

## DOLLARS FOR SECURITY: INSURANCE OR INVESTMENT

E. Carl Hall  
Associate Professor  
Family Economics  
The University of Texas at Austin

In recent years the insurance industry has searched tirelessly for innovative ways to attract new markets and increase the yield in established markets. As the result of this "press" for business, a multitude of contracts boasting glamorous names and glowing terms have appeared on the scene. With variety has come the need for consumers to be better informed about the industry and its many products. But, knowledge of consumers has not kept pace, and understanding of everything from reasons for protection to basic concepts of risk are lacking. It is at this point of need for consumer understanding, you are invited to focus your attention.

Hopefully, two basic purposes will be realized as consumer understanding increases and the industry assumes responsibility for self-regulation. This is the only way consumer dollars can really be used to effectively buy financial security whether through insurance and/or saving or investment. Purposes will at least partially be realized through the development of better educational programs and continuing dialogue with the industry.

### SOME ELEMENTS OF EDUCATION CONTRIBUTING TO KNOWLEDGE OF THE PROSPECT

After teachers get through the usual arguments for not teaching insurance such as: "Kids never die," "I don't know anything about it," "It really won't make any difference in their lives," "They will learn it somewhere," etc., there comes the nagging realization that young people as well as adults, are not competent to cope with the high pressures, sophisticated sales approaches too often employed in the insurance industry. This realization prompts us to "get serious" with young people about some of the "ups" and "downs" of the real world.

Teachers ask two basic questions about the topic of insurance:  
"What should I teach?"  
"How can I teach it?"

Students respond with two questions of their own:  
"What risks do I face?"  
"How can I meet these risks?"

These two sets of questions provide the fertile ground of open honesty in which seeds of knowledge may be sown. A harvest of understanding gives both students and teachers confidence in their ability to meet risk intelligently. Understanding leads to confidence and the ability to maximize dollars for protection.

For example, a student in one class entered the study of insurance by boldly stating, "I don't believe in insurance!" That same student emerged from the class stating, "I am self insuring." The simple realization that we all face risk is enough to make most students think seriously what risk means

in their lives --- to understand they don't have a choice about facing risk --- it is there and they face it. It clears the air for asking how risk might best be met, and the costs of transferring that portion of risk which cannot be assumed by the individual or family. When matters such as these are clear, students are ready to move into a search for answers to personal protection problems.

Another essential element of education focuses on the teacher who employs several entertaining yet thought provoking techniques to attract students to the study of insurance. Reading a chapter in some well worn text isn't the students idea of attraction either. Rather, it might be possible to play the game of "dupes" or pitch pennies, or set up a company or talk about the high cost of insurance covering some unusual risk. Whatever the introductory gimmick, students must see a need to learn what the teacher teaches. Once students are serious about their need for information, they will plan, work, research, or do almost anything to learn.

Obviously, it is not enough just to attract students. An effective teacher must know where to go once students are attracted. This brings us face to face with the need for not only subject matter competence, but almost more importantly the need for an educator who exhibits willingness to learn with the students. The insurance industry is changing so rapidly it is impossible to rely entirely on old college notes, or for that matter, a recently published textbook. Subject matter competence involves both clear understanding of basic principles of risk and a desire to continue learning as programs, sales approaches, and the economy changes.

To illustrate the type of basic information which should be taught, policy construction has been selected. Let's assume you have attracted students who are fairly mature. Shouldn't they know how a life insurance policy is built? Do you know? Note the diagram. Every life insurance policy is built on a base of pure protection. Dollars spent for this pure protection will never be recovered. Why? Because, the insured (Person whose life is protected) and his beneficiaries receive service in the form of protection for these dollars. The life contract is a simple bilateral contract which clearly states that named beneficiaries will receive the face amount of the policy if the insured passes within the time coverage is in force. Money that is paid for this protection will never be recovered. Therefore, students should understand that either all or a portion of their premium dollar pays for this service. If all the premium dollar goes for this service, the policy owner is buying TERM life insurance. Again, it should be emphasized that "pure protection" or TERM insurance is at the base of every life insurance policy.

When a portion of the premium dollar goes to "pure protection" and part of it goes into savings the policy owner is buying PERMANENT protection. This simply means that not only will he be covered for the face amount, but should he live a cash reserve will accumulate. This cash reserve does not build rapidly since

in most instances the money the company saves for him draws only about 2 to 3% interest. Of course, an individual who will not save, is forced to save by the company when he buys permanent insurance. In this case it is quite beneficial for the non-saver to buy PERMANENT protection. However, if an individual or family will discipline itself to save, a much greater yield can be obtained by buying TERM insurance and placing the additional part of the premium in some safe and/or speculative saving or investment outlet, dependent upon carefully pre-defined goals. In effect---protection is protection and saving is saving. Both components must be recognized by the purchaser of life insurance if he is to receive the greatest financial benefit and psychic security from dollar spent.

