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THE LIFE INSURANCE BUSINESS—THE VIEW OF CONSUMERISTS

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What complaints or ciriticisms do consumerists have of the life insurance business and its products? A non-actuary who has studied life insurance will outline where the weaknesses are and suggest what should be done to correct them. An actuary will present views from inside the industry. The third panelist will comment on the others' views, suggesting where either side is off base or could improve.

MRS. DAPHNE D. BARTLETT: What is our objective with this session? By the time actuaries find out what consumers are thinking, the issues have become very, very hot. Once they are that hot, actuaries don't know how to handle them. Consider the issue of risk classification by sex for example. If we had had our ear to the ground 10 or 15 years ago, maybe the problems that we're facing today would not be as severe. Age classification is something that will probably be a hot issue sometime down the road. Maybe we should be thinking today about that.

What I want to do today is find out from our panelists what issues are lurking in the wings which may turn out to be hot at some point down the road. Hopefully, we can raise the consciousness of the audience so that we all can anticipate these issues and respond to them in advance of their reaching crisis proportions, and avoid the terrible waste of brain power and money which currently exists in that environment.

We, and consumers, have different perceptions of the issues. As an actuary working in a life insurance company, I try very hard to respond to what I think is the consumer's problem. I try to think like a consumerist and do what is in the best interest of the consumer. The problem is that I really don't know what the consumer is thinking, and my best efforts may turn out to be something that the consumer thinks is completely against his or her interest.

Ms. Khachadour was asked to identify a few issues which she had run into in her work in the California Insurance Department. She will describe the problem as she perceives it. Ms. Lautzenheiser will then comment from the industry point of view, and Fred Kilbourne will attempt to consolidate the responses. During the discussion, I'd like you to pretend you are a consumer. Pretend you don't know anything about life insurance but feel that you probably need some, and the agent is in your living room. How does the consumer feel when confronted with a life insurance or individual health insurance purchase? The first issue that Angele identified is the question of readability. Her interpretation of readability is quite different from what I thought it was. This morning, she gave the panelists a test. Angele, please give the audience the test and tell them how you surprised me!

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MS. ANGELE KHACHADOUR: First, let me ask this audience the question: "How many of you have ever in fact bought life insurance from an insurance agent who's come knocking on your door?"

One of the problems most of us experience while in the insurance business is that in fact we do not have first-hand knowledge of that type of experience. Because most of us have very adequate group insurance, we rarely have the opportunity of learning first hand what it's like to have an agent walk into our house. By readability, I do not mean the use of two syllable words, three word sentences and a high score on the Flesch test. What I mean is the ability to communicate what you are, in fact, offering in your contracts and the words the agent uses to explain the benefits, conditions and limitations of the contract. What I mean is the efforts made by carriers, whether in the contract itself, its advertising, or the sales pitch, to communicate to the buyer exactly what is being sold. The test I gave this morning was on the typical caption of hospital indemnity policies: "In-hospital benefit plan". What does that mean? To a lay person, "in-hospital benefit plan" is a plan that will pay hospital benefits, will pay daily room and board, medical and surgical expenses. That is not, of course, what the policy offers. What the policy offers is an indemnity, a daily benefit, but you will not find many carriers that will ever say "$25.00 a day in-hospital plan" in bold letters. That comes in the fine print on the third page. Even if the print is not fine, the effort to show that this policy provides a daily limited dollar benefit is not made. Rarely do the "titles" of such contracts say anything about the absence of medical, surgical benefits. There is never a negative. Now, the contracts themselves are rarely the item used to make the sales pitch. The message is delivered through advertising or through an agent on a one to one basis in the home of the buyer. Recently we have had several cases where a carrier paid a very sizeable out of court settlement because of the use of "in-hospital benefit plan" which was understood by the buyer to mean a hospital, medical, surgical, typical full services policy.

By readability, therefore, I mean designing contracts and advertising which really come across to the buyer, telling exactly what the basic purpose of the policy is, what does it accomplish and what is its main objective. I'm not talking about all the details of some of the incidental benefits that attach to the policy but rather what is its main objective, its main coverage. And while I think tremendous progress has been made in clarifying some policy provisions, not enough has been made in understanding how the consumer reacts to the words. It's not really long and short words, it's an expression that's used, the use of technical expressions. "In-hospital" is very simple, but it still has a very technical meaning to those who design insurance contracts. The buyer is not accustomed to using that phrase, and will read it, and others like it literally, and, therefore, will be confused and mislead.

