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PERSISTENCY AND THE RETENTION OF AGENTS

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1. What are the current industry practices and experience with regard to the recruiting, training and retention of agents?
2. Are there ways of building the marketing system that can ease the cost impact of loss because of terminated agents?
3. To what extent are agents directed to markets that will allow them to survive?
4. Are policy persistency studies valuable in helping general agents and managers identify poor markets?
5. Are persistency studies made that relate to the profile of the insured, (e.g., education, occupation, income) in addition to relating to policy characteristics (e.g., mode, age, amount)?
6. What uses are made of persistency data by agency to improve results?
7. How effective are persistency incentives in compensation plans for agents, general agents, managers and home office field management?

MR. JOSEPH R. BRZEZINSKI: Let us begin with an example, derived from LIMRA statistics, that should put into perspective the current manpower situation in life insurance marketing.

This example will consider a group of 2,000 applicants for career agent positions in the life insurance industry. We will assume that they are all given LIMRA's selection test, the Aptitude Index Battery (AIB), as one of the initial steps in the selection procedure. If there is a cutoff rating of 9 (out of a possible 18), this procedure will reduce the number of recruits to about 1,062 people with the best chances of success. (Higher cutoff scores would eliminate more applicants, but each member of the qualifying group would have a better chance of success.)

Our records indicate further that, of every 5 applicants left after the test, 2.5 will turn down the career, and 1.5 will be rejected by the manager or general agent. This additional level of selection reduces the group to about 212 agents who are contracted.

Let us now start where most industry statistics pick up and follow these agents through their early career. Our statistics show that, at the end of one contract year, about 46 agents can be considered "early successes", i.e., they survive the year and produce in the top half of agents that survive the year.

At the end of 36 months, industry statistics indicate that there will only be about 40 agents under contract. Although we have no statistical proof of this point, it is likely that those 40 are made up mostly of our group of early successes. As the above figures illustrate, extensive recruiting activity is necessary to obtain a small group of agents who last only 3 years.

Survival statistics are only part of the story. When agents terminate they often leave the industry, but one in four goes to another company. In most cases, however, such an agent is not likely to be much more successful in the new company than he was in the old. It is not just survival that is important then, but success; the agent must attain a level of production that will enable him to make a good living.

MR. FRANK ZARET: Recruiting quality sales people depends to a large extent on the personal involvement and activity of field management. The nature of the local pool of sales people available will, of course, influence the source and method of recruiting, but management's interpretation and application of prescribed company standards to the recruiting and selection process will determine the end result.

Dependable predictors of individual potential (in order of importance) are: prior earnings record, age and marital status. Recruits with an above average prior earnings record, those who are age 25 and older, and married individuals are more likely to be a success. One other important factor is the agency environment into which a new applicant is introduced. The more successful agency will also have a tendency to produce better recruits than the less successful agency, no doubt because of its environment. Combinations of the above factors provide even higher levels of performance.

Our research has confirmed the predictive utility of the AIB as a preliminary screen. Comparing production and retention of those who fail the AIB test and those who pass consistently shows better performance for those who pass. The higher the passing grade, the better the recruit. However, the impact of accepting only those with higher scores must be weighed against the limited number of recruits that might otherwise be available. Practicality requires the establishment of a dividing line at an optimal point to obtain a sufficient number of new recruits while still maintaining the desired degree of quality.

As to the best sources of new recruits, our studies show applicants first contacted personally by the management team or recommended by currently active agents consistently have the highest passing AIB scores and the highest subsequent productivity and retention experience. Newspaper advertisements and employment agencies produce a relatively higher proportion of persons looking for work, between jobs, unsuccessful in establishing themselves so far, etc., and fewer quality recruits. Applicants developed from these sources are less likely to be successful than management-supplied applicants, and so this group must be carefully screened. It should also be noted that the higher the quality of the management team the more likely they will be to regularly attract high quality, already successful men and women.

Prior occupations from which recruits appear to be more likely to succeed include those involving managerial, executive, supervisory or ownership responsibilities. Recruits drawn from the ranks of laborers, factory workers and part-time and unemployed workers are particularly unlikely to be successful.

Following recruiting, the process of training begins. The major questions with regard to training are When? and Where? Should full training be given to a new man immediately on entering the business, or should there be a waiting period of perhaps six months to assure that he is likely to stay in the business? If full training is delayed, the related expenses will be less because of the high turnover of people in their early years of employment and the more efficient use of training facilities. On the other hand, it is at the very beginning of an agent's career that he most needs this training.

