THE NEW RULES REGARDING ACQUISITION AND FIELD SUPERVISION COST FOR CASUALTY INSURANCE

BY

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THE PROBLEM

Practically every stock casualty company maintains an extensive sales force through which business is acquired and by means of which a valuable service to policyholders is maintained. As in other commercial enterprises, the development of the sales force and the methods employed in securing business vary among the companies, depending upon their requirements and upon the policies favored by their chief executives. In general, there are three systems of field organization which occasionally may be found singly but which more often are found in combination. These are:

1. The general agency system;
2. The branch office system;
3. The direct reporting system.

General Agency System.

Under the general agency system as it is usually organized in this country, the territory in which a company transacts business is sub-divided; the sub-divisions, which may be groups of contiguous states, individual states or smaller geographical units, being placed under the supervision of representatives known as general agents. These representatives serve under contracts which fix their remuneration in terms of certain percentages of the premiums in the various casualty lines which they produce.

Under his contract the general agent is assigned a definite territory which he is required to cultivate for the company.

It is incumbent upon him to develop an agency system of his own among the sub-producers in his field. The general agent secures business direct from policyholders by his personal efforts and by means of salaried salesmen attached to his office. He also develops business from brokers and various grades of agents, all of which passes through his hands and in connection with which he renders certain services which are essential to the transaction of the casualty insurance business.

Branch Office System.

The branch office system is essentially the same as the general agency system except that the representatives in this case are not agents under contract but are salaried employees of the company. The producing unit in each territory is a branch office and the representative in charge is a branch office manager, a resident manager or a resident officer of the company. This individual is just as much an integral part of the company's organization as is an official at the home office. In fact, the branch office is merely a section of the home office which is placed in a certain territory in order that it may be more readily available to the producers in that territory for the rendering of service.

The branch office manager may or may not secure business direct from policyholders through his own efforts and through the efforts of his salaried staff. Inasmuch as he is an employee of the company, he does not usually solicit business personally, his function being to cooperate with the producers in his territory in the development and production of their business. Most of the business of the branch office, therefore, comes through brokers and through an agency system of sub-producers which is developed in the territory under the jurisdiction of the office.

Direct Reporting System.

Under the general agency or branch office system the company partitions the field and arranges to assemble the business in certain territories, diverting it through general agencies and branch offices where field service is performed. This has the effect of reducing the number of channels through which business flows to the home office. It also enables the company to transfer some of its functions, such as accounting, policy writing, inspection, rating and claim adjustments to its principal representatives in the field.

Under the direct reporting system the producers representing the company in the field report direct to the home office without the intervention of territorial offices. This has the effect of largely increasing the contacts which the home office must maintain with the field and also of bringing into the home office some of the field service functions performed by general agents and branch office managers under the other systems. The direct reporting agent may perform all of the functions of a general agent but this is not usual. His territory is more restricted and the volume of his business is smaller. He reports to the home office of the company his direct business and also such business as he is able to secure through brokers and sub-producers in his territory.

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It is unusual to find a company operating exclusively under one of these systems. The usual organization contains elements of two and sometimes of all three of the systems. A company may maintain both general agencies and branch offices or it may maintain branch offices and direct reporting agencies or it may work out some other combination of the three methods to suit its requirements and to meet the demands of the various situations which it encounters in developing its business.

The problem of establishing agency rules is complicated because the rules must be elastic enough to recognize the demands of each type of organization while providing for an absolute limitation upon total production cost. It is no simple task to devise rules under which each producer will be remunerated in accordance with the actual service which he performs and each company, irrespective of the nature of its field organization, will be placed upon an equal footing with its competitors.

Reasons Dictating Necessity for Rules

Before undertaking a discussion of the rules themselves, it is pertinent to inquire why there should be rules on this subject. Why should not each company go its own way in arranging for the production of its business? The answer is simple: unrestricted competition tends to develop a situation which is generally conceded to be inimical to the best interests of the carriers and of the insuring public. It is agreed that unrestricted competition in insurance rates is disadvantageous; that its tendency is to produce discrimination and to drive the rates below the level of adequacy, thus affecting the solvency of the carriers and the security which they offer to their policyholders. It is undesirable, therefore, to permit the carriers to compete for business by rate cutting and some measure of control over competition of this kind is now recognized as essential.

