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DIGEST OF INFORMAL DISCUSSION

LIFE INSURANCE AND SAVINGS IN THE ECONOMY

A. Are the life insurance companies obtaining a satisfactory share of the savings dollar? How has the growth of life insurance company assets compared with the growth of other forms of saving?
B. In what ways has the public's participation in mutual fund investments affected life insurance company sales? What types of marketing procedures have been established for the sale of life insurance in combination with mutual fund investments? Has a substantial volume of such life insurance been sold?
C. Is the development of variable life insurance policies desirable as a means of recognizing the demand for equity investments? What statutory changes are required before such policies could be marketed?

Philadelphia Regional Meeting

MR. ANDREW C. WEBSTER: Last month the LIAA put out a bulletin about savings and the economy, and as introductory material I would simply like to quote some figures from it for the ten year period 1951–1961: the commercial banks increased their savings from $37 billion to $76 billion, a 7.6 percent per annum increase; the savings and loan associations, from $16.1 billion to $70.8 billion, practically a 16 percent per annum increase; and the life insurance companies, from $66 billion to $119 billion, a 6 percent per annum increase. These figures indicate clearly that the life insurance companies are being outstripped by other savings media in the fight for a share of the consumer dollar.

MR. HAROLD R. LAWSON: I think to some extent the mutual funds and other savings media have stolen the initiative from us and are selling their product much more dynamically. I am not opposed to mutual funds. It is a perfectly proper and legitimate form of business. It performs a necessary service that in some ways is complementary to life insurance. However, the only interest that my own company has is that it has made a small investment in a mutual fund, in very much the same way that other companies have made investments in chartered banks or trust companies, or savings and loan associations. We have made no attempt to market life insurance in a package with mutual funds, because I think it is rather an unnatural combination of two separate and distinct things. I don't see how they can be packaged properly and I don't see that it is too desirable to have the same agency organization selling both mutual funds and life insurance.

Nevertheless, we do have a problem in the life insurance business. The very fact that someone buys a $10,000 level premium life insurance policy means that over the course of his future lifetime he is going to try to save $10,000. He pictures it as accumulating very slowly at a nominal rate of interest and he knows that, if history repeats itself, when his policy finally matures for $10,000, it is going to be worth, let us say, only half of what it would be worth today in purchasing power. He rather feels that he is not getting good money management and I think it is that fact that leads people to seek some other way for accumulating their $10,000. They want to look to the life insurance company for protection but not to handle their investments. We can't just wave this problem aside; we have to think about it carefully.

MR. ROBERT C. TOOKEY: During the last decade the assets of major financial institutions increased as follows:

Mutual Savings Banks	74%
Life Insurance Companies	78
Corporate Pension Plans	360
Investment Companies	415

In absolute terms, the assets of mutual funds increased from 488 million dollars in 1940 to $2\frac{1}{2}$ billion in 1950, and then to over 17 billion in 1960. The spectacular appreciation rate of the mutual funds plus the small inflation that seems to be continuing at the rate of perhaps 1 1/2 to 2 percent, assures that there is a future for mutual funds as compared to fixed dollar investments. A life company wishing to take part in this future may sell mutual funds and life insurance side by side, but to market the product as a package violates the "inducement" statutes and invites criminal penalties. Therefore, great care must be taken to prevent the sales presentation from appearing to be a package. All advertising and sales literature comes under the regulations of the National Association of Securities Dealers. It is not permissible to feature both the life company and the mutual fund in the same advertisement, and newspaper advertisements have to be in the nature of the usual bond-offering notice.

The investment plans in mutual funds can be on either a contractual or a voluntary basis. Contract completion insurance on a decreasing term plan is quite popular, although great emphasis is being placed on the writing of permanent plans sold in conjunction with mutual fund shares. A minimum monthly payment of about $20 is necessary to make the plan economically feasible.

