

DIGEST OF INFORMAL DISCUSSION

WAR PROBLEMS

- A. What are the problems to be considered in drafting war-aviation clauses?
- B. What plans should be considered by the life insurance companies for mitigating the catastrophe hazard with respect to policyholders in the event of a major war?
- C. What steps may be taken to minimize war disruptions of life insurance home office operations from manpower shortage?

MR. S. P. ADAMS said, in connection with section A, that the problems to be considered in drafting war-aviation clauses are mainly those of bringing into agreement the demands of various groups. Within the company the field force and the agency officers will seek provisions which will not produce competitive difficulties. The underwriting department will want clauses which do not provide coverage in excess of that provided for in the premiums charged. The claim department naturally favors exclusions which can be administered in a practical manner. The legal officers seek language that will avoid an undue amount of litigation. It is management's job to consider these various interests and the company's obligations to the insuring public, to coordinate them and, with the policy draftsman, to fit them into the pattern of requirements of the state insurance departments.

The latter task has been made much simpler by the N.A.I.C. by its adoption of principles recommended as the bases for war exclusion provisions. The state insurance departments, with a very few prominent exceptions, have apparently chosen to go along with these recommendations to the extent that their individual statutes permit.

MR. R. W. WALKER pointed out that these problems naturally vary in intensity with the basic philosophy of the company concerned though all have one problem in common, after finally deciding upon the limits of coverage to be given, namely, how to set the clause in language that will be acceptable in all the jurisdictions in which they may do business.

There are problems to be disposed of before drafting may be proceeded with and here is where company policy is a major determining factor. In a company where service personnel are not accepted as eligible risks even in peace time, the problem is not how to draft a clause which recognizes the

fact that these risks have been accepted, but simply to design one to exclude those deaths which might fairly be said to be beyond the normal risks to be assumed by the company. The problem here is perhaps not so acute since the war and aviation clause may be viewed as being designed more in the nature of an underwriting aid than as merely an exclusion rider. In such circumstances the terms of a war clause may tend toward more liberality in their provisions than in the case of a company which accepts these risks in the normal course.

A company may have a large volume of insurance in force, none of which is subject to any war and aviation provision and none of which was written on individuals who at time of issue were in the armed services or had any intention of entering such services. A normal flow of new risks in this category moves into the company each year. Should we move toward war, the normal motivating influences toward the purchase of life insurance are lost sight of to some extent and there is a tendency toward throwing on the insurer the burden of risk bearing from this extraneous war factor. The introduction of a war clause excluding this risk on any terms, be they liberal or restrictive, tends to stem this tide and enables the company to move along more or less on its natural course.

The company that accepts service personnel in the normal course must, however, protect itself from the consequences by at least moving to the use of a war clause promptly and even to the extent of being quite cold in its views of what claims shall be excluded and what shall be accepted.

MR. E. L. BARTLESON stated that the foremost problem of the clause writer is to obtain the approval of the insurance departments of the several states. It is very desirable to have as few versions as possible. By forgoing any civilian war restrictions, even for auxiliaries to the Armed Forces, and by separating the war and aviation clauses, it was possible to achieve uniformity with only minor exceptions. It was hoped that the civilian problems could be handled satisfactorily in the underwriting, although it will be extremely difficult to determine appropriate extra premiums in some instances.

A serious problem arises in attempting to anticipate the possible forms future wars may take. The recent session of the New York Legislature passed a bill which follows quite closely in many respects the recommendations of the recent report of the N.I.A.C. life committee. This brings in the concept of service in the Armed Forces of a combination of countries or of an international organization. It also specifies that war may include armed aggression by unspecified forces. Until such language is more gen-

erally adopted, however, it might be better to stick with "war, declared or undeclared" without further amplification and to refer only to "the Military, Naval and Air Forces of any country."

Mr. Bartleson and Mr. Adams described plans to give additional coverage to military aviators with extra premiums for the additional aviation hazard which is not primarily a war hazard.

MR. WILLIAM BREIBY reviewed the Commissioners' Illustrative War Clause and discussed certain modifications that might be desirable. It would be necessary to liberalize the clause to meet requirements of certain states which do not permit the civilian noncombatant provision or the civilian two-year exclusion. The treatment of dividends in the paragraph describing the reduced death benefit appears to be inadequate and ambiguous. The definition of "war" is very narrow and the definition of "act of war" is subject to a very limited interpretation.