This leaves open the possibility of acquiring business by competing for the services of producers through offers of attractive inducements in the way of remuneration. Here unrestricted competition also affects the cost of insurance but instead of driving the cost below the level of adequacy, the tendency is to increase the cost beyond the point of reasonableness. If the rates of insurance are adjusted properly to reflect the actual facts, policyholders may be required to pay rates that are excessive when considered in the light of the service rendered. If rates remain fixed, the cost of production will exceed the allowance in the premium and the carriers may be driven into insolvency.

This situation dictates the necessity of imposing some reasonable limitation upon that element of the rate which is intended to cover the cost of production. This will protect the policyholder. For the protection of the carriers, and in order that the limitation upon production cost may actually be observed, it is necessary that all carriers in the production of their business shall be required to conform to certain definite rules covering not only the total cost of acquisition and field service, but also such matters as the geographical distribution of producers and recognition of the relative value of the services performed by each class of producers.

Historical Development

Stock companies, since the inception of casualty insurance in this country, have recognized the necessity for some measure of regulation of the cost of production. In the beginning this took the form of cooperative agreements by means of which the companies, associated in rate making bureaus and associations, sought to control the situation. These agreements were not uniformly successful largely because some of the companies transacting casualty insurance did not subscribe to the rate making bureaus and were therefore free from restraint; also because under the stress of competition voluntary agreements were difficult to enforce.

The difficulties of the companies in their attempts to control the situation led to the intervention of the Department of Insurance of New York in 1913, in which year Superintendent Emmet issued his famous series of rulings. The first letter of the Superintendent was addressed to the companies under date of June 20, 1913. It referred to the serious situation then existing in the liability insurance business; rates were apparently inadequate, loss reserves in many cases were insufficient, administration expenses were excessive and commissions were increasing under the stimulus of strenuous competition. The Superintendent suggested that the aim of the companies "should be to remedy this condition by securing adequate premiums and by reducing expenses to a minimum." He then laid down the following three rules for the conduct of the liability insurance business and stated that the Department would insist upon adherence to these rules as a condition of continued transaction of business in New York state:

1. Underwriting to be based entirely upon statistical experience and upon the physical and moral hazards of each individual risk and to be free from the influences of competition.

2. Administration expenses to be minimized.

3. Commissions not to exceed 15% to brokers and 20% to agents.

Additional communications were issued by the Superintendent in August and September, 1913, amplifying his original rulings, particularly the ruling on acquisition cost. Finally, a conference of all parties interested, including Insurance Department officials, company executives and agents, was held in Chicago on December 1st and 2nd, following which the definite announcement, since referred to as the "Emmet Ruling," was promulgated under date of December 8, 1913.

This ruling, which became effective December 1, 1913, was worded as follows:

"The acquisition expense on Workmen's Compensation and Employers' Liability business in Workmen's Compensation states not to exceed 17½% of the premiums; in other states the acquisition expense on Employers' Liability business not to exceed 20% of the premiums; in all states the acquisition expense on all Liability business, other than Workmen's Compensation and Employers' Liability, not to exceed 25% of the premiums; except that on Employers' Liability business in the Rocky Mountain Zone embracing the states of Montana, Wyoming, Colorado, New Mexico, Arizona, Utah and Idaho an acquisition expense of not more than 25% of the premiums may be permitted."

Acquisition expense was defined as including the following items:

1. Commissions to brokers and local agents.
2. Commissions to general agents.
3. Amount of salaries of resident or branch office managers.
4. Contingent commissions to resident or branch office managers.
5. Payments to agents under profit-sharing contracts.
6. Salaries and commissions of special agents.
7. Clerical and supervising cost of policies written in agencies.
8. Cost of collection of premiums in agencies.
9. Rent of agency or branch office.
10. Compensation of clerical office force in agency or branch office.
11. Cost of furniture and equipment.
12. Telephone, telegraph, postage, etc., at agency or branch office.
13. Traveling expenses of managers, agents and solicitors.

It was provided, however, that the limitation upon acquisition expense did not include—

1. Expenses incidental to the adjustment of losses.
2. Cost of inspections.
3. Cost of payroll audits.
4. Taxes and governmental impositions.
5. Cost of stationery, blanks and supplies.
6. Expenses which properly belong to home office expenses.