A life insurance company selling mutual fund shares can assure proper emphasis on insurance through its commission agreements. With a high first year commission for life insurance and a low flat commission for the mutual fund sales the agent will put first things first, so the major effect of the presence of the mutual fund shares is simply to increase his market and help his closing rate. When it is considered that only 13 percent of the total life volume is sold to men over age forty-five, an agent attaining this age can turn to selling equities in the face of his shrinking life insurance market. Incidentally, in sales presentations of life insurance and mutual fund shares side by side, audiovisual aids are very valuable because there are quite a number of technical things to show.

There is also quite a trend for mutual funds to organize their own life insurance companies and many fund salesmen are also licensed to sell life insurance. One reason these funds have such a huge captive market is the enormous good will built up by mutual fund salesmen. A grateful customer who has seen his equity increase from 50 to 100 percent, or even more, in a short period of time wants to give the fund salesman his life insurance business. As long as the funds continue to appreciate so spectacularly, the fund salesman will enjoy this psychological advantage.

For the young life company, association with a mutual fund is an excellent way to expand, since regular agency development is slow. It is hard to get good agents, and use of the fund's agency force will enable it to produce substantial amounts of good business in a relatively short period of time. The quality and profit is not always there, but the volume is important for the company that is trying to get off the ground.

Although the volume of life insurance actually sold in connection with mutual funds is not great, the amount of life insurance sold by fund salesmen is on the increase and this trend may be expected to continue until the arrival of the day, which may be quite a bit closer than we think, when fixed investments outperform equities.

MR. A. EDWARD ARCHIBALD: With respect to section B my company, Investors Syndicate Life, does not sell life insurance in combination with mutual funds but is instead a separate corporate entity in a real sense. It maintains a separate home office, has separate employees, separate accounting, and has separate sales contracts with its sales force. Each salesman does have a contract with the parent company to sell securities, however, and you may be interested in our experience with such salesmen.

To give a clearer understanding of the situation, it would be in order to make brief comment on the relationship within the Investors Group.

Investors Syndicate Life was organized in 1957 as a wholly owned subsidiary of Investors Diversified Services, Inc. commonly called IDS. IDS distributes face-amount certificates of a wholly owned subsidiary and shares of five affiliated mutual funds. IDS is the investment manager for the certificate company and for the five mutual fund companies. Assets of the certificate company are primarily in fixed income securities and mortgages. Each of the five mutual funds has its own objectives and together they account for about 15 percent of the total mutual fund assets in the United States.

Face-amount certificates are designed for the systematic accumulation of a definite amount by periodic instalment payments over twenty years, or other stated period. It is similar to the common retirement annuity during its accumulation period. The Investors Group does not have any contractual mutual fund plans.

What we call "completion insurance" is designed to be offered to purchasers of face-amount certificates and includes four decreasing term policies for six, ten, fifteen and twenty years. Such completion insurance accounts for about 20 percent of the total insurance in force. The remaining 80 percent is spoken of internally as "regular" insurance.

Regular insurance includes whole life and comprehensive term coverages, both level and reducing. Emphasis is on adequate family protection and consequently a substantial part of regular insurance is on term plans. The average regular policy last year, both sales and total in force, was in excess of $15,000.

Investors Syndicate Life is now licensed and selling in forty-seven states and the District of Columbia. It had less than $2 million of insurance in force January 1, 1959. It now has more than $600 million of insurance in force, all in individual policies, individually underwritten. Persistency appears to be better than the average for all companies at the present time and we are making efforts to get substantial improvement.

MR. HENRY F. ROOD: The package plan of mutual fund shares plus life insurance offered by one life company may be of interest.

The life company owns a mutual fund which is set up with a trust company in New York. The mutual fund is the servicing agent, the selling agent and the investment advisor. The monthly payments for the package must all be sent to the trust company which remits about half to the life insurance company as premiums. The other half goes into the mutual fund. Life insurance is usually on the ordinary life or a higher premium plan, such as an endowment annuity. The life insurance company must do all of the advertising, but it is attempting to get mutual fund salesmen to sell life insurance policies as well as having the life insurance salesmen sell mutual funds.

They first started out with the idea of a flexible plan under which the agent could sell combinations of either mutual fund shares or life insurance. They now feel, however, that three or four fixed combinations, for which they show the amount of insurance and the mutual fund shares purchased for a fixed payment, are easier to sell as a package and that is the basis of their present plan.

