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CANCER INSURANCE = TODAY'S WHIPPING BOY

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Cancer Insurance is among the latest products singled out for assault. Consumer advocates, Congressional committees, Federal agencies, State insurance departments: all have had their well-publicized say. Some of the last-named have wielded the executioner's axe, prohibiting its issue.

The product is usually found wanting on three counts:

(1) Incomplete coverage. Only one cause of loss is insured: comparable to auto insurance covering only collisions with cars colored red. And if expense for treatment is incurred, benefits are scheduled and limited.

(2) The "loss ratio." The benefit return in relation to the premium is too low: 40%, 30%, or even less.

(3) Scare tactics. The product is huckstered by unscrupulous salesmen preying upon a weak and gullible public.

Rebuttals to These

(1) It would be wonderful if all of us could enjoy adequate insurance protection against every economic hazard. But we can't afford that, or else we can't be persuaded to allocate enough of our discretionary spending money to that worthy end. Cancer insurance is mostly sold as an inexpensive non-underwritten supplement to basic health insurance, group or individual, that presumably already protects the buyer against general hospital and medical expenses.

Furthermore, at least four other types of insurance serve a supplementary purpose similar to that of cancer insurance, i.e., (1) major medical insurance, (2) hospital daily indemnity insurance, (3) catastrophe expense insurance, (4) accident policies. Of these, the first and third are getting hard to find, the second is relatively limited, and the fourth is open to the same criticism as cancer insurance.

The public's choices seem to be: (a) Spend a lot for supplemental coverage adequate for any need; (b) Spend less for limited, inadequate supplemental coverage, but against any loss; (c) Spend perhaps still less on economically useful protection against selected losses that worry the buyer; (d) Buy no supplementary protection at all. Our paternal protectors evidently opt for (a) or (d) only, and if too many of us choose (d) they will seek to have supposedly adequate coverage provided for us, under government mandate where, like it or not, or even know it or not, we shall all indeed pay for it.

(2) The "loss ratio" question is a more legitimate ground for argument, if that test is intelligently applied. But the nature of the loss ratio pattern needs to be understood. It tends to be select and to mature slowly toward its ultimate level. I often worry that the loss ratio on cancer plans that I analyze for clients (both sellers and buyers) will get so high that the premium will ultimately prove deficient. Regulators looking at early returns often fail to appreciate where the trend is headed.

And also, what really is a fair benefit return for a product that is individually sold, whose premium is low, and that entails a comparatively high risk, i.e., a large potential benefit of low* expected frequency? For a product of this kind, many states realistically recognize that a loss ratio benchmark at perhaps 30% or 40%, rather than the commonly favored 50%, is reasonable. What is the usual loss ratio on short-term life insurance, or accidental death insurance, or the travel insurance sold at the airport booth? Insurance products cannot always be fairly measured against the 90% loss ratios typical of large self-administered employer-paid group insurance. Yet that's what ignorant consumer advocates and too many legislative committees do.

(3) How legitimate, after all, is the criticism of "scare tactics" if the product itself is legitimate? We've all heard about insurance, sold by the high-pressure agent originally, which was deeply appreciated later when it was there and needed. Many products are sold by scare tactics — cosmetics, burglary alarms, American Express traveler's checks (What will you *do?* What *will* you do?). Certainly there's a limit somewhere, but the question has more to do with particular companies and agents than with products generically.

The Product's Merits

Are all the millions who've bought cancer insurance victims of scare-tactic salesmen selling worthless contracts? I think not. As long as a particular cancer policy meets three criteria, reasonably applied, namely,

Real economic value against the loss insured;

Fair economic value, comparing expected benefit to price;

Honest representation of what the plan will pay and for what price, even if the salesman adds a dose of scare;

I find no grounds for objecting to it. □

*except at high ages, particularly among men.

THE WILSON REPORT

Ed. Note: A committee, chaired by former Prime Minister Sir Harold Wilson, has made public its findings after a three-year study of the functioning of British financial institutions, and their value to the economy. This article, written from (i) material generously supplied by a London actuary, and (ii) an article in the June 28th issue of The Economist, *attempts no more than to alert readers to five of the Report's topics that are of special interest to actuaries.*

It seems that the Society would do well to find out whether eithter or both of the two F.I.A.'s who were among the architects of the Report—Messrs. Gordon V. Bayley and Peter G. Moore—might be persuaded to speak at one of our meetings about this Report and its implications for actuaries.

(1) Life companies and pension funds in Great Britain have increased their assets ten-fold during the past twenty years. These and other institutions now own more than half the shares on the London Stock Exchange. They are labelled as timid investors, inclined thus to neglect the needs of small, new, innovative enterprises.

(2) The Report lists general arguments for and against issuing index-linked securities and mortgages, and recounts the experiences of other countries (including France and Finland where such experiments are reported to have failed). The Committee favors experimentation with index-linked securities and proposes that average earnings be the index adopted.

(3) The Committee does not favor creating the equivalent of the U.S.A.'s Security and Exchange Commission as a regulatory body. Instead it proposes a review body—what *The Economist* calls "an SEC without teeth."

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