This ruling did not attempt to do more than fix a maximum limitation upon the production expense in a few lines of casualty insurance. It did not classify producers and provide for different rates of remuneration for the services performed by each class. Nor did it specify how the producers of a given company should be distributed geographically. The task of arranging rules which would permit the companies to observe, without undue competitive difficulty, the limitations which had been established was left to the companies themselves.

The organization upon which this function devolved was the Workmen's Compensation Service Bureau which at that time was the official rate making organization for workmen's compensation, employers' liability, automobile and other forms of liability insurance. The Bureau proceeded to develop a complete set of agency rules for its companies which classified producers, fixed the rate of remuneration for each class, and, finally, established a definite geographical distribution of producers of the first rank (those receiving the highest rate of remuneration) by providing limitations upon the number of such producers which each company might maintain in each city and state in the country. These rules with some modifications, continued in effect for many years.

In the meantime other lines of casualty insurance attained importance. None of these was brought within the jurisdiction of the Workmen's Compensation Service Bureau. Separate organizations were established for rate making and for the regulation of the business in these lines and these organizations sought, without the intervention of the Insurance Department, to control the cost of production. Thus, by 1922, there were at least five separate national organizations, each with rules governing production cost for one or more branches of the casualty insurance business. More or less difficulty was experienced by all of these organizations in controlling the situation.

In 1922 legislation was enacted in New York conferring upon the Superintendent of Insurance a greater degree of authority to regulate rates and rate making bodies than he had previously enjoyed. This legislation had been effective but a short time when a competitive situation in the burglary insurance business developed to such proportions as to attract the attention of the Department. The Superintendent of Insurance, taking advantage of this opportunity, called the stock companies authorized to transact casualty insurance in New York into conference. He pointed to the fact that the production cost was excessive throughout the casualty insurance field and that various abuses had crept into the business which required immediate correction. He invited the companies to undertake a solution of the problem without dictation from the Department; intimating that, if the companies failed to agree, he would then consider himself obliged to regulate the situation under the authority conferred upon him by law.

It was as a result of this request by the Superintendent of Insurance of New York that the so-called Conference on Acquisition and Field Supervision Cost for Casualty Insurance was organized on October 24, 1922. The Conference faced a difficult task. For the first time in history the agency problem for the entire field of casualty insurance was brought up for consideration with the purpose of attempting to discover a plan of general scope which might be uniformly applied to the many varieties of agency organizations maintained by the companies. The executives of the companies were sincerely desirous of solving the problem and, after many days of discussion, in which not only representatives of the companies but also representatives of the various classes of producers participated, a set of rules was finally adopted and reported to the Superintendent of Insurance of New York.

These rules were nationwide in their scope and embraced all of the casualty lines except accident and health insurance, which was deliberately omitted because the New York law did not cover it and because of the peculiar problems involved. Hearings were held before the Superintendent following which the rules were referred by him to the National Convention of Insurance Commissioners, which approved them, with the except
tion of certain special New York items, on December 7, 1922.

It is the purpose of this paper to present an analysis of these rules which became effective on February 1, 1923,* and under which the stock casualty companies are now operating. Because of the peculiarity of the situation in Greater New York,

*The rules for Greater New York were delayed in promulgation and, therefore, became effective March 1, 1923 for new business and April 1, 1923 for renewal business.

there is a separate set of rules for this territory. In discussing the subject the general rules for the United States will be considered first and a supplementary statement will then be made concerning the particular rules which apply to Greater New York.

Classes of Field Representatives

Field representatives are divided into five classes, as follows:

1. General agents and branch office managers.
2. Regional agents.
3. Office agents.
4. Local agents.
5. Brokers.

General Agents and Branch Office Managers.

This class of representative, as before stated, supervises a certain territory in which business is developed for the company. This business is assembled in the office of the representative where it is carefully checked and where certain functions, such as accounting, policy writing, inspection, rating and claim adjustment may be performed. Representatives of this class have the greatest expense requirements for they must not only pay commissions to the producers reporting to them but they must also cultivate the territory, instruct producers and assist them in acquiring business and maintain a service organization adequate to care for the interests of the company and of its policyholders in the territory.