Should training be given right in the agency or in a centralized training center? Some years ago our company had a central training procedure for new agents. Our business then was highly debit-oriented, and we found that central training led to certain problems which reduced effectiveness. We, therefore, discontinued this arrangement and switched to in-agency training, with each manager responsible for the training of his own recruits. With our withdrawal from the debit business and the introduction of property and liability lines, we now believe that central training will once more be most appropriate for our purposes. The training required for an effective multi-line sales force cannot be adequately given by individual agency managers, and so a centralized schooling process becomes a necessity.

Retention is clearly influenced by the level of production. High levels of financing will keep more men in the sales force for as long as financing continues, but, if the level of production is such that compensation decreases when financing ends, the turnover rate will rise. We have made various studies of retention versus production. In one study, for example, we evaluated the effect on retention of two levels of earnings -- an average level and a level \$20 per week above the average. There was a significantly higher retention rate for those with higher earnings.

This is not to say that a company should immediately increase earnings for all producers, thereby improving its retention rate. The cost would be substantial and the benefits not necessarily commensurate. It does indicate, however, that at greater levels of production we can expect agents to be more content and committed to the job of selling life insurance. New industry studies of retention versus production would seem an important contribution to today's knowledge.

MR. NOEL J. ABKEMEIER: Our company has been experimenting with a new selection tool which approaches the question of aptitude from a different angle. The AIB is a statistical approach to the problem. Careful selection by the agency manager based on the characteristics felt to be needed for success is a bit more subjective, but still very sound. The approach which is looking very promising to us is the use of an assessment center, where an applicant is observed in simulated work situations.

A successful agent is required to organize his time, understand his products and manuals, react to changing situations and, of course, sell. The applicant is put through four exercises which test these abilities in varying ways while he is being observed by three evaluators.

The first, and simplest, test is to read and organize a manual of sales and administrative procedures which he is told he will have to use later. The organization will ultimately be judged as he faces the later tests.

The second test consists of preparing a recommendation to his superiors concerning the sale of the product from the first test to a specific target market. Regardless of his recommendation, he will be rebutted. His organization, ability to think, persuasiveness, and ability to handle stress are judged at this point.

The third test is an "in-basket" situation, in which he must organize and evaluate the items and set priorities.

The final exercise is a simulated booth sales situation. He must organize his booth and face several different customers who might be abrasive, uncertain about buying or ready to buy if an appropriate sales effort is made. This clearly is a rather comprehensive test of the many stresses that must be faced in the course of actual selling.

The evaluators then grade the applicant in eight areas: Scheduling of time, personal influence, personal perception, ability to recognize alternatives, product analysis, ability to integrate ideas, tolerance for stress and oral communications. Finally, the evaluators discuss the various activities with the applicant to better understand the reasoning that led to his actions.

Nothing that is being tested is any different from what other companies are seeking to determine, but the controlled laboratory setting permits the most realistic testing and the most homogeneous results.

The program has provided two benefits. First, the termination rate of new agents was cut in half because of the better correlation of their skills to the job. A more interesting result, however, was that the district managers significantly improved their recruiting of applicants. In the initial stages, the assessment center testing eliminated 50 percent of the applicants who proceeded to that stage of the selection process. Now only 30 percent are eliminated at this point.

Once an agent is hired, training is most important in his development. I see no alternative to immediate intensive training in the company's main line of products, so that the agent has full confidence in his ability to sell to his primary market. The less frequently sold or more technical products could be deferred until later. This approach has been proved successful by the multi-line companies.

A final ingredient in retention in multiple line companies is the availability of several lines of insurance. An agent can achieve success quicker selling non-life lines than selling life, since prospecting is the key to sales in non-life, while life sales depend on both prospecting and selling the customer on the need. This advantage is reflected in the four-year agents' retention rates for multiple line companies--43 percent versus 13 percent in life companies.

MR. BRZEZINSKI: Our most recent studies bear out Mr. Abkemeier's remarks on multiple line versus life company agents' retention. They show further that over the last few years life companies' agents' retention rates have improved slightly. I believe that the major reason for this is that life companies have become somewhat more selective in their recruiting in recent years.

It should be remembered that the levels we have been discussing are industry averages. The variance from these averages is quite wide even among the

larger companies, with those reporting the best retention experience having four-year agents' retention rates about double those of the companies reporting the poorest experience.

