

valence of this evil, even in the business secured by men who *do* recognize it as an evil, and are earnestly desirous of avoiding it, depends largely and almost entirely upon whether their competition is against other men, who either willingly or unwillingly are offering the inducement of a rebate. It cannot be denied, however, that in a vast number of cases, the condition that gives rise to the allowance of a rebate does *not* result from fierce competition, but the agent *voluntarily* suggests or offers a rebate in the belief that his so doing will prove to be the readiest means of assisting him in his effort to build up a *large volume* of new business irrespective of its *quality*. In such cases, it appears that the soliciting agent must be *overpaid*, according to his own estimate of the value of his labor and services, the measure of that overpayment corresponding exactly with the amount of the rebate that he gratuitously volunteers to allow—or else we must adopt the only other reasonable alternative to this proposition, that the basis of original compensation is in itself injudicious and erroneous, which does not alter the fact that that part of the compensation which is based upon the first premium payment is excessive.

If our assumptions are correct, and if the reasonable deductions that we draw therefrom are tenable, it logically follows that, in the majority of cases, the too generous compensation allowed to the soliciting agent for the services he performs (or the injudicious method of determining it), together with the unhealthy and unrestrained competition that has so long prevailed, are the principal causes which appear to be directly responsible for the rebate evil.

In making this radical assertion, I do not wish to be understood as necessarily inferring that the *non-rebating* agent, who receives the same compensation as does the agent who makes the rebate, is an overpaid man; because, I *do* believe that the *quality* of the business put upon the books of his company by the agent who, under no consideration, will consent to make a rebate, makes it worth to the company every dollar of the money that it pays to him; while, at the same time, I cannot escape from the natural inference that the rebating agent places upon the books of his company a business of much inferior value. Consequently, the excess of compensation paid to the rebating agent is, at least, equal to the amount which he gives away in this manner.

Not until the compensation of the soliciting agent is so graded as to make it correspond exactly with his necessities, and the true value of his services, and not until the competition is restrained within healthy and natural limits, can rebating become a thing of the past, and cease to be an element of danger to the life insurance companies.

Bear in mind that I am now endeavoring to determine the *causes* of the abuses to which the system of life insurance is subjected, several of which abuses I enumerated in the treatment of this subject in the last issue of this Journal. Later contributions will be devoted to the *effects* that grow out of them and result from them, and to the suggestion of *possible remedies*.

Why is it that such an enormous volume of business is written upon apparently *bona fide* applications, and yet never *paid for*? What is the cause of the alarming lack of persistency of such an overwhelming proportion of such business as really *is settled for*, and bears every outward appearance of having been legitimately secured? Of course every policy applied for and written is a costly experience to the company writing it, if it be ultimately returned to the company for cancellation, as unsettled for, or what is technically termed "Not Taken." No one knows this fact better than the agent who took the application, and yet it is beyond question that in the majority of such cases, the soliciting agent knows that he has not a ghost of a chance to collect the premium. Knowing this, he, nevertheless, writes up the application, and deliberately puts the company to the expense of a medical examination in order to make an illusive showing, and to make it appear that he is working diligently. No policy is profitable to a company unless it be persisted in, at least, long enough to reimburse the company for the original cost of writing it.

A large volume of "not taken" business, and a general lack of persistency in all the business written, are two of the worst evils from which a life insurance company can suffer, and the most effective hindrance to its progress. Two easily recognized causes are primarily responsible for both of these evils, and they will never be effectually eradicated until the causes that induce them are removed. These causes undoubtedly are the pernicious system of rebating, and the writing of new business under far too high a pressure—an unhealthy condition of absolutely unrestrained competition, that has in view the sole object of writing the largest possible volume of new business, without the slightest thought as to its quality, and without bothering to test the question whether it is worth having or not.

In 1894 the insurance that lapsed for non-payment of the premiums due in the second year of policy existence reached the almost inconceivable amount of about seven hundred millions of dollars. The plain, common-sense meaning of such an exhibit as this is that certainly five hundred millions of that business should never have been put in force, because it never was intended to be renewed beyond its first year. The companies, in their good faith, paid for that five hundred millions of dollars of new business precisely the amount that they could have afforded to pay for it on the assumption that it was good, clean, desirable business, and would prove to be of a reasonable and satisfactory degree of persistency. As it transpired, however, they paid for it far more than it was worth, and the excess of its cost became a dead loss to the earnest, conscientious and *bona fide* insurers. This disastrous showing was undoubtedly very largely the fault of the companies themselves; because it must be patent to all impartial observers that they not only tacitly permitted the continuance of unprofitable conditions of competition, utterly irreconcilable with the requirement of good and *persistent* business, but even offered inducements calculated to make the condition still worse.