Office of the Comptroller of the Currency

Interpretive Letter #753

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III. Overview of How Insurance Agents Sold Insurance in 1916

As with the operations of banks generally, the way in which insurance agents operated in 1916 provides a compelling insight on the scope of what Congress was permitting when it authorized national banks to sell insurance pursuant to section 92. The clear picture that emerges from this analysis is that nonbank insurance agents sought business through all effective means available to them. Congress did nothing to -- and evidenced no intent to -- prevent national banks from operating in the same way.

By 1916, (**NOTE:** This discussion relies mostly on materials from the late 1800's to approximately 1925 to establish a picture of the insurance environment of 1916. To provide a better understanding of the 1916 environment, a brief historical summary is included. Although some materials refer to the year 1916, mostly a composite picture is presented.) life insurance marketing in the United States had undergone many changes since the early 1800's. Before the 1840's, life insurance men engaged in a passive mode of selling and merely waited for business to walk in the door or arrive through the mail. (**NOTE:** J. Owen Stalson, Marketing Life Insurance 156 (1969).) Nothing was done to attract business. Thereafter, modest life insurance marketing began with the use of announcement advertising and all business was transacted by mail or in person at the head office of a company. (**NOTE:** Id. at 574.)

The original agents of life companies were lawyers, bankers, (**NOTE:** "Banks or bank employees have been agents for life companies for generations, selling the usual forms of policies and getting the usual commissions." Id. at 643.) or others who continued to earn their major income from other professional or business services performed for their clients. (**NOTE:** Id. In 1842, the traditional American "life" company was a large trust company with a life department and a huge capital stock. Id. at 110. Thereafter came the development of mutual insurance companies and the idea of insurance at cost. Id. at 103-04. With the development of the mutuals began the modern day aggressive selling methods of insurance agents. Id.) Agents were expected to operate from their usual place of business -- the law office, bank or store. (**NOTE:** Id. at 193.) The companies would grant most agents a small allowance for local advertising. (**NOTE:** Id. at 193.) During the 1840's the birth of personal solicitation occurred and so began the practice of agents calling at the home or business of a prospective insurance buyer. (**NOTE:** Id. at 156.) Since then, face-to-face selling of life insurance has remained the most important marketing method and the life insurance agent serves as the pivotal factor in the life insurance marketing organization. (**NOTE:** Id. at 353.)

A. Organizational Structure - The General Agency System

By 1865, the "general agency system" had developed for organizing and managing insurance salesmen. The system lent itself to the development of national selling organizations. (**NOTE:** Id. at 575.) Although changes in responsibilities and in terminology have occurred through the years, the general framework of the agency system has remained the same. (**NOTE:** The agency system was and is the predominant method of organization for life insurance sales, however, in the early 1900's another organizational system, the "branch office system," came into being. Id. at 599. The branch office system abandoned the general agency method and installed salaried managers from the company in the local offices. Thus the company would manage the field directly, making contracts with sub-agents and having salaried cashiers or managers in charge of various offices. See Pacific Mutual Life Ins. Co. of Calif.,"Efficiency" Pacific Mutual School for Salesmen, Course of Instruction 101 (1924).) Typically, an insurance company has an agency department at the company's home office. (**NOTE:** In the early 1900's this often was one or two people. The majority of the sales efforts took place in the field. Stalson, supra at 596-97. In more recent years, personnel in the home office agency department has grown substantially. Id.) The backbone of the system, however, are the "general agents" who respectively are in charge of some portion of the whole territory served by the insurance company. (**NOTE:** Id. at 469. For the company, the desirability of a wide distribution of risks encouraged operations over the greatest extent of territory, including a large number of states. See Pacific Mutual Life Ins. Co. of Calif.,"Efficiency" Pacific Mutual School for Salesmen, supra at 101.) The general agents hire the "soliciting agents" who actually solicit and sell insurance to customers.

Generally, many agents were assigned to a single large territory, such as a city, county, state, or group of states. (**NOTE:** An insurance territory might encompass one state or several states, depending on state licensing requirements. As early as the 1840's life companies expanded their operations into many states, not only larger cities, but also into small isolated villages. There were vast differences in compensation plans and expense allowances for agents in small towns versus the larger metropolitan areas. Often part-time agents worked in the rural areas, while full-time agents were necessary in the larger cities. Id. at 185-86.) The general agents would set up agencies throughout the territory and act as local sales managers. (**NOTE:** Stalson, supra at 596. From early on out-of-state insurance companies commonly were required to appoint someone in the state who was authorized to accept legal service of summons and complaint. The common practice became to give this authority to the company's principal selling representative, i.e. the general agent, in each state where business was transacted. Id. at 379. Thus, state lines often became the boundaries for an agent's selling activities. Id. at 380.) By 1916, most insurance companies had contracts with their general agents providing them various compensation arrangements. (**NOTE:** Often the general agent had risen from the rank of solicitor and would give up profitable personal production to undertake the career of agency management. Id. at 609. Some companies would offer a transition stage between soliciting agent and general agent with jobs as an assistant to the general agent, having the title of supervisor, assistant manager, production manager, or associate general manager. Id. General agents usually received some combination of salary and commission; their profit was based on renewal business rather than the sale of new business. Id. at 599-600.) The general agents recruited, trained, and developed the soliciting agents. Often the company would supply company forms, sales booklets, and certain instructions. A whole movement toward improved selection and training of agents occurred during this time. (**NOTE:** Id. at 607.) While the home office agency department was interested in these developments, it was the local agency offices that took an active role in making these changes.