The teacher equips students with basic tools for analysis. For example, students should emerge from the study of life insurance asking: Do life insurance dollars buy security? Is permanent life insurance saving for me? Am I capable of saving or investing dollars as the result of self-discipline? Which program really fits me?

These may sound like sobering questions. They are! However, they can be couched in terms and experiences with which students will identify. Even the slow student should feel comfortable with a search for answers to such far reaching questions. Why? Because his life and future are more important to him than anyone else's. Differing student populations illustrate the need for the use of analogies. An efficient teacher will draft illustrations, stories, or carefully drawn analogies that speak to the background and current level of knowledge possessed by students.

After a teacher has asked what to teach and how to teach it, students will be settling the questions of what risk really means and how to face it. Of course the age old questions of motivation and grading arise. Should grading be based on recall alone? No, attach values and skills in decision-making to involvement projects, research, and community activity as well as pencil and paper exams. An optimum suggests that students start performing as the result of a genuine desire to learn a better life, rather than as a result of external pressures.

#### RESPONSIBILITIES OF THE INSURANCE INDUSTRY

The spotlight falls not only on educators, but also on the industry and its responsibility for self-regulation. Three areas of industry activity need revamping in light of this responsibility.

Training new salesmen has always been a problem and a large expense for the life insurance industry. Too often it is a matter of "turning green salesmen loose on a green field." Some companies use young college students or new graduates in the college market to determine whether they have what it takes to become top producers. These inexperienced agents find it very difficult if not impossible to tailor a policy to specific individual needs, therefore, they resort to the sale of rather fancy, high-priced

savings plans which are supposed to fit everyone. This often leads to misunderstanding of both the cost and types of coverage provided. In fact in some states promissory notes are signed for the first one, two or three years of the contract. Finally, when a student realizes what he has purchased and the high cost of the contract, he becomes disillusioned and may refuse later to buy additional coverage when he really needs it. This leads to the conclusion that the life insurance industry cost for screening new sales personnel is extremely high. Granted, someone who is successful in the college market will generally be successful as a career agent, but many contracts will be lost as a result of bad experiences prospects have gone through as students. The question arises, whether the industry should reorganize its screening process in terms of not only short range goals, (finding highly effective salesmen) but also in terms of long range goals (servicing individuals for a life time as their needs for protection change).

Another practice which deserves serious consideration by the industry involves the technique of selling the same high cost policy, options and all to every young person. This might be characterized as selling a "Corvette" that is loaded with extras to everyone regardless of whether they just need basic transportation. Good judgment and reason both within and outside the industry suggests that not everyone "wears the same size suit". Therefore, it is ridiculous to try and sell everyone the same size suit. Life insurance protection should be tailored to fit the needs of a specific individual. When it is not it incurs inefficient use of dollars for protection. The life insurance industry needs to seriously consider the practice of allowing only young, inexperienced salesmen to work the college market. A young prospect needs protection tailored to his particular situation, yet he has little money which he is either willing or able to commit to life insurance. So, the "green" salesman, through the use of high pressure approaches in which he has been trained, signs the applicant to a high priced endowment policy, premiums to be paid by the use of a three year interest bearing promissory note. This is NOT the answer!!! This practice leads to ill will and a cost which is too high for either the individual or industry. The life insurance marketplace cannot afford such a luxury.

A third area of promotional activity borders on unethical behavior by sales personnel. To illustrate the vicious nature of competitive sales activities in the college market, let's reconstruct a rather creative yet damning venture used on one university campus. Student prospects were invited to beer and wine parties of an intimate nature. Contracts were on the table along with pens and plenty of refreshing beverages. However, the climate under which students were contacted is not the most sobering part of this particular game of charades. At one party a young lady was approached by a "sharp" young man about the possibility of a career in the life insurance industry when in fact he had no authority or intention of trying to place her in the industry. This fact was established when she became more serious than he had anticipated about the opportunities for young women. The approach

was employed to pressure her into signing a contract for life insurance. It is unwise to generalize, but similar cases paint a dismal picture for both young people on that campus and the industry as well, when this young lady exposes her bitterness to others. Neither the consumer nor the industry can afford the high cost of this type of game playing in the marketplace.

### CONCLUSION

An abundance of evidence exists to support the need for responsible behavior both in the classroom and industry activities if consumers are to enjoy the satisfaction that comes from wisely planning the use of dollars for protection. The topic, "Dollars for Security: Insurance or Investment," cannot be explored logically without soon arriving at a point of view which motivates an individual to analyze his own need and purchase programs which provide both short and long range security. This may come in the form of a well tailored permanent life insurance policy for one while for another it may be built around term protection plus some type of saving/investing package.

The ultimate for both consumer and the industry would be an informed buyer serviced by an ethical, well-versed sales person. An initial sale puts money in the pocket, but a service oriented sale keeps money in the pocket. The "satisfied customer" is more than a cliché, it means profit for both the individual buyer who is planning his family business carefully, and the professional salesman who sells service.