VOL. XIV, PART II MEETINGS NO. 39A AND 39B

TRANSACTIONS

MAY AND JUNE, 1962

DIGEST OF INFORMAL DISCUSSION

LIFE INSURANCE AND THE MULTIPLE LINE APPROACH

A. What degree of success is being achieved by life companies that have affiliated with fire and casualty companies for the purpose of joint marketing operations?

B. Where life agents are permitted to sell fire and casualty policies as a result of such affiliation, what advantages, if any, have accrued to (1) the agents, and (2) the companies? What are the disadvantages?

C. To what extent has life business been secured from fire and casualty agents? Has the experience been better with (1) full-time direct selling agents, or (2) general insurance agents and brokers?

D. To what extent, where state laws permit, have other joint procedures been developed, *e.g.*, package policies or combination billing? Have these worked out successfully?

Jacksonville Regional Meeting

MR. JAMES W. SPELLMAN: As regards section A, we at State Farm Life believe that we have been successful and are currently doing better than at any time in the past.

Advantages to the agents stem mainly from the opportunity to earn additional income from sales to individuals and families who are already clients because of insurance owned in the associated casualty companies.

Advantages to the company come from the potential increase in sales from the increased number of agents or potential agents offering the company's policies for sale and the insureds and prospects these agents have and develop from their activities in the other insurance lines. Also there appears to be a greater likelihood of success by men recruited into multiple line agency work. We believe it allows us to sell in a life insurance market which generally cannot be reached by a full-time life insurance agent, but it results in lower average size policies and a high lapse rate.

There are some other disadvantages. An agent must have a working knowledge of all the lines of insurance he sells and keep abreast of all the developments in each of the lines. Agency training is a big and continuous job. The sales methods for casualty selling and the sale of life insurance are not all the same. There is a big problem of agency supply. We have over 7,000 licensed life insurance agents doing the volume of new business which could be and is done by agency forces of 700 to 1,000 full-time life insurance agents. Also there is quite likely to be a dominant company within the affiliation. This can result in management costs being apportioned on an 80–20 basis and the work being done on a 95–5 basis because of the pressures of the area of primary concern. If the life company is the subordinate company, it can be hard to stay in the life insurance business.

This brings up the matter of cost allocation. Particularly with a newly founded company there can be the tendency to try to "protect" its surplus position or, of course, from the opposite standpoint, to assume it can support all the activities in which its well established partner is already engaged. Such activities may range from personnel benefits through supplies and sales material and into national advertising.

All of our life business is secured from casualty agents. The new agent is started in automobile insurance and for most this will always occupy 75% to 90% of their time. We have never accepted business from a general insurance agent or a broker.

So far we have not attempted packaging of more than one line of insurance or any form of combination billing.

In brief summary, it can be said there are many practical problems, but in our situation, a new life insurance company was begun and grew into a substantial life company in fairly quick order by having available the agency force and the insureds of an important casualty insurer on at least a part-time basis.

MR. WILLIAM D. SMITH: This topic seems to describe a joint venture in which the companies at time of affiliation are each well established in their own insurance specialties. While the Life Insurance Company of North America owes its birth in 1957 to a billion dollar property and casualty giant, Insurance Company of North America, our problems are similar to those of an established life company trying to coax life business from property and casualty agents. The only difference is that, with no established corps of life agents to provide a foundation from which to build, the need to find an effective mode of operation is more urgent.

The INA objectives in establishing a life affiliate were:

1. The desire to add a line of business which is not subject to the wide and unexpected variations in experience characteristic of their other business—in other words, to stabilize earnings.

2. Preservation and promotion of the American agency system (which INA founded in 1807) by offering its agents and the public the widest choice of coverages for the broadest array of insurance needs.

It was decided that the life company should grow quickly. A goal of a billion of insurance in force in 10 years was set. In judging the success of the venture to date, the following observations may be made:

1. The life company is still incurring sizable losses, but a profit course has been charted.
2. The life company has a broad portfolio of products for its agents. The availability of such products has strengthened INA's relations with its agents and policyholders.
3. The life company should reach one billion in force in a matter of weeks—some 5 years ahead of the original schedule.