A company should make sure that its own clause includes a specific statement that the limitation applies to supplementary coverages and to any extension of the insurance under the exchange or nonforfeiture provisions of the policy. A description of the reserve basis is necessary if this is not already included in the contract as a regular policy provision. There should also be a provision that the reduced death benefit shall not be in excess of the amount otherwise payable under the policy terms. The recommended reduced death benefit is a refund of premiums without interest.

In regard to the difficulties arising in connection with the incontestability clause, Mr. Breiby and Mr. Adams each suggested an addition to the incontestability clause which would provide that a defense by the company under the aviation and war risk exclusion provision does not constitute a violation of the incontestability provision. Mr. Bartleson suggested inclusion of a statement that the incontestability provision shall not be construed to require payment where precluded by the war or aviation clause.

MR. KARL DAVIES called attention to the new amendment to Section 155 of the New York law and pointed out that although the intent in a clause currently being used might not differ very greatly from the intent in the New York statute, it appeared to be advisable to pick up the language of the New York statute for the protection that it would give. He referred to "special hazards incident to service" which the law specifically states is to permit an exclusion when a man is missing in action. He felt that other language being used would exclude that death, but a beneficiary might very well claim that, since the clause did not

state specifically this permitted exclusion with respect to special hazards, it was not intended to exclude a man who is missing in action.

In regard to the removal of war clauses if and when it should be found desirable, it was found after the last war that there was a tremendous job of underwriting all those cases where there might be an aviation hazard. Since war clauses had been attached to all policies, no special underwriting attention was paid to cases in which there was an aviation hazard. An effort was now being made to avoid this expensive and time-consuming operation. Accordingly, a control was being set up which would record policies to which war clauses were being attached, which if it were not for the war clause would have been issued with an aviation clause of some kind. It will then just be a matter of removing the war clauses in those cases where there is no aviation hazard at the time of issue and giving special treatment only to those cases where an aviation hazard existed at issue. An alternative would be to have two separate clauses. One clause would be a combined war and military aviation clause and the other would be a civilian aviation clause alone. The civilian aviation exclusion need be used only in those cases where there is now an aviation hazard and then all military clauses could be canceled independently.

MR. B. T. HOLMES spoke from the point of view of a Canadian company not subject to the recommendations of the N.A.I.C. Committee. In considering the situation last autumn it was apparent that war had become a much more difficult thing to define in the last five years. There have been at least six areas in which there have been large scale casualties since the end of World War II—Greece and India in connection with communal riots, China, Malaya, Indo-China and, now, Korea. Actually, from this point of view, Korea is the simplest problem, because the situation is more formal there than it has been anywhere else. Yet, even in Korea, apparently, most of the soldiers that are opposing us pretend to be there on a purely voluntary basis, and no one seems to know the identity of the opposing commander-in-chief. The conclusion was reached that the thing which could be most easily gripped was an armed force and that policy owners would not be exposed to war risk except as members of a well organized army with a thoroughly legal status. After an armed force was defined it would be fairly easy to refer to a wide variety of fighting in which an armed force might engage.

This led to three definitions—an armed force was defined as “a naval, military or air force of a country, combination of countries or international organization.” The second definition, home areas, was fairly simple. For the definition of war, the following language was used: “War means

war or armed conflict, whether war is declared or not, and includes a hostile or policing action of an armed force." The intent was to make the description of the type of fighting fairly general, but it must be by an armed force.

Another problem had to do with direct or indirect result. Some Canadian companies had experience with a results clause during the last war and the experience was quite good although some doubtful cases did arise. Those which gave the most problems were in the Japanese prisoner of war camps and the causes of death, of course, were all natural causes as reported by the Japanese, but there was not a large percentage of claims that were difficult to decide. The companies came to the conclusion that in applying the word "indirect," a liberal attitude should be adopted.

MR. J. E. HOSKINS commented on the aviation part of a war-aviation clause.

The first problem is whether the conditions which lead to inclusion of a war restriction in a given category of policies also require a general aviation restriction in that category. The wartime aviation hazard of those individuals who are especially exposed to an aviation hazard can, of course, be restricted by the same type of aviation clause that would be used in peace time, without imposing the same restriction on all who are subject to the war clause.

