

DIGEST OF FORUM ON INDIVIDUAL HEALTH
AND ACCIDENT INSURANCE

This forum was conducted by a panel comprised of:

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| Raymond F. Killion | Morton D. Miller |
| Arthur W. Larsen | Henry R. Roberts |
| Harold R. Lawson | J. E. Taylor |
| John H. Miller, <i>Chairman</i> | |

INDIVIDUAL HEALTH AND ACCIDENT INSURANCE,
PAST AND PRESENT

- A. What are the more significant historical facts and trends in the development of this business?
- B. What types of benefits are currently offered by the various carriers?
- C. In what ways are the purposes, problems and practices of health and accident insurance related to those of life insurance?

MR. J. H. MILLER, introducing section A, stated that the principal health and accident benefits—weekly indemnity during disability, hospital and surgical benefits—have been sold on an individual basis for about 50 years and on a group basis for nearly 25 years, but it is only within the past 10 years that the business has attracted widespread attention. Its recent rapid growth arose principally from the popular acceptance of hospital, surgical and medical benefits, rather than from expansion in weekly benefits. Perhaps it is not merely a coincidence that the beginning of this phase occurred in the thirties when total and permanent disability benefits were being discontinued or reduced by life insurance companies. Superficially, it might be concluded that health and accident moved into the vacuum thus created. Another explanation could be that, of the two approaches to the problem of disability, the underlying philosophy of health and accident insurance is more consistent with reality and with current trends in medical science.

Total and permanent disability was originated and given its name when the concept of permanence of many disabilities was more widely accepted than it is today. Since then, medical science has conquered many diseases and its comparatively new specialization of physical medicine and rehabilitation has overcome economic disability in many cases where physi-

cal disability remains. Health and accident insurance has been adapted to this new approach to disability. It provides income benefits at a higher rate of monthly or weekly indemnity, subject to a limited indemnity period, than would be prudent for a benefit unlimited as to duration. In addition, it provides benefits toward the cost of the required medical care. This second function of health and accident insurance has assumed increasing importance because the newer medical techniques and practices are not only highly effective, but also quite expensive. In fact, the limitations of the conventional hospital, surgical and medical benefits in meeting these expenses have given rise to the current experimentation in major medical expense benefits.

The history of individual health and accident insurance from the early 1900's until the depression of the thirties was one of almost continuous liberalization in benefits, ending with marked retrenchment necessitated by heavy underwriting losses. Somewhat related to this cycle was the early history of noncancelable insurance. Between 1919 and 1921, seven life insurance companies started writing this business. By 1931 all but one had discontinued it. This short and not so merry life of the lifetime indemnity noncancelable policy was due not only to the absence of an indemnity limit or aggregate and to inadequate premiums, but in large measure to overinsurance.

The current period is not the first time that there has been considerable interest on the part of the life insurance companies in the business of health and accident insurance. In November 1920, the Institute discussed the problem "The Entry of Life Insurance Companies Into the Business of Accident and Health Insurance," the record of which is interesting reading today.

Mr. Miller said that nearly everyone seems to be impressed with the growth that has been recorded in recent years in the health and accident business but many do not realize how uneven this growth has been. Comparing premium income in 1950 with that in 1940, group business increased in the ratio of 9 to 1 while the increase in individual insurance was about 3 to 1. It is estimated that the premiums for the hospital, surgical and medical expense benefits on individual policies increased in the ratio of 7 to 1, while those for weekly indemnity and other benefits approximately doubled, just about keeping pace with inflation and population growth.

The individual health and accident business is an area which the actuarial profession has largely neglected. Since the 1945 examinations, the subject has not appeared on the syllabus for our actuarial examinations. The Casualty Actuarial Society gives it a rather light treatment in its

examinations. Many actuarial papers on individual health and accident insurance were presented in the twenties and thirties. Through 1940, the *Proceedings* of the Casualty Actuarial Society record 17 papers, the Institute one, and the Society seven. Since 1940 only three papers have appeared, each dealing with the specialized subject of reserves for noncancelable policies. The actuary who wishes to acquaint himself with the problems of this business finds the literature somewhat limited, with most of the published material predating the important developments of the last decade.

