RECORD OF SOCIETY OF ACTUARIES
1980 VOL. 6 NO. 4

MULTI-LINE INSURANCE COMPANIES

Moderator: SAMUEL GUTTERMAN. Panelists: FRANK RUBINO, ROLAND E. NELSON, NORMAN K. MARTIN

MR. SAMUEL GUTTERMAN: We will be discussing several aspects of multi-line insurance operations, focusing on the role of consumers and agents in the context of various organizational structures and approaches, as well as commenting on the unique role the actuary plays, if any, in these organizations.

Inevitably, a large amount of our discussion will revolve arounding marketing and marketing strategies. The determination of a company's target markets and how it wishes to reach these markets in an efficient and an ongoing manner form the basis for its operation and organization. As most companies desire to grow, the promotion of its distribution system and the expansion of its revenues have caused many insurance companies to continually expand their product lines.

I would like to briefly define what "multi-line" means. Initially it referred, among other things, to the combination of fire and its allied lines, or accident and sickness coverages. Later, its definition expanded to include property (including fire and allied lines) and casualty (or liability) insurance on the one hand, and life and health insurance on the other.

Recently, the term multi-line has been used to include all personal lines coverages, including individual life, health, auto and homeowners; or, even more broadly, all of these personal lines together with commercial property, casualty and employee benefit coverages. As the dividing line has become more blurred between some of these and services offered by other financial institutions, in the future, our definition will become even more expanded.

We will not be talking about a single all lines company, but rather about company groups or holding companies offering these products. These multi-line organizations have become more common. It is rare now, it seems, to offer only life or only casualty products within one corporate structure.

MR. FRANK RUBINO: Although there are wide variations in the structure of multi-line companies, I will limit my remarks to Prudential's current structure for providing multi-line coverage.

First, I would like to give a brief summary of what Prudential's individual products are today and what they might be in the future. Currently, Prudential sells individual life, health and annuity products. Our property and casualty portfolio consists of personal automobile, homeowners and personal catastrophe policies. Sometime in the future, we expect to go into commercial insurance such as workers' compensation, fire and general liability coverage. Prudential's organization includes ownership of a subsidiary known as PRUCO, which is the holding company for other subsidiaries. One of these subsidiaries is Prudential Property and Casualty, which began operations in 1971 and currently administers our property and casualty operations. Because of state laws prohibiting life insurance companies from engaging in the property and casualty business, PRUPAC, as this subsidiary is known, is a separate legal entity. In practice however, it fits into our organization in a manner similar to our group insurance or group pension departments. For example, it has its own executive, actuarial, personnel and claim staffs. Also, PRUPAC has regional service offices just as Prudential does; however, the number and location of these offices are not the same as the regional offices of Prudential.

Although there are many similarities between PRUPAC and a Prudential Product Department such as the Group Insurance Department, there is one major difference: PRUPAC products are sold and serviced by Prudential's Agency force, currently numbering about 24,000, whereas group insurance is sold and serviced by a separate sales force comprised of group representatives. This presents unique problems for the property and casualty operations. Major decisions affecting both financial and sales results can be made almost wholly within the Group Insurance Department. Similar decisions cannot be made within PRUPAC, since the Agencies Departments are located in Prudential. As a result, major decisions are made on a joint basis between PRUPAC and Prudential. This includes decisions in areas such as training, sales and service objectives, commission scales, product design and premium rate structures.

Now that I have described, very briefly, Prudential's multi-line structure and some of its inherent problems, I would like to describe some of the things which have been done to minimize these problems.

First, let's take the problem of coordinating major property and casualty decisions between PRUPAC and the Agencies Departments. Perhaps the most important step in solving this problem was the formation of a Product Planning and Marketing Advisory Committee. Represented on this committee are the important PRUPAC areas, such as Actuarial and Underwriting, and the Prudential Ordinary and District Agencies Departments. In many cases, suggestions for new products and product changes are introduced by those representing the agencies and not those representing PRUPAC.

Another step in coordinating decisions between PRUPAC and the agencies is the submission of proposed rate and underwriting changes to the Prudential Regional Home Offices for review. Within a Prudential Regional Home Office are staffs of the agencies' organization. Submitting a proposed change to the regional office affords representatives of the District and Ordinary Agencies an opportunity to review and comment upon the changes.

The last example that I will cite in the way of coordination is the determination of the annual financial plan. Each year PRUPAC, like most property and casualty companies, prepares a financial plan to be used as a guide for operations in the succeeding year. Each year personnel from PRUPAC's Financial Planning area meet with personnel from Prudential's Agencies Departments to agree on sales objectives and other goals. The flow of information is not one way since any projection of sales by Agencies' personnel will depend to a great extent on such things as rate increases and underwriting changes which are planned by PRUPAC.

So, to summarize, the structure for multi-line marketing at Prudential is not truly integrated and has presented us with certain problems. These problems are being met with certain programs and, in many cases, they have been successful. Where problems still exist, we don't feel that they are entirely due to the structure of the organization. Instead, they are due to the nature of our field force since it is one which was nurtured on selling life and health insurance. For them, selling something other than life and health insurance has been more difficult than anticipated.

Now for the role of the actuary in a multi-line structure. Although his role is not much different from his role in a mono-line company, there is one challenge a multi-line operation presents that is unique. This is the challenge of establishing expertise in all areas of the insurance operations, that is, both the life and the property and casualty side. What makes this difficult is in the way our actuarial organizations are structured. Members of the Society of Actuaries are trained in the product lines sold by life insurance companies while members of the Casualty Actuarial Society are trained in property and casualty coverages.

