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# MARKETING

A. What proportion of ordinary sales are accounted for by (1) pension trust and profit-sharing plans, and (2) high cash value policies under which the premiums are borrowed? To what extent is the demand for such policies expected to continue?

B. How do life insurance companies today serve the market formerly covered by industrial policies? How much of this market is still covered by industrial and how well? Do group and monthly debit ordinary adequately fill any gap that has developed? What will be the effect upon mortality under ordinary policies?

*Jacksonville Regional Meeting*

MR. DONALD R. SONDERGELD: At Connecticut General the proportion of ordinary sales accounted for by pension trust and profit-sharing plans during 1961 was just over 16% by number and 6% by amount of insurance. This proportion has shown a very gradual increase over the past three years. About 94% of the volume is written on the guaranteed cost basis. We expect that the demand for these products will continue in the future and intend to increase our sales activities in this area.

We have had Life Full-paid at 90 contracts with higher early cash values available on both participating and nonparticipating bases since April 1961. Pertinent to this question is the fact that we do not allow loans under these policies during the first year. Sales of these contracts have accounted for less than 1% of the ordinary business.

MR. ARTHUR E. ERICKSON, JR.: The Phoenix Mutual first introduced a $25,000 minimum size high cash value policy in the fall of 1956. Although it was originally intended to be used in a purported market for split-dollar sales, its chief interest to the field was as a vehicle for minimum deposit sales. It quickly became the most important policy in our portfolio and has accounted for more than half of our paid volume since its inception. To some extent we can regard this as extra business we would not otherwise have had. Half of it comes from brokers and we had no brokerage business when we started. Ninety-eight percent of our present brokerage business is on this type of policy. Our own men have also produced a large volume of high cash value business, but it has never had the effect of reducing the absolute volume, though it must have slowed the growth, of other business. Although it has had the desirable effect of raising the sights of established Phoenix agents as to policy size, it has had an undesirable disruptive effect on many new men who would have done better to have stuck to more frequent sales of smaller amounts of the retirement income policies to which our training program is geared.

We have been through several major changes in financial underwriting restrictions and a disagreement with New York State as to the propriety of this type of sale. Despite all of these changes and with the one major exception of a temporary but substantial decline in brokerage business in the year following the issuance of New York Regulation 39, high cash value insurance has been a relatively stable proportion of our issue and there is no sign of change yet. The demand for this product seems to continue unabated, at a competitive price level that holds the possibility of profit under reasonable assumptions.

Nevertheless, we are in need of a redress in the balance of our sales. One prong of our attack on this problem lies in greater emphasis on other types of policies in dealing with our own men. The second is a continuing program to identify and eliminate the worst of the high cash value business. First year lapse rates have long been stable at 10% to 11%, which bears a satisfactory relationship to first year lapse on our non-high cash value business, all payable methods combined. However, lapse rates have not shown a satisfactory decline after the second year, but tend to remain level. Eighty percent of this business is full loan at issue and we can detect no significant change in that proportion as the years go by. Obviously, the most important element of underwriting for good lapse (after establishing the need for the coverage) is the requirement of an income high enough to make the tax exemption on ever mounting interest payments worth something. Up to March of this year we had a $15,000 minimum income requirement to qualify for this type of policy, with rather frequent exceptions down to $10,000 or even less. In April we raised this limit to $20,000 with no exceptions for brokers, and exceptions down to $15,000 for Phoenix men, coupled with 10 level commissions, in lieu of the normal 25% and 9 tens, if the business is loaned against or assigned. We also began requiring an income statement from the applicant in which he must sign his name on the line beside the income bracket, so as to preclude forms signed in blank.

MR. RUSSELL L. WAGNER: The total amount of industrial insurance in force has declined in each of the last 4 or 5 years. While I think some of the lack of increase in industrial insurance is due to the large number of endowment policies written in the past which are maturing now, group insurance, inflation, real gain in economic status and competition of monthly debit business have been the major causes of this decline. Women and children have always been a large part of the industrial market, but this market also is declining because of group dependent's coverage, the family life coverages and the fact that working women have group coverage of their own.

While industrial mortality is poorer than ordinary, the margin between the two is narrowing. Part of this gap is attributable to the original intent to cover a broader group in industrial. It seems doubtful to me that ordinary mortality will be affected very much by the part of the former industrial group now covered by ordinary insurance. The improvement in economic status should be reflected in improved mortality. Also, the more sophisticated techniques used in selecting those insured under ordinary contracts should help to maintain a favorable mortality situation.

