TRANSACTIONS OF SOCIETY OF ACTUARIES
1953 VOL. 5 NO. 12

DIGEST OF SMALLER COMPANY FORUM

AGENCY PROBLEMS—RESULTING FROM SPECIAL POLICIES

A. What problems relating to agents' compensation and other expenses arise from the increased proportion of term insurance being currently issued and from the sale, at commission rates lower than those under the regular series, of special policies with a large minimum amount, and of smaller regular series policies?

B. What are the advantages and disadvantages of freely making quotations for special plans not in the rate book? How far is it advisable for a smaller company to go toward making such quotations?

MR. N. T. FUHLRODT, speaking on section A, said that recruiting and development of a field force is one of the big problems of all companies, the cost of which is meaured not only by the level of commissions paid, but by the morale and turnover rate of agents. A successful company must maintain a proper balance between the agent's compensation, policyholder's cost, and the company's profit. Overstressing term insurance, he said, results in inadequate income to the agent in spite of high volume of sales, poor persistency, and, if such insurance is not properly sold and understood, loss of future business to the agent.

He suggested that education of the field force as to the purpose of term insurance with specific stress on the use of the conversion clause might be helpful. In the Central Life (Iowa), less than 10% of term insurance is converted and there is a definite lag in effort on the agent's part to convert prior to the time when full commissions are allowed on attained age conversions. He felt that an allowance of reduced volume credit for term insurance at issue with full credit given at the time of conversion would provide added incentive to effect conversion.

The experience of the Central Life has been that term riders have a better persistency than straight term insurance. They use the same rate of commission for a rider as for the policy to which it is attached.

Mr. Fuhlrodt felt that a minimum sized policy is well worth while if properly used. The minimum size should be set at such an amount as to enable the agent to upgrade the size of many of his sales without increasing them to the point of overselling. Reducing the expense factor on policies over a specified amount will result in increased cost in the regular series of policies. The only actual savings in total expenses will be due to the increased volume which may result from upgrading some sales from the regular series into the special series or from increasing total sales as a result of the lower cost in the special series.

He advised against the use of reduced commissions on a policy with a reasonably low minimum, such as $5,000, because the resulting improvement in cost to the policyholder will not be sufficient to materially increase sales. The Central Life has issued a $5,000 minimum amount Ordinary Life policy since 1948. It is issued to both standard and substandard lives and the regular scale of commissions applies. In 1952 over 50% of their permanent insurance was written on this plan. This policy has had a decided effect in improving the average sale as well as increasing the over-all sales with correspondingly greater compensation to the field force. In comparison, their experience prior to 1948 with a select risk policy subject to reduced commissions was a limited use of the plan and a worse mortality than on regular plans.

MR. R. E. EDWARDS pointed out that fire insurance has high renewal commissions and, upon expiry, usually renews automatically with no premium increases, whereas term life insurance pays low renewal commission and, upon expiry, must be resold at a higher premium rate. These are reasons for a fire agent making a living while a term-writing life agent does not. The tendency to allocate a smaller charge for expenses to term insurance in comparison with permanent insurance, together with the current emphasis on and promotion of term insurance sales, has further aggravated the problem. As steps to correct the situation he suggested that production awards be geared to commissions rather than to volume, that premiums be loaded more adequately to support more realistic expense charges, and, if need be, that higher commissions be paid.

He could see no agency problem involved in issuing a minimum amount policy to preferred risks only, with a reduced commission rate, since a needed competitive tool is thus furnished. The lower commission is an integral part of the agent's having the sort of contract that he wants.

The reasons he set forth for opposing a commission differential by amount of insurance (except for one special competitive plan) were that such a differential is not enough additional incentive for the agent to raise his sights, it spends too much on the already successful agent, and it goes against the grain of normal business procedure. He felt that any distinction by amount should be in the premium rather than in the commission.

He brought out that the source of most agency difficulty is the basically marginal agent who sells term insurance and small policies and who, when a large sale is possible, presents only the competitive policy which pays reduced commissions.

MR. W. H. HUEHL stated that in the Indianapolis Life they have been attempting to make the field supervisors and general agents more cognizant of the greater likelihood of failure if a new man writes an undue proportion of low-premium, low-commission business. They do not favor wide differences in commissions between regular and special policies. Their special whole life policy is a two-year modified life plan. Thus the first year commission is automatically about 15% less than on the regular ordinary life even though they pay the same rate of commission. This indirect reduction of first year commission avoids some dissatisfaction that accompanies a lower rate of commission.

MR. KARSTENS KENNEDY, speaking on section B, pointed out the impracticality of offering special policies due to the disproportionate expense involved. The Provident Life (N.D.) discontinued writing special plans six years ago. Their field force, after being fully informed concerning the reasons for the change in practice, offered no resistance whatsoever.

MR. E. F. ESTES expressed the opinion that (1) because of the comparatively limited actuarial facilities of most smaller companies, the issuance and servicing of plans requiring special quotations create problems out of proportion to their value to the company, and (2) the problem can be greatly minimized if the agency department will see to it that the agent is effectively trained to meet with regular ratebook plans many of the isolated situations which at first appearance suggest special treatment.

MR. S. F. CONROD, Chairman of the Forum, said that the Loyal Protective does issue special plans for $5,000 or more where settlement is taken with the application.