Before I return to this point, I would like to briefly describe some of the functions of an actuary in a multi-line company which are similar to those in a mono-line company. Above all, the actuary, in either organization, should be responsible for setting premium rates and establishing reserve liabilities. Although the nature of these items, whether it be for life insurance or property and casualty insurance, is similar, there are some fine distinctions. Generally, life actuaries are concerned with contingencies far into the future, whereas property and casualty actuaries are more concerned with the present and intermediate future. To even things up, however, the property and casualty actuaries are concerned with contingencies which are more volatile.

Another area for the actuary to be involved in is the establishing of contract provisions and underwriting rules. For example, he can assist in the decision making process by quantifying some of the alternatives under consideration. Based on my limited experience, I have the impression that life actuaries are much more active in this role. It seems that property and casualty actuaries are confined more to the rate making and reserving function. Although they recognize certain underwriting changes in setting rates, I do not believe they are active enough in deciding whether to make the change in the first place.

The last area I will mention regarding actuarial involvement is expense allocation. In either organization, that is, multi-line or mono-line, the object is to allocate expenses to the various product lines in a way that is, at the same time, equitable and practical. In a multi-line organization, however, more than one company may be involved, thereby adding significance to this role. Nevertheless, the techniques and procedures used to allocate expenses to product lines can be extended to allocate expenses for services shared by more than one company.

Now, I would like to get back to my earlier point about the challenges faced by actuaries who have not been disciplined in both life insurance and property and casualty insurance, since I feel that these actuaries constitute the majority. One of the reasons I was chosen to speak on this panel is that while at Prudential, I spent three years in PRUPAC. Prior to my assignment in PRUPAC, I had no formal property and casualty training other than one chapter on a CLU exam. My experience in PRUPAC as a life actuary taught me several things. First, an actuary in an insurance company is also an administrator. Therefore, a good part of the job involves general skills such as organizing people, preparing budgets, purchasing equipment and making data processing decisions. In this regard, the problems faced by an actuary in a multi-line operation are similar to those faced in any insurance operation. Secondly, the actuarial concepts, whether they are life insurance concepts or property and casualty concepts, are closely related. Consequently, a member of either Society should be able to deal with the concepts and principles of the other without much difficulty. In my situation, I acquired knowledge on property and casualty insurance from three sources. The first was just from being on the job and associating with members of the Casualty Actuarial Society. The second was from selected readings from their syllabus and other professional publications and the third was from taking CPCU exams. These exams are the property and casualty counterparts of the Chartered Life Underwriter exams.

So as not to leave you with the impression that I have solved all the problems in this area, I do want to present one problem for the actuary in a multi-line operation which existed when I was in PRUPAC and I believe exists today. The problem I refer to is the acquisition and training of actuarial students. For example, what kind of assignments should they be given? Is it fair to assign them to a P&C unit if they are taking life exams? Or, what exams should they take? Should they be free to choose their exam path or should the company determine this, based on the company's needs? What salaries should they be paid? Should the salaries of P&C trainees be consistent with life trainees despite the fact that they are not competitive with other property and casualty salaries? These are just a few of the areas to consider.

MR. ROLAND NELSON: Travelers of Canada consists of Travcan Limited, a holding company and two wholly owned subsidiaries, Travelers Life Insurance Company of Canada and Travelers' Indemnity Company of Canada. This is the organization with which I am most familiar and which I will discuss in some detail. I will also comment in general terms on the Travelers' United States organization. Travelers Corporate is a holding company which owns Travcan and all the U.S. subsidiaries, including the Travelers Insurance Company, the Travelers Indemnity Company and several smaller companies.

Within our Canadian organization are four completely separate departments, similar only in that they report to a common president and board of directors.

The Casualty-Property Department writes all the usual personal and commercial lines except worker's compensation, which is provided by the Provincial Governments. The insurance is all placed in the Indemnity company. They have their own product management, underwriting, actuarial, service, field operations and claim divisions.

Two departments place business in the Life Insurance company, the Group Department and our Individual Life and Health Department. The divisional structure of these departments is similar to that of the Casualty-Property Department except that neither has an identified product management division and the Individual Department does not have a claims division, utilizing the services of the group claims division.

Our fourth department is an Administration Department. Its functions include accounting, control, tax matters, office services, data processing, personnel and communications. A rather complicated cost allocation procedure is necessary to allocate the proper share of each of these functional expenses back to the appropriate marketing department.

Both companies are licensed in all Canadian jurisdictions although they have little representation in Saskatchewan, Newfoundland and the Territories.

The American organization is similar except that there is even further subdivision. For example, Personal and Commercial lines of Casualty-Property are separate departments in our parent company.

As I indicated, each of these departments is completely separate. This separation extends to the field. Within each of our ten field offices, each department has a manager and staff. There is also a Casualty-Property claim manager in each office and a life and health claim manager in four of them. This leads to some complications since a Travelers agent may have occasion to deal with six different Travelers managers. It has the advantage, however, of enabling each manager to concentrate on his own area of expertise, providing greater technical support than could be assembled in a single manager.

The managers are compensated through a base salary and an incentive program with substantial variation between departments as to the weight assigned to each portion.

Each manager reports to the head of the field operations division of his department located in our Head Office in Toronto.

The role of an actuary at the Travelers varies only slightly if at all from that of an actuary in a mono-line company. Each marketing department has its own actuarial department. In our parent company each of these is further subdivided by product line. They also have a Corporate Actuarial Department. These departments are completely independent. At one time there was a rotation program for student actuaries but this was discontinued almost ten years ago.

In the past, our actuaries have had almost no contact with our Investment Department. This has changed recently but only to the extent necessary to allow us to quote current rates for a new money annuity product that we introduced last summer.