One of the great fears of those who draft contracts, and who attempt to make them readable, understandable and clear is concern that any new language will generate more law suits. The general feeling is "let's not tamper with phrases which have been interpreted repeatedly by the courts. We know what they mean and, therefore, we know what our liabilities are."

I suggest, however, that every time there is a law suit in which a question arises involving the meaning of a phrase, it represents a failure of the insurance industry to have communicated with its clients. There are thousands of those law suits; they are as frequent today as ever before.

The industry has given lip service to readability by means of the Flesch score, we have completely forgotten whether the resulting simplier, shorter sentences really do convey to the buyer exactly what it is that we are selling.

MISS BARBARA J. LAUTZENHEISER: I agree somewhat with Angele, but also disagree to a certain extent. We have had some acts of both omission and commission on our part in regard to readability. Some of our problems, however, have been caused by regulatory bodies. I'll go back and cover those. On the omission part, many things, like the in-hospital policy, stem from phrases that we have just used for years, and we haven't stopped to ask ourselves whether or not the language is understandable as far as the public is concerned. The words "whole life" or "ordinary life" don't tell anyone anything, and yet we use them as though they were second nature to the rest of the world simply because we have used them. I think it is important that the industry stop and say to itself: "Does this policy advertise what we really are selling?" On the commission side, we don't always stop to read through the contracts we have prepared to see whether the language that we have been using makes sense to the consumer. But, the words that are now used have precedence behind them, and we are trying to keep the cost on our policies as low as possible. So, we don't want to run the risk of court cases and contesting the various new phrases that we might prefer to use. A big problem is the use of words like "incontestability." I don't know whether or not the public understands it - my guess is that they don't - but that word is required by some statutes. While we could make special efforts to go out and get those statutes changed, we have bigger problems that we are trying to get changed through the statutes, like variable loan interest rates, etc. I'm sure many of you have had the experience of trying to change some language in a contract to make it more readable. One or two states will write back and say "No it has to say this," and dictate the particular language that you have to use.

MR. FREDERICK W. KILBOURNE: If I understand my assignment, it is to listen carefully to the two preceding panelists to reconcile that which they have said and to try to move things along.

While I agree with Angele when she says that the insurance industry has failed to communicate, I also agree with the insurance industry's response that these absurd and crazy-quilted policies have been caused in part by the judiciary. There has been a failure on the part of the judiciary to apply reasonable standards of fairness and equity while dealing with disputes against the insurance companies. The end result is a policy that is extremely uncommunicative to the consumer.

Communication is the key issue. The insurance industry owes it to the public to present as clearly as possible a description of the product that it is trying to sell. Thus, the objective of good communication should be considered not only when assigning the wording of the detailed policy provisions but to an even greater extent when the policy is named, when brochures are prepared and when sales presentations are developed. If these efforts are made, the industry should have a firm basis for fighting back when the judiciary attempts to force them back into the mold of being uncommunicative.

MR. CRAIG W. LEWIS: I look at it a little differently. The panel is saying that we should bring the level of language in the contract down to the present public comprehension. That is fine, but we are missing the point: the public doesn't understand what it is getting. So instead of bringing the language down to the public, should we not educate the public up to our standard, or at least somewhere between the two existing levels?

MS. KHACHADOUR: You've said exactly what I've said but from the other side. How do you educate the public? You can start educating childred about insurance in grade school which is something I've preached for the last 20 years. But still, communication is important. To a lawyer, an insurance policy is nothing more than a contract between the two of us. You provide certain insurance protection, I pay for it. Therefore, by the very definition of a contract, I must know what I'm paying for, and you must know what you're selling to me. Most of the time we end up with neither of us having any idea what has been bought and sold. That's what it's all about and if you are concerned about the judiciary, keep in mind the statistics of the law suits your companies have been paying for through the years. You not only have made many plaintiffs' lawyers happy, you've made a lot of defense lawyers happier yet. So in fact we have failed in this business, haven't we? The need to communicate and make sure that each side knows what the other side has done is imperative and far more crucial than getting a 35 point Flesch score!

MRS. BARTLETT: The chances of educating the public from first grade must be rather slim. It seems that we have to make an attempt to lower our language to their level.

MISS LAUTZENHEISER: In order to educate the public you have to get to their level to start with. Also, backing off and looking at the words we use is something we're going to have to do if we really are to sell to the public. That's a requirement that I think will help all of our sales, as well as helping the consumer.

