the fact that technical means of market analysis, technical means of developing organization and directing organization, are merely aids in the handling of a problem which is highly personal. In fact, I suppose those men and women who constitute the selling force of our business are about the most individualistic group that could be found in our society.

Although much has been said at one time or another about market research in connection with the sale of life insurance, on the whole the process followed by most companies is an extremely simple one. Usually the break-down by state or major metropolitan centers is inadequate and the suggestion of the author that we develop some means of analysis at the county level is, in the opinion of our agency officers, a splendid one. Here again, the personal element is most important; in fact, the personal element becomes more and more important as we get to fewer numbers and compare the results of those few with the potential. Incidentally, such analyses are apt to be costly and I am sure the author implies that careful scrutiny should be continued to check that the costs are not out of proportion to the results obtained.

Traditionally, the selection of agents has been, until recently, largely on a personal interview and personal appraisal basis, the process centering in and controlled by each agency office. More recently, in many instances, more elaborate tests have been used. Frequently these tests have undoubtedly brought improved results. In the opinion of the company with which I am associated, the tests usually used are apt to fail in predicting the willingness of the individual to do the work required to assure success.

In the past, the terrific turnover among agents has generally been attributed to poor selection, training, and supervision alike. Although in

many instances the selection process has been improved, we suspect that many of the failures among presumably good prospective material are presently results of poor training and supervision. In larger agencies on the general-agency basis where the normal process is to include supervisors, training and supervision can be a continuous methodical and successful procedure. In smaller general agencies the conflict of interests between personal sales by the general agent and the time required for training and supervision is apt to result in unsuccessful organizational attempts. It is difficult to see how this latter problem can be solved in principle and it is still more difficult as a practical matter for agency direction to get the neat balance between individual sales on the part of the general agent of a small agency and the more prosaic and tiresome function of training new manpower and leading them along by the hand until they are able to carry on more independently.

It has not been unusual for the compensation to the general agent or manager to be related to business placed in force and kept in force with no special financial emphasis on the development of a long-range organizational plan. More recently some emphasis has been placed upon organizational activity as in contrast with compensating for producing and continuing business in force. I have always felt and I think it has been demonstrated in most instances that it is extremely difficult, regardless of the effectiveness of the promotional effort, to steer agency management activities at the agency level into channels which are not sympathetically responsive to the compensation pattern. We who operate with the general agency system have found this particularly true where we have used almost a universal pattern of compensation to agency management regardless of whether the business was brokerage, surplus business, business derived from existing organization, or business derived from newly acquired organization. Not the least of the complications resulting from this method of approach is the not infrequent deterioration of an agency merely through the process of aging of the individuals concerned.

Much has been said and can be said for the careful study of the quality of the business which constitutes the foundation of progress. Such studies reveal in a broad sense peculiar inconsistencies between the desires of management and the needs of the society which we serve. Whereas we know that one direct way of reducing costs to some extent is to use every means possible to increase the size of policy, we may very well adopt means to that end which must be construed as definitely anti-social in the more general sense. We have over long years pursued a vigorous cultivation of a market depending upon insurance service to the public. The public needs and buys small as well as large policies and it is our responsibility

to serve our public regardless of its economic status. Some upgrading in size of policy has been rewarded by larger commission rates in a few instances, and yet the popular opinion on the street is that if you buy articles in large lots you should get a lower cost and certainly the merchandising cost should not be increased.

I have a feeling that the author's analysis of the incidence of costs is somewhat of an oversimplification. In studying progressive improvement or deterioration in cost levels in an individual company, the collection unit and the policy unit are the first items which should be studied to get prompt improvement. However, in the course of the studies it is well to remember that the specialized service rendered buyers of large amounts of insurance or even moderate amounts of insurance is much more thorough and costly than that rendered buyers of small policies. During a study which I made recently for a lecture to be published by the S. S. Huebner Foundation for Insurance Education, I was impressed with the fact that in general the companies with extremely low average policies showed a very low use of settlement options, whereas generally speaking the companies with high average policies reported as much as 60% or 70% of death claims and matured endowments as involving the use of settlement options. Moreover, we all know that the option provision related to a small policy usually is a very simple one whereas the provision related to modest sized and large sized policies become extremely involved, are written and rewritten at inception, then are changed repeatedly as the family conditions change. Whereas the settlement option costs can be evaluated in any organization, there are other services which are rendered and which cannot be appraised individually but are nevertheless an important and significant part of our distribution system. Because of the above characteristics, it is my personal opinion that worth-while and proper costs of specialized services are related to amounts of insurance more than they are to policy units. This becomes particularly evident if we study costs as between different companies.

