TRANSACTIONS OF SOCIETY OF ACTUARIES
1962 VOL. 14 PT. 2

MULTIPLE LINE OPERATIONS

A. Is it advantageous for smaller companies to affiliate or tie in with casualty carriers?

B. How are companies which do not so affiliate or tie in affected by the current trend toward affiliation, and what stabilizing measures may be used?

MR. JAMES G. BRUCE: While much depends on just which companies are affiliating and what their objectives are, I can think offhand of some points which might lead to such an affiliation.

1. Stockholders, officers, and employees may welcome the stability to be gained by removing the stock of the life company from the market, so that it is no longer subject to falling into a strange and perhaps disturbing control.
2. The casualty company (assuming it is to become the parent company by purchase of the life company's stock) may recognize the investment value of the affiliation.
3. One-stop selling may appear to be an attraction and a benefit to the public.
4. The life company may seek the advantages of rapid growth and larger size and may envision ready-made sales outlets as well as financial backing for expansion as the result of such an affiliation.

Whether any of these advantages actually materialize depends to a large degree on the natures of the companies that are combining. However, if three years of experience can be considered a sufficient clue, perhaps some light may be shed on point 4, namely, that growth will result from the affiliation. Let us look briefly at what is appearing in the early stages of development after Hartford Life became an affiliate of a very large stock casualty company. To show what is taking place in the development of the Ordinary phase alone, I prepared a table of volume of new business and insurance in force at the year-end of the four years 1958 through 1961 with the ratios of improvement over the previous year. Most of the casualty agents are contributing to this increase; it is not coming in large doses from a few agents.

Year	Paid-for Sales (in Millions)	Percent Improvement over Previous Year	Insurance in Force (in Millions)	Percent Improvement over Previous Year
1958	$28,535	5.2%	$399,996	none
1959	39,171	37.3	411,694	2.9%
1960	54,894	40.1	434,354	5.5
1961	89,665	63.3	486,135	11.9

We projected through 1970 the sales, the in-force, and the possible changes in surplus on various bases that seem in the realm of reasonable possibility. We used a high and a low volume of assumed new business for each of the years 1962 through 1970, each combined with Linton B lapse rates to project for the successive years a series of hypothetical annual statements and policy exhibits.

Year	Sales (in Millions)	Premium-Paying in-Force (in Millions)	Surplus (in Millions)	Surplus Change from Previous Year (in Millions)	
	Lower Production				
1961......	$ 89	$ 408	$20.5	Increase	$.6
1964......	209	703	19.3	Decrease	.4
1967......	319	1,191	17.1	Decrease	.3
1970......	424	1,790	14.8	Increase	.02
	Higher Production				
1961......	$ 89	$ 408	$20.5	Increase	$.6
1964......	227	723	19.6	Decrease	.5
1967......	460	1,431	17.7	Decrease	.6
1970......	755	2,586	18.1	Increase	.6

We do not think these projections are fantastic. Obviously, they hinge on the validity of the sales projections. The conservative table assumes an improvement in sales of $35,000,000 in 1962, of $45,000,000 in 1964, the yearly improvement then dropping to $35,000,000 by 1966 and staying constant thereafter. The more hopeful table assumes an improvement in sales of 40% in 1962 over 1961, the percentage improvement from one year to the next then decreasing by an average of 3% a year, thus reaching 16% in 1970. Actually something considerably better than the lower of these two production assumptions must be realized in order to justify the development expenses planned for the sales organization.

Events of the past three years convince us that rapid growth is attainable under the circumstances that pertain to the companies of which I speak. The question then boils down to whether rapid growth and bigness are advantageous. I dare say that in almost all stock life companies rapid growth is virtually demanded by the stockholders. Few would be content to see their company remain stationary or grow at a slow pace when they read about what other companies are doing. Affiliation with a successful, aggressive property insurance company may offer the means for such growth.

Actually we have a tremendous potential. There are about 30,000 or 40,000 agents who are fairly closely tied with the Hartford Fire. The Hartford Fire Group is one of the largest fire and casualty companies in the United States. It has a tremendous organization and we are getting a large volume of business in small amounts (although our average policy is about $10,000) from a great many agents. Most of our agency force now is devoted to servicing these fire and casualty agents. We gave up concentration on the development of full-time career agent recruiting shortly after the affiliation and are now devoting efforts to our established field force and the agents of the Hartford Group. All our current development is in opening up offices to service the agents of the Hartford Group.

MR. FREDERICK S. TOWNSEND: Valley Forge Life is an affiliate of the American Casualty Company, and was formed by the latter company. We feel it has been advantageous to be an affiliate of a casualty company. The proportion of our business written by casualty agents is very small compared to that of Hartford Life, but we find that the business written by our casualty agents is much superior to business submitted by our so-called general or career agents.

