BOSTON UNIVERSITY

College of Business Administration

THESIS

The Evolution of Insurance Selling

by

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## CONTENTS

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Introduction</strong></td>
<td>6</td>
</tr>
</tbody>
</table>
| **PART I**
| **HISTORY OF INSURANCE**
| I | Origins Of Insurance | 10 |
| II | First Practical Applications Of Insurance | 13 |
| III | Development Of Insurance Companies In The United States | 17 |
| | Recent Development Of Insurance Companies In The United States | 24 |
| IV | Selling Methods Of First Insurance Organizations | 28 |
| **PART II**
| **MODERN SELLING ORGANIZATIONS**
| V | Company Salesmen | 32 |
| VI | Industrial Life Insurance Salesmen | 34 |
| VII | General Agencies | 38 |
| VIII | Brokers | 44 |
| IX | Agents | 47 |
| X | Insurance Advisers | 50 |
| XI | Salaried vs. Commission Salesmen | 52 |
```
# CONTENTS

## PART III

MODERN SELLING TECHNIQUES

### Section 1  Life Insurance

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>XII</td>
<td>The Salesman</td>
<td>59</td>
</tr>
<tr>
<td>XIII</td>
<td>Prospecting</td>
<td>63</td>
</tr>
<tr>
<td>XIV</td>
<td>Presentation</td>
<td>70</td>
</tr>
<tr>
<td>XV</td>
<td>Estate Planning</td>
<td>74</td>
</tr>
<tr>
<td>XVI</td>
<td>Group Life and Pension Plans</td>
<td>79</td>
</tr>
<tr>
<td>XVII</td>
<td>Savings Bank Life Insurance</td>
<td>83</td>
</tr>
</tbody>
</table>

### Section 2  General Insurance

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>XVIII</td>
<td>Fire Insurance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. Rating Associations</td>
<td>88</td>
</tr>
<tr>
<td></td>
<td>2. Rate Structure</td>
<td>90</td>
</tr>
<tr>
<td></td>
<td>3. Dwelling Risks</td>
<td>92</td>
</tr>
<tr>
<td></td>
<td>4. Mercantile and Manufacturing Risks</td>
<td>93</td>
</tr>
<tr>
<td></td>
<td>5. Business Interruption Insurance</td>
<td>96</td>
</tr>
<tr>
<td></td>
<td>6. Special Risks</td>
<td>98</td>
</tr>
<tr>
<td>XIX</td>
<td>Casualty Insurance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. Public Liability</td>
<td>99</td>
</tr>
<tr>
<td></td>
<td>2. Workmen's Compensation</td>
<td>101</td>
</tr>
</tbody>
</table>
## CONTENTS

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Theft</td>
<td>103</td>
</tr>
<tr>
<td>4. Bonds</td>
<td>104</td>
</tr>
<tr>
<td>Marine Insurance</td>
<td>106</td>
</tr>
<tr>
<td>Surveys</td>
<td>113</td>
</tr>
</tbody>
</table>

### PART IV

<table>
<thead>
<tr>
<th>XXXII</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Of The Future</td>
<td>118</td>
</tr>
<tr>
<td>Bibliography</td>
<td>123</td>
</tr>
</tbody>
</table>
### TABLES AND CHARTS

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Typical Commission Schedule</td>
<td>49</td>
</tr>
<tr>
<td>II</td>
<td>Person Occupied In Insurance - 1940</td>
<td>57</td>
</tr>
<tr>
<td>III</td>
<td>Types of Marine Coverages</td>
<td>109</td>
</tr>
</tbody>
</table>
INTRODUCTION

To the young man who is about to graduate college, to the veteran who is about to be discharged from the Army, to the working man and the business man who are giving thought towards embarking on a new career, the insurance business has to offer a wide range of lofty goals. It affords the opportunity of setting out upon a respectable business career; one which has to offer financial success, future security, and community respectability. The insurance man of a community today is not looked upon as "another salesman," but rather as a combination of a business and professional man.

To this individual about to enter into the insurance field, the choices as to which phase of the business he is going to pursue are many. Is he going to be a broker, an agent, a general agent, or a salaried company representative? Whichever one of these phases he selects, there are a variety of means by which he may receive training in his respective field of endeavor. He may go to school and receive formal training regarding the technical aspects of the subject such as the theory of insurance, policy contracts, insurance law, rating, etc.; he may receive on-the-job-training or correspondence courses with his firm or company; he may read diligently and make a study of his subject; or he may, as has so often been done in the past, learn the business merely by trial and error. With all these methods of learning the insurance busi-
ness, there seems to be a notable lack of opportunity of receiving instruction in the actual selling of insurance. One may master his subject, one may become thoroughly acquainted with the motions of selling insurance, one may be a "natural salesman"; but put these ingredients together, and to them add a means of instruction in selling of insurance, and the person has a fine base to go out into the world to become a successful insurance man.

With this base of "selling know-how" there is no limit to the goals that one may achieve. The amount of financial return that the insurance salesman can expect will be in direct proportion to the amount of time and effort he expends for this purpose. Nor must he be concerned too greatly by adverse business conditions, for during the last great depression, insurance policies protecting what possessions remained were kept in force, even though people could not buy new cars, homes, radios, etc. During World War II there was no lack of and subsequent rationing of any insurance product; nor has insurance, like so many other necessary products, ever before become a drug on the market.

It is the purpose of this thesis to attempt to assist the young man or young woman about to embark upon a career of insurance selling; to discuss with them and to explain to them not only the various fields of insurance selling, but also the practical applications of selling this product.

In selecting the materials and subject matter to be
covered, the author has endeavored to include information that would be of most value to one desiring to enter into the general selling phase of insurance. It is hoped that by reading the material contained herein that the reader will be more intelligently guided as to his selection of fields, and that once this field has been selected he will be basically prepared to go out among the public and "sell insurance."

The following pages will enolve a brief history of insurance selling, which it is hoped will give the reader a background of events leading up to modern sales methods. This will be followed by an explanation of the present types of selling methods, organizations, and techniques, including certain academic material relative to policy coverages.
PART I

HISTORY OF INSURANCE
The origin of insurance is veiled in antiquity. Fragmentary records show that primitive systems for transferring loss existed in Assyria nearly forty-five hundred years ago, in Babylonia in the twenty-third century B.C., in India more than two thousand years ago, and among the Chaldeans and Chinese many centuries ago.

Over five thousand years ago in the country of Babylonia the first practices resembling what we now know as insurance began. At that time the merchants, in order to sell their products in other countries, would entrust them to a sort of travelling salesman who would travel with these goods, sell them in different countries, and return with the money or bartered goods which he gave to the merchant. To guarantee that he would return with the money or goods, the merchant required the salesman to pledge his property, wife, and children to the merchant. Due to the fact that the salesman very often lost the goods of the merchants as a result of being robbed or pillaged, an additional step more resembling insurance was taken. This new refinement was that in the event the salesman's caravan should be pillaged through no
fault or negligence on his part, he should be freed from debt upon swearing to those facts upon his return from the trip. This was in reality a rudimentary form of Fidelity insurance. As these practices became more widespread they were included in the code of Hammuradi, which was compiled about 2250 B.C.*

This practice spread to Phoenicia, where the principle was applied to all kinds of shipping; and from there it spread throughout the ancient world.

Long before the business of insurance became established as a commercial enterprise, many of its phases were being manifest in the early history of commerce and navigation. Strangely enough, the first sellers of life insurance were the early money lenders who as part of their bottomry contract with the shippers, at an additional rate of interest, insured the cargo and ship; inasmuch as they agreed to cancel the debt if the ship were lost or destroyed. Evidence indicates that bottomry was practiced in India as early as 600 B.C., and it is well established that this practice was in existence in Greece in the fourth century before the Christian era. "Trajecticia pecunia," the term applied in Roman law to money lent on bottomry, referred to money lent to mercantile adventure beyond the sea, with repayments conditional upon the safe arrival of the security at its destination.

* 1 Page 664

# A maritime contract whereby the owner or master of a vessel borrowing money, pledged the vessel as security

** 2 Page 75
Over the ocean was the chief means of transportation in this era, because most principal cities were sea or river ports and accessible only to ships. There were no such things as railroads, and overland shipping was by pack train and stage coach which were not large enough to insure. Therefore, transportation insurance for several hundred years was almost entirely marine.

A later development was that of a group of merchants who would band together for their mutual protection, sharing the hardships and dangers of their journey, and dividing the profits on a predetermined interest basis. Therein lies the basic idea behind all insurance. The risk is shared by many individuals, so that the loss of the venture does not rest heavily upon any one individual.

* 3 Page 36
CHAPTER II

FIRST PRACTICAL APPLICATIONS OF INSURANCE

Other than Guild Mutual Funds for the purpose of funeral and burial expenses for members, bottomry continued to be the chief instrument of insurance during the middle ages.

The first specific laws relating to insurance as such appeared in Spain and Italy in the fifteenth century. These laws, for the most part, were passed to prevent fraudulent transactions, overinsurance, etc. With the enactment of these laws Marine insurance soon became an established institution, replacing the cumbersome bottomry contract with contracts of indemnity. From Italy the practice of insuring commercial ventures against disaster rapidly extended to other maritime states of Europe.

As far as records are available the development of life insurance seems to have fallen close after Marine insurance. Evidence of a form of life insurance first appeared in early Greece, where religious societies collected monthly amounts from their members in return for which each member was assured of a decent pagan burial according to the rites of the religious group. If a member missed his monthly premium he
was assessed an additional amount. If he died while in default the burial was not provided. There is evidence that at least one of these religious societies allowed their members to borrow money under certain circumstances, evidencing an early example of policy loans. Later in the Roman Empire further evidences of life insurance were found, notably in the Roman Collegia. These were organizations of Priests or Artisans or neighbors who often provided suitable burial for their members by contributions from each member of the college. The earliest life insurance contracts of which there is any detailed information was written in June 1583 at the Office of Insurance of the Royal Exchange of London. The first Life Insurance policies were issued for a one year term, and were written upon no sound scientific basis.

In 1698 a public office for Life Insurance was opened in London under the name of the Mercers Co., and in 1699, the Society For The Assurance Of Widows And Orphans was established on the plan that each one of the two thousand members should pay an equal sum and each family should receive an equal sum upon the death of the insured member. The Amicable Society of London, the first purely mutual company, was founded in 1706. Several other companies were formed during this period,

* 4 Pg. 14
** 5 Pg. 8
but most of them failed to use what ever little accurate scientific knowledge there was on the subject. All of them charged the same premium rate regardless of age. As a result of these unsound practices in writing Life Insurance, and as a result of many companies being organized purely for speculative purposes, by 1720 there were a great many failures of Life Insurance companies. The Amicable Society was one of the very few organizations that survived the failures of 1720. The Royal Exchange and the London Insurance Company were formed in 1721, both of which companies are still in existence. It was not however until the organization of the Equitable Society of London in 1762 that Life Insurance was successfully placed on a scientific bases, since their policies were issued for fixed amounts and their premiums were graded according to age. By 1800 the mathematicians had contributed greatly towards putting Life Insurance on a sound footing, based on computation and construction of tables of mortality, and commercial life insurance written by Joint-Stock Companies was firmly established in England.

Although the development of Casualty Companies as such did not materialize until the end of the nineteenth century, there had been companies previously organized that did afford some of the coverages written by the modern company. The earliest casualty insurance covered livestock, contracts

* 1 Pg. 27
of which date back to the thirteenth century. Various burglary contracts followed shortly after this time, although it was not until the seventeenth century that accident and health insurance appeared; which were followed by liability and much later Workmens Compensation and Bond contracts.

The principal of protection applied first to marine insurance was soon seen to be applicable to property on land as well as to that on the sea. Thus, fire insurance came into its own in the middle of the seventeenth century and was given much impetus by the Great Fire Of London in 1666, in which eighty-five per cent of the buildings of the city were destroyed. The first fire insurance company of any permanent consequence was the Sun Fire Office, organized in 1710.

Underwriting continued to be done by individuals, many of whom were bankers or money lenders who adopted underwriting as an additional method of employing their funds. The era of the insurance salesman had not yet arrived. True, there were brokers but their capacity at this time was more of a middleman nature. Since there was not yet any centers to carry on the insurance business, the brokers not only had to sell a policy but were also obliged to go from office to office in order to secure sufficient insurers. The lack of such centers gave rise to the meetings of underwriters and brokers at the coffee houses, of which Lloyds of London became so famous.

* 5 Pg. 21
CHAPTER III

DEVELOPMENT OF COMPANIES IN THE UNITED STATES

There was little development in the writing of insurance in America until after the Revolution. That business in force prior to this time was handled almost exclusively by the English underwriters. The first contracts written in this country were mostly Marine policies, negotiated between the merchants and underwriters; sometimes through the use of a middle man, who was later to become what we now know as a broker. There was little active selling of insurance by salesman such as we now know.

As the cities along the East coast grew and developed, and the investment of capital in buildings and goods increased, there arose a definite need of some sort of protection against fires. The organization of Fire Companies helped reduce the effects of many losses and the wholesale spreading of fires, but the need for reimbursement for loss was lacking until in 1752 a mutual fire insurance company was formed in Philadelphia, known as the Philadelphia Contributionship. Due to the lack of capital in the infancy of most American businesses, the formation of stock companies lagged, the bulk of the business still continuing in the hands of the individual underwriters.