In conclusion, I should like to stress again the all-important human side of the whole question and to express my feeling of appreciation to Mr. Richardson for the splendid contribution which he has made. If agency executives and actuaries jointly approach this most important phase of our business with a generally helpful attitude, there is almost no limit to the extent of the assistance one can give the other. In this connection, I am quite sure that the vigorous influence of a good agency executive upon the actuary of his company is a most stimulating one and one which should result in a more imaginative, a more understanding and sympathetic, and a more creative management official.

ROBERT E. SHALEN:

We have all learned by now that when Charlie Richardson writes a paper it is worth reading and worth thinking about. The present paper on Agency Management Problems is certainly no exception.

I was particularly interested in the second and third sections of his paper where he discusses measurement of the quality of the sales force, of agency management and of new business. I do think that some of our ideas about what constitutes quality business are going to be overhauled in the next few years as a result of some fundamental changes that have been developing in sales ideas. It looks as if we are entering into the era of the low pressure salesman, and I think this is a very good thing.

Two years ago the Prudential intensified its training program for new Ordinary agents and installed an incentive salary plan. At the same time we overhauled our selection machinery. Despite the improvement in our selection we are still getting a high turnover because of the automatic termination features of the salary plan, but we think that despite a 45% first year termination rate among these agents we are getting a very good group out of those who do survive.

Mr. Richardson points out the lack of a tendency for the rate of production among surviving agents to increase. This is something we have observed in the past, and doing something about it is one of the major objectives of our agency management.

Results to date for salaried agents have been quite encouraging but it is too early to say the problem has been licked. Of the men appointed during the first three months of the plan, 38 have now completed at least 18 months. These men had an average net first year production (excluding all first year lapses) of over \$260,000, and during the first six months of their second year in the business averaged over \$150,000 of net production. These averages do not mean a few agents with very high production and the rest with very low production. Only three men in the group had less than \$150,000 in their first year. Only 13 of the 38 produced at a lower rate during the first six months of their second year than during their first year.

As to the quality of the business being written by these men, trained as they are to sell insurance that is tailored to the prospect's needs, it is bound to be good. Lapses are invariably low where the insurance is properly sold, and average size of policy invariably high. Furthermore, "not taken" rates will be low and prepayment ratios high, if the prospect clearly sees the need for the insurance.

Agents who are selling according to needs will frequently find that the

prospect cannot afford to pay an annual premium. The average premium frequency of the business written by these men is 4.9, almost twice as high as anything we have had in the past. Only 19% of their first year premiums written were annual premiums, 10% were semiannual, 34% quarterly and 37% monthly. However, the monthly premium policies had an average first year premium of over \$200, or just about twice the average for the other frequencies. The first year lapse rate on the monthly premium business has been well under the lapse rate for quarterly premium business. I think a lot of us are needlessly concerned about premium collection frequency. It is probably a tribute to our agents that they can persuade the policyholder he needs more insurance than he can afford to pay for all at one time.

If the policy has been properly sold a monthly premium should be just as good as an annual premium. There are two "if's" attached to this statement though: our fractional premium loadings must be sufficient to cover the cost of the extra collections and our compensation plans must be geared to fractional premium business. The second "if" applies particularly to the case of a general agent's contract. A general agent whose collection fee or expense allowance is the same number of dollars for a monthly premium policy as for an annual premium policy is certainly going to be seriously concerned about premium frequencies. I think this is rather the fault of the compensation scheme than of the monthly premium plan.

With the trend to term policies and decreasing term riders many companies have had a drop in the average premium and average commission on new business. This means that production results expressed as amount of new insurance written or paid for may be quite misleading in comparing agents or groups of agents. In examining production results for new agents, even first commissions can be misleading because of deferred commissions on fractional premium business. We have been using, in connection with our incentive salary plan, a production measure that we call "potential first year commissions." On an annual premium policy this is simply the first year commission. On semiannual, quarterly and monthly premium policies it is the commission on the first premium multiplied by 2, 4 and 12 respectively.

