

**WAR HAZARDS**

- A. Has the course of recent events contributed to any crystallization of opinion as to the imminence and magnitude of potential war hazards? To what extent is coverage without war restrictions now being granted to service personnel?
- B. What is the relative magnitude of potential war risks in life insurance coverage as between (1) civilians and service personnel, and (2) home areas and abroad?
- C. How is opinion currently divided as between the following attitudes in relation to war risks?
  1. Exclusion of the war risk on the grounds that it is not a form of hazard which is insurable.
  2. Assumption of the war risk (subject to antiselection safeguards) as a normal part of full life insurance coverage.
- D. Can war risk antiselection considered as an independent problem be effectively dealt with by temporary war risk exclusions and, if so, what obstacles stand in the way of this course of action?

MR. A. M. CAMPBELL, in discussing section A, was impressed with the ebb and flow of opinion respecting the imminence and magnitude of potential war hazards as the nature of the Korean affair varied from month to month. In the Sun Life, service risks were formerly handled on a limited underwriting basis but since April 1951 a war clause has been used. However, certain classes of service risks are now insured without a war clause.

He felt that a distinct war hazard will probably continue for some time. It is a potential one for civilians, but a present one, which will inevitably produce an extra mortality, for service personnel. Accordingly, current extension of war restrictions for civilians does not seem to be required but continued use of restricted underwriting for service personnel is advisable.

MR. A. P. MORTON, answering the first question of section A, was sure that the "imminence and magnitude" of war hazards would be viewed as considerable by any of the families of the 20,000 men who died in the past 2½ years in Korea. A different but still not highly optimistic opinion might be that obtained from the 100,000 other men who have been nonfatal casualties.

As to the second question, the practice of most companies is reflected in one or more of the following statements:

- a) Issuance without a war clause to those in service is limited to \$5,000 or \$10,000 with somewhat more liberal amounts for those only potentially liable to service.
- b) Amounts issued are graded according to the probability of active service, either in Korea or, in the event of all-out war, elsewhere. Nominal amounts, or perhaps nothing, may be issued without a war clause to those scheduled for Korean combat service. In some companies this applies to all members of combat arms of the services.
- c) Agents are limited in their soliciting activities among those in service, especially in and around army camps, naval bases and debarkation points.

All such means as these result in a very approximate and uncertain underwriting job. All that is being accomplished by amount limitations is a wider spreading of risk. We can wonder whether it will have been worth the bother and expense to the industry. The conduct of the industry in the present situation may not in the long run prove to be one of the proudest chapters in the history of life insurance.

MR. R. D. MURPHY analyzed the uninsurability of the civilian war hazard in the atomic age in relation to outstanding life insurance which purports to insure against that hazard.

Widespread devastation from atomic bombing would require the whole of governmental effort to be concentrated on the relief of suffering, re-establishment of the means of production of necessaries, and essential health measures. It would not be of first importance that life insurance could not go on undisturbed and self-sustaining. There is nothing we can do to isolate life insurance companies and the fulfillment of their contracts from the general destruction of the economy in event of wholesale destruction through atomic warfare.

Limited disaster is another possibility. Pooling claims in proportion to risk was suggested to mitigate the uneven effect upon life companies of limited disaster but the suggestion was dropped when sufficiently general approval was not evoked.

It does not seem advisable to seek new legislation to deal with this situation in advance of disaster. He questioned that we could find in advance a detailed plan that would work out equitably in all instances. It is more reasonable to expect immediate Congressional action in the event of disaster which would establish some form of moratorium on financial obligations of all kinds to be followed by the most appropriate remedial legislation.

He doubted the wisdom of including war restrictions in all policies either voluntarily or by law. Life insurance's place in the public regard has been created in no small part through the comprehensiveness of its prom-

ise to pay the face amount. Also, if war restrictions are included, it must be expected that they will be enforced even if war claims are relatively few in number.

At the moment we should work for the right to include broad war restrictions in our policies as a guard against antiselection in time of threatened war and as an alternative to shutting off normal life insurance service to new applicants. Such restrictions should not be limited to some specified date after issue. He sincerely hoped that the few states which prohibit civilian war restrictions will remedy their statutes to permit such restrictions. Historic precedents indicate that companies will be slow rather than premature in starting to insert such restrictions in new policies and will be prompt to cancel them when they believe the danger is past.