MR. JESSE M. SCHWARTZ: The severity of the methods used by individual companies to ease the cost impact of loss because of terminated agents will depend upon their threshold of discomfort with respect to these costs.

My remarks are based on the following two assumptions:

- (1) It is possible via the accumulation of statistics to determine the earnings pattern of a successful agent. Of course, each company will have a unique definition of what constitutes a success.
- (2) The majority of new agent development expense is generated by plans to subsidize new agents and incentive compensation formulas for field supervisory personnel responsible for the recruiting and training of new agents. Management's challenge is to minimize the percentage of these expenses which is spent on future failures.

One method to minimize the payout to future failures is to identify such people at an early stage of their career. This can be accomplished by establishing production criteria which must be met at various points during the agent's first few years to remain under contract. These production levels will be established based upon the earnings pattern of the successful agent.

It is important that these levels not be set too high or too low. As these levels are increased, the likelihood that a future success will be prematurely terminated is also increased. As the levels are lowered, however, new manpower development costs will increase as the number of future failures satisfying these criteria increases.

Failure to meet these criteria should not result in automatic contract termination. The final decision should be left to the discretion of the field supervisor, since only he can be aware of individual circumstances which might cause an agent to fail to meet these criteria in spite of his potential for success.

The field supervisor should share in the cost of terminated agents as reflected by the cost of subsidy payments made to them. If the field supervisor chooses to retain new agents under contract who do not meet the established production criteria, he should be assessed an increased share of the cost of subsidy payments made to them if they subsequently terminate.

With respect to the design of financing plans for new agents, I favor a subsidy plan which requires the new field underwriter to meet a specified minimum monthly production level to earn that month's minimum subsidy payment. I do not favor plans which allow a new field underwriter to receive subsidy payments in months of low production solely as a result of one month of abnormally high production.

During the early stages of a new agent's career, peaks and valleys in his production results will not be unusual. The validation criteria should recognize such expected fluctuations. Requirements should not be set so high that a potential success will be discouraged by being unable to earn a minimum

payment in a low production month. Likewise, they should be set low enough that the successful new agent will normally exceed them, but not be set so low as to allow marginal producers to consistently receive subsidy payments.

New agents with very volatile earnings patterns have a very high probability of failure. A financing plan should minimize the subsidy payment to these agents. For this reason I do not favor plans which pay subsidies based upon cumulative production criteria.

MR. ZARET: The number of new recruits hired each year is a major factor in the expense associated with new agent development. It is important to identify those who will fail as early as possible to minimize the cost of terminating agents. Our company's experience indicates that the percentage of new recruits who remain with us to the end of their fourth calendar year is not much different from that of the industry as a whole, but the incidence of termination we experience is somewhat worse, as failures tend to stay with us longer before they terminate. Thus, our net result is a higher cost for the same percentage of people, and we are working to correct this situation. The quicker the elimination of failures, the better.

One of the fatal mistakes contributing to excessive termination costs results from the desire not to miss the "late bloomer". I am sure you have had occasion to hear about the individual who, for whatever reason, has had a slow start, but who the manager is certain is going to be a winner. It is wisest to avoid such traps and to eliminate those who do not measure up as early as possible. You may miss some late bloomers, but the percentage is so small that any benefits to be gained would be far outweighed by the additional costs incurred.

Pre-appointment training requires an applicant to work on his own for a time before being officially put under contract with a company. The purpose of this is not only to let a manager observe and evaluate the candidate at a very early stage in his potential career, but also to permit the applicant to get a feel for the business before he enters. The willingness of a recruit to go through such early training, usually without compensation except for any commissions generated, is considered evidence of the strength of his desire to become an insurance salesman. Pre-appointment training also allows the company time to screen the applicant without committing financing funds. By eliminating the recruit who is unlikely to succeed before he is hired, the company saves on expenses and improves retention.

The structure of financing plans has a great bearing on costs associated with terminating agents. There are numerous kinds of financing plans. We have used several in the course of time. Our present procedure is to subsidize a new hire for up to six months to give him time to get his bearings. During this time a minimum validation schedule must be met, regardless of financing level. Beyond the six month period, financing continues, but on a wholly incentive basis (no subsidies) with a special wrinkle in our validation approach. Incentive financing payments are a percentage of first year commissions paid. The first year commissions in any week must be at least \$100 in order to trigger a full financing payment. From \$85 to \$100 per week of first year commissions, we provide only half the usual incentive financing payment, and below \$85 no incentive financing payment is made. Thus, those with low production who will likely terminate will receive little or no financing payments.