Accumulated potential commissions are recorded for each agent on a net basis. In case of a first year lapse, proportionate deduction is made for first year premiums not paid, and credit is restored if the policy is later reinstated. These "accumulated net potentials" are used as the basis for determining whether an agent has earned an increase in salary.

CHARLES F. WOOD:

I shall confine my remarks to two sections of Mr. Richardson's most interesting paper.

In Tables 1 & 2 he gives survival rates of agents placed under contract in 1945/6/7. It happens that I had made an investigation of recruits of the same years. The results are in some respects surprisingly similar notwithstanding that the circumstances are quite different. My investigation related to the Great Britain Organisation of a Canadian company which secures its business by the whole-time agency system when most of the indigenous competitors produce their business through part-time agents assisted by salaried inspectors. The insuring public has a different conception of life insurance from the people of this continent: the majority of policies issued are on savings plans, whole life and limited payment life policies comprising less than one-fifth of the total. In Great Britain the economic conditions for both the agents and their prospects are entirely different. In all the circumstances it is rather remarkable that the termination rates amongst financed agents should follow so closely those quoted in the paper.

The following tables show the survivors and survival rate of agents recruited on finance and nonfinance bases in Great Britain in the years 1945/6/7. For convenience the survival rates from Mr. Richardson's tables combined for the years 1945/6/7 are also given.

It will be noted that whereas Mr. Richardson's survival rates are higher for nonfinanced agents than for financed agents, the reverse holds for the figures which I have given. Too much significance should not be attached to the survival rates of nonfinanced agents who tend to endeavour to retain their contracts even though they are not producing business. The strictness of the office in eliminating unproductive agents and the period of notice given before termination would have a marked effect on the survival rate.

The recent introduction of the aptitude test in selection and a revised and extended training course should help to improve the survival rate but we feel that even more beneficial results may result from training the trainers.

The average monthly production in the first contract year of the survivors of the financed agents was \$13,072; for nonfinanced agents the figure was \$10,990. For business written to the end of 1947 sterling sums insured were converted to dollars at \$5 = £1 and for business written thereafter at \$4 to £1. The full sum insured is credited only provided the annual premium has been paid; for policies with premiums paid more fre-

quently credit is given on a proportionate basis as each part of the first year's premium is received.

The average monthly production in the first year for survivors according to Mr. Richardson's data appears to be about \$15,000 for financed agents and \$10,000 for nonfinanced agents but it is not clear whether business production credit has been taken on a comparable basis.

FINANCED AGENTS

58 AGENTS RECRUITED 1945/6/7			COMBINED SURVIVAL RATE FOR 1945/6/7 (From Table 1)
At End of	Number of Survivors	Survival Rate	
3 months.....	47	81.3%	81.5%
6 ".....	40	69.0	69.0
9 ".....	34	58.6	59.0
12 ".....	29	50.0	50.1
18 ".....	20	34.5	41.3
24 ".....	16	27.6	32.6

NONFINANCED AGENTS

35 AGENTS RECRUITED 1945/6/7			COMBINED SURVIVAL RATE FOR 1945/6/7 (From Table 2)
At End of	Number of Survivors	Survival Rate	
3 months.....	26	74.3%	91.5%
6 ".....	21	60.0	81.1
9 ".....	16	45.7	71.0
12 ".....	14	40.0	62.3
18 ".....	9	25.7	51.9
24 ".....	7	20.0	44.2

I would have liked Mr. Richardson to have expanded his paragraph 3 (b) on Average Policy because the average size of contracts issued can have a marked effect on resultant cost. Although a graded scale of commission may in some cases be an effective method of raising the average size of policy, I have found that it causes considerable dissatisfaction amongst agents. When a reduced commission rate is payable the agent feels he is being cheated out of part of his commission. The maintenance of a reasonably high minimum policy for all normal plans is an effective weapon in raising the average policy. For many years we had a strict minimum of £200 sum insured when most other offices had £100 minimum. Within recent years the minimum was raised to £250 and steps are now being taken to make a further increase. There is good reason for hav-

ing a higher minimum for low premium plans such as term, half rate and ordinary life nonparticipating and an opportunity sometimes presents itself for having a minimum policy higher than normal on the introduction of a new plan for which there is little or no competition. In conclusion may I say that I have found Mr. Richardson's paper most interesting and I feel he has done a great service in bringing forward the subject for discussion.