MR. JOHN M. BRAGG: Life of Georgia, a combination company operating only in the South, still finds weekly premium industrial business of great importance, accounting for 70% of premium income. However, a gap seems to be developing between the markets for industrial business and regular ordinary business, and to fill it we have introduced a monthly premium "intermediate" series with issue limits of $500 to $3,000; mortality is expected to lie between that for industrial and ordinary business.

*Chicago Regional Meeting*

MR. EDWARD A. DOUGHERTY: Since our experience at the Union Central Life in the areas covered by section A is only a small sample of the industry, I sent a questionnaire on the subject to the 17 companies which wrote the largest amounts of life and endowment business in 1960, that is, those who wrote the most ordinary new business other than term insurance. I used 1960 because I did not have the 1961 figures. I asked about the proportion of pension trust and profit-sharing plans written in each of the past 5 years compared to the total ordinary business written. Most companies could not separate the two so I am reporting on both of them together.

Taking the average proportion for each company over the five years, a very odd picture emerged, in that the 17 answers were all clustered around four points, with none in between. One company averaged 20%, five companies averaged between 5.1% and 6.1%, four companies averaged between 1.6% and 2.5% and 7 companies averaged less than 0.5%. In other words, the four clusters were roughly at 20%, $5\frac{1}{2} \pm \frac{1}{2}\%$, $2\% \pm \frac{1}{2}\%$, and under $\frac{1}{2}\%$.

I was surprised at how far out in front the one company was. It enjoys a unique position in this field. The five companies averaging around $5\frac{1}{2}\%$ are, generally speaking, those large full-net-level-premium reserve companies that the rest of us envy for their actuarial conservatism and their investment imagination. They are well known as having highly competitive net ledger costs and as having made strong bids for pension trust business for some years. None of the great industrial companies are in this group. The two giants of American life insurance have made no effort to speak of in this field.

As to their prognostications for the future, most of the companies were becomingly modest. Only three, which had recently increased their emphasis on this type of business, actually seemed to expect an increase in the next five years. Eight companies expect no increase, five "hope," three "expect," and one "hopefully expects."

The comment of the most bullish company in this respect was interesting to me. It comes from a Fellow of the Society well known to you all, a former President of the Society, who says: "With respect to pension trust plans I feel that, with the greater proportion of the population who will be living at the older ages in the future, the problem of retirement will be intensified. It seems to me there are great opportunities in this field for life insurance companies and that, with the changes in the Federal tax law which were made in 1959, the changes in state laws permitting separate accounting which are now being adopted, and the prospects of the necessary changes in Federal income tax law and Security Exchange Commission regulations, the companies will be able to compete better with trusteed plans than in the past. I predict a great future for this class of business."

I agree that if necessary changes in federal and state laws are made, there will be more of this business written by life insurance companies, but I also think that your company will not write much pension trust and profit-sharing business unless you really tool up for it in the home office, make a strong sales effort and have unusually good net ledger costs. Moreover, from personal conversations with the actuaries of companies which are leaders in this field, it seems questionable in most cases whether such business is making a direct contribution to surplus or will in the future.

I also asked in my questionnaire about the proportion of high cash value policies issued in each of the past five years and on how much of this there is borrowing to pay premiums. The statistics on the seven who had these policies are not very revealing, partly because of the wide variation between companies in their underwriting practices for these policies.

However, two indications did seem to emerge. One is that the proportion of new business you write on a high cash value policy is greatly influenced by the scale of first year commissions. Several companies showed around a 50% drop in this business when they cut first year commissions to 25% of the premium. One company doubled its business on this plan when it raised the first year commission from 25% to 40%. The second indication is that the proportion of new business you write on a high cash value plan is greatly influenced by whether or not you allow first year cash values and policy loans. Several companies which had been allowing these showed a marked drop in this kind of business when they stopped doing so.

MR. CHARLES A. YARDLEY: The proportion of New England Life's Ordinary sales in pension trust and profit-sharing plans has remained fairly steady over the past 5 years, and we do not expect any significant change in the near future. By amount of insurance this business has been about 20% of total Ordinary sales. However, there has been a definite shift from high premium plans to life plans with an auxiliary fund to accumulate funds to purchase the remaining required income at retirement. In 1957 pension sales were about half and half retirement income and life paid-up at 85. Now there is more than twice as much business written on the life plans as on the retirement income contracts.

Since we do not have a high cash value policy, I cannot answer the second part of the question directly. However, we have had available a one year term dividend option for the past 3 years, and since many of the policies sold with this option are minimum deposit business, it is of interest to see the trend in sales with the one year term dividend option. At the start these sales accounted for about 10% of our total Ordinary new business and they have been increasing to about 15%. My feeling is that such policies will continue to be sold, but I do not expect the percentage of total business to continue to rise.

