

**TRANSACTIONS OF SOCIETY OF ACTUARIES
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PRACTICES AND PROCEDURES

- A. What are the immediate uses of the new *1951 Impairment Study* to the smaller company?
- B. How can the smaller companies take advantage of the new electronic, storage type, punch card machines to reduce costs? Is it practical to use service bureaus or to arrange joint use of facilities by several companies?
- C. What methods of budget procedure are used in forecasting operations and to control results?
- D. Has it been possible to establish satisfactory methods of providing interim statements of profit and loss during the year? How are interim reserves determined? Have these statements proved of value in determining company policy?
- E. What classes of ordinary business is it satisfactory for a smaller company to accept from brokers or agents of other companies? What problems are there of underwriting, commission accounting, or conflict with interests of own agents?

MR. J. F. MACLEAN said that the Bankers Life of Nebraska had found the new impairment study of immediate use in justifying several of their underwriting practices. An example given was the rating for family history of two or more cardiovascular-renal deaths, which they had felt for some time was significant.

MR. G. O. HEAD anticipated that the United States Life would reduce expenses with the I.B.M. 650, rental of which is about \$50,000 a year. With elimination of about \$20,000 a year of rental on present I.B.M. equipment, they expect a loss from the equipment initially, but hope eventually to pick up the difference through the elimination of certain clerical functions. He stated that in planning for the machines it is helpful to get premium rates, cash values and dividends on as nearly a mathematical basis as is possible.

MR. W. J. CLEAVER, referring to sections C and D, believed that an accurate monthly statement is an aid to management and makes budgeting quite possible. He said that the Peoples Life of Indiana prepared a monthly statement of some 22 pages, 11 of which are strictly operational analyses. He stated that the board meetings are taken up largely by the study of this statement. The statement is a by-product of the accounting system, the main problem being in the nonledger items and the reserves. The statement requires about 20 hours of preparation, is done by about 5 or 6 people, and does not interrupt regular procedures. He said the monthly statement originated in the early 1930's.

MR. A. E. ARCHIBALD stated that the Volunteer State Life had used monthly statements for more than 20 years. He believed the monthly reserve method should meet two tests. First, the method itself should not distort the monthly released earnings. Second, it should check out at the end of the year with the reserve that is produced by inventory or other methods. He said the method which they use is based on a gain or loss relationship. It is inexpensive, makes reserves available promptly and meets the two key tests.

MR. W. C. BROWN, referring to section E, reported that brokerage business was of relatively recent origin in the Colonial Life. Prior to a few years ago, no brokerage business or business from agents of other companies was accepted. In 1950, a general agency department was established distinct from the branch office agencies. It was found that in order to obtain substantial volume from these new general agencies without an exorbitant expenditure in developing new agents, it was necessary to consider accepting brokerage business. Their underwriting department feels that there are no particular problems involved in underwriting brokerage business. They consider all types of ordinary business from brokers and agents of other companies in the same manner as they do business submitted by their full-time agents. Brokers dealing through their regular general agents are given the nonmedical underwriting privilege subject to the same requirements as regular agents. Naturally they scrutinize rather carefully any business which appears to have been shopped, and all jumbo cases. However, this is done irrespective of who submits the business.

He stated that they had no peculiar problems in connection with commission accounting. In many cases, their accounting covers transactions with the general agent only, and the general agent in turn handles the commission payments to the brokers. In the case where the general agent's contract is canceled with no vesting, but the broker's commission is vested, the premiums are collected direct from the policyholders and commission payments are made to the brokers on a monthly basis. When they first set up the general agency department, a strict rule was adopted that the general agents must keep out of homes where another Colonial agent was servicing business or collecting premiums. It was found that there were cases where the original Colonial agent was unable to see the need and opportunity for additional insurance and a broker would come in and sell a sizable policy, perhaps without even knowing of the existence of previous Colonial insurance. If the company attempted to enforce the rule, the broker simply placed the business elsewhere and neither the company nor the original Colonial agent obtained any benefit from it.

The rule was therefore scrapped without any formal substitute. He said that they are presently operating under an informal gentleman's agreement, under which each organization, the general agency and brokers on one side and the Colonial debit agents on the other, endeavors to sell insurance in areas not covered by the other, and they attempt to avoid as much as possible disturbing a client of another agent. He said this arrangement has been working satisfactorily. Their company is satisfied with their limited experience on brokerage business.

MR. W. F. POORMAN believed that a company with limited experience in the brokerage field should not particularly encourage this class of business. He felt that the little that does gravitate to the company generally presents more problems than the business justifies, especially in the area of competitive underwriting. He did not believe that commission accounting or conflict with the company's agents presented any material problems.