

PRACTICES AND PROCEDURES

- A. What changes in practices or procedures have been made with resulting reduction of expense in connection with the following:
1. Administration and valuation of supplementary contracts
 2. Collection of monthly premiums
 3. Underwriting of new applicants
 4. Preparation and printing of rate books and policies

MR. R. C. PERRY stated that actuaries have had much experience in examining expenses but very little recent effect in reducing expenses. He further said that past expense assumptions have proved inadequate in many cases.

In connection with item one, he expressed concern lest our principal function change from one of affording protection to one of administering funds. He stated that control of payments and of funds was of primary importance and urged that supplementary contracts be simplified wherever possible.

In connection with item two, he stated that a swing to monthly premiums will present a major expense problem unless new procedures can be developed. In the State Farm Life, despite the requirement of a minimum monthly premium of \$10.00, monthly premium cases have grown to present a substantial collection problem. His company's present practice, recently developed, is to send a notice at the beginning of each policy year. This notice specifies the amount of the premium and the day of the month on which the premium is due and provides space for the premium payer to record the payment of each monthly premium, as it is made, in lieu of a receipt. Twelve self-addressed envelopes are enclosed with the notice. A letter of explanation is initially sent to each premium payer. To date, complaints have been received from less than one-half of one percent of the cases involved, but the experience of both company and premium payer is inadequate for the determination of the success of the procedure.

MR. E. A. ARNOLD stated that the Standard Insurance has expanded its use of punched cards in connection with supplementary contracts in order to permit interest calculations and payment controls in addition to accounting evaluations. From a master card, called a balance forward card, interest payment cards and interest credit cards are calculated and reproduced and a new master card prepared. The master card is also used to check for negative balances and for valuation purposes.

MR. R. P. WALKER, with reference to item one, stated that the following is an economical method for the valuation of supplementary con-

tracts for a small company. A punch card is prepared for each payee who has elected the interest option. The principal is classified according to interest rate and frequency of interest payment, and the reserve is obtained by multiplying by a factor equal to one plus the rate of interest for one-half of a period. In the case of other options, a separate ledger page is used for each type of reserve factor, with the left page showing the information necessary for identification and valuation, and the right page showing the individual reserve at the end of several calendar years. Mean discount and mean annuity certain factors are used upon the assumption of a uniform distribution of payment dates. For the life income option, mean factors are the sum of the mean certain and the mean deferred life annuity factors. These are classified by age at expiry and by number of years until expiry of the guaranteed payments. The different frequencies of payment are disregarded, with the result that only one set of factors is required for each interest rate and mortality table.

Both for interim valuations and for control purposes, the reserve on contracts not involving life contingencies is accumulated at interest to the valuation date and added to the difference between income and disbursements accumulated at interest for one-half of the period from the end of the previous year to the date of valuation. Interim valuations on contracts involving life contingencies are made by interpolation between the preceding and the succeeding year end reserves.

MR. M. G. R. WALLACE presented the views of other officers of the Berkshire Life and urged the development of satisfactory new, inexpensive plans of premium payments at more frequent intervals than quarterly. He reported that the collection frequency of new business in his company increased from 2.62 in 1949 to 2.78 in 1950 and to 2.90 in 1951.

He described a receipt card, used in monthly payment cases, which serves, for an entire policy year, as both premium notice and receipt. The card is prepared at issue and is forwarded separately to the agency. When the first premium is paid, the fact is recorded, the next due date is entered, and the card is sent to the insured as a notice. Subsequent payments should be accompanied by the card and its absence elicits a form letter stating that no official acknowledgement can be given without it. Although duplicate cards are prepared upon request from the agency, the company has had less lost cards than anticipated. When the twelfth premium is paid, the dividend is entered and the card returned to the insured with a new card. In the case of Government allotment, the receipt card is retained until entries have been made for the full policy year and then sent to the insured or to his designated representative. The company feels that the monthly mailing cost is justified, even though it is appreciable.

A monthly premium file card which also serves for an entire policy year

is prepared at the same time and is posted as each payment is received. The card is filed by premium due date and is used for lapse control purposes. This card is mailed to the Home Office as a lapse notice if default occurs.

New cards are prepared in the Home Office approximately two months in advance and are checked in the agency.

MR. R. A. SAUNDERS mentioned the fact that many Canadian companies have discontinued sending notices for monthly premium business except on the policy anniversary but warned there was a danger that the practice might even increase costs because of the possible increase in unpaid premiums, reminder and lapse notices, and reinstatements. He pointed out that the problem was to obtain regular premium payments and bulk collections. In connection with the former, he stated that some Canadian companies send, on each anniversary, 12 envelopes and a memorandum card with the request that the card be forwarded with each monthly payment to the company where it will be receipted and returned for transmittal with the subsequent payment. He further reported that at least one company sends a book of 12 partially completed postdated checks with the request that they be completed and returned. In connection with bulk collections, he mentioned the fact that many premium payers of United States companies have authorized their banks to honor drafts in payment of monthly premiums and stated that Canadian companies are considering such a procedure. He felt that companies can rely on the cooperation of policyholders in reducing the expense of monthly premium collections.

MR. C. H. CONNOLLY described a form used by the Southwestern Life as a combination notice-check-receipt. This form is sent, as a premium notice, to the premium payer who is asked to fill in, in the appropriate blanks, the name of his bank, the current date, and his signature, thus transforming the notice into a check which he forwards to the company. The notice-check is then deposited in the company's bank and is presented for payment at the premium payer's bank and, upon acceptance by the latter, is returned to the premium payer as a receipt along with his other canceled checks. The premium payer who does not use the notice as a check is requested to return it with his remittance so that it can be used as a receipt. The preferred method is used by 70% of those who pay by check, with savings of approximately 10¢ per collection. He further reported the quite recent practice of sending 12 forms to those who pay premiums monthly with the suggestion that all checks be postdated and returned, but stated that experience with this expanded use was inadequate to warrant more than mention.