Since our field staff are a part of the same department, our actuaries' contacts with them are similar to those of actuaries in a mono-line company and more frequent than would be the case in a multiple-line company with a single agency department.

MR. NORMAN MARTIN: My assigned role today is to attempt to describe the State Farm system. Obviously, State Farm is not one of the older multiple-line organizations. Our parent company was formed in 1922, the principal life and fire affiliates came along in the late 1920's and the early 1930's. I would like to discuss what the organizational structure is and just how the actuary fits into this organizational structure.

Let me start with the internal side of the organization. The parent company at State Farm is the State Farm Mutual Automobile Insurance Company. State Farm Life Insurance Company, for which I work, is one of five subsidiary companies, all of which are stock companies, and all of whose stock is owned by the mutual company. The subsidiary companies include the State Farm Life and Accident Assurance Company, State Farm Fire and Casualty, State Farm General and State Farm County Mutual of Texas.

As an organization, we write basically all lines of personal insurance-auto, life, fire and health. There is no health insurance company; health insurance is written through a separate department within the auto company. As a group, we're represented in virtually all states and in three Canadian provinces. In the life insurance area, the major life company writes only participating insurance and is licensed in all states except Connecticut, New York and Wisconsin. Our other life insurance affiliate is licensed only in New York and Wisconsin and sells only non-participating insurance. So the two companies do not really compete, one is participating only, the other is non-participating. Our home office is located in Bloomington, Illinois, but our operations are conducted through 25 regional offices in the United States and Canada. The home office is responsible for setting policy, establishing rates and so forth, while the regional offices have the responsibility for carrying out company policies and the acquisition and the administration of the business.

Within the home office, we have a common president for all of the companies. In addition to the common president, the following auto company departments service all of the companies: Agency, Personnel, Investment, Administrative Services, Audio-Visual and Public Relations Departments.

There are three departments which are common to the auto and fire companies: the Law, the Data Processing and the Controller's Departments. The life company has separate departments in each of these areas.

There are separate and distinct departments for each of the primary companies in the actuarial, the underwriting and the claim areas. When I refer to the primary companies, I am talking about the auto company, the major life company and the fire companies. So far as the health insurance operation is concerned, even though a separate department, they also have their own actuarial, claims and underwriting departments. The actuarial, underwriting, service and claim work for the smaller subsidiary companies are done within the primary companies.

Our regional office structure is similarly organized, that is, there are some common departments to serve all the companies, with separate and distinct so called "operations" areas for life, auto and fire.

The State Farm agent is an independent contractor who sells exclusively for State Farm. He is truly a multiple line agent and is featured that way in our advertising. Each agent has a multiple line manager assigned to him. These managers are employees of the organization. Both the agents and managers, however, are compensated on a system which is related to sales and service, as a percentage of the premiums.

Our agency managers report to what we call agency directors who are salaried employees housed within the regional offices. The agency directors, in turn, report to the regional executive office.

Basically, the span of control would indicate about 12 or 13 agents per manager and about 9 or 10 managers per agency director.

How does the actuary operate in this framework at State Farm? Remember, each of the lines has its own actuarial department.

In an organization such as State Farm, it is crucial that the actuary of each of the companies be sympathetic to the needs of the companion companies. Thus, the variety of legislative and regulatory proposals must be assessed as to each of the lines of insurance and the extent to which they cut across the lines. It is also necessary to reflect upon the effect that a proposed action by one of the companion companies may have upon impending negotiations or actions of another company.

Within the State Farm organization the actuary must be sensitive also to the internal competition for the agent's time. It behooves each of the companies to be aware of the promotional plans, the intended introduction of new plans or programs, the intended timing of substantial revisions, etc. These things are particularly important when the sale of each of the insurance products is through the same agent.

It is probably obvious by now that our actuarial department has responsibilities beyond valuation, pricing and so forth, since all of our activities within the organization basically must fit together.

Another ingredient that must be borne in mind when the insurance products are marketed through a single agent is the need for relative simplicity. Our agents do an excellent job for our companies but the obvious point is that the job they do requires considerable skill and knowledge in each of the product lines. As a consequence, the majority of our agents will not take the time to understand some of the more exotic coverages that flit in and out of the marketplace. We would like to have everything that everybody else has got and we would like to be able to compete on everybody else's turf. We have the technical expertise to do this but, in the life insurance arena, it is not the area where our agent makes most of his money. In life insurance, each agent of State Farm tends to stick to three or four basic coverages and to perhaps one or two sales approaches.

We obviously do have a few agents who are very knowledgable and as capable as any life agent of any company. They do understand the more sophisticated coverages and sales approaches. However, we have made a corporate decision that we are dedicated to providing for the needs of the majority of our agents, not for the few.

At State Farm, I would hazard to guess that we have, as actuaries, less contact with the investment department than may exist at many single line companies. I don't believe this has been detrimental to date. We do obviously see a variety of reports, prognostications and so forth.

To some extent, we may also have less direct contact with the agency area on a continuing basis. The reasons are that they also are organized to service the multiple line agent. We have no problem getting their attention when needed. Likewise, they can readily attract our attention. There are no proposals tailored by hand at the home office, some of this does happen at the regional office level.

So far as the usual actuarial role in the development of premiums, values, dividends, etc., I don't believe the role of the actuary in a multiple line organization varies from the counterpart in a single line operation.

MR. GUTTERMAN: I would like to talk very briefly about the CNA Insurance Companies, which up until 1975 was operated almost as if it were two distinct companies, one a mono-line life insurance company and one a mono-line casualty company. Since then, both sides have been effectively integrated into one common structure.

