

## REGULATION OF AGENTS, BROKERS AND ADJUSTORS

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insurance business because it has provided a warrant under which an unqualified and improper person might demand and collect, from the company and the public an unearned toll on the insurance business.

**Suggested Methods**

The means of regulation of the insurance agency system for the purposes we have in mind are two: First, the control of the rates of agents' commissions; second, limiting the class of persons who may act as insurance agents.

These two are, as I have already suggested, closely related. I believe that the two go hand in hand. I cannot devise a program for either which does not require the other as its complement.

The first is, however, the more difficult. I must say that the definite suggestions I have to make are not the product of my own imagination. They embody the conclusions reached after earnest study and the discussion of the matter with a number of well-informed insurance men. Neither should you attempt to fix responsibility for the suggestions on any person in particular, for the ideas are a synthesis of the suggestions of several.

The regulation of insurance agents' commissions is not new. Some 15 years ago New York state undertook to limit by statute the amount of life insurance commissions, and that regulation is effective to this date. It was the result of the recommendations of the State Committee of Investigation of the life insurance companies. If I properly understand the history of that time, the statutory limitation of expense was the remedy—or one of the remedies—adopted to curb a condition of wild competition for business, a condition which had many points of similarity with conditions in the fire insurance business of to-day. You will find the provision to which I refer in the famous section 97 of the New York law under a general heading of "Limitation of Expenses." The provision has exercised a very salutary influence on the life insurance agency business. We need not, therefore, hold up our hands in holy horror at the very idea of governmental regulation of commissions.

**Commission of Inquiry**

Now let me put my suggestions very briefly:—

Provincial legislation should be enacted to provide—

(1) For the appointment of a commission to enquire into and determine the proper and reasonable maximum rates of commission to be allowed to agents on fire insurance written. The rates fixed would be graded according to the class of business written. If the commission thought it wise and found it practicable they might also be differentiated on a scale proportional to the total premium paid by the assured on his whole covering, the assured to warrant the amount of his covering.

(2) The rates so fixed should be effective for a certain minimum period to be fixed by the commission, such minimum not to exceed five years.

(3) The rates fixed should apply to all companies doing business in the province and evenly over all sections of the province.

(4) The rate fixed should be the same for general special or local agent.

(5) Agents should be paid either by salary or commission. The payment of salary to a commission agent to be prohibited. All salaries should be required to be definitely fixed by a binding agreement, the amount to be determined in advance.

A variation of this last provision has been suggested. I do not favor it, but I add it for consideration. If a non-resident company requires the services of a supervisor of agents in the province they might be permitted to pay to one man only who might be a commission agent a salary for actual bona fide services rendered and which should be fair and reasonable in the circumstances. I do not favor this

suggestion because it is unnecessary and might open the door to evasion. Any company would of course be at liberty to employ as many purely salaried supervisors as it required, and a salary seems the proper form of remuneration for a supervisor.

On the second subject I propose a control and limiting of the persons who may act as insurance agents by an improved licensing system to eliminate the illegal and unearned commissions that are at present a charge upon the business.

It is repeatedly urged that if the right to collect a commission is refused to many persons who now receive it the result will be merely to concentrate in the hands of a smaller and privileged class the earnings that are now distributed over a larger field. I do not think this is sound.

There are two alternative channels into which these prohibited commissions would turn under such regulations as I propose—either to the companies directly or to the earnings of established agencies. If the first of these is the result I have no doubt that there will be a quick readjustment of the premium rate which will translate the benefit to the insuring public under the pressure of competition among the companies' tariff and non-tariff. If the second is the result and the earnings of the licensed agents are substantially increased, I am sure that is a factor which the proposed commission would take cognizance of, and the advantage would be secured to the public in reduced rates of commission. In either case, therefore, the advantage will be reflected in cheaper insurance rates to the public.

**More Power for Superintendents**

Some further legislation would be necessary to strengthen the hands of the administering officers of the present licensing system. But in general I believe that the chief requirement is a stricter administration of the authority of the department in the matter of the issue of licenses to insurance agents, and the judicious exercise of a wide discretion in that connection.

Superintendents must, for the present at least, undertake the responsibility of saying who should and who should not be in the insurance agents' business. The decision should be made on this test: Is the applicant a bona fide insurance agent, holding himself out as such, who will render in an efficient and economical manner a real and valuable service to the insuring public? I do not suggest that it should be made difficult for any person to enter the insurance business who has an honest intention of rendering service in exchange for his earnings. Quite the contrary should be the case. Competition should be invited and welcomed but the hangers-on, the grafters and the rebaters must in the public interest be eliminated from the business.

To make this program effective I suggest the following means:—

First—the adoption of a form of application and investigation of the circumstances of every applicant for a license which will enable an intelligent judgment to be formed.

Second—careful scrutiny of this information and refusal of licenses to improper persons.

Third—the securing of lists of agents from all companies and agencies and the occasional checking of commission records of the companies and agencies to ensure compliance with the law.

Fourth—the careful investigation of complaints of illegal practice.

Fifth—the enforcement of penalties prescribed by law.

**Reforms in Ontario**

The Ontario department has already made an important move along these lines. First, we obtained from the companies a complete list of their agents in the province. We discovered about 2,500 agents nominally authorized who had no license. These are being rapidly brought into the fold.

Then we revised our form of application for certificate in co-operation with the companies and the agents, and I have considerable pleasure in submitting to you samples