The branch office manager always represents a single company, or a single group of companies, exclusively. Usually, but not always, the general agent will do likewise, at least so far as casualty insurance is concerned.

Regional Agents.

The regional agent is essentially a direct reporting representative, although regional agents are utilized also by companies operating on the branch office or general agency system. He has under his supervision a small geographical unit, such as a city, county or part of a state, and on a restricted scale he is required to do for his territory what the general agent does for the field under his jurisdiction. As a general rule his volume of business is limited and will consist of direct business of his own and of such business as he is able to attract from brokers and local agents in his territory.

This class ranks second in the scale so far as expenses are concerned because of the fact that they must be placed in a position where they can offer commissions for the business of brokers and local agents and receive enough in addition to defray the cost of the limited field supervision service which they must perform for their clients.

Office Agents.

The office agent is always attached to the home office of a company or to the office of one of its branches or general agencies. He is a salesman under a contract which requires him to solicit exclusively for a given company and to place all of his casualty business with that company unless he receives specific written permission to do otherwise. He is in effect an employee of the company but, instead of receiving a definite remuneration, he is paid for the business he produces on a percentage basis, his remuneration varying with the volume of business which he develops and controls.

Local Agents.

The local agent is a representative of a given company by virtue of a specific written contract. He is usually located in one of the smaller cities. As a general rule the local agent represents one company exclusively for casualty insurance but of late, with the organization of casualty running mates by the fire companies, this rule is subject to some exceptions. In many cases the local agent, who normally represents several fire companies in addition to a casualty company, has maintained an affiliation with the parent fire company for years. The casualty running mate of his fire connection is then offered to him and because the fire connection has been in his office for many years, or because of the fact that it has given him unusually good service, or for some other good reason, he takes on a new casualty company, at the same time continuing his affiliation with the casualty company already in his office. In this manner some local agents come to represent more than one company for casualty insurance.

Local agents are compensated by commissions. They render no field supervision service in addition to the acquisition of the business. When the risk has been secured, it is reported to a regional agency, a general agency, a branch office or, in some cases, to the home office of the company, where the insurance service is rendered.

Brokers.

The classes of representatives so far mentioned are agents or direct employees of the company. With some exceptions they are bound to an individual company for which they have exclusive representation either by virtue of direct employment or under written contract. The broker is not so restricted. He is a free lance in the sense that he retains his freedom to place his business in any company. Theoretically, the agent represents the company while the broker represents the assured. It is the broker's task to secure the best and most complete coverage for his client at the lowest possible cost consistent with the selection of a solvent company. For this reason he must be free to deal with all of the companies and to "shop around" for that particular insurance arrangement which he considers best for the policyholder he represents.

The broker is not required to render any service beyond the placing of the business. Some brokers do, however, give special service which is performed for the advantage of the assured and which may be a duplication of service performed by the company. Thus, a broker may maintain an inspection and rating service. This parallels similar service offered by the company and the functions are performed for the purpose of checking the company's work and making certain that the policyholder is accorded every advantage which the rating procedure entitles him to receive.

REMUNERATION

The remuneration payable to field representatives is divided into two parts. That part which is paid solely for acquisition service, such as is rendered by the local agent and broker, is termed "*acquisition cost.*" That part which is paid for service expenses, such as are incurred by regional agents, branch office managers and general agents, is termed "*field supervision cost.*" The total of both classes is termed "*production cost.*"

It should be noted that the terminology in the new rules differs from that employed in the Emmet ruling. Heretofore acquisition cost has had the same meaning as production cost. This has resulted in a popular belief that the production cost has been paid solely for acquiring the business. From this point of view the item has been criticized as being unreasonably excessive. The Conference has attempted to correct this misconception by limiting the use of the term "acquisition cost" to that portion of production cost which may fairly be said to represent the expenses of acquisition. Those field expenses which are involved in handling the business once it has been acquired are classified under the new term "field supervision cost."

Acquisition cost is always quoted in terms of a percentage of gross paid premiums. The application of this percentage to the premiums actually paid to the company by the producer develops his commission on the business.