Many other companies have been wrestling for several years with the question of how closely to have its organization integrated, if at all. It seems that each company or organization has come up with a slightly different solution. We have already heard of several alternatives. All of these will have and will continue to evolve over time, affected by expense considerations and the degree of success in penetrating their target markets and producing a desired product mix.

At CNA, life and casualty actuaries work side by side, at similar, but not identical functions. As has been mentioned before, the primary concern of most actuaries on both sides are pricing and valuation. The actuaries working with life and casualty pricing and research are in our Marketing Department, while those dealing with valuation and reserving are in our Financial Services Department. The life actuaries, particularly those dealing with pricing, have tended to be more involved with marketing and product than their casualty counterparts, while the casualty actuaries have tended to play more of a supportive or technical role in the organization. These orientations are changing, sometimes gradually, sometimes rapidly, with each "type" of actuary gaining more perspective in both directions. The actuaries, through a complete rotation program, have the opportunity to rotate between the life and casualty fields, although relatively few have taken advantage of this, with most activity occurring at the lower exam levels.

Turning to the second half of our program, several studies have been conducted on the importance to the consumer of using a single agent, offering life, auto, health and homeowner's coverages, as well as having these coverages provided by a single company. Two prominent studies in this area include one conducted by Sentry Insurance Company in a national opinion survey done by Louis Harris and Wharton in 1974 and a study by the PIA in 1979 conducted by Cambridge Reports. Both studies came to the same general conclusion. The bottom line in the former study showed that 51% of consumers preferred to buy all of their personal insurance policies from a single agent, while 40% wanted to deal with more than one agent, with their different coverages, primarily to get more specialization. One stop shopping was favored more often by those who were non-white, younger or non-married and those who had lower incomes or who lived in rural areas. Similar attitudes held true for both sexes and those in urban versus suburban locations. In contrast to this preference for dealing with one agent, consumers surveyed were about evenly divided between wanting or needing to deal with only one company versus more than one company.

This points out the importance of a multiple line company's agents and distribution systems. This suggests that the key elements leading to success in writing multiple lines are the corporate marketing strategy and its execution - what are its target markets, what coverages can best reach them and what is the best way to deliver them. The distribution system, products, pricing, underwriting and service must be consistent with these strategies. Many companies have attempted to provide maximum penetration of the consumer's total insurance dollar, to provide easier leads or door-openers for its agents or to further support or in some cases prop up its distribution system, with a multiple lines strategy.

MR. RUBINO: The role of the consumer is one of the most important in multi-line marketing because without consumer acceptance, achieving success in this area can be difficult, if not impossible. Therefore, an important question to answer is, does the consumer prefer to deal with one agent for all his personal insurance needs, or would he rather have several specialists? Some time ago, Prudential conducted a survey on this and depending on how the question was phrased, one half to two thirds of the respondents preferred having one agent. Another interesting finding of the survey was that younger people have more interest than older people in having an all lines agent. Other industry groups have conducted similar surveys and their findings were similar to Prudential's.

There is another role the consumer plays in multi-line sales which is more passive. I'm referring to the fact that consumers must still be "sold" life insurance. This contrasts with automobile and homeowners insurance which are demand products. As long as this is the case, that is life insurance must be sold, agents will seek new ways of increasing their life sales. The multi-line concept provides an excellent opportunity for doing so. Our data indicate that leaders in property and casualty sales have not lowered their rate of life sales but have actually increased their rate slightly. They say that they find it a great deal easier to get appointments with new prospects by asking for a chance to quote on automobile and homeowners insurance.

Our studies also show that households where the head of the family is under 30 are more likely to have automobile and homeowners premiums in excess of life insurance premiums than other families. These same households make up one of the prime markets for life insurance, and we expect our life insurance agents will be especially active in trying to develop all line relationships with this group. I would assume the agents selling primarily property and casualty insurance will also take advantage of this situation. This phenomenon probably accounts for the fact that property and casualty agents have done better in life insurance than life agents in property and casualty.

To summarize my point in this regard, even if the consumer does not have a strong preference for one agent handling all his personal insurance needs, he may find himself dealing with one agent anyway, since the agent who sold him his automobile and homeowners insurance may also be the one who is able to sell him his other insurance coverages.

Despite this situation and surveys which show that consumers prefer to deal with one agent, we estimate that only five to ten percent of the public has both life insurance and property and casualty coverage with the same agent. From the standpoint of the agent, a study on product diversification done by McKinsey and Company revealed that life business accounted for only ten percent of the income of property and casualty agents. Even so, they have done better on life insurance than life agents in property and casualty. What this means is that the success of making agents all-lines salesmen has not been very impressive, especially when one considers the preference of consumers.

The remarks I have made so far are in regard to consumers current preferences; however, these preferences can change. In addition to obtaining all insurance coverage from one agent, the consumer may prefer obtaining other financial services as well. Some of these services may include mortgaging the home, financing other purchases and investment services. If so, insurance companies would have to respond with new systems such as the family account system. Under this arrangement, all services would be provided through one agent, one company or group and one premium. In other words, the consumer would select the convenient budget plan and periodically turn over a fixed sum of money to his agent and company. In return, he will have a majority of his financial and insurance needs satisfied. Because of the large sums of money involved, the potential under this arrangement for both the company and the agent is enormous.

Before I describe the role of the agent in multi-line marketing, I want to first describe one of the reasons Prudential entered into property and casualty, since the reason centers around the agent.