He will, however, find, in Mr. Miller's opinion, that this is a very interesting field for research. As compared with life insurance, where it requires a large body of exposures and a considerable period of time to develop significant results, health and accident as a subject for experimentation and research, like the guinea pig, produces quick results. This is due not only to the high claim frequency necessarily associated with this type of insurance, but also to the absence of any pronounced or extended select period. It is fortunate that the analysis of experience is possible on the basis of a short period of observation and a small volume of exposures, for it is highly essential that detailed analyses be made and continued on an up-to-date basis. Health and accident experience is so responsive to human motives and self-interest that a constantly watchful eye is necessary to avoid disaster. Moreover, the new emphasis on expense benefits has introduced an important third party into the insurance arrangement, namely the doctor or other provider of service. The role of the actuary in the development of this business is an important one and it is fitting that the Program Committee has allotted this time for the discussion of some of the fundamental problems of individual health and accident insurance.

MR. J. E. TAYLOR, introducing section B, stated that the bulk of the coverage under individual health and accident policies follows the same general pattern of benefits that are available under group insurance. There are two major classifications of benefits, based upon the purpose served by the insurance, herein designated "income replacement" and "medical expense."

Income replacement insurance provides indemnity against loss of time from disability caused by accidental injury or by sickness. Inability to work and being under a physician's care are two criteria of disability cited in most individual policies. The former is commonly defined as inability to perform the duties of the insured's occupation, but some policies use more restrictive wording such as "each and every duty of any occupation." The courts have frequently interpreted the latter as inability to

follow an occupation for which reasonably fitted, and such wording is used by a number of companies. If the insured is able to perform some but not all of the important duties of his occupation, he is indemnified for partial disability under some types of policies, but for a limited period at a reduced rate. Disability that confines the insured to the house is distinguished from nonconfining disability in some policies, a differential in indemnity frequently being based thereon. Because a definition based on inability to work lacks significance if the insured is a dependent, disability must result in bed confinement under many Industrial policies which are issued in small units to housewives and children as well as wage earners. Such insurance on dependents may be viewed as weekly indemnity covering a portion of medical expenses rather than as income replacement insurance.

The expression "medical expense" benefits is used broadly to cover all expenditures in connection with injury or illness. The cost of medical care has many diverse forms. Individual insurance is available covering hospital expenses, surgical fees, physicians' calls and certain other costs of medical care. In recent years there has been considerable experimentation with policies covering all expenses of medical care for injuries and illnesses within some stated maximum limit. Currently there are several companies issuing such policies with coinsurance features, thereby permitting an extension of the maximum limit to catastrophe range without increasing the premium prohibitively.

Features of medical expense insurance which should be especially noted are (1) the development of the so-called "family group" policy whereby all members of a family are insured by one policy, and (2) the three party relationship, as a result of which the amount or frequency of benefit payments may be affected by decisions or practices of hospitals, physicians or others providing the services involved.

Various combinations of income replacement and medical expense insurance are offered as a package in one policy contract. In some instances these benefits are payable for all sicknesses and injuries, while in others they may be limited to accidental injuries only; in the case of certain limited forms, benefits are payable only for losses resulting from specified accidents or diseases (e.g., automobile accidents; poliomyelitis). In addition to the major benefits provisions, most policies contain various supplementary provisions (e.g., accidental death and dismemberment) related in some manner to the major benefits. The value of comparable benefits under policies of any two companies may vary widely depending upon the extent of use of certain coinsurance features, exclusions, limitations and reductions. It will be seen that the possibilities for variations in the basic policy benefits are literally unlimited.

One of the major trade associations representing insurers offering individual health and accident protection lists, under "Classes of Business Written" by member companies, more than twenty classes of individual policies. The designations of such classes include "Noncancelable," "Commercial," "Weekly Industrial," "Polio," "Newspaper," and "Hospital and Surgical," among others. Distinctions, as regards the contingency insured against, will be recognized from some of these titles but in most instances there is no such indication. As a matter of fact, one must go beyond the basic policy benefits in order to find the explanation for some of these designations. In particular, there are distinctions to be observed with respect to (1) the type of carriers offering coverage, (2) the manner of distribution of the insurance (including premium collection), and (3) the period for which coverage is provided under the policy and for which the premium rate is guaranteed.

Carriers issuing health and accident insurance include (a) life insurance companies, (b) multi-line casualty companies, (c) mono-line companies writing only health and accident insurance, and (d) fraternal. Both mutual and stock insurance companies are represented in these classifications. There is also the special type of nonprofit organization providing medical expense benefits, usually on a service basis, of which Blue Cross is the outstanding example.

Distribution media for health and accident insurance include (a) full-time company agents, (b) part-time agents, (c) Industrial agents, a special case of (a), (d) brokers, (e) direct mail, (f) newspaper, and (g) vending machines. Under the first two categories there is further subdivision corresponding to the type of carrier represented by such agents (e.g., agents of life insurance companies and "general insurance" agents representing fire and casualty insurance companies).