MR. DAVID G. SCOTT: The Continental Assurance Company is one of the companies that have sold group insurance in connection with contractual type mutual funds. We have been selling it for approximately eight years and we think we get approximately one third of the business. Our share of business in force amounts to about $250 million at the present time, so you may assume that there is approximately $750 million in force in total. At the present time I think we are writing about $200 million of this business each year. The average size application is approximately $6,000.

Generally these mutual fund shares are sold on the contractual plan where the investor deposits or pays on a monthly basis over a ten or twelve year period. The premium charged for the insurance is a flat rate per thousand (on the outstanding balance) which doesn't vary by age.

Our experience under it has been reasonably good. We have a form of nonmedical underwriting and in approximately 25 percent of the cases we get additional information such as medical examinations. We decline approximately 10 percent of the cases that come in.

We feel that most of the insurance which is sold on this basis is incidental to the sale of the mutual fund. We think, as a matter of fact, that this is a much better way of selling life insurance than some of the methods which are used and which have been the cause of so many replacements. This applies particularly to the use of a mutual fund in combination with an ordinary life policy on which the values have been heavily borrowed against.

MR. MELVIN L. GOLD: During the past two years there has been an increase in a marketing approach called equity funding. Under this approach the applicant's investments in mutual funds are used as collateral for loans with which to pay his life insurance premiums. In effect the agent says that he is using the applicant's dollar twice, once for mutual funds, which he has purchased elsewhere, and once for life insurance. It might be noted that New York law precludes the sale of life insurance in combination with mutual funds, though the exact meaning of the word "combination" is still not settled.

A company I am connected with has written group insurance in conjunction with contractual mutual funds during the last two years. In that period claims have run from 90 to 125 percent of premiums, so the experience, of course, has been terrible. We know that one reason is that life insurance agents have been advising their uninsurables to buy contractual mutual funds to get the group insurance. The result is that the company is asking for more and more medicals and is doing other underwriting with a consequent increase in expenses.

I would like to make one comment about section C. In Israel the companies came out with a variable life insurance policy invested in government bonds. The bonds were tied either to the cost of living or to the dollar exchange rate and the government agreed to sell such bonds as long as the companies needed them for reserve investments.

MR. GEORGE H. DAVIS: The statutory changes required in the different states before variable annuities may be marketed are still far from being settled, but there is reason to believe that in a number of states marketing of variable annuities is possible without any changes of existing law. I do not believe that the situation is the same for variable life insurance. The statutory restrictions with respect to annuities are much less extensive than those for life insurance. A comparatively small number of states have statutory requirements as to provisions of annuity contracts, but nearly all states have required policy provisions for life insurance policies.

Under existing state laws it seems certain that a variable life insurance policy would be subject to all of the requirements applying to life insurance policies generally. For example, the policy would have to provide nonforfeiture benefits. If the premiums and benefits of a life insurance policy are defined in terms of units with the amount of the unit dependent upon the value of assets, then it might be possible to interpret the standard nonforfeiture law in terms of similar units instead of dollars. On the other hand, a greater difficulty is that most state laws require the granting of a loan value equal to the cash surrender value. Would this requirement be satisfied by a provision that a policy loan would be granted with the amount of the loan also to be defined in terms of units of variable value?

There are other statutory requirements whose application to variable life insurance would be doubtful unless such doubt were resolved by clarifying amendments. For example, several states have statutes prohibiting settlement of a policy for less than its face amount. The statutes of some states probably would not permit the segregation of assets that would be necessary if variable life insurance and regular life insurance were to be issued by the same company. These questions require a great deal of study before any conclusions can be reached.

My own opinion is that some laws of most, if not all, states would have to be amended; but I think that in most states the number of laws which would require amendment would be few. If it should ever be decided that the marketing of variable life insurance is in the public interest, there is much to be said for the desirability of a thorough study of what statutory changes are necessary, to be conducted by some intercompany group, probably with participation by the regulatory authorities.

