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SPECIAL REPRINT

Editor's note: My article below and the article by Alan Press beginning on page 2 are reprinted from the 28-page May/June 2005 issue of *The Insurance Forum*. The material is copyrighted. Please do not reproduce this special 4-page reprint in whole or in part. Instead, please refer to the box on page 4 for details about the availability of complimentary special reprints, the package of background information on A. L. Williams and Primerica, and the May/June 2005 issue.

THE A. L. WILLIAMS/PRIMERICA ASPECT OF THE TRANSACTION BETWEEN METLIFE AND CITIGROUP

On January 31, 2005, MetLife, Inc. (NYSE: MET) and Citigroup Inc. (NYSE: C) announced in a joint press release an agreement under which MetLife will purchase Travelers Life & Annuity, a component of Citigroup, for \$11.5 billion, subject to closing adjustments. The press release became part of 8-K reports filed on January 31 by both companies with the Securities and Exchange Commission. Here is one paragraph of the press release:

In connection with the transaction, Citigroup and MetLife have entered into ten-year agreements under which MetLife will greatly expand its distribution by making products available through certain Citigroup distribution channels, subject to appropriate suitability and other standards. These channels include Smith Barney, Citibank branches, and Primerica in the U. S., as well as a number of international businesses.

Primerica Financial Services ("PFS"), formerly the A. L. Williams organization ("ALW"), is a large, national insurance agency. PFS agents represent Primerica Life Insurance Company ("Primerica"), formerly Massachusetts Indemnity and Life Insurance Company ("MILICO"). In the 1980s, I wrote numerous articles critical of ALW/MILICO activities.

Alan Press, CLU, also wrote numerous articles critical of ALW/MILICO and, later, PFS/Primerica. He believes—as I do—that the MetLife/Citigroup

announcement mentioning Primerica is "fraught with irony." In the wake of the announcement, he wrote the article that begins on the next page.

Mr. Press, in my opinion, is a life insurance statesman. He was general agent in New York City for The Guardian Life Insurance Company of America for 34 years, and is now general agent emeritus. He is also senior vice president of Wealth Advisory Group LLC. He is a past president of The National Association of Life Underwriters (now the National Association of Insurance and Financial Advisors), and served for nine years on the board of trustees of The American College. He received the 1991 John Newton Russell Memorial Award, which is "the highest honor of the institution of life insurance." He has received many other industry and company awards.

In connection with the article, Mr. Press had several questions for Robert H. Benmosche, chairman and chief executive officer of MetLife. I wrote to Mr. Benmosche, listed the questions, and invited him to respond so that his answers could be reflected in the article. To provide background about our views on ALW/PFS, I enclosed a few of Mr. Press's articles and a few of my articles. I received no reply.

For persons interested in ALW/PFS, Mr. Press and I will provide a package of background material similar to what I enclosed with my letter to Mr. Benmosche. See the box on page 4 for information on how to obtain the "ALW/PFS package."

WET ON MET?

by Alan Press

Arthur Lynch Williams, Jr. (“Coach”), a former successful high school football coach in Georgia, started the A. L. Williams organization (“ALW”) in 1977 with 85 agents. It is a large, national insurance agency that for many years placed its business with Massachusetts Indemnity and Life Insurance Company (“MILICO”). By the end of 1988, the Coach had built a sales organization that claimed some amazing records: 195,000 representatives across the United States, \$253 billion of life insurance in force, and \$92.3 billion of life insurance sold in 1988.

ALW/MILICO also established other records which, depending on one’s perspective, were either equally amazing or dubious. I believe that they have churned more agents than any other company, indiscriminately replaced more policies than any other company, and lapsed more of their own policies than any other company.

Not long ago, one of ALW’s slogans, in addition to “Screw Pru,” was “Wet on Met.” See the box below for a sampling of the Coach’s views of his competitors, as presented in a pep talk at a 1985 convention of ALW agents.

The Fundamentals of ALW

Based on my observations over many years, it appears that ALW followed certain fundamental procedures. Here are six of them:

- **Recruit an army of part-time life insurance agents into a multi-level marketing system.**
- **Brainwash the agents to believe that the high-priced term life insurance offered by ALW/MILICO, combined with expensive investments, is the only financial program anyone should have.**

THE WORDS OF THE COACH

- Cash-value insurance is the biggest ripoff in America today.
- They [our competitors] go out there and screw the public selling cash-value insurance.
- Ninety-plus percent of those jokers [our competitors] own term insurance and sell cash-value insurance.
- Probably about 5 or 10 percent of them [our competitors] own cash-value insurance. The consumer certainly don’t want to deal with somebody so dumb. Right?
- Who in their right mind would trust insurance companies with their record of screwing the public?
- A. L. Williams found a better way to build a company. Our competition can’t compete with us, and we’re going to do it to ’em like you can’t believe.