In December 10, 1792, the first charter was approved for the Insurance Company of North America, which company is still prominent in the United States today. This company was organized to write Marine Insurance, but within a year had its charter extended to permit it to write fire insurance. In fact this company was the pioneer of the agency system in the United States, which it originated in 1796 as a result of its decision to extend its acceptance of risks over a wide territory. By the close of the eighteenth century, ten mutual and four stock companies were formed in the United States.

The earliest life insurance policies issued in the United States were written by individual underwriters, usually for a term covered by a voyage. The first modern life insurance company appeared in 1809, the Pennsylvania Company For The Insurance On Lives. This company is still in operation today, but does a banking and trust business and has long ceased to write life insurance policies. The greatest growth of life insurance companies in this country started after the Civil War. Whereas there were only 100 life insurance policies in force in 1800, by 1900 there was $7,000,000,000 of face amount Ordinary Life Insurance in force. The two oldest commercial insurance companies still writing life insurance today are the

* 5 Pg. 17
** 6 Pg. 18
New England Mutual Life Insurance Company and The Mutual Life Insurance Company of New York. It is noteworthy that at these early times the companies employed scientific principles in their underwriting.

The fact that life insurance companies in this country operated on such a sound financial, legal, and moral basis is due in great part to the first Insurance Commissioner of Massachusetts, A. Elizur Wright. Prior to his appointment as commissioner, it was the result of his successful lobbying in the Massachusetts legislature that a bill was passed requiring life insurance companies to maintain reserves that made it mathematically certain that money would be available to pay benefits contracted for in the policies. Wright even showed how such reserves could be determined. He was also instrumental in securing the passage of the first nonforfeiture laws, which prevented the insurance company from appropriating the policy reserves for their own use. In addition, he secured the passage of bills requiring companies to return the cash value of lapsed policies to the policyholders. It is interesting to note that the epidemic of influenza which occurred in this country near the end of World War I drained more of the resources of life insurance companies than did World War I itself. The depression of 1929 also caused a severe drain on the resources of the life insurance companies, although for a different reason. There was a great demand, due to the financial condition, for cash reserves both as refunds and loans. The life insurance (continued on next page)
business however weathered the storm well and demonstrated to the public as it had in the past the stability of the life insurance industry.

There were few fire insurance companies until the early nineteenth century, when very many small companies incorporated and limited their activities to relatively small geographical area. As a result of the Great New York Fire in 1835 in which all but three of the twenty-six local companies went into bankruptcy as a direct result of the losses of this fire, the trend was towards fewer large companies writing business throughout the nation.

In 1871 occurred the famous Chicago Fire which leveled 2214 acres of that city. Of the two hundred and two companies that paid losses of this catastrophe, sixty-eight went bankrupt, eighty-three settled in part, and fifty-one paid their claims in full. The experience of this fire developed a tremendous spurt in fire insurance purchases throughout the United States, as well as the strengthening of State Laws regarding the solvency of fire insurance companies. As a result, when the San Francisco earthquake occurred on April 18, 1906, the fire insurance companies fared better in their payments of huge losses resulting from the subsequent fires caused by the earthquake. Of one hundred and eight insurance companies involved, twenty-seven paid their claims in full, whereas only eighteen paid less than seventy-five per cent of their total claims. The fire companies organized together in 1866 to
form the National Board of Fire Underwriter. This organization is still in active operation, and deals with such matters as fire prevention, investigation of arson, rate making, compensation of agents, etc.

Although it might seem to the contrary, Lloyds of London, that great English Insurance institution, has found its place in the American Insurance industry. Lloyds, which is an association of individual financially responsible insurers who divide among themselves the risks insured, have provided a reliable source of reinsurance for the American Companies. They have also served an important function as an insurer of hazardous risks which domestic companies have been reluctant to insure. They are able to accept these risks since they have a greater spread of risks, writing insurance world-wide; and, not having to conform to any rate promulgating associations, they can charge that rate which they feel the degree of risk warrants. Their business is conducted through an attorney-in-fact, who commits members of the organization for given percentages of a risk. Rates are determined, policies are used, and the business is carried on by the attorney-in-fact.

The organization of Casualty companies in this country is of recent origin. Whereas in 1890 there were only twenty-

# Companies insuring part of a large risk with another insurance company
eight casualty carriers in the entire country, this figure had grown to six hundred and ninety-three by 1940.

In the past forty years there has been a rapid growth of casualty insurance in this country. The most important factors that contributed to this growth are the mass production and subsequent popular use of the automobile both for personal and commercial use; the enactment of workmen's compensation laws in many of the states; the practices of courts and juries giving higher awards for personal injury cases; the increase in the number of crimes committed.

One of the early casualty coverages in the United States was Accident and Health Insurance, which was commenced in 1850 by the Franklin Health Assurance Co. of Massachusetts. The policies covered only travelers, but the premiums charged were low and the policy filled with innumerable restrictions. In 1863, the Travelers Insurance Company of Hartford was organized. It, too, wrote first only accident policies on travelers. In 1866 the first boiler policy was issued by the Hartford Steam and Boiler Inspection and Insurance Co., which company is still active in this business today. Although the era of the automobile had not yet arrived, nevertheless the first automobile insurance was written in 1898 by the Travelers Insurance Co., although the first policies were merely refined horse and mule policies. In 1910, as a result of a workmen's
compensation law passed in New York, the first workmen's compensation policies were found. This coverage was the last major addition to the field, although new and broader forms of the older types of policies have been developed in recent years.

It is interesting to note that the bond business in the United States was very late in developing. Up until almost 1900 the only available sureties were individuals. In 1876, the Fidelity and Casualty Company of New York was organized to engage in the bond business, a corporation licensed to act as a surety for others and to charge a fee for premiums for these services. In fact, rapid development of casualty companies did not begin until the nineteenth century.

As a result of expansion of the insurance industry during the nineteenth century the companies began at this time to appoint agents to represent and sell for them; and in the large urban centers they began to pay brokers for the placing of business with them.

As a result of expansion of the insurance industry during the nineteenth century, the companies gradually changed their selling methods and appointed agents to represent and sell for them. In the large urban centers, the companies commenced paying brokers for the placing of business with them.

* 8 Pg. 2

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Recent Development of Insurance Companies in the United States

Marine Insurance has experienced a great metamorphosis in recent years in this country. Marine Insurance is divided into Ocean Marine and Inland Marine. In previous days this meant exactly what it said: Ocean Marine covered the perils of ships and merchandise on the ocean, while Inland Marine covered the perils of ships and merchandise on inland waters. Basically there has been little change in the coverage of Ocean Marine. However Inland Marine Insurance has developed to the point where coverage is included on any "objects" that move from one place to another. These items are covered under Marine Insurance since they are much more closely related to that branch of insurance than to either fire or casualty.

A recent development in the life insurance industry has been the adoption by most companies of the "Commissioner 1941 Standard Ordinary Mortality Table." This resulted from criticisms that the companies were charging excessive rates, inasmuch as they were based on tables of mortality drawn up in 1863. The effect of this change is to assure the life insurance purchaser that his premium is based on a table which reflects modern mortality experience.

Until 1944, insurance had been determined not to be interstate commerce by a decision reached 76 years ago in the case of "Paul vs. Virginia." In 1944, as a result of an
anti-trust violation by the Southeastern Underwriters Association the United States Supreme Court reversed the decision and declared insurance to be interstate commerce, in order to apply the federal anti-trust law. However, in less than a year Congress passed Public Law 15, declaring that the continued regulation of insurance companies by the several states was in the public interest. This law also exempted the insurance business from the operation of the federal anti-trust statutes.

Perhaps the most recent development in the insurance field in the United States has been that of Multiple Line Underwriting. This means simply that where previously a fire insurance company's charter allowed it to write only fire insurance policies, now that charter will be broadened so as to allow it to write fire, casualty, and marine coverages. This development is and will be a great benefit to the insurance seller, for instead of having to sell several policies to complete an assured's coverages, he can now, in limited form, and will increasingly in the future be able to sell one policy contract that will afford all of the coverages that his clients need. This should also result in increased administrative efficiency of the companies, reflecting lower costs to the policy holders.

Although there has been a steady development since the early 1900's of insurance companies becoming larger, of smaller companies combining their organizations into one large
one, of various mergers and combinations of companies, this might give one the idea that there would be less need and opportunity for the insurance salesman. Fortunately for those in the selling end of the insurance business, exactly the opposite is true. By combining their forces, the companies have worked toward overall reduction of the cost of insurance, and broadening the scope of their policy contracts. Due to their tremendous growth into large financial corporations, they have been able to set up engineering and research departments so as to reduce losses, which has meant in some cases the opening of new fields of insurance, and in other cases their willingness to insure that which they previously would not. There has been, therefore, and ever increasing need for new agents, brokers, and company salesman to keep pace with this rapid development and growth of the companies.

Another recent development of the twentieth century has been in the training and education of those who sell insurance. A great number of the companies offer courses at their home offices, at which place not only is formal training given to the prospective agent, broker, and salesman; but also actual experience of how the underwriting of insurance is accomplished at the home office. In addition most companies offer correspondence courses in the various detailed phases of their business. Many of our leading colleges and universities now offer courses in the field of insurance. Even as recent as twenty five years ago it was very
difficult to find a college that offered more than one or two general courses in the field of insurance.

The Insurance Institute of America offers correspondence courses in most branches of insurance and awards certificates of graduation to those successfully passing examinations in any one branch. Also there is the National Association Of Insurance Agents "Standard Advanced Course," given by local agents' associations, women's clubs and individual agencies. At the present time there are 102 study groups in 35 states, with more constantly being added. On the advanced educational level are the American Institute of Property and Liability Underwriters and the College of Life Underwriters. These organizations give no courses of instruction, but supply organized study groups with outlines and suggested reading for multi-part examinations which lead to membership in these organizations.
CHAPTER IV

Selling Methods Of First Insurance Organizations

In the early days there was little or no need for the active selling of insurance by a salesman, since the ship owners or merchants dealt directly with the insurance companies or with their underwriters.

In the fifteenth century, references are to be found about the activities of insurance brokers in England and on the Continent. At that time the underwriters conducted their business at their individual homes. The merchants would engage the services of one who knew where these underwriters lived, and who would take the policy from house to house obtaining signatures from the various underwriters, until the whole amount of insurance which they sought was taken. With the gathering of the individual underwriter under one roof, the same need of an intermediary between the insured and the underwriters continued, as the broker passed from desk to desk obtaining the signatures. As a practical matter this situation is not too different today, when a large line is offered to a broker, and in finding a market for this large line he goes from company to company seeking each one to take a certain portion of this line.
This development continued to progress as these men decided that they could perform a useful service by establishing themselves as experienced intermediaries between merchant or ship owner and underwriter. They were trained by the insurance companies, so they were well educated in their field. In time, they became recognized as middlemen, knowing market conditions accurately and acting as the distributing medium between the underwriters and the merchants or shippers. Some resistance was met by those shippers who thought they could do better by dealing directly with the underwriters, but by the beginning of the twentieth century, almost all business was transacted through brokers. There can be found little difference between the insurance salesman of then and the insurance salesman of now, except perhaps from an organizational point of view. The broker gradually developed a profession on his own, whereby he solicited insurance from individuals which he placed with companies.

In 1865, the British Post Office attempted to sell life insurance to its customers. Yet, in 1926 after more than sixty years of effort, only twelve thousand post office policies were in force in England, while British ordinary industrial companies alone had more than seventy-two million policies in force. This scheme of selling insurance was finally abandoned as a failure and discontinued in 1928. In this country, the state of Wisconsin initiated
a state life insurance fund in 1911. After thirty years of operation there were only sixteen hundred policies in force, representing less than a fraction of one per cent of the total amount of life insurance in force in that state.
PART II

MODERN SELLING ORGANIZATIONS
CHAPTER V

COMPANY SALESMAN

From the insurance company point of view, perhaps the most efficient method to sell their product is to employ a salesman who receives a definite salary; and even though sales may increase or decrease, yet his salary remains constant. He is usually well trained at the company school or home office and sells for only one company. He makes an ideal salesman from the company point of view. From the salesman’s point of view, too, there are many advantages. He knows that every week or every month he will have a definite salary which he can depend upon. He has no financial responsibilities, he does not have to worry about putting up his own money in the event that the assured does not pay, nor must he worry about any administrative duties, since they are carried on by the company.

It is safe to say, however, that there has never been a really successful salesman, one who has sold large quantities of insurance, and one who has been financially successful, who has achieved this goal working as a salaried salesman. At the same time it will be found that most of the major insurance companies have achieved their posi-
tion of prominence, not from the building up of business from salaried salesman, but rather from the commissioned agent or broker (Although there are some exceptions to this point, notably some of the non agency mutual companies). Under the salaried salesman type of employment, there is no incentive to sell large quantities of insurance to protect the renewal of the companies customers, or to improve the coverages of the assured, etc. The man retrogresses more from a salesman to a service man. Why should he get up an hour earlier in the morning to make an extra sale, or why should he take two evenings off a week to try to sell insurance to people that he can not locate in the daytime? His pay remains the same, his job is secure.

