

Complaint

IN THE MATTER OF

GUARANTEE RESERVE LIFE INSURANCE COMPANY OF
HAMMOND ET AL.

ORDER, ETC., IN REGARD TO THE ALLEGED VIOLATION OF THE FEDERAL TRADE
COMMISSION ACT

Docket 6243. Complaint, Oct. 14, 1954—Decision, July 23, 1962

Order dismissing without prejudice—the evidence relating to practices too remote in point of time to support the recommended order—complaint charging a Hammond, Ind., insurance company with false advertising.

COMPLAINT

Pursuant to the provisions of the Federal Trade Commission Act, as that Act is applicable to the business of insurance under the provisions of Public Law 15, 79th Congress (U.S.C., Title 15, Secs. 1011 to 1015, inclusive), and by virtue of the authority vested in it by said Act, the Federal Trade Commission, having reason to believe that the Guarantee Reserve Life Insurance Company of Hammond, a corporation, sometimes hereinafter referred to as respondent corporation, and Ben Jaffe, Jerome F. Kutak and Eugene Jaffe, individually and as officers of respondent corporation, sometimes hereinafter referred to as individual respondents, have violated the provisions of said Act, and it appearing to the Commission that a proceeding by it in respect thereof would be in the public interest, hereby issues its complaint, stating its charges in that respect as follows:

PARAGRAPH 1. Respondent Guarantee Reserve Life Insurance Company of Hammond is a corporation organized, existing and doing business under and by virtue of the laws of the State of Indiana, with its office and principal place of business located at 128 State Street, Hammond, Ind.

PAR. 2. Respondents Ben Jaffe, Jerome F. Kutak and Eugene Jaffe are President, Vice President and Secretary, respectively, of the respondent corporation and as such direct, dominate and control the acts and practices of respondent corporation at all times herein mentioned. The business address of each of the aforesaid individual respondents is 128 State Street, Hammond, Ind.

PAR. 3. Respondents are now, and for more than two years last past have been, engaged as insurers in the business of insurance in commerce, as "commerce" is defined in the Federal Trade Commission Act, by entering into insurance contracts with insureds located in various States of the United States other than the State of Indiana,

in which states the business of insurance is not regulated by state law to the extent of regulating the practices of respondents alleged in this complaint to be illegal. Respondents maintain, and at all times mentioned herein have maintained, a substantial course of trade in said insurance policies in commerce between and among the several States of the United States.

Respondents, during the two years last past have issued a variety of policies providing indemnification for losses resulting from sickness or accident including those designated by it as Forms AS-2-51-1 (SD); A.S. 2-51-1; A.S. 197; H. 91-51; L-53 B-52; N-192-52A; L-53A-51; A-27-40-1; A-27-60-1; A-27-80-1 and LS-52-50.

The respondents are licensed as provided by the respective state laws to conduct an insurance business in the States of Indiana, Illinois, Kentucky, Ohio, Missouri, Virginia, West Virginia, Florida and Delaware. Respondents are not now, and for more than two years last past have not been, licensed as provided by the state law to conduct an insurance business in any state other than those last above mentioned.

Respondents solicit business by mail in the various States of the United States in addition to the State of Indiana. As a result thereof they have entered into insurance contracts with insureds located in many states in which they are not licensed to do business. Respondents' business practices are not regulated by any of those states as it is not subject to the jurisdiction of such states. In addition respondents enter into contracts of insurance through agents in each of the states in which they are licensed to conduct an insurance business.

PAR. 4. In the course and conduct of their said business, and for the purpose of inducing purchasers of said insurance policies, respondents have made, and are now making, numerous statements and representations concerning the benefits provided in said policies of insurance, by means of stuffers, circulars, folders, and other advertising material distributed throughout the various States of the United States. Typical, but not all inclusive of such statements and representations, are the following:

1. Age 10 to 79
No reduction in benefits or increase in premiums on account of age.
No termination age.
For people up to age 80
2. *The policy covers all Accidents and every sickness. We do not specify the various accidents or sickness covered by this policy for the simple reason that it covers all accidents and every sickness except insanity, venereal disease, childbirth and pregnancy. This is not a limited type policy.*
24-hour-a-day protection on or off the job
\$100 per month regular monthly income for every sickness and all accidents
* * * any accident, any confining sickness