THOMAS IRVINE:

The two groups exerting the greatest influence upon the life insurance business today are no doubt the sales executives and the actuaries. One of these groups, the sales executives, bears the immediate responsibility for the expenditure of approximately two-thirds of the cost of running our business. Yet many, if not most, of these executives are ill-equipped by reason of training or inclination to devise or interpret the controls necessary to operate their end of the business. This is not surprising since their primary job is one of human contact. Indeed the line of promotion is such that it would be more surprising if they arrived already equipped with the desirable technical skills.

A partial vacuum is thus created and it would seem that the second group, the actuaries, by reason of their technical skills and training, would be the natural group to fill the void. However, when we look over the industry we find that such is not the case. Companies in which the actuary renders active assistance in the solution of the technical problems of the agency department are the exception and not the rule.

Perhaps the difficulty is that, until now, no one has yet pointed out the way. We are particularly fortunate, therefore, for this pioneering paper by Mr. Richardson.

There is only one note of caution I would like to express in regard to his paper. He seems to imply, although I rather doubt that such was his intention, that we should be all things to all men. Many of the items which he lists call for diverse backgrounds and training and I am not aware that all of them are included in the equipment of an actuary. Market research and the invention of selection tests, for example, call for highly specialized skills.

Nevertheless, even though we restrict ourselves to a minimum definition, the things the actuary can do to help the agency department still make up an impressive list. Certain fields such as the measurement of the quality of business and the analysis and control of costs are his natural habitat. In other fields, he can at least help to devise and interpret the controls necessary to exploit in his own company devices already available from other sources, devices such as the Aptitude Index, the Sales In-

formation Index and the Sales Methods Index. He can also place himself in a position, by an awareness of the problems of the agency department, whereby he can recommend when other technical skills are needed in the solution of their problems.

I know that Mr. Richardson would agree with me that in order for the help of the actuary to be effective it should be based on a realistic understanding of the sales function and that such an understanding can come only from long exposure to field problems. Nevertheless, it is helpful to examine the job of the agency executive and the uses of some of the aids produced by the Agency Management Association in terms of that job. The report of the Research Department of the Association at the 1949 Annual Meeting followed these lines. Those interested in pursuing the subject further will find the report in the 1949 *Proceedings* of the L.I.A.M.A.

The failure of the actuary to collaborate with the agency department is apparent in the field of analysis and control of distribution costs. Last year we began the collection of the field costs of a number of companies similar to those described by Mr. Richardson. Ten companies contributed their data for 1947 and a report on those data was recently published. The figures are interesting but more important is the fact that a start has been made. We now know a great deal more about the questions that must be answered in order to make studies of this nature more meaningful. Within the past few weeks we completed the collection of the corresponding 1948 data for the same ten companies and now, for the first time, we can begin to think in terms of trends in costs.

It is of interest to ask why, among some 200 member companies, only 10 could be found who were able to cooperate. Is it perhaps that the data are not worth the expense of their production? Is it because few know about the process? Or is it because they know the process but do not understand its value? Such questions suggest the need for further investigation or for educational work and a subcommittee of the Committee on Agency Costs, headed by Mr. Richardson, is now addressing itself to this problem.

The need for a realistic understanding of the sales function, if the help of the actuary is to be effective, is particularly evident in the collection of cost data relating to individual agency offices. The expense of each office is the net product of a complex of activities. The range of activities for any two offices is never quite the same and, therefore, each office is in a sense unique. A familiarity with the personality of each agency manager and his method of operation is essential to an understanding of the data relating to his office and to their proper interpretation.

I am happy to note that the assistance of actuaries in the cost and compensation program of the L.I.A.M.A. is not confined to Mr. Richardson and the writer. Mr. Milton J. Goldberg is chairman of a subcommittee which is investigating supervisors' compensation, while Mr. H. B. Wickes is chairman of another subcommittee which is studying the relative merits of the various types of central collection offices. It is to be hoped that more actuaries will follow their lead and take part in the expanded program now being considered.

