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Marketing

A. By urging agents to upgrade their prospecting, is the life insurance industry forsaking a market and inviting government sponsored life insurance programs?
B. Would it be in the consumers' best interest if the life insurance industry sold a greater portion of permanent insurance? What is being done, or should be done, to emphasize permanent insurance more in such areas as advertising, sales promotion, plan design, field compensation, and production credits?
C. Is it possible to make new plans available to present policyholders by change or by rider addition without too expensive a process?

Jacksonville Regional Meeting

MR. RUSSELL L. WAGNER: I doubt that the industry has ever invited the government into its business at any time. However, the government has traditionally entered the life insurance field when it imagined that our industry hasn't covered a field adequately.

Consider the Social Security program. First the government provided minimum pensions, an area where the insurance industry had not been aggressive. Then came benefits for widows and children, even though insurers had been offering family income coverage. Next came a government program in total and permanent disability, which had been pretty much abandoned by the industry during the depression. Right now the government is trying to enter into the health insurance field.

I don't feel we are deserting an insurance market when we urge our agents, particularly those of combination companies, to upgrade their prospects. I feel that there are still plenty of agents covering the market for smaller amounts of insurance. My concern is whether or not we are providing these small coverages at the lowest possible cost. If not, the government may enter the field on the basis of providing it cheaper than we can.

MR. JAMES M. WOOLERY: The amount of an individual's permanent savings in the form of life insurance may depend upon factors such as age, income, marital status, size of family, and other assets.

The Institute of Life Insurance has figures showing that term coverages have increased from 26% to 39% of all issues during the past ten years; the forms of permanent coverage have decreased. At Occidental Life of North Carolina, the average premium per $1,000 has changed from $19.88 in 1954 to $13.70 in 1961. The percentage of term has not changed, but there has been a heavier proportion of ordinary life. The premium per policy has increased from $94.94 in 1954 to $141.07 in 1961, as a result of a higher average policy amount.

We have accomplished this in a number of ways. First, we have included new premiums in the criteria for agents' qualifications. Second, agent training classes emphasize the ten plans which account for 92% of issues; of these, three are not permanent plans.

Under the new income tax law it would seem that we should emphasize permanent insurance rather than term, since no longer is there any tax advantage in writing a lower premium plan.

MR. JOSEPH T. GANNON: Insurance sales should be based on need. Certainly there are situations for which term insurance is appropriate as a supplement to permanent insurance in a sound protection program, particularly for a young family head. This suggests that sales promotion should not be weighted in favor of either temporary or permanent insurance.

A few years prior to 1960, Metropolitan Life changed the basis of sales recognition by giving some weight to premium as well as insurance issued. Beginning in 1960, placed business credit has been based only on net annualized first year commission. The effect was substantial. In 1960 there was a 23% increase in the average premium per thousand of insurance issue and a significant increase in the amount of premium per sale. The proportion of term insurance issued decreased from 44% to 38%. This trend has continued in 1961. Undoubtedly, there are often other factors involved, but using first year commissions as the basis for sales credit seems to be the most important.

MR. THOMAS P. BOWLES, JR.: The life insurance industry has two products to sell: savings and protection. As the average premium per thousand has declined, the trend has been toward selling more protection dollars and fewer savings dollars. It is significant that life companies are receiving a declining proportion of the total savings dollar. Some of the reasons for this are the higher rate of return offered by other savings institutions, the threat of continued inflation, the merchandising costs for life insurance, and the psychological attitude of a bargain-happy public which has motivated insurance agents to take the path of least resistance and to sell the big package for the little price tag—low cost term insurance.

In examining the savings element in your company's contracts, I suggest you make a calculation. Take a retirement income and an ordinary life; compare the difference between total premiums collected and the cash values. In the case of one large stock company, the extra savings premium had a yield of only 2.3% over a 20-year period.

We should not lose sight of the fact that the life industry is the only institution which has the right to sell both protection and savings.

