

(Concluding Contribution.)

LIFE INSURANCE ABUSES—THEIR CAUSES, EFFECTS AND SUGGESTED REMEDIES.

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The deliberate conclusion, which I have reached from a careful and conscientious study of the most pronounced abuses observable in the practice of life insurance, is that they are attributable primarily to three grave errors committed in the practical working of the business, and these errors are the direct cause of most of the unsatisfactory conditions and results of which we have such abundant cause for complaint.

In determining these causes and their remedies, I have not only given due weight to the theoretical considerations of the Actuary, but also to the practical every-day working of the business from both the office and the agency standpoints. Instead of finding a conflict of interests or conditions, I am quite satisfied that the remedies that would be the most effective and the most acceptable to the companies would also result, in the long run, most beneficially to the agents themselves. Naturally, any proposed remedy that appealed forcibly to purely theoretical conditions would be utterly inexpedient if it demonstrated itself in a manner absolutely inharmonious to agency requirements.

The three principal causes to which nearly all our latter day troubles are referable are

1st. The excessive commission paid to the agent on the first year's premium on the insurance he writes;

2nd. The pernicious and widespread abuse of giving away to the insured a material part of the commission, so allowed—commonly called "rebating";

3rd. The concentration of responsibility in the hands of State or Department managers, and the resultant breaking down of the sense of individual responsibility for the quality of his work, that every really valuable sub-agent must necessarily feel in order to do *good* work.

The second cause becomes merged in the first, because it is only because of the high rate of first year's commission that the practice of giving rebates is possible. Rationally, if the cause be effectually removed, the logical effect of it must disappear. The remedies I propose are:—

1st. To materially cut down the first year's commission, and raise the renewal commission to a figure that would constitute the very strongest incentive to the agent: first, to secure nothing but *good and legitimate business*; and second, to retain it upon his books, and do everything in his power to encourage its persistency.

2nd. To gradually break up the large territories entrusted to the supervision and working of general agents; and to contract with successful men, now working as sub-agents, to act as managing or general agents in comparatively small and easily handled areas of work.

3rd. The very careful adjustment of any salary compensation allowed to general agents, so as to restrain it within the limits of his personal needs, and put it out of his power to use any part of this compensation to enable him to bid more for business than it is really worth.

4th. The total abolition of the vicious and unreasonable system by which bonuses are offered for extraordinary efforts in securing large lines of business—generally resulting in procuring business of a character that makes it not worth having at any price.

If these suggested remedies were put into practical effect, I am quite satisfied that inside of two years the ratio of lapses on new business would show an astonishing reduction; and the character of the entire business would show a vast improvement.

Just what adjustment of first and renewal commissions should be effected, it is very difficult to say. It is a matter requiring very careful consideration indeed, having in view the payment sufficient to really compensate the agent for his time and trouble, but above all to make it *all-important to him* to secure *none but "renewing" business*.

First year's commissions are very large, but they vary in different companies beyond all reasonable expectation. They are so large in fact that not even a fifty per cent. rebate excites any particular surprise, or can be claimed, in these days of "rebating run mad," to be an unusual occurrence. Whatever the rebate may be, it is a most faithful index of the amount by which the commission exceeds the just and due proportion; and it ought to be reduced until no longer offers an incentive for forced and unprofitable business. All the reduction that is effected in the first year's commission—or even more—should be thrown upon the aggregate of the successive renewals; so that ultimately the allowance to the agent shall be as much as—or even *more* than—is now allowed him. To effect this, renewal commissions may perhaps have to be doubled; but the companies could amply afford it, because they would then throw upon *productive* business that yields a premium income sufficient to bear it, a burden now attempted to be cast upon the first year's premium *alone*, and which in a large measure becomes a charge upon accrued surplus.

Suppose the first year's commission to be fifty per cent., and renewals to be five or seven and a half per cent. for ten years. It would be infinitely preferable to pay a level commission of fifteen per cent. throughout this term, or even during the entire existence of the policy. Furthermore, I do not hesitate to say that a level commission of seventeen and a half per cent., or even twenty per cent., paid upon every premium for the first ten years, would be infinitely preferable to a continuance of the present unprofitable system.

This course would secure a *persistent business*. The companies could far better afford to pay it, than they can now afford to pay the price it costs them to secure applications for insurance under present conditions; even if the necessities of the agents' business rendered it expedient to make them some present "advances" secured by a pledge of some part of their enlarged renewal commissions.

I therefore commend to the attention of practical life insurance men the consideration of these two suggested remedies for the evils that afflict us:

1st. The adoption of a level commission rate upon