The extent to which each of our agents increased his life production as a result of the affiliation is difficult to measure. It is estimated that 50% of our life producers had sold some life insurance before placing their first policy with us. The remainder had no prior life insurance experience. These latter were primarily young men, two or three years in the property and casualty business, who simply had no time or money earlier to devote to the life business.

Almost all of our business is coming from general insurance agents and brokers. Large life producers have been reluctant to change life carriers, so there has been no mass flight to LINA by INA agencies with life departments. Company efforts at present are directed toward developing and encouraging suburban producers.

We have found there is no lack of interest in the life insurance business except possibly among older agents and among some founders' sons who are content to run the agency the way their fathers left it to them.

There is, however, among smaller suburban producers a disinclination to sell life insurance aggressively, to leave the office and get out and sell in the fashion usually associated with the life agent. Companies may some day be more successful in designing life products and procedures which are compatible with the agents' work habits. To date we do have a single monthly payment account plan. We also have a Homeowners Mortgage Payment Life and Disability policy which is issued on a simplified application. These have had some initial success, but interest now seems to be waning.

MR. JAMES G. BRUCE: The following figures illustrate the growth in the past three years which resulted from the affiliation of one small stock life insurance company (Hartford Life) with a very large stock casualty company. This life company had in force $540,000,000 of life insurance, of which $140,000,000 was group, at the end of 1958 before the affiliation was completed. It had $2,300,000 of accident and health premium income, over 70% of which was for group coverages. Three years later at the end of 1961 it had in force $893,000,000 of life insurance of which $407,000,000 was group life. It had $6,300,000 of accident and health premiums, almost 90% of which was for group. It should be said that the parent casualty company had a health insurance department before the affiliation, which now operates as part of the group department of the life 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 rates of improvement over the previous year.

Year	Paid-for Sales (in millions)	Percent Improvement over Previous Years	Insurance in Force (in millions)	Percent Improvement over Previous Years
1958	$28,535	5.2%	$399,996	none
1959	38,171	37.3	411,694	2.9%
1960	54,894	40.1	434,354	5.5
1961	89,665	63.3	486,135	11.9

The big problem in this rapid expansion is the expense of opening new sales offices that will provide the life insurance service to the sales organization of the parent company. This affiliation of the life and the casualty company can be adjudged successful only when the volume and quality of the business produced is such that the extraordinary investment being made is returned not just as to principal and interest that the company normally can earn on its assets but with a profit for the risk it takes. We have success in the production of new business. It remains to be seen whether we will have success in satisfactory profits.

Concerning section B, advantages that accrue to an agent who sells fire and casualty policies as a result of this kind of affiliation are that he has the opportunity to earn more income and has less need for financing; it helps an agent to hold clients in that he can give complete service. The company's benefit is that its agents have more stable income, need less financing and should find greater persistency when a competing agent does not need to enter the picture. The principal disadvantage that seems obvious is that each man has only a certain number of hours which he can devote to his sales. When he sells one type of policy and feels that he has pretty much met his requirements for income, he may relax his efforts for other lines.

As for section C, in the Hartford Life about 80% of our life business is now being secured from organizations that are basically fire and casualty sales offices. As to the experience we have only preliminary evidence that the lapse rate is best with our old-time general agents, that the fire and casualty agents are next best, and that the branch offices which we had been developing just prior to this affiliation have the worst persistency rates.

Concerning section D, we have no package policy as such. The casualty company's system of monthly premiums gets a full annual premium from a bank, which accepts a note from the policyholder and an agreement to repay the borrowed amount and interest on a monthly instalment basis. We had worked out a method of collecting through the bank both the property and life premiums with a single document which solved the problems of nonforfeiture, grace period, etc. However, we have faced expenses which make it problematical as to whether we can satisfactorily adopt the combination billing as it has been proposed.

MR. DONALD J. LEAPMAN: I think perhaps in talking about Canada there are one or two points of difference I should make clear. In all provinces except one, single company representation is applied to life insurance —that is an agent, although he may represent many companies for fire and casualty insurance, can by law sell life insurance for only one company.

