TRANSACTIONS OF SOCIETY OF ACTUARIES
1950 VOL. 2 NO. 3

GENERAL

A. Does experience indicate increasing use of automatic premium loan instead of extended insurance, and is such a development in the best interests of (a) policyholder and (b) company, under present conditions?

B. To what extent should automatic premium loan be used as a service to substandard policyholders who do not have an extended insurance option? How is the latter excluded from the policy contract?

C. How should automatic premium loan be applied in the case of monthly premium business?

D. Does the experience under salary allotment business justify the use of a lower loading than under regular monthly premium business?

E. How far is it desirable for a medium-sized company to go in making mortality investigations?

MR. DATON GILBERT stated that the Connecticut Mutual had seen no marked indication of increasing interest in the automatic premium loan provision other than that produced by a special campaign of servicing older policyholders which included specific attention to this benefit. The company has recently completed a study indicating that the *periods* of protection, after lapse, under extended insurance were much the same in many instances as those resulting from use of the automatic premium loan provision; however, when due weight was given to the *amounts* of death benefit, the policyholder generally received more dollars of protection under the extended insurance option. Nevertheless, the automatic premium loan arrangement provides valuable protection against unintentional, temporary lapse.

In the case of monthly premium policies that have run for some months on APL, the policyholder is urged to reduce the premium frequency.

MR. J. B. WALKER felt that an APL clause provides the policyholder with two advantages over extended insurance: the opportunity to resume payment of premiums without furnishing evidence of insurability, and the continuation of disability, double indemnity and family income benefits.

The Canada Life removes the extended insurance option from policies issued in the United States on substandard lives by making no mention thereof. In Canada, the extended insurance figures are simply omitted from the table of policy values, and a stamp is affixed to the table and to the descriptive wording, stating that the option is not available.

Their APL clause is defined in terms of a "premium period" and is therefore adaptable to monthly premium business. However, after two premiums have been missed, the premium method is changed to "yearly" to avoid frequent calculations.

MR. H. L. FEAY stated that a fraternal company had recently asked

permission of the New York Department to make a flat charge of ten cents on each monthly premium in addition to five percent interest. The purpose of this was to cover extra expenses in connection with automatic premium loans.

He added that one legal reserve company handles automatic premium loans on monthly cases by charging the balance of the year's premium and then applying any payments against the loan.

MR. H. F. ROOD commented that the APL provision is advantageous from the Lincoln National's viewpoint because it provides adequate allowances for mortality and expense which might not be obtained under extended insurance, particularly on substandard policies.

The company has recently discontinued the practice of changing the premium frequency to annual under the APL provision, after several lawsuits challenging this procedure without a specific contractual provision. The latest policies loan only a full premium; when values are insufficient for this, standard policies go on extended insurance, whereas substandard policies are changed to reduced paid-up insurance, except for those with cash values of less than $50, in which case a check for the total value is mailed to the policyholder, subject to return if he actually prefers paid-up insurance. Expiration notices and expiry calculations are thus largely avoided.

MR. C. F. PESTAL stated that on 98% of the policies issued by the Northwestern National, the insured requests APL as the automatic option. Upon the third consecutive premium loan, the agent is requested by letter to visit the policyholder to encourage repayment of the loan and resumption of premium payments.

MR. G. E. CANNON presented figures from a 3-year study by the Standard of 156 premiums paid by APL during the first two weeks of 1947, which indicated that around 75% of the policyholders continued to pay some premium in cash after an APL was placed on their policies—the APL clause therefore serving as a popular, temporary means of keeping the policy in force on the original plan. He felt that this provision is also advantageous from the company's standpoint because it retains the policyholder on a premium-paying status, improves persistency (since more premiums are paid than under extended term insurance), and reduces the number of policyholders who cannot be located when a claim arises, because regular premium notices are sent.

The company extends the APL privilege to both standard and substandard policyholders. The extended insurance option is excluded on policies rated higher than 150% mortality or $5 per thousand. In paying premiums by APL, they change to an annual basis on the anniversary date if the last 6 monthly, last 3 quarterly, or last 2 semiannual premiums

have been paid by APL, and the policyholder is advised thereof by printed notice affixed to the regular premium receipt. The APL clause is selected as the automatic option in practically 100% of the applications submitted to them.

MR. J. E. HOSKINS commented with regard to section D that The Travelers now uses regular monthly premiums for Salary Allotment insurance, rather than a reduced rate. They have found the annual collection cost on the average Salary Allotment plan to be about twice as great per policy, and about three times as great per $1,000, as on individual annual premium insurance. Although the average Salary Allotment policy is about 2/3 as large as the average individual collection policy, this lower size is slightly more than offset by less service being required and also by a slightly better persistency rate, while premiums are being paid by allotment. Because of employment turnover, large numbers of his company's Salary Allotment policies eventually transfer to individual premium payment, most of them to quarterly or less frequent premiums by reason of a policy provision that the mode of premium payment after transfer must produce a premium of at least $10. As much service is required on transferred Salary Allotment policies as on those originally issued on an individual collection basis. Because of the low average size, the expense per $1,000 is greater than is covered by the regular individual premiums.

