

## AS TO THE EFFECT UPON THE AGENT.

Very little need be said on this score. It is obvious that the sole gain to the agent is the credit he gets for the increased amount of business written by him. His monetary compensation is either cut in two or practically annihilated. His excuse is that others do it, and that he only adopts the practice when he cannot get the business by legitimate methods. Thus does the agent injure himself permanently to gain a temporary benefit, and thus also bring his calling into contempt.

And now, as to the value of rebating to the man assured.

On first thought it might seem difficult to show that a heavy rebate is of no value to the recipient. Nevertheless, this is true, as the following reasoning will clearly show:—

To find the net premium to provide for a death benefit involves no guess work. With the Mortality Tables now in use it can be exactly calculated. It is in no sense an arbitrary matter. It is a predetermined quantity. Now, it follows that if the first of the premiums paid be heavily rebated, the agent must be in receipt of a high commission and the company must lose unless this great expense is provided for. How is this done? Simply by loading up all the premiums on the policy. Therefore, although the assured thinks he is getting "a good thing," he is really "paying through the nose." It is just as true of life insurance as it is true of any branch of business—heavy discounts on one line of goods demand heavy profits on another. If the first premium is "slaughtered," to use a departmental store expression, the premiums, on the whole, must be made higher.

There is one man who suffers very unjustly in this matter, namely, the man who accepts and pays for his contract in good faith, without asking for a rebate. He is unfairly discriminated against under existing conditions, and is fleeced to help pay for the other man's risk.

## II.

## THE CAUSES OF REBATING.

The prevalent idea is that the agents alone are to be blamed for the rapid growth of this practice. But with this view I do not agree. I am persuaded that the responsibility for the present regrettable state of affairs lies almost wholly with the management of those great enterprises that cut so wide a swath in the field of life insurance, and I shall try to prove that in their actions may be found the prime cause of the abuse that has now attained so great proportions.

The chief aim of a life insurance company is to reach a financial position so sound that its contracts are absolutely certain to be fulfilled. Next

in importance ought to be the protection of its policy-holders at the lowest possible cost, and to do this the business should grow in a natural and healthy manner. But how many companies do we see living up to this ideal? This truly vital consideration seems to have been disregarded and one which should be secondary and subservient preferred. The managers have been obsessed with the idea of procuring large amounts of new business, with little regard to cost. No price too great to satisfy an insatiable desire for an ever-increasing volume of business! Now I hold it to be beyond dispute that a forced business can be acquired only by exceptional measures involving heavy expense. What are the methods adopted to attain the end desired? Agents are allotted a great volume of business to be written in a given time—a volume far in excess of their former production—and high pressure methods applied to procure it. Excessive commissions are offered on new business, without regard to the adequacy of the premiums paid to support the cost and pay for the risk. Competitions are instituted between the agents and handsome prizes awarded the winners. Big bonuses are offered for a certain large amount of business to be secured in a given time. The result of all this is to put a premium on rebating. He who fails by a margin to accomplish the task set is tempted to pay the entire first year's premium on the amount by which he is short, knowing that the bonus or prize he will thereby earn will repay him handsomely for the sums disbursed. Other companies are forced to adopt similar means; competition runs riot, and rebating grows into universal practice. There follows naturally the unsightly record of enormous lapses in new business, convincing proof of unsound business principles. The factor of persistence, by which alone the company and the assured can hope to profit, is ignored. The method of granting excessive commissions on first year's premiums not only enables the agent to allow large rebates, but also offers small inducement to him to prevent his clients from lapsing, all his energies being bent to secure new business.

\*Since the above was written, there has appeared an article in the "Journal of Insurance Economics," which confirms the conclusions here reached. The article contains an analysis of the last thirteen years' business of the New York Life, and gives striking examples of two important arguments. (a) Out of \$2,679,000,000 of new business placed during thirteen years, 44.2 p.c. disappeared from the books for other than natural causes of death and maturity. That is while the expense on the surface represents the cost of writing nearly \$2,700 millions of business, it actually represents the cost of writing and maintaining, but 55.8 p. c. of that amount. (b) The failure of the infusion of so much new blood to improve the mortality experience, which has remained practically stationary. These results must, of course, be common to all those companies that are writing a forced business.