

Bulletin 6

LIFE INSURANCE SELLING METHODS AND MATERIALS -- PROHIBITED PRACTICES

June 3, 1959

"Profit Sharing" Contracts -- During the past few years there have been a number of companies, both foreign and domestic, offering these policies under various names to the citizens of this State.

Some of these have been Ordinary Life Policies, at or near normal rates, but more often they are Ordinary Life at approximately the same premium as a 20 Payment Life policy. This enables the company to attach a number of guaranteed coupons thereto, and perhaps further state that they are going to allow a particular group of policyholders (4000 to 5000 perhaps) to share in 50%, 75%, or even 90% of the profits realized by the company on this group of favored few, who "get in on the ground floor." In other words, these are participating policies.

New York Life, Equitable, etc. -- The sales kit contains elaborate data, showing that back 75 years ago, some of these old companies appointed "Boosters" in each community to help secure and maintain business in force, for which they were paid a moderate fee. The implication is that "we are going to appoint only a few such persons in each community, and these fortunate individuals will be richly compensated therefor, if they only become 'Charter Policyholders'." We don't need to point out that such an arrangement would be illegal in most States today, and the prospect is, therefore, being misled.

Testimonial Letters -- are often shown, one of which indicates that a certain Purdue professor named G A Young realized very large profits on a similar policy with State Life. We have a letter from State Life advising that Mr. Young never had a policy with that company.

Another such letter, signed by E H Towle, indicated that fabulous profits were realized by him on a \$10,000 Kansas City Life policy bought back in 1906. We have a letter from that company advising that he did have a \$5000 policy with them which showed a good return, but "not as sensational as indicated in Mr. Towle's letter."

Another letter signed by a man named Ade, of Lafayette, indicated that on a Jefferson Natl. policy he bought, by the 11th year the dividends "were carrying his premium." The truth is that in 11 years he had accumulated enough dividends to pay One annual premium.

A circular entitled "You Have Been Nominated" has been used in some areas. It is full of exorbitant claims and misleading statements, and its use has been ordered discontinued wherever we have found it.

Huge Profits in Insurance Business -- Other sales presentations cite the billions of assets accumulated by Metropolitan as an example of the huge profits made in the insurance business. Any good insurance man knows that these billions do not represent money made ("profits") by the company, but is a tribute to the tremendous confidence the public has in the great institution of Life Insurance in general, and in this company in particular. It represents money entrusted to their care, and belongs to the policyholders.

Insurance Stocks -- Other data indicates how insurance stocks have grown in market value, leaving the inference that if the prospect buys one of these "profit sharing" contracts, he too is in for making a fortune -- the "chance of a lifetime" they are told. The prospect is again being misled.

Paid Up Policy -- Frequently the prospect is told that this "profit sharing" policy might even be expected to pay up in 6 to 10 years, because of the unprecedented growth shown by this new company. Figures are presented to show how much more rapidly the new company has reached the 25,000,000 mark than some of the old well known companies did 75 years ago -- a very unfair comparison.

The whole implication is that Tremendous Profits are being made in the life insurance business, and that we (said new company), instead of spending our profits in advertising, are going to share them with "you," the lucky prospect, all of which is "bosh" and will not be tolerated in the State of Indiana.

Lapses and Surrenders -- Figures are presented to indicate how many millions of "profits" are realized by companies from "lapses" and "surrenders." Why don't we tell the public that the more lapses and surrenders we have, the happier we will be, since it all represents "gravy" to the company? That is not only not true, but is the most ridiculous sales approach we ever heard of, and Definitely Must Stop.

Factual and Applicable -- We have always emphasized that any material used in soliciting life insurance business in this State must be factual and applicable. This applies to suggested sales talks for new agents, as well as display matter in sales kits. Stories about what happened in the business 75 years ago; comparisons of profits made on stocks with what may be expected on "profit sharing" contracts; testimonial letters of ancient vintage, and which have no bearing on today's policy forms and conditions; rosy promises as to what may be expected in the way of dividends in future years, etc., all these and any others of a questionable nature, must stop. (See Indiana Code 27-4-1-4.)

If you are not sure that your sales kit and sales presentation will pass a strict scrutiny, better get it in to this Department at once for a review and such revisions as are indicated. Life insurance is one of "man's last best hopes on earth" and we dare not let it be lowered from its high position.

From this date on, any company or any agent found using such questionable material, or making any statements or claims for their policies which cannot be substantiated, may expect to have their license revoked, and in the case of foreign companies, to withdraw permanently from the State of Indiana.

Alden C. Palmer
Insurance Commissioner