MR. GUY H. AMERMAN: With respect to section C, I don't believe that the demand for equity investments is founded in the belief that such investments will produce a higher average yield in the long run. I think rather the demand stems from a desire for protection against inflation. And while I feel we have got to move with the times, I also feel that the development of variable life insurance policies to meet such a demand will be a bad thing. My reasons for feeling this way are twofold.

First, in the realm of public understanding, our public, which would be so happy and would find so gratifying the good results we could obtain with variable insurance on an upswing, simply wouldn't understand the poor results we would obtain with variable insurance on the downswing.

Second, the replacement problem will worsen, for if we sell both variable and fixed-dollar insurance the twisting will run one way on the upswing and the other way on the downswing.

I think the answer to this problem is to expend our energies by demanding that our Government adopt as a national policy the stabilization of the dollar. A government which increases the debt limit to over $300 billion and then seeks to convert short-term debt into long-term debt is simply not honest if it does not forthrightly press by every means at its command to protect the dollar.

MR. EDWIN B. LANCASTER: Metropolitan's views in opposition to the sale of variable annuities by life insurance companies are fairly well-known. Many of our reasons for opposition to variable annuities are equally applicable to variable life insurance policies.

1. In the mind of the public, the life insurance business has always stood for safety and certainty. Historically, the life insurance companies have assumed all the risks involved. With a variable life policy, however, certain elements of risk will be shifted to the policyholder. Inevitably, under this type of contract, dependent as it is upon the market value of the underlying common stock fund, there will be times when payments will be less than expected. We fear that the resulting disillusionment will seriously affect the confidence the public presently enjoys in the institution of life insurance.

2. From the very beginning of the controversy over variable annuities, we have held the view that the sale of such contracts by life insurance companies could well be an invitation to increased regulation of our business. Whatever doubt there may have been on this point disappeared in 1959, when the Supreme Court of the United States held that variable annuities were securities rather than insurance; that they must be registered with the Securities and Exchange Commission; and that the life insurance companies involved in the suit were subject to regulation under the Investment Company Act. Thus the camel of federal regulation got its nose into the tent of insurance supervision and the complications resulting from an overlapping of federal and state jurisdiction are still far from being resolved. The sale of variable life policies will just open the door that much wider for increased regulation of our business.

The encouragement of inflation in any way is the greatest disservice that can be done to the American people. Yet, the most effective sales argument for variable contracts is that inflation is inevitable and that these contracts offer a means for riding the tide of inflation. The life insurance companies by offering these variable contracts are advertising that they no longer have confidence in their guaranteed dollar contracts, and this can destroy the foundation of our business.

MR. GARNETT E. CANNON: Use of the option to leave dividends to buy paid-up insurance goes a long way towards protecting against a depreciation of the dollar in the value of life insurance proceeds. A dividend addition of $20 per thousand provides a direct hedge against a steady inflation of 2 percent a year. Also, there is a considerable improvement in cash and loan values to combat any depreciation there.

MR. WILMER A. JENKINS: The guaranteed insurability rider should lessen any demand for variable insurance policies. Although CREF has over 85,000 variable annuities in force, it has discerned no particular interest in variable life insurance policies.

Kansas City Regional Meeting

MR. WILLIAM J. NOVEMBER: My remarks, which I hope will stimulate discussion, are presented to provide background material for this subject. I was interested, in reading the proceedings of LIAMA at their last meeting, to see a paper by Dr. Gordon McKinley of the Prudential, Executive Director of Economic and Investment Research, in which he compared the growth of life insurance premiums and insurance amounts with the growth in the economy of personal income after taxes. He concluded that the life insurance business was a growth industry, as his charts demonstrated that the growth in premium income and in amounts of insurance had proceeded at a faster clip over the period he studied than the personal income factor.