Some of the Life Insurance Companies, in hiring agents, offer them three choices of compensation: (1) direct salary and no commission; (2) reduced salary and reduced commission; (3) no salary and full commission. The experience of these companies have been that over a period of years the salesmen earning the largest incomes are those who work on full commission.

To those salesmen entering the insurance field whose primary interest is compensation, the man who elects to sell on full commission will realize the largest income, although experiencing some element of chance; whereas the man who elects to sell on direct salary will realize a lesser income although a more secure one.
"There is a policy to fit every man's pocketbook."

This is a statement made very often by insurance salesman in rebuttal to the prospects argument that life insurance is only for the well-to-do person. The term "Industrial Insurance" is the name for that type of life insurance designed to fit the pocketbook of the lower paid wage earner. This type of life insurance originated in Great Britain in the nineteenth century and was the result of many years efforts to provide life insurance for the working people. Except for group benefits from fraternal organizations, guilds and clubs, the only means of providing life coverage for the working man was the regular life insurance plan. Under these plans of insurance the normal minimum amount that must be carried is one thousand dollars, and the paying periods allowable are once, twice, four, or twelve times a year. With Industrial Life Insurance there is no minimum amount, and premiums can be payable as often as weekly; Industrial policies have been issued for premiums as small as five cents a week. One company issued
children's policies for a weekly premium of three cents. It would be impractical to have premiums due as often as once a week, to be sent to a company by mail. Therefore, the Industrial Companies, by necessity, require collectors, who go to the homes of the assured to collect the premiums. Each collector has an area which is known as a Debit. This system has made possible the issuance of small amounts of life insurance with low frequent premiums, since under this plan of operation the agents detailed records of the premium payment on individual policies permit the home office to dispense with similar records. The agents report premium payments in bulk, and individual policies are reported only when their premium status has changed. A single premium receipt book is used for all weekly premium policies in a family in place of individually prepared notices and receipts. Other than this method of collecting premiums and the issuance of smaller amounts, the main provisions of the policy contract are similar to that of the ordinary life policies.

Industrial Life Insurance in the United States has been popular only since the early nineteen hundreds, although the first company to issue this type of insurance was the Prudential Life Insurance Company of America on November 10, 1875. The three largest companies that write
both ordinary and industrial life insurance today are Metropolitan Life Insurance Company, the Prudential Life Insurance Company, and the John Hancock Life Insurance Company.

An Industrial Life Insurance agent is appointed by the home office of the company, after application and recommendation by the local manager. As previously mentioned the agent is assigned a district called a Debit, and the area within that district is his exclusive territory to collect premiums and solicit the sale of insurance. The size of the debit depends upon the size of the area, the concentration of the people, etc. The normal plan employed by most companies is that the agent is responsible for so many dollars of weekly or monthly collections. A number of debits within a geographical area form what is known as a "district". A district usually comprises several towns within a certain radius, a small city, or a section of a larger city. Each district has a company headquarters with a manager, assistant managers, a cashier, and a clerical force. Some of the larger companies have several hundred district offices scattered throughout the country.

The agent usually receives a two week training period at the home office of the company or through a correspondence course; in addition, he is given training in the field under the guidance of one or more of the assistant managers. The studies usually include the nature of
the different forms of life insurance contracts. Compari-
sions are made with ordinary life insurance policies, group
policies, annuities, etc.. The agent is also made familiar
with the various report forms that he will use for his part-
icular company.

Industrial Life Insurance has been and will no
doubt continue to be the foundation on which wage earning
families are able to build up any form of life insurance
program. The selling of this insurance is recommended to
that salesman who feels that it will be an overwhelming
obstacle for him to find prospects to whom he can sell
insurance. It is also recommended to that salesman who
desires the security of a guaranteed income, for this type
of agent receives a fixed collection commission from this
source, although it is not as substantial as that received
by the commission selling insurance agents. The Industrial
agent receives a first year commission on debit business
based on one years premium on the policy he sells, and also
a commission on the net increase on the debits. The pur-
posse of this latter commission is to keep the lapse rate on
a policy as low as possible.
CHAPTER VII

GENERAL AGENCIES

The largest form of insurance sales organization is that of the general agency. The general agent is the representative of the insurance company who, instead of the company itself, enters into contracts with local agents, sub-agents, and brokers. In this contract, the agents and or brokers agree to sell insurance for the company or companies through the general agency. The general agent is under the supervision of the home office, but is usually given a wide latitude in choosing his agents and in doing limited underwriting for the company. General agencies are more common in the fire, marine, and casualty fields, where the amount of detail work is so great that it is often more profitable for a company to have representation through this means rather than to supervise all the numerous administrative details itself. This type of agency is commonly located in the larger cities, or in a smaller city where the territory covers several cities within a certain radius. The reason for this is apparent, since a general agency thrives upon the contracting of many agents or agencies, which are to be found only in such geographical locations.
They may do active selling themselves, but in most cases they function more as an intermediary between the agent and the company.

General agents are compensated with a so-called "over-ride commission," which means that, in addition to the regular commission which the companies grant them to pay their agents and brokers, they are allowed a further commission to compensate for their services. Those selling for a general agency may be a direct representative of the insurance company licensed through the general agency, or merely an insurance broker dealing directly with the general agency.

The question entering the mind of the newly licensed insurance broker in regard to general agencies will be: "Should I try to become a direct agent of one or more companies or should I route all my business through a good substantial general agency?" There are advantages and disadvantages to both. In placing his business through a general agency the newly licensed broker reduces his expenses to a minimum and makes available to himself the maximum amount of time for actual selling purposes. Policies are written for him, underwriting is accomplished for him, help in selling is made available to him; in short all the administrative details are completed with little effort on his part. On the surface, this system appears most efficient, and may seem very beneficial. All one has to do is go out
and sell, and all the detail work is done for him, all there being left to do is to collect his commission. As a practical matter, this is not always the case. It is true that expenses are less and that administrative details are taken care of, but this is a short sighted way of doing business. If one has spent considerable time and money to study to enter the insurance field, or has left another field of endeavor so as to go in the insurance business, he has surely done this with the thought in mind of making it a permanent career. In order for him to be successful through the years he should not only be thoroughly familiar with every administrative detail, but he must be able to give his policy holders immediate attention in every detail. The one and only thing that one agent can give that another cannot give is "better service." When Mr. Jones calls up at three o'clock in the afternoon and says he is passing papers to purchase a factory building and he needs a fire insurance policy by four o'clock that same afternoon, the agent must be able to have his office write up a policy immediately, and by four o'clock the policy must be delivered. In doing business through a general agency this would be most difficult.

We often hear the old adage: "Too many cooks spoil the broth;" so it is with underwriting. In underwriting a certain risk, it is much simpler if the agent deals with one, rather than two underwriters; that is, it is much more direct
to negotiate with the Company underwriter. If the general agent underwriter has any doubts or misgivings about the case to be insured, those doubts will be magnified many times by the time they get to the company underwriters, and the assured will have much less chance of presenting his point of view as to why he thinks that case should be accepted by the company. In addition to this fact, it is time consuming to have, first of all, the general agent underwrite a case; then subsequently to have the insurance company underwrite the same case. It is much more effective for the agent who is familiar, and he should be familiar, with the assured and the assured's problems, to deal directly with the company and its underwriters, who are in a position to give a direct decision as to whether the company can write the case; or how they want to write the case.

One of the most distressing features of a general agency is the situation where the insurance company is forced to leave it for the reason of unfavorable loss experience. The individual agent or broker, whose record might have been perfectly good, is left in a position without a company to place his business. Sometimes it is extremely difficult to find a company who will absorb this business. The companies usually feel that all the agents and brokers make up the poor experience of the general agency. This is not always true. This situation is best exemplified in the past few years in the Commonwealth of Massachusetts where
loss experience with automobile insurance has generally been very poor, due in good part to the compulsory insurance laws, whereby the companies are forced to insure all risks. The companies have lost substantial amounts of money. In the case of general agencies where this has been true, the companies have resigned from such agencies. The broker whose individual record has been good has found himself without a company, and has found it extremely difficult to replace such company. If the agent on the other hand had dealt directly with the insurance company, he would be judged on the merits of his record alone.

As a practical matter, general agencies have become less popular in recent years. First of all, the insurance companies have felt that, although there is more expense and administrative detail involved, it is more efficient to deal directly with the selling agents and brokers themselves. As a result of this many companies have set up branch offices in many of the large cities, which act very similarly to the general agent; except, in reality, it is the company itself that the agents and brokers are doing business with. On the other hand, the brokers and agents have found that the advantages outweigh the disadvantages in dealing directly with the companies, and even though it means additional expense in hiring clerical help, and additional time in underwriting and overseeing administrative details, nevertheless, in the long run, the local agency
tends to become more successful.

In conclusion, there is listed below several reasons why this writer believes that the new agent will do better to confine his relations directly with the insurance company, and act independently of general agencies:

1. By writing his own policies he is able to give his assureds immediate service and have the jump on his competitors.

2. By doing his own underwriting he is able, after some experience, to immediately give his assured an answer as to whether or not he can underwrite the risk.

3. He has more prestige by being a direct representative of a large insurance company.

4. He usually has a much broader privilege of binding insurance risks.

5. He becomes more familiar with his subject and with his assureds problems by supervising the actual writing of policies, endorsements, etc.
CHAPTER VIII

BROKERS

The term "broker" is practically synonymous with the word insurance. To the average person all his insurance problems: his house insurance, his hospitalization, and are his life insurance always associated with his "broker". And so the business man for his fire, compensation, and liability insurance; and for all his every day problems, the first thought is "where is my broker?" The broker, as contrasted with the agent is the representative of the insured, and not of the insurance company, even though he derives his income in the form of commission from the company. The average buyer of insurance needs the services of a highly trained expert, in whom he has a confidence that he will not have in a company representative or underwriter who is one of the parties to the insurance contract.

A broker is in an enviable position. He can go out all day and do nothing but sell insurance, with few worries about administrative or financial details. For he will normally transact his business with the general agent or branch office, who will write the policies, issue endorsements and carry on transactions with the company. His com-
mission is usually the same or slightly less than that of the direct agent.

One drawback that a broker does have is that he is normally unable to bind a risk. This power is usually vested in the general agent through whom he transacts his business. The broker, unlike the agent, is not a guarantor for the collections of premiums. It is true that he must leave no stone unturned in his efforts to collect the premiums, but there is no legal obligation for him to pay the underwriter unless there is a contract to the contrary in writing. The obligation is moral but not legal.

The broker is in a position, more so than any other seller of insurance, to give his clients "service." It cannot be over emphasized how important the giving of service is in the insurance business. It is difficult to give a better rate to a client because of the general standardization of rates; it is difficult to give a better contract to an insured since the contracts of most companies are fairly similar; in short it is difficult to offer the assured anything better than the competitor, except service. There are many insurance salesmen who are expertly trained in their subject, who are effective salesmen, but it is the salesmen who gives the client the continuing service that is going to get the business. And it is the broker who is in the position to give the best service, since he is the least burdened with administrative and financial details, since he may rep-
resent a number and variety of companies, and since his knowledge is supplemented by experience in all lines of insurance.

A broker, being a representative of the person to be insured, must make himself familiar with the business of each of his clients, because he should know what processes are involved, where losses might occur, and how much of the clients' overhead should be devoted to insurance. He should at all times keep abreast of all new developments in the field, new types of coverages, safety methods, etc. His duties are similar to an agent, except that he does not write policies, but orders them. After they reach his hands, he makes his necessary billing records and delivers the policies either in person or by mail. During the life of the policy, it is up to him to have executed any changes desired by the client such as cancellations, endorsements, changes in addresses or amounts, or changes in coverages.
CHAPTER IX

AGENTS

From the viewpoint of selling the agent is very similar to the broker. From the viewpoint of representation, however, the agent is decidedly different. An agent is appointed to represent and act for an insurance company, with certain limitations. Except in life insurance, where the agent is empowered only to solicit, the agent has the very important power to bind a risk in the name of the company. This is very significant from the viewpoint of service; that is, when the prospect wants immediate coverage the agent is in a position to say right on the spot, "This risk is covered as of this minute." For example, a client calls up an agent at an odd hour such as late in the evening or on a Sunday and requests immediate coverage of, let us say, $10,000 fire insurance on his house. Although the insurance company's offices are closed, the agent may give an immediate written or verbal binder to this assured stating that his house is insured from that time for a period usually up to thirty days in the amount of $10,000; and this binder is legally binding upon the insurance company which the agent
represents.

The agent, who is often referred to as the "Direct Reporting" agent since he reports directly to the home office of the insurance company, usually writes his own policies which have been signed by an officer of the corporation and which, when countersigned by himself, becomes a valid contract. This authority to write the policy himself is a great selling weapon, for the agent is in a position to again give very prompt service. If a client requires a policy to present immediately to a creditor such as a bank, the agent can deliver that policy in the amount of time it takes his stenographer to type it. Direct reporting agents are found most commonly with fire and casualty companies with the former being the most popular. They are rarely found with life insurance companies. Their duties, in addition to writing policies, are to keep proper records of coverage and expiration, to keep records of accounting between themselves and the Company, to deliver policies, collect the premiums due, report losses to the Company and aid in their settlement, and to service the needs of their clients.