Non-vested commissions can reduce the cost of terminated agents. Vesting pays substantial sums to terminated agents at the expense of those who remain. There are, of course, other important considerations in this regard, but, if one simply looks at who gets the money, a non-vested scale is more cost-effective.

Factors in management compensation and recognition can also act to promote selection of better candidates and cut expenses. A charge through which managers share net debit balance losses of agents who terminate can reduce the costs to the company both directly and indirectly by giving management an incentive for careful consideration in their hiring practices. Since selection is a key factor in improving retention, managers must be aware of what the consequences of their poor judgment are and be willing to share in the expenses.

An additional element in management compensation which we use to encourage the early discontinuance of failures is to restrict overrides on low producers. Agents whose production is below a given level provide no management overrides. Thus, managers are encouraged to terminate such people and devote more of their time to successes.

MR. BRZEZINSKI: I prefer to look at the problem of cost containment in terms of improving the cost effectiveness of the career agency system rather than of changing systems significantly (e.g., by developing a large multiple line system or a direct mail system).

A recent LIMRA publication, Profits and the AIB, Research Report 1978-6, is a good introduction to the scientific methods that can be used to fine tune the marketing system to improve cost performance. In this publication, a simple mathematical model is used to determine the optional AIB cutoff score under a number of specific conditions. The choice of a cutoff score for our selection test has frequently been a matter of following general practice or seat of the pants guessing. Profits and the AIB introduces the concept of using a cost/benefit model and varying conditions to determine an optimal strategy.

Admittedly, the model we have used is rather simple and unsophisticated, but the lesson it shows is nonetheless valid. Improvements in the model may be made to make it look more like an agent asset share model, but the resulting conclusions will be quite similar.

There are a number of other ways to improve the process of agent selection, training, and post-selection. Those which seem most natural to me are:

1. Improving the "transition probabilities" at all stages of development without decreasing the quality of success,
2. Improving the productivity of agents,
3. Post-selecting failures as early as possible to reduce their cost effect,
4. Lowering the unit costs of each facet of the process, and
5. Improving the quality of business produced by new agents.

Let me discuss each of these in a little bit more detail.

To improve transition probabilities, companies should pay attention to recruiting sources and performance within source, both important factors in this regard. LIMRA regularly supplies AIB customers with reports on these items so that the quality of recruit can be controlled.

Improving the productivity of agents is largely a matter of better training. In the design of training programs, companies should keep in mind that productivity can be increased by selling more policies as well as by increasing the size of each policy sold. Agents typically sell only 50 policies per year, so increasing the number of sales above one per week can have a major impact.

Post-selection involves recognizing failures at as early a time in their career as possible. To some extent, it may also involve recognizing potential successes as soon as possible, so that they may receive the extra attention they need when they need it.

Post-selection is the rationale behind setting criteria to be met by new agents to continue under contract and, to a large extent, designing financing plans to minimize the payout to terminating agents. Apportioning losses on terminating agents to field supervisory personnel and designing field management compensation so as to minimize the payments generated by terminating agents are means by which companies provide incentives to field management to post-select as effectively as possible.

It has been a long time since a post-selection study has been conducted in the industry, and one is urgently needed. Such a study could, perhaps, be combined with a study of career survival and productivity of agents, which also has not been done on an industry basis in many years.

Companies usually give their field management incentive to minimize unit costs by various contract provisions related to economy of operations. In the past, such provisions were almost exclusively limited to managerial contracts, but LIMRA records indicate that economy incentives are also being used increasingly in general agency contracts.

Improving the quality of business produced by new agents has been difficult to do. However, companies are becoming much less complacent about the poor persistency of new agents' business than they have been in the past. Such persistency is heavily related to the training and supervision given new agents, and many companies are implementing persistency bonuses for field management that give them an incentive for improving the persistency of all their agents' business.

A major problem with the business of new agents is the unfavorable mix by mode and age of policyholder. Field management should urge new agents to seek greater exposure in markets that are less likely to generate persistency problems. It is an old maxim in the industry that agents are most likely to sell to their own age group. That may be true, but LIMRA research has indicated that new agents are as likely to be successful selling to the older age groups that are characterized by better persistency as are experienced agents.

