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DIGEST OF SMALLER COMPANY FORUM—ATLANTA REGIONAL MEETING

ENTRY INTO NEW FIELDS

A. For a company writing Ordinary, but not Group, what are the advantages and disadvantages of entering the pension field through Ordinary policies or Group Annuities?

B. What considerations are involved on the part of a company writing Ordinary, but not Group, in entering the Accident and Sickness field? Is this an opportune time?

C. How widespread among the members of its field force are the benefits of writing group insurance by a small company?

D. Is it feasible for a small company to consider entering the industrial fire and casualty field?

MR. J. G. FERNAND BONNARD stated that for a company writing Ordinary but not Group insurance the pension field may offer a favorable opportunity to expand operations into a new and growing market. The extent to which pension business is advantageous to a company is, of course, a matter for individual consideration. However, even though any pension plan involves certain mass coverage principles, the fact that a company does not operate in the group field is not a conclusive reason in itself for staying out of the pension field.

The pension business is a highly specialized business where only the highest type of Ordinary agent has any chance of succeeding. The sale is made to the top executive, not to subordinate officers of the corporation. The average agent does not have access to the corporate owner executive so he cultivates some subordinate, which means there is the constant risk of successful agents spending their time unproductively in pension prospecting and neglecting their natural sources of individual sales. Frequently, the prospect is "scared off" by the estimate of pension costs which nearly always turn out to be much higher than he had anticipated.

In addition to considering the possibility of adverse effects on the agency organization a company should decide whether it is willing to undertake the necessary long term investment in pension facilities with little or no chance of an immediate return on its investment. A staff of home office pension specialists must be maintained. Such individuals should be qualified to prepare pension proposals, and to assist in field selling, plan installation and preparation of Internal Revenue Service qualification papers, as well as to provide for renewal servicing of pension plans. Overhead costs for a pension operation are high. Much legal work and an increasing volume of governmental reports further increase overhead expense.

Insured pension plans may be classified according to two broad categories: group annuity plans and individual policy plans. Group annuity plans include both single premium deferred group annuities and deposit administration plans. Traditionally, group annuity plans provide the medium of funding for larger groups numbering 100 or more employees; however, in recent years group annuity plans have been used for smaller and smaller groups. At the present time, the trend seems to be away from single premium deferred annuities and toward deposit administration plans.

From the standpoint of the agent and the insurance company, the financial situation is the same for both types of group annuity plans. On small groups, it is difficult for the insurance company to "break even" profitwise and impossible for the agent to receive compensation commensurate with the time and effort he has to expend in selling and servicing a case. Large group annuity plans are generally handled by actuarial consulting firms or sold by full-time salaried home office specialists of the insurance company. Group annuity premiums on such large plans are substantial in amount but the margin of profit is slight in a highly competitive market. The full-time Ordinary agent does not have very much of a chance in competition with the professionals in this field, and even if such an agent does succeed in selling a plan, the scale of commissions is usually disappointingly small in relation to the time and effort expended.

The individual policy plan is quite another matter. Most company practices with respect to individual policy plans follow the individual policy pattern, although there are some notable exceptions such as guaranteed issue underwriting. Whether the funding medium be retirement income policies or ordinary life policies with an auxiliary fund, there are important advantages to the agent and the insurance company in this class of pension business.

Life insurance produced in connection with individual policy pension plans should show a number of superior quality characteristics. The typical plan will average seven to twenty lives with an average of $10,000 to $15,000 per policy for the group initially insured. The premium per $1,000 will average $28 to $30 for ordinary life policies and $45 to $50 for retirement income policies. Persistency should be considerably better than on the rest of the insurance company's Ordinary business and the agent's compensation on such sales will be high enough to justify the effort expended in selling and servicing the case.

There are some disadvantages to the individual policy pension plan. The high initial average policy is not continued in renewal years. Increases in insurance arising from participants' pay increases will average $1,000 to $2,000 per policy issued. Guaranteed issue underwriting will be needed for competitive reasons on cases involving ten or more lives. Such a practice may involve abnormal mortality, particularly during the period when the insurance company has only a few cases underwritten on this basis.

In summary, Mr. Bonnard emphasized that a pension operation is an expensive one. Any company which is not prepared to make a substantial long range investment with little or no prospect of immediate return should select some other new field to enter.

MR. JAMES G. BRUCE of Columbian National concluded that only 5 out of 44 field offices benefited by writing group insurance. He presented some statistics on the average number of proposals per group issued and on the average size of group. He questioned the wisdom of a small company entering the group business.

MR. MORTON J. KENT commented that his company, Interstate Life & Accident, is the largest industrial fire insurance company in the world. They have 2,000 field representatives and a home office staff of four.

He stated the only feasible way to enter the field is to have an already existing debit agency force in order to write sufficient volume to cover the inherent expenses. State regulation and the amount of time required to comply with the various state laws is a basic problem. Each state has its own rules, rates, and ideas for regulating fire insurance.

Another basic problem is overinsurance which should be watched carefully. Insurance other than on residences proved to be impractical and unprofitable.

Mr. Kent summarized that industrial fire insurance has been profitable, but that his company is not in the casualty field because they felt it would not be profitable.

MR. CHARLES M. BEARDSLEY commented that a frequent objection for a company to enter a new field is the amount of financing required. His solution to this problem to get his company into the Accident and Sickness field was to develop a rider for life insurance policies that is available on any permanent insurance. The rider provides limited accident, sickness and hospitalization benefits with an over-all maximum of $3,600 in any 5 year period. The term of the rider does not extend beyond age 60 or the premium payment period.