Under the rules of the Conference the following percentages of gross paid premiums represent the acquisition cost for the several lines of insurance in territory outside of Greater New York:

a. Workmen's Compensation and Employers' Liability Insurance in Workmen's Compensation states... 10%

b. Workmen's Compensation and Employers' Liability Insurance upon Underground Coal Mining Risks. 5%

c. Employers' Liability Insurance in states where there are no Workmen's Compensation laws.......... 10%

d. Automobile Property Damage and Collision, Sprinkler Leakage and Water Damage Insurance. 20%

e. Automobile Liability and Property Damage Insurance upon Public Passenger Carrying Risks...... 10%

NOTE: The foregoing acquisition cost upon public passenger carrying risks is subject to a limit of $30 per car in cities of the first class in New York State.

f. All other forms of Liability (including Automobile Public Liability) Property Damage and Collision Insurance..................................17½%

g. Burglary Insurance.............................20 %

h. Plate Glass Insurance........................$22\frac{1}{2}\%$

NOTE: In addition to the foregoing acquisition cost for Plate Glass Insurance, an allowance of $2\frac{1}{2}\%$ of paid premiums may be granted producers for the adjustment of claims and the making of inspections, provided these services are actually performed in good faith by such producers. This additional allowance shall not be paid to producers who do not perform these services.

i. Steam Boiler, Engine, Flywheel, Machinery and Electrical Equipment Insurance................$17\frac{1}{2}\%$

Field supervision cost is similarly quoted in percentages. It covers the entire cost of conducting a general agency or branch office, including the following items:

1. Remuneration to general agents, branch office managers, assistant managers and salaried special agents.
2. Traveling expenses of general agents, branch office managers, assistant managers and salaried special agents.
3. The cost of policy-writing in agencies and branch offices.
4. The cost of collection of premiums in agencies and branch offices.
5. Rent, heat, light and maintenance of agencies and branch offices.
6. Remuneration of clerical office force in agencies and branch offices.
7. Exchange, advertising, postage, telephone, telegraph and express in agencies and branch offices.

It does not include:

1. Expenditures for taxes and governmental impositions.
2. Expenditures actually made in good faith for the adjustment of claims, the making of inspections and payroll audits.

The entire remuneration of a broker or of a local agent is obtained by applying the acquisition cost percentages to the gross paid premiums of the lines of casualty insurance which he produces.

The regional agent, in addition to acquisition cost as previously defined, receives $2\frac{1}{2}\%$ for field supervision expenses except on workmen's compensation and employers' liability premiums upon underground coal mining risks, on automobile property damage and collision premiums upon all risks and on automobile public liability premiums upon public passenger carrying risks.

The general agent and branch office manager, in addition to acquisition cost, receive varying allowances for field supervision expenses as follows:

a. Workmen's Compensation and Employers' Liability Insurance in Workmen's Compensation states....7½%

b. Workmen's Compensation and Employers' Liability Insurance upon Underground Coal Mining Risks:

   1. When the premium for the individual risk is less than $15,000........................ 5%

   2. For the excess premium above $15,000 for the individual risk......................... 2½%

c. Employers' Liability Insurance in states where there are no Workmen's Compensation Laws........... 10%

d. Automobile Property Damage and Collision, Sprinkler Leakage and Water Damage Insurance........ 5%

e. Automobile Liability and Property Damage Insurance upon Public Passenger Carrying Risks....... 5%

Note: The foregoing field supervision cost upon public passenger carrying risks is subject to a limit of $20 per car in cities of the first class in New York State.

f. All other forms of Liability (including Automobile Public Liability) Property Damage and Collision Insurance.................................. 7½%

g. Burglary Insurance........................... 10 %

h. Plate Glass Insurance......................... 10 %

i. Steam Boiler, Engine, Flywheel, Machinery and Electrical Equipment Insurance............... 7½%

The office agent does not receive a special allowance for field supervision expenses but, in addition to acquisition cost, he may be provided with office quarters without charge for rent in any home office, general agency or branch office of his company and he may be furnished, also, with clerical assistance, the use of telephone and the actual postage necessary for the transaction of the company's business. An office agent, however, may be designated a regional agent for his company, in which case he will receive, in addition to acquisition cost and the other items just enumerated, the same 2½% allowance for field supervision expenses that is granted to regional agents.

