

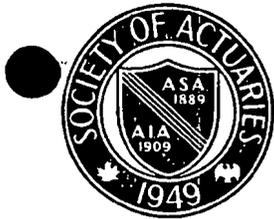


SOCIETY OF ACTUARIES

Article from:

# The Actuary

February 1975 – Volume 9, No. 2



# The Actuary

The Newsletter of the Society of Actuaries

VOLUME 9, No. 2

FEBRUARY, 1975

## BOOK REVIEW

Charles A. Will, *Life Company Underwriting*, pp. 271, Life Office Management Association, New York, 1974.

by Alton P. Morton

The title, *Life Company Underwriting*, does not adequately suggest the contents of this book, which is not limited to life underwriting theory and practice. It also covers office routines, including sometimes minute details of clerical steps more or less related to the underwriting process, gives job descriptions, and presents information about life reinsurance in great depth. A good service and clerical organization is an essential complement to a good underwriting department but a good organization by itself cannot atone for deficiencies in basic underwriting. The organization is the practical side of underwriting; the theoretical side is just as important and has not received the same extensive treatment in the book.

Part I is titled "Underwriting" and consists of eleven chapters. "Selecting the Risk" is a general discussion of the factors requiring evaluation. In the first chapter, Mr. Will is highly critical of the numerical rating system and points out its limitations and shortcomings. Then subsequently, somewhat inconsistently, he proceeds throughout the rest of the book to demonstrate that the system is the best, most concise and most accurate way of explaining most underwriting concepts, including the preparation of Medical Underwriting Manuals or other such guides. Most underwriters feel that it provides a steadying influence in the step-by-step systematic appraisal of the many factors involved in the evaluation of each risk the underwriter considers. As the author says, it can be misapplied or mis-used and it is not a substitute for judgment.

The author's explanation is somewhat inadequate to convey to the average reader some understanding of the relationships between underwriting ratings

(Continued on page 5)

## ADVISORY COUNCIL

We are pleased to report that Preston C. Bassett has been appointed a member of the new Advisory Council on Employee Welfare and Pension Benefit Plans.

This Council is established by the new pension reform law — ERISA.

Mr. Bassett represents the actuarial counseling field and will serve for a period of two years.

## Open Letter to All Members

### What Do You Want to Talk About?

Have you often gone away from an actuarial meeting and said to yourself, "Why don't they talk about ————?"

Here's your opportunity to provide information to the Program Committee. They are looking for topics to be discussed at the Annual Meeting in Bal Harbour.

Please address your suggestions to:

Larry Robinson, FSA,  
Vice President and Actuary,  
State Life Insurance Company,  
141 E. Washington Street,  
Indianapolis, Indiana 46204

Robert E. Hunstad  
Chairman, Program Committee

## Academy's New Number

As of April 1, the American Academy of Actuaries in Chicago will have its own telephone number: 312-782-4204.

The Society of Actuaries number is unchanged: 312-236-3833.

## TO BE CONTINUED

*Editor's Note: Mr. Campbell, a Fellow of the Conference of Actuaries in Public Practice is a liaison member of the Committee on Retirement Plans and prepared the following review at the invitation of the Committee. Comments will be welcomed by the Committee and by the Editor.*

### Setting National Priorities The 1975 Budget

Barry M. Blechman, Edward M. Gramlich and Robert W. Hartman, *The Brookings Institution*, Washington, D. C., 1974, pp. 269; paper, \$2.95; cloth \$7.95.

by Donald F. Campbell, F.C.A.

Federal spending now accounts for at least one-fifth of the entire U.S. economy. It is the single most important expression of America's priorities.

Because of the magnitude of the Federal government operations, the rate and manner in which it spends money and raises taxes have a profound effect on the level and kinds of jobs, production and prices in our national life.

The importance of the 1975 proposed federal budget of 305 billion dollars for the period July 1974 to July 1975 is indicated by the top priority it is given in daily discussions, in all communication media, on its effect on the problem of inflation and recession.

The Brookings Institution in its book catalog states the purpose of 1975 Budget book, the fifth in a series, as follows:

"It describes the major decisions reflected in the proposed 1975 budget and projects their consequences for federal programs and for the size and composition of future budgets. It discusses some of the most important issues now confronting the nation: fiscal policy, unemployment, the government's role in ensuring adequate energy supplies, reform of the income maintenance system,

(Continued on page 3)

## Book Review

(Continued from page 1)

and mortality data. Judgment plays a large role—and good teamwork among the actuary, the underwriter, and the doctor—in choosing ratings for many, indeed most, impairment classes which lack valid statistics of sufficient volume and reliability. Nevertheless, some reference to actuarial studies including some of the papers that have covered the translation of mortality experience ratios into underwriting ratings would have rounded out these sections.