Northern & Employers Group is one of the larger fire and casualty groups in Canada using an independent agency system—*i.e.*, the American agency pattern—and therefore sharing our fire and casualty agents with many other companies. Our problem, different from that of companies in the U.S., has been to convince these agents that they should represent us for life rather than represent some other company, because if they represent some other company they cannot also handle our policies. We do, of course, also have to convince agents not at present writing life with any company that they should do so.

We started this operation very nearly three years ago in June 1959, and at the end of 1961 we had written some $25,000,000 of business, of which three-quarters was ordinary business and one-quarter group. The population of Canada is, of course, only one-tenth of that of the United States, but our proportionate rate of progress may be more easily appreciated on the assumption that we shall write approximately 60% more business this year than last year.

We started by training in life matters our fire and casualty inspectors who fulfill the functions of the special agent in the United States. Because a large proportion of our population is scattered very thinly over a large area, we feel it is prohibitive to use a system of life specialists to service the agents; we use that approach only in the major cities, of which there are perhaps a half-dozen in Canada. For most of the life servicing, however, we rely on the "all lines" inspector, who handles all classes of business, and we are finding it increasingly satisfactory to use these inspectors in life matters.

The fire and casualty agent himself is recruited by his inspectors; he is trained by the life specialist and he is then assisted and serviced by his inspector.

Our over-all aim is to secure a large number of agents each handling a relatively small volume of business; since we do no financing, a small average production has no appreciable ill effects, and since the agents have a fair income from their fire and casualty production, they are not hungry, and we find it difficult to drive them into the hard-selling field. They will, we feel, sell where it is easiest and this perhaps means the cream of the business.

Referring to the advantages for the parties concerned, we believe that the agent profits by stability of clientele because there is a considerable amount of switching of business by a client between agents and the agent who has provided a permanent type policy does maintain an association with his client that will make it difficult for a competitor to switch fire and casualty business.

To the Company the interest lies not merely in having a profitable life organization but also in finding a way to reduce the cost of marketing our fire and casualty business. You will note that apart from the handful of life specialists, the marketing of life insurance uses the same personnel as does the marketing of our fire and casualty classes. If we are successful in this approach, particularly in areas outside the major cities, we shall have more classes of business to share the expenses of traveling, etc., and in Canada travel is a very significant item in the expenses of marketing fire and casualty business.

To date we have had a higher-than-average size policy with the sum assured about 30% greater than the industry average in Canada. Our first year lapses have been very low and we hope that this will carry over into the second year. Of course, it may be that a higher second year lapse rate will offset the first year advantage; as yet we cannot tell, since our operation is too new to produce second year experience.

In conclusion, I would mention that there are now no obstructions to the use of preauthorized checks for fire and casualty business in Canada. We introduced, two months ago, a system utilizing a single preauthorized check to cover all insurance premiums on policies issued through our Group—life, fire, casualty, etc. We may run into costing difficulties mentioned by previous speakers, but we think this unlikely since the preauthorized check pattern does appear to be a more efficient medium than postdated checks or direct monthly billing. In any event the system is in operation and we are looking forward to gaining experience with it.

MR. HAROLD R. LAWSON: My company, National Life of Canada, originally looked for a Canadian affiliation. Further study indicated that affiliation with a United States casualty company would provide us an entry into the U.S. market. Our Canadian agents are not selling fire and casualty insurance since our purpose was entry into life insurance in the U.S. market. Since our U.S. operation is subject to New York law, we could not invest heavily in new business.

MR. FREDERICK S. TOWNSEND: We find that fire and casualty agents are untrained in life insurance. They don't have time to sell life insurance. The agents find that life insurance is too complex to understand.

Therefore, we don't give the fire and casualty agents a ratebook. We give them a simple brochure—for example, the Family Plan. The first page is the cover. The second page spells out, in simplified language, the policy benefits. Pages three and four are perforated so that they may be torn away. These are the regular family benefits application and the Part II medical supplement. This makes the plan extremely simplified for the fire and casualty agent.