Most health and accident policies are issued on a term insurance basis, renewable at the option of the company, such term being for one year, or in some instances for a shorter period related to the premium frequency. The other extreme is the noncancelable policy which may be continued either for life or until attainment of a stated age. Yet another classification is the policy providing coverage either for life or until attainment of a stated age, but cancelable by the insurer.

Thus, Mr. Taylor said, we observe that there are many distinctions that go beyond the insuring clause and in some respects beyond the policy contract itself. Furthermore, the character of the organization through which such insurance is issued, distributed and serviced introduces a qualitative factor which may be more significant than the specific wording of the insuring clause in determining the value of the benefits provided under the policy.

MR. H. R. ROBERTS, introducing section C, stated that the purpose for which health and accident insurance exists and the area in which it functions have a basic similarity to those of life insurance. Like life insurance, health and accident is personal insurance; that is to say, it is insurance upon the body of the insured under which the insured's physical and mental condition are of fundamental importance. Also, coverages for loss of time, which are generally considered to be the basic type of coverage, provide protection for the earning power of the insured against the hazards of disability just as life insurance protects against the hazards of death and retirement.

Undoubtedly these basic similarities together with the growth in public interest in protection against the hazards of accident and sickness have contributed to the current acceleration of life insurance company activity in this field. There is a further important practical sales justification for this trend in that a client's health and accident needs are determined by the evaluation of factors similar to those involved in life insurance programming and the two jobs form a natural combination. Also the supplying of personal evidence of insurability is a procedure quite familiar to the field man who sells life insurance.

It would be only reasonable, Mr. Roberts said, to expect that this trend will result in a growing similarity of practices with those of life insurance. At the present time there are many practices in the commercial health and accident business which are dissimilar and which stem in large part from its casualty insurance background. Among the important ones might be included the following:

1. Use of the commercial form of contract. Several life companies newly entering the field are undertaking to provide coverage on a noncancelable basis, although many still feel that the inherent hazards in this form which produced such disastrous results in the past have not been removed.
2. The handling of health and accident policies at issue and on renewal has differed in that the policies are generally issued or renewed first and the premium collected in due course.
3. Commissions are frequently paid on a level basis with the renewal commission at the same rate as for the first year. Consistent with this is the casualty practice of focusing attention upon total premium income without particular distinction between new and renewal.
4. Somewhat related to the previous point is the practice of completely rewriting health and accident policies whenever coverage is increased rather than the usual life practice of issuing additional policies. The impact of this practice reverberates through many administrative functions.

In each of these respects some companies now follow the life rather than the casualty practice, but no matter how firmly entrenched in the

life insurance business the health and accident business may become, there will always be some special problems and differences in policy and practice because of certain distinctive characteristics of health and accident. Foremost among these characteristics is the indefiniteness of the event insured against. In connection with coverages for loss of time, the existence of disability is often difficult to determine and claims submitted are very much affected by the insured's attitude which may, in turn, be affected by many things other than the pure physical facts.

Another interesting characteristic lies in the involvement with multiple contingencies. In life insurance there is only the contingency of death. Health and accident insurance involves not only the probability of a physical impairment occurring but also the probability that disability will result, the probable duration of disability, and the probable expenses of getting well.

Still another characteristic is present in coverages which provide reimbursement of expenses in that a relationship is created between the insurer and the doctors and hospitals. As a result, changes in price levels affect not only the insurer's administrative expenses but also its claim payments.

Because of these characteristics, health and accident insurance requires its own rather distinctive underwriting knowledge and experience and a claim administration generally more complex than for life insurance.

MR. A. M. THALER stated that the Prudential, in preparing to enter the individual sickness and accident business with guaranteed renewable policies, had concluded that there was a strong similarity to life insurance. Because of their recent Home Office decentralization program, they found it advisable to integrate the new sickness and accident operations with the existing life insurance administration. Premium collection and accounting, policy issue methods, record cards, and many administrative forms were designed so that the same clerk could readily handle both lines. Separate personnel were required for underwriting and claims, but reported to the same management. Training programs for agents showed how one line may complement the other as a sales aid.

PANEL MEMBERS, in response to a question from the floor, gave reasons why some companies, after investigation, had decided not to enter the health and accident field. Some companies do not believe that their life agents would be benefited by writing health and accident insurance. Current adverse experience in group hospitalization has undoubtedly been a deterrent in some cases. Reference was made to a recent statement of Mr. J. H. Miller before the Canadian Life Insurance Officers Association, in which he cautioned those who are contemplating entering the health and accident field.