These definite rates of remuneration to the different classes of field representatives are maximum limits. The company, if it chooses to do so, may remunerate a general agent at a rate intermediate between the allowance specified by the rules and that granted to regional agents. Similarly, regional agents are not necessarily entitled in all cases and for all classes of insurance to receive the 2½% allowance for field supervision expenses.

The remuneration granted to the different grades of producers is summarized in the following table which gives the total production cost granted to each class of representatives:

REMUNERATION OF FIELD REPRESENTATIVES

Line of Insurance	Local Agent and Broker	Office Agent	Regional Agent	Genl. Agent and Branch Office Mgr.
W. C. & E. L. in W. C. states...	10.0%	10.0% (a) (b)	12.5%	17.5%
W. C. & E. L. on Underground Coal Mining (all states).				
1. When less than $15,000 for individual risk.....	5.0	5.0 (a)	5.0	10.0
2. For excess above $15,000	5.0	5.0 (a)	5.0	7.5
E. L. in non-comp. states.....	10.0	10.0 (a) (b)	12.5	20.0
Automobile P. D & Collision...	20.0	20.0 (a)	20.0	25.0
Automobile Liability.........	17.5	17.5 (a) (b)	20.0	25.0
Automobile Liab. & P. D. on Pub. Pass. carrying vehicles	10.0 (c)	10.0 (a) (c)	10.0 (c)	15.0 (d)
Sprinkler Leak. & Water Dam	20.0	20.0 (a)	20.0	25.0
All other forms of Liab. P. D. and Collision.............	17.5	17.5 (a) (b)	20.0	25.0
Burglary..................	20.0	20.0 (a) (b)	22.5	30.0
Plate Glass*................	22.5 (e)	22.5 (a) (b) (e)	25.0	35.0
Steam Boiler, Engine, Flywheel, Mach. & Electrical Equipment..............	17.5	17.5 (a) (b)	20.0	25.0 (f)

a. In addition, the office agent may receive office quarters without charge, clerical assistance, the free use of telephone and postage.

b. If an office agent is designated as a regional agent, he receives the allowances for rent, clerical assistance, etc., and in addition the same remuneration as regional agents in the adjacent column.

c. Limitation in cities of the first class in New York state—$30.

d. Limitation in cities of the first class in New York state—$50.

e. An additional 2½% allowance is available to producers who actually contract to adjust claims and to make inspections.

f. In addition, because of the technical nature of the business, the home office of the company may expend not to exceed 5% for salaried soliciting assistance.

*There are special Plate Glass insurance rules for Chicago, Illinois, as follows:

a. The basic Acquisition Cost is 22½% with no extra allowance of 2½% for the adjustment of claims and the making of inspections.

Geographical Distribution of Field Representatives

Limitations are imposed upon the number and location of general agents, branch offices and regional agents. These limitations are essential because without them, under the stress of competition, there would be a tendency to increase the remuneration of all representatives to the maximum limit, thus defeating the purpose of the rules by requiring the companies to expend more than the permissible cost for production.

The rules provide the allotments of general agencies, branch offices and regional agencies for each state which appear in the table on page 258.

Each company is free to locate general agencies, branch offices and regional agencies wherever it may choose with the following exceptions:

1. Not more than one general agency or branch office may be located in any one city. This rule is subject to exception in Boston, in which the number may be three; in Los Angeles, in which the number may be three for Burglary Insurance only; and in Baltimore, Buffalo, Chicago, Cleveland, Detroit, Philadelphia, Washington, D. C., and St. Louis, in which the number may be two. These exceptions recognize certain definite situations of long standing which cannot be disturbed at this time.

2. Only one regional agency may be located in the same city in which one or more general agencies or branch offices are maintained. This limitation does not apply to office agents who may be designated as regional agents. In such cases as many representatives of this class as the company wishes to appoint may be located in the same city with a general agency or branch office but each such appointment reduces by one the permissible regional agency appointments for the state. The company which appoints a large percentage of office regional agents, there-

b. In addition to the basic Acquisition Cost a class of representatives known as Registered Class 1 Agents are permitted a Field Supervision allowance of 5%, thus bringing their total remuneration on Plate Glass business to 27½%. Registered Class 1 Agents are Class 1 members of the Chicago Board of Fire Underwriters who have been approved and registered by the Executive Committee of the Casualty Underwriters Association of Illinois.

c. Finally Regional Agents are allowed the same remuneration on Plate Glass business as Registered Class 1 Agents in order that there may be a fair basis of competition between these two classes of representatives.