- **Create false, incomplete, and misleading illustrations with which to “prove” that every cash-value (“trash-value”) life insurance policy should be indiscriminately replaced with products offered by ALW agents.**

- **Utilize high-priced lawyers to threaten and intimidate competing agents and companies trying to conserve their business, and to overwhelm any state insurance regulator with the temerity to challenge ALW practices.**

- **Keep ALW agents utterly ignorant about the life insurance industry.**

- **Teach ALW agents to hate the agents of any company selling cash-value life insurance.**

The Move to Citigroup

After a series of mergers and acquisitions, and after a scandal that caused the Coach to leave the business in 1991, ALW became Primerica Financial Services (“PFS”), and MILICO became Primerica Life Insurance Company (“Primerica”). Primerica/PFS eventually became part of Citigroup Inc., which also owned Citibank, Smith Barney, Travelers, and other companies. Citigroup, under former chief executive officer Sanford I. Weill, became the world’s largest financial services organization.

MetLife, Inc. owns Metropolitan Life Insurance Company, General American Life Insurance Company, New England Life Insurance Company, and other companies. On January 31, 2005, MetLife and Citigroup announced in a joint press release that MetLife was buying Travelers Life & Annuity for \$11.5 billion (subject to closing adjustments). As a result, MetLife will become the largest seller of life insurance and the second largest seller of annuities in the United States. Although PFS is not included in the sale, the agreement commits MetLife to provide products for sale by PFS agents for ten years.

There have been cosmetic changes to Primerica/PFS over the years, and the association with Citigroup has polished their image to some extent. Their fundamental procedures, however, have not changed. If they had, PFS agents would not have been able to sell enough term insurance to support the infrastructure. Here are three quotations from Primerica’s current website showing how little has changed:

- **Primerica developed the philosophy of “Buy Term and Invest the Difference.”**

- **We believe that people should buy term life insurance with maximum coverage and minimum dollars. Then, with the money families save in life insurance, we teach them how to say goodbye to debt and say hello to healthy retirement.**

- **Decades after it revolutionized an industry, the “Buy Term and Invest the Difference” philosophy continues to be the cornerstone of Primerica’s mission—to help families become debt free and financially independent.**

The leadership of Primerica/PFS has deep roots in the organization’s background. John A. Addison, Jr., co-chief executive officer and president, and D. Richard “Rick” Williams (not related to the Coach), co-chief executive officer and chief operating officer, joined the organization in 1982 and 1979, respectively. They remain dedicated to selling high-priced term insurance and, to “twist” a phrase, they continue to operate a replacement mill.

The LIMRA Paper

In 1996, James O. Mitchel, Ph.D., then second vice president and director of industry research at LIMRA International (a life insurance trade association) and I prepared a research paper on external replacements in the U. S. and Canada. (An external replacement is by a company other than the company that issued the replaced policy, and an internal replacement is by the same company that issued the replaced policy.)

We sought data for the 1993-1995 period from LIMRA’s largest North American companies and members of LIMRA’s quality business committee. Of 72 questionnaires sent, 37 were returned. The respondents represented about 30 percent of U. S. and Canadian individual life sales based on premiums. (Metropolitan Life was one of the very few major companies that did not return the questionnaire.)

LIMRA prepared and mailed the questionnaire. Responses went to LIMRA, and the data were tabulated there. Excerpts from the paper were published in an article in the March/April 1997 issue of *LIMRA’s Market Facts*. Here are two non-consecutive paragraphs from the article:

We asked companies that track the replacing company for the number of policies replaced over the past three years by each. In both the United States and Canada one company dominated—Primerica Financial Services (the former A. L. Williams organization, now a division of The Travelers). Primerica represented 42 percent of the externally replaced policies in the United States and 53 percent in Canada. The next highest company in the United States only replaced 10 percent and in Canada, 8 percent.

In some cases inappropriate replacement is indeed attributable to rogue agents, operating independently of the companies they represent. However, if it involves large numbers of agents over a sustained period, it can only be successfully implemented with the active organizational and technical support of high-level home office personnel who encourage and protect the activity, and who benefit equally from the results.

Questions for Mr. Benmosche

Robert H. Benmosche is chairman and chief executive officer of MetLife. The following comments are among those attributed to him in the January 31 press release:

Primerica, Smith Barney and Citibank branches are outstanding organizations that perfectly complement MetLife’s existing channels. The distribution agreement will provide us with the broadest distribution network in the industry.

The assertion that Primerica is an “outstanding organization” prompts me to believe that the current management of MetLife is not aware of the past and present activities of ALW/PFS. My questions for Mr. Benmosche are in the box below.