<table>
<thead>
<tr>
<th>Line</th>
<th>General Agent</th>
<th>Local Agent Broker</th>
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<tbody>
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<td>Personal Accident</td>
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<tr>
<td>Liability</td>
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<td>17.5%</td>
</tr>
<tr>
<td>Burglary</td>
<td>30%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Fire</td>
<td>30%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Life</td>
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<td>55.0% graded</td>
</tr>
<tr>
<td>Workmens Compensation</td>
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<td>10.0%</td>
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CHAPTER X

INSURANCE ADVISERS

This is a type of hybrid insurance salesman that we hear very little about. The word "hybrid" is used, since this person does not necessarily sell, but upon examining and surveying an insured's program gives advice and recommendation as to how to improve the coverages, reduce costs, etc. Unlike the salesman, his aim is not primarily to sell the client insurance; he is allowed under the law to charge a fee for his advice and recommendations. An agreement must be in writing, it must state the amount of the fee and must state the services to be performed on a form approved by the insurance commissioner.

It is remarkable that although this law has been on the statute books in Massachusetts since 1939, there are only one hundred and twelve licensed insurance advisers in the Commonwealth of Massachusetts. The examination required by the Commonwealth of Massachusetts to obtain this type of license is a very rigid one, and the applicant must have a complete and thorough understanding of his subject. There are five types of licenses for insurance advisers:

# Figure released by insurance commissioner's office, Commonwealth of Massachusetts
1. Full license covering all lines.
2. Full license covering all lines except life insurance accident and health.
3. Life insurance, accident and health only.
4. Life insurance only.
5. Full license except life insurance.

It is important to note that it is contrary to the laws of the Commonwealth of Massachusetts for an insurance salesman to advertise himself as an insurance expert or as an insurance adviser unless he is the holder of this form of a license. The insurance adviser may also and usually is a broker or an agent, and his duties in this respect would be similar to those of an agent or broker.
CHAPTER XI

SALARY VS. COMMISSION SALESMEN

The increase in population in this country, higher standards of living, and tremendous production increases and sales of products and services requiring insurance make the opportunities in the insurance business appear extremely bright. This means that more individuals will be needed to develop these new opportunities. To those men and women who choose the production phase of the business, the choice will be whether to sell insurance as a salaried employee of the company or to sell as an agent or broker and be an independent businessman. There are advantages and disadvantages to both methods, and the choice must depend in great part in the nature of the individual.

Some of the insurance companies market their policies not through commission representatives such as agents and brokers, but through employees who are hired at fixed salaries to perform the labor of selling insurance for their employer, namely the Company. These employees are to be differentiated from the service employees such as Special Agents, Branch Managers, etc. whose duty is not to sell but primarily to provide service and administration for the
agents and brokers who do sell. Sometimes these direct selling employees are paid a base salary plus a small commission on their production. If inexperienced in the business, they are normally trained and educated in the field which they will be selling by their employer. This is sometimes advantageous as compared with brokers and agents, some of whom neglect their education of their subject or do not recognize the proper sources from which to obtain their training. Salaried sellers are guided and taught by superiors whose primary function is only to train these men. These salesmen are very often furnished with prospect lists upon whom they may call, and in their first days with the Company may even have an experienced representative make calls with them, both of which factors are not so readily available to the independent salesmen. Starting salaries for this type work range from $3000. to $4500., and it is possible for these salesmen over a period of years to earn as high as $8000. to $9000.

The responsibilities of this class of salesman are relatively light. They are not concerned with collections, renewals, losses, etc. but are more preoccupied with selling their product, which, unlike agents and brokers, they can devote their full time to.

The agent on the other hand usually goes into business for himself and forms either a "one man agency" or a partnership or corporation along with other individuals. This seller of insurance is not guaranteed any income or
salary by the Company, but rather is one authorized to rep-
resent the Company for the purpose of selling their product,
in return for which he will be compensated out of the pur-
chase price, i.e. premium paid to the Company. This man
must produce to be paid. The responsibilities are far great-
er than the direct salaried salesman, since the agent usually
writes his own policies. The agent is responsible for the col-
lection of premiums and in turn their payment to the Com-
pany, whether or not he may have collected the money. Sell-
ing insurance in this manner usually involves a capital in-
vestment on the part of an agent in the form of an office
and money to pay the companies for uncollected premiums. To
compensate for these added responsibilities, the income of
an agent tends to be higher than that of the direct selling
employee. Normally an agent will more than double his first
years income by the end of the third year. By the end of the
fifth year, a successful producer should be making between
$5000. and $8000., with figures increasing each and every
year that he devotes full time to his work.

The duties of a broker are similar to those of an
agent, except that his responsibilities are less. Being a
representative of the insurance buyer and not of the Company,
he need not bother himself with those details of policy writ-
ing, loss adjustment, record keeping of accounts, etc.. This
in turn reduces his administrative expense of office and
labor as a result of this lessening of responsibility. The per-
centage of commission of the broker is less than that of the agent. This does not mean that he cannot earn as much money as the agent, since being less burdened with administrative details, he has more free time to sell policies, and therefore can do more business than the agent.

Enumerated below are the chief advantages and disadvantages of the salaried insurance salesman and the agent or broker:

A. Advantage of salaried salesman
   1. Receives guided training to prepare him for his work.
   2. Receives a definite salary which he can depend upon.
   3. Has security in the form of group benefits: i.e. hospitalization, life, and pension programs.
   4. No capital investment required.
   5. No responsibilities except to perform selling duties as outlined by his employer.

B. Disadvantages of salaried salesman
   1. Future advancement is slow, sometimes non existent.
   2. Lack of independence as a business man.
3. Lesser Income.

4. If successful, the fruits of his labors benefit not himself, but his employer.

C. Advantages of Agent and Broker

1. If successful, receives greater income.
2. Is an independent business man, free to run his business as he sees fit.
3. No limit to his future business growth.
4. Greater prestige in the community.
5. The more time put into selling results in higher income.

D. Disadvantages of Agent and Broker

1. Element of risk. If production is not great, income may be insufficient to maintain standard of living.
2. No definite guidance in training.
3. Lack of security and fringe benefits of group plans.
4. Subject to loss of money through customers who do not pay their premiums.
5. Must have capital investment and maintain accounts receivables.
6. Administrative responsibilities of writing policies, maintaining accounts with companies and assureds, assisting in loss adjustments.
<table>
<thead>
<tr>
<th>Category</th>
<th>Men</th>
<th>Women</th>
<th>Total</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Agents and Brokers</td>
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<td>13,081</td>
<td>239,142</td>
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<tr>
<td>Proprietors, Managers and Officials</td>
<td>36,643</td>
<td>2,832</td>
<td>39,475</td>
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<td>Assistants, Office Workers, Others</td>
<td>75,883</td>
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<td>Employees</td>
<td>338,587</td>
<td>186,137</td>
<td>524,724</td>
<td>100.0%</td>
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Source: 16th Census of the United States - Population

# 1950 Census Breakdown not released by Government
PART III

MODERN SELLING TECHNIQUES

SECTION I

Life Insurance
CHAPTER XII

THE SALESMAN

Selling insurance is no different than selling any other product, whether it may be vacuum cleaners, brushes, television sets, bonds, or what not. Listed below are some of the requisites of a general salesman as outlined by William J. Tobin. It will be noted that although these are requirements for a general salesman, nevertheless, each one of these points directly concerns the insurance salesman;

1. He must believe in himself.
2. He must know the customer benefits built into his product.
3. He must know how to communicate enthusiasm.
4. He must never stop growing.
5. He must be on top of every sales problem.
6. He must sell ideas.
7. He must reach the decision meant.
8. He must be a planner.
9. He must not be easily discouraged.

# Editor, Research Institute of America
10. He must never stop selling more.
11. He must make a customer impression every time.

Too many insurance salesmen are like the hunting dog which was considered the fastest and best bred hound in the region. At sun rise he would start out all alone, on his own hoof, after a deer, and run him for miles. When the buck was nearing the point of exhaustion, the hound's nose would detect the scent of a fox across the trail; and away he would go after the fox, thinking it more attractive than the deer. Nearing the exhausted fox, the hound would suddenly detect the scent of a rabbit, and off he would go in pursuit of it. By about four o'clock in the afternoon, the hound would find himself about forty miles from home, in a swamp, with nothing more than a chipmunk treed—and all because he didn't concentrate on one objective. Many salesmen, like the dog, lack the power of concentration. A successful salesman sees a definite number of people each day. If completed in half the time, he still owes the same amount of time for a full days program, the same amount of time as a clock-puncher.

He must interest his client in the service he has prepared to render; he must show him how his service applies to the clients needs. He should follow these steps with every prospect every day for eight hours, with at least one night each week, realizing the necessity of occasional night work. With this sched-

* 11 Pg. 31
ule—-if he sticks to his objective—his is sure to produce more business.

It has often been said that first impressions are lasting ones. Insurance selling is no exception to this rule. If a prospective client receives a bad impression with his first meeting of the salesman, then an immediate obstacle has been placed in the path of that salesman. The manner of the individual is very important. He should not try to step out of character. If he is a low pressure salesman, he should not try to be a high pressure salesman; and conversely, if he is a high pressure salesman, he should not try to be a low pressure salesman. He should at all times be himself. If he observes the ordinary social conventions and at the same time takes the trouble to show the prospect that he can be of real service, then he needn't worry much about his manner.

A much discussed subject has been the physical appearance of a salesman. The argument has never been settled as to whether a good salesman can sell his product in spite of his improper appearance. This subject can best be summed up in a bit of advice given to this writer many years ago by Mr. Kenneth L. MacLean, then manager of a Boston Agency for the Equitable Life Assurance Society of the United States. Mr. MacLean said: "Being neat and well dressed will not make an insurance sale. However, not being neat and not being well dressed will lose many an insurance sale."

One insurance company has made a thorough study of its
agents throughout the country, and lists the following characteristics of those agents who have succeeded most: "He should have a genuine liking for people and an ability to get along with them; a pleasing personality; the ability to express himself effectively; intelligence, and a somewhat better than average educational background; enthusiasm for the work; and good reputation and sound personal spending habit."
CHAPTER XIII

PROSPECTING

No matter how effective a salesman is or how well he knows his subject, if he doesn't have someone to sell his product to there will be no sales of life insurance. To the salesman first starting in the business, the first thing that comes to his mind are, his friends. This will be perhaps his first mistake. For experience has shown that a life insurance salesman needs something more substantial than dependence upon friends for the successful conduct of his business. It is true that during his first six months as a salesman, many of his friends will buy insurance because of friendship. But after that, they have done their duty and will no longer buy; and the number of friends soon become exhausted. At that point he must set out to sell by his own ability; which he would have been better off had he done at the very beginning. If business comes from friends in normal channels, then so much the better.

Listed below are some of the more common Sources of prospecting:

1. The Cold Canvass.

This is perhaps the most difficult form
of prospecting, since the only thing you have to sell is yourself, and the possibility that your company writes a better contract than the other company. In many cases it is difficult to even get the person interested to speak to you. However, if this method of prospecting is employed in great numbers, the law of average is bound to work in favor of the agent. In other words during the course of the month, if he canvasses two hundred prospects, then experience has proven that he will, under normal circumstances, write policies on two percent of these, or four lives.

2. Referred Leads.

Upon completing a sale of life insurance, or before leaving an unsuccessful interview, it is good selling practice for the salesman to ask the prospect if he would refer him to one of his friends or acquaintances. For it is much less difficult for the salesman to make his presentation if the person knows who he is or whom he has been referred by.

3. The Continuing Chain.

This is a means of prospecting which will help the man who does an outstanding job. For the well satisfied customer will tell his friends
and acquaintances of his successful relationship; upon whom the salesman has the opportunity to do another outstanding job; then again they will tell their friends and acquaintances etc.

4. Influential Contacts.
The salesman who can be recommended by one who is held in high esteem in the community will be far better received than just an ordinary recommendation. For most people regard highly the value of a recommendation of one who has attained success in his field, whether it be politics, business, profession, or social standing. For example, a recommendation from a clergyman to one of his parishioners, from a physician to one of his patients, from a lawyer or accountant to one of his clients, etc.

5. Papers and Publications.
This is an unlimited source of prospect.
Births are announced in the paper every day, and the parent of every new youngster is a prospect for a juvenile educational policy. Obituaries are announced in the papers every day. Families and friends of the deceased are made aware of the importance and necessity of life insurance. The papers contain stories of the success of various individuals. These
people are a constant source of prospecting; it is important for them to have their insurance requirements keep pace with their increased financial success.

This, strange as it may seem, is always a fine prospecting list, for as conditions change and as families increase, those people who the salesman has previously sold will need more insurance. One of the best prospects is to return to a previously satisfied customer.

7. Elimination.
This is a rather negative approach, but why should the salesman waste his time on a prospect who does not have the ability to pay premiums, or the one who is uninsurable because of bad health, or the one who may not have any need for life insurance?