One of the most basic marketing trends which concerned us at Prudential was the trend of premium income and agents' compensation. Back in 1955, private automobile insurance premiums accounted for one percent of disposable personal income, individual health insurance for .42% and individual life insurance premiums for 2.75%. Personal fire insurance statistics could not be separated and homeowners insurance was not yet offered by enough companies to be measureable. By 1972 private automobile insurance rose to 1.53% of personal disposable income, homeowners to .41%. Both of these lines had experienced fairly steady rises in the 15 years between 1955 and 1970; they have leveled off slightly since then. Individual life insurance premium as a percent of disposable personal income, on the other hand, decreased steadily between 1960 and 1970. Individual health insurance premium as a percent of disposable personal income rose somewhat between 1955 and 1970, but has remained relatively steady since then and in 1972, it was .51%. For an insurance marketing organization, the figures almost speak for themselves. The personal lines of property and casualty have more than kept pace with inflation, while this is far from being the case for personal life and health insurance.

The reasons for the increase in automobile and homeowners premiums are clearer than the reasons for the decrease in individual life and health insurance premiums. On the property and liability side, the numbers of insured units per household have increased and the replacement, repair and liability values have generally risen faster during these years than the Consumer Price Index. Individual life insurance premiums may have gone down because of the increasing reliance on forms of protection such as group life and Social Security. The increasing reliance on term insurance is a fairly clear trend. Whether group life insurance or Social Security have had any demonstrable effect is much more uncertain. But what is clear is the basic shift in the way the consumer divides his purchases of voluntary insurance protection.

Companies in the combination agency business have to maintain an agency force large enough to continue to service their debit policyholders, while constantly expanding their sales. To maintain such a staff during a period of rising incomes in other occupations, such companies have to make extraordinary efforts to enable their agents' incomes to rise proportionately. Prudential has 20,000 combination agents. In 1970, it seemed that commissions based on automobile and homeowners insurance were more likely to grow with the cost of living and with the incomes of other occupations than commissions based on personal life and health insurance. If you check over a list of all the life insurance companies that have announced their entry into property and casualty insurance fields since 1970, you will find that, with only a few exceptions, they are all companies that have major combination agency operations. Although increasing agent income is one of the most important reasons Prudential entered into the property and casualty field, the agents' response to multi-line has not been overwhelming. Evidence of this is that Prudential all-line agents earn only slightly more than 10% of their income from auto and home insurance, and, to the best of my knowledge, the average Allstate, State Farm or Nationwide agent earns not much more than 10% of his income from life insurance.

Some of the reasons for this situation can be attributed to the agent. Prior to Prudential's entry into the property and casualty market, his portfolio of products was a formidable one to master. It included various forms of life insurance, health insurance, annuity products and small group products. The addition of automobile and homeowners insurance added to this complexity. Not only were there two more products in which to develop expertise, they were different in many ways. For example, the magnitude and frequency of rate changes and underwriting changes for automobile insurance was something new to the agent who was exclusively familiar with life insurance and annuities. It seems, therefore, if an agent is to sell on a truly multi-line basis, considerable effort and readjustment are required on his part.

In discussing the role of the company in multi-line marketing, it might be useful to review some recent developments. By the year 1973, all of the top 100 property and casualty insurers had formed or acquired life insurance affiliates. In the case of State Farm and Allstate, these companies represent two of the fastest growing life insurance companies in the United States. State Farm Life, formed in 1929, is now fifth in terms of individual life insurance sales and seventh in terms of insurance in force. Allstate Life, formed in 1957, is 12th in terms of new insurance issued and 18th in terms of insurance in force. Looking at the life insurance companies in 1968, the State Mutual Life Assurance Company of America became the first large mutual insurer to enter the property and liability field through its acquisition of the Hanover Insurance Company. In 1970, Prudential announced its intention to form a subsidiary to sell automobile and homeowners insurance through its life agency force of 25,000. This announcement was followed by similar ones made by the John Hancock, the Metropolitan, the American National, the National Life and Accident and by the Equitable of New York.

I believe one of the biggest problems faced by the companies which have acquired either a life or a property and casualty affiliate is that these companies continue to be influenced, to a considerable extent by their origins. For example, State Farm and Allstate, despite their growth in life sales, are still basically property and casualty companies, while Prudential and other life insurance companies are still basically life insurance companies.

What then can companies do to promote multi-line marketing? For one, they can take steps to promote client building since this is the cornerstone of any multi-line operation. In the case of life insurance companies, this can mean experimenting with new compensation methods - the ones that have enabled property and casualty agents to build up solid clientele. In addition to leveling of commissions, they can experiment with longer training and financing periods and less stringent validation requirements.

The company can also support multi-line marketing in the area of administration. Under the family account concept, the consumer periodically provides the company a fixed sum of money in order to obtain a wide range of financial insurance services. In order to keep track of these accounts, improved computer systems are needed - both to account for money internally in the company and to provide periodic financial reports to the insured.

In addition to more complex administration, companies will continually be faced with an ever-increasing demand for new products. Once a company sells personal automobile and homeowners insurance, there will be a need to develop related products, such as automobile fleet coverage, workers' compensation and other coverages for commercial enterprises. This is no easy task - each new product demands specialized skills. As companies add products, there are many decisions to make. The most fundamental is whether to purchase and absorb another company for this purpose or to acquire experienced personnel to develop new products within the existing organization.

Turning to the regulatory area, multi-line companies will have to be concerned with a broader range of legislation and regulation. The development of no-fault automobile insurance is one area to watch. Also, there is always the threat that some coverages may be taken away from the private sector. This possibility has existed for health insurance for the past decade, and at one time there was talk of taking automobile insurance from the private sector in New Jersey. These are examples of the direct effect of legislation. An example of the indirect effect of legislation on multi-line marketing would be in the area of mass marketing. If legal obstacles were removed, automobile insurance could be mass marketed on a large scale. A survey published by the Sentry Insurance Group indicates that 35% of homeowners policyholders and 39% of automobile policyholders would prefer group coverage to individual policies if the former were 10% lower in rates.