GORDON D. MCKINNEY:

I think we should all congratulate Mr. Richardson on writing a paper which is very much needed by the actuarial profession. If any member present has not read the paper, in my opinion it should be classed in the category of a must.

In discussing this paper, I agree with Mr. Guest that one point which is not mentioned in the paper is the need for improved personal relations between the actuary and the field force. Many examples could be given to emphasize the need for such an improvement. Probably the best example is, however, the attitude of fieldmen toward actuaries. This was, particularly, brought to my attention in Quebec last week. When I arrived, there was snow on the ground. Two days later the snow had disappeared. One of the agency men in explaining the phenomenon said that it was the warmth of the agency personality that had melted the snow away. I mentioned that I was coming to White Sulphur Springs and the immediate reply was that, while it might be warm when I got there, the actuaries would bring on the frost in no time flat. Did you see the frost this morning?

One of the features I liked about Mr. Richardson's paper was that he made a real effort to make it understandable. This is probably the chief point where actuaries fall down in their relationship with fieldmen through correspondence and general approach. One of the most difficult jobs there is, is to discuss technical subjects or technical decisions in understandable terms. As an illustration of this, a certain agent recently described actuaries' letters as follows. "They start out by filling them with l_x 's and q_x 's and then throw in two or three legal references with the result that the end product is often as complicated as Section 213 of the New York Insurance Law."

Speaking of Section 213, it would seem to me that this is one of the important problems facing the industry today. It is vitally important that the Law be made understandable to all who are affected by it. It has been said that only a handful of actuaries and officials of insurance departments

actually understand the Law. If this is the case, how can fieldmen be expected to comprehend those sections which apply to them? One of the greatest services which actuaries could furnish their fieldmen would be to see that any revision of this important statute be made simple and understandable in so far as it affects the compensation of the agent.

REUBEN I. JACOBSON:

Mr. Richardson has presented a very well organized paper outlining the agency problems, excluding compensation, which should be of interest to the actuary. This able paper covers the field from the point of view of a large company. I want to apply part of this material to a medium-sized company operating under the branch office system, in order to illustrate the interrelation of a few of the many problems outlined and show how the solution to one problem can largely determine the solution of other problems.

It seems that the most logical place to start is with expenses. It is quite likely that a company of the type mentioned would find upon analyzing the expense rates being incurred in its various branch offices that its expense rates cover a wide range, with certain branches spending more than twice as much to secure and service business as the better organized and more profitable branches. The branches showing the highest expense rates will very likely be those in which overhead expenses have been built up to the point where they are out of proportion to the amount of business produced and serviced by the branch. If the company contemplates any expansion, it will probably be more profitable to build up branches where the company already has more office space, supervision and clerical help than is justified by present production than to establish new branches in new territory. If the company decides to confine its expansion to branches already established (and this would be a wise choice for a number of companies which are already spread too thinly over too great an area), its area for expansion is already laid out and the company is more or less forced to develop markets in these areas.

Developing markets in those areas can take one of two turns: the company can either uncover profitable markets to develop in the geographical areas already determined, and recruit men who are able to sell to that market (if a good Ukrainian market exists, find the right man to develop it rather than recruit the Irishman because he impresses the manager as being likely high-type sales material), or recruit the good men who are available, and determine what natural markets these men have and help them develop them. In other words, expense considerations can force the

company into market research at the individual agent level and make research at the national level of little practical value.

It seems entirely impractical for a company in the circumstances outlined above to train all its recruits to sell in the same market. It is incumbent upon the company to train the men whom they have recruited to sell in the markets that they have available—whether that be a market that has been selected in advance and a man recruited who seems able to develop that market, or whether it be the natural market of an agent already recruited. In addition to the direct and practical advantage to the recruit, a program of training each recruit to sell in his own natural market results in two additional advantages. First, if the recruits are encouraged to seek out the market which they can sell to the best advantage, the life insurance industry will probably be doing a better job and cover a wider section of the population than if the companies all arbitrarily seek to train their men to develop markets of a preconceived character. There seems to be some evidence that the companies are going too far in concentrating upon the more favorable economic groups. The second advantage accrues to the company itself. A company which has a varied market does not run the risk of having its sales force placed in a difficult position by economic conditions which are unfavorable to the particular group which it has been trained to concentrate upon.