A possible reason for combining an aviation restriction with a war clause is the difficulty of predicting which members of the armed forces may ultimately be exposed to a considerable aviation hazard. Even in the Army the chance of assignment to airborne and parachute troops has to be considered. On the other hand, it may be felt that aviation restriction should be made only where there is antiselection as, for example, when there is reason to believe that the applicant expects to seek assignment to flying duty.

If the hazard of paratroop training and service is a reason for the use of an aviation restriction, it is essential to exclude more than travel or flight in aircraft. A possible wording to cover this situation is "or from falling or otherwise descending therefrom or therewith during such travel or flight."

If it is desired to exclude only flying in military aircraft, the expression "while the aircraft is operated for military, naval, or air force purposes" has been used. This would extend to civil aircraft used for military purposes, such as any training of aviation cadets conducted in a civilian school.

If it is desired to exclude the aviation risk of military personnel who fly in pursuance of their flying duties, without barring those who merely use

casual transportation in military aircraft, the expression "while the insured is on flying status or flight orders" has been used. A person is said to be on flying status, or flight orders, if he is under orders to participate regularly and frequently in aerial flights. It is a necessary but not a sufficient condition for flying pay. It has the effect of not giving such an insured the protection during casual transportation in military aviation that a member of the air forces not on flying orders would receive. Another type of limitation is "except as a passenger not engaged in performing duties on or in connection with such aircraft." The first method excludes according to the regular occupation of the insured, while the other excludes according to the conditions of the particular flight and would not exclude airborne troops. It would, of course, be possible to combine the two expressions, and exclude coverage only when both conditions exist.

MR. R. D. MURPHY, in discussing section B, gave some background to the question of what plans should be considered by the life insurance companies for mitigating the catastrophe hazard in respect to policyholders in the event of a major war. Shortly after the outbreak in Korea, the Life Insurance Association and the American Life Convention formed a joint committee known as the Joint Committee on War Problems. One of a number of problems which came before it was whether or not any assistance should be sought from the Federal Government by reinsurance or otherwise of our liabilities in the event of very severe losses from bombing. The discussion in that Committee at that time was unanimous and quite emphatic that the assistance of the Federal Government should not be sought.

It was thought, however, that consideration should be given to a plan for sharing the load of that danger and a subcommittee was set up on pooling of risk. This subcommittee was expected to make a report within the near future. Some persons felt very strongly that the actions of the Federal Government must be governed by social considerations and not limited to those who are insured. That is, it is too much to expect that the Government will, in effect, say, "Pay \$10,000, \$50,000, \$100,000 or any other amount" in event of severe bombing, merely because the person was insured. In event of a holocaust, prompt payment of claims of those who happened to have been killed and who happened to have been policyholders would be one of the least of this country's worries. The Government, to the limits of its ability, would be trying to alleviate the distress of the vast number of people who would be needing food, housing, clothing—the bare necessities of a continued existence. This would be at a time when, with the destruction of much of our productive facilities, the Government's own revenues would be seriously diminished. It would be

a mistake to think that there is no limit to the resources of our Federal Government in this country. There can be such a thing as the almost total destruction of economic life as we know it.

The idea of pooling is fast maturing as something which can reasonably be considered. A possibility would be for three pools to be established, one for ordinary life insurance, one for group insurance, and one for industrial insurance. Entrance into them would be purely voluntary by any company and the purpose would merely be to smooth out the burden in the event of a catastrophe. The losses (less, perhaps, the gains from annuities) would be distributed among the companies that had entered the pool in proportion to the net risk of those companies nation-wide. If some company had an unusually heavy proportion of its business in an area struck, there would be a proportionate sharing of the burden up to a certain limit. A limit appeared necessary because no company would wish to go into a pool with unlimited responsibility for other companies' losses and that limit would need to be drawn at a point where no company would feel that it might be made insolvent by meeting the losses of other companies. The life companies in this country have about 4 billion dollars in surplus and have very large margins coming in from all their ordinary sources so that a very substantial degree of catastrophe could be met by the life insurance companies within their financial means.

There is a distinction between the problem that confronts the life companies and the situation under the War Damage Corporation that existed in the last war and also some difference from the problems confronting casualty companies. The War Damage Corporation expressed the intention to replace the financial loss of property damage from acts of war, a type of insurance which did not exist since fire insurance policies did not cover it. It was a determination by the Government under the peculiar circumstances of World War II that for a specified fee they would furnish a new type of protection which did not previously exist.

