

GROWTH PROBLEMS

- A. Is the competitive position of smaller companies improving as compared to that of the larger companies?
- B. To what extent have smaller companies adopted high minimum amount policies? How are companies not offering this policy meeting this competition?
- C. Is there a trend toward the seeking of growth by smaller companies through expansion into Group, Accident and Sickness and other fields?

MR. THOMAS B. WESTBROOK expressed the opinion that the competitive position of the smaller companies relative to the larger companies had improved from the point of view of the larger companies but not from the point of view of the smaller companies. However, an answer to the question depends upon the individual company under consideration. Large companies have forced rate reduction to the limit and consequently in respect to rate structure the competitive position of the smaller companies has not improved. Modern educational programs, equitable financing plans and close individual attention have perhaps given the smaller companies a slight advantage in securing and retaining agents. In regard to sections B and C, Mr. Westbrook believed that nearly all small companies have adopted high minimum amount policies and that there is an increasing trend among smaller companies to expand lines of coverage. The purpose of such expansion is to offer greater opportunity to agents and to offer additional service to policyholders.

MR. JAMES C. H. ANDERSON addressed the subject from the viewpoint of a newly formed company. The competitive position of such a company is a matter of basic company philosophy and management policy since the determination of expense and profit margins is intimately related to company growth objectives. Until a critical size is reached, the company's insurance transactions may be financially unsound.

To trace the changes in the relative competitive position of large and small companies one must examine changes in those factors affecting differently the two classes of companies. For example, the use of EDP equipment should favor expense rates of the large company, whereas the new federal income tax law should favor the small company; the increasing cost of building agencies is a matter of urgent interest to small companies; in recent years it appears that aggregate expense and profit margins have shrunk and, on account of high operating cost, smaller companies have been more directly affected. On balance, the trend of competitive forces would appear to favor large companies.

To offset competitive disadvantages the small company can sell non-competitive products, seek special markets or peculiar opportunities, or resolve to become large. Mr. Anderson's company, Georgia International, enjoyed the opportunity to use the 1958 CSO Table from the outset; although this has somewhat restricted the company's territory of operations it has helped the company's competitive position. The high minimum size policy is one method of seeking a special market; this method has been considerably undermined by the trend towards premium rates graded by policy size. Georgia International offers a series of high minimum size participating policies as an accommodation to the agency force. These policies are characterized by medium-low gross premiums, fairly generous early cash values, modest cash values in later years, a steep dividend scale, competitive net cost and reduced commission rates.

Georgia International has expanded into the individual A & S field but not into the Group field; the company believes that the former line of business can contribute to the company's primary objective, building agency plant.

MR. GEORGE A. MACLEAN discussed the difficulties which a small company may encounter in entering the group life field. Probably only a few agents will be able to produce worth-while cases and the small company, new in the field, will not usually be able to give any personal help in closing the case. The small company may, by ignorance or innocence, be caught on cases refused by other companies. There will be the problem of quoting profitable retention limits which are competitive with large companies. Furthermore there is the trouble a small company has in keeping up with developments in group practice when it is only a sideline, and the waste of time preparing proposals in cases where there is little or no chance of securing the case.

Perhaps the most troublesome part of the group business will be found in the small case of 10 to 24 lives. Often the premiums on such cases do not provide commissions large enough for the agent to give much service. Also, where large amounts are involved in these small cases the small company runs the risk of substantial loss if evidence of insurability is not required. If this evidence is required, the small company is at a competitive disadvantage relative to the large company.

MR. JOHN L. GLENN stated that small companies, with less than one hundred million dollars in force, have adopted high minimum policies to a very considerable extent. Most of these are competitive from the standpoint of rate only, but a fair number have high cash values in later years.

Small companies cannot, as a general rule, afford to be very competi-

tive when the problem is viewed from a cost accounting viewpoint. Even if the profit picture appears to be a satisfactory one over the lifetime of the policy, the smaller company cannot afford the long wait required for restoration of surplus.

However, the problem resulting from poor competitive position is not just the loss of business but also loss of agency morale. Much of the activity of the small company, particularly the relatively new company, must be viewed as buying time in order to achieve a better position in competing for agents in business. For this and other reasons it may be appropriate for the actuary of such a company to depart from a strictly cost accounting viewpoint.

There has been a trend for small companies to enter the group insurance field, but group insurance helps augment the income of relatively few agents and also tends to spread management talent too thin.