New agents also have a large amount of regular monthly business. The past few years' experience from LIMRA's Long-Term Lapse Study support all previous research on the poor persistency of regular monthly business. However, the

experience also indicates that salary savings and monthly bank business, while having the same premium paying frequency, have persistency which is far superior to that of regular monthly business. In fact, both tend to have better persistency in the long run than even annual mode business. Since monthly bank and salary savings business have many of the characteristics of regular monthly business, persistency could possibly be improved considerably by stressing the use of one of these modes rather than the premium notice monthly mode.

MR. SCHWARTZ: Let us assume that one factor of the compensation formula for field supervisory personnel relates solely to new manpower development. In order that this factor have the intended effect on costs, the following principles should be kept in mind:

1. Any compensation based upon a percentage of commissions by new agents who exhibit little, if any, potential for success is an unwise allocation of resources. While recruiting activity is important, the formula should not generate any compensation based upon the production of agents who fail to meet minimum production standards.
2. Production levels should be established at various durations under contract, so that agents reaching these levels have a reasonable expectation of success. The compensation formula should include a percentage of all the commissions of agents meeting these minimums. This is an important element in the formula, as it gives the field supervisor an incentive to work with the new agent who is not an immediate success by compensating him to some extent for his efforts. Obviously, the company's definition of "reasonable expectation of success" will greatly affect the amount of compensation generated by potential failures.
3. A second set of production levels should be established, higher than the first. Agents attaining these levels should have a very high expectation of success. The field supervisor should receive a flat bonus for new agents attaining these levels.

MR. ABKEMEIER: A multiple line company must also use such techniques as validation requirements and close supervision to lessen the losses caused by terminated agents. While we multiple line insurers are fortunate to not have the problems of the single line company in this area, we have a different price to pay. Although our agents can draw on our other lines for sales, which relieves the pressure for rapid maturity in life sales, we find they never develop the same depth of life insurance expertise. An agent who learns his lessons under a bit more pressure seems to learn better and become a stronger producer in the long run.

MR. ZARET: Management has a definite responsibility to assist new agents in finding their markets. No two agents are alike, and each brings something unique to his agency. Helping a new recruit discover the area for which he is best suited is part of the challenge of being a manager.

It must also be recognized that few agents are knowledgeable over the full spectrum of products their company may offer; this is particularly true in a company with an extensive array of products. Consequently, in a multi-line company, agents are apt to restrict themselves to selling certain lines of business with which they are most comfortable. It is idealistic to expect agents to be able to sell each and every line of business with equal facility.

Thus, a manager must not only be able to discern the economic strata best suited for an agent and the social arena in which he is most at home, but must also know which plans and products the agent's ability will best accommodate.

We are also quite interested in having our managers appoint men from different ethnic backgrounds to serve special ethnic groups. In various areas, Greek, Chinese, Russian, Hasidic, etc., salesmen have been able to apply their own unique backgrounds and provide much needed products and services to a particular group. A common heritage creates trust and confidence, which is an important ingredient in ethnic markets.

Of great importance to an agent's survival is the writing of quality business. An agent who acquires the habit of writing quality business early in his career has a much greater chance of being successful and remaining in the business.

MR. ABKEMEIER: The direction of agents to markets of their peers based on socio-economic, age, ethnic or educational criteria will help them to survive and become successful, but only secondarily. The importance of prospecting--to anyone, anywhere--must be established first. Only after this foundation is laid does it make the agent's work easier to be in the midst of the most easily sold clientele. In short, any market will allow the agent to survive with good prospecting.

Within a multiple line company, the agent is particularly directed to his new or old customers in other lines of business. If a customer appreciated an agent's efforts in one line of insurance, he is preconditioned to make a purchase in another line. This generally means that the multiple line agent can find good life insurance prospects among his existing customers in lines such as homeowner's insurance and automobile insurance. Of course, an agent should always be directed back to his existing life insurance customers also, since these will be his best customers if they were sold properly the first time.

After the agent has established his basic selling skills and career orientation, he should be trained on more specialized sales so he can better serve his existing clientele. For example, special training sessions in tax-qualified sales might allow the agent to go back to his existing customers and present new concepts and make new sales.

Once an agent has found his natural market, he should be trained to make it build upon itself. Rather than having to develop all of his own leads, the agent should develop techniques for obtaining good leads from the customers he has sold. This will not only intensify his penetration of his natural market, but will certainly broaden him into other markets.

In summary, directing the agent to specific markets is not as important as training the agent to perform well when in a market.

MR. DAVID E. GOODING: In theory, the combination company marketing system has several of the benefits of a multi-line marketing organization mentioned by Mr. Abkemeier:

1. The agent is hired into an existing geographic debit with a base of compensation that does not depend upon his ability to prospect for new sales.