MR. JAMES HUNTER, in considering section C, believed it foolhardy in this day and age to continue to issue life insurance policies covering the war hazard. He is convinced that the public does not expect full coverage; he noted that no other branch of insurance covers the war hazard and that, at least in North America, governments make provision for the dependents of those killed or disabled on active service.

Possible destruction of life company assets by war is a separate problem which should not be compounded by the assumption of unwarranted risk-taking in life policies.

Exclusion of the war risk would permit issuance of policies at the lowest possible premium rates and would permit sound operation without maintaining the surplus funds now felt to be necessary because of the fear of large war losses. He noted the increase in exposure to war losses due to the increase of juvenile business and sales of low premium plans.

MR. EDWARD RUSE although agreeing with Mr. Hunter felt that competition would prevent use of a permanent war clause. He advocated giving imaginative and yet practical thought now to the potential problem so that suitable legislation could be promptly recommended in an emergency. As guiding principles, he suggested:

1. Government should assume a measure of responsibility in helping the companies to meet any serious emergency, since the failure of life insurance would be a national economic calamity.
2. During a serious emergency, only partial payments on account of death claims should be made, and these should be on a basis which is fair as between individuals but at the same time recognizes both the investment and insurance elements of each claim.
3. Full payment of claims should be deferred until the emergency is over and it has been established that full payment of both past and future claims, with or without government assistance, is a definite mathematical possibility.

4. Inability to make full payment of claims after the emergency is over should be settled by methods which will be equitable as between terminated and continuing policies, again recognizing the investment and insurance elements involved.
5. An immediate moratorium on the election of nonforfeiture benefits should be adopted for the duration of the emergency.
6. The companies, for the benefit of their continuing policyholders as well as the national economy, should be assisted to return to a basis of normal operation as soon as possible.

MR. J. T. PHILLIPS, noting that the potential war hazard involves both the immediate Korean hazard and the potential risk if this country should be attacked by a major power, reported that a comprehensive study of the hazards to be faced in the event of an atomic bomb attack has just been completed under sponsorship of the Federal Government. Part of the report now being prepared, such as the part relating to casualty estimates, may be available to the public.

MR. A. C. WEBSTER referred to section D and agreed with Mr. Morton's view that this period may not be one of the brightest chapters in the history of life insurance. He cannot as an underwriter justify taking an extra hazard at standard rates. If we had a definite pattern of military service in our nation, we could effectively meet the antiselection by using a temporary war clause.

MR. W. M. ANDERSON noted that Mr. Hunter and Mr. Ruse indicated that both alternatives given in section C, *i.e.*, the exclusion or assumption of war risks in life insurance policies, involved the implication of governmental action.

If the companies generally excluded the war risk and the war risk became very large, there might be governmental action to make up for that exclusion, but he anticipated that such action would relate primarily to the older issues since, otherwise, there would be a great increase in new issues in anticipation of such action. Similarly, if companies assumed the war risk, governmental action would presumably be related more to business written before the war hazard period than to newer issues.

Thus, a temporary war clause in addition to guarding against anti-selection would divide the business into two sections, the older and the newer, leaving the newer in the position in which it would very likely be in the event of any course of action, at least in the event of major hazards. A temporary provision excluding all war hazard, not only the service hazard, should be considered quite seriously.

A collateral advantage would be the expected beneficial effect on the level of new business and of termination rates, since life insurance pur-

chasers might be expected to purchase more insurance in nonhazardous periods in order to get beyond the exclusion period before a hazardous period began and might then be more apt to keep coverage in force since it could not be replaced except by coverage with a temporary exclusion.

MR. H. W. JONES summarized a study based on a sample of Mutual Benefit business outstanding about a year ago when pooling war risks was under discussion. For the whole company the outstanding face amount of insurance per square mile, classified by mailing address, was almost \$8,000,000 in New York County (Manhattan), \$750,000 in Suffolk County, Massachusetts (Boston), and over \$500,000 in St. Louis, San Francisco, and Essex County, New Jersey, where the Home Office is located. The relatively large figure for Manhattan is in part due to widespread use of business address as mailing address; the figure may be considered as the company's daytime exposure. Combining eleven New York and New Jersey counties in the metropolitan area gave an average exposure of over \$250,000 per square mile which may represent the average nighttime exposure.