The Life Insurance Association has recently published a report on Interest Rates and the Competition for Savings in which they compared the growth of savings accounts of different types. This report gave quite a different impression from Dr. McKinley's paper. It analyzed the time deposits of commercial banks, the deposits of mutual savings banks, the shares of savings and loan associations and credit unions, United States government bonds and the savings of life insurance companies as measured by the increase in assets. The life insurance growth per annum as a compounded rate over the last ten years was not dissimilar from the growth in commercial bank time deposit accounts and mutual savings bank deposits, which amounted to around six to seven percent per annum. However, we were quite a bit behind the savings and loan associations, where the rate of growth was about sixteen percent compounded annually, and credit unions, where the rate was even higher, about 17.5 percent. The report did not contain data on mutual funds.

The savings and loan association growth is interesting because it does not represent a movement into equities, but rather a movement for the purpose of getting a higher rate of return.

MR. JOHN H. MILLER: On this point of the growth of insurance in relation to the economy, we are all impressed with the tremendous increase in insurance in force and assets of the life insurance companies. However, when related to the growth of the economy or to the purchasing price of the dollar, the achievement seems to fade a little. The amount of life insurance in relation to personal income was at its highest in the period shortly after the depression. Then we appeared to lose ground for many years. We began to recover a more favorable relationship in the early fifties and are now back to where we were in the thirties.

In relating premiums to personal income, it may be that our accounting is a little misleading because of the inclusion of some policy loans. To get a truer picture we should see how much actual cash is involved.

MR. E. FORREST ESTES: The very appearance of this question on the program suggests that we are doing a bit of soul searching; framed in other words, the question becomes: "Are we doing an adequate job of providing our life insurance services?"

The answer is, of course: "Better than in the past, but we must do still better in the future"; and we are fully aware that this calls for increasingly aggressive sales effort. After all, that is how the insurance business has been built. In my own company, Bankers Life of Nebraska, we feel that we pretty well fit this picture, what with assets having tripled and business in force increasing five-fold since we decided to do a little growing.

MR. DONALD B. WARREN: I am not sure that we should measure our service too much in terms of growth of assets, at least if that connotes a strong emphasis on the savings element in life insurance. If that is desirable, the industry can point with pride to the work being done by the new companies who are selling "charter policies." The average premium for a charter policy may run from fifty to sixty dollars per thousand. The typical goal of a new company, planning to sell charter policies, is to come up with a five hundred dollar premium unit, a large portion of which is supposed to be savings. Out of the first year's premium, however, only a very small amount goes into savings; the rest is used for commissions and other acquisition expenses. On a five hundred dollar premium it is not too unusual to pay an eighty-five percent first year commission. Subsequent commissions frequently are at a ten percent rate. Thus we charge the policyholder a pretty heavy overhead for taking care of his savings. We are in business to sell protection. I am a great believer in ordinary life policies. Perhaps there is even some merit in term insurance.

MR. EDWARD A. DOUGHERTY: I think Mr. Warren was tactful in mentioning the main problem of acquisition costs. That, of course, has to do with our first year commission rates. You know, the longer I live in the life insurance business, the more I find that the way to stimulate sales is by paying salesmen to sell. However, sooner or later, if we are going to make a bid for the savings of the country, we have to make, I feel, a major revision in our concept of the commissions involved and the savings element of a policy. We simply cannot compete. We are not that much smarter than the other people in relation to the savings dollar, especially if we are going to tack on a higher cost to begin with. Therefore, sooner or later, this higher cost comes out in the wash.

MR. NORMAN F. BUCK: First of all, as to purchasing term and investing the difference, I would suggest that some of you do a little calculating using the premium rates of your own company to determine the mathematics of the situation here.

We did this at Lincoln National, comparing ordinary life on the one hand with decreasing term insurance to age 65—subtracting out the cost of investment in a mutual fund—and we found that to do this profitably, to purchase term and invest in a mutual fund, you *had* to get a capital gain in the mutual fund merely to do as well as you would have done by purchasing the ordinary life policy. One self-defeating thing about this situation is that every time we lower the rates for term insurance, we worsen the mathematics from our point of view of selling permanent insurance.