MR. NATHAN F. JONES: The Prudential has no such affiliation, but our full-time Ordinary agents are permitted to sell fire and casualty policies, if this does not interfere with their continuing to qualify as full-time life producers.

One member of the home office staff of our Ordinary Agencies Department feels that

a) many of our good, long-service agents have for years conducted substantial fire and casualty, as well as life, business;
b) prospective life agents have often heard that, to subsist, they will need to sell all lines.

He feels these agency relations advantages are the only important effects upon agents and companies. *Probe*'s recent survey showed 40% of a high income group writing general lines. However, my informant feels Prudential Ordinary agents up to 15 years service soon drop either life or general lines, depending on whether they feel quick property and casualty sales are worth the detail work involved (some Prudential actuaries do not agree). He feels our successful younger producers would be drawn more to mutual funds selling if it were permitted.

About 80% of our brokerage business is derived from general brokers. This is not truly responsive to section C, since sales representatives of "direct writers" are not licensed as Prudential brokers.

MR. ROLAND F. DORMAN: Early this year Connecticut General acquired a fire and casualty affiliate after a rather extended friendly dispute with one of our neighboring states. A brief outline of some of our plans might be of interest.

We do feel that over the years we will benefit from the flexibility and broader coverage of the insurance market that the affiliation gives us. We are making available to the fire and casualty agents Connecticut General's products and facilities through our brokerage and group sales organizations.

With reference to section B of this topic, we do not intend for our own full-time agents to handle fire and casualty insurance. We feel that they should devote their full attention to the sale of our products.

We have another affiliate, Puritan Life Insurance Company, that does solicit life insurance from general insurance agents and brokers. They work entirely through this source of business and feel that it is a successful means of obtaining business. In general, the life business is sold as part of a package sale with seventy percent of the business being on a term basis. The sale of a decreasing term quite often ties directly into the sale of fire insurance on the prospect's home. The persistency on this business has not been particularly good, largely because the brokers have not followed up properly. In an effort to improve persistency the agents' commissions have been redistributed with a heaping of renewals in the first four years and a follow-up system controlled from the home office has been instituted. In general, the acquisition cost through this approach is very low compared to a direct agency system. Mortality experience has been very favorable. One interesting point is that these agents have been extremely successful in delivering substandard business with no apparent effort being made to shop around for a better offer.

MR. MILTON J. WOOD outlined a discussion to be presented in greater detail at the Chicago regional meeting.

Chicago Regional Meeting

MR. JOHN H. MILLER: An evaluation of the marketing opportunities in an all-lines insurance operation requires a thorough understanding of the traditional methods of merchandising and administering property and casualty business as contrasted with methods familiar to us in the life and health business.

Certain of the terms mentioned under this topic call attention to the language barrier that a person whose familiarity is entirely in the life and health field must overcome to understand the property and casualty business.

The independent agent in the property and casualty field is truly independent and usually represents a number of companies. He may be an individual, a partnership, or a corporation and may be a lone operator or may employ solicitors and also receive business through brokers.

The representative of the company who deals with the independent agent is the company field man or special agent. He solicits the independent agent's business and helps him with technical sales problems. The term "general agent" refers to a managing general agent. For an overriding commission, he performs for the company the functions that would otherwise be performed by a salaried field man or special agent and may also engage in underwriting and policy issue activities for the company. He will not generally deal directly with the insured, but only with independent agents or brokers.

In many cases, an independent agent has a well established clientele built up as a result of his own service, or which has been purchased or inherited from a predecessor, and the companies are competing with each other for a share of this agent's market. It is obvious that the level at which competition occurs under this type of system is not the same as in the case of a company operating with a direct selling force. In the latter case, the company and its agents compete with other companies and agents for the public's business.

MR. MILTON J. WOOD: In recent years life and casualty company affiliations have proceeded at a rapid pace until today we find that at least 20 of the top 25 casualty and/or fire underwriters have life affiliates.

