METHODS OF PROVIDING FOR EXPENSES OF OBTAINING NEW BUSINESS BY LIFE INSURANCE COMPANIES

It is a well-known fact that new business is obtained by life insurance companies at considerable expense, involving commissions to agents and fees to medical examiners. Attempts have been made to lessen this expense, but are not likely to have a decided effect in the near future. It seems to be good public policy to extend insurance, even at considerable cost, among persons too careless to take the initiative in protecting their dependents. At any rate, it must be expected that the writing of new life insurance business during a year will remain much more expensive than the handling of an equal amount of old business during the same time.

It should perhaps be stated that the term "expense" as used in this paper does not include the payment of death claims, but means the expense of conducting business.

In dealing with the subject of initial expenses, the question at once arises as to the basic principle on which these expenses are to be met. The expense of conducting business is a very different factor from that of insurance risk, where death losses are distributed over a group of persons on certain principles of mutuality. There seems to be a fair consensus of opinion among insurance authorities that, in so far as it is feasible, each policyholder should pay the expense of placing his policy on the books of the company. Indeed, there is sufficient agreement on this point so that it does not seem inappropriate to state in a textbook for beginners in the study of insurance that "an equitable system of loading must require every policyholder to pay the expenses which his policy costs the company, as nearly as this amount can approximately be determined."[1]

To carry out this principle requires careful consideration of methods of loading, and of computing the reserve liability of a company; for the ideas back of level net premium reserves ignore the condition that expenses are higher in the first policy year than in subsequent years. This fact was emphasized by the statements of eminent American actuaries as early as 1904, to the effect that level net premium valuation laws had strangled young companies

[1] S. S. Huebner, *Life Insurance* (Appleton, 1915), p. 214.