Finally, a company emphasizing multi-line marketing will become more concerned with economic trends and developments. An energy crisis and a shortage of mortgage money can have a significant effect on automobile and homeowners premiums. To monitor these developments, companies will turn more frequently to econometric firms whose services can help establish econometric models for making appropriate projections.

In summarizing the role of the company, although many new opportunities will result from multi-line marketing, the company must learn to deal with even a broader range of problems.

MR. NELSON: Our business comes from three sources. First and of foremost importance are the independent agents who are contracted with our Casualty-Property Department. We also obtain health and annuity business from life agents of other companies who cannot or choose not to place this business with their principal company. Finally, we have a general agency in the province of Saskatchewan which we contracted last year.

We have concluded that the independent agents not only are the most important producers now, but that they represent our best prospects for future growth. This means that the customers we seek to serve are the clients of these agents. They come in every possible combination of age, sex, income level and insurance needs. The agent wants to be able to meet all these insurance needs and therefore, we must provide a broad spectrum of products.

We look to the agent as our ultimate consumer. His preferences are the main factor in any product decision. As we have seen, a majority of the public would prefer to deal with one agent. The agent already has a book of personal lines customers who will buy from him, if given the opportunity. The challenge is to motivate the agent to give them that opportunity. He has many reasons for not doing this. He's too busy - casualty-property business is very time consuming. He doesn't need the money - he's doing very well on his general business. He prefers to avoid night calls which are frequently needed for life insurance sales. He sells his personal lines business in the office or frequently by telephone. He values his casualty-property customers and does not want to risk their dissatisfaction should they subsequently discover a product better suited to their needs or better priced.

Nevertheless, multi-line agents do sell life and health insurance. Some of them just because they like it - they derive a personal satisfaction from these sales. Some of them have a competitive instinct. They will respond to campaigns for the prestige that is earned by being a leading agent. Others recognize the obligation to serve the multi-line needs of their customers. To the best of their ability, they seek to avoid the possibility that the death or disability of a client will find him inadequately insured.

As a result, the agent assumes the role of the consumer. If he views a product as desirable and suitably priced, he will sell it to his clients. If not, they will never hear about it. He sees his main loyalty to his customer, not to the company.

The major thrust in our efforts to expand our agency force is our Sales Representatives in Training Program. This is a four-year program during which the trainee is on salary with the opportunity to earn a production bonus. At the end of the four years, all business is turned over to the graduate to serve as a nucleus on which to build his agency. The program is operated and financed by our department. Our managers are responsible for all training but receive assistance from the casualty-property staff for training in their lines. The trainee is supervised by our manager, which gives us the opportunity to develop those habits that will lead to continued sale of our products after graduation.

The multiple line concept offers certain advantages in the recruiting and financing of agents. The opportunity to own his business has great appeal to some prospects. The rapid entry into personal lines sales reduces the cost of the program and encourages the new recruit in his early development. Our validation scale is designed so that the successful trainee will have earned commissions equivalent to 85% of his salary during the four year training period. In spite of this requirement, over 35% of our recruits complete the program successfully.

There are many successful casualty-property agencies which do not produce any significant amount of our life products. We have recognized the huge potential for sales in these agencies and have designed a life specialist program to help develop these sales. The objective is to recruit a successful life insurance agent and place him in the agency with the initial financing shared by the agency and our department. We have had some outstanding successes under this program.

Since our agents are truly independent, we have no way of compelling them to produce life and health insurance or to place what they do produce with us. Single company representation, which a few years ago was the practice in all provinces except Quebec, has been eliminated in all but two provinces. It is therefore extremely important that we maintain superior agency relations. Underwriting and service levels are important in this respect, as is the quality of our field staff. Paramount, however, is the need for a wide range of quality products with competitive rates particularly on those products which are most price sensitive.

MR. MARTIN: For the life insurance affiliates at State Farm, the primary market is among the automobile or fire policyholders in our parent or companion companies.

I cannot say that there is any particular market targeted by the auto company. In fact, our agents "ex-date" for both auto and homeowners among other sales approaches. I am not really sure that there is a target market in casualty as we know it in life.

There is considerable service connected with the casualty business. For the portion of our audience which is not in the casualty business, I can only stress the number of times that a casualty insured is in contact with his casualty agent. Think about your own situation - when you have a claim, want to modify a coverage, change cars, move - you have a need to contact your casualty agent or company. This type of activity takes place through our independent contractor agent, at least at initial contact. Because of the casualty insurance service requirements, the State Farm agent is pretty well known by his customers and is in frequent contact with him.

In addition, I believe that our parent company enjoys a good reputation for their claim handling and general servicing of the business. Because of this reputation, there is considerable trust in the State Farm organization by our customers. All the companies are jealous of this trust and attempt to do the best job possible for our State Farm client.

In saying that our primary life market is among our auto policyholders, I would mention that we have about 22 million auto policies on the books, only about 10% of that number of life policies. Thus, our natural market is those auto policyholders.

I have seen no recent figures, but at one time the number of calls which needed to be made to result in one life sale was considerably lower for State Farm than for the industry in general. This would seem to be because we are primarily getting our business from our auto policyholders and those policyholders know their agent and, basically, know State Farm. Our agents are not "cold canvassing" in life insurance.

We are aware of what's going on in the industry and feel responsive to the consumerist pressure, competitive pressure, the problems occasioned by privacy regulation, disclosure regulations, etc. We do not sense that the press the industry has gotten within the past year or so because of the FTC Staff Report, Donohue shows, etc., has had any negative effect on our customers and, consequently, on us. This is primarily because of the relationship of our organization with the State Farm public.