SCHEDULE SPECIFYING THE NUMBER OF GENERAL AGENTS OR BRANCH OFFICES AND THE NUMBER OF REGIONAL AGENTS WHICH AN INDIVIDUAL COMPANY MAY MAINTAIN IN EACH STATE

State	General Agents or Branch Offices	Regional Agents
Alabama	3	4
Arizona	2	2
Arkansas	2	2
California	5	5
Colorado	2	2
Connecticut	5	10
Delaware	2	0
District of Columbia	2	0
Florida	3	3
Georgia	5	3
Idaho	2	2
Illinois	6	22
Indiana	7	15
Iowa	4	11
Kansas	4	5
Kentucky	3	4
Louisiana	2	3
Maine	2	4
Maryland	3	5
Massachusetts (outside of Boston)	9	34 (includ. Boston)
Michigan	6	11
Minnesota	4	7
Mississippi	2	3
Missouri	4	4
Montana	2	3
Nebraska	3	0
Nevada	2	0
New Hampshire	2	3
New Jersey	8	18
New Mexico	2	1
New York (outside of Greater New York)	11	28
North Carolina	2	7
North Dakota	2	1
Ohio	8	27
Oklahoma	3	4
Oregon	2	1
Pennsylvania (outside of Philadelphia)	9	33 (includ. Phila.)
Rhode Island	3	6
South Carolina	2	3
South Dakota	2	1
Tennessee	5	1
Texas	6	12
Utah	2	1
Vermont	2	1
Virginia	5	5
Washington	4	5
West Virginia	3	5
Wisconsin	3	14
Wyoming	2	0

fore, will restrict its field organization outside of the large cities in which general agencies or branch offices are located. There is no limitation upon the number of regional agencies which an individual company may appoint in a city or town in which it does not have a general agency or branch office.

Rules for Greater New York

The situation in Greater New York is peculiar principally because practically all of the business in this territory is developed through brokers. This peculiarity is recognized by the establishment of a special set of rules covering the five boroughs of Manhattan, Bronx, Queens, Kings and Richmond.

In this territory the rules provide for the following classes of representatives:

1. Principal office.
2. Borough agents and borough branch offices.
3. District agents (for plate glass insurance only).
4. Supervising special agents.
5. Regional agents (for Queens county only).*
6. Office agents.
7. Brokers.

Principal Office.

The principal office may be the home office of the company, a branch office or the office of a general agent. It is the office through which the business of Greater New York is controlled and supervised. Its functions are similar to those performed by a general agency or branch office in the field.

Borough Agents and Borough Branch Offices.

A borough agent is a representative under contract to act exclusively for a given company in the lines of casualty insurance which it transacts. He has a definite territory under his jurisdiction in which he develops business from brokers but he may have in addition a large amount of direct business which he pro-

*This classification, which applies only to Queens County, was created by the New York City Agency Committee recently and is not available for use prior to June 1, 1923.

duces personally or through a staff of salaried solicitors attached to his office. The rules specify that a broker shall not be eligible for appointment as a borough agent.

A borough branch office performs functions similar to those performed by the office of a borough agent but in this case the person in charge is a salaried manager appointed by the company.

District Agents (for Plate Glass Insurance only).

This is a special kind of borough agent who is appointed for the purpose of producing plate glass business only.

Supervising Special Agents.

A supervising special agent is an individual who is employed as a solicitor and who has his sole office in the principal office of his company.

He is required to solicit exclusively for the given company which he represents and he may not place insurance elsewhere except by specific written permission. He is thus in practically every respect analogous to the office agent. The only difference is to be found in his remuneration, which will be explained later.

The supervising special agent is passing. There are a few left and the rules provide for their continuance in a number not to exceed five per company with the understanding that no new appointments of this class are to be made.

Regional Agents, Office Agents and Brokers.

These classes are identical with similar representatives previously described.