8. The Insurance Survey.
Many insurance salesman fail to realize that a man's life insurance need should be surveyed just like his business needs. He must reduce to writing the facts as they are now; the prospect's financial situation, his family situation, his present life insurance coverage. Then he must project his situation upon either his or his spouse's death, and from that he must
derive certain conclusions as regard life insurance. Is his present coverage sufficient, is it too much, is it too little, is it written in the proper manner? Like every other form of insurance today, the insurance survey shows the need of insurance and aids tremendously towards the sale of life insurance.

9. Direct Mail.

Although replies to direct mail selling average usually less than five percent, there is a definite opportunity to be realized from the remaining ninety-five percent. This opportunity is in the form of the follow up, since the letter has provided a means of introduction of the salesman to the prospect. Instead of walking in to speak to a person who may have never heard of him, it is far more effective for the salesman to say: "Mr. Prospect, a short time ago you received a letter from me regarding my company's service in Estate Planning. I would like to explain this to you in greater detail, if I may."

This plan of follow up from direct mail selling can be effective. It is most important that the letter be not a stereotype one nor a printed form one, but rather an individually
typed letter personally signed. Sources of names for direct mail selling are almost unlimited from telephone books, city directories, marriage and death notices, mercantile reports, real estate transfers, trade directories, voting lists, tax lists, etc. Most life insurance companies have available for their agents illustrative letters and forms.

Two typically good approaches for the selling of life insurance are social security and the sale of mortgage insurance. Any employed person is curious about what his social security will do for him. He has always thought he would like to know more about it, but has never known quite where to go to find out. So if the salesman lets him know he is ready to give him the exact facts on the social security, he is most receptive. Combining his present social security coverage with additional life insurance coverage is a natural sales proposal. As to mortgage insurance, one need just get into his car and drive to the outskirts of any American City. The number of new homes is overwhelming and there will be a mortgage on every one of them, with very few exceptions. There is no life insurance need except the funeral benefit that is more clearly defined than the necessity for leaving a home for a family free and clear of all incumbrances.

Another method of prospecting, which subject will be discussed at greater length in a later chapter, is the sale of life insurance for the purposes of paying estate and inheritance
taxes.

It might be well to mention at this point, the allied field of Accident and Health insurance, for a prospect once developed for life insurance is a natural target for this type of insurance. Although Accident and Health insurance is academically a casualty coverage and is sold by the general lines broker and agent, nevertheless it is more complementary saleswise to life insurance. A logical association takes place in the mind of the life insurance prospect of insurance to cover him if he lives but contracts an illness or is involved in an accident, and thereby disabled for a period of time.

This type of insurance falls into two main categories: (1) income reimbursement, and (2) hospitalization. The former provides direct payment to the assured of weekly or monthly income as a result of being continually disabled from either illness or accident. Benefits may be payable for as short a time as one day, or as long as the remainder of a person's life, depending upon the individual policy contract. The latter provides payment, also as a result of illness or injury, of expenses incurred during hospitalization, such as board and room, surgical and medical expenses, nurses fees, etc.

The alert salesman, in developing his prospects for life insurance, will tie in this type of coverage.
CHAPTER XIV

PRESENTATION

It cannot be over emphasized how important it is never talk life insurance to a prospect unless he has made the proper preparation. If he does not make the proper preparation, he will find himself in the same situation as the actor who did not attend rehearsal and did not properly memorize his line. When he got on to the stage he was lost, he said the wrong thing, he didn't fit into the rest of the picture. When the preparations are properly made, along with that will go self confidence which is so important in selling. If he does not have confidence in the product he sells then the salesman may never expect his prospect to have confidence in that product.

In the preparation of the presentation it is essential that the salesman have a complete knowledge of his subject. A remarkable successful life insurance salesman was asked to explain to what he attributed his success. His reply was "The one thing I know-Life Insurance." In other types of insurance there are usually only one, two, or three different ways of writing the particular policies. However, every situation is different, and the salesman must have a thorough know-
ledge when making a presentation for a life insurance sale. He must know about the person, he must know what his needs are, what his business program is, what he might be subject to in estate taxes, what his family problems are. There are innumerable types of policy contracts. Does the prospect want life insurance for protection only? Does he want life insurance partly for protection and partly for investment? Is he interested in a retirement plan? It can be seen, therefore, how essential it is that the salesman know all about these factors and others in order to make an intelligent presentation in selling life insurance.

He should also be familiar with the buying habits of the groups to whom he is going to solicit life insurance before he makes his presentation. He should have learned through study and research what types of people are likely to purchase insurance for protection only, what types for savings only, etc. It is interesting to note in connection with this subject that in a national survey made in 1951 by Colliers, out of 3943 readers interviewed, 90.6% of the families used life insurance as a method of savings. It is surveys such as these that the salesman should be aware of to provide him background material for his presentation.

It is never wise to start off asking the prospect if he wants to buy life insurance or if he needs life insurance. It is very important for the salesman to use imagination in his presentation. Lorin F. Deland in his "Imagination in
"Business" gives a simple but very effective illustration of how imagination is used in selling. The story goes as follows: "Let me tell the story of two bootblacks. We can scarcely go lower in the business scale. These two boys of about the same age are found standing one Saturday afternoon on opposite sides of a crowded thoroughfare in Springfield. So far as could be judged there was no preference between the different sides of the street, for an equally large crowd seemed to be moving on both sides. The bootblacks had no regular stand but each had his box slung over his shoulder, and standing on the curbstone, solicited the passerby to stop and have a shine. Each boy had one 'call' or method of solicitation which he repeated at regular intervals. The two solicitations were entirely different, but each was composed of four words. They never varied them. Yet one of these boys by the peculiar wording of his solicitation secured twice as much business as the other, so far as one could judge, and I watched them for a long time. The cry of the first boy was 'Shine your boots here'. It announced the simple fact that he was prepared to shine their boots. The cry of the second boy was 'Get your Sunday Shine'. It was then Saturday afternoon and the hour was four o'clock. This second boy employed imagination. This boy conveyed the information not simply that he was there to shine shoes, but that tomorrow was Sunday; that from present appearances it was likely to be a pleasant day; that he as a bootblack, realized that they would need
an extra good shine; and somehow the sentence had in it a gentle reminder that the person on whose ears it fell had heretofore overlooked the fact that the next day was the Sabbath, and that any self-respecting Christian would wish his shoes shined before he repaired to the Sanctuary. Perhaps it was merely good luck that this boy secured twice the business of the other, but I have seen too many of such experiences to think of them as accidental." Almost everyone dreams of someday owning the little white cottage with the picket fence, the two car garage, and the lovely green yard with the garden. If somebody comes along and shows how this can be accomplished, then half the battle is already won, because in their imagination has been created the desire to have this white house with the pleasant surroundings.

And so in life insurance, the salesman must stimulate this imagination in his prospect. He must have the wife, for example, think in years hence of how fine it will be not have to worry about financial problems in raising her family, or for the working man at age sixty to retire and have an income for the rest of his life. The salesman must plan in advance how to stimulate the interest of the particular prospect which he is going to develop.
CHAPTER XV

ESTATE PLANNING

In today's conditions of high estate and inheritance taxes, one of the most important phases of life insurance selling has become estate planning. This is a highly technical subject and the entire space of this thesis could be devoted to this material alone. The author will, however, attempt to bring to life some of the highlights of estate planning which may prove to be of help to some future life insurance salesman.

In determining the life insurance needs of a prospective client, it is no longer necessary to determine only how much his wife would need to survive and to raise a family under conditions approximately similar to those were the husband alive. A new important need for life insurance has arisen in recent years. This new need is estate and inheritance taxes. The federal government, in computing the amount of estate tax to be levied, allows a blanket exemption of $60,000. of net estate. For example, a person who dies and leaves a net estate in the amount of $100,000., there will be levied a tax of $20,700.. A person who dies and leaves a net estate of $500,000., there will be a tax of $145,700.. Not only is
it important to recommend life insurance as a means of providing payment for these taxes, but the life insurance salesman must act as accountant and lawyer, recommending according to his customers situation the proper way for his will to be drawn and for his estate to be set up, in order that his family may be left the greatest amount of money from his estate.

Let us take a simple illustration. Mr. Client owns a shoe store which he claims he wouldn't sell for less than $30,000. at forced sale. He has worked hard during his years and has managed to save some money. He invested some of it in the stock market, the market value of which today is $18,500. Of course, he always kept about $7000. in Savings Banks for the proverbial "rainy day." He owns his own home for which he paid $27,500. to build new only four years ago, and on which he has a $10,000. mortgage. He drives a new Buick which cost $3500. and he has a Plymouth station wagon for his wife worth $1500. He carries $10,000. fire insurance on his furnishing and personal effects, which he claims wouldn't reimburse him for half its actual value. He has always been a firm believer in life insurance and carries $50,000. face amount on his life. "I am only an ordinary business man," he says to John Salesman. "The $50,000. life insurance plus the sale of my business, will amply take care of my wife and two children. And what do I need a will for?" he continues. "I am well content for my estate to be divided according to law,
one third to my wife and two thirds to my children."

If John Salesman is up on his estate planning he will literally tear this nice story apart. First, he will see that Mr. Client's gross estate will add up to $138,000. Taking 5% off for administratives costs and deducting the $60,000. allowable exemption, this would leave a net estate of $71,100. on which Mr. Client would have to pay a tax of approximately $12,328. Add this to the administrative costs of $6900. and a $19,228 chunk is taken out of that $50,000. of life insurance. Mr. Client is amazed. He is only a small business man. How could the government do that to him? John Salesman explains that with his proper estate planning that won't happen. By having his lawyer write a will taking advantage of the marital deduction, that tax could be completely wiped out. By having Mrs. Client take out a policy on her husband's life for $7000., all administrative costs could be paid, and that $7000. would not increase the gross estate. Or by having a "Living" Trust drawn up for him in which he assigned all of his assets including the beneficiary under the insurance policies, he could wipe out almost the entire $6900. of administrative costs; and at the same time could insure continuity of his business and financial program. In other words, even though he should die, everything would continue as if he were living, with income from his business, securities, and savings now going to the Trust, to be distributed in accordance with his instructions.
To do estate planning properly, the life insurance salesman must keep abreast with the ever changing tax laws. In 1954, for example, many changes were made in Estate Tax Laws. These changes were accomplished for two main purposes: One, to reduce some glaring inequities in the previous laws; two, to adjust the laws so as to produce incentive to the smaller business men. Some of the more significant changes of interest to the life insurance salesman are as follows:

1. Additional relief has been provided for those people on retirement. For example, a twelve hundred dollar exemption is now allowed against retirement pensions other than social security. Against this exemption, however, must be applied any non taxable retirement such as social security.

2. It is now possible to pay to a widow of a deceased employee up to five thousand dollars tax free, without any contract to that effect being in force.

3. Formerly, in the event of a stock holder's death and the subsequent purchase by the corporation of the deceased stockholders stock, a capital gains tax had to be paid by the corporation in selling this stock to a new stockholder. Under the new law the corporation no longer has to pay this capital gains tax. This is a great help
to small businesses in recapitalizing as a result of the death of one of the major stockholders.

4. An exemption is now provided to a widow or widower in the amount of one thousand dollars per year on interest received from Life Insurance under an optional mode of settlement. This tends to help the person in low income brackets.

5. A new formula which provides a lesser tax on annuities.

6. Formerly, an income tax had to be paid on the transfer for value of all life insurance policies. Under the new law no tax need be paid if the transfers are between partner and partner, corporation and employee.

7. Payment of premiums on a policy owned by a spouse does not make proceeds taxable in his estate.

8. Two deaths within ten years give estate tax credit.
CHAPTER XVI

GROUP LIFE INSURANCE

The selling of group insurance by both a life insurance agent or by a general agent or broker is a most prolific means of obtaining a substantial amount of commission income. There are two significant reasons for this. Firstly for the same or little more time involved in selling an individual policy, when one sells a group life insurance policy he sells twenty five, fifty or a hundred or more policies in that one sale; and instead of receiving one commission on the one policy, he receives a commission on a large number of policies. It is true that the commission is smaller than those received for individual policies but yet collectively it is much greater. The second reason is that once you become the agent of a company's group insurance, the employees will learn that if you can handle their company's insurance, you can handle theirs. Thus you become known as "The Company's Insurance Man." You are then in a most favorable position to solicit all other types of insurance for all these many employees. One desirable factor about selling group insurance is that most of the life insurance companies have salaried employees whose duties are to work with the
agents to sell and service this type of insurance. These employees are highly trained specialists in this field and the agent gets the benefit of their specialized training. The subject of group insurance is so highly complex that it would be a very difficult matter for the ordinary agent to master the subject without involving himself in a considerable amount of time. Usually it is sufficient for the agent to sell his prospect the idea of group insurance, and from there on let the company employee explain the intricate details. In selling the idea to the prospect some of the advantages to be pointed out are:

1. Low cost resulting from savings in medical fees, commissions, collection expenses, usual low average age in large group.
2. The creation of good will between employer and employee. This tends to minimize labor turnover because of the employee not desiring to lose the various benefits under the group plan.