The rather lengthy discussion of high age underwriting problems in this reviewer's judgment is not justified by the amount of business that is generally obtained at these upper ages. However, carefully controlled mass marketing experimentation with strictly limited amounts of issue is said to be financially successful. A high age applicant, no longer gainfully employed, is, theoretically anyway, highly likely to be a speculative risk—a venture for profit by the person who directly or indirectly pays the premiums.

Plan of insurance credits discussed on page 16 does not seem quite convincing. Such credits assume that a group of people with a given impairment will die at only the normal rate of mortality for a few years and then at a higher than normal rate thereafter (presumably after the risk has ended by maturity of the policy). Does this describe any area of reality? Certainly that theory was at one time tested and failed with the underwriting of selected overweights at standard rates. The class as a whole showed extra mortality from the outset.

Levels of underwriting authority are discussed at some length. In the practical world of underwriting, limits are most often determined by the number of skilled underwriters available, by their degree of training and length of experience, etc. It need only be added that factors such as age, amount of insurance, the presence of multiple impairments, will determine the degree of skill needed and that different practical decisions will be required with each individual company.

"Underwriting Special Benefits" as covered in Chapter V is an important area and important to the practical intelligent underwriter. It may seem un-

necessarily long, yet this reviewer notes a lack of discussion of the basic principles of underwriting Guaranteed Insurability options such as are found in Term and in many other plans today.

In Part II, discussing "Other Life Coverages," the chapter on "Underwriting Group Life Benefits" is very good. The next chapter discusses the underwriting of Group Excess and other special areas and by quoting from actual company literature illustrates current prevailing practice in Guaranteed Issue, Pension Trust and Mass Marketing. Should not some statement be made as to the underwriting standards for determining the approvability of group excess amounts? Should they be the same as Ordinary, or more or less liberal? Also when doing these other forms of simplified underwriting, what approval standards will tread the narrow line of producing an acceptable mortality level and yet not discourage the marketing effort by too many rejections? The reader looking for some comments or guidance will find none.

A discussion of "Foreign Travel and Residence Underwriting" might have proceeded more usefully by exploring the underwriting of executives of American multi-national companies as a first step. In underwriting abroad the usual tools may be less than ideal—medical examinations by doctors of known qualifications and reliability, attending physician information or the usual inspection reports may be harder to obtain. After this the underwriting of foreign nationals associated with the same American controlled corporations could be explored. The natural final step would have to be an evaluation of the underwriting and other problems of a full-blown foreign branch or agency operation.

A description of the underwriting department and its management and a discussion of inter-departmental relationships is covered in the four chapters of the final section, Part IV. The section on field relationships might benefit by some editing but the message is clear: the underwriter must do his job without needlessly alienating any agent by any apparent lack of sympathy or interest in his problems; and he must avoid selling out his company by improper pricing of the company's products. These are fundamental responsibilities.

The chapter on inter-departmental relationships would be improved by an ex-

panded treatment of the special complementary roles of the underwriter, the actuary, and the medical director. Their working together effectively will result in good underwriting rules and rating practices.

*Life Company Underwriting* is worth any underwriter's time to read even though the reader might merely have his own ideas confirmed. For one reason or another the editing seems to have been done rather casually. This we trust will be remedied in subsequent editions.

## Letters

(Continued from page 2)

these plans, that they should be treated in their entirety for reserving purposes just as any other plan in a method consistent with the provisions of the standard valuation law, i.e. the net premiums being a fixed percentage of gross premiums with modified reserve methods being allowed. As medical selection wears off, the mortality rates experienced may increase faster than the premiums increase. This reasoning evidently was the basis for California's recent interpretation of the valuation law.

I shall be interested to see how other actuaries feel about this topic.

Sam Gutterman

\* \* \* \*

## Railroad Retirement Legislation

Sir:

Francisco Bayo has presented an interesting article on the recent Railroad Retirement legislation in the November issue. Of particular importance is the unique way in which the serious financial problems of this program were solved—namely, by a large government subsidy payable during the next 25 years. Mr. Bayo of course did not take a position on the desirability of such a government subsidy either for Railroad Retirement or for OASDI. My own view is that the subsidy to RR was not the proper solution. The employer tax rates should have been increased.

It does not necessarily follow that a government subsidy to a social insurance system with limited coverage is a precedent for similar action for OASDI. In the latter case, it would not seem to make good sense for a subsidy to be

(Continued on page 6)