

Policy Changes

Have any companies considered restricting policy changes because of increased administrative difficulties due to automation? Is the cost of policy changes out of proportion to their business value? Have any means been found of simplifying policy changes? How have companies handled the problem of changes produced by the introduction of more favorable premium rates?

MR. PAUL T. HARKNESS, JR.: Connecticut Mutual has traditionally been liberal in its attitude toward policy changes. Our new policy series, in fact, includes by contract the right to change to a lower premium form other than term upon satisfactory evidence of insurability. Although most policy change procedures cannot conveniently be included in our automation setup and no restrictions in policy changes are contemplated in order to fit them into the system, we hope that when the tape system is complete we shall be able to obtain information more easily and thus to expedite some changes.

Estimating the value of policy changes is difficult; however, we think it is worthwhile to make them as a service to the general body of policyholders. We believe our liberal change rules have resulted in the following advantages: (1) conservation of cases which would have been replaced—owing largely to ability to meet changed financial circumstances or new protection needs and willingness to be flexible in the period shortly after issue—and (2) ability to help an insured build a more adequate program as his needs increase. These advantages are obtained with considerably increased work and expense, at least for a temporary period.

With the advent of new coverages and new mortality tables, the problem of policy changes becomes more complex. Although attempts have been made to streamline our methods, work has increased. To keep replacements at a minimum when more favorable coverages (particularly with reference to agreements) are announced, the benefits are extended to old policyholders if it can be done equitably and if it is administratively practical. This keeps the problem of replacement at a minimum, but temporarily it increases the work of the Plan Change Department with modifications in existing agreements where necessary.

Our latest policy series includes a new band for amounts of \$25,000 or more, with lower premiums per \$1,000 and somewhat higher early cash values during the first nine years. In anticipation of problems with larger policies issued just before the new rates, we offered to reissue those cases issued on or after a fixed date covering a short period before the new series commenced. Careful studies of other business were made to avoid areas where it might be to an insured's advantage to replace. We pointed

out several areas in our older series where it was planned to adjust dividends so as to remove as fully as possible any interest in replacement.

MR. WILLIAM GOULD: Although it may be well that some types of policy changes should be prohibited or restricted, the fact that a particular type of transaction does not lend itself to automatic processing is not sufficient reason for restricting such transactions if they are otherwise legitimate and desirable.¹ An automated system should be flexible enough to fit the practical requirements of the business by making specific provision in the system for nonautomated processing of these special cases.

We at the Metropolitan have been concerned about the cost of policy changes and are looking for ways to reduce the substantial cost of providing change service. We hope that automation will help us to achieve savings in this area. Although it is difficult to say whether the cost of changes is out of proportion to their business value, policy changes have real value and importance—to the policyholder, as a means for adjusting his insurance to meet current needs, and, to the agency force, as a means of combating twisting and conserving existing business.

The cost of policy changes might be reduced by charging the policyholder a fee for this purpose. I understand that several Canadian companies do this, although I believe it is less common in the United States except for such items as the cost of a medical examination. For practical reasons such a fee cannot be more than a nominal amount which will seldom cover the full cost incurred, and there are certain types of changes where it does not seem practicable to charge a fee at all—for example, term conversions. However, there is some question whether such charges would be worth the trouble, except possibly for additions of rider.²

We are considering means of reducing the ratio of the number of changes quoted to those consummated which is currently averaging about 1.6 to 1. We are thinking of giving our agents more intensive instruction as to our change calculation rules and supplying precalculated values for use in such calculations. The agents could then be in a better position to advise policyholders as to the amount of collection or allowance to be expected on a particular change. This might eliminate some of the requests for change propositions that would otherwise be submitted to the home office.

Approaches to simplifying policy changes need not be limited to the calculation operation, which is only one of the several administrative steps involved in processing a change. Operations which should be examined as major sources of expense and delay include:

¹ Mr. Bailey concurred in this opinion.

² Mr. Bailey referred to the desirability of a change fee approach.

1. Assembling old policy basic facts (e.g., plan, amount, loan status, etc.).
2. Underwriting, with or without medical examination.
3. Assembling the numerical data required for the change calculation.
4. Ascertaining the rules for calculating and completing the calculation.
5. Corresponding.
6. Typing the new policy, for some changes.
7. Changing records.
8. Calculating commission adjustments.
9. Preparing necessary accounting entries.

When we revised policies and premiums in 1960, a substantial reduction in premium for policies of larger amounts of insurance prompted some requests to change policies issued before 1960 to the 1960 basis. Although no great volume of such requests were received, they were handled in accordance with our regular rules and procedures essentially. In most cases it was not to the policyholder's advantage to make the change; where it was to his advantage, the change was allowed. Such changes occurred mainly on large term policies issued a short time before the change-over date.

MR. RUSSELL E. MUNRO: Although we at London Life considered the possibility of restricting policy changes because of increased administrative difficulty due to automation, we have continued to process change requests as usual. The cost of many changes is out of proportion to their business value. Changes which involve the company in expensive procedures but do not extend policyholder benefits greatly are discouraged by restricting or cancelling agent's compensation in connection with them.

