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UNDERWRITING

A. In view of the changing level of mortality, should the basis of dividing standard from substandard risks be changed?

B. Can the present method of classifying substandard risks as a percentage of standard be improved, in view of recent mortality?

C. Do extras for occupation under, say, $5.00 per thousand justify the additional expense involved in their assessment, collection and accounting, keeping in mind also the unfavorable reaction on the policyowner?

MR. W. G. BOWERMAN said that on a modern mortality basis 100% extra mortality is equivalent to an extra premium of about $3.50 per $1,000 on the Ordinary Life plan, as compared with $10.00 per $1,000 prior to twenty years ago. This would suggest a downward revision in occupational extras now being charged, especially where accident is the chief hazard. Nevertheless, he felt that it is undesirable to give substandard lives the benefit of a lower rate basis than would apply to standard lives, especially in view of the additional costs of doing business on underaverage lives; the rights of normal lives should be given first consideration.

MR. WALTER TEBBETTS said that there are good reasons for having some percentage ratio between standard risks and the first group of substandard risks, though not necessarily 125%. While consolidation of the two groups would result in a very small increase in the standard mortality, it would interfere with giving equitable treatment to the good standard risks and would tend to attract to the company a disproportionate volume of borderline business. Undoubtedly the real dollar difference between the two groups is less now than it was, because of the general improvement in mortality. He suggested that the practical answer to sections A and C is to make such changes in underwriting as are warranted from time to time, with regard to only those impairments which show the greatest improvement in mortality. He did not believe that groups requiring extra premiums up to $5.00—for example, aviators—should receive standard insurance, even if the suggested advantages should result.

Dealing with section B, he suggested that the number of substandard classes might be reduced by consolidating certain groups, but the probable effects upon competitive and agency results would have to be carefully considered. The change would result in higher rates for the better risks and lower rates for the poorer risks within a rating group, as compared with the rates of another company which did not consolidate the groups. Prior consideration should also be given to the incidence of mortality in the substandard classes—does the mortality tend to approach standard as the policy duration is extended, or might it be worse than was originally anticipated because of the practice of removing or reducing ratings on the improved risks? These problems require careful study.

MR. PEARCE SHEPHERD said that, in his view, there are three principal steps in the underwriting of substandard insurance—first, to determine price ranges in terms of dollars and cents for the insurance we want to offer; second, to label each risk for assignment to its proper price class; third, to check to see that the price charged for each class, and for each impairment, is fair and adequate. The various price classes must be of an arbitrary nature and do not necessarily bear any relationship to our current standard mortality, which is varying all the time. There is no particular need to change price ranges very often, but we must change our labels from time to time as evidence indicates that certain impairments can be treated more liberally.

What we need to know is the incidence of substandard mortality—for each impairment—and find a way of expressing the extra mortality in a way that indicates the extra premium that should be charged. There is no simple way of expressing the mortality of an impaired life group. In making a new impairment study we are going to have a difficult problem in interpreting results because of the great improvement that has occurred at the younger ages. The ratios of actual to expected mortality will probably tend to be high at the young ages and possibly low at the older ages relative to the debits assigned in underwriting. The experience of his Company shows some evidence that substandard mortality tends to merge with standard at some extreme age; however, in their first substandard class the ratios of actual to expected show a tendency to increase at the older ages. This may be because the class includes a fair percentage of overweights and blood pressure cases, although it also includes a number of occupations which might be expected to show a decreasing mortality at the older ages.

As to section C, he was inclined to agree that $5.00 is too much to forgive. He mentioned that in his Company every effort has been made to extend temporary extra premiums to impairments considered to involve a decreasing hazard, a practice that should considerably reduce the need for reconsidering rated cases.

MR. A. C. WEBSTER, with regard to section A, agreed with Mr.

Tebbetts that to increase the upper limit for standard insurance might well distort the distribution of risks within this group and lead to undesirable results. He felt that the standard group should be let alone so far as range is concerned, except that some risks heretofore considered substandard might now be rated standard because of experience and general considerations. However, an improvement in standard mortality, not as a result of selection but of an improvement in general mortality, may or may not affect the substandard groups proportionately.

He suggested looking to the substandard groups, first, to find reason for insuring at a price rather than declining and, second, possibly to widen the ranges of existing groups. Present extras are generally based on multiples of a table which has an adequate safety margin, and may therefore be sufficient to cover a broader group of substandard risks. This would be an alternative to reducing the extra premiums.

With regard to section B, he thought that more should be done in the way of charging temporary extras for medical histories than most of us have been doing. Theoretically, however, the temporary extras should be the equivalent of a percentage rating for a group in which the lives becoming eligible for standard insurance drop out. This suggests a higher extra in the beginning than the corresponding percentage extra and might prove to be a competitive disadvantage.

With regard to section C, he also doubted if extras as high as $5.00 should be waived. It is true that occupational mortality is improving due to better safety engineering and industrial medicine, but the insurance company must decide how far it will anticipate this improvement. Perhaps we should review our occupational ratings more frequently to permit adjustments in the extras charged, as regards both new and old business.

Mr. J. R. LARUS said that section C could be expanded to apply to medical extra premiums as well as occupational extras. However, he was not in favor of waiving extras as high as $5.00 per $1,000, whether required for medical or occupational reasons. He did feel that there should be some lower figure below which it is not economic to charge extra premiums because of the expense involved, including the cost of later removing or reducing the extras in some cases. The higher "Not Taken" rate shown by rated policies should also be considered.

One suggestion would be to disregard extras up to $2.50 per $1,000 for all impairments. Possibly the figure should be a little higher for occupational extras, since the average size of policies rated for occupation is less than that of policies rated for medical reasons.

MR. C. B. SPURGEON, referring to section C, said that in England an extra premium for occupation was rarely charged. He favored this practice, feeling that since the mortality table on which premiums are based covers most occupations, those subject to a slightly higher mortality rate should be considered as standard in the same way as those showing a slightly lower than average mortality rate. The fact that most occupations arc essential to community life suggests that they should all be treated alike. Admittedly, there are some highly hazardous occupations for which a higher remuneration is paid, and persons in these occupations can afford to pay higher premiums.

In addition to the extra expense involved in handling extra premiums, he referred to the unfavorable reaction from policyholders which the practice often produces. In some cases the agent quotes the proper total premium in the first place, inclusive of the extra, so that the policyholder does not know that he has been rated. This is unfair, since the policyholder may subsequently change his occupation and continue to pay the extra premium without knowing that he is entitled to have it removed. He suggested that extra premiums under $5.00 per $1,000, but not including this figure, could well be disregarded.