MR. PAUL T. ROTTER: The Mutual Benefit Life believes that it is in the best interest of the public to hold the amount of term insurance sold to a moderate amount. All term insurance in the Mutual Benefit accounted for 7.43% of our total amount of insurance written in 1961.

Qualification for conventions and other forms of recognition of the individual agent are based upon first year commissions actually received. Volume totals for each agency do not include the amount of decreasing term insurance or of insurance under our family insurance provision. The individual agency gets volume credit under these coverages only at the time of conversion to a permanent plan.

In answer to question C, I believe any realistic accounting of expenses involved in adding rider benefits to in-force policies will result in a rather high figure. We have not permitted the addition of these benefits to in-force policies, with the exception of disability coverage.

In addition to the calculation outlined by Mr. Bowles, I suggest you choose the term rate of any company and compare both the "cash value" benefit and the benefit in event of death under the term insurance policy plus the investment fund with similar results under a suitably chosen permanent plan with the so-called fifth dividend option.

For a person age 40 in the 40% tax bracket, our figures indicate that at least 7 percent must be earned on the investment fund over a twenty-five year period, after commissions to the investment broker, before the "buy term and invest the difference" plan gives more favorable results.

MR. CHRISTOPHER H. WAIN: The first job of the life insurance industry is to provide adequate protection. If savings are wanted without protection, we can be outperformed by banks almost any time, and should be.

The typical insurance buyer is likely to have substantial needs for protection throughout his working life. Since present mortality favors his surviving to retirement, the consumer generally should buy more permanent insurance.

At the Prudential, we have made calculations similar to those described by Mr. Rotter. We compared results under a "buy term and invest the difference" program having death benefits equal to those under a preferred life contract under which dividends had been applied to purchase paid-up additions. Our figures showed that, from the end of about thirteen years on, depending on age, the insurance buyer was better off unless the "buy-term" man could earn over 4 percent after taxes.

The alternate uses for cash values, such as financing educations for a growing family or retirement for those whose children are grown, should be emphasized. The portfolio offered by a company should be attractive in the high premium plans as well as in term plans. Adequate field compensation is necessary to encourage permanent plans. The experience of mutual funds in offering plans under which about 50% of the first year's payments are applied to sales compensation is relevant to our thinking on this point. Their success with these plans suggests that we should be able to pay adequate sales compensation for the sale of savings plans with attractive protection features.

Chicago Regional Meeting

MR. W. JAMES PREBLE: It has been my impression for several years that our industry might very well be forsaking the smaller policy market. However, a search of available statistical evidence does not support that impression.

Many companies have certainly been urging their agents to upgrade their prospecting. There has been considerable emphasis on advanced underwriting, programming, estate analysis, business sales, etc. And companies have been rather proud of their gains in average size policy sold although the number of policies in force has shown very little increase, and in some instances, even a decrease.

But LIAMA Buyer Studies do not support the view that the industry has been forsaking a market. A LIAMA study published in 1960 contained the following comment:

> All segments of the market are being covered by life insurance salesmen, and personal contacts show little variation by income level.

The LIAMA study shows the number of ordinary policies purchased by adult males in various income classifications and the number of potential purchasers in the same income classifications. A comparison is made between 1956 and 1959. The following comment interprets the results:

> In the . . . lower income groups (under $5,000 of annual income), the number of sales has increased slightly, while the population was actually decreasing. In the middle income group ($5,000 to $7,500 of annual income) there has been a large growth in the number of sales, considerably exceeding the population growth. In the . . . higher income groups ($7,500 or more of annual income) the growth (in sales) . . . has not kept pace with the population growth.

In view of these findings, it would seem that the discussion of this question could be limited to a one-word answer, "no." However, projected population changes suggest that it might be desirable to review programs and sales emphasis now, so that it will be possible to give the same answer to a similar question posed 10 or 15 years from now.

According to LIAMA studies, about 85% of ordinary sales are made to adult males between the ages of 20 and 54. There is a reasonable correlation between age and policy size, so that emphasis on the younger adult may usually result in a smaller average size policy than will emphasis on sales made to more mature lives. Therefore, it seems appropriate to analyze population changes by age in connection with the question.