We feel that the disadvantages of sometimes unsound agency operations, home office procedures, and underwriting rules are far outweighed by the fact that we are able to realize substantial savings in the home office administration of our Ordinary line. Every chance is available to market our Ordinary product at the lowest possible unit cost as the company grows in size.

Valley Forge Life was organized to promote the sale of classes of business related to the business transacted by the parent company, such as credit and group. In 1958, after the company was two years old, there appeared to be an indication that the public was demanding "one-stop service" and expected its casualty agents to also handle their life insurance needs. Believing strongly in the "one-stop operation" theory, we developed an Ordinary line of policies with the thought that the company merely had to inform our casualty agents of its facilities and a fair volume of business would result.

Actually one-third of our agents were well established in a satisfactory manner with some of the oldest and biggest companies in the business. Another one-third was brokered at full commissions. The remaining one-third of our agents were too involved in the fire and casualty business to learn anything about the life insurance business.

Brokerage supervisors were appointed in several of the casualty branch offices to (1) offer the life facilities to all of the casualty agents, (2) make our facilities available on a brokerage basis, and (3) recruit and supervise career agents. Some general agents were appointed under contracts which have proven to be too liberal and as a result very unsatisfactory, although they do account for the bulk of our business. Our largest producing general agent, for example, although he has been with the company for less than one full year, has 36% of his paid-for business already lapsed. We do not have the money to appropriate for the recruiting and training of agents, which appears to be both the hard way and the best way to establish Ordinary business. We have another problem in that the home office pays too much attention to production and will normally bend a little in its set policies if it feels that production can be increased. Exceptions are made to home office policies, underwriting rules are broken or rewritten, special policy forms or agency contracts are drawn up, and volume is still not significantly increased.

We should now examine the savings which are realized in the home office administration of our Ordinary line. The administrative savings are effected through the use of corporate facilities, the cost of which is allocated to our company at year-end. We are attempting to grow at the least possible unit cost. Both the physical facilities and the personnel of the casualty company are available for use by the affiliate life company. Certain departments upon which we rely in the parent company include tabulating, the mail room, personnel, printing, supply, accounting, office services, investments, law, and advertising. These departments either prorate or charge us on a job basis.

The prorating of salaries between the two companies works both ways so that efficient use may be made of the total corporate personnel and low unit cost developed therefrom. Similar savings result in the field also where the life company brokerage supervisors are housed in the branch offices of the casualty company. In 1961 the life company reimbursed the casualty company for an amount roughly equal to 80% of the total expenses shown in Exhibit 5 of the Annual Statement. Our statement is completed almost in its entirety by the staff of the casualty company.

In summary, we feel the greatest immediate savings which can be made are the proper utilization of the casualty company personnel and facilities, and the proper harnessing of the casualty agents. Even if these advantages are realized, it is still necessary to guide the company on sound insurance principles.

MR. MELVIN L. GOLD: Some nonlife companies, thinking of setting up a life subsidiary, often figure as follows: "We have a thousand agents. It is not too much to expect each one to give us one policy a month. That is 12,000 policies a year." We know that some casualty agents sell well but most bring in no business at all. It is a fallacy to expect life business from an agent because the company takes automobile business it doesn't care for from him.

MR. ROBERT C. TOOKEY: I agree with previous speakers who think that you can use your casualty connections to sell life insurance, but it is generally accepted that you cannot get the casualty agents to sell the life insurance.

A company was founded on the premise that they would sell most of their stock to general line brokers in little $300 lots and then those brokers would bring in a certain amount of life insurance that they controlled. It looked like a marvelous arrangement, but the Company went out of the life business. The brokers, despite their financial interest in this new company, placed all their life business with the huge local company that had salaried men all over the state and could provide the best service.

Although multiple line connections undoubtedly provide certain advantages, the smaller company should bear in mind that the greatest mistake it can make is to overdiversify.

MR. SAUL ROSENTHAL: One aspect of this matter that no one seems to have referred to is rather important. That is the technique of approaching the general insurance man who has had underwriting problems with respect to his fire and automobile lines and, in effect, offering him some sort of underwriting concession or guarantee in exchange for his life business. This concession has been offered to brokers.

MR. PAUL J. OVERBERG: From an actuarial viewpoint it is unsound to accept substandard casualty risks at inadequate rates as an inducement to obtain a little life business. Each line of insurance should be self-supporting.

MR. RALPH E. EDWARDS: The discussion seems to indicate that an agent working full-time for a casualty company can be induced to write life insurance and place it with the casualty company's life affiliate. This does not usually hold true for general agents in the casualty field, as we who tried to get their life business have found out. We would receive an application a week or so after a visit from our representative, and not see another case until he went back again and asked for one.