3. A good bargaining argument with unions.
4. That part of the employers contribution is a taxable deduction.
5. The ability of the employers to obtain this type of insurance at the lowest possible rates and without medical examination.

Normally, the minimum number of people to be eligible for group insurance is twenty five, with the requirements
that at least seventy five per cent of the employees participate in the plan. Premiums can be paid in whole by the employer or jointly by the employee and employer. The amounts of insurance is always fixed by classes. For example, laborers might be eligible for a thousand dollars, white collar workers two thousand dollars, and executives three thousand dollars; and there is usually a probationary period of so many weeks or months, so as to weed out those employees who work for a brief time and leave their employment. The insurance is always one year renewable term, although there have been cases when group plans have been written on a permanent form of insurance. No medical examination is required for employees under group insurance, but if an employee does not elect to participate when the plan originates then he must take a physical examination if he later decides to join the plan. This is to prevent adverse selection against the insurance company.

"What if there are only twelve employees?" is a question very often asked by the newly licensed agent. Most companies have come up with the answer to this problem by the issuance of what is known as "wholesale insurance." This is written for smaller groups less than twenty five. The plan is basically similar except that premium rates are slightly higher, and instead of there being one master policy, there are usually individual policies issued. This is a very lucrative market since there are untold numbers of small busi-
nesses with a small number of employees who have never thought
themselves eligible for group insurance, and because of their
size have never been solicited for group insurance.

Salary Savings Insurance is a form of Group Insurance
whereby ordinary life policies are issued to a group of
employees, the premiums for which are deducted from their
wages by the employer, who remits the total premium to the
company. Unlike true group insurance, the policies are writ-
ten on a permanent plan rather than on term insurance. If a
sufficient percentage of employees participate in this plan,
a medical examination is usually not required.

As a result of businesses becoming more social con-
scious and as a result of the support and an urging of organ-
ized labor, group life insurance has experienced a tremendous
growth in the past fifteen years. In 1953 there were over
forty million Americans insured under group plans. The poli-
cies of group insurance have also been greatly expanded to
include, in addition to life insurance, disability coverage,
hospitalization coverage for both employees and dependents.
The definition of group insurance has also been broadened
so as to include not only a group of employees with a common
employer but also members of state organizations and associa-
tions, school teachers, nurses, borrowers from a bank, pur-
chasers on the installment plan, etc.

* 10 Pg. 24
CHAPTER XVII

SAVINGS BANK LIFE INSURANCE

In 1907, the Massachusetts legislature passed a law empowering Mutual Savings Banks in that State to establish "Insurance Departments" and to engage in the business of selling life insurance and annuities to residents of the state or those working in that state. New York and Connecticut passed similar laws in 1938 and 1941 respectively. It was hoped by the originators of this form of selling insurance that they had come forth with the "Model T Ford" of the life insurance business, inasmuch as they would offer low cost, over the counter life insurance for that class of people that purchased in small quantity; a substitute for industrial insurance, and yet doing away with the collection cost of industrial insurance.

In Massachusetts, the Savings Bank Life Insurance Departments are controlled by the General Insurance Guarantee Fund, an incorporated body of seven unpaid trustees appointed by the governor of the Commonwealth. The administration of the system is in the hands of the Division Of the Department of Banking and Insurance. This body would correspond to the home office of the commercial life insurance companies, a central headquarters through which general policies and dir-
ectives come from, where final underwriting, actuarial and rate making take place.

The policies issued by the Savings Banks are similar in most details to regular companies' policies, except that they may not be issued in face amounts greater than five thousand dollars. There are thirty-one banks writing insurance in Massachusetts; so, theoretically, a person could buy as much as thirty-one thousand dollars of life insurance. Premiums are paid annually, semi annually, quarterly, or monthly, and medical examinations are required on all contracts except those on children. The insured must bring his payment to the bank each month, and must originally come to the bank and apply for the policy. No agents are allowed to go out and solicit this type of insurance, but the banks do carry on a very active advertising campaign.

This type of life insurance is offered at lower rates than those charged by the commercial companies, the reasons being: (1) Actuarial and medical services are centralied in the corporative bureaus; (2) Acquisition expenses are less, since no agents are used; and (3) Fewer policies are lapsed because the policy holders are usually only those with a sufficient sense of responsibility to buy insurance on their own initiative.

Despite the low cost and despite the great predic-
tions of the many people who instituted the Massachusetts Savings Banks Life Insurance Departments, the system has not been too popular. In Massachusetts, out of one hundred and ninety-one eligible banks, there are only thirty-one who are issuing policies and maintaining insurance departments. Over one hundred others act as agencies for the issuing banks. In New York only thirty out of one hundred and thirty-one banks maintain insurance departments, and in Connecticut only eight out of seventy-two. In Massachusetts in 1953 there were only four hundred and eighty-one million dollars of life insurance in force with the Savings Banks, compared to 10 billion, two hundred seventeen million in force with the commercial and industrial companies. Three reasons may be advanced as to why this system of selling insurance has been unpopular.

1. It appeals to a very limited class. Only those people who are buying in very small amounts or those people who wish to buy on their own initiative without the advice of a trained salesman are prospective purchasers of this type of insurance.

2. Most people are willing to pay a slight additional charge for the purpose of receiving trained expert advice from one who specializes in that field. The average person would not think of going to the drug store to buy medicine without first being examined by his doctor and having
that medicine prescribed by the doctor. So in life insurance, the average person wishes to have his insurance needs analyzed by a trained expert, and then upon the recommendation of that expert to purchase the necessary insurance.

3. This type of insurance is greatly limited by reason of amount. One thousand dollars is not a sufficient amount even for the great majority of the low cost purchasing population. Although a larger amount of insurance can be purchased through individual policies, the average person, just as he prefers to buy all his groceries in the Super Market rather than one item in each store, so he prefers to purchase his life insurance.

One great disaster that might some day befall the Savings Bank Life Insurance Companies is that of a catastrophic loss in one small area. The commercial companies are huge financial empires, spread from one end of the country to the other. Any local catastrophic loss could be borne by them with great ease. But a Savings Bank who draws upon the people of one city or of one section of the city, if there was a great loss in that one section, it would be a great strain on that company, especially whereas the life insurance departments of the Savings Banks are not backed up by the general funds of that bank.
PART III

MODERN SELLING TECHNIQUES

SECTION 2

GENERAL INSURANCE
CHAPTER XVIII

FIRE INSURANCE

1. Rating Associations

The insurance companies have joined together in many states to form rate making associations for the purpose of establishing uniform rates throughout their area; establishing uniform commissions; disseminating information to agents and brokers; standardizing of policy forms; preventing improper practices; conducting research so as to reduce losses; etc. These associations are most common among the fire and casualty companies. Some of the leading national rate making associations are the National Board of Fire Underwriters, National Bureau of Casualty Underwriters, National Automobile Underwriters Association, National Council on Compensation. The fire rating association is perhaps the most important organization to that insurance salesman who desires to become a financially successful insurance business man. Next to the survey, this, in this writers opinion, ranks second in the means of increasing sales of fire insurance. For, as we all know, insurance rates are fairly standardized. Therefore, it is impossible to go to a prospective insured and say, "Mr. Jones, if you give me your business, I will write it for you
cheaper." But if the agent is acquainted with his rating association, if he understands how that rate is made up, if he understands what elements increase the rate and what elements decrease the rate, then he can approach Mr. Jones and state: "If you were to accomplish certain recommendations I think that I could apply to the rating association to have your rate reduced." There, one can actually sell on the basis of cutting prices, and yet it is done in the most legal manner.
2. Rate Structure

The very existence of a rating association results in lower insurance rates in the area served by the association. This is true since many companies subscribe to the association, and the expense is shared by each of these companies, avoiding duplication of effort and expense by each individual company.

Rates are based primarily on hazards; that is, the greater the hazard the higher the rate; the lesser the hazard the lesser the rate. Certain hazards can be controlled by the assured, certain ones can be controlled by the community, and certain hazards result as an "Act Of God." Therefore, in trying to reduce the rates for a prospective assured, it is necessary to remove or improve upon the hazards which are under the control of the assured or the community. It naturally follows that the lesser the hazard, the lesser the rate, and the reduction in cost to the policy holder.

It can not be over emphasized how important it is to properly learn rate structure. If one can study the property of the assured and know what to look for with the view of making recommendations so as to eliminate certain hazards and obtain a rate reduction, than making a sale to this assured or retaining the good will of an assured already on the books is guaranteed. Assuming that the assured carries a line of one hundred and thirty five thousand dollars of fire insurance on his building, the rate being .992, his annual premium is
one thousand three hundred and thirty nine dollars and twenty cents. For every .01 reduction in rate, he will save $13.50 each and every year. That is a substantial savings. Not only will the prospective assured welcome the man who does this work because of the lower costs, but he will have tremendous confidence in the future in this man's ability and knowledge of his subject.
3. Dwelling Risks

Rating problems on dwelling risks are quite simple, and there is little that can be done to effect a reduction in the rate. For most dwelling risks come under "minimum rates." This means that for a certain given area; that is, a town, a city, a group of towns etc. there is one rate for all one family frame dwellings; one for all one family brick dwellings, one for all two family frame dwellings etc. Rates are normally quite low on dwelling risks since the hazards of fire are not great and since homes are normally well spaced apart so that there is not much danger of a conflagration. Most dwelling risks can be written for a term of three or five years at a reduced rate, and that is perhaps the only point a broker has in trying to save money for an assured home owner. For example, in the event that he is paying his fire insurance premium on a one year basis, then if he purchases five years of insurance in advance, he is required to pay for only four years of insurance. Some dwelling risks that have abnormal hazards are specifically rated, and rate work effected for that type of risk is similar to that done for mercantile and manufacturing risks which will be discussed in the next section.
4. Mercantile and Manufacturing Risks

It is in this class of business that substantial money can be made by agents and brokers. Usually mercantile establishment or manufacturing concerns are heavily capitalized, and this tremendous investment, usually in the form of property and goods, must be protected against fire. Premiums sometimes run very high, with rates being fairly high because of the numerous hazards attached to these businesses. It is the wise agent or broker that gets his big start doing rate work for this class of business. For a manufacturer who spends maybe five thousand dollars a year on premiums, a ten per cent reduction in rate means a savings of five hundred dollars a year, or a ten year savings of five thousand dollars. It is not one of the purposes of this report to write a discourse on the rate structure of mercantile and manufacturing risks. However, listed below are some of the more common hazards that affect the rates of these risks. An improvement of one or more of these hazards means a reduction in the rate for the assured.

1. The combustibility of the risk. For example, there would be a greater degree of combustibility in a manufacturing risk which used gasoline in its processing than one which used entirely non inflammable chemicals.

2. The distance from other building or inflammable substances. For example, if gasoline now stored
on the premises were stored outside so many feet from the premises, the hazard would be reduced.

3. Inherent hazards of adjacent risks. For example if a woodmaking plant located adjacent to the assured were to move to another location there would be elimination of a hazard.

4. The extent of fire protection. In Massachusetts, a five per cent credit of the basic rate is given for a fire extinguisher located per every twenty hundred feet of floor space.

5. Number of stories of the building.

6. Whether or not the building contains a basement.

7. Walls of the building as to thickness, divisions, and parapets. Insufficient thickness in outside walls renders them liable to be weakened by fire from adjoining buildings, and therefore becomes a means of transmitting fire. The greater the area the greater the hazard, because there is a greater draft in a larger area.

8. The roof. One of wooden construction is a great hazard. Skylights and openings are dangerous if not in conformance with underwriting requirements, because they can act like a flue. Openings in floors (elevator shafts, stairways etc.) also contain this hazard.
9. Awnings, wood cornices, pent houses, and similar exterior attachments are sources of hazard.

10. Kind of window and doors. For example, credit will be given to steel fire proof doors.

11. Occupancy.


13. Sprinkler, fire escapes, alarms, watchmen, etc.

14. Moral hazards. This applies not only to concerns who have a proven record of arson, dishonesty etc., but also to those assured who have an experience of just plain carelessness or negligence.

In selling fire insurance to a business establishment, an extremely important selling feature, if adaptable, is the "Reporting Form" policy. To those business firms whose inventories fluctuate greatly from month to month, or season to season, this form is indeed a great boon. The firm sends a written report each month stating its inventory. At the end of the policy year, the 12 months are averaged, and the premium charged on the amounts reported, so that the insured pays premiums on only the actual amount of inventory carried during the year. A 100% coinsurance rate is used in the "Reporting Form", which, in most cases, means a lower rate, since the majority of business rates are written on the 80% or 90% form, which rates are 10% and 5% higher respectively.

# For explanation of coinsurance, see footnote, page 96
5. Business Interruption Insurance

Cost wise, this type of insurance is tied directly to the fire insurance rate, because rates for this type of insurance are based upon certain percentages of the building fire insurance rate. Therefore, if an agent or broker is successful in effecting a reduction in the fire insurance rate, he automatically effects a reduction in the business interruption insurance rate.