Between 1940 and 1960, U.S. Census figures show that the number of males between 20 and 34 increased only 1%. During the same 20-year period, the number of males between 35 and 54 increased by 27%. In view of the fact that so much of the population change in the recent past has taken place in the more mature age group, where policy sales are normally larger amounts, it is understandable and probably quite proper that companies have emphasized larger policies.

However, the situation between now and 1975 will be vastly different. It is estimated that the number in the more mature group—between 35 and 54—will remain almost constant, an increase of about 3%. But in the same 13 years, the number between 20 and 34 will increase by almost 50%. Practically all of the population change, insofar as it affects our principal insuring ages, is taking place below age 35. Of course, after 1975 the more mature age group will again increase markedly.

We are now entering a period of excellent opportunity for sales to young adults. It is possible that some companies which have been emphasizing large policy sales will begin to change direction. Emphasis on small-package sales may be highly desirable now, in the light of shifting markets.

LIAMA and LUTC don't think such emphasis would be desirable. In Volume 3 of *Life Insurance in Focus* distributed last month, discussing the 1960 survey of some 4,000 household heads, it is suggested that the survey shows overconcentration of sales effort in the young-adult market and underconcentration in the middle-age market. They then proceed to view with alarm the population changes which are taking place and say that a deliberate effort will be needed to encourage agents to prospect in the middle-age market or they are apt to concentrate even more heavily on the young-adult group.

Certainly this growing young-adult market will be adequately tapped. The real question is what type of agent will be most successful in this market. It may be debit agents, or general insurance agents. Or it might be full-time agents of old-line ordinary companies. This market will not be forsaken. It will go to the companies that actively seek to exploit it.

MR. EDWARD A. LEW: There has been a natural tendency to urge agents to upgrade their prospecting in view of the sharp rise in the family incomes during the past fifteen years, a consequence of the trend from blue collar to white collar occupations and the decrease in the proportions of persons employed in unskilled and semiskilled jobs, as well as the pronounced rise in educational attainment of the general population.

More specifically, the median income of families in the United States has increased from $3,031 in 1947 to $5,620 in 1960 (or to $4,017 in 1947 dollars). During this same period, the proportion of persons employed in white collar occupations increased from 35 to 43 percent, while the proportion in blue collar occupations decreased from 41 percent to 36 percent. Semiskilled and unskilled employees in the blue collar category decreased from 27 to 23 percent, while the proportion of skilled workers and foremen remained virtually unchanged.

In 1940, the median of completed schooling was 8.4 years in the United States, with 24 percent reported as having had a high school education and 4.6 percent a college education. In 1959 the median of completed schooling had increased to 11 years; 43 percent were estimated to have a high school education and 8 percent a college education. By 1970, it is anticipated that the median years of schooling will rise to 12 years, the proportion with a completed high school education increasing to 50 percent, and the proportion with a completed college education to 9 percent.

An upgrading in prospecting does not forsake the life insurance needs of the people with lower incomes, those in semiskilled and unskilled occupations, or those with below-average schooling. It merely recognizes the changes in the increasing number of people with higher incomes in white collar and professional employment. As far as the Metropolitan is concerned we continue to serve the insurance needs of the lower socio-economic strata of the population more adequately than ever before with small Ordinary policies, on which monthly premiums are collected by agents at the homes of the insured. This market presents many special problems, a case in point being that resulting from the migration of Negroes from the rural South to the central portions of Northern cities.

MR. HAROLD A. LACHNER: The Metropolitan has done several things in the past two or three years to emphasize permanent insurance. Our reports to policyholders on both our 1960 and 1961 operations recognized that term insurance does have valid uses, but they stressed the advantages of permanent insurance.

