

10 per cent. of the premium and the companies have paid the commission at the maximum rate.

This is not an imaginary case. It is the regular practice. By this means all business reaches the companies at the maximum rate of commission, and any special increase in rate of commission to one agent means an increase on the whole business of the company, because all their business immediately comes in through that door.

As in the former instance in the final result the public pays.

Too Many Agents in Business

Then there is a somewhat different circumstance which is particularly acute in our local situation. In addition to producing excessive rates of commission the system has attracted too many agents. These two go hand in hand and I am of opinion that the remedy of the excessive commissions would speedily correct the other fault.

At present, however, the business is loaded with a great weight of illegal and unearned commissions. In addition to the general or special agent and the soliciting agent there are many others who render no useful service for the commission they receive. Some are merely feeders whose service consists not in urging or soliciting insurance, not in keeping records or inspecting and supervising risks and covering, but merely in directing business to a particular company that would otherwise have gone to another company just as good. Some are merely beneficiaries of favor to whom the payment of a commission is made a condition of obtaining the business. Some are merely straw men set up for the purpose of collecting an illegal and forbidden commission.

Let me give you a few examples to show exactly the kind of transaction I have in mind. A certain manufacturing concern in Toronto employs a clerk whom they call their insurance manager. He has charge of the placing of the whole line of insurance on a very large plant. His employer pays him a salary of \$3,000 per annum. He applied for and obtained a certificate of authority as an insurance agent. He notified his broker that as an insurance agent he would expect to receive the regular rate of commission. His broker said, "Have you a license?" "Oh, yes, indeed—an Ontario government license." "Well, then," said the broker, "I suppose we shall have to allow you the usual rate." The broker knew very well that if he refused he would lose the account and some less scrupulous competitor would accept the proffered terms. So the pseudo-agent collected his commissions and returned them to his employer who made a handsome saving on his insurance premium account.

Now, Who paid that rebate? Not the company. They would have had to pay the same rate of commission anyway. Not the agent, for to him half a loaf was better than no bread. It was the insuring public who do not get rebates who paid that rebate in a resulting higher premium rate.

Employees Secure Commissions

The secretary of a wholesale house in Toronto has in his busy life had time to attend to a few small lines of insurance and carried an account with a firm of general agents. Of course he controls the placing of his firm's business and what more naturally than that he should pass it through the same account and collect a very substantial sum by way of commission. He holds a license from my department; whether his employer knows of this source of income of his secretary or not, I cannot say.

There is a trust company in Ontario which has established what purports to be an insurance department in their business. I endeavored to learn whether or not this was a bona fide agency doing a general insurance business, but my conclusion was that the business handled was almost exclusively the placing of insurance for estates for which it was trustee and other clients for whom it acted as financial agent. I am advised that it is a breach of trust to accept a commission from a third party when acting as trustee for party number one and that the Criminal Code provides a penalty for the receipt of secret commissions. Yet this trust

company is prepared to defend its right to fire insurance commissions.

It is a common practice for life insurance companies in our province to take a license as an insurance agent on behalf of an officer or clerk in the mortgage department and collect insurance commissions on insurance placed in connection with its mortgage loans. Like everything else in life insurance it is all for the benefit of the poor policyholders and their widows and orphans. What right a life insurance company has in the fire insurance agency business I never could understand. I never saw any such authority in a charter of incorporation. It scarcely befits the dignity of our life companies to grasp at this trifle.

And then there is the solicitor. Well, I leave it to your individual experience as to the value of his services as an insurance agent. Of course most of the risks he brings in are residences and perhaps, all told, it does not amount to a great deal.

But all of these unnecessary commissions add to the cost of insurance to the public and are a factor in the fixing of the prevailing insurance rates which all agree are excessively high.

Ten Thousand Agents in Ontario

I can indicate the extent of the practice in Ontario by telling you that last year more than ten thousand licenses were issued to insurance agents in the province and I have good reason to believe that more than 15 per cent. of this number were not bona fide insurance men holding themselves out in good faith as insurance agents.

The Hon. Mr. Justice Masten in his report as Insurance Commissioner, printed in 1919, records the following conclusion: "The result is that owing to the competition between the companies, and the control which agents have over the business, the expense of insurance is increased to the public, without any chance of its being lowered by competition or other ordinary means, and the public, who have to pay in the end, are unable to lower the expense in any way unless by legislation. The companies themselves are powerless to completely deal with the difficulty."

Mr. Justice Masten records that during the year 1917, out of \$100 of premium collected by the agent for insurance companies, approximately \$33 was absorbed in expenses. Of this \$33, \$18.60 was paid in agents' commissions, but he adds that he is of opinion that at the present time the expense is higher than 33 per cent. and in the city of Toronto the evidence indicates that it may run as high as 45 per cent.

Provinces Should Regulate

It is on the basis of the foregoing that I formed my thesis that it is the duty of the provincial insurance department in the interests of the public to assume the duty and responsibility of regulation of insurance agents and insurance commissioners; not to turn the conduct of the business into unnatural channels, but to permit the agency system to function normally and efficiently; not for the protection of a privileged and closed class of licensed agents, but for the general advantage of the insuring public by way of lower insurance costs; not for the purpose of imposing a tax upon the insurance business, but for the removal of existing evils already mentioned and the improvement of the service rendered by the insurance agent.

But in most of the provinces we have already a regulation of insurance agents by licensing system. The question is, Does it regulate? I will answer for Ontario: It does not. In Ontario the practice has been, as stated in Judge Masten's report, to issue to every applicant on payment of a \$3 fee a general license constituting the recipient a general agent for all classes of insurance. No examination scrutiny or inquiry of or regarding the applicant's fitness has been had heretofore. All that was required was that the applicant should represent a licensed company, should be a resident of Ontario and should pay the fee of \$3. I have after careful investigation concluded that the existing license system has been a bane rather than a blessing to the

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