As a consequence, his company has determined that it needs a total Salary Allotment loading about 5% greater than on an individual annual premium policy—half of this loading to provide for loss of interest, unpaid monthly premiums in the year of death, and excess cost of 12 monthly collections by statement over one individual premium, and half to provide for the excess cost of lower-sized allotment business transferred to individual collection. It happens that 5% is also the regular monthly premium loading for his company.

MR. R. E. SHALEN remarked that savings in expense, sufficient to more than offset possible extra mortality, would be a major factor in determining the loading on monthly premium Salary Allotment business. These savings will in turn depend on the average size of Salary Allotment policy, the average number of policies per allotment group, the cost of collection and conservation procedures for allotment business, and differences in underwriting expense arising through different medical and inspection requirements.

He felt that the convenience of having premiums deducted from pay each month does not appear a strong enough factor to reduce normal antiselection, but that the employer's paying a large part of the premium might so reduce it. Despite lower administrative costs, the small average

premium, together with more liberal underwriting requirements, prevents his company from realizing a saving sufficient to justify a lower loading.

MR. J. C. MAYNARD quoted the Canadian experience of the Canada Life regarding the persistency of Salary Allotment business. This study indicated that the persistency of the Salary Allotment form is slightly better than regular monthly premium business. He also commented that the significance of these findings is somewhat modified by a variation in lapse rates between branches, suggesting that persistency is more dependent upon branch operation than upon inherent differences between the two classes of business.

MR. R. G. STAGG said that he had formerly been one of those who thought that it cost less to collect salary savings monthly premiums than regular monthly, but after careful study his views have changed. He felt that with the growing tendency to eliminate premium receipts the cost of collection on regular monthly premiums might prove to be even less than salary savings monthly premiums.

MR. C. H. TOOKEY cited three factors as affecting the expense of Salary Allotment business: minimum size of the franchise, the minimum premium, and the method of billing and accounting. He recalled that when the Occidental inaugurated Salary Allotment plans in 1933, they used one punch-card to bill the employer, to prepare one-line continuous-form receipts, and to do the premium and agency accounting. By 1941 the system had become more complicated for agency reasons, and the company changed the premium basis from one-twelfth of the annual to the regular monthly rate. His latest study indicates an accounting cost of 43¢ per monthly collection per policy under salary allotment, compared with 68¢ on individual collections.

MR. E. F. ESTES, speaking on section E, expressed the opinion that both large and small companies should have accurate figures on their own mortality experience. If the insurance in force, as set out for a group valuation (adjusted for new business and lapses), be taken as an approximate exposure, an "expected claims" figure can be produced by applying the mean q_x from some standard table; this figure, compared with actual claims, will enable the company to gauge the effectiveness of its underwriting. He cited the additional advantage of being able to refer to his company's *own* mortality tables in discussions with field agents and policyholders.

By the time a company has $100,000,000 in force, he believed it should have sufficient experience to enable it to test its initial selection for a period of 5 years after issue, and its mortality by age groups.

MR. W. A. KELTIE said that the scope of mortality investigations in

a medium-sized company will depend both upon the information deemed necessary for premium and dividend calculations, distribution of surplus, and underwriting purposes, and upon considerations of expense involved, data available, and the probable reliability of the data. The Great-West Life considers an annual summary of standard insurance mortality over the past year and the past ten years an absolute minimum. Employing the group system of valuation, his company applies the census method and makes the following breakdowns in the summary of total standard insurance, by duration: standard direct issues; same, in decennial age groups; same, U.S. branches only; nonmedical business, in decennial age groups.

A separate mortality file is also maintained, in Hollerith card form, of substandard issues, reinsurance assumed, and large amount business. He believed that the medium-sized company should rely on its valuation records to supply mortality experience covering standard direct issues; the records should show terms of issue (standard or substandard, medical or nonmedical, reinsurance or direct, etc.).

MR. LEIGH CRUESS stated that even large companies do not have enough data for extensive impairment and occupational studies except for a few of the more common categories. He emphasized that he thought all companies should calculate their mortality from their valuation records so as to compare with the figures of the intercompany study carried each year in the *Transactions*.

MR. N. N. STROM cited important uses which a company could make of mortality investigations: as a check on their underwriting including a comparison of underwriting results with other companies, making experimental premium calculations and asset shares, calculating dividend scales, and as an aid in computing or changing extra premiums for various occupations and impairments.

In the Minnesota Mutual the cost of mortality investigations is approximately 1/3 of 1% of the total net death losses, and it is believed that the value of the information would justify even a somewhat larger figure.

He was of the opinion that to be of any use, a mortality study should be confined to a relatively short period of years, say ten years. In a smaller medium-sized company there would be few occupations and impairments with enough data to make such studies worth while so that there would not be much point in trying to take off elaborate impairment and occupation statistics.

MR. J. H. BELL commented that in a medium-sized company, the time required to accumulate enough data for mortality investigation of any particular underwriting practice would be sufficiently lengthy so that other means of control would be preferable.