MR. ROBERT MERRITT reviewed the discussion presented by Mr. Arthur E. Erickson, Jr. at the Jacksonville regional meeting.

MR. ROBERT C. TOOKEY: The proportion of ordinary sales accounted for by high cash value policies under which premiums are borrowed is probably quite a bit higher than we would care to admit. Many such policies are assigned to a bank because a more favorable rate of interest can be obtained. It would take a little study on the part of the company to find out just how many of its high cash value policies have been so assigned.

The year 1963 may mark the beginning of the end for minimum deposit business. Recent publicity has been given to a tax reform bill which has been under study, as our people have been aware, for months. Income tax rates would be reduced 25% in all brackets, with a slightly higher reduction in the upper brackets with the top bracket dropping from 91% to 65%. To make up some of the revenue lost as a result of the reduced rates, the government would place restrictions on deductions, possibly including a limitation on interest paid. Thus the policyholder with a full loan will have to take another look at his net cost picture. The prime bank interest rate is $4\frac{3}{4}\%$ and if the policy reserve accumulates at 3%, he must be in the 38% tax bracket just to break even. It is the people now in the 50% bracket that will be in the 38% bracket next year if the 25% reductions go through. So many affluent people are loaned to the hilt that if they are confronted with the limitation on the interest deduction, they will find it unprofitable to continue paying nondeductible interest on policy loans. Then they must either pay off the loan or have the policy rewritten to term insurance if they cannot afford to pay full ordinary life premium. Poor risks, unable to produce necessary evidence of insurability, would continue on the old plan.

Companies with a high proportion of this business should stand by with a conservation program so that it may be rewritten on some basis that is mutually acceptable to company and policyholder.

MR. NATHAN F. JONES: Prudential's 1961 weekly industrial sales were about 10% of 1930's, and in-force declined 16% over the intervening period, in spite of the large paid-up additions declared.

We examined for 1930, 1946, and 1961 one large marketing area reasonably fully developed by 1930, as well as three comparably developed small marketing areas which have not changed much since 1930 in degree of urbanization, minority group proportion, and socio-economic level. Of the three, one was an old suburban area, one among the most nearly rural of our debit operations, and one a city slum area.

AMOUNTS OF LIFE INSURANCE IN-FORCE
(PRUDENTIAL DEBIT AGENTS)

| | 1930 | | 1946 | | 1961 | |
|---|---|---|---|---|---|---|
| | W/D* | D/T† | W/D* | D/T† | W/D* | D/T† |
| Total Company | 90‡ | 65 | 61 | 63 | 38 | 36 |
| Large developed marketing area | 92‡ | 66 | 59 | 59 | 35 | 36 |
| Rural area | 94‡ | 69 | 68 | n.a. | 39 | 39 |
| Old suburban area | 92‡ | 70 | 62 | n.a. | 41 | 37 |
| City slum area | 94‡ | n.a. | 59 | n.a. | 32 | n.a. |

* W/D = Weekly percentage of total debit.

† D/T = Debit percentage of total in-force (including mail-pay ordinary, but excluding group and wholesale).

‡ Monthly debit was first issued in 1928.

There is amazingly little variation among areas in the change with time. *Each* of the four "debits" in the city slum now has *less* weekly industrial, proportionately, than the Prudential's total. All the test areas have little more of their in-force on a debit basis than is true for the Company total (which includes Texas, California, and other areas where our recent development against entrenched competition keeps debits low). The sample is small, but on this basis we cannot ascribe the relative decline in weekly debit to the closing and consolidation of so many city debits and expansion in the suburbs, with their presumed ability to pay less frequently and buy larger amounts. U.S. census figures for 1950 and 1960 even indicate that the factory workers dominating our old suburban area have had family incomes consistently *larger* than the U.S. average and increasing with it (the rural area and the city slum average incomes have consistently been *below* U.S. average).

Available sales figures tell much the same story.

As for gap-filling, the distribution of previous in-force reported on industrial and ordinary applications from these areas also shows little change (there *is* a marked decline in "no previous"). Group is conspicuously absent; perhaps it is often not reported.

If I had to draw a conclusion today from this study of an inadequate sample, I should have to say that the shift away from weekly premium—and from all debit—insurance is probably really due (1) to the family-type ordinary coverages not available in 1930, and (2) even more importantly, to the shift in the buying habits of our debit market, not merely to less frequent modes of payment, but away from savings and burial insurance toward the protection of income. Industrial's decline does not appear to be due in any great measure simply to changes in our marketing area and organization, or to population shifts.

