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

ORDINARY POLICIES

A. What new forms of policies and riders, and what new options, have been introduced, and with what success?
B. Is there evidence of any changes in the use of
   (i) Settlement options?
   (ii) Special conversion options?
   (iii) Automatic premium loans?
C. Have there been any recent changes in settlement option bases?
D. What are smaller companies doing about replacement problems, and in compliance with state replacement regulations?

MR. ALBERT H. KRETSCHMER, JR.: The Continental American made a study of life income 10 year certain settlement option returns for 30 companies in 1954 and again in 1961. During this period, nine companies increased their returns and three reduced them for all ages. Three other companies reduced their returns for ages under approximately age 65 and increased them for the higher ages. The remaining 15 companies either kept their same returns or had very minor changes. Over-all, one-half of the companies studied made a change in their settlement option bases during the seven-year period.

The male return for $1,000 at age 65 varies at present from a low of $5.90 to a high of $6.32. The popular return of $6.16 is used by 14 companies.

For our new series of policies, we intend to use a modification of the Progressive Annuity Table at $2\frac{3}{4}\%$ interest for determining the life income settlement options as well as minimum cash values under our retirement annuity contract. We would advance each age by $\frac{1}{2}$ year through age 65, have no age adjustment for age 70, and would set back each age by $\frac{1}{2}$ year for ages 75 and over. This modification closely approximates the results of using Mr. Sternhell's 1960 modification of the a-1949 Table at $2\frac{3}{4}\%$ interest. Our new return for a 10 year certain and life income for a male age 65 would be $6.26, as compared to our present return of $6.18.

MR. RALPH E. EDWARDS: Baltimore Life has two policy series with a division at $5,000. The policies for $5,000 and above have bands at $5,000, $7,500, $10,000 and $25,000. The $7,500 break is unusual, but we felt that it was necessary for our agents because the jump from $5,000 to $10,000 is a rather large gap for many of them.

We included dismemberment and disability features automatically in our Protector series which is for amounts less than $5,000. In our accidental death rider we incorporated a double benefit for common carrier accident.

MR. MELVIN L. GOLD: It has been our experience that endowments just do not sell. Some companies no longer have them in their rate book. We also found that the insurability option and some special juvenile policies never seem to work out. Many of the smaller companies are now offering only life and term policies or some combination thereof.

Some companies offer a more favorable settlement option basis to the beneficiary if the option was chosen before the death of the insured.

MR. WALTER YOUNG: With respect to section D, a great deal of excellent work on this problem has been done by the National Association of Life Underwriters acting through its various state and local associations. For example, if a replacement complaint is made to the New Jersey State Association of Life Underwriters, it is referred to the Ethics Committee of the appropriate local association. The local association then makes a thorough investigation. The offending agent is generally interviewed on the matter, and, when considered appropriate, a complaint is made to the Insurance Department. It is recommended that this endeavor deserves the best cooperation of all of us.

I suppose the lawyers would say that a replacement is all right if the agent makes a full disclosure. I say that if the agent makes a full disclosure, there will probably be no replacement.

MR. JOHN A. STEDMAN: At the Continental American, a vice president will review all surrenders and other terminations for indications of possible twisting. Any evidence of systematic raiding of our business by an agent of another company will result in prompt notification to the other company. Furthermore, our general agents are kept well informed on any possible terminations or surrenders. Specifically, on all requests for information from an outside agent and all notifications from other companies of intentions to replace a policy of ours, full disclosure is made to our general agent so that he can make a complete investigation. Similarly, all requests for policy loans in excess of $1,000 or for surrenders of any policy in the amount of $10,000 or more are referred to the general agent for additional information.

With respect to replacements within our own company, we pay no first year commissions if a voluntary termination or a maximum loan occurs on an existing policy within six months preceding or six months following the issue of a new policy.

Our observations have been that ex-agents are particularly bad offenders in the area of replacements. Also, we find that policies replacing others are subject to a high lapse rate. Policing in the replacement area is difficult because general agents regard conservation work as an unprofitable use of their time. It is also difficult to discipline an agent for a replacement without getting full cooperation from the insured.