MR. JOHN O. MONTGOMERY: We have a problem right now in credit insurance with contracts being sold to people who can't read English and they don't know at all what they are buying.

MISS LAUTZENHEISER: I think that's going to be a function of the market system. If, in fact, there is an identifiable market there, and that's the market that you are selling to, it would behoove us to develop language that would in fact address itself to the needs of the individuals in that market.

MRS. BARTLETT: Any of you who have ever updated a portfolio might enjoy our second topic. Every few years, I have been involved in a ratebook review. We would look at the plans we were selling, and we would look at what the field force wanted, and we would end up with a list of needed products that was usually 10 or 15 policies more than before. So my staff would then say to me, "Can't we cut back on a few of them?" And I would suggest deleting one or two low-selling plans, but would always get the answer: "Agent so-and-so can't survive without that plan; keep it in."

The issue that Angele identified is "the diversity of portfolio." Do we produce too many policies, and what does the public think when we do that?

MS. KHACHADOUR: The incredible number of policies available in the market-place is a major source of public confusion. There's no doubt about that. This is a constant theme that comes through if you start reading hundreds and thousands of letters that come through an insurance department. Consumers are confused. They really don't know one product from another; they don't understand the differences. They are unable to make comparisons. Each agent comes in with a portfolio of ten to twelve policies, usually pushing one or two. While you would think that the wide range of choices avablable to the buyer would be a major plus - the buyer ought to be able to find just the perfect type of policy for his or her needs - such is really not the case. Since most policies are impossible to understand, the fact that you cannot understand a hundred different types of policies doesn't make you better off than not understanding one. It only adds to the feeling of frustration that buyers feel in not being able to identify readily the basic types of policy. All the variations on basic policies do not really help the consumer find out what would best suit their particular need at the particular time. Carriers and actuaries all too often respond to an agent's perception of what is a good product for that agent to sell, draft the contract, make it available, and there's just another policy available in the market place. It's been perhaps less so in the recent past, because some companies have begun to specialize in certain types of products, but for many years the difficulty has been that there are too many policies in the market place.

MRS. BARTLETT: Are you suggesting that there should be fewer policy types available?

MS. KHACHADOUR: Yes. Companies could cut back three quarters of their portfolio and do a far better job of designing the remainder for the consumer. How often do you actually go through your company's portfolio to decrease the number of policies available?

MISS LAUTZENHEISER: Henry Ford once said: "You can have any color Ford you want as long as it's black." As long as the world was like that, it was simple and it was not difficult to choose. Two things essentially have changed that in our world: Two "C's" - the computer and competition. Twenty years ago we didn't have computers and we couldn't do a lot of things like the wide variety of dividend options, or indeterminate premium policies. We are now faced with competition to try to design a product for the specific needs of a particular consumer. Non-smoker discounts are an attempt to get the premium more specialized toward the person. The multiplicity of dividend options and indeterminate premium plans represent efforts to bring the premium and the going-in rate down on a product. The combination of term and permanent was developed in order to have a product that is more affordable by one particular kind of public. A product that my former company developed sounds very complicated, but was really a response to a Yankelovich study done in the mid 60's which identified three needs of the public: a low going-in premium, some savings fund, and some values at age 65. The product that was designed was the very first one in the industry that had dividends in a different form than on the basic policy. The dividends were paid-up whole life additions rather than term additions and the product was a decreasing term contract. The decreasing term contract produced the low going-in premium, the whole life paid-up additions produced the small emergency fund and the accumulation of those paid-up additions produced some amount at 65 when the decreasing term contract actually expired. Now it sounds like a complicated product and if you talk to the consumer about it, it is complicated, and yet it was specifically designed to provide the very benefits that they had identified that they wanted.

Consumers are confused in almost anything they buy today. They have such a wide range of options, whether it's a refrigerator or a life insurance policy. We have a bigger problem in that the life insurance policy is difficult to understand. But our intent is good, and I don't know how we balance the need for simplicity and our desire to have a good range of options for the public.

MS. KHACHADOUR: I think you proved that Henry Ford never died! We end up selling the product that we design and sincerely believe to be the best for the particular individual and hence, we are selling him a black car, no other color. We have created an environment where the buyer is not really making any choice, because the decision is too sophisticated and too complex.

MISS LAUTZENHEISER: If I were to put it in different terms, the industry provides a full range of color, but we end up picking the color for the consumer.

