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POLICY PLANS

A. What is a proper role for higher minimum amount and preferred risk policies? What effect does the introduction of such policies have on the net costs under other policies?
B. What changes have there been in recent years in the distribution of new issues by plan of insurance and mode of premium payment? What are the causes of such changes? What problems have resulted?
C. What are the advantages and disadvantages of issuing to women a special life insurance policy, or class of policies, involving different basic assumptions from those used for other policies?
D. What problems have arisen in connection with plans for budgeting insurance premiums through (1) bank loans arranged with the assistance of the agent? (2) premium deposit plans? (3) bank drafts and postdated checks?

MR. J. H. AMES discussed preferred risk policies from the standpoint of smaller companies. He pointed out that competition often forced the adoption of this type of policy by the smaller company, even though it brings problems. There is always the troublesome question of whether to make issue of the preferred policy mandatory if the applicant qualifies, but has applied for the corresponding lower-minimum plan. It would seem impracticable, at least for smaller companies, to attempt to limit the preferred risk policy to superstandard risks.

MR. R. E. SLATER described the system recently adopted by the John Hancock of having two distinct Ordinary lines. This revision was made to better provide for the insurance needs of all economic levels, in view of the great changes in distribution of national income which have occurred in the last 25 years. The "Select Ordinary" line will have a minimum policy of $3,000, and the "Multiple Protection Series" will include all policies from $1,000 to $2,999. The latter term was used because all such policies issued standard, or in the first substandard class below age 56, will automatically include waiver of premium benefits and accidental death and dismemberment benefits.

The split at $3,000 should have, of course, a very favorable effect on the net cost position of the Select Ordinary policies. While an increase might have been anticipated in the net costs of policies in the Multiple Protection Series, the John Hancock made other changes in this line so that net costs are expected instead to fall. These include increases in the interest assumption in dividend determinations, introduction of settlement dividends, and decentralization of policyholder service functions. The savings in expense through automatic inclusion of the extra benefits should also contribute to the lower costs.

MR. WILLIAM ALLAN mentioned that the Home Life has been issuing preferred risk policies since 1927. They were introduced because the company believed that just as there are below average risks, so are there above average risks, and these are entitled to a better than average insurance cost. The effectiveness of the selection of these first class risks is shown in the company's comparative mortality experience. In the period between 1947 and 1952 policy anniversaries, preferred life experience for policy durations over 10 years was 85% of the corresponding standard life experience. He stated that 60% of the company's business is written on the two preferred risk plans offered, with a current average face amount of $10,000 on this preferred business. Properly used, the preferred risk policy should have no unjustifiable effect on the net costs of standard policies, because from the viewpoint of equity each line should carry its own weight.

MR. G. M. CROWLEY, introducing section B, reported that the Mutual of New York had from 1951 to the first quarter of 1954 an increase in new term issues—especially in level term plans, which went from 6.1% of new business to 12.7%. This large increase was mainly due to the introduction in 1953 of a five year term policy, renewable and convertible. The proportion of new business on fractional premiums has also increased in recent years. In the period 1948 to 1953, the proportion of new issues on an annual basis fell from 54.1% to 46.4%, with that on a monthly basis rising from 15.5% to 19.4%. These changes in plan and mode of premium payment were no doubt due in part to the inflationary character of the period through which we have been passing; another factor in the case of the Mutual Life has been an increase in its field force, with new agents tending to write more business on lower premium plans and on a fractional premium basis.

MR. M. C. PRYCE stated that the new issues of the London Life of Canada over the past ten years showed a marked decrease in endowment plans, and a corresponding increase in term plans. He felt that the change could be ascribed to the increase in public and corporate pension plans, and to improved yields on other investments. His company encourages conversion of term plans to a permanent form, and expects the vast majority of present term issues to convert eventually. Meanwhile, the reduction in average premium per thousand admittedly brings the problems of lower agency compensation per thousand, and an increased expense ratio as a percentage of premium. In the same ten year period, there has been a shift from annual to quarterly and monthly; quarterly new business by amount increased from 10% to 16% of the total, and monthly from 26% to 31%. One possible reason for the shift is that middle and lower income brackets are purchasing larger amounts of insurance.