A pocket-size change manual and a simplified form of change application have enabled the agent to proceed with initial negotiations without referring to the head office for calculations—reducing both the time involved and the previous variety of requests for alternate change calculations. Term conversions and addition or removal of riders account for more than two-thirds of our changes, and it is those types that are coded in the manual.

With the changeover from one EDP system to another, some simplification of records adjustment is being accomplished. Tape records are not rewritten in full, but rather only the data which are being changed is adjusted. The new system provides its own major change coding sheet as a print-out from the system, and on this sheet coders will indicate only the fields that are being changed. Remittance by the branch cashier of cash collected with the change assists in processing our accounts and removes the necessity for further billing. Continuation of the old policy number

instead of using a new number for many types of changes has kept the rewriting of records to a minimum and has increased the accuracy of the adjusted records. Certain account adjustments are produced by program from old and new balances (e.g., of loans, dividends, and premiums), while other accounts are entered directly to the coding sheet. A checking program for consistency has very complete control over the valuation aspect and the accounting. It will recognize an error in the record and reject the change including the accounting.

Changes for more favorable rates are probably more important in the nonparticipating business than for participating contracts. Changes do not occur if rate changes are made at relatively frequent intervals and the range of the adjustment is small. Introduction of policy fees or amount bands has encouraged the combination of two or more similar contracts and, on term conversions, has encouraged the sale of additional amounts to be handled under the one contract. Renewable term types may be adjusted to new lower rates if the policyholder presents up-to-date evidence, although some companies may waive this requirement. Introduction of a longer coverage period to 60 on income disability benefits resulted in company encouragement for such changes; but, on the other hand, extension of coverage periods for accidental death benefits was discouraged as a reason for change.

MR. EDWARD H. SWEETSER: Several factors may affect a company's continuing attitude toward policy changes.

1. The presence or absence of contractual change provisions in in-force policies.
2. The company's philosophy in comparing policyholder's and agent's good will derived from changes with their cost. New York Life's approach is to permit changes within reason to be made rather freely at no special expense charge to the policyholder (other than for any medical examination involved), except in the case of adding supplementary benefits to existing policies.
3. The replacement question. Our recently introduced addition-of-benefits program has largely eliminated the need for replacement of an in-force policy so as to get a new feature or benefit.

We have taken several steps to simplify changes in recent years, the most important of which are:

1. The cost of change to a higher priced plan is now calculated, after the first policy year, as a varying percentage of the difference in reserves instead of by the more cumbersome method of accumulating premiums less dividends at interests.

2. Field offices have been furnished with reserve tables enabling them to quote approximate change and term conversion costs locally, reducing inquiries to the home office by about 60 per cent.
3. A general, all-purpose change form was developed for requesting a variety of change transactions. The form also provides the evidence of insurability needed for certain transactions.

In order to keep existing policies up to date and, more particularly, to preclude replacement of existing policies in order to acquire rider coverage, earlier this year we announced a program for adding several supplementary benefits to existing insurance subject to payment by the policyholder of a \$10 fee plus the cost of any evidence required. The benefits available on this basis are the guaranteed insurability option, the one-year term dividend option, family income, mortgage protection, and level term riders. About one-third of the requests involve adding the mortgage protection rider, one-third adding one year term dividend option, and one-sixth the guaranteed insurability rider.

At the time of our extensive 1954 premium rate changes, several inquiries were received from our field with respect to policies issued at higher rates within the preceding few years. We pointed out that, in a mutual company, equity between policy editions is maintained through dividends.

MR. SIDNEY M. T. BAILEY: At the Sun Life (Canada) we find problems connected with changes to be increasing. In number changes are approximately two-sevenths of the number of new policies.

Policy change operations may be considered under four heads: (1) the change in the policy itself; (2) adjustment of records; (3) underwriting procedures; and (4) the calculation of any cash adjustment. I propose to deal only with the first two. Our own computer operations are affected only by the adjustment required in records and the associated accounting procedures where payment or collection is involved. No changes in policy change procedure have been necessary to suit computer operation except the discontinuance of premium changes resulting in a broken period premium.

The most expensive part of the procedure is the change in the policy itself, and it is becoming increasingly obvious that some method of simplification must be devised. Under present procedures the stock of superseded policy forms required is large—particularly so for a company operating in many different parts of the world.

I personally feel that the growing complexity of changes will ultimately result in change fees being charged, at least for some special types.

MR. GORDON G. MYER: Confederation Life has very recently reduced its premiums for double indemnity and accidental death and dismemberment benefits and extended age limits five years. We have announced that no changes would be made to the new benefits and that the old benefits cannot be canceled and new benefits added until one year has elapsed after cancellation, and, although we have not yet had much experience, I think we will be successful.

MR. RUSSELL M. COLLINS, JR.: Automation has not made it necessary for the Minnesota Mutual to restrict policy changes appreciably. However, in order to keep costs at a reasonable level, more simplification in the calculation of policy changes is being achieved through more approximation and application of the same calculation to broader groups of policies.

Recent reductions in guaranteed premiums have been accompanied by increased dividends on existing policies. On many nonparticipating rider coverages, we have voluntarily increased death benefits on existing contracts.