TRANSACTIONS OF SOCIETY OF ACTUARIES
1962 VOL. 14 PT 2

DIGEST OF SMALLER COMPANY FORUM—CHICAGO REGIONAL MEETING

COMPETITIVE PROBLEMS

A. What are the most effective methods of meeting competition from the larger well-known companies through:
   1. Product line?
   2. Special services?
   3. Agency contracts?
   4. Other means?

B. In what areas, if any, does the smaller company have a clear competitive advantage over the larger well-known company on direct comparison? Can the smaller company compete successfully without resorting to special or unique features in its policy and agency contracts?

MR. ELGIN R. BATHO: Probably the most effective method of competing with the larger companies in product lines is to design one or more special plans of insurance which are unique, or almost so, thus enabling the agents to feature plans which cannot be easily compared with standard plans offered by the larger companies. In the Berkshire, when we changed over to the 1958 CSO Table last year, we introduced a special policy for males which was unique in that it included not only the usual guaranteed insurability option, but also a marriage option under which the insured has the option of applying for additional insurance on a permanent plan, without evidence of insurability, and of either maintaining his present policy without change or changing it to the Ordinary Life plan, also without evidence of insurability. Furthermore, the policy contains an option under which the wife may apply for coverage on her own life without evidence of insurability.

It seems to me that special policies such as this or special riders such as our recently introduced wife term rider, which provides level term insurance on the life of the wife of the insured, are very effective tools in competition and assist the field force of the smaller company. Many times these specials are the means of obtaining an interview, even though the insurance finally sold may be on one of the regular plans.

Another possible approach for a smaller mutual company could be the approach taken by our company last year in offering two lines of insurance, one on the traditional medium-priced basis, with high early cash

values and normal dividends, and the other on the basis of very low participating premiums, with relatively modest dividends. This enables the smaller company to de-emphasize net costs based on dividends and to feature maximum protection for each premium dollar, at the same time maintaining the participation feature. We are issuing over 80% of our policies on this low initial premium basis.

Perhaps one of the most important aspects of the competitive problem is to have an aggressive, loyal, hard-hitting agency force. A smaller company can frequently attract high caliber general agents or branch managers by being able to offer more rapid advancement or a more attractive contract than a larger company. In many instances a smaller company which does not operate in New York State can attract men by offering higher commission rates than a larger company domiciled in New York is permitted to use. Furthermore, a smaller company can often give more individual attention to individual members of its field force and feature personal services which are not obtainable in a larger organization.

Referring to section B, it does not appear to me that there are many areas where the smaller company has a clear competitive advantage over the larger well-known company on direct comparison. However, I believe that in the great majority of cases competition does not enter the picture. In a survey made some years ago by the Life Insurance Agency Management Association, agents stated that only 7% of sales involved competition; 87% of the agents who answered the questionnaire said that competition occurred in less than 10% of all sales they tried to make.

If competition does enter the picture, it is often outweighed by such factors as better and faster service, preference for a local organization, closer contacts between policyholders and company, and other similar intangible items. If these are not sufficient, it is advantageous to have available special plans or riders and unique features which do not appear in contracts of competitors. However, these special features should never be unsound or questionable from an actuarial point of view.

MR. ROBERT C. TOOKEY: One of the best ways to meet competition from the larger companies is to have special merchandise. A typical "special" contract will be based on a 20 payment life plan with return of premium benefit, coupon with paid-up options, guaranteed purchase option, additional insurance upon marriage, and so on. A new company may wish to issue "founders" or "charter" policies with a special participation provision. However, a number of insurance commissioners are casting a "fishy" eye on such charter policies, and these have actually been outlawed in some states, such as Wisconsin.

Coupons offer a flexible means of making a favorable cost comparison. A term to 65 policy could contain coupons which when accumulated at a guaranteed 4% interest rate would pay up the policy at age 65. Such a contract, because of the 4% interest rate, would "outperform" a conventional life paid-up at 65 contract in a cost comparison.

Smaller companies can join forces with a mutual fund to facilitate joint merchandising. In states permitting it, variable endowments can be offered. The smaller company is usually well-advised not to offer a competitive high cash value policy because of its higher lapse rate and problems of agency control. Special services can be in the form of special features in policies, such as the 10% cash draft benefit, which permits the beneficiary to collect 10% of the face amount from any bank upon furnishing proof of death. A smaller company will often be more lenient on reinstatement and extension of the grace period. Paper work can be minimized whenever possible—for example, by not requiring an endorsement on a policy when a policy loan is taken out. In many service situations, a policyholder can get the attention of an officer in a smaller company whereas his case is more likely to be handled routinely by someone down the line in the larger company.

To meet the enormous competition for manpower, smaller companies may wish to offer a higher commission scale, or a personal-producing general agent's contract. For the big producer in the higher tax bracket, a special contract can be offered providing regular first-year commissions on business written during the first part of the year, with an option to take level commissions during the later part of the year to defer income to the later less productive years. Newer companies may offer a stock option, permitting the agent to purchase a certain number of shares in the company at a predetermined price in proportion to written business surviving three years. Both the volume and quality of business produced by the new companies using this approach have been very impressive.

In general, the smaller company enjoys a greater degree of flexibility than the established company. It is not bound by past practice and precedent; can enter a new territory without having the best interests of previously appointed general agents to contend with; and because it does not have large sums of money seeking investment outlets, it can sometimes seize upon unusual investment opportunities.

Referring to section B, the smaller company can have a clear competitive advantage in certain situations. Smaller companies may load up on small blocks of municipal bonds, yielding 4% and more, which are too small to attract the larger companies. The smaller company might pur-

chase a distressed mortgage for a small down payment and at a substantial discount.

The smaller company can look good in certain ratios—for example, surplus to reserves. It is easier to incorporate a small company into a holding company, which can assume some of the burdens such as cost of financing agents, etc.

The primary problem lies in recruiting and financing agents in competition with large companies with established reputations and tremendous resources. Unless the small company has a semicaptive market, which may be worked with "plain vanilla" merchandise under a conventional approach, it will achieve much better results by being different.

MR. JACK W. NEWELL: It has been the experience of the College Life that it is not necessary to have a broad product line or unusual agency contracts to compete with the larger companies. In fact, there appears to be as much competition from the smaller companies as the larger, and perhaps more because of the greater number.

We have two basic policies, an Ordinary Life contract and a life paid-up at 65 contract. These, in turn, enjoy some flexibility from rider benefits and future premium deposit privileges.

With regard to agency contracts, although we do not operate in New York, I feel certain that our contracts would fall within their limits.

Our emphasis is on selection and training of new agents. We hire only college graduates and prefer to get the man with no prior experience and train him ourselves. These men are either new graduates or men from other occupations. Here, the competitive factor is other careers rather than other companies.

We are convinced, at least for our operation, that the best product is one of simple design that is easily understood by both the applicant and the agent. If you give a good man this type of product, then we believe that your main competitive problem will be for your agent's time. In other words, can you compete successfully with his family, clubs and social life? We believe that other competitive problems that may exist are minor in comparison with this one.