It is interesting to compare the showing made by financed men *versus* nonfinanced men in two different companies. If the usual attitude toward financing is adopted—that is, that the company can afford to finance only the more promising men—the usual results stated by the author are obtained. The early termination rates of financed men are higher, but the survivors of this group show the better production records.

If the company adopts the attitude that financing is undesirable and impresses upon its recruits the fact that one of the most desirable features of selling life insurance is the opportunity to build up a good renewal income unencumbered by loans or liens of any sort, quite different results are obtained. My company recruits on this basis and takes on only men who have saved enough to carry themselves for three months. The recruit is shown that the company either puts men on a self-supporting basis or eliminates them within the first three months. On this basis the recruit can be out no more than three months' living expenses. After three months the successful recruit is given a temporary outright subsidy and brought in for advanced training. Under this situation none of the stronger men are financed, only part of the successful recruits find it necessary to ask for financing after the subsidies run out. Consequently, the production records of nonfinanced men are better than those of the men who find it necessary to obtain financing.

It seems that there is much to be said for not financing the stronger men because these are the men who want to stand on their own feet and obtain the advantages which a pure commission basis of compensation has for the better-than-average man.

RICHARD J. LEARSON:

Mr. Richardson's paper is an excellent review of the actuarial approach to agency problems. Since his material on agents' terminations and pro-

TERMINATION EXPERIENCE

500 Agents Hired between Oct. 1, 1946 and Sept. 30, 1947

Terminated	No.	Percentage	Cumulative Percentage
Before 3 months	44	8.8%
3-5 "	63	12.6	21.4%
6-8 "	51	10.2	31.6
9-11 "	32	6.4	38.0
12-17 "	50	10.0	48.0
18-24 "	30	6.0	54.0

Average Production of 230 Survivors

	First Year	Second Year	Ratio of 2d Year to First Yr.
Weekly Prem. Industrial	\$ 63,900	\$ 56,800	.889
Ordinary	64,400	66,000	1.024
Total	\$128,300	\$122,800	.957

duction is of necessity that of an Ordinary company operating through managers, it may be useful to supplement his data with data from a company, the Western and Southern, which sells weekly premium Industrial and regular Ordinary insurance (no monthly debit insurance) in well-established agency areas only. Its agency force during the postwar period reached a peak in production and earnings not hitherto achieved and probably in excess of or at least the equal of those of the debit agents of any major combination company.

For a comparison with Mr. Richardson's production and survival tables for new agents, the records of all new agents hired in the 12 month period between October 1, 1946 and September 30, 1947 were traced for two full years. These men, 500 in number, were asked to assume the serv-

icing of large debits of weekly premium Industrial and regular Ordinary insurance averaging about \$750,000 of insurance per man. The service commissions of these debits averaged \$60.00 weekly so that the men were in effect solidly financed. All of this group who survived three months of service were then given a week's training in the Home Office in the fundamentals of life insurance and its selling. The results shown in the table on page 171 were nearly as dismaying as those of the Mutual Life, showing 270 terminations within the two year period with no indication of improvement in production among the survivors in their second year of service.

FRANK D. KINEKE:

One additional way in which the actuary can be of considerable assistance to the agency executive is by taking an active part in Field Conferences. Of course, some field men still shudder at the thought of having an actuary on the program for an agency meeting but some progress has been made in recent years. In some companies at least, the actuary is now heartily welcomed at these meetings.

There are a great many things about the life insurance business that appear very simple to the actuary but present rather difficult problems to the agent. Among them there are the make-up of rates and values for the different plans of insurance, the necessity for reserves, the effect of interest in reducing the cost of insurance to the insured, the reason for dividends, the necessity for precise language in the preparation of policy forms and the reasons why life insurance company assets grow. A fifteen or twenty minute talk on any one single item, in easily understandable, nontechnical language, not only can be a high spot of an agency meeting but can be extremely helpful to agents in their day-to-day dealings with policyholders and the general public.

Furthermore, it is often necessary for the actuary to tell the field force what may or what may not be done. It is quite possible that some of these seemingly arbitrary decisions will be more readily accepted if we tell them why or why not as well. The field meeting is an excellent place to explain why certain practices are necessary.

