ABOUT CONTINGENT COMMISSIONS.

That commissions to agents constitute one of the troublesome and unsettled questions in conducting the fire insurance business, everybody familiar with the business knows. Companies periodically examine the question in the light of changing experience, come to conclusions, and then abandon them, and start out in quest of new conclusions, and boards of underwriters every little while wrestle with the question, settling and unsettling it with the moon's changes, only to find that the last settlement is eminently unsatisfactory to both the agents and the companies. How to adjust rates to meet the various hazards is a scarcely more troublesome matter than how to fix and maintain a scale of commissions that shall give satisfaction to all parties concerned. The agent is in the business to make money, so are the companies, and in Canada and the United States, where if the agents do not own they certainly mainly control the business, concessions have to be made pretty freely. Numerous suggestions have from time to time been made by managers and by agents for some satisfactory basis of fixing commissions which has the elements of permanence, but up to date no plan upon which all parties will agree has been presented.

SYSTEM OF CONTINGENT COMMISSIONS.

Among the plans advocated, perhaps the most important, and possibly the most correct in theory, is what is known as a system of contingent commissions. At first sight it certainly would seem that both the equities of the situation and the lessening of the loss ratio may be approximately secured by making the agent's compensation largely dependent upon the profits arising from the business which he is supposed to control. Unquestionably the interests of the company and its field representative are mutual, or should be; but how shall that mutuality be best recognized and be made to bear practical results of the kind desired? Of course the underwriting profits of the company depend upon the difference between what it receives and what it pays out or becomes liable to pay out. It follows that, with a given fixed rate of premium, the less the losses it is called upon to pay, other things being equal, the greater the margin of profit. It is the theory of the advocates of contingent commissions—and the theory is a plausible one—that if a fixed commission rate of, say, half the ordinary present rate were adopted, with a percentage of profit additional, graded according to the margin of profit realized, there would at once be furnished the strong motive of self-interest for the agent to apply the methods of "selection, inspection and protection" to all the risks he may place. Well knowing that his income largely depends upon the extent of the loss occurring in his agency, he will naturally look well to the moral and physical hazard, and have a constantly watchful care that conditions unfavorable to fire origin and favorable to fire extinguishment exist. He knows that if the company makes money on his business he will be correspondently benefited, and there is no incentive like self-interest.

AN EXAMPLE OF ITS WORKING.

In order to see the working of this theory, let us suppose the adoption of the following basis and assume that the loss ratio will be as stated: Let there be a fixed commission of 7½ per cent. on all ordinary business, with a flat 10 p.c. where the loss ratio is not below 68 p.c.; 20 p.c. for a loss ratio not exceeding 55 p.c.; 25 p.c. where the ratio is not above 50 p.c. nor below 40 p.c.; and 30 p.c. for a ratio of 40 p.c. and below. We use these figures simply to illustrate the working of the plan and not as necessarily expressing the best form of gradation. Now, suppose a company to have ten agents who are comparatively careless risk-takers, and fifty who, fully alive to contingent profit, are cautious in the taking and watchful in the care of their risks, and that each of the sixty agents collects $20,000 annually in premiums. The ten have a loss ratio of 70 p.c., which, on the $200,000 of premiums, means $140,000 of loss. The 7½ p.c. commission amounts to $15,000. The general expense of management outside of commissions, may be set down say, at 18 p.c., or $36,000. The combined losses and expenses will therefore be $191,000, or within $9,000 of the total premiums. The fifty agents report $1,000,000 in premiums. Suppose the loss ratio to be 45 p.c., and we have $450,000. The general expense, aside from commissions, at say 18 p.c. of the premiums, is $180,000. On this class of business the agents would be entitled to 25 p.c., or $250,000, making the combined losses, expenses and commissions $880,000, leaving a trade profit to the company of $120,000. This is equal to 12 p.c. of the premiums, while the compensation to each agent is $5,000. On the class of business done by the ten agents first named the companies realize a sum equal to 4½ p.c. of the premiums as profits, and each agent, though collecting $20,000 in premiums, only gets $900. In the one case the agent being a loss-saver makes money both for himself and for the company, and in the other case makes next to nothing for either..

A greater loss ratio than 70 p.c. or a lower ratio than 45 p.c. would, of course, give results still more striking by contrast. On the supposition of intermediate loss ratios compared with a high ratio and 7½ p.c. commission, the resulting difference would be less marked but still illustrate the same principle. So much for the theory as we can imagine it applied. There are, however, some practical difficulties in the way of a general application of the plan, including the large cities, which seem to be not easy to remove. The subject is one, notwithstanding, which will bear candid consideration.