TRANSACTIONS OF SOCIETY OF ACTUARIES
1962 VOL. 14 PT 2

DIGEST OF SMALLER COMPANY FORUM—PHILADELPHIA REGIONAL MEETING

INDIVIDUAL HEALTH INSURANCE

A. What are some of the special problems of smaller companies entering this field?
B. How are health insurance operations administered in smaller companies? Are operations integrated functionally with other insurance operations (*e.g.*, underwriting and claims handled by the same departments as those handling life underwriting and claims), or are separate health insurance departments established?
C. To what extent are reinsurance facilities used?
D. Are any smaller companies introducing health insurance policies covering persons now over age 65?

MR. HOWARD T. COHN: Bankers National has been writing health insurance since 1945 and has yet to show a profitable year of operation. We originally rationalized our entry as an accommodation for our agents in line with our over-all company policy of offering a wide range of products. Our problem today is how to put the operation on a profitable basis. We feel that it is essential to allocate expenses to each line of business as accurately as possible. For 1961 the ratio of general insurance expenses ran over 25% of earned premium, and the problem would seem to be how to increase premium income in order to reduce the expense ratio.

Our efforts in the past have been mostly toward improving our coverages. We have recently developed a new noncancelable loss-of-time policy and a guaranteed renewable hospital policy. In the past we have avoided appointing agencies specializing in health insurance, but our thinking in this respect is beginning to change. To secure the necessary premium volume a smaller company must have an aggressive agency attitude for health insurance business and not preclude the contracting of agencies specializing in the sale of health insurance.

Bankers National has been integrated functionally to the greatest extent possible. However, this approach requires an accurate cost accounting system to properly allocate expenses by line of business.

We have utilized reinsurance facilities in an effort to control undue claim fluctuations and incidentally to allow liberal limits of issue. As an example, we write up to $600 per month loss-of-time benefit, of which $300 per month is retained and the excess amount is coinsured. By the same reasoning, we issue up to $20,000 of accidental death benefit with health insurance policies but we retain only $10,000.

MR. LAWRENCE C. PATZ: All health operations at the United Life are fully integrated with the life insurance operation. We issue only noncancelable loss-of-time policies (93% attached to a life policy). The premiums for the health portion are lower than premiums for a separate health policy since the life policy bears the expense of underwriting and premium billing. A single application form is used for all new business, whether or not health insurance is involved.

We feel that this system enables us to provide better service at less cost, since a single underwriter expends little additional effort for health insurance. Our agency force is also well pleased with the system.

United Life reinsures only its lifetime accident rider as follows:

Monthly Income	Amount Reinsured
Up to $100	None
$100 to $200	50%
$200 and up	Excess over $100

MR. JAMES G. GRAY, JR.: Without a doubt the basic problem is profitability. Adequate premiums help attain this goal, but claim administration and underwriting are also of paramount importance.

Security Mutual of New York entered the field in 1940 with commercial loss-of-income policies; accident policies covering medical reimbursement; accident only loss-of-income policies; and commercial hospital policies. In 1948 we began issuing noncancelable loss-of-income policies, and decided in 1959 to offer loss-of-income only on a noncancelable basis. We do not issue an individual major medical contract.

Security Mutual has a Health Vice President. Under the Health Vice President we have a claim manager and three supervisors—a health supervisor, a group supervisor, and a life supervisor. Thus, all claims are handled under one claim manager. All health underwriting is also under this Vice President. Our system is partially integrated since health accounting and actuarial work is done by those respective departments.

Security Mutual retained up to $50 weekly on commercial loss-of-income and reinsured 50% of total on larger policies. On our current noncancelable series we retain up to $300 monthly if the benefit period is five years or less. The excess is automatically reinsured. Our accident only policies follow these rules also. If the benefit period is more than five years, our retention limit is $200. Hospital plans are not reinsured. We have been investigating the possibility of reinsuring all income payments made beyond a basic policy sickness period through some stop-loss reinsurance agreement.

Security Mutual began offering in 1955 and still issues coverage through age 70 without any reduction in benefits on a special hospital policy for dairy farmers. We do not offer any policies guaranteed renewable for life, but New York law is such that certain optional policies must be made available at the expiry of coverage on all individual hospital policies and also on conversions of group hospital. Since deterioration in health would be no basis for nonrenewal, these optional policies are in effect guaranteed renewable for life.

MR. WILLIAM C. BROWN: Colonial Life has been in the individual health insurance field for about a year and a half and our principal problem is to get an adequate volume. Perhaps when we find the means to solve that we will also have to face the problem of making a profit. It is hard for a small company to stimulate the field force to produce anywhere near an adequate volume.

Our individual health functions are all under one person and are not integrated with the other operations of the company.

We use reinsurance, of course, but only for the income amounts beyond what we think we can carry ourselves.

We believe that it is the function of the industry to fill the need for coverage for persons over age 65, but we don't think we can afford to be one of the companies that are going to fill that need. It is probably a good way for some of the larger companies to share their surplus.

MR. GUY H. AMERMAN: Continental American is working on entry into individual health insurance and one problem is lack of experience as to details. We think we know something about basic principles because of our experience with disability income benefits. Another special problem is lack of personnel. Unlike a large company which had 65 people working on Accident and Health when its first policy was issued, we have three people working part-time and I imagine we don't have quite the equivalent of one full-time man on it.

Our present planning is that our health insurance will be integrated throughout our several departments. Reinsurance will not be used to any great extent. We have for our size a very good surplus position and a very large retention on life insurance and we think that only the long-time loss-of-time benefits for larger amounts would be the subject of reinsurance.

Continental American does not expect, at least at first, to introduce health insurance covering persons now over 65. We hope to concentrate on loss-of-time and hospitalization and medical coverages, but stay out of major medical for the time being.

MR. LEROY T. WATKINS: We have been in health insurance business since 1903 and at the last check we were about forty-fourth in the country, so we have had a bit of experience in the field. One main problem we found at Inter-Ocean in developing new agents is to provide a door opener. In our weekly premium A&H line our door opener has been the "Ten Cent Accident." It provides $1,000 and eventually will grade up to $2,000 accidental death benefit. For commercial agents our door opener is a cancer radiation policy at somewhat nominal rates. The object in both cases is to give the agent access so that he can discuss the other lines of health insurance that we sell.

MR. IRVING ROSENTHAL: Guardian Life is in its tenth full year of operation in the individual health line and we have yet to show a profitable year. We think that we might just about make it this year. Of course, we are adding quite a bit of new business and if you write a lot of business you must make an investment in that business. The investment approximates 40% of new premium income.

We found that the main problem was to develop enough premium volume to cover expenses. In order to do that you have to take some underwriting risks or your growth will be so slow and gradual that you feel that you will never get into the black. If you reinsure too much you will be reinsuring the most profitable business. It is a very, very tough line and any company which is short on surplus had better give it a good hard look before getting into it.