The greatest room for improvement to be looked for in business interruption policies is the form under which it is written. There are two basic forms used in writing this type of insurance, each suited for a different set of circumstances. The simpler of the two is the Gross Earnings Form which insures "total net sales less cost of merchandise sold, plus other earnings derived from the operation of the business." Unlike the other form which requires an eighty per cent coinsurance clause, this form permits a choice of 50%, 60%, 70% or 80% coinsurance, the rate decreasing as the amount of the coinsurance increases. Therefore, if the salesman recognized in the nature of an assured's business that in the event of fire, he would be out of business for only a short time, then he would

# In consideration of a reduced rate from the insurance company, the assured agrees to carry 80% of insurance of his total value. In the event of loss, the assured becomes a coinsuror with the insurance company if less than 80% had been carried, and shares with the company in the payment of the loss.
recommend carrying the lowest amount possible, which would be 50%.

The other form is known as the Two Item Contribution Form, and as explained in the preceeding paragraph, requires an 80% coinsurance clause. Item I of this form covers net profits on the business which are lost, and charges and expenses which continue in the event of a shutdown caused by fire. Salaries of officers, executives, etc. are included in this Item. Item II, which coverage is optional, insures the ordinary payroll for ninety days, or more by endorsement.

An important selling factor regarding this type of insurance is that, under normal circumstances where the sum of ordinary payroll, plus heat, light and power is less than 60% of gross earnings, which is the case in most mercantile risks, the cost of the gross earnings form is less than the Two Item Form. If the total of these items exceed 60%, which is the case in most manufacturing risks, the cost of the Two Item Form will be Less.

There are other manifestations of the Business Interruption Insurance for specialized risks in the form of Rent Insurance, Extra Expense Insurance, and Leasehold Insurance.
6. Special Risks

The insurance salesman should be aware of and acquainted with the numerous "special risks" Insurance coverages. Although these coverages may not be sold often, yet it may be through one of these sales that will lead to future additional business.

There are certain "special risks" that many individuals, even many insurance people, believe are covered under other general contracts. Examples of these are: Trees and shrubs (must be insured specifically), Pipe Organs (must be included in building not contents policy), Churches, Schools, Theatres, Improvements and Betterments, Landlords Furnishings, Errors and Omissions (Mortgagee's Interest).

The wise insurance man will become familiar with his manuals to learn of the contents of these "special risks coverages."
CHAPTER XIX

CASUALTY INSURANCE

Casualty insurance includes such coverages as public liability, workmen’s compensation, theft, infidelity of employees, boiler explosion, etc. The selling of this insurance requires an intimate knowledge of the policy contract and of the rate structure. Casualty insurance, unlike fire, is a very specialized type of insurance. For example, an owner of a dress store notifies his agent or broker that he wants theft insurance. That certainly sounds simple enough. But does he want coverage against holdup? Does he want coverage against safe burglary? Does he want coverage against theft of the money taken to his home at night? Does he want open stock burglary coverage covering loss of merchandise after closing hours? The salesman, therefore, must know in detail the various phases of casualty insurance in order that he may intelligently sell the right product for the right situation.

Public Liability Insurance

The selling of public liability insurance is one of
the easiest insurance coverages to sell. For most people are aware of the action at law that they are liable to as a result of other people suffering an accident on their premises, or as a result of injuries suffered in the course of their business operations. Most people, too, realize that although public liability losses are not frequent, nevertheless, the payments are usually large, sometimes going to the thousands and one hundred thousands of dollars. Therefore, the job at hand for the insurance salesman is not making the sale, but seeing to it after the sale is made that the assured gets proper and maximum protection at the lowest cost.

Liability insurance contracts fall generally into two main classifications; "limited" coverage and "broad" coverage. For example, for the home owner there is an Owners Landlord And Tenants Public Liability policy, which is limited in coverage; and there is the Comprehensive Personal Liability policy which is very broad in coverage. There is Manufacturers and Contractors Liability insurance which is limited; and there is the Comprehensive General Liability insurance which is, as its title suggests, comprehensive. It is true that the broad coverage policy costs more, but it is up to the salesman to convince the assured that although he is paying more money, he is getting far greater protection for that amount of money and is therefore in the end paying a less amount of money. This is not a coverage where the
salesman can try to analyze rates with the purpose of reducing them; it is a coverage where for an additional amount of money the salesman can show the assured that he can give him many times more coverage.

2

Workmen's Compensation

Many a new salesman has asked himself the question: "How can I possibly get John Jones to turn his compensation insurance over to me? The contract is prescribed by the state and the rates are standard. What can I possibly do to show him that I can do better than his present agent?"

There are many things that the salesman can do to improve on John Jones compensation policy. If he analyzes the present contract, the business of the assured, his past experience, and losses paid under this type of insurance, the amount of premium expended, then he might find one of several things. First of all, he might find that by recommending one of the four retrospective rating plans he might be able to save the assured a considerable sum of money. For by having the assured agree to share in the payment of certain losses he may affect a substantial reduction in premium. It is true that this reduction may be absorbed by the partial sharing of the payment of claims, but it is then the
duty of the agent or broker to spend time with the assured with the purpose of improving his safety engineering, educating his labor force in safety prevention, recommending various safety devices to the assured so that the losses will decrease, and claims, including those paid of the assured, will be sharply reduced and possibly eliminated.

The agent may closely analyze the compensation policy to see if any error in rate has been made, to see that if the premium is in excess of a thousand dollars that a premium discount is given, to see if the assured is eligible, and if so, is getting his proper experience rating.

The agent should analyze the payroll records of the assured to see that only the correct payroll is being included in the computation of premium. If an executive is receiving wages in excess of fifty two hundred dollars he should be included for compensation for wages only up to fifty two hundred dollars. If there is a silent partner carried on payroll who lives in another state and is in no way active in the business, his payroll should not at all be included. If the payroll records do not differentiate between ordinary time and over-time the agent should pick this up, since the charge is less on overtime then on regular time, this being allowed only if the payroll records shows specifically the breakdown between regular payroll and overtime payroll.

It can be seen, therefore, that insurance such as workmen's compensation is not such a hopeless case for the
salesman to improve on with the view of obtaining the business.

Theft Insurance

Theft insurance is similar to public liability insurance in one respect, in that the agent should look for means to combine various limited coverage contracts into one broad contract. For example, the agent that analyzes an assured's policies and finds that he has an Inside and Outside Holdup policy and a Safe Burglary policy, should recommend that he have one Broad Form Money and Security policy; which not only combines both of the existing coverages but broadens it in many more respects; for example, it includes the disappearance of money, the theft of money from a safe without signs of forcible entry etc.

In the selling of open stock burglary insurance, which is coverage against the burglary of merchandise as a result of forcible entry after business hours, it is important to have available the related records of inventory. For most open stock burglary contracts contain a co-insurance clause, and unless the assured is carrying the proper amount of insurance he becomes a co-insurer; that is, he shares in a certain proportion of any losses that result. The alert salesman will investigate and recommend to the assured various forms of burglar alarm protection which will result in savings
of anywhere from twenty five percent to seventy per cent of the premium. A savings results in holdup insurance also. In making a sale of this type of insurance, it may not be possible to cut the competitors rate but it is possible to reduce his rate by intelligent underwriting.

4

Bonds

In the selling of bonds, which insures an employer against loss of money and/or merchandise occasioned by the infidelity of an employee, the most important weapon that the agent has is a complete knowledge of his subject.

The bond business is a fairly specialized one and one which the average insurance salesman knows little about. In the case of bonds, it is impossible to promote the sale of this product without intimately knowing the types of contracts and the manner of determining the rates. That salesman who studies this subject, learns how to use his rate book well, will find it a simple matter to go out and sell bonds, for he will find that very few salesmen will approach people on this subject. In the case of fidelity bonds, many assureds are not aware of the fact that no matter how much burglary or theft insurance they carry, they cannot collect under the policy if the theft is occasioned by an employee or by a stranger in collusion with an employee. Again, many assureds present
little exposure to loss by criminal acts of outsiders, but in almost every instance, these assureds are exposed to loss by employee dishonesty.

This type of bond can be written to cover an individual, a number of individuals by position, or all employees under a blanket bond. For a firm having a large number of employees, the blanket bond is more efficient in that it covers all employees including newly hired ones, and the net cost is usually lowest. Another important aspect of the blanket bond is that it is not necessary to prove the dishonesty of a named employee, but merely to prove that a loss has taken place by an employee. The two types of Blanket Fidelity Bonds are the Primary Commercial Bond which insures a specified amount of money without concern of any amount per employee; and the Blanket Position Bond which specifies a certain fixed amount of insurance per employee. Very often the Blanket Bond is combined into one policy also insuring Broad Form Money and Securities, Forgery, and Safe Deposit Coverage. This policy is referred to as the 3D policy, or the Comprehensive Dishonesty, Disappearance and Destruction Policy.

The salesman who makes himself known to a great many attorneys and public officials will find there a large market for the sales of bonds. For there is a constant demand for bonds from the aforementioned people for court and estate purposes, litigation, public contracts and bids, and public official bonds.
CHAPTER XX

MARINE INSURANCE

Marine Insurance as explained in earlier chapters is the oldest form of insurance. Ocean Marine Insurance which covers the perils of transportation over the water has not changed basically throughout the years. The market for sales of this type of insurance is fairly restricted to coastal areas. Inasmuch as Marine insurance rates are not too standardized, the agent who is most successful in selling this type of insurance is that one who after an analytical study of the individual shippers' situation can influence the company to write a contract covering his needs at a rate as low or lower than the competition.

Marine Insurance is one type of insurance where there is some selling by rate cutting. Some companies whose experience has been good with a certain class of risk, or due to the novelty of the risk has no rate published, will create their own rate, often with the idea of being lower than their competitors.

The selling of Inland Marine Insurance, which is coverage, against the perils of transportation over land, is to be found everywhere: The woman with a new fur coat or a new piece of jewelry, the man around the corner who owns a boat, the local jeweler downtown, the cleaning man, the XYZ Trucking firm, the contractor and so on.
One of the largest selling policies in the past ten years has been the Personal Property Floater. Probably more salesmen have competitively picked up business through this policy than through any other. For this Marine policy combines into one policy for the home owner what he previously purchased of separate policies fire, extended coverage, robbery, jewelry and fur floaters, fine arts, camera floaters, personal effects policies and the like. Any one, two, or all these policies which were carried individually can be combined into one Personal Property Floater, which not only extends similar coverage but in most cases gives even broader coverage. By employing a deductible clause, usually in the amount of twenty five dollars for all losses other than fire, windstorm, and theft from the home, the premium for the Personal Property Floater is in many cases lower than the combined premium of the individual policies. Many a smart salesmen has gathered up the individual policies of an assured, pointed out the coverages therein and the cost of those coverages; then pointed out the more broad coverages of a Personal Property Floater and the lower premium; and it took not much more selling to have taken away all those policies from another agent and put it into his hands. The minute the alert salesman sees an assured with one or more separate personal policies, he immediately has his foot in the door towards selling him a Personal Property Floater. Some of the mutual companies have come out with what is known as a "baby" Personal Property Floater. This is similar, but offers a more
limited coverage although at a still lower cost.

Marine contracts contain the broadest insuring agreements of any type policies. Most marine policies insure against all risks with certain exclusions, which are not many. Any thing that moves from one location to another location comes within the definition of a Marine policy.