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3. \$100.00 a month if disabled by accident payable from the very first day of medical attention at the rate of \$25.00 per week for a maximum of twelve weeks if caused by a great many specified accidents such as while traveling on trains, or in private automobiles or as a pedestrian.
4. Non-confining sickness up to 12 months.
You do not have to be House Confined to collect full benefits.
5. Guarantee Plan also pays your family \$750.00 to \$20,000 for any accidental death * * * regardless where or how the accident occurs.
In addition to the benefits paid your family for accidental death, this Guarantee policy also pays *you* cash benefits for specific losses, as result of accident, of certain members of your body—such as hands, feet, eyes, etc.,—in sums ranging up to \$2,500.00.
In case of accident or sickness * * * for surgical fees up to \$650.00.
6. What will it mean to you to have \$100 a month for the rest of your life, if totally disabled by sickness or accident?
Pays up to \$100.00 per month income for the rest of your life * * * payable as long as you are disabled and cannot work because of any accident or any confining sickness.
7. Only 25¢ puts your policy in force for 1 full month.
For only 25¢—the full first month premium—you can put in force this new life time income sickness and accident policy that gives you cash insurance protection for all your life.

PAR. 5. Through the use of such statements and representations, and others of similar import and meaning not specifically set out herein, respondents represent and have represented, directly or by implication:

1. That the indemnification provided in all the said insurance policies may and will be continued, at the option of the insured, to the age of 80 so long as the insured continues to make premium payments within the time and in the amounts provided by the policy.
2. That the indemnification contained in said insurance policies provide for payment of cash benefits to the insured for loss occasioned by any sickness or accident suffered by the insured.
3. That said insurance policies provide indemnification in the form of cash benefits, for a maximum of twelve weeks when disabled while traveling in a train, private automobile or as a pedestrian.
4. That cash benefits are payable up to twelve months for loss of time due to total disability resulting from non-confining sickness.
5. That said insurance policies provide cash benefits up to \$20,000.00 for all accidental loss of life, up to \$2,500.00 for all accidental loss of limbs or sight and a maximum of \$650.00 for the surgical operations necessitated because of any one accident or sickness.
6. That said insurance policies provide for the monthly payment of cash benefits, in a specific amount, to the insured when totally disabled by any accident or confined by any sickness for the duration of such total disability up to a life time.

7. That for the payment of twenty-five cents the respondents will issue an insurance policy to the insured which will provide indemnification for loss occasioned by accident or sickness from the date of its issuance for one month.

PAR. 6. The aforesaid statements and representations are false, misleading and deceptive. In truth and in fact:

1. The indemnification provided in all of said insurance policies may not be continued to the age of 80, or any other age, at the option of the insured by the timely and required payment of premiums, but, on the contrary, under the terms of certain of said insurance policies the respondents may refuse to accept renewal premiums and thus cancel the said insurance policies thereby terminating the indemnification provided therein. Further, said insurance policies and the indemnification provided therein are automatically cancelled upon the payment of any cash benefit for loss of limb or sight.

2. The indemnification contained in said insurance policies do not provide for the payment of cash benefits to the insured for loss occasioned by any sickness or accident suffered by the insured. On the contrary, said insurance policies do not cover loss by accident unless bodily injury is sustained, independently of all other causes solely through accidental means or independent of other causes through violent, external and accidental means. No loss resulting from sickness is indemnified if the cause of such sickness is traceable to a condition existing prior to or within 15 or 30 days of the effective date of the policy.

Said insurance policies further provide that no loss will be indemnified resulting from an accident occurring or sickness contracted outside the United States or Canada; or loss caused by venereal disease, syphilis, pregnancy, childbirth or complications therefrom; insanity or mental infirmity; or losses caused by tuberculosis, heart trouble and disease of the organs which are peculiar to women, such occurring within six months after the effective date of the policy; and losses resulting in sickness or disease excluded by specific provision of certain of the policies.

