TRANSACTIONS OF SOCIETY OF ACTUARIES
1959 VOL. 11 NO. 29AB

DIGEST OF SMALLER COMPANY FORUM— OMAHA REGIONAL MEETING

AGENCY PROBLEMS

A. What arrangements are being adopted in financing agents and agencies?
B. Has the adoption of annualized commissions proved of value?
C. How much investment can a small company afford to make in the study of such characteristics of individual agencies as:
   1. Persistency rates?
   2. Types of insurance placed?
   3. Average size of policies?
   4. Expense rates?

MR. HERBERT C. DUNKLEY felt that amounts spent upon agents' financing should be considered as an investment which would later be returned to the company with interest rather than as an expense of doing business. He felt the only source from which this investment can be repaid is nonvested commissions. Thus the amount of financing which can be done depends to a large extent upon the agent's and general agent's or manager's contract.

His company, the North American Life & Casualty, a strictly managerial company, compensates its managers to a large extent by overwriting commissions with special allowances for new, successful agents. The system has been in operation only one year and it is too early to evaluate the results.

Until recently agents' financing was done on an unsystematic basis with annualized commissions having great weight through the advancing of up to 90% of the annualized commission earned each month. This often produced considerable and undesirable fluctuations in a new agent's income. To attempt to meet this situation they designed a plan with greater emphasis on actual commissions earned. A significant feature of this plan is that their maximum advance is graded by age bracket. From age 22 to 27 it is $400 per month. From age 28 to 42 it is $500 per month. They will not finance over age 42. They also encourage at least 30 days of precontract training and have requirements as to permanency of residence and job holding, financial requirements and present debt.

Their validation schedule does not call for commission to be earned the first month. For the second month the agent must have earned

10% of his accumulated advances. The percentage grades up until at the end of 2½ years they expect the accumulated commission earnings will equal 81% of the advances made. If the agent falls below his validation schedule they will use annualized commissions as a guide in determining whether to continue the financing for a month or two.

Before adopting this schedule, they applied it to every agent who had been previously financed in the past five years. They found it imposed no hardship upon those who proved successful but would have enabled them to catch the unsuccessful men at an earlier date.

MR. HODGE L. JONES, JR. felt that annualized commissions are definitely of value. They put more immediate dollars into the hands of a new agent who has not acquired a satisfactory renewal account. There are drawbacks, however—this process is more expensive to handle and it becomes difficult to wean an agent away from annualized commissions when he becomes established. Nevertheless, for companies that have adopted this practice, subsidization has been avoided that otherwise might have been necessary. Also, in the case of the Guarantee Mutual at least, they have managed to keep a number of agents in the business by this process.

Their most popular agents' financing plan is based upon annualized commissions. For a new agent during his first two or three years they will pay annualized commissions and a subsidy allowance. The subsidy allowance is a percentage of the annualized commission advanced each month. These percentages are 65% the first year, 35% the second year, and 15% the third year. For an agent who just meets the minimum validation schedule, the amount of subsidy under this new plan is almost identical to their conventional financing plan. The maximum subsidy in any month is $175 the first year, $110 the second year, and $40 the third year.

With this new plan they hope to overcome some of the inherent drawbacks in the more conventional financing plans such as:

1. Excessive cost for failing agents. They felt that the principle of paying a subsidy for business after it was sold instead of in advance was a good one. In particular under a conventional plan, some agents continue to draw one or two monthly checks after they have already decided to leave the business.
2. The cost for failing agents bears particularly heavily on general agents who share the loss. A general agent who is paying his losses on several agents who have failed is greatly deterred from recruiting more men, and he is the one who needs to recruit.

In addition they wanted a financing plan under which a really successful agent could enjoy a larger income than is usually possible under

a conventional arrangement. Although they have not had the plan long enough to acquire statistics other than the fact that 85% of their financed agents were under this plan, they felt the plan was fulfilling its desired aims and objectives.

MR. LYLE H. BARNHART mentioned that the Fidelity Life Association's experience was that the most acceptable financing plan was a simple one that their agency managers approved of—namely, a subsidy of $10 per $1,000 of new production. There is little clerical effort required in a plan of this kind.

Speaking on section C, he mentioned an annual report including a study of thirteenth month persistency rates, paid-for production, average policy, average premium, plan percentages, mode of payment percentages and not-taken rates that he has introduced to his company over the last few years. He noted that their last study indicated a not-taken and rejected rate of 10% on business written with cash paid on application but a rate of 30% for business written without cash. Their thirteenth month persistency rate for the year 1957 was 70%.

MR. MARVIN R. NELSON said that Life Insurance Company of North America is a very new company and that agency statistics are scrutinized very closely. A production report of new business by number and amount of insurance is prepared on punch card equipment monthly. The expense problem is handled by requiring the Sales Department to allocate and record expenses as best they can within their prescribed budget. He felt that it would not be worth while to prepare statistics unless they were put to use by the people for whom they were prepared in a way that resulted in definite action.