I've alluded somewhat to the role the agent plays--let me enlarge on that. Since State Farm sells all its insurance products through one agent, the first obvious task is to get that agent licensed in all lines of insurance. For this purpose we have our own training programs and training department which seems to really get the job done.

Once licensed, it's not too difficult for the State Farm agent to get into the life insurance business. As a matter of fact, our financing arrangement encourages new agents to get life production in addition to their casualty work. Part of the ease of getting into life insurance is because of the number of contacts involved in servicing the casualty business. Through this service the agent becomes pretty well known and trusted. In addition, since we only have about 10% as many life policies as auto, it is fairly obvious to us and to the agent that there is plenty of business to be had.

I think that perhaps State Farm has another thing going for it - a two way loyalty between the companies and the agents. We will not accept any brokerage business at State Farm. In addition, we will not accept any direct business. For example, we will not bid on any group insurance policy unless our agent is an intermediary. All the business we get is submitted by our State Farm agents. This is, in reality, a two way loyalty since our State Farm agents submit all the business they write to State Farm.

We also engage the agency force in annual meetings to mutually explore the effectiveness of our programs, any changes that they or we think should be made in those programs, any new ideas they may have, etc. Obviously, we don't engage 15,000 agents in this task. However, there is a representative agent from each region and his or her fellow agents in that region feed their representative any ideas that they might wish to communicate to the home office. I would have to add, however, that most agents have little hesitancy about telling us what is on their mind.

With a multiple line organization and a multiple line agency force, there is obvious necessity to coordinate training, promotions, advertising and coverages between the companies. We think our organizational structure facilitates this.

So far as the future is concerned, we are really inclined to think that our type of operation is going to be around for a while.

What about the role of the company? At State Farm, there are times when each of the companies seems to be in competition for the attention of the agents. We really seldom notice competition from outside the organization, although our agents are not the least bit reluctant to tell us when we come out on the short end of the competitive stick. We don't hear about the other side, but I am sure everybody is familiar with that situation. Through our cooperative advertising program, an agent may select newspaper, radio or T.V. spot commercials which feature a particular one of the companies or advertising which is truly multiple line. In other words, the agent has control over the type of advertising which can be used on a local basis.

A problem which I observe in a company like State Farm, and I suspect Prudential and some of others, is that the parent organization, because of its size, may provide the subsidiaries with an awareness problem in the public's eye. For years we have been told that State Farm auto policyholders would buy life insurance from State Farm Life Insurance Company if they had only known that State Farm sold life insurance. This problem is disappearing with time and as we grow in size. I would anticipate similar identity problems for any company which is attempting to branch out into other lines of insurance.

It is also a fact of life at State Farm that quite a volume of material must be produced to supply our 15,000 agents and to fill the "pipeline" through our regional offices and field management structure. There is no question but that some of this material is never utilized, perhaps not even seen at the agency level. We do not attempt to cater to the few, believing our best interests lie with the entire agency force, so we furnish materials for everybody whether they use it or not.

When business is conducted through one agent, there must be appreciation by all the companies involved as to the span of knowledge that that particular agent must have as regards all the product lines. Continued, repeated mistakes in the same area by the same agent obviously call for increasing attention by field management. However, we all have to bear in mind that a multiple line agent does have to know a great deal.

We at State Farm are convinced the best multiple line operation is through a single multiple line agent. We are aware of corporate agencies which house life specialists, fire specialists, etc., and some of these do an outstanding job. We remain convinced, though, that the public we serve at State Farm most nearly identifies with an individual agent and not with an employee of a corporation.

The primary opportunities of a multiple line organization are, for the agent, recognition, prestige, income and company backup. The company can experience operating efficiencies and can find a natural market in the companion companies' books of business. In addition, we feel at State Farm that, since we operate with an exclusive agency force, we have a tremendous amount of agency loyalty. As examples of this loyalty I would cite, that of those agents appointed in 1976, 76% were still active as of the end of 1979. Thus, our four-year retention ratio was 76%. Of those agents with at least five years of service, our retention ratio in 1979 was 98%.

So far as distribution of income is concerned, our independent contractors in 1979 received 57% of their income from auto, 36% of their income from fire and 7% from life insurance. We would like to see the life portion of the income increased and, over time and with a slight slackening of inflation, this can probably be accomplished.

MR. TOM LONERGAN: I would like the panel to talk about the possibility of multi-line products, as opposed to multi-line companies. I will set a couple of examples: the possibility of combining one year term life insurance in a personal line, auto and homeowners product; also, the possibility of including workers' compensation, group auto, group homeowners, group medical care, group disability and group life insurance in a single group insurance package, with its inherent savings of expenses and coordination of benefits.

MR. MARTIN: So far as combined products are concerned, we have made no attempt to actually combine products, but we have made a very distinct attempt in the marketing of the products. As an example, I would cite a sales brochure which talks about both homeowners and life insurance and has applications for both in it. We have not really found a way to combine them within one product. There may be some problems connected with, for instance, the severe service problem that you would encounter with group casualty as opposed to group life insurance. If the tax loss that the employer gets on group life would be available on group casualty, I think we will see quite a bit of development in that area.

MR. RUBINO: I briefly alluded to this when I spoke of the family account concept. I mentioned that, in addition to all insurance coverages being obtained from one agent, consumers could also obtain other financial and investment services as well. And, since the consumer would turn over a fixed sum periodically to the insurance company, thought should be given in the future to the combination of all the insurance coverages under one contract. But there are legal and other problems, but that's not to say it's not a possibility.