3. Said insurance policies do not provide indemnification in the form of cash benefits for a maximum of twelve weeks when disabled while traveling in a train, private automobile or as a pedestrian. On the contrary, the described cash benefits for twelve weeks will not be paid unless injury occurs, while riding as a fare-paying passenger in a train, or in a private automobile of the exclusive pleasure type and is not being used for a business purpose and by reason of it being wrecked or disabled; or as a pedestrian unless injury results from

actual contact with a moving conveyance. The said disability must require the regular treatment of a physician or surgeon and continuously and wholly prevent the insured from attending to any and every kind of business or labor.

4. None of respondents' said insurance policies provide for the payment of cash benefits up to six months for loss of time resulting from total disability if the insured is not continuously confined within doors. One policy (L-53A-51) provides such a payment up to three months; and the other (L-53B-52) provides a payment up to one month.

5. Said insurance policies do not provide cash benefits up to \$20,000.00 for all accidental loss of life, up to \$2,500.00 for all accidental loss of limbs or sight and up to \$650.00 for surgical operations necessitated because of any one accident or sickness. On the contrary, said insurance policies provide that the accidental loss of life must occur while the insured is a passenger of common carrier for passenger service, then only when such loss shall be caused by the disablement or wrecking of the car or steamship in which the insured is riding, or the accidental loss is within the insuring clause of said insurance policies and death occurs within sixty days from the date of accident and the insured has been wholly and continuously disabled since the date of such accident. None of said policies provide a maximum of \$20,000.00 for accidental loss of life.

The indemnification for accidental loss of limb or sight provides fixed cash benefits if the loss occurs within 30 days, 60 days or 100 days depending upon the time period defined in each of said policies. Further, the insured must have been wholly and continuously disabled from the date of the accident to the date of the loss.

Further, the said insurance policies providing cash benefits for surgical operations contain a "Schedule of Operations" in which operations are listed with the maximum amount payable for each scheduled operation performed but none of said operations so listed indemnify the insured to a maximum of \$650.00. The great majority of the listed operations in all of said insurance policies range from a maximum of \$5.00 to \$75.00 and it is provided in said insurance policies that only one cash benefit is payable for any one operation performed because of any one sickness or accident.

Under the insuring clause, the operations necessitated by many sicknesses and accidents are not included; also the said insurance policies specifically exclude the insured from being indemnified because of any operation performed on account of sickness unless the policy has been in effect at least six months.

6. Said insurance policies do not provide monthly indemnification, in a specific amount, to the insured when totally disabled by any accident or confined by any sickness for the duration of such total disability or confining sickness up to a life time. On the contrary, many disabling accidents and confining sicknesses which the insured may suffer or contract are excluded for the reason set out in subparagraph 2 herein of this paragraph 6.

The terms of said policies not only require that the insured be disabled in case of accident but provide that the disability must wholly and continuously prevent the insured from performing the duties of any occupation, and require the professional care and regular attendance of a physician or surgeon.

If the insured receives one of the cash benefits for the loss of limb or sight, no monthly indemnification will be paid to the insured. Loss resulting from sprain or lame back will receive the represented indemnification for only 30 days. Certain of said insurance policies reduce the specific amount of the indemnification when the insured reaches a stated age.

7. The respondent, upon the payment of twenty-five cents, will not issue an insurance policy to the insured providing indemnification for loss occasioned by accident or sickness from the date of its issuance. All of said insurance policies prevent the insured, by the terms thereof, from receiving indemnification because of loss from sickness until the policy has been in force at least fifteen or thirty days and excludes all losses from certain sicknesses until the policy has been in force at least six months.

PAR. 7. The use by the respondents of said false statements and representations with respect to its insurance policies has had, and now has, the capacity and tendency to mislead and deceive, and has misled and deceived, a substantial portion of the purchasing public into the erroneous and mistaken belief that the statements and representations were and are true, and to induce such portions of the purchasing public to purchase a substantial number of said insurance policies by reason of said erroneous and mistaken belief.

PAR. 8. The aforesaid acts and practices of the respondents, as herein alleged, are all to the prejudice and injury of the public and constitute unfair and deceptive acts and practices in commerce within the intent and meaning of the Federal Trade Commission Act.

Mr. R. D. Young for the Commission.

Mr. A. Alvis Layne, Jr., and *Mr. T. S. L. Perlman*, of Pennsylvania Building, Washington, D.C., for respondents.