The soliciting agent sold insurance to prospective buyers. (**NOTE:** State licensing requirements applied to individual soliciting agents. See id. at 626.) The company supplied most new agents with a printed course of instruction and they received personal instruction from the general agent or someone appointed to act for him. (**NOTE:** Insurance companies issued instruction booklets and manuals for managers and agents that contained specific operating rules but the general agent had primary responsibility for handling the agents. See generally The Prudential Ins. Co. of America, Instructions Regarding the Care of Ordinary Policies, Premiums, and Office Details (Oct. 1914); The Prudential Ins. Co. of America, Manual of Instructions to Superintendents and Ass't Superintendents, Instructions to Agents (July 1908); Manual for Superintendents and Ass't Superintendents of the Metropolitan Life Ins. Co. of N.Y. (1889).) After 1910, selling life insurance became more than just selling policies and the thrust was to sell insurance for business, tax, estate, and income purposes. (**NOTE:** Stalson, supra at 583.)

Insurance agents could provide local, special, or traveling services. (**NOTE:** Id. at 359.) Local agents frequently served as the company's sole representative in a small community. The local agent also might employ subagents. Special agents apparently engaged in full-time soliciting under the local agent. Traveling agents visited many communities and sometimes assisted the local or special agents. (**NOTE:** Id. at 359.)

B. Industrial Life Insurance Sales

Another aspect of insurance selling in 1916 was the existence of industrial life insurance. Insurance companies distinguished between "ordinary" life insurance and "industrial" life insurance. (**NOTE:** "Ordinary" life insurance was the traditional form of life insurance. Generally it was available to men of certain occupations, in larger amounts, with annual or semi-annual premiums. See "Efficiency" Pacific Mutual School for Salesmen, Course of Instruction, supra at 121. Industrial life insurance began in England in 1854 and subsequently became popular among some American insurance companies. See Stalson, supra at 462-63.) Industrial life insurance was a marketing development designed to meet the needs and circumstances of working class individuals and to open up insurance opportunities to people who may not have been eligible before. (**NOTE:** Id. at 462. The features of industrial life insurance typically included: (1) available in small units; (2) open to all members of a family; (3) sold by house-to-house, person-to-person soliciting efforts; (4) agents called each week to collect premiums; and (5) issued without a medical examination. Id. These were departures from the ordinary life policy.) Industrial life agents, however, also sold the traditional ordinary life insurance. Because industrial life often required the collection of premium every week, (**NOTE:** The usual weekly duties of the industrial life agent included three days of collecting premiums and other days spent on securing new business, acting as an underwriter in helping the home office write new risks, and personally seeing all applicants. Id. at 472-73.) the territory for an agent's industrial life business may have been only a few city blocks. (**NOTE:** In contrast, for ordinary life insurance companies would assign many agents to a single, large territory, such as a city, county, state, or group of states. Id. at 469.) There was no overlap of collection areas between agents. (**NOTE:** Id. at 469. The agent's total amount of weekly premium collection was known as his "debit." This term also was used to describe the agent's territory. Id. at 470.) From an organizational standpoint, an assistant manager supervised, educated, and trained the industrial agent. Each assistant manager had from six to thirteen agents. (**NOTE:** Ordinary companies might have had one general agent or assistant general agent for thirty to forty agents. Id. at 612.) Several assistant managers were responsible to a superintendent of a district. A district was comprised of a number of debits. (**NOTE:** Id. at 473.)

