TRANSACTIONS OF SOCIETY OF ACTUARIES
1954 VOL. 6 NO. 15

AGENCY-ACTUARIAL COOPERATION

A. What measures are used by smaller companies to deal with the problem of above-average policy termination rates? What forms of records are kept and how are they used? What has been the experience with the persistency rater?
B. To render service to agents and the public, how far are the smaller companies going in issuing policies with little or no retention for their own accounts?
C. To what extent have new lines of insurance such as accident and sickness, and changing distribution of business by line, plan, or age, caused reconsideration of qualification bases for agency convention and honor awards? What factors govern choice of bases for such qualification?

MR. H. R. LAWSON referred to the high lapse rate characteristic of quarterly premium business. Recognizing the relationship between the economic status of the policyholder and the lapse rate, and assuming that size of policy is related to economic status, the National Life of Canada prohibits the writing of quarterly premium business for quarterly premiums of less than $25. Exceptions are made in the case of branch offices which have lapse rates of less than 10% during the first two policy years. As this rule has been in effect less than a year, the long term effects are not known. However, the lapse rate is improving, and less quarterly premium business is being written now than before.

MR. G. E. RILEY stated that the termination rate which a company experiences is directly related to the class of business which it writes. The solution to the problem of a high termination rate, therefore, seems to have its inception in improvement in the quality of business written. The initial step in this direction is the selection of agents and general agents who can and will accept and follow recognized training methods and who will be able to operate in markets where good business may be obtained.

The persistency rater is an excellent tool for judging the quality of business written and for judging the value of new agents. Mr. Riley suggested that all the early business of new agents, as well as the business of other agents who have or are beginning to have high lapse rates, be rated by this or a comparable method. The company then would be in a position to terminate the services of agents who cannot produce satisfactory business.

Attention may be focused on the benefits of good persistency in many ways. The Midland Mutual introduces persistency factors in contests, club and convention qualifications, and honor awards; extra second and third year commissions are provided in the agents' contracts; the formula for the general agent's expense allowance contains a factor which takes into account terminations which occur before premiums have been paid for two years; and the results of an annual study of persistency are reviewed with the general agents. A punch card persistency file is maintained, from which termination rates and data for persistency investigations of particular agents can be obtained.

MR. G. H. AMERMAN agreed that the persistency rater is a good measurement device, but said that it does not operate as a selection device; agents just cannot afford to pass up prospects who do not rate well. The Continental American has achieved a persistency fully as good as that of the giant companies, Mr. Amerman believes, primarily as a result of the schedule of commissions paid. The Company pays a reduced first year commission and heaped renewals, with the result that the agent can afford to follow the business into the second policy year.

MR. H. H. BLAKEMAN mentioned two factors which frequently affect termination experience in smaller companies: (1) a relatively large proportion of recently issued business, which is likely to give rise to above average termination; (2) a high turnover of agents with proportionately more agents with limited experience.

In a recent analysis, approximately 50% of the lapses within two years of issue were attributable to agents no longer with the Company. This indicates that a company should adopt policies which will contribute to the stability of sales personnel. Initial selection, the quality of training and supervision given, and the prompt elimination of failures are factors which have a marked effect on persistency.

The Empire Life includes a persistency incentive in the agent's compensation in the form of an overriding amount, graded, on a diminishing lapse index, up to 50% of the first year commission. The lapse index, determined quarterly, is the ratio of policies lapsed to policies placed in force, both items relating to issues of the preceding 27 months, with a pro-rata adjustment for new agents.

Two of the five factors which determine the compensation of branch managers also deal with persistency: one is a percentage of the first year overriding paid the agent, and the other is a percentage of the renewal commissions earned by agents. The latter is intended to curb the turnover of agents.

Agents with less than two years of service are required to complete a form of persistency rater, similar to that published by the L.I.A.M.A. This is retained by the branch manager and used periodically to check the type of prospects and the selling methods of the agent. Mr. Blakeman doubted the value of this procedure, and suggested that a periodic sampling of the agent's work would serve the purpose as well.

Discussing section B, Mr. Blakeman listed these advantages of being able to provide coverage for impaired risks by means of reinsurance: (1) A deserving agent may be accommodated, (2) the commission credit may help the account of an agent being financed, (3) the public is served. On the other hand, rated policies have poor persistency, and may cause dissatisfaction to the insured.

MR. J. F. MACLEAN reported that retentions are determined yearly for the Bankers Life of Nebraska by means of a frequency distribution by size of issued and paid business. Using a cumulative percentage of 98, the level of each class is determined. Limits for low substandard and for high substandard are then obtained after a rough graduation. Present limits are \$75,000 for standard through 250% of standard, and \$50,000 over 250%, graded down to \$50,000 and \$40,000, respectively, over age 55. Because of the cost of reinsurance, Mr. MacLean felt that as a general rule the company should retain its full limit on any case issued.

It was his opinion that it is reasonable to fully reinsure only for two reasons: (1) a reinsurance company is conducting an experimental program with possible mortality in excess of premiums; (2) to resolve personnel anomalies in the ceding company.

MR. S. F. CONROD, in discussing section C, suggested that before determining production credit, a company determine the extent to which production of a new line is to be encouraged. Too liberal credit may result in concentration on the new line to the detriment of regular business. On the other hand, too little credit may cause a new line to fall short of expectations. The Loyal Protective Life, principally in the business of noncancelable sickness and accident insurance, converts life insurance production to equivalent sickness and accident credits: \$7.00 of initial quarterly premium credit is allowed for each \$1,000 of life insurance, counting term at half rate. Although this credit may appear small, the basis was adopted so as not to encourage life production unduly at the expense of sickness and accident production.

Group and wholesale insurance give considerable difficulty from the standpoint of determining production credit. If no credit is given, the agent who loses time from regular production to close a group case is being penalized. On the other hand, unless the credit is graded by amount of premium for each group, proportionately too much credit may be obtained from one large case. Current practice is to allow credit on the initial monthly premium up to $500, with greatly reduced credit on that part of the monthly premium in excess of $500. For example, if the monthly premium were $4.00 the agent would receive the equivalent of $400 in initial quarterly premium credit, which gives approximately one-third weight to group premiums in small cases.

MR. BLAKEMAN stated that the Empire Life has discontinued the use of production volumes as a qualification basis for convention and honor awards. The following are convention requirements: (1) Net first year commission earnings of $3,000 in 18 months; (2) a lapse index, as previously described, not in excess of 10; (3) a bonus credit on the lapse index of 10% for an index of 5 graded to 60% for an index of 0.

MR. J. A. GREENWOOD mentioned that the Manhattan Life now allows only half volume credit for any form of term insurance. Until recently, level term received full credit while only half credit was allowed on reducing term.

MR. R. P. WALKER reported that a credit of $1,000 for each $12.50 of A & H initial premiums was an unsatisfactory basis for convention qualification because of the substantial volume of polio insurance written. This allowed the equivalent of $800 of life insurance credit for each polio policy. The Wisconsin National recently changed the requirement for $1,000 credit to $30 of equivalent annual A & H premiums.