Aside from educating the buying public through annual reports and various advertising media, the most effective way of emphasizing the value of permanent insurance would seem to be through field compensation and production credits. At the beginning of 1960, we changed our system of production credits from one based on volume of insurance written to one based on first year commissions credited. This removed any tendency to stress volume of insurance at the expense of premium, and made the two principal forms of agent motivation provide consistent incentives. At the same time, we adopted a size discount for policies of $5,000 or more, and extended the issue of preferred risk policies to all major plan groups, including endowments, whereas previously these features had been limited to the whole life policies. Our endowment policies were also made more flexible and presumably more attractive by the addition of optional continuance features at maturity.

The effect of these changes was immediately apparent. Our volume of term insurance written (including the term element of permanent plans) dropped sharply, from 43% of all Ordinary business in 1959 to 38% in 1960 and further edged off to 36% in 1961. At the same time, our average premium per $1,000 of Ordinary insurance issued went up from $20.66 in 1959 to $24.86 in 1960 and $25.03 in 1961, an increase of over 20%.

MR. HAROLD F. PHILBRICK: My comments will be related only to making new plans available by rider addition to existing policies. Massachusetts Mutual recently announced the availability of decreasing term and family plan riders for attachment to existing CSO policies. These include the following four types of rider: mortgage protection agreement, family protection agreement (family income type of rider), family insurance agreement, and children's insurance agreement. Prior to this, we allowed attachment of disability (waiver or waiver and income), accidental death benefit, payor, insurability protection (our guaranteed insurability rider), and the fifth dividend option.

The essential question involved, whether the expense of attaching riders to existing policies is less than the expense of replacing these policies, is difficult to answer in dollars and cents. It is generally agreed that replacement of a policy by a new issue is very seldom in the best interests of the insured. Further, if replacement takes place before the asset share under the replaced policy exceeds the cash value, the Company, too, will suffer a loss. Any procedure which is unsound for policyholders is certainly unwise for insurers as well. The needs of policyholders do change from time to time, and we feel that it is incumbent on us to protect a policyholder's interest in his existing policy by allowing him, within reasonable limits, to adjust the benefits under his policy if the need arises. For example, it seems too bad that a policyholder should have to pay the acquisition costs of a basic policy twice in order to add mortgage protection to his coverage.

For attachment of a decreasing term or family plan rider, an expense charge of $10 per policy is made. This fee will merely cover the cost of the medical examination if one is required, or some of the handling cost if nonmedical. It certainly falls far short of the entire cost. However, a higher charge would probably defeat the procedure, since the charge would be too large in relation to the premium for the benefit being added. It is for this reason that we do not levy any attachment fee if any rider other than decreasing term or family plan is added to a policy after the date of issue. We do recover some money in that renewal commissions for the attached rider are payable only for the balance of any renewal commission period under the basic policy. Our persistency fees, payable after the 10th year, are related only to the basic policy.

I have obtained some figures on the volume of rider attachments, which I think bear out our feeling that the replacement problem would be quite extensive if this procedure were not allowed by our company. During a recent six-month period, we had requests from the field for attachment of about 600 disability riders, 550 accident death benefit riders, 125 insurability protection (guaranteed insurability) riders, 300 family riders, 200 decreasing term riders, and 400 fifth dividend option riders. Over 400 attachment riders were also added to new policies issued as a result of the conversion of term insurance—we use attachment riders in this case in order to have the benefit of suicide and incontestability provisions with respect to these riders even though these provisions may no longer be operative under the basic policy. During an eight-month period, we actually attached 233 family insurance riders providing over $700,000 insurance on the wife, 106 children's insurance riders providing $150,000 insurance on the children, and 250 decreasing term riders under which the business credit, which is less than the initial amount at risk, was nearly $3,500,000.

It appears that our decision to permit decreasing term and family plan riders to be added to certain existing policies has required two to three additional people for the processing of the attachments. Excluding disability and accidental death benefit, we had to develop 40 different riders at an outlay of almost $9,000. However, we are firmly convinced that these expenses are well justified, both in terms of avoiding the cost of replacement and in order to support our reputation for providing service to existing policyholders. As a matter of interest, we find that about 85% of all requests for attachments are actually completed. For decreasing term and family plan riders, currently only about 70% of the requests for attachment are actually completed.