C. Methods of Selling Insurance

The methods and day-to-day activities of the soliciting agents selling insurance around 1916 were of a wide variety. (**NOTE:** In introducing a new man to the business in 1904, one general agent from a midwest company wrote: In starting a new agent my plan is to carefully go over the subject of insurance with him, . . . I then furnish him names of the leading policyholders in his community, caution him against the pitfalls he is likely to encounter . . . He is then sent out to solicit. After a week or ten days I visit him by appointment, and spend some time with him as the number of prospects may warrant. While riding from prospect to prospect I will answer, and explain such questions and difficulties as may have arisen in his mind and then after listening to my talk to his several prospects he soon learns the rudiments of the business. I impress on him that I am always ready to come to his aid when needed . . . Many of my agents from time to time send me a list containing the names of five or ten of their best prospects together with a brief explanation of the situation. I then write a personal letter and send them literature. . . .Furnish your agent with all the help you can-- you cannot do too much of it. Watch the papers and you will find many good prospects in their columns. Both marriage license and transfer of real estate lists are good. Even the obituary record can be watched with profit. All these and many more avenues for fine prospects are open to the wide awake general agent, who in turn furnishes the names to his agents, and in the long run is amply repaid for his trouble. . . .Id. at 518.) To a certain degree a soliciting agent engaged in different selling methods depending on whether the agent worked in the city or in the country. (**NOTE:** See 600 Ways to Sell Life Ins. 28 (W. W. Mack ed. 1925) ("small town or country salesman must work differently from the city man"). In 1920 one commentator indicated that in New York City there were as many as 3,000 men devoting their entire time to selling life insurance and at least as many part-time agents. See Forbes Lindsey, The Day's Work and Other

Matters of More or Less Interest to the Life Insurance Man 83 (1920). One's methods also varied depending on whether the agent sold only ordinary life insurance or both ordinary and industrial life. The actual steps involved in selling insurance in 1916 appear similar to those of today, including activities such as prospecting for business, applying for coverage, delivery of the policy, continued servicing and policy review, collecting commissions, and assisting in claims handling. See e.g., Gary Schulte, Successful Life Insurance Selling (1995); Terry O'Neill, The Life Insurance Kit (1993); Life and Health Insurance Principles and Practices (Dearborn R & R Newkirk) (2d ed. 1991).) Agents' efforts generally were restricted to their own territory. (**NOTE:** See William Miller, The Art of Canvassing 53 (1913).) The layout of a city lent itself to door-to-door selling. (**NOTE:** The "straight canvass" was one way of soliciting insurance. Agents would work their way through an office building or make a list of substantial business and professional men from a directory and then contact those who seemed likely prospects. See e.g., Forbes Lindsey, Practical Pointers 34-35 (1916); 600 Ways to Sell Life Ins., supra at 59 (making of night calls and straight canvassing).) In the city, it appears the agent relied on walking, the streetcar, and perhaps to some degree the automobile to get around. (**NOTE:** By 1916 the automobile was gaining in popularity and there are various references implying the general use of the auto. See e.g., 600 Ways to Sell Life Ins., supra at 31, 37, and 40.) Agents were encouraged to find prospects everywhere-- at the office, the club, the garage, the shop, the express office, and on the street. (**NOTE:** See 7 Nat'l Ins. J. 3 (Apr. 1927); see also Dingman, supra at 99 (lodge or church); 600 Ways to Sell Life Ins., supra at 115, 190 (in city park).) In the country presumably the transportation for reaching prospects included the automobile and the train. (**NOTE:** See e.g., Miller, supra at 67-68 (one idea was to canvass progressively, going from one town or village to the next and the next; not to go randomly to remote parts of your territory); Stalson, supra at 626 (agent held up as an example shown to have made 700 sales in his country territory in 1917); 600 Ways to Sell Life Insurance, supra at 31 (while on a trip agent stopped at farmhouse and walked away with an application, a check for the premium, and three references for prospects).) One active agent describing his work in 1886 stated:

> During the year I traveled 8,000 miles in all kinds of railroad cars. My mind was all the time on the whirl as to whether I could write another risk. I succeeded in averaging over one new risk per day for each working day of the year, 313 days, each risk averaging about $3,333 and each premium about $110, and in collecting and transmitting the money without clerical aid. This was done in new territory, introducing one of the very best companies. (**NOTE:** Stalson, supra at 536-37.)

Numerous materials describing canvassing strategies, finding prospects, and organizing work encouraged agents to get out and employ all available methods to find prospects. (**NOTE:** See e.g., Dingman, supra at 93 (from 2:00 to 4:30 should call on the big businessmen); Miller, supra at 53 (the agent should thoroughly familiarize himself with every part of his territory and so arrange his schedule so that every part will be industriously and systematically canvassed).) Most calls were made at the home or business of the prospect, not at the agent's office. (**NOTE:** See Dingman, supra at 93-101; 600 Ways to Sell Life Ins., supra at 28.) As one commentator noted: "[t]he day of the typical agent is haphazard, if not actually chaotic. He has no regular time for reaching the office or going upon the street." (**NOTE:** Lindsey, The Day's Work, supra at 72.)

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