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EXPENSE RATES

What has been the recent expense rate experience of smaller companies? What expense rate changes are anticipated in the near future? What actions have been taken to keep expense rates down?

MR. ALEXANDER MUTCH reported that he had calculated renewal Ordinary expense ratios for a number of smaller companies from their 1958 Annual Statements using the formula prescribed in Best's Life Insurance Reports. Comparing these ratios with those published for 1957, he noted that the 1958 ratios were little changed from 1957's. He thought that he foresaw continuing inflation and that the only way to keep expense ratios reasonable would be to increase the degree of mechanization in a company's operations.

MR. ALBERT H. KRETSCHMER said that his company, the Continental American, separated agency from home office expenses and further subdivided home office expenses into investment, new business, and renewal. For the five calendar years ending in 1958, the absolute amount of their home office new business and renewal expenses had increased. Their new business written, business in force and average size policy had increased, however, so that now their home office new business expense rate per thousand had actually decreased from $8.23 in 1954 to $6.42 in 1958 and for their home office renewal expense rate per thousand the decrease had been from $1.11 in 1954 to $1.03 in 1958. As their new business continues to grow, they expect these expense rates will continue to decrease.

While decreasing home office new business and renewal expense rates by increasing production and average size policy, Mr. Kretschmer's company wanted to be sure agency expenses would also be controlled. Therefore, they adopted a new agency budget formula which takes into account basic contract commissions, total first year and renewal premiums, first year premiums for new men and a small constant. Their company's total agency expenses are then divided into three parts for comparison with the budget: (1) normal contract costs, consisting of commissions and other contract payments and employee benefit expenses for the field; (2) development cost, consisting of field subsidies, training compensation, branch office maintenance and equipment, and increase in agents' balances; (3) home office agency expenses, which are all agency expenses except field expenses. The actual agency expenses divided into these three parts are then compared with corresponding budget figures. In addition they also analyze the four items under part 2, development cost, by individual agencies. Since these four items are most susceptible to management and control, the results of this analysis aid their company in keeping agency costs within the budget.

MR. GARDNER F. KNIGHT noted that the proposed federal income tax would increase net cost, either as an increase in expense, or as a reduction in interest return.