

AGENCY AND PRODUCTION

- A. In what ways can the Actuarial Department work with the Agency Department to promote a more effective agency organization? What production and termination statistics are produced for the Agency Department?
- B. What steps should a small company take to meet the current interest in pension plans? To what extent should services be offered in the Home Office or in the field to assist in the development and qualification of pension plans, even if only individual contracts are offered?

MR. J. G. BRUCE spoke as an actuary now engaged full time in agency work. He mentioned that the actuary could help the Agency Department in improving the lapse rate and with the problem of control of expenses. He stated that in his company the planning committee in the Actuarial Department had a member of the Agency Department on it in order to get the views of the agents. He thought it would also be a good idea to have someone representing the Actuarial Department on an agency planning committee. He referred to regional conferences in his company where the staff from the Home Office hold meetings at which the agents can put forward their problems; a representative of the Actuarial Department is always at these meetings. The most common problems raised are underwriting and new plans. On underwriting he suggested that before visiting an agency it is always advisable to have records of recent rejections or ratings so as to be in a position to discuss them. The most important point to observe in relations with agency is to avoid at all costs the idea that there is a battle between the two departments. In a sense there are conflicting interests, but the real objective of both the departments is identical, namely, to write as much business as possible on a profitable basis.

MR. H. C. UNRUH stated that a small company is usually interested in expansion which means an investment of surplus in obtaining new business. The actuary should be consulted regarding the cost of any proposed course of action and might even take the initiative and, after determining the production goals, map out a course which will accomplish the aim at reasonable cost. Expansion frequently means revision of agents' contracts and the actuary's technical knowledge is necessary to analyze the financial effect of the revisions. The actuary can also improve the products which the agents have to sell; special features in policies are very useful in awakening the interest of a prospect; his own company had met with some success in package sales which in themselves are basic insurance programs. The Actuarial Department should be able to provide and

to interpret statistics regarding production, average size, persistency, etc. In his own company the following statistics are provided: production and termination statistics by agent and agency; a monthly report of production and in-force figures for the company as a whole; monthly tabulation of business by plan, showing average size by plan; monthly and quarterly lapse ratios; a financial and production analysis of the company's business.

With regard to section B, Mr. Unruh said that steps which should be taken should depend upon the type of business carried on by the company and the nature of its field force. If the company is doing group business it will be asked for advice on pension matters and may feel it desirable to offer complete service which would probably mean offering group annuities. On the other hand a company with no particular interest in the group field should not enter the pension field unless they can do so profitably. Competition with companies established in the field may mean considerable strain on the investment and actuarial departments with resultant loss. On small cases, individual policies may be offered but it should be noted that the field for individual policy plans is being narrowed by union demands for types of plans which are best handled by group annuities. If the company does go into the individual pension trust policy business, a few field men who specialize in the business will be capable of making their own proposals. Beginners will require a great deal of help; the company should set up safeguards to avoid unnecessary expense and should reflect in the agents' compensation the amount of work done in the Home Office.

MR. THOMAS IRVINE referred to the large body of factual information which the agency executive needs and which the actuary can help to supply. He said that the actuary who was trying to become acquainted with the field of sales research and fact finding could obtain a great deal of help from the Agency Management Association. For example, in recruiting agents, the Aptitude Index provided by the Association is a useful tool. If records are kept of the number of men completing the Index in each agency, the proportion of A's, B's and C's tested, and the proportion of each level appointed, very valuable knowledge of the recruiting activity is at hand. The number completing the Index will show whether the general agent is approaching enough men. The proportion in each category will show whether he is approaching the right type of man. The Association also can give information about the labor market in which the companies recruit through the Recruiting Analysis Survey and the periodical report "New Agent Characteristics." These reports will enable a company to compare its new agents' results with those of new agents of other com-

panies. Mr. Irvine said that it was the actuary's responsibility to help set up the procedures for collecting and analyzing agency facts. Who does the work will depend on the size and organization of the company but the actuary's familiarity with statistical techniques imposes upon him an obligation to help lay the foundations. Mr. Irvine added that while his discussion had dealt with facts and figures it must not be forgotten that the agency problem is still a highly personal one.

MR. C. E. JACK said there should be no rigidity in organization and statistics should be produced in the department where they are most easily produced. Frequently statistics come more readily from the Accounting records than from the Actuarial records. He stated that in his company quarterly and annual lapse ratios were calculated for each agent and branch. Each branch manager received confidentially the results of all branches so that he could know the standing of his own branch and in addition each manager is given the ratios for each of his agents.

In pension trust business a company might possibly take the attitude that its sole responsibility is to issue policies when applied for by the trustees but the employers and employees take the attitude that the company is looking after its pension plan and they expect service accordingly. If the actuary does not make his technical knowledge available to the agents and employers, unsuitable plans may be put into force which may cause trouble in the long run. He stated that his company is prepared to make quotations when asked and also requires agents who make their own quotations to submit them for checking before applications are completed. They also suggested that rules be submitted for review before the plan is put into force. Commission is not paid until the plan has received the approval of the Department of National Revenue. The labor of quoting has been reduced by having a simple illustration form mimeographed with which is sent a photostat copy of the work sheet on which the quotation is prepared.

MR. G. R. BINGHAM mentioned that the Actuarial Department could be of service to the Agency Department (1) by assisting in the development of incentive contracts through devising commission scales based on profit to the company but consistent with competition and by advising as to the cost of various security plans for agents, and (2) by developing new and competitive policy forms. Other ways in which it can be of assistance are: computing the value of deferred and renewal commissions for determining advances and other purposes; furnishing production statistics; computation and tabulation of renewal commission, based on previous month's premiums; persistency statistics such as tabulation of prospective persistency and computation of comparable ac-

tual persistency, National Quality Award figures, and crude lapse rates by duration by agent. Lastly but far from least, the Actuarial Department should maintain a helpful and sympathetic attitude toward the field which can be particularly fostered by regular contacts, including attendance at agency meetings.

A small company may endeavor to obtain a share of the pension business by steps such as the following: liberalizing any existing rules as to the basis of pension trust business; advising managers and agents of the steps the company will take to assist them but warning them as to the complexities and disappointments involved; deciding whether to furnish salaried field assistance; establishing contacts with the Bureau of Internal Revenue; considering the possibility of writing group permanent or group paid-up. The last may require a separate department; and as a small company may probably find that its pension trust business will come largely from small firms, little would be accomplished by entering the group permanent or group paid-up field.

Mr. Bingham suggested that a pension trust committee might be set up to pass on potential cases before authority is granted to solicit individual policies. In this way the company can endeavor to secure satisfactory cases and ensure that suitable plans are offered. The company should of course be careful to accept no responsibility for the operation of the plan. A recent statement by the Opinion Research Corporation confirmed that employees are vitally interested in the pension problem and that almost all of them feel that Federal Social Security is not an adequate answer. The companies should be prepared to meet the demands for this business.

MR. E. H. KLEPETAR stated that the small company with which he was associated had been in the pension trust business for two years. He believed that small companies frequently give better service than the larger ones because individual cases are of greater importance to them.