MR. KILBOURNE: The issue in this particular area is the question of communication again. There is nothing wrong with diversity of portfolio by itself as long as it results in significantly different policies and as long as their contents are well communicated. Competition should take care of the problem if too many different types of policies are offered and no one wants most of them.

MRS. BARTLETT: Do consumers perceive that there is competition in the life insurance business?

MS. KHACHADOUR: I, as a lawyer, would define "competition" in the sense of anti-trust laws and that sort of thing, but the public doesn't think in those terms. He doesn't think there is competition. In fact, one of the tragedies of the life insurance business is the fact that the buyer does not fully comprehend and realize the tremendous variations in prices for similar products. We would have much better competition if the buyer made an effort to shop and compare prices. Again, we have kept him in the dark; we have made no effort to educate him. We like to talk about competition because we like to keep the Department of Justice away from us, but we don't in fact compete all that much. The best hope the buyer has is agents will compete and seek to sell the best product, but that is shifting competition to a slightly different level. If agents do their job well, of course, you will see business shifting to those carriers that provide the best product at the best price.

The kind of competition that the consumer understands is the kind that women engage in when they read the newspaper religiously every Thursday to see which grocery store to shop in. That kind of competition has one element which is lacking in insurance - an intelligent, knowledgeable buyer.

MISS LAUTZENHEISER: I agree that part of competition is through the agents themselves. Many of us have had field contact where the agent insists on matching another company's product. This leads to greater diversity of product, but it also is competitive. However, sophisticated buyers do, in fact, know competition. I spent 45 minutes on the phone one night with a dentist who wanted me to give him the mortality, interest and expense assumptions over the last twenty years so that he could determine whether or not the slope we had been showing on our current trend in lower net cost was going to continue over the next 10 years.

This was probably a non-typical policyholder, but some of the buyers are like that. The advertisements that are run in papers like the Wall Street Journal are not aimed at agents, but are aimed at clients, and we do get responses from those. So there is competition, particularly in the sophisticated market.

MRS. BARTLETT: Maybe we have a problem with words here. As a lawyer, Angele looks at competition in the sense of anti-trust and as a consumer, in the sense of the "knowledgeable housewife." Barbara and I, as life insurance company people, look at competition as being "how much noise do you hear from your field force," and the consumer looks at competition as being "am I getting a good deal or not."

This is another example of why we have to understand how other people interpret what we say. Critics often say there is no competition in the life insurance business. We always say: "Of course there is - our agents are always asking us to lower rates." We haven't realized that that's not the kind of competition they're talking about.

MR. WILLIAM B. DANDY: First of all, Angele defines competition as the knowledgeable housewife looking at ads every Thursday to see what groceries she's going to buy on Friday. You don't do this with insurance. You don't buy your insurance every Friday. You don't have the same kind of comparisons, the same kind of experience as a life insurance consumer. Using the automobile industry as an example, you maybe able to buy a car, new or used every 2 or 3 years. When you do that, you are logically confused about the several hundred different names of vehicles that are available for you to purchase, but you don't really buy a car because it's called a Celica. You buy a car for the particular items that you find of interest. Color is probably not one of them, normally. But you buy it for mileage, you buy it for comfort of ride, you buy it for price range, etc. Life insurance is just not something you buy every few years. You have to buy on the basis of the expertise of the individual who is presenting to you something that will solve the particular needs that he can identify for you. He's not selling you a policy. You're buying something that does the things that you have been persuaded are desirable for you. If you are a knowledgeable consumerist, you will probably put this agent off and say "fine, I want to talk to my Prudential man or my Mutual of Omaha man and find out what he has to offer that solves the same or similar problems."

The competition is when you decide you have a need for isurance, and go from one presenter to get a second opinion. There is the same kind of competition when you need a doctor and get a second opinion, or decide not to accept the first doctor's diagnosis.

MS. KHACHADOUR: Most of us who buy life insurance have not sought out an agent. We have not even clearly identified our needs. A life agent has walked into our home and has made us feel terribly guilty for not providing for our spouse and children and has sold us a policy. If we're lucky, the agent has sold us the best product he knows is available in the market place.

But it is never going to be truly possible for the bulk of the consumers who buy modest amounts of life insurance to become so knowledgeable and sophisticated as to create a true competitive marketplace. So, companies have to rely on their agency force to do it for the consumer. I think the agent becomes a consumer's best advocate.