The fact that the recent financial experience of life companies has been attractive compared with unsatisfactory underwriting profits from automobile and other general lines probably explains why fire and casualty companies have taken the lead in affiliating with life companies. Other reasons or advantages are stabilization of earnings by diversification of risks, and a reduced level of agent failure as a result of a broader income base provided by multiple line selling.

Most life agents have traditionally sold some fire and casualty to overcome competition from other multiple line agencies, to give clients a complete service, and to earn higher commissions by selling on an account basis. Because fire and casualty lines are more socially mandatory and pay full renewal commissions, they are easier to sell. This tends to divert some agents from life insurance sales and tends to increase the percentage of term business sold.

Although more and more fire and casualty agents are writing occasional life policies, there is no indication that they are becoming professional life agents. Generally, they sell the simpler forms and avoid sophisticated life programming.

Many multiple line companies are experimenting with package policies, but so far there is little merchandising of plans which include life coverage. One large company has gone into family account billing for all insurance forms while my own company, The Travelers, permits payment of all lines in one check. There is no doubt that the trend is in the direction of consolidation of insurance forms.

MR. ROBERT BLANE: About three years ago, my company, the National Life of Canada, associated with the Glens Falls Insurance Company of New York, a fire and casualty underwriter. We feel that we have had reasonably successful results from the joint operations.

Life managers, generally with special agent assistants, have been established in Glens Falls' branch offices with the responsibility of obtaining life business from all possible sources. By sharing branch office expenses and eliminating full-time agent financing, we hope to obtain business economically.

Glens Falls does not have full-time agents, so we have had no experience with selling life insurance in this area. We have been successful to some extent in obtaining life business from general insurance agents and brokers.

Since it requires more aggressiveness to sell life insurance than fire and casualty coverages, many agents do not bother to try and those who are already writing a fair amount of life insurance generally have existing ties with other life companies.

MR. ROBERT C. TOOKEY: Public accountants attribute the trend toward life and casualty affiliations to the respective managements' desire to make joint use of their good will. In addition to the reasons given by Mr. Wood, we believe that the forces propelling this trend include economy of agency building and the growing recognition of mass marketing. With population growth quite disproportionate in certain age groups, the present distribution system must be broadened before 1970.

The success of joint marketing operations depends upon the adequacy of the steps taken organizationwise. One life company, which doubled its life insurance in force in the four years following affiliation, assigns a specially trained life man to each general insurance agency to prospect among its fire and casualty policyholders.

We agree with Mr. Wood that new agent financing costs and the failure rate are greatly reduced when the life agent is allowed to sell fire and casualty policies, although life production itself may suffer as a result. Full-time direct fire and casualty agents can be trained and motivated more easily to sell life insurance than general insurance agents and brokers. The average annual volume produced for any one life company by life-writing casualty agents runs between $30,000 and $40,000.

The glamour of the one-stop sale has been very helpful to multiple line companies in recruiting agents. Since the general public looks upon insurance as a single industry, it is quick to accept the "all lines" selling approach which is becoming quite widespread.

To facilitate packaging and joint billing, a premium financing corporation can be set up wherein the insured borrows the annual premium for all his policies and pays monthly installments to the finance corporation, with interest. In addition to being offered the convenience of this arrangement the policyholder may be promised more considerate rerating treatment on automobile insurance because the company has his entire insurance line.

Company objectives vary widely. A company wanting to maintain its rank in one line may not want its agents selling life insurance at the expense of a drop in the production of this line.

MR. ROBERT B. GOODE, JR.: My company, Connecticut General, recently acquired virtually all of the outstanding common stock of Aetna Insurance Company, a property and casualty underwriter. This affiliation was made to better serve the customers of both companies and to provide us with the facilities for a full multiple line operation, if this is later deemed desirable.

About one third of all life agents in this country are presently licensed to sell at least one property and casualty line.

The interest of my company, as well as a number of other companies, in life business through fire and casualty agents has been through our brokerage marketing organization. About 10% of the direct ordinary production of the ten largest companies having brokerage operations was produced by this source in 1961. The proportion ranged by company from a negligible amount to about one third. The large cities have represented for these companies the prime market place for life insurance through fire and casualty agents.