2. In collecting premiums on in force business from his debit, the agent is provided with a natural market for the sale of new business.
3. The agent can begin his sales activities with basic products and can move on to more sophisticated products according to the nature of his market and his own motivation.

Mr. Abkemeier earlier mentioned that multiple line companies showed a four-year retention rate greatly superior to that for ordinary companies: 43% vs. 13%. However, agent retention rates for combination companies indicate that combination companies have experienced no better, and in many cases worse, four-year retention rates than ordinary companies.

Obviously, the superficial similarities between multi-line systems and combination company systems have not been reflected in the agent retention records of combination companies.

MR. ZARET: In recent years we have devoted the time and the resources necessary to develop a solidly based persistency tracking system. Previously, persistency studies were irregular and haphazard, with data taken mainly out of our valuation files. Such data, however, do not provide persistency results in enough detail to determine appropriate field management actions. We now make three major analyses of persistency.

One is a policy year lapse study on what might be called a true actuarial basis. Policies are traced from anniversary to anniversary. Lapse rates are normally produced by policy duration, issue age, mode, plan, size, underwriting class, sex, etc. Additional breakdowns are available on demand. We can also make various geographic splits and derive separate lapse rates by individual agency. This has given us the ability to look closely at areas where problems with persistency may exist.

Our second type of persistency monitoring uses a running four-year record which is maintained for every agent on the business he has written. This four-year persistency affects the agent's renewal commissions.

The third major persistency analysis we do is the calculation of a LIMRA-type 13-month lapse rate for each agent for leadership qualification purposes. A true actuarial first year lapse rate would be more precise, but the LIMRA-type rate provides a more immediate picture of lapse results, since the actuarial rate cannot be calculated until more than a year after a group of policies has been issued.

Factors affecting persistency are both numerous and interdependent. At a given duration, mode is probably the most important element affecting persistency. Our first year lapse rate is approximately 9% on annual mode and 26% on regular monthly mode. This relative variation diminishes at later durations, but never disappears. Size of policy is also an important factor, although, for some reason we are still not sure of, our persistency deterioration rates as size of policy increases up to \$50,000 and then improves in the usual fashion.

Approximately seven years ago, we instituted an experimental program to report to each agent a profile of the business he was writing. Sales by insured's occupation and income, among several other factors, were compiled and organized for presentation. Because a number of these special charac-

teristics were not regularly carried on our electronic files, the data had to be entered by special manual procedures. Inasmuch as the expense of this program began to outweigh the perceived value of the data collected, the program was abandoned. However, based on what was already captured, we made a number of specialized persistency studies, which were a revelation to our marketing people.

While most people had inherent feelings for the causes of high lapses, no one had concrete evidence on the subject, and some intuition was less than accurate. For example, we found that not all term insurance has poorer persistency than permanent insurance. Decreasing term, particularly of the mortgage variety, rivals whole life for persistency honors. On the other hand, family plans have a disastrous first year lapse rate.

A direct result of these studies was the development of a persistency rater, applicable to our company, which takes into account items such as occupation and income. We now maintain computerized records on the persistency rater for verification against actual persistency.

There is a close relationship between persistency and agent retention. We believe that a predictive device can be developed which indicates the probability of agent termination by the level of persistency of his business. The agent who is about to terminate tends to write poorer quality business; and, the closer he is to termination, the worse the quality becomes. Thus, an agent with deteriorating persistency has an increasing likelihood of terminating.

In recent years, we have pressed very hard to improve the quality of our new business, and the efforts have borne fruit. We have reduced our first year lapse rate from 26% in 1973 to about 18% currently. This was accomplished through changes in our compensation and recognition plans for both agents and management, and by concerted efforts to shift the modal mix of new business away from one that was primarily monthly.

The important point is to keep steering agents in the direction of quality markets. We firmly believe that quality is determined at the time of sale and have designed our programs according to this philosophy.

MR. ABKEMEIER: Many studies can produce persistency data which is interesting, but is of limited value for helping to achieve management objectives. Several of the types of studies listed on today's agenda fall into this category.

There may be some correlation between poor persistency and poor markets, but we have found a much stronger correlation between poor persistency and poor agents. The first priority is to improve the agent's ability to sell his customer on the need for the policy and to reinforce this need at the time of delivery. Only after this problem has been solved should any emphasis be placed on directing the agent to better markets. At this point, however, a second problem arises; the agent is probably in the "poor markets" because he feels comfortable in them, and little will change his ways unless there is a financial incentive. With an incentive, he can probably figure out the solution to the problem, even without highly developed market analyses to guide him.