MR. KILBOURNE: I think there is more competition in the life insurance business than is recognized. It's not just price competition, expecially with the medium and smaller size policies, it's who the agent is, how convenient it is, and so on.

Even though I acknowledge that we do not do a good job of communicating the product and certainly the "cost" is complex, even the small consumer isn't as stupid as he looks. Take, for example, the purchase of an automobile. Beyond the list price there is competition by means of discounts and trade-ins, as well as by means of services. The consumer can handle that. And I think he can handle things that are fully as complex as the insurance policy. For an automobile, to get a good, fair comparison, we'd have to compare the present value of future automobile insurance premiums, medical benefits due to accidents and the present value of future gasoline payments. So I think the average car purchaser makes some estimate of all of these items. If he can do that, he can probably do something similar when he's comparing life insurance policies.

MRS. BARTLETT: Another issue we'd like to discuss is that of cost comparisons. The interest adjusted method has now become established in the industry. But the lions are starting to rattle the cage: on the one hand we have the FTC talking about rate of return; on the other, a task force of the NAIC has suggested a version of the Company Retention Method. Angele, how do you feel about all this?

MS. KHACHADOUR: I cannot speak for the consumers, but all those who claim to be professional advocates for consumers - the consumerists - love cost comparison indices. I never understood one, and if I don't understand it, neither will the rest of the population. I have not seen one that has been helpful in giving me the assistance I need to choose between several carriers whose products I've looked at. I think this type of thing can be helpful to the more sophisticated buyer, the large policies, the high premium policies, but for most of us buying modest amounts of life insurance, I cannot see the merits of cost indices. I think Fred pointed out something which is very valid. We buy not just for price, we buy for convenience, and for a number of other reasons besides price. Many of the cost comparisons that have been done have not really helped most buyers. You really wonder what was Consumer Reports doing when it selected only a few ages to show what the different prices of the 10 or 15 policies were? The articles did a remarkably good job, however, of illustrating the dramatic price difference among products. If there had been serious competition in the marketplace, the differences in prices listed in the report should not have been that great.

Although I am skeptical about the utilization of these indices for the ordinary buyer, many States mandate that an index be given to a buyer. California does. As far as I know, not once has a member of the public even expressed an interest in it, or written to inquire about it.

MISS LAUTZENHEISER: Cost indices don't appear to have done anything for the public, and they haven't done anything for the agents, but they probably haven't caused any problem other than some cost to the companies to develop them. Angele has essentially given the industry viewpoint, that the indices don't do what it was hoped they would do.

I am concerned about the growing interest in what the consumerists are calling an "annual percentage rate." If you talk with consumerists, this is the method they are interested in, rather than the Retention method, which is more complicated. They want an interest rate, similar to the rates in the fair credit laws. Then you're talking about comparing an interest rate on one insurance contract with another insurance contract. But the tendency for the public will be to compare the rate on an insurance contract with rates for savings institutions.

This emphasis on rate of return is probably caused by the fact that we used to sell life insurance products as savings products, and we failed to talk about what we really were selling which was protection for death -- curently, agents seem to be talking mostly about tax savings.

Cost comparison is just another one of those where we have tried to find a solution through numbers rather than through education and communication about the product we are really selling.

MRS. BARTLETT: Angele and Barbara agree that the indices are useless. Fred?

MR. KILBOURNE: Cost comparison indices have been extremely valuable, and I speak on behalf of agents and policyholders. They've been a very useful device to keep self-appointed consumer representatives, university professors and actuaries arguing among themselves which keeps them from doing further harm to our business.

MR. LOUIS GARFIN: Barbara said that there were two "C's" that were causing some of the problems. Perhaps there is a third, the consumerist. And that's again a failure of communication because there is confusion between consumerists and consumers. I don't know what the typical consumer thinks, and I don't think that most consumerists know what the typical consumer thinks. What we hear is what the consumerist thinks is best for the people. This is one of the difficulties that we face.

One of the subjects we've been discussing is, "Why doesn't the company reduce the number of policies that it offers?" I know one company which has. Pacific Mutual has just introduced a new rate book and I think we have in it four permanent plans, two term plans and three or four riders - quite a reduction in the number of forms. It will be a problem for our agents, because they will now be faced with the problem of combining policies with riders in order to get combinations of benefits that they wish to have. Whether or not it will be a simplification as far as the purchaser is concerned, remains to be seen.

