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DIGEST OF SMALLER COMPANY FORUM

TRENDS IN POLICY PLANS

In the industry as a whole there has been an evident trend toward the sale of lower premium policies, resulting in a reduced rate of asset growth and other consequences.

A. Are the smaller companies experiencing this trend? Is it a matter of concern to their actuaries?
B. Are any steps being taken by individual companies to encourage the sale of policies with a larger investment element?
C. If legislation were to be adopted permitting income tax benefits to self-employed professional people who purchase retirement policies, to what extent would this encourage the sale of policies with larger investment features?

MR. WILLIAM H. AITKEN of the Empire Life in Canada stated that they had experienced a decline in average premium per thousand from $22 in 1955 to $18 in 1959. While they encourage the sales of term and whole life plans where they are appropriate, they have redesigned their pension type policies both with and without insurance to make them more attractive and have authorized larger commission rates for those with longer premium payment periods.

MR. H. IAN McINTOSH of the Equitable Life of Canada reported that the Expense Committee of the Canadian Association of Actuaries had studied the decline in average premium per thousand by size of company for a number of years. Over a 20 year period the average premium in large companies had dropped from $34 to $26, in medium companies from $29 to $22 and in small companies from $24 to $21. He gave as reasons for this trend the reduction in premiums charged for a given benefit, the effect of programming with consequent increase in the proportion of term insurance sold, and the recent trend towards emphasizing the protection afforded by life insurance policies and the possibility of investing savings dollars through other media.

Mr. McIntosh's company is taking steps to train its agents in the advantages of investment type policies and is stressing the fact that term insurance should be used only as a temporary solution for the need for a large amount of coverage. They also try to train their agents to discuss with the prospects the advantages of combining protection and investment elements in one policy. He also mentioned that the guaranteed insurability rider can be used to advantage if there is a vigorous follow-up on the option dates. In order to encourage the use of the option privilege their guaranteed insurability riders, when issued to single men, include a clause whereby an insured may immediately upon marriage pick up three future options (less any options previously exercised), or may purchase a Term Rider for an amount up to three options, which must be replaced at future option dates by permanent insurance.

MR. ROBERT C. BAILEY of the Equitable Life of Washington, D.C., indicated that, in his company, there has been a marked reduction in the proportion of endowment and juvenile policies sold during the last seven years and that the volume of insurance sold on the whole life plan had increased greatly. It was noted, however, that the sales of term insurance had not increased to any large extent and that the drop in average premium could be traced almost entirely to the reduced sales of policies with a large investment element.

He pointed out that the Life Insurance Association of America had discussed the responsibility of life insurance companies to act as a source of funds for economic expansion by acting as collector of small savings from individual policy-owners. The Association feels that life insurance companies should, as a matter of public service, demonstrate that the savings element in life insurance policies is still a very favorable investment when the tax picture is taken into account.

His company is planning to have their agents place more emphasis on retirement plans of insurance with a view to maintaining a desirable increase in assets year by year. Such an emphasis will also help to improve agents earnings since commissions and collection fees are normally expressed as a percentage of the premiums collected.

MR. JOHN C. BURNS, Actuary for Canada of the Standard Life Assurance Company, stated that his company believes that the present emphasis on pension plans naturally means that a large proportion of the remaining funds used to purchase protection will be used to buy such protection on term and whole life plans. His company sells a lot of term insurance, but since it is also engaged in the group annuity business it is not unduly concerned with the trends towards lower premiums for life insurance.

MR. RALPH P. WALKER of the Wisconsin National Life stated that they have been attempting to encourage the sale of policies with a larger investment element by preparing monthly reports for each agent and for each agency, showing, among other things, the average premium per thousand. In this way the managers are able to identify those salesmen who are writing an unduly large proportion of term insurance and can train and encourage these men to sell permanent insurance.

Also, instead of paying general agents expense allowances on the basis of volume of insurance, they are now basing the general agent's total compensation on a percentage of the writing agent's commission. They are also revising their prepared sales talks to emphasize the savings type of presentation.

MR. GEORGE R. FRASER of the Excelsior Life stated that his company had experienced a 20% decrease in average premium per thousand in the past ten years. They are revising some aspects of their agents' compensation in an effort to have the agents place more emphasis on policies with a larger investment element.

They are now basing agents' contract bonuses on premium volume rather than on amounts of insurance. Also volume of premium is being used in place of amounts of insurance when publicizing sales results, branch office production and contest awards. They are attempting to educate their agents in the investment features of permanent life insurance by giving examples of the rate of return which the investment element of the premium would have to earn in order to produce the guarantees in a life insurance policy. Stressing the availability of policy loans and the guaranteed annuity options available to the policyholder may also encourage the sale of policies with a higher investment element. Mr. Fraser also made the point that the existence of the premium waiver disability benefits in life insurance policies may be used to stress the advantages of life insurance contracts over other savings methods.

MR. AITKEN and MR. McINTOSH, commenting on section C, both stated that a relatively small proportion of their new policies, and previously issued policies, are being registered under the Canada and Quebec Income Tax Acts whereby the policyholder may request a deferment of income tax on the savings portion of his life insurance premiums. Out of sales of approximately 6,000 policies annually Mr. Aitken's company registered between 50 and 60 policies in each of the years 1957, 1958, and 1959. Mr. McIntosh confirmed this statement, saying that one and one-half percent of in-force policies had been registered. He estimated that about one person in 300 in the population has taken advantage of the tax deferment provided by the Canadian Income Tax Act.