Probably the most important point to be remembered in undertaking a job of this sort is to talk in *nonactuarial language* using *common everyday words* that everyone understands. There may have been a time when no one but an actuary could understand an actuary, but a number of the papers recently prepared for an actuarial meeting certainly indicate that times have changed. Mr. Richardson's paper is an excellent example of clear-cut expression, with his various points standing out so clearly that even he who runs may read—and comprehend.

(AUTHOR'S REVIEW OF DISCUSSION)

CHARLES F. B. RICHARDSON:

I am very grateful to those who prepared these valuable discussions, and for their kind remarks about this paper.

Mr. Guest gave a particularly thought-provoking discussion. He refers to the personal factor, and I agree that this should have been emphasized in the paper. The personal relationship between the agency executive and the actuary is of extreme importance to any company. The biggest problem many actuaries have is in understanding the point of view of the agency man; and the biggest problem of many agency executives is not a sales problem at all, but lies in understanding, and trusting, and believing the actuary. There is no use whatever in doing all the things I have described in this paper unless, first, the agency executive understands them, and, second, the actuary can get him to use them in his daily work. He obviously cannot use them if he does not understand them, and he won't believe them unless he trusts the actuary. If you succeed in marrying an agency man to an actuary, you have the most productive union in the life insurance business.

Mr. Guest refers to the terrific turnover among agents and suggests that failure to do the amount of work necessary to succeed is a common cause of failure. We have some evidence to support this view. Table 1 gives the result of a recent study of 467 nonfinanced new agents in our Training Program who turned in reports of their daily work, covering a total of 4,492 man-weeks. It shows very clearly that the agents who obtained superior results were the men who put in more hours of work and made more calls.

In connection with high turnover rates, there is a good deal of evidence that we do not terminate soon enough the contracts of men who are obviously failing to make a living in the business. In a study completed since the paper was written (see Table 2), we have found that the production in the first quarter of the agent's career is a very good indication of his subsequent failure or success. This study covers 718 men hired in 1946 who survived three months, of whom 266 survived a total of 30 months, and excludes those who failed in their first quarter.

We next investigated whether there were many men who had a low first quarter production, but eventually succeeded. We found that out of 295 agents who produced less than \$20,000 in their first quarter, only two produced \$150,000 or more in each of their first two years, and of 145 who produced from \$20,000 to \$30,000 in their first quarter, only ten produced \$150,000 or more in each of the first two contract years. In the top group of

109 who produced over \$50,000 in their first quarter, of whom 65 survived 30 months, 37, or 58%, produced over \$150,000 in each of their first two contract years. We are, therefore, convinced that the rate of production in the first quarter is an excellent criterion of future success.

TABLE 1
AVERAGE WEEKLY PERFORMANCE

	NO. OF APPLICATIONS PER WEEK		AVERAGE WEEKLY PRODUCTION	
	Under 1.0	Over 1.0	Under \$4,000	Over \$4,000
No. of Agents.....	347	120	306	161
No. of Policies per Week.....	0.5	1.6	0.5	1.3
Amount per Week.....	\$2,928	\$7,343	\$2,132	\$7,591
No. of Contacts per Week.....	21	27	21	26
No. of Leads per Week.....	3.1	4.4	3.2	4.0
No. of Fact-Finding Int.....	6.9	9.3	6.8	8.9
No. of Closing Interviews.....	4.3	7.6	4.3	6.9
No. of Hours in Field.....	24.8	29.3	24.3	29.1

TABLE 2

PRODUCTION IN FIRST QUARTER	PERCENTAGE OF AGENTS WHO SURVIVED 30 MONTHS		AVERAGE MONTHLY PRODUCTION OVER 30 MONTHS	
	Financed	Nonfinanced	Financed	Nonfinanced
Under \$20,000.....	14.6%	22.1%	\$ 7,200	\$ 4,000
\$20,000-\$29,999.....	38.2	46.4	9,600	8,000
30,000- 39,999.....	37.5	66.7	12,200	11,000
40,000- 49,999.....	51.2	61.9	16,000	10,400
50,000 and Over.....	48.4	73.3	18,600	15,300
Total.....	35.2%	39.0%	\$13,200	\$ 9,200

Mr. Guest refers to the deterioration of an agency which frequently results from failure to recruit new men. We tried to measure the extent of this problem by projecting what would happen to our sales force, using our own experience as to the rate of termination weighted by production, assuming no recruiting took place for five years. The results were quite staggering. Under these circumstances, our production five years hence would be reduced to only 53% of its present amount. This figure will, of course, depend upon the distribution of the present force by duration of service and age of agents.