On the questions of communication, policy forms and consumerists, it seems that the notion of a whole life policy is basically a very simple one. It is a contract which provides that a certain amount will be paid at death for consideration of the payment of a certain amount each year, and in the meantime there is a value available if it should be surrendered and you can schedule the value. The consumerist, in the form of the FTC, for example, has insisted that that's not really all you ought to be talking about. They say you have to look at the two parts of it, the insurance part and the interest accumulation part, which must be confusing to the public. When the FTC report was published, I had lots of people ask me, "is it true that life insurance is such a ripoff?" What they saw was 1.3% and they compared this with 5½% in savings and loans. Here was something they could understand, they thought, whether the numbers were true or not. So communication is a big part of our problem.

Consumers are themselves another part of the problem, because competition arises only when people choose to compare various products and their characteristics and their prices. The trouble is that people don't buy life insurance. Life insurance is sold, by the agents getting on the telephone and going into the kitchen and talking to mom and pop telling them about their life insurance needs. If the buying public for life insurance were to take it upon themselves to make inquiries about life insurance presumably there would be more competition at that level.

Another level of competition is created by agents and actuaries. This type is really effective, because the agents are very sophisticated, and are aware of differences in costs. They put pressure on their companies to match the other company's product, whether or not they are indeed in competition with that product. So we do have some sort of built-in competition, even though the consumers aren't asking for it.

MS. KHACHADOUR: I appreciate Mr. Garfin's comment about consumerists not being confused with consumers. Neither legislatures nor regulators nor those who are self-appointed consumerists necessarily have a better sense of what the public wants than you do. If you really pay attention, if you watch what your agents tell you, if you're sensitive to people around you, you will know what the consumers really want and need. There has been a tremendous tendency in recent years to panic any time somebody comes forth and says "I'm a consumer advocate and therefore what I say is correct." There's nothing more dangerous than the governmental agency, State or Federal, that believes and has the power to impose on you standards which may not be in the best interest of the public whose needs you service. I want to be very sure to represent what I believe is the consensus of the various views that we hear when we are in the regulator's seat receiving inquiries from the public. Much of it is generated from ignorance and from a desire to learn, and that's where you can be most helpful in helping people understand. I'm a great believer in the role of the agent in the marketplace to do the best that can be done for the consumer. I think it's a very key element in the way this business can develop competition and can develop new products at lower prices.

MRS. BARTLETT: I'm confused by the discussion on cost comparisons. We started off by saying we needed consumer education to assist him in making a purchase decision, and yet we also seem to be saying that we aren't enthusiastic about providing them with an overt example of this assistance - a cost comparison index. Are we saying that, if we provide a good agent, we needn't do anything else?

MR. KILBOURNE: I think that the education of the consumer should extend to some extent to pricing but to a greater extent to the coverage and the benefits. We should try to do a better job of showing consumers how to compare prices, but I don't think that's the primary area where education is needed.

MISS LAUTZENHEISER: We've tried several ways of comparing costs, and haven't yet found one that works. That doesn't mean that there isn't a better method, although maybe it doesn't exist. The best of all worlds is if the public understood the product they were buying and how the product worked and what the various elements of it were, but I have to believe that's an impossibility unless you do start down in grade school and start teaching just life insurance and I'm not sure we can do that. I've been trying to figure out a good game we can devise or a cartoon we can put on T.V. to try and teach it. Then we might get people to pay attention.

MR. WILBUR M. BOLTON: During the last ten years, there have been several states that have published Buyer's Guides. Is anyone aware of any market shifts among companies as a result of the publication of these Guides?

MS. KHACHADOUR: I don't believe any shifts were noted in the California Insurance Department. The only thing that some Buyer's Guides have accomplished is that the communication level is a little bit more successful. But I think that loading the buyer with all these additional documents, does not accomplish much.

MR. MONTGOMERY: California is considering a life insurance Buyer's Guide, but it would be on how to purchase life insurance, showing things to look for in insurance contracts and that sort of thing, not comparative premium rates.

MRS. BARTLETT: Does the current front end compensation pattern for the sale of life insurance make sense? Is it good for the consumer? Might it be better to change the pattern of compensation? Could an insurance company be a wholesaler of insurance to the agent and allow the agent to decide how much commission he should receive for his services? As some of you may know, this approach was recently introduced in the Senate in Wisconsin. To start off this topic, Angele, do you think that the public believes agents to be overpaid?