QUESTIONS FOR MR. BENMOSCHE

1. Why did MetLife decide to establish a business relationship with Primerica Life Insurance Company and PFS?
2. Currently PFS agents sell term life insurance products manufactured by Primerica Life, annuities manufactured by Travelers Life & Annuity, and mutual funds manufactured by Smith Barney. Which of those products will the MetLife companies supply to PFS agents?
3. Will PFS agents be allowed to replace cash-value life insurance policies issued by Metropolitan Life, General American, New England, and Travelers? If so, will PFS agents receive commissions on the replacement policies?
4. Will PFS agents be encouraged to sell cash-value life insurance policies issued by the MetLife companies?
5. Will the MetLife companies provide training for PFS agents?
6. For business sold by PFS agents, will the MetLife companies apply the same underwriting standards they apply to their own business?
7. Will PFS agents sell products manufactured and underwritten by the MetLife companies, but on Primerica Life paper?
8. Will there be some types of products the MetLife companies will not make available for sale by PFS agents? If so, what types will not be made available, and why will those limitations be imposed?
9. With whose broker dealer will PFS agents licensed to sell equity products be Registered Representatives?
10. What sort of compliance system will the MetLife companies put in place relating to the activities of PFS agents?

It is regrettable that Mr. Benmosche did not answer the questions. I do not know why he thinks Primerica is an “outstanding organization.” I do not know why he is willing to assist an organization dedicated to eliminating MetLife’s core product and compromising the persistency of MetLife’s existing business. I have no information about his views on MetLife’s obligations to the rest of the industry, or about the quality of the due diligence that preceded the decision by MetLife’s board of directors to enter into a business relationship with Primerica/PFS.

Many agents of the MetLife companies—and other companies—have had direct, personal experience with PFS/ALW. I strongly urge them to write to Mr. Benmosche and share their thoughts.

Conclusion

The Coach’s legacy lives on. It remains to be seen how long and how well it will survive its new relationship with MetLife.

MetLife’s commitment to supply products to Primerica/PFS is fraught with irony. I can imagine Bob Benmosche and his new colleagues, John Addison and Rick Williams, sitting down together and toasting the Coach who made it all possible, their past as adversaries, and their future as allies. And it would not surprise me if the Coach is sitting in his rocking chair, laughing, and looking forward to watching his disciples transform MetLife into a company that engages heavily in replacement activity and in the sale of high-priced term insurance. Could there be a better way for him to continue to “Wet on Met?”

Addendum: Term-Only Licenses

Primerica has proposed—and is pushing hard for enactment of legislation in several states—to create a special agent’s license for term life insurance only. The proposal would allow individuals to obtain a term-only license with significantly reduced pre-licensing educational requirements. (I became aware of Primerica’s leadership role in the effort subsequent to my initial preparation of this article and the questions I addressed to Mr. Benmosche.)

Peter W. Schneider, senior vice president and general counsel of Primerica, is leading the term-

only campaign. Here is his explanation, according to the March 7 issue of *National Underwriter*:

We took a look at what the industry is doing with respect to serving the middle and lower income consumer. The life industry is basically not doing it. The reason they [middle and lower income consumers] are not purchasing insurance is that there are no life insurance agents in their neighborhood. There needs to be a different kind of license for term insurance that would allow agents to serve this market.

The National Association of Insurance and Financial Advisors has taken a strong position against the proposal for term-only licenses. A working group of the National Association of Insurance Commissioners adopted a resolution against the proposal, but the group’s parent committee held up the resolution pending further study. The American Council of Life Insurers says the proposal “requires further discussion among ACLI and its member companies.”

I have seen no discussion of important questions raised by the term-only proposal. Here are five:

- **Who would promulgate a precise definition of the “middle and lower income” market?**
- **Would term-only licensees be prohibited from discussing other forms of insurance with prospects who fit the definition?**
- **Would term-only licensees be prohibited from contacting prospects who do not fit the definition?**
- **What penalties would be imposed on term-only licensees who violate the prohibitions?**
- **Will Mr. Benmosche and the MetLife companies support Primerica’s effort to create term-only licenses, or will they oppose the proposal?**

The proposal for term-only licenses is an effort to weaken licensing standards that are already too weak. Primerica wants to make it easy to license huge numbers of agents—mostly part-time agents—the overwhelming majority of whom will last no more than a few days or weeks in the business. The proposal poses a threat to the life insurance industry and is contrary to the public interest.

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A single reprint of the 28-page May/June 2005 issue is \$20. Reprints are \$15 each for orders of at least 2 to be sent in one shipment, \$10 each for at least 10, and \$8 each for at least 25. Further discounts are available for at least 100.

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