

**TRANSACTIONS OF SOCIETY OF ACTUARIES
1959 VOL. 11 NO. 30AB**

AGENCY PROBLEMS

- A. What are advantages and disadvantages in the adoption of annualized commissions?
- B. How much investment can a small company afford to make in the study of individual agencies as to:
 - 1. Persistency rates?
 - 2. Types of policies?
 - 3. Average size of policies?
 - 4. Expense rates?

MESSRS. WILLIAM H. AITKEN, JAMES G. BRUCE and WAID J. DAVIDSON, JR., each discussed the use of annualized commissions in addition to or in lieu of advances or other financing methods and listed the following advantages:

- 1. By making sufficient earnings available early, a better quality agent should be attracted to the business and his morale maintained.
- 2. It is a strong incentive to sales and persistency.
- 3. It eliminates guesswork involved in determining advances.
- 4. Commission calculations are greatly reduced.
- 5. It should result in a total financing cost lower than that on plans not directly related to production.
- 6. It gives the company some collateral against its advances.

The following disadvantages were given:

- 1. The method can be abused by unscrupulous agents.
- 2. The agent may be less apt to seek annual business.
- 3. It may result in overpayment of commissions permitted by Section 213 of the New York Law if lapses are high and balances not charged back.
- 4. It gives an uneven flow of earnings to the agent.
- 5. It requires modification on large policies.
- 6. It does not vary with the actual needs for financing.
- 7. It creates additional agency and accounting problems on termination if unearned commissions are to be charged back to the agent's account.

MR. MORTON J. KENT said that the Interstate Life & Accident is using annualized commissions on just one plan which is principally monthly premiums, and then only for the purpose of meeting validation schedules.

MR. QUINTIN J. MALTBY said that the North American Life has found it convenient to annualize renewal commissions and thus separate its commission and premium accounting procedures.

MR. DAVIDSON stated that the use of statistics related to individual agencies can be valuable if prepared promptly and interpreted properly. It is effective if the agent knows that his accomplishments are being watched. In relation to the amount spent on agency development, the cost of such statistics may be small. Only those figures which will be used should be prepared, however.

MR. WILLIAM L. FARMER found that the best results have been obtained in his company, the Protective Life, from a study of (1) persistency of business written by agents being financed and (2) both persistency and expenses in agencies where expenses are paid by the home office and not by formula, these generally being new agencies. Particular attention is given agencies which are being subsidized beyond commissions and office expenses. In these cases a certain level of production in each contract year during the subsidy period is expected, and both the agency department and a separate agency committee review these agencies periodically. First and second year lapses are recorded for each agent and each agency and compared with production. Office expenses per \$1,000 of new business are calculated quarterly. They do not review routinely types of policies nor average size.

MR. WILLIAM C. BROWN stated that the Colonial Life has found it sufficient to study individual agencies by persistency rates and amount of production. Expense rates are related to the latter.