<table>
<thead>
<tr>
<th>Prospects</th>
<th>Insurable Property</th>
<th>Form of Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>ART GALLERIES, MUSEUMS</td>
<td>Paintings, Works of Art</td>
<td>Fine Arts Policy</td>
</tr>
<tr>
<td>BANDS AND ORCHESTRAS</td>
<td>Musical Instruments</td>
<td>Musical Instrument Floater</td>
</tr>
<tr>
<td>BANKS</td>
<td>Securities, Currency</td>
<td>Registered Mail Policy</td>
</tr>
<tr>
<td>BRIDGES</td>
<td>Bridges</td>
<td>Bridge and Bridge U. &amp; O.</td>
</tr>
<tr>
<td>CHURCHES</td>
<td>Projecting Machines</td>
<td>Projecting Machine Floater</td>
</tr>
<tr>
<td></td>
<td>Religious Articles</td>
<td>Scheduled Property Floater</td>
</tr>
<tr>
<td></td>
<td>Paintings, Statuary</td>
<td>Fine Arts Policy</td>
</tr>
<tr>
<td>CIVIL ENGINEERS</td>
<td>Transits and like property</td>
<td>Scheduled Property Floater</td>
</tr>
<tr>
<td>CLINICS</td>
<td>Radium</td>
<td>Radium Floater</td>
</tr>
<tr>
<td></td>
<td>Scientific Instruments</td>
<td>Scheduled Property Floater</td>
</tr>
<tr>
<td>CLUBS</td>
<td>Paraphernalia, Instruments, Trophies</td>
<td>Scheduled Property Floater</td>
</tr>
<tr>
<td></td>
<td>Paintings</td>
<td>Fine Arts Policy</td>
</tr>
<tr>
<td>COLLEGES</td>
<td>Paraphernalia, Instruments, Trophies</td>
<td>Scheduled Property Floater</td>
</tr>
<tr>
<td></td>
<td>Paintings</td>
<td>Fine Arts Policy</td>
</tr>
<tr>
<td>CONTRACTORS</td>
<td>Equipment</td>
<td>Contractors Equipment Floater</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Installation Floater</td>
</tr>
<tr>
<td>DEPARTMENT STORES</td>
<td>Merchandise</td>
<td>Transit (AllModes)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Express Policy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Furriers Customers Policy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Installation Floater</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Motor Truck Contents</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Parcel Post Policy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Import Policy</td>
</tr>
<tr>
<td>DOCTORS</td>
<td>Radium</td>
<td>Radium Floater</td>
</tr>
<tr>
<td></td>
<td>Instruments &amp; Medical Apparatus</td>
<td>Scheduled Property Floater</td>
</tr>
<tr>
<td>Category</td>
<td>Examples</td>
<td>Policy Type</td>
</tr>
<tr>
<td>---------------------</td>
<td>--------------------------------------------------------------------------</td>
<td>-----------------------------------------</td>
</tr>
<tr>
<td>DYERS &amp; CLEANERS</td>
<td>Customers' Goods</td>
<td>Bailees Customers Policy</td>
</tr>
<tr>
<td>FURRIERS</td>
<td>Property of Others</td>
<td>Furriers Customers Floater</td>
</tr>
<tr>
<td>GRAIN DEALERS HOSPITALS</td>
<td>Flour, Grain, Radium</td>
<td>Grain &amp; Flour Floater, Radium Floater</td>
</tr>
<tr>
<td>INDIVIDUALS</td>
<td>All personal Property</td>
<td>Personal Property Floater*</td>
</tr>
<tr>
<td></td>
<td>Cameras, Projecting Machines, Furs, Guns, Trophies, Collections, Jewelry,</td>
<td>Camera Floater</td>
</tr>
<tr>
<td></td>
<td>Musical Instruments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Outboard Motors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Paintings, Art Objects, Personal Effects</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Power Lawn Mowers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Scientific Instruments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Wedding Presents</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Yachts &amp; Motor Boats</td>
<td></td>
</tr>
<tr>
<td>INVESTMENT HOUSES</td>
<td>Securities, Currency</td>
<td>Registered Mail Policy</td>
</tr>
<tr>
<td>JEWELERS</td>
<td>Stock of Jewelry</td>
<td>Jewelers' Block Policy</td>
</tr>
<tr>
<td></td>
<td>Jewelry</td>
<td>Registered Mail and Express Policy*</td>
</tr>
<tr>
<td>LAUNDRIES</td>
<td>Customers' Goods</td>
<td>Bailees Customers Policy</td>
</tr>
<tr>
<td>LODGES</td>
<td>Paraphernalia, etc.</td>
<td>Scheduled Property Floater</td>
</tr>
<tr>
<td></td>
<td>Musical Instruments</td>
<td>Musical Instrument Floater</td>
</tr>
<tr>
<td>MEDICAL COLLEGES</td>
<td>Radium, Scientific Instruments</td>
<td>Radium Floater</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Scheduled Property Floater</td>
</tr>
<tr>
<td>Industry</td>
<td>Description</td>
<td>Coverage</td>
</tr>
<tr>
<td>---------------------------------------</td>
<td>---------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>MANUFACTURERS, WHOLESALE &amp; RETAILERS</td>
<td>General Merchandise</td>
<td>Transit (All Modes) Express Policy Parcel Post Policy Motor Truck Contents</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trip Transit Import Policy Export Policy Installment Floater</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Salesmen's Samples Floater Installation Risks Processor's Risks</td>
</tr>
<tr>
<td>MILK COMPANIES</td>
<td>Horses and Equipment</td>
<td>Horse and Wagon Floater</td>
</tr>
<tr>
<td>MOTORISTS</td>
<td>Contents of Trailers</td>
<td>Trailer Contents Floater</td>
</tr>
<tr>
<td>MILLERS</td>
<td>Grain, Flour</td>
<td>Grain &amp; Flour Floater</td>
</tr>
<tr>
<td>MINING &amp; ELECTRICAL ENGINEERS</td>
<td>Scientific Instruments</td>
<td>Scheduled Property Floater</td>
</tr>
<tr>
<td>MOTION PICTURE PRODUCERS</td>
<td>Cameras, Projecting Machines</td>
<td>Camera and Projecting Machine Floater</td>
</tr>
<tr>
<td>MUSICIANS</td>
<td>Musical Instruments</td>
<td>Musical Instrument Floater</td>
</tr>
<tr>
<td>PHOTOGRAPHERS</td>
<td>Cameras</td>
<td>Scheduled Property Floater</td>
</tr>
<tr>
<td>RUG &amp; FURNITURE CLEANERS</td>
<td>Customers' Goods</td>
<td>Bailees Customers</td>
</tr>
<tr>
<td>SCHOOLS</td>
<td>Projecting Machines</td>
<td>Scheduled Property Floater</td>
</tr>
<tr>
<td></td>
<td>Trophies, Scientific Instruments</td>
<td>Scheduled Property Floater</td>
</tr>
<tr>
<td>SCIENTIFIC EXPEDITIONS</td>
<td>Scientific Instruments</td>
<td>Scientific Instrument Floater</td>
</tr>
<tr>
<td>STAMP COLLECTORS</td>
<td>Stamps</td>
<td>Stamp Collection Floater</td>
</tr>
<tr>
<td>Category</td>
<td>Products/Equipment</td>
<td></td>
</tr>
<tr>
<td>--------------------------</td>
<td>------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>STORES</td>
<td>Neon Signs</td>
<td></td>
</tr>
<tr>
<td>SURVEYORS</td>
<td>Scientific Instruments</td>
<td></td>
</tr>
<tr>
<td>THEATRICAL PRODUCERS</td>
<td>Scenery &amp; Costumes</td>
<td></td>
</tr>
<tr>
<td>TRUCKMEN</td>
<td>General Merchandise</td>
<td></td>
</tr>
<tr>
<td>UNDERTAKERS</td>
<td>Funeral Equipment</td>
<td></td>
</tr>
<tr>
<td>WAREHOUSEWOMEN</td>
<td>Merchandise</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Neon Signs Policy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Scheduled Property Floater</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Theatrical Floater</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Motor Truck Merchandise</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Morticians Floater</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Transit Floater *</td>
<td></td>
</tr>
</tbody>
</table>
CHAPTER XXI

SURVEYS

The selling of insurance is not a hit and miss affair, but is a definite profession, and must be treated as such. Policies are merely tools through which the assured, guided by his insurance agent, can accomplish his objectives and desires. This guidance is climaxed in a most analytical manner by means of the insurance survey. It is no great exaggeration to state that the insurance survey is the greatest sales tool of the insurance salesman. For this survey breaks down the whole insurance program into component parts; it determines which of these parts are strong, which are weak, which are superfluous, and which are missing altogether. It then makes recommendations to strengthen the weak parts, to do away with the superfluous parts, to add to the missing parts. But like the overhaul of a machine, only if the whole unit is given to the repair man, and each component part investigated and corrected, is the survey effective.
"The Approach"

The first step in attempting to prepare a survey for a prospective assured is to convince him that your primary purpose is not to sell him insurance, but is to analyze his insurance program with the view of finding out its weaknesses and shortcomings, and to give advice towards the remedying of these. It has been the experience of this writer, who has prepared insurance surveys for many years, that even though not one word is mentioned regarding the possible purchase of an insurance policy, yet upon completion of the survey, in eighty five per cent of the cases, at least one sale was made.

"Preparations of the Survey"

Take as much time as is needed but prepare the survey very thoroughly. A recommended list of steps is as follows:

1. State the facts. Put down all the pertinent information that you have received in your interview plus the information, factual-wise, that you have taken from the policies. Then when you first go over the survey if any errors have been made they will show up immediately.

2. State the objective. In this section put down in writing what you are trying to do to help the assured. Write down that you are attempting to see that he carries the proper amount of insur-
ance so as to comply with the co-insurance clause, that you are trying to see that he carries sufficient limits on his liability insurance to protect the assets of which he is owner; put down that you are attempting to see that all policies are concurrent, that the correct rate is charged, that the lowest rate is used, etc.

3. List the policies as they are. Be very specific, go into great detail in describing the coverage, the amounts, co-insurance clauses, the premiums, and the exclusions.

4. The insurance program as you would have it. Put down the amounts you would carry, put down the new policies you would add, put down the policies that you would not carry, put down the changes, put down the rates you would desire to have if certain changes were made.

5. Recommendations. Here specifically recommend exactly what you want to do. Recommend that an inventory be taken so as to determine the correct amount of insurance that should be carried, recommend that certain changes be made on the premises so as to qualify for a lower fire rate, recommend that certain policies be combined into one so as to give broader coverage, recommend coverages that you feel are important and tell why you feel
they are important.

If the salesman follows these steps, generally, he will, as this writer has found out, in eighty five per cent of the cases find that the prospective assured will tell him to write this policy, put on that change or this change, or renew all the policies as they come due. For you have taken his whole program, you have shown the weaknesses, you have shown him how he can improve himself as far as coverage and premium are concerned, you have taken the pains to look out for his interest rather than try merely to sell him a policy.

To repeat again, the insurance survey is the finest sales tool for the insurance salesman today.
PART IV

SALES OF THE FUTURE
CHAPTER XXII

SALES OF THE FUTURE

Considering that insurance has been sold in this country for less than two hundred years, one can see that constant changes have been made in the method of selling insurance. Will these methods continue to be used or will there be a further evolution? In this writer's opinion there are three factors which might affect insurance sales in future years: Self-insurance, cut rate companies, and merchandise selling.

"Self Insurance"

Many of the larger companies are of the opinion that their insurance can be written as efficiently and at a much less cost by themselves being the insurers, the theory being that they would save all the selling cost and much of the administrative cost; and if their loss record is good, they would benefit money-wise from this experience.

The term self-insurance is a misnomer, since the basic ideal of all insurance is that the burden of loss shall not rest upon the direct victims of disaster such as the
Texas City explosion, but that they shall be indemnified by the contributions from others, who, except for chance might have been the victims. Therefore, it may be said that self insurance is not insurance but is perhaps another voluntary or compulsory method of covering risk.

It is foolhardy to assume insurable risk if the occurrence of an unassured loss could result in serious financial embarrassment to the company.

The practice of self insurance is based on the application of the theory that a mercantile or industrial company can safely assume risks such as fire, public liability, property damage, crime hazards and workmen's compensation by setting up adequate reserves. However, such reserves must be built up by using the premium rates established by rating boards or bureaus, and which are used by insurance companies. If competent loss inspection service is provided and an adequate amount of catastrophe or excess insurance is secured to take care of large losses, and if there is a sufficient spread of risk, and if this whole plan is well managed, it should have a reasonable amount of success. One prime reason for many companies considering the adoption of a self insurance plan is that all money put into this fund can, in their opinion, be a legitimate income tax deduction. Nothing could be further from the truth. It is a general rule that reserve to cover future contingencies and losses are not deductible for federal income tax purposes. Following this
general rule, it has been uniformly held that amounts set aside for self insurance are not deductible, whether called premium or additions to reserve.

"Cut Rate Companies"

The past several years has seen the emergence of some cut rate companies. The work "cut rate" is not exactly true. For these companies adopt an underwriting program where they write only preferred risks, and as a result of having a spread of only preferred risks they are able to charge a much lower premium. The most famous of these companies is the subsidiary of Sears Roebuck Company, The All State Insurance Company. In addition to lower rates as a result of preferred underwriting, administrative cost are reduced by selling policies from the Sears Roebuck various retail outlets.

It may be true that these companies will syphon off a part of the insurance business, but it is not likely that they will ever make any serious inroads into it. For one thing which they are not able to give the public is "Service," and most people are ready willing and able to pay an extra charge for the service they get from their broker or agent, not only in helping them to buy the proper insurance but also in their aid in settling losses.

# Pan American High Company 1 B.T.A. 1249 (Fidelity)
L.A. Thompson Scenic Railway, 2 B.T.A. 664 (Fire)
Greenville Coal Company 3 B.T.A. 1323 (Liability)
"Merchandise Selling"

Something very new that is being experimented with regarding insurance selling is merchandising insurance over the counter like the sale of any retail product. Several agencies throughout the country have rented space in large department stores and sell insurance over a counter the same way as they might sell shoes, hats, or cosmetics. One of the better known experimentors has been the Child & Wood Agency of Chicago, Illinois who operate a retail insurance counter in the Chicago Department Store of Carson Pirie Scott and Company. The counter was originally leased in September 1953. Insurance sales are promoted by the customary methods; payments are made by cash or through the regular charge facilities of the store.

This agency has found that a new buying market has been reached by this manner of selling; that is, those people have bought insurance that previously had not bought at all. Another factor which they found helpful in their sales was the fact that the customers charge it to their regular store charge account. The interest in the various type of insurance varied in order as follows: fire, theft, fur, jewelry, and hospitalization; in fact there were even some sales of life insurance made.

This type of selling is still in a very experimental stage and it is difficult to draw any definite conclusions as to its possible future success.
In the opinion of this writer there will never come a time when an ambitious young salesman armed with sufficient technical knowledge can not go among his fellow neighbors and fellow business men and with concerted effort and with conscientious service, sell insurance from sun up to sun down.

THE END
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