MS. KHACHADOUR: I've seen too many abuses from agents who make rebates. One should not readily jump on the Wisconsin bandwagon and support repeal of the anti-rebate statute. My constituency today is the non-sophisticated, not very rich buyer who has only so many dollars for insurance. That buyer needs the protection of the anti-rebate statutes, otherwise we will have agents rebating to the rich and socking it to the poor. On the question of whether life agents are overly paid, it depends. I do think that the cause of many abuses is the very high first year compensation, which in many products exceeds even the first year premium. On the other hand, it is necessary to provide an incentive for that life agent to go out and knock on doors, and that is provided by paying a higher first year commission and a lower renewal commission rate. I do feel there has to be a better balance than we've had.

On rebating, again, I do not think that repeal of the anti-rebate statutes would be in the public interest. It is fine to talk about net premium when you talk about property and casualty business in the commercial lines. But where you are selling standardized policies, the public is best served ultimately if the carrier is not permitted to market it through a system that enables an agent to essentially decide what his compensation is going to be. If anything, I would like to see a system that might try to level off the compensation a little bit, and have it not be entirely determined on a percentage basis.

MISS LAUTZENHEISER: Many companies are coming out with flexible or universal life policies now. I don't think it will be more than two or three years before those flexible life products will have a compensation pattern that follows the pattern of the IRA market. When companies first came out with IRA's, they neglected to look at what had happened in Canada. There similar products were introduced with high front end compensation, but in a relatively short period of time, that competition for compensation turned to competition for product and the commission rate went down to a very low level rate. The pattern was followed again in the U. S., and we have essentially the same kind of thing in the flexible life products. What we're starting out with is competition for compensation, high front end commissions and it's already beginning to levelize. I don't think it's necessarily bad if we were to even go to a zero compensation in the product and a fee for service basis. But flexible life products are not going to be the only product in the market. The industry has to get smarter and recognize that there are different markets out there who are going to require different kinds of products, and may require different distribution systems. However, we're going to have to have some flexibility in the legislation to allow for a zero commission and a fee for service. If we go that way, the public would not feel that something was being forced on them because the commission was a function of how much was actually sold.

MR. KILBOURNE: It seems to be a fact that life insurance must be sold. We have to recognize the fact that the agent for life insurance must be compensated for getting out and selling the product and, if he's doing his job correctly, he should be acting as an overall financial advisor. So the goal should be development of professional agents who are financial advisors for the large policy market, and mass merchandizing for small policies, with, of course, some confusion in between. It certainly seems clear that there is going to be a continuing attack on front-end compensation.

MR. CHRISTOPHER S. MOORE: I'd like to hear a bit more from the panelists on the subject of disclosure of agent's compensation, because this touches on the problems that we've experienced in the past in trying to change product design and to benefit the consumer. A perfect example was when my company moved to the level commission concept with the annuity products while other companies were still selling the high front end commission design with higher rates. We had agents who qualified for other companies' conventions by selling those products, whereas, if there had been some kind of disclosure of this factor to the consumer, I'm sure this would not have happened. All agents eventually switched over and they're doing very well with the new design, and, of course, the customers are much happier too. What's the feeling about having agents disclose their compensation on various contracts?

MS. KHACHADOUR: The moment you talk about disclosing one portion of that premium, you're going to have to start disclosing the rest of that premium and the allocation of every penny in that dollar. It's not fair to identify just the agent's compensation, and have him confess publicly to getting 100% of the first year premium. We agreed earlier that the buyer just looks at the overall price.

MISS LAUTZENHEISER: The consumerists I have heard talk, seem to be more concerned about the compensation to the agent than they have been about other specific costs within the policy.

MISS KHACHADOUR: To anyone outside the insurance business, a very high first year commission is a concept that's very difficult to accept. You don't find this anywhere else. No other product or service is sold on this basis. The consumerists have difficulty grasping the history and the development of the insurance product and how the commission levels started out, and how competition pushed them way up.

MISS LAUTZENHEISER: I wondered if disclosure of commissions might help matters. If the public really had an idea of what that compensation was, they might not be as apprehensive as they are not knowing at all. But it's a very touchy subject with agents, rather than home offices.

MRS. BARTLETT: I am bothered by the fact that agent compensation does appear to be very much out of line when compared to other similar types of sales like a stockbroker's compensation or a realtor's commission.

MISS KHACHADOUR: In California for many years, there has existed a license, which is hardly ever used, called a life analyst license. The life analyst is an expert in life insurance. He sells advice on life insurance to clients and receives his renumeration solely from the client. He can not in fact be appointed for a life company and receive compensation as an agent for that company. Although the license is available, we don't have any life analysts in California, because the carrier, of course, still charges the same premium, and is required to under the law that does not permit rate discrimination. So, why would a buyer go to the life analyst and pay an additional amount on top of the premiums.