Multiple line companies do not seem to make persistency studies other than those which aid the actuary in the premium determination process. This is due to the fact that the agent is selling to the same customers as in the other lines. The studies by education, occupation or income may be counter-productive, by encouraging the agent to narrow his sights. This is hardly what is desired unless some category is totally unprofitable, and I doubt that this conclusion could be drawn about any category.

MR. BRZEZINSKI: Periodically, LIMRA "follows up" one of its industry buyer studies by obtaining persistency information for 25 months after issue on a sampling basis designed to produce a representative profile of the insurance buyer and the type of insurance purchased. The profile information includes education, occupation, and income, as well as policy characteristics and other factors that have proven to be consistently related to persistency, such as previous ownership of life insurance in the same company, agent information, and size of policy. The last published report was based upon business sold in 1966 observed through 1968.

LIMRA is currently in the process of tabulating the results of a similar study based upon business sold in 1974. A review of the preliminary data confirms Mr. Zaret's remarks about the relationship between persistency and agent retention. Of course, business written by experienced agents exhibits decidedly better overall persistency than business written by new agents. However, within each group (new and experienced) the business written by those who have terminated shows much poorer persistency than the business written by the survivors.

Many LIMRA members conduct similar studies based upon their own data in order to produce customized persistency raters that are to be used in field management. LIMRA encourages the use of such raters at the agency level to spotlight situations that require special conservation efforts for agents.

MR. SCHWARTZ: I would like to make a comment about the validation of persistency raters. As indicated by LIMRA's Long Term Lapse Study, the persistency characteristics of high early cash value plans differ significantly from those of other permanent plans of insurance. Such plans have higher first year persistency rates and lower second and third year rates. Therefore, if a significant percentage of your new business is represented by high early cash value plans, your persistency rater should be tested and validated against either a 25 month or 37 month persistency rate rather than a 13 month rate. This comment applies equally to the design of persistency incentives to be included in agents' commission scales and field supervisory compensation formulas.

It takes time to develop an overall persistency rate on an agent's business. The rater can be used as an early indicator of what the new agent's persistency rate is likely to be and used to direct him to markets where it is likely to improve. Suppose, for example, the average rater score of business submitted by a new agent during his first 6 months under contract is less than a specified level. A persistency problem may be developing. To improve the persistency of business submitted, the new agent may be prohibited during the subsequent 3 or 6 month period from submitting applications with rater scores below the specified level.

The rater can also be used as part of a program to improve the persistency of business written by an experienced agent with a poor record. For example,

a probationary period may be established during which only applications which have a rater score in excess of a specified minimum may be submitted.

Punitive rather than remedial actions may be taken if poor persistency continues. An example would be withdrawal of the privilege of receiving annualized commissions on business payable more frequently than annual from agents with a poor persistency record (i.e., commissions would only be paid as earned). Another alternative would be to bar agents who would otherwise qualify for attendance at agent recognition conventions from participating if they have a poor persistency record.

MR. ZARET: We attribute most of our improvement in persistency since 1973 to the introduction of persistency factors in compensation and to increased recognition of those with good persistency records. The changes were made when we recognized that the persistency level in our company had deteriorated to a point which was no longer acceptable.

Our plan now has a persistency element connected with agents' first year commissions which we feel is unique. If a policy lapses before at least one premium is paid in the second year, we pay a less-than-proportionate amount of first year commissions. For example, if a policy lapses after only six months' premiums have been paid, the agent receives only 30% of the full first year commission rather than half. If premiums are paid for the full first year, but no premium is paid in the second year, the agent receives only 90% of the full first year commission.

Persistency also affects our renewal commissions through a compensation element based on four-year policy persistency and production. The amount varies with results, equalling about one-third of renewal commissions on the average (although it can go as high as 80%). If an agent's persistency falls below a certain minimum, there is no gradual tapering, but a precipitous drop to a zero amount.

Management compensation plans have persistency features similar to those for agents, plus an additional factor which requires the meeting of specified first year persistency standards.

Another area which we feel is extremely powerful in communicating the importance of persistency is recognition. Both agents and management must satisfy persistency requirements based on first year lapse rates according to the LIMRA 13-month formula in order to meet leadership qualifications. Maintaining persistency records by individual agent is a big job, but the results have been gratifying.

