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AGENCY PROBLEMS

A. What are advantages and disadvantages in the adoption of annualized commission?

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?

C. Has a satisfactory approximate formula been developed for estimating readily the present value of an agent's renewal commission?

MR. GARNETT E. CANNON, introducing section A, said that annualized commissions were introduced by his company, the Standard, for two reasons. The first was in connection with financing new agents. Commissions were advanced on a basis of 60% of annual commissions for monthly premium sales, 70% for quarterly and 80% for semiannual. The resulting problems were mainly those of supervision (the system tends to result in attracting too many poor prospects) and agency morale when substantial charge-backs occurred at the subsequent termination of a policy on which commissions had been advanced. There is also a substantial potential expense if turnover of new agents is high, since charge-backs on their sales cannot usually be recovered.

The second reason for adopting annualized commissions was as a means of reducing expenses. On preauthorized check sales, the balance of first year annual commissions were paid after the third monthly premium was received. This means that the ten months' commission payments outstanding are then paid off. If payments and records are mechanized, the machine is simply wired to shift one decimal place. The charge-back problems are still involved. A second question arises because the Annual Statement will not reflect the prepaid expense character of commissions which have been paid against premiums not yet received.

Mr. Cannon emphasized that the success of the plan depends on good persistency, and that it can be very expensive where persistency is not good.

MR. JOHN W. CLARKE stated that Gulf Life has adopted a variation of Mr. Cannon's method of commission payment for their ordinary agents in order to reduce the expense of making monthly commission payments. On the policy anniversary, the agent's annual commission is put into a reserve account set up for him and weekly payments of 5% of the reserve account are made. Unearned commissions on lapsed policies are charged to the reserve account. Some ordinary agents originally opposed weekly payments, but most are in favor of them now. The advantages of the plan are that the agent's income is stabilized, but at the same time, he immediately feels his new production and his lapses.

MR. HAROLD THOMPSON, introducing section B, pointed out that the use of the word "investment" indicated that management must have reason to believe before they make it that such an investment will yield worth-while returns. He also thought the reference to "individual agencies" was significant since actuaries may tend to think of persistency rates or types of policies as meaningful in themselves, forgetting that the most important factor in determining these measurements is the influence of the individual agent at the point of sale. This would indicate the value of a continuous expense or investment to provide current information on what is happening in individual agencies rather than an occasional one-time "investment."

Mr. Thompson outlined the system adopted by the Monarch of Canada to develop the desired information on the business of individual agencies and agents. Each agent's sales are recorded on a separate sheet as they are made, showing for each one the application number, amount of insurance, annual premium, market (married male, single male, female, juvenile, pension trust or business insurance), frequency of payment and persistency factor according to a rater similar to the one published by the LIAMA. In columns beside each sale is recorded its subsequent history: whether not proceeded with, declined, or issued, and finally, if the policy lapses in the first two years, that fact is recorded, together with the number of months' premiums which were paid.

At the end of each month, the pertinent information for each agent's business is summarized. A further summary by branch is prepared each month. By these means, the development of unfavorable patterns is detected and brought to the manager's attention early when corrective measures will be most effective.

Mr. Thompson stated that his company regarded the cost of gathering this information as an essential expense or investment as a means of controlling and improving the sales operation. Periodically, more extensive investigations are made to determine whether there are other factors which should be reported regularly or some reported which are no longer significant.

MR. RALPH P. WALKER reported that Wisconsin National is producing a report for their agency department on IBM, based on records of similar items mentioned by the previous speaker, but in addition showing first year and renewal commissions. The monthly totals are listed for the year to produce yearly totals and to produce information on average size policy, average premium per policy and per thousand, percentages binding and not taken, lapse rates by amount and by number, and average premium payment frequency. The report is prepared for each agent, agency and the total company.

Mr. Walker estimated that developmental expenses for the report would be about $1,500 and that the monthly expense of producing it thereafter would be $200, but this was largely offset by the fact that a similar report, now no longer produced, had been costing about one clerk's time. Mr. Walker did not know whether the results would be worth while, since the report had just been introduced, but the agency department is enthusiastic about it.