MR. GUTTERMAN: This is analogous to the question that was raised a couple of years ago about an all lines company versus a multi-line group. From what I see in the NAIC, the interest in organizing all-lines companies has really decreased and diminished to the point that I don't think that it is going to be in the future of the insurance industry. Really, the packaging is what is important, not the legal, single, one contract form.

MR. MARTIN: We do have a multiple billing process where all of the bills are paid by one check and then the money is disbursed once it gets into the various organizations.

MR. DAVID OGDEN: Mr. Rubino mentioned the difference in the training and in salaries between the life actuaries and the casualty actuaries. Could you comment on whether you pay different salaries to casualty actuaries as compared to life actuaries, and how different the training is between them? I know there are many more formalized programs for life actuarial students than for casualty students.

MR. RUBINO: One reason why salaries not exactly the same is that the casualty students are located in a geographical area other than where the life students are located. But, for all practical purposes, they are consistent. As far as being in the job, the life students have basically life insurance assignments in the life company and the casualty students have casualty assignments in the casualty company but we do try to switch at least one student, sometimes two or three. We'll have one or two life students in the casualty company and one or two casualty students in the life company. We have found that we've been quite successful with this.

MR. MARTIN: At State Farm, the initial salary structure is the same between the life and casualty actuaries. There are increases based upon merit as well as hours of examinations passed, which I think is fairly common in the industry. We do not have any formal or even informal program of transferring between the life and the casualty areas. I don't think anything would prohibit this, it has just not happened; but there's no formal program to make it happen either.

MR. NELSON: Our situation would be very similar to what Norm has described. We have a defined actuarial program, salary ranges, promotion schedules, study time and awards for passing exams. They are consistent between the life and the casualty property side. Our people are recruited as either life actuarial students or CP actuarial students and generally stay that way. There have been several instances where FSA's have been transferred to the casualty/property department but none the other way.

MR. GUTTERMAN: The salaries for life and casualty actuaries at the associateship level and below are fairly comparable. Above that point, particularly at fellowship, the casualty actuarial salaries are higher than life actuarial salaries. I think that's due not only to the smaller number of casualty actuaries but also, in the last couple of years, the casualty actuaries have gone into areas that the life actuaries have traditionally been in; for instance, working as consultants and in smaller companies.

MR. NEIL ANDERSON: I have two questions. Could you first comment on how the first year commission to the writing agent of a typical individual whole life product compares with a fire or automobile product? Secondly, could you comment on the persistency or lapse experience of life insurance policies when, for some reason, you find that the casualty branch must cancel the automobile policy? Do they tend to move as a package to another company, or do you retain life insurance after, for whatever reason, the casualty insurance has been terminated?

MR. NELSON: Our commission schedule is very similar to what it would be in a mono-line company. The first year life or health commission is two to three times the commission that an agent could get on a new casualty/property sale for the same premium. As far as the persistency of business, I don't believe that our policies are subject to the types of cancellation that you mentioned.

MR. MARTIN: Our pattern is much the same. We have more or less a traditional life compensation pattern with high front end and lower renewals, whereas in casualty there tends to be a level type of compensation. Years ago we tried leveling life insurance compensation and what we heard from our field organization was, "Why in the world don't you pay like all the life companies do?" So we did, and we have not been sorry for it at all. So far as persistency, your observation is correct. At one time, it very definitely was the case that if casualty insurance left the organization, the life insurance went too. I think this pattern has changed.

MR. RUBINO: Similarly, at Prudential the life insurance has high front end commissions, whereas the property and casualty products have commission scales similar to other property and casualty companies. The question you asked about persistency is an interesting and good one. Prudential was concerned more with a similar question, which is "Are P&C sales accompanied by life insurance or how many homes have both life insurance and automobile and homeowners insurance in force?" I've been away from PRUPAC for a year but they were talking about developing a data base to study this latter question. Your question would naturally follow, to tell what the effect the lapsation of one policy has on the other. I am not sure if we have any results yet.

MR. GUTTERMAN: Let me add that the study of persistency has been minimal in the casualty side because of level commissions and because of the use of one year contracts. The only studies I have seen done by duration show personal auto experience to be worse in the first year then at later durations.

MR. NORMAN NODULMAN: I would like to know, with regard to agency training and field supervision costs that are not objectively either life oriented or casualty oriented, the types of approaches being used to distribute these costs among the life and casualty subsidiaries. Also, how important are rating and regulatory considerations in making those allocation decisions?

MR. NELSON: The life training that we do for our sales representative program is totally supported by our life department. We operate it and finance it. We do have an arrangement where, at the end of the four year training period, the casualty-property department pays us a fixed sum per trainee reaching that point. It adds up to just over $10,000 for a recruit that graduates from the program. This was calculated based on the anticipated value of the profits in the CP business that he was producing, which was negotiated internally. Beyond that point, everything we do is so separated that there really is little cost to allocate between the marketing departments.

MR. RUBINO: At Prudential, in the same way, a marketing charge is made to PRUPAC and this charge is based on such things as time studies made in the field offices.

MR. MARTIN: At State Farm, the trainee agents are basically financed by the auto company. The usual compensation paid on the auto policies goes to offset the finance charges. Any life insurance compensation is excess compensation, which is one method for getting him into the life insurance business. We are allocated a pro-rata share of the inter-company expenses in all areas, especially from those departments which service all the companies.

MR. GUTTERMAN: Any feeling on the education of the life actuary? Should the life actuary know more or be trained in casualty coverages? Or should that be done strictly outside the Society of Actuaries' educational structure?

MR. NELSON: Since we are so separated, I see no need within our organization for the life actuaries to spend the time that it takes to become trained in the casualty/property side.

MR. MARTIN: I basically agree. The question was asked earlier about the development of a multiple line type product. At that point in time there will very definitely be a need, but not until that happens.