

I am, therefore, an ardent defender of the agency system—not, please note, in the form in which it is administered in Canada to-day—but in the form in which it may be and will be administered when the requirements of efficiency and economy bring it to its best development.

#### Some Weaknesses of Agency System

Let me now point out some of the inherent anomalies and weaknesses of the present agency system:—

1. There is at present a great confusion in the relative responsibilities and duties of an insurance agent and an insurance broker. Every agent wishes to be the sole and exclusive agent of his company. Every agent also wishes to hold himself out as a broker representing the interests of the assured and interested in securing for him the best possible treatment. This is particularly so in the case of the non-resident company, represented by a general agent. The general agent is authorized to represent and bind his company, but considers it his duty at all times to secure for the assured the lowest possible rate of premium, and in any dispute which arises between the company and the assured, he expects the privilege of presenting the case for the assured in its strongest possible light.

#### Method of Remuneration

2. The very form of remuneration paid has added to this confusion. To quote from a paper written by the Honorable John S. Patterson, Texas State Commissioner of Insurance and Banking, speaking of agents' commissions, he says:—"Most vital of all is the method adopted by the company in compensating the agent. If you are faithful you are penalized; if you are unfaithful you are rewarded; I assert there is not one act you can do for the protection of your company which does not diminish your compensation. If you refuse to accept a hazardous risk, you get nothing; if you seek to eliminate the moral hazard by reducing the insurance, you reduce your commission. If you aid your company in resisting a fraudulent claim, you lose your customer. If you over-insure, you get your share of the profit. If you refuse or cancel a hazardous risk, you lose the business and the commission to your less scrupulous competitor. Under these conditions, what chance has the faithful agent when in competition with an unfaithful one?"

I think it is agreed that the very form of remuneration paid has put a premium on inefficiency and been a temptation to prostitute the business.

3. The fact that the assured is not a party to the commission bargain enables the competition of companies for the services of an agent to force up the rate of commission at the expense of the assured and without permitting the assured an opportunity to protect himself.

4. The fact that business is largely controlled by the agent through his personal connection rather than by the company has, under the stress of competition, required the surrender of the control of the policy of the company to the agents themselves.

#### Abuses in Agency Practice

These peculiar features of the insurance agency system have rendered it particularly open to abuse by unfaithful agents and by the natural operation of unlimited competition. Let me proceed now with a statement of some of the abuses of the agency system which are not necessarily inherent in the system but have become concomitants of it.

I must say in the beginning that the conditions I am going to describe exist only in certain localities. I must, of course, limit my statements to Ontario, whose conditions I know at first-hand, and I will hear from you whether or not you find similar situations in your provinces.

In Ontario, outside the city of Toronto, conditions are not unsatisfactory. The service rendered by the agents is good, and the expense is not unreasonable. Being comparatively isolated, the company delegates to the agent consider-

able authority so that the service he renders is very real. There is a fixed rate of commission payable by the tariff companies by agreement on the various classes of risk. The chief danger is revealed by the complaint of the local agent that all the big business of his district is handled through some Toronto or Montreal office. I am informed on reliable authority that 40% or more of the business written in Toronto is written on property situated outside of Toronto. The public is vitally concerned in this circumstance, because, the rates of agency commission being unlimited in Toronto, the business which, if written by local agents, would have cost only 15 or 20%, according to the tariff, may cost 20, 25 or 30% by passing through the hands of Toronto or Montreal brokers. When you calculate the amount of that expense in the aggregate you will find it a very considerable sum.

It is the free or open cities that bedevil the agency system. Halifax, St. John, Toronto, Winnipeg, Vancouver and Victoria are still free cities. Montreal, and I believe a number of your western cities, are free cities for general or special agents. I assume that the same reason is responsible for the other cities being open, as in the case of Toronto, namely, the absolute impossibility of securing any agreement among the companies. Even in cases where agreements have been made, a way out has been found by some ingenious companies through the creation of underwriters' agencies which are mere fictions for the evasion of troublesome obligations.

I know of a very recent example in which this insurgency among the companies displayed itself. A very old English company that had been in Toronto for about ten years employed an aggressive agent. He circularized every barrister and solicitor in Toronto, asking them to send him all the business they could control, and offering to pay them 30% commission. When he was remonstrated with his excuse was that all the usual and legitimate channels for securing business had been taken by older established agencies, and he had to get business somehow.

#### How Costs Pile Up

You know of other methods by which commission costs are pyramided. New companies are constantly seeking an entrance to the Canadian business. They prospect the city for a suitable man to act as general agent. If difficulty is encountered in securing a connection with one of the large firms at a reasonable rate they seek out the branch manager of a well-established company. The transaction is too familiar to you all to need description. The man who was receiving 20 per cent. on an insurance connection of \$40,000 premium income now receives 25 or 27½ per cent. on the same from the new company or his old company advances his rates to hold the agent. In either case the cost of insurance to the insuring public is increased and the service rendered remains the same.

Consider another peculiar development of this situation. Let us suppose that John Smith is a general agent for three companies A., B. and C., from whom he is entitled to a rate of commission of 25 per cent. He is also an ordinary agent for three companies D., E., F., from whom he is entitled to receive 15 per cent. But George Brown next door is general agent for D., E., F. and receives 25 per cent. on their business and ordinary agent for A., B., C. John Smith receives a line of insurance of \$100,000 to place. Naturally he places as much as possible of his line with the companies A., B. and C., from whom he gets the high rate of commission. But they can only take \$60,000. One would ordinarily expect him to place the balance with D., E., F. at 15 per cent. But no; he calls up Brown and says, Have you \$40,000 of insurance for exchange? If it isn't immediately available Brown promises to return it at as early a date as possible, so the free exchange is made and the \$40,000 is placed with D., E. and F. by Brown instead of Smith and Brown collected 25 per cent. In return Smith gets \$10,000 of another line from Brown which he places with A., B. and C., and also gets his 25 per cent. By this ingenious arrangement both Brown and Smith have profited to the extent of