My own company has been interested in the brokerage market for thirteen years. About one third of our direct ordinary life, and an even higher proportion of our individual health and group volume, comes from other than full-time agents. The retention of brokerage consultants in our brokerage offices has been excellent. Mortality experience of business from brokerage sources is about the same as from full-time agents. Lapse rates for our ordinary life plans run about 10% higher for brokerage business compared with business from full-time agents, and for other plans (excluding term) the difference is somewhat greater. Our cost of acquiring brokerage business has been somewhat higher than from full-time agents, but we feel that it will become comparable after our present brokerage development program is completed.

MR. ROY R. ANDERSON: Comments on this topic must be interpreted in the light of the revolutionary developments that have occurred during the past four years in the marketing operations of some of the old-line fire and casualty companies. Also, the results of a specific company must be interpreted with a knowledge of the operations of that company.

The casualty company of our group, Allstate, is an "independent" and a "direct writer." In the fire and casualty business an "independent" company is one that does not belong to a rating bureau and is generally free to adopt its own policy benefits, rating plans and levels of rates. A "direct writer" gears its marketing efforts directly to the public, and handles directly such transactions as policy writing, renewal billing, and claim services. These characteristics of an independent and direct-writing fire and casualty company are similar to those found in the life insurance industry. In recent years some of the old-line Bureau companies have adopted many of the marketing and administrative practices of the direct writers.

All of Allstate's individual insurance is obtained through a sales organization of company employees who represent the company exclusively. The vast majority come to our company without prior insurance experience and are trained in our own multiple line marketing methods. Currently, over 98% of our agents are licensed to provide service in all lines.

Two characteristics of Allstate's operations are pertinent to our multiple line operations. First, Allstate policyholders are regarded as permanent policyholders for all lines of insurance. An illustration of this concept is Allstate's five-year protection against cancellation provision for automobile liability insurance. Second, the multiple line concept runs not only through our sales organization, but in varying degrees through all of the administrative functions.

Our new life volume has increased from $81 million in 1958 to $221 million in 1961. Our life company operated with a profit in 1961, our fourth full year of operation.

People who feel that they have already obtained adequate protection under the old system of obtaining separate policies through different agents and different companies may not feel the need to have all of their insurance needs served by one agent. However, to the young people who are continually being added to the insurance market, the multiple line approach will have a natural appeal.

MR. RICHARD K. WENDT: My company, Nationwide Life, has always been a part of a multiple line operation. We offer as many lines of insurance as any other group, and we strongly encourage our agents to become licensed in all lines. Our qualified agents can even sell mutual funds. Sales activities are all coordinated through a centralized sales department.

Some of the advantages to the agent of an all lines approach, which were not mentioned by previous speakers, are that he can increase his efficiency by multiple sales on one call, he has a built-in prospecting list by following up where he has insured another line, and he has a greater chance of success on a prospecting call by selling lines in which the prospect indicates an interest.

Some of the advantages to the company not previously mentioned are that overhead expenses can be spread, larger and more efficient machines can be justified, and agent retention will be better. With regard to the latter, our retention experience has been very good. Of those agents recruited in 1957 and 1959, 40% and 51% respectively were still active at the end of 1961. This is considerably better than most published industry rates.

Nationwide recently organized the type of premium finance company mentioned by Mr. Tookey. It provides a new financing plan for casualty lines, and a central collection agency for combination billing. We have made certain studies from a four-month trial of the system in the state of Ohio. During this trial period, 1,600 agents set up over 7,500 accounts, of which only 4% were established with no new business, and of the policies included in these accounts about 57% were new business. A study of the mix of new business sold indicates a significant change in the lines being sold, with the automobile line decreasing in relation to the total. We are averaging about 3.7 policies per account. Of the new sales about 45% were for one policy, 34% for two policies, and 21% for three or more policies sold at the time the account was established. Compared with a study made in 1959, there is a significant increase in the number of initial sales for two or more lines simultaneously. Compared with a 1959 study, we conclude that the agent's commissions will increase with our combination billing plan.

Because of the age-income make-up of the group we are now selling, we feel that we have a good future source of business from existing policyholders.