MR. R. W. WALKER related, with respect to distribution of new issues, that the Northwestern Mutual found that the proportion of endowment plans almost doubled from 1940 to 1953. On further analysis the increase was found to be mainly due to the increase in employee trust business, and with this line of business excluded there has been little, if any, change. Within the life plan grouping, there has been a drift from ordinary life to limited payment life plans, especially to the life paid-up at 65 plan. The share of the latter in new issues moved during the period from 3% to 22% by number of policies. This shift is natural with the increasing consciousness of age 65 as the retirement age.

Premium frequency at the Northwestern Mutual has continued on a satisfactory basis. In 1940, 41% of its new issues were on an annual premium basis; in 1953, 47%, excluding employee trust business. His company maintains records of the ratio of number of premiums billed to number of premium-paying policies. On all business in force this ratio fell from 1.93 in 1940 to 1.69 in 1953. This experience has resulted in satisfactory persistency, the rate of voluntary termination continuing at about 2% through this period.

MR. R. A. LEGGETT stated first with regard to section A that The Travelers has had a Preferred Life plan with a $10,000 minimum since 1951. He estimated that the introduction of this policy has increased the cost on Ordinary Life by less than $0.20 per $1,000.

On section B, his company finds almost exactly the same distribution among life, endowment and term on 1953 issues as in 1944. However, there was a trend to term in the middle of this period; the proportion of new business on this basis was 40% in 1944, 56% in 1949, and 40% in 1953. This pattern may be accounted for by restrictions on sale of term due to the war hazard, and by increased public savings in recent years. He agreed that new business has shown in recent years a trend toward more frequent payment, but the total in-force had not followed this to the extent to be expected. It was his opinion that this contradiction was due to a tendency of applicants to change to less frequent payments some time after issue, and also to a definitely higher lapse rate on monthly and quarterly business.

MR. C. H. TOOKEY stated that the recent experience of the Occidental of California confirms the reported preference for lower premium plans. The many reasons for this trend may include the popularity of mutual investment funds and the desire of many people to hedge against inflation. Another cause in the case of his company may be the difficulty in competing with the mutual companies on high premium business, with current dividend scales of the latter reflecting improved interest earnings. As for mode of premium payment, the number of new issues paying annually has increased in the Occidental from 39% to 48% in the 11 years from 1941 to 1952, with quarterly issues showing a decrease of the same magnitude, and semiannual and monthly issues unchanged.

MR. E. H. SWEETSER opened section C with the statement that, although mortality and persistency rates on female lives were favorable, other relatively unfavorable factors must also be considered. The New York Life finds that most new issues on females are at young ages where the lower mortality is less important financially. The adverse effect of low average size policies for females would tend to offset the mortality margins. A special class of policies for females might require separate reserves, nonforfeiture values and dividends, so that the increase in administrative expense could lead to an increase in the cost of insurance for all policyholders. Such special policies, in his opinion, would reverse the trend toward simplification developed over the years so far as premium differentiation by sex is concerned.

MISS MARGARET WALKER reported that the larger charges to women for annuities have resulted in a growing sentiment that their favorable mortality should be taken into account in determining the charge for their insurance protection. The average size policy issued to women is much lower than for men, but it must be remembered that many companies limit amounts issuable to dependent women, and also the average premium per thousand is higher because term insurance is usually not considered for them.

Miss Walker then described some hypothetical nonparticipating whole life premiums to test the combined significance of lower mortality and variations in average size policy. The mortality comparison was between CSO rates and $\frac{2}{3}$ of the CSO rates, with the latter graded after age 90 into 100% of CSO at age 99. Expenses per policy were allocated 75% according to average amount of insurance for the whole life plan, $12\frac{1}{2}$% according to the average amount for all plans, and $12\frac{1}{2}$% by the average premium (Table 1). Three distributions of the same expense factors were made by varying the average size policy and average premium (Table 2).

