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MISCELLANEOUS

A. Will the new form annual statement as recently proposed by a subcommittee of the Blanks Committee of the NAIC involve any problems, and, if so, how can they be met?
B. What are the primary factors which have prompted life insurance companies to consider entering the personal accident and health insurance field? What are the arguments against such entry?
C. What methods are in use for reflecting in annual statements the periodic reductions in asset value of real estate purchased for investment?

MR. CHARLES MEHLMAN stated that he was able to approach this topic from the point of view of a company officer charged for twenty years with responsibility for preparing the annual statement and also from the point of view of an official of the Insurance Department of a large state. From the company standpoint, he felt, no major problem appeared in the transformation to the new statement; essentially the same data were required as before, but these were cast in a more intelligible and presentable form. From the regulatory standpoint, he found the new form satisfactory in the main, feeling that its emphasis on the revenue basis for presenting income and disbursements would permit sounder comparisons than in the past.

Mr. Mehlman expressed his disappointment with the retention, in Exhibits 12 and 13, of the presentations appearing on Pages 2, 3 and 4 of the present statement. He felt that these exhibits were unnecessary and unwise, since they tended to "freeze" accounting procedures in a cash mold. He hoped that their retention would be a purely temporary expedient, and that the same would be true of the use of the cash basis in presenting the individual expense items in Exhibit 5. Mr. Mehlman called into question the division required in claim exhibits between resisted and nonresisted claims, expressing doubt that a uniform definition of resisted claims could be reached. Unfair claim practices should be uncovered in the periodic Insurance Department examination. In conclusion Mr. Mehlman praised certain features of the new statement, mentioning the division of incurred gross premiums for each line of business into Single Premiums, First Year Premiums other than Single, and Renewal Premiums, and the introduction of the new line in the Gain and Loss Exhibit to show separately the deduction for "Increase in loading on and cost of collection in excess of loading on deferred and uncollected premiums," instead of the procedure heretofore followed of distributing the increase over the other expense items.

MR. W. H. KELTON said it was unfortunate that the new form included all data from the old form, thus increasing considerably the number of pages. From the work standpoint, of course, much of the material called for in the various exhibits would be used to build up the figures for the "Summary of Operations." Mr. Kelton felt that the inclusion of increase in loading and cost of collection in item 25 of the "Summary of Operations" did violence to the accrual basis on which the statement presumably was to be prepared. He much preferred the practice hitherto followed by The Travelers of spreading the increase in loading and cost of collection over the other expense items, and he thought that companies might be given the option of preparing the new statement in the same way. He noted that in Exhibit 5 the "cost or depreciation of furniture and equipment" and "service or maintenance charges on equipment" were (according to the Instructions) to be assigned separately to lines 5.5 and 6.6 respectively; he preferred his company's present practice of including the two items in a single account. In connection with Exhibit 8, Mr. Kelton pointed out that if premium deficiency reserves under disability contracts were included in item G 1, as seemed to be required, the sum of the active and disabled reserves in Sections E and F of the same exhibit would not agree with the total disability reserves in column 4 on Page 6. The necessity of providing so much detailed information in Exhibit 8 was questioned by the speaker; some of the details called for regarding valuation bases might better be left for the zone examinations.

Mr. Kelton commented further on some apparent minor defects in the new form. On Page 13 the old terms "involving" and "not involving" had crept back to replace the preferable "with" and "without" used elsewhere in connection with life contingencies. There seemed to him to be no useful purpose in the subdivision of disability claims in Part 2 of Exhibit 11 into "payments" and "waiver of premiums"; this division would require separation of estimates of unreported claims between payments and waiver, and raise unnecessary accounting and liability questions. In Exhibit 13 it appeared that the entries for Items 17.1 to 17.5 inclusive were intended to be put in the inside column; if so, the spaces under Columns (1) through (4) should have been blocked off in some way. Mr. Kelton also noted various unnecessary inconsistencies with corresponding terminology and arrangement in the new form of Fire and Casualty blank.

MR. E. H. KLEPETAR stated that the Mutual Service Life had progressed sufficiently in the reconstruction of the 1950 statement on the new form to be satisfied that no major changes in present accounting and record-keeping systems would be required to provide the necessary information. The only aspect of the new form which gave any concern was the number of interexhibit references. Careful analysis of these cross-references would have to be made so that the order of the work and the development of proper worksheets could be planned.

MR. A. W. LARSEN, in discussing section B, stated that the threat of socialized medicine had caused many life companies to consider entrance into the accident and health field. Others were influenced by factors of more immediate interest to them: the expectation of increased profits and larger surplus, and the desire to advance the company's rank among its competitors. One of the chief arguments usually advanced for going into the new field was the opportunity such a step would afford agents to augment their incomes. Inasmuch as it seemed that newly appointed agents found accident and health policies easier to sell than life insurance, such sales provided ready sources of income and thus reduced the amount of financing necessary during the training periods of new agents.

Mr. Larsen thought that some companies might be inclined to exaggerate the advantages and overlook some of the drawbacks. Men who could learn to sell accident and health contracts with relative ease might be tempted to continue on that road instead of undertaking the harder task of mastering the sale of life insurance. The company should realize that rapid expansion of the business might result in a continuing deficit for several years because of the unearned premium reserve requirement, and that premium rates could not be determined to the degree of refinement possible for life insurance premiums. He felt that a life company should not enter the field unless its underwriting is placed in capable and experienced hands, its agents are given a thorough grounding in the principles of accident and health insurance and its surplus is adequate to take care of possible substantial losses in the early years. Its policies should be of the commercial type, terminable by the company on or before any premium renewal due date. The writing of noncancellable policies should preferably be avoided until an adequate experience with commercial forms has been accumulated. All in all, he believed that entry into the accident and health field would pose many new and difficult problems for the life insurance company.

MR. B. J. HELPHAND emphasized the multiplicity of policy decisions which have to be made by a life company when it plans to offer personal accident and health policies to the public. These decisions have to do not only with such matters as the types of contract to be sold, the remuneration of agents and the training of home office and field personnel, but also with the more fundamental questions of sales and claim policies and their relation to ultimate costs.

MR. D. B. WARREN conceded that accident and health insurance could prove a useful and profitable addition to a life salesman's kit and to the company he represented, but only if the company management entered actively and aggressively into the development of the new field. The operating techniques and the underwriting and claim philosophy necessary to successful operation in the accident and health field are so different from those familiar to life insurance company personnel that a separate centralized administrative authority must be created to supervise the training of persons who are to handle the new line and to coordinate all accident and health activities. The business should not be treated as a mere appendage to the life insurance activities of the company.

MR. T. A. MOILIEN, in discussing section C, stated that the Equitable of Iowa had decided that the asset values at which they would carry properties purchased under lease agreements would be the amortized values obtained by treating each lease as a mortgage loan under which the rental income provided the payments of interest and repayments of principal. In practice they use book values equal to the value of the land plus the depreciated value of the improvements and carry contingency reserves equal to the difference between these book values and the amortized values. This procedure is followed so that the company's federal income tax returns can be prepared directly from the company's books instead of from memorandum accounts which it would be necessary to use if the book values were brought into agreement annually with the amortized values, and so as to enable them to deduct a larger value for real estate, which is taxed as real property, from the net worth of their capital stock in determining the Iowa moneys and credits tax.