There is a common understanding among everyone in the company that we are committed to quality business. We have generally taken a hard stand and denied requests for lapse charge exemptions. We are interested in what an agent's persistency rate is, not why policies lapse. This rather stern attitude has helped convey the quality message.

MR. SCHWARTZ: I have mixed feelings regarding the effectiveness of persistency incentives in commission scales and field supervisory compensation formulas. Typically, persistency incentives are only part of overall company programs to improve the quality of business. This makes it difficult to determine whether persistency incentives or other programs are the cause of persistency improvements.

Consider the current method of field compensation. First, the compensation generated by new sales is much higher than the compensation derived from the conservation of existing business. Possibly with the advent of products like Adjustable Life, which require a significant field commitment to service, current compensation patterns will change and the gap between first year and renewal compensation will narrow, although I doubt it.

Secondly, consider the proposition that once a policy persists 2 or 3 years, actions by the field underwriter will have minimal impact on persistency, except to stave off replacement efforts by other companies and to service the business to the extent that it can be a source of repeat sales and referred leads. Once the policyowner becomes accustomed to paying premiums, the persistency of that business is determined.

While persistency incentives in compensation formulas and commission scales may, therefore, do little to improve persistency, their absence may be extremely detrimental to a company's efforts to improve persistency. These incentives, in conjunction with other company persistency programs, alert the field to the company's commitment to improved persistency.

The use of the word "incentives" may not be appropriate in this context, since it is difficult to determine their effectiveness in achieving the desired results. I prefer the phrase "persistency income", since from the corporate viewpoint the payment of persistency income is an excellent method of allocating resources to individuals who achieve the desired result -- improved persistency. The following forms of persistency income are worthy of consideration:

For a field underwriter, persistency income may be determined as a percentage of all renewal premiums. The percentage should increase as the short term persistency rate (25 months or 37 months) increases. (The reason for using the short term persistency rate is, as I indicated earlier, that field underwriters exert little control over the persistency of business after the first few contract years.)

For a field supervisory unit (either an agency or a group of new agents), an expected number of short term lapses should be determined for a given time period, e.g. a calendar year, based upon the sales volume of the unit. The supervisor would then be charged or compensated for each lapse in excess of or below the standard.

MR. ABKEMEIER: Persistency incentives are the most effective tool in developing good persistency with good growth, because you have the agent's pride and his pocketbook working with you. Some other methods tend to narrow the agent's potential market and may develop good persistency at the expense of limiting the agent's success or company growth. The emphasis on incentives rather than limitations is most important in a marketing system where the agent has alternate lines to sell and could forego life sales if restrictions are imposed. I think it is the right way to go in a single line company as well because of the psychological make-up of an agent.

One method which appears to be quite successful is to require a specified persistency level to qualify for the annual agents conference. The agent's professional pride and desire for recognition causes this to be a very successful method. This could also be a prerequisite for eligibility for

various specialized training seminars. Another widely-used method is the direct payment of a bonus for the production of business of sufficiently high quality.

Several features are important in the design of a successful incentive program. The most important is that it must be easily understood by the agent. He must be able to follow his progress through the qualification period so that he knows what adjustments are needed.

The persistency measure must also be rather swift in its response. Earlier, Mr. Zaret mentioned that a 13-month LIMRA calculation was better for some measures than data developed from an anniversary-to-anniversary study because of its early availability, even if it was not as accurate. For a good incentive program, I feel it is important to develop a persistency measure which is even more rapidly responsive to the agent's efforts. A measure found to be very effective by multiple line companies is the ratio of business still in force to business issued, based on the production of the most recent one or two calendar years. This measure has the further advantage that it has some room for satisfying it not only by good persistency, but also by new business growth. This flexibility is good, as long as it is consistent with company objectives.

Another desirable feature is to establish discrete, plateau levels so that the agent has a particular objective. This is more easily accepted than having a continuous sliding scale, which never presents the agent with a psychological breather.

Finally, any direct financial bonus must be large enough to be effective.

MR. BRZEZINSKI: Most companies find that persistency incentives in compensation plans do result in improvement in persistency measures. However, it is often unknown whether this phenomenon is the result of an actual improvement in persistency generally, persistency manipulation to fit the measure used to determine the bonus, or the gradual post-selection of agents with poor persistency.

Companies are making persistency incentives less susceptible to manipulation than they have been in the past by avoiding measures that offer significant incentive for manipulation (such as a measure based upon first year persistency only).