A positive modification of the rebating law would be to enable a carrier to coordinate commissions, if the ultimate sale of its product was done by a life analyst who has said to his client, "I think such and such company has the best life product for you, pay me $1,000 for my services."

MRS. BARTLETT: Let's move on to another issue that's hot these days - replacement. Not all replacements are bad for the consumer. Most replacements are bad for the company being replaced. The ultimate replacement situation, as long as rates are going down, is where everybody replaces once a year if they're healthy. The actuary, particularly in a stock company is faced with a dilemma. How does he balance the need for taking care of the old policyholders with the need to keep his company solvent? First, let's talk a little bit about replacement regulations and what an agent should do in a replacement situation, and what the consumer thinks about replacement.

MISS KHACHADOUR: California has no replacement regulation. The public certainly has not come forth and told its California regulator to please adopt a replacement standard. I personally never favored replacement regulation. They were designed to protect the agent who got his foot in the door first and sold a product which may or may not have merit, which may or may not meet the needs of the buyer today.

Regulators receive many inquiries from consumers along the line of: "an agent has told me that I can get rid of my policy, cash it in and buy term and some other investment, do you think that's a good thing to do?" Of course, the regulator cannot give that kind of advice. He can only suggest that the consumer go back to the first carrier and attempt to reconcile the two presentations and make his own decision as to which product is best.

However, the regulator has to be sure that there be no attempt to freeze the product that has been first sold, because a replacement can be, as far as the consumer is concerned, a good thing. There has been tremendous push in some states by consumer organizations for replacement. But I'm skeptical of the merits of regulations, because the consumer doesn't even know what replacement regulation is all about.

MISS LAUTZENHEISER: There is definitely a differential here between the consumer and the consumerist. I agree that it may be to the benefit of the policyholder to go ahead and replace, given the rate reductions which have occurred, the development of flexible contracts and the introduction of preferred risk policies. The company will end up having the biggest problem, and it stems from the high front end load in our compensation system.

It would not exist if we had low level commissions. The entire property-casualty field is a replacement field, and it's done by a leveled commission structure. We may have to go to something like that in order to be able to cope in the life insurance industry. There are going to be some companies out there who are going to be selling only replacements; there are some out there right now. It will be an even bigger problem with the flexible life products.

MR. KILBOURNE: What is the real purpose of replacement regulations. I suspect there is truth in what Angele says about their being motivated directly or indirectly by establishment agents or companies who are trying to hang on to something that they have. If we were to talk to the consumer and say, "do you want regulation to help prevent your being prey of agents who tell you that you should change the insurance that you have, and try to sell you something else," I suspect they would say, "No. Let him try, and I will evaluate and make my own decision." I suggest as a good rule of thumb, that we remember that the consumer isn't as dumb as he looks.

MR. GARFIN: This is a very good example of where competition comes into play in the life insurance business. While consumers may not be clamoring for replacement of their policies, many life insurance companies are becoming very nervous about the potential for replacement, and are improving their old policies to protect against it.

MRS. BARTLETT: Let's talk about people who have needs for insurance who aren't being served by the industry today. We read a lot about the upgrading of the insurance marketplace and the fact that it's not worth an agent's time to sell small policies. I can see that becoming a bigger problem if we do ever get into a level compensation mode. What can we do to provide decent group insurance coverage for a divorced spouse? Does the actuarial profession or the insurance industry have a responsibility to develop products to serve these neglected markets?

MS. KHACHADOUR: It is the responsibility of everyone involved in the insurance mechanism to make sure that the market needs are met. Great efforts have been made in the last few years by carriers to try to develop group plans to handle small groups of employees.

There has been some progress such as disability income for housewives, and I'm sure that such can be priced and sold profitably. The economic and social texture of our society is changing so fast that it's difficult for products to keep up with the needs. The industry cannot be right on top all the time but I do believe it's beginning to respond more equitably and more intelligently, mostly because the public is demanding more than it used to.

MISS LAUTZENHEISER: Competition is important again. Whenever the public indicates that there really is a need, someone will fill it. Everyone doesn't have to, because it wouldn't be profitable for everyone. That's what happened with disability coverage for homemakers - some companies decided to specialize and fill the need.