Mr. Shalen points out the high average premium frequency of the business written by new agents. We have some figures on this which may be of interest and also the corresponding lapse rates.

The persistency rates represent the percentage of the original policies on which the premium due at the beginning of the second policy year was paid, *i.e.*, the second annual, third semiannual, fifth quarterly and thirteenth monthly. Our findings do not parallel the experience of the Prudential. The new agents write substantially more monthly and that business has a higher lapse rate than that of mature agents. The lapse rate increases with the premium frequency. However, there seems to be little difference between new and mature agents in the lapse rates on other frequencies. We do, however, find that the business of agents who terminate has a very much higher lapse rate than that of persisting agents.

TABLE 3

	PERCENTAGE OF BUSINESS				FIRST YEAR PERSISTENCY RATES				
	A	S	Q	M	A	S	Q	M	Total
New Agents	33%	11%	27%	29%	94.6%	86.4%	77.2%	70.4%	88.8%
Mature Agents	63	9	16	12	94.9	89.6	81.9	78.6	91.1

Mr. Jacobson gives a very interesting discussion of the development of individual markets. We have made some studies bearing on this point, and I will cite briefly one of them. We had been under the impression that agents tended to sell to people around their own age. Table 4, covering business sold in 1948 by all our agents, does not bear this out.

The younger agents sell somewhat more to younger people than the older agents, but there is not as much difference as we should expect. The average size of policy clearly depends on the age of the insured and young agents sell almost as large policies as mature agents to the same age group.

I have serious reservations on the comments Mr. Jacobson makes on the financing of new agents. However plausible these arguments may appear in theory, the fact remains that in practice today most reputable national concerns in other industries do provide financing and on-the-job training for new salesmen. I have a strong impression that one of the life insurance industry's main problems in the future will lie in recruiting, in competition with industry, an adequate number of new salesmen of sufficient calibre to succeed in making a good living in our business. The revision of the New York Expense Limitation Law (Section 213) is now under consideration, and I believe that one of its major defects is the lack

of realistic provisions to enable companies to finance an adequate number of new agents on a scale to compete with private industry.

I was especially interested in Mr. Wood's discussion of the experience of a Canadian company in Great Britain with full-time agents. Being quite familiar with the very different conditions in that market, I was astonished by the extraordinary similarity of the results of the financed agents, as compared with our experience. I agree with Mr. Wood that too much significance should not be placed on survival rates of nonfinanced agents because these depend to a great extent on the company's practice in getting rid of agents who are failing in the business. Perhaps the best

TABLE 4
PERCENTAGE OF NUMBER OF SALES

AGE OF INSURED	AGE OF AGENT					AVERAGE SIZE POLICY
	Under 30	30-39	40-49	50 Up	All Ages	
Under 30	69.2%	58.1%	54.0%	52.3%	56.9%	\$3,468
30-39	21.7	28.9	25.3	23.5	25.0	6,785
40-49	6.9	10.3	16.1	17.3	13.6	7,205
50 up	2.2	2.7	4.6	6.9	4.5	7,259
Average Policy . . .	\$4,759	\$4,932	\$5,316	\$5,125

criterion for nonfinanced agents would be the percentage of men hired who, during a given period, say the first year, produce a certain amount of business, the amount being chosen to reflect what would be required to provide the agent with a reasonable living.

So far as the average policy is concerned, as Mr. Wood points out, the alternative to revising commissions for small policies is to set a higher minimum policy. I think the choice between the two alternatives depends on the company's method of operation. Some companies may prefer to operate in a restricted market and not to cater to the lower income groups. Other companies may feel they have a social duty, as mentioned by Mr. Guest, to provide coverage for the lower incomes, and in that case, a lower rate of commission is justified because of the higher expense rate on small policies.

The discussion has added greatly to the value of the paper, and I hope that as time goes on more actuaries will take an active interest in the many difficult problems of agency management.