The premiums based on a one-third reduction in mortality seem to approximate those on the 100% mortality table for an age 5 years younger. She felt that, following the precedent set by annuity contracts, a company would be justified in using basic assumptions applicable to women for other popular insurance plans.

TABLE 1

GROSS ANNUAL WHOLE LIFE PREMIUMS PER $1,000

Age	CSO Basis A	$\frac{2}{3}$ CSO Basis A	$\frac{2}{3}$ CSO Basis B	$\frac{2}{3}$ CSO Basis C
15	$12.54			
20	14.43	$12.15	$12.81	$12.99
25	16.78			
30	19.63	16.42	17.11	17.29
35	23.48			
40	28.31	23.18	23.90	24.09
45	34.61			
50	42.94	34.36	35.16	35.36
55	54.15			
60	69.47	53.94	54.86	55.07

TABLE 2

EXPENSE BASIS	AVERAGE SIZE POLICY		AVERAGE PREMIUM ALL POLICIES
	Whole Life	All Policies	
A	$6,500	$4,500	$85.00
B	3,250	4,500	85.00
C	3,250	2,250	90.00

MR. J. E. MORRISON reviewed in much the same form as at the 1954 Eastern Spring Meeting the advantages and disadvantages of issuing special policies to women.

MR. C. H. CONNOLLY initiated section D with a report on the Southwestern Life's "bank service" plan. Under this plan, the applicant signs an order at the time the application is taken, which authorizes the applicant's bank to deduct monthly premiums as they become due. The company forwards a statement monthly to each participating bank, listing the items to be deducted for that month along with premium receipts to be placed with canceled checks. The total collections are deposited to the Company's account with the bank, and uncollected items are marked to show the cause. For each item collected, the bank receives 10¢.

Introduced in 1931, the plan showed very high lapse rates in the first few years because too few sales were being made to the stable class of people who maintain accounts in the same bank over a period of years. Recently, because of recruiting practices and agency education geared to the requirements of this plan, experience has been remarkably good, with one-half of new ordinary business sold on this plan. The average policy is higher, and the lapse rate is only half of that on "pay direct" quarterly business. It should be emphasized that the successful operation of the plan requires both a concentration of business in a particular area and the co-operation of most of the banks there. His company, for example, operates only in Texas and has bank service agreements with 87% of the banks in the state.

MR. H. R. LAWSON then gave an account of a postdated check system in use for one year by the National Life of Canada. The system was devised to avoid objections to signing twelve checks at once, and also to accelerate premium payments and so to reduce lapses. One quarter of the annual premium plus a small expense charge is due at the beginning of each of the first four months of the policy year, with three of the payments made by postdated checks. His company has a fair amount of business on this plan, and first year lapses have been negligible. The experience on the first renewal date will indicate how successful the plan will be over the long pull.

MR. H. F. ROOD pointed out that the American economy is increasingly geared to weekly and monthly budgeting of purchases, while the life insurance business has built itself around the annual premium. In his opinion, ordinary insurance should be offered on a basis in keeping with this economic change. He went on to describe the various procedures which have been tried at the Lincoln National to meet this need.

That company has marketed a considerable amount of mortgage insurance on the bank loan plan. This has been successful for certain experienced agents specializing in the field, but one difficulty has been that the agent is frequently asked to negotiate a new bank loan for the policyholder at renewal, so that too much time is needed to service the business. His company has had the premium deposit arrangement, under which policyholders make monthly deposits toward future annual premiums, and even for future conversions. A similar system has been applied to salary savings cases, but the requirement that the first annual premium be paid in one sum has been a disadvantage. His company has also used bank drafts, particularly in Texas; a problem with the draft was the company's practice of asking the insured to pay the bank's charge.