Last night I read a long newspaper article based on the fact that the stock market is down two percent since January 1 of this year. It further indicated that nine of the ten largest mutual funds had a net decrease in their asset value per share and that the tenth one had just remained even. Here was a stock broker or mutual fund salesman, I think, coming out on the front page of this paper and in effect saying, "For heaven's sake, don't cash in your shares just because of this drop." If these people worry about a two percent drop in the stock market, what are they going to do if there is a twenty percent drop?

There is a tendency to view the purchasing of mutual fund shares versus the investing in permanent cash value life insurance as an all or nothing decision between equity and fixed asset investment. I do not see it as that. For one thing, a balanced mutual fund doesn't have all of its assets in equities but has them partly in a variety of fixed asset securities. At the other end of the scale, life insurance companies do have some equity investments. Many life insurance companies could narrow the difference between these two types of investment by putting a larger share of their assets into equities. If they did so, a problem of technique would become more important: how to reflect realized capital gains in the dividend formula.

MR. W. KEITH SLOAN: Recently it came to our attention that a trend in the smaller company area is toward the packaging of a nonparticipating life policy, with a relatively high premium, with shares of a mutual fund which in some cases is owned by the company. In one particular instance, we are talking about a premium unit of five hundred dollars, of which the company gets four hundred. This goes into a ten or fifteen payment life policy with a few frills attached. To give you an idea of how it sells, one man went out for the first time last week, talked to eight people and sold five of them. I think that should give an indication of what can happen, and why the smaller company with a limited agency budget is taking this approach, which is essentially much less susceptible to misrepresentation than the "charter" policy.

MR. JOSEPH R. PICKERING: First a word about our parent company, Investors Diversified Services, Inc., usually called IDS. IDS distributes face amount certificates of a wholly owned subsidiary, shares of five affiliated mutual funds, and is the investment manager for them. The face amount certificate is designed for a systematic accumulation of a definite sum of money by periodic instalment payments over a stated period of time, such as ten or twenty years. Incidentally, these fixed dollar investments were for many years the mainstay of the IDS business and they still represent a substantial portion of total assets.

Investors Syndicate Life Insurance and Annuity Company was organized in 1957 as a wholly owned subsidary of IDS. It is a separate corporate entity, maintaining its separate home office, employees, its own director of insurance sales, separate accounting functions and separate sales contracts with its sales force. We do not sell life insurance in combination with mutual funds.

For many years, IDS has maintained, under individual contracts, a sales force numbering over three thousand full-time men. The organization is similar to a general agency organization. Generally each man is under contract with IDS to sell mutual funds and face amount certificates and under a separate contract with Investors Syndicate Life to sell life insurance.

A few statistics on our regular insurance* may be of interest. The average size policy is in excess of fifteen thousand dollars. The average issue age of the insured on all policies is in the low thirties. This low age seems to indicate that the organizing of the life insurance company has given the field force a new market as the average age for mutual fund sales is substantially higher. A final point is that although we do not yet have mature statistics, it appears that our first year lapse rate is significantly less than the industry average. We like to believe that this indicates effective selling and good programming.

* Mr. Pickering's comments on Investors Syndicate Life regular insurance and "completion insurance" were a repetition of Mr. Archibald's comments at the Philadelphia regional meeting.

MR. B. N. JOYNER: I am not really alarmed about competition from savings banks, United States Bonds, common stocks and mutual funds. I suggest that the popularity of mutual funds will decline considerably, especially when there is a bear market of any real duration, and I think that, inasmuch as our profession is a hardworking and ingenious one, we can hold our own with these alternate forms of savings over the long run. However, I believe our main competition in the future is going to be the Social Security System. I say this for two reasons.

First, Social Security taxes will take an increasing percentage of personal income and, certainly, increases here provide protection for the individual involved against the economic hazards of life. In 1956, the individual paid two percent of the first $4,200 as a tax. In 1968, the cost probably will be five and one-half percent of the first $7,200. A report indicates that the relation of personal savings to disposable personal income from the period 1951 to 1958 was seven and one-half percent, and, further, that it declined in 1959. I would venture to predict that with a ratio of 7.7 percent in 1958 and a Social Security tax of two and one-quarter percent, unless the individual's attitude toward the future changes, we probably cannot expect much more than a four and one-half percent savings ratio, especially if Social Security taxes are going up to five and one-half percent.