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The remuneration of these representatives is as follows:

Brokers receive the rates of acquisition cost specified for the country at large with the following exceptions:

1. The acquisition cost on burglary insurance is 22½% of paid premiums.

2. The acquisition cost on plate glass insurance is 25% of paid premiums with the provision that no additional allowance may be granted for the adjustment of claims and the making of inspections.

Office agents receive the same acquisition cost as brokers but in addition they may be furnished with office quarters without charge for rent and the use of telephone. It should be noted that they are not provided with all of the special allowances granted to office agents in the field.

Supervising special agents receive the same acquisition cost as brokers on business which they themselves produce. On business which comes to them through brokers, they may be granted an allowance of 2½% for field supervision expenses. In addition, they are entitled to the same accommodations as office agents.

Regional Agents, in Queens county, may be granted an allowance of 2½% for field supervison expenses in addition to the basic acquisition cost specified by the rules for Greater New York.

District agents (for plate glass insurance only) may receive 25% of paid premiums, which is the basic acquisition cost for plate glass business, and in addition a field supervision allowance of not to exceed 5% of paid premiums.

Borough agents receive the same basic acquisition cost as brokers and in addition they are entitled to receive a field supervision allowance of 5% except on workmen's compensation and employers' liability insurance on underground coal mining risks and automobile liability and property damage insurance on public passenger carrying risks. If, however, the borough agent incurs all of the field supervision expenses of a general agent, he may be granted the same allowance for field supervision cost as a general agent.

Similar limitations are imposed upon borough branch offices.

The principal office is subject to the same limitations as general agencies and branch offices in other sections of the country.

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As in the remainder of the country, there are limitations in Greater New York on both the number and location of the representatives receiving substantial remuneration. These may be enumerated as follows:

There may be but one principal office.

Each company may maintain not more than five borough agencies or branch offices, no more than two of which may be located in any one borough except that in the borough of Manhattan not more than one such agency or office may be located below Fourteenth Street.

Each company may maintain not to exceed six district agencies for plate glass insurance only; not more than three of these may be located in any one borough.

Each company may maintain not to exceed three regional agencies in the County of Queens. However, if this option is exercised, the company cannot locate a borough agency in the county and in addition it must subtract one from the five borough agencies permitted for Greater New York, thus limiting itself to four possible borough agency appointments in the remaining boroughs. This rule recognizes the fact that Queens County is a widespread territory in which the borough agency plan does not permit proper cultivation of business.

PROCEDURE

The Conference has effected a simple organization for administering the rules. There are two agency committees. One of these has jurisdiction over Greater New York; the other over the remainder of the country. Each committee functions in close cooperation with the New York Insurance Department and is provided with an executive staff to handle the details of the work.

Each chief executive is required to file with the committee a pledge that he will, so far as the direct employees of his company are concerned, hold himself responsible for strict adherence to the rules of the Conference and that he will, in addition, by incorporating a clause in agency contracts or by other suitable means, secure a similar pledge in writing from the general agents, regional agents, supervising special agents, district agents and borough agents of his company. He must also register every appointment of his company which carries with it a rate of remuneration in excess of the basic acquisition cost. Finally, he is required to file copies of his contract forms together with all riders and endorsements which are used in connection therewith.

With these data on record the agency committees are in a position to control the uniform application of the rules, to deal with complaints and violations and, in general, to maintain proper practices. They also observe the situation constantly for the purpose of suggesting modifications of the rules wherever conditions warrant such action.

Conclusion

In the Rules regarding Acquisition and Field Supervision Cost for Casualty Insurance a code of practice has been established which, while based upon compromise and therefore subject to the weaknesses of agreements reached under stress of conflicting views, is fairly in accord with sound business sense. The Rules may be expected to produce, when they have been made fully effective, the following extremely desirable results: Stabilization of the field situation in casualty insurance, equal competitive opportunities for all companies irrespective of the systems which they may adopt for their field organizations, abolition of abuses which have been prevalent and, finally, reduction of the production cost of the companies to a reasonable basis.

With this preliminary move in the direction of stabilization and good practice, the work of the Conference as it progresses will undoubtedly pave the way for additional improvements which will be to the ultimate advantage of the carriers, the producers and the insuring public.