MR. THOMAS E. GILL: Over the past two decades there have been substantial changes in the marketing of Industrial insurance. We have seen great strides in the standard of living of industrial workers and a dramatic rise in the average-size policy in debit homes. Along with these changes there has been a gradual decline and virtual elimination in some areas of weekly premium policies and a phenomenal growth in monthly debit premiums. Now in Canada we are faced with a new development, that of the preauthorized check plan. This appears to be resulting in a substantial increase in monthly ordinary.

In the early 1900's the five and ten cent policies were fairly common. By the 20's and 30's these were replaced by the 25¢ policy. These formed an important part of an agent's portfolio. As his earnings were small, the commission on even a small weekly policy could be relatively important. Today, with greatly increased earnings, the small weekly policy is no longer of importance.

Back as far as 1940 we, at the London Life, could foresee a narrowing of he gap between the Industrial and Ordinary markets. Our Industrial mortality had been exceptionally good and not too far out of line with Ordinary mortality. Also we were interested in motivating the agent to sell insurance to fit the prospect's needs. As a result we started at that time issuing Industrial and Ordinary policies on exactly the same basis except for the matter of premium payment. We have been very well pleased with the results.

We did continue, however, to write a substantial amount of weekly insurance, but after the Second World War there was a great surge in monthly business. In 1954 we experimented with some of our western agencies and ceased to write weekly business. All existing weekly business was transferred to monthly. This resulted in time saving to agents. At the present time we have no weekly business from Sudbury west. Weekly debit is now pretty well limited to the areas where economic progress has not kept pace with the rest of the country.

While Group has played an important part in extending insurance to the Industrial market this by no means gives complete coverage. The family policy has taken up some of the slack as far as coverage in the home is concerned, but there still remains a wide market that is not being adequately covered by these methods.

In spite of the substantial changes that have occurred over the years in the Industrial market, debit operations still are and should continue to be a sound basis for the distribution of life insurance. We must think of the growth of debit operations as coming not only from weekly and monthly debit insurance, but from Ordinary as well. The success of the Industrial branch of a company will depend in the future on a proper balance between Debit and Ordinary insurance.

MR. TOOKEY: At the end of 1961, the 631 billion dollars life insurance in force in legal reserve companies was distributed as follows: Ordinary, including monthly debit ordinary, 57%; Group, 30%; Industrial, 7%; and Credit, 6%.

Although industrial constitutes only 7% of the total volume, far more than 7% of the population is covered by weekly premium policies. In fact, there are almost as many industrial policies in force as ordinary life policies. The debit agent is still an institution in many parts of the country, and the fact that a very large insurance company just opened a debit agency in Hawaii attests to his work. The debit agent provides the epitome of service to his clientele, not only collecting premiums, but functioning as a friend and advisor. The debit man has also moved with the times and writes large volumes of regular ordinary and monthly debit ordinary. A leading debit producer here in Illinois produced over two million dollars of business last year.

The industrial insurance market has been affected by many competing forces such as group life insurance with its extension to 10-life groups, and the introduction of group life on dependents in certain states. The family plan and credit insurance have also provided coverage not previously available. The trend towards monthly payments and the introduction of monthly debit ordinary have made further inroads on the debit market.

Industrial insurance is undergoing a metamorphosis and becoming more and more similar to ordinary insurance. Monthly debit ordinary insurance may be thought of as coming into being to satisfy the demand for insurance that is industrial in nature but issued for larger amounts reflecting the effects of inflation and written on the monthly mode. Similar application forms and similar underwriting procedures are used for both weekly premium and debit ordinary. The comparative improvement in mortality of industrial risks has been considerably greater than that of ordinary risks. The development of a new industrial mortality table and the adoption of automated procedures will help keep the product competitive.

MR. THOMAS K. PENNINGTON: In our area recently a supermarket was found to be testing an insurance product and from the initial response it looks as if it is going to catch on since it fits the industrial market to a certain extent. In view of this situation, a description of it might be of interest.

The policy is basically a family type policy in that it provides coverage on both husband and wife. It provides a death benefit, at ages under 30, of $100 a month for eighteen months, grading down to $20 a month at age 60 to age 64 inclusive. In addition it provides a twelve-month income disability coverage on the husband, with a two-week waiting period. The policy was designed for the supermarket which suggested it. It is sold on a weekly premium basis. The underwriting, of course, is completely simplified and it is fundamentally written on an assumption that they will achieve enough spread of risk to justify this simplified approach.