Second, individuals tend to rely on the Social Security scheme because they will have less leftover income to provide for future security and because the scheme will continue to be sold to them as a savings fund for their protection.

MR. ANDREW C. WEBSTER: I am very much interested in the comments made by Mr. Joyner because, when we framed this question, we were not actually considering a means of forced saving. I would like to point out, on a more optimistic note, that in Great Britain, where, if you please, the taxes for Social Security are quite high, the volume of life insurance since the close of World War II is higher than it has ever been. For some reason or another, there has been a trend toward putting money into life insurance rather than putting it into speculative enterprises. When the Social Security System was inaugurated back in 1937, there were a lot of people going up and down the land bewailing the fact that this was the end of the life insurance business. This was some twenty-five years ago and we are not yet at the end of the life insurance business. I am not saying we should accept all that the Social Security people want to do without having our say in the matter, but then, on the other hand, I am not quite as pessimistic about the future of our business as Mr. Joyner seems to be.

MR. GEORGE H. DAVIS repeated the discussion on section C which he had given at the Philadelphia regional meeting.

MR. JOSEPH W. HAHN: A great many people who speak of dealing in equity systems presuppose that "variable" means only "increasing." I point out that "variable" can also mean "decreasing."

MR. GEORGE R. DINNEY: I should like to comment briefly upon question C and, in particular, refer to the second portion of the question as it relates to the Canadian scene. I think that some of you know that in 1961 there were amendments to the Insurance Act in Canada and, among other things, these amendments specified that if a company were to issue a contract or contracts whose reserves varied in amount, in accordance with fluctuations in market value of a specified group of assets, then such contract or contracts would be subject to the requirement of the segregation of funds in respect of those assets. In speaking to the amendment to the Insurance Act, the senior officer of the Department of Insurance indicated that to qualify as insurance, which designation is deemed to include annuities, there would have to be the guarantee of at least one of the principal elements that go to make up an insurance or annuity contract. He added that in Canada this requirement would mean that at least the mortality element must be guaranteed.

I mentioned that there was an amendment to the Insurance Act in Canada in 1961. It will be interesting for you to know that the Canadian companies did not have to await this amendment to the Insurance Act in order to get into the variable contract field because, prior to this amendment, there was no prohibition of variable insurance or variable annuities. Therefore, the essential feature of the amendment in 1961 was to spell out, for the first time, how Canadian companies were to implement their powers.

MR. EDWARD A. DOUGHERTY: I reported something on this a few years ago at one of the meetings of the Society. However, I think it is interesting, in connection with this variable annuity life insurance contract concept, that there are various things of this type in Europe. One system that I happen to know a little bit about is in Israel. The government there controls the big utilities and they are most anxious, therefore, for people in Israel to save their money and invest it in the bonds of the power companies. The bonds are cost-of-living index bonds and the amount you get back on your bonds varies according to a government cost-of-living index. This provides a vehicle by which life insurance companies can issue a truly variable life insurance contract. It is very difficult to have such a contract unless all the elements of the contract go up and down in somewhat the same relationship, including premiums, reserves and the other elements in the contract. The premiums and the reserves in the contract I am talking about are all spelled out in terms of the same cost-of-living index as the special bonds of the power companies, and these bonds form the source of investment for the life insurance assets. This, to me, is a very interesting development and it always has seemed to me that unless there was something like this, where the dollar value of the assets, as well as the elements of the policy, all went up and down in the same relationship, it would be very difficult to work out a truly variable life insurance policy. However, they worked this out over there. Further, this method has greatly stimulated the savings of the people. They did sell a lot of life insurance on this basis. Thus far it has been working very well.

MR. CHARLES H. BARNABY: Term insurance need not have indexed investment behind it since, after all, its reserves are either negligible or negative. I know that companies have thought about coming out with term insurance with the premium and the amount of insurance indexed by something like the United States Department of Labor statistical index, but I wonder if anybody has done it.