The casualty companies doing Workmen's Compensation and the self-insurers are in an extraordinary position because some lawyers in that field hold that there would be no Workmen's Compensation payable in event of a bomb being dropped on a plant, while others think the courts might construe that Workmen's Compensation was payable. This uncertainty is of particular concern to self-insurers under Workmen's Compensation because if their plants were bombed and thousands of their employees were killed, they might be ruined.

The whole point of view is different in the life insurance field because life insurance companies must admit that they have liability. It must be handled to the limits of our financial power and if the devastation goes

beyond that nobody can predict what would happen in the whole economic field in this country.

MR. MORRIS PIKE looked into the question from four viewpoints.

First, what could the individual insurance company do? The first task should be to develop some reliable idea as to the extent of exposure in certain areas, particularly the so-called target areas. One company developed the amount of insurance exposure separately for group, ordinary and industrial business, although it was felt that the group lines were more closely related to the hazards involved since they were tied in with industrial operations, some of them relating to wartime industries. The relative exposure in different areas varied greatly, but in some areas the amount exposed represented a significant percentage of surplus, assets, and even of business in force. To improve matters there is the possibility of excluding such coverage for civilians, but it was felt that the legal and social implications were against such a course. Extra premiums could be charged and extra reserves built up, but these suggestions involved collateral problems and required a period of time to become effective. The immediate action called for, especially for group cases, was to underwrite cases for concentration of risks for civilian catastrophe hazard. It might be necessary to refuse to accept additional business in areas where an overconcentrated hazard existed.

Second, what were policyholders thinking and doing about this hazard, especially group policyholders? Were they doing as much for their personnel, their property and their records as the typical insurance company was doing? It was learned that some were seriously considering their problems, building safety shelters, drilling and instructing their personnel, while others were awaiting instructions and financial assistance from the state and federal government.

Third, what could the insurance industry do? The possibility of reinsuring or pooling risks was considered. There were problems of getting all companies into the pool, especially those not unduly exposed in target areas. There were also some questions of the limits within which a company could cede or accept liability, the mechanism for handling the accounting records and transactions and perhaps underwriting controls over the ceding company's operations as well as the enactment of new statutes which might be required to permit such pooling arrangements.

Fourth, what could be expected from government—city, state and federal? Should a pooling arrangement have government auspices to give it necessary backing, or should the entire hazard be regarded as a direct government concern? It was believed that industry could solve this problem on its own without government assistance, especially at the out-

set. If government participation were necessary, it was hoped that this could be obtained as a matter of contract for a proper consideration and in advance of the occurrence of the emergency rather than as a matter of relief.

We are dealing with a hazard which could exceed anything that has ever before been experienced. We do not know whether this hazard represents a limited emergency or whether it is to be a continuing problem facing our business in the years to come. If the latter is to be the case, we are witnessing the addition of a fourth major function to the three traditional functions of life insurance companies—acquisition, conservation and distribution. This fourth function, preservation—preservation of life and property and even of our corporate identity—is bound to have a deep-seated effect upon our business and will bear continued observation and study in the years to come.

MR. W. P. BARBER, JR., outlined a plan used by a company located in a critical target area to microfilm certain records including a description of ledger assets and settlement options and an abstract of policy record cards. A listing of premium payment accounts which had previously been thrown away was now being stored for a period of about eighteen months. Agencies in critical areas were asked to retain premium notices that came back with the insureds' checks. These were shipped to the company and then sent out to dead storage a distance from the home office.

He also described a pool of married women who work in the evening for about three hours when their husbands come home from work.

MR. D. M. ELLIS, in speaking on section C, divided into two classes the steps that might be taken to minimize war disruptions of home office operations. The first class consisted of somewhat obvious stop-gap measures to be adopted as circumstances made some action imperative. Such measures are: (1) increased working hours; (2) part time help used in many ways—for example, two shifts a day at a desk, afternoon or evening work by high school or college students, part time help at hours of peak load in a department; (3) temporary help of one kind or other—for example, recall of Company pensioners who are still active physically and mentally, pensioners from other institutions whose pensions may be inadequate with today's cost of living, other elderly people still capable of doing relatively simple work; (4) postponement of normal retirements; (5) increase in production per clerk by means of wage incentives.

The other class of measures are those which involve long term planning, such as (1) mechanization and simplification of office systems, (2) discontinuance of certain office procedures as this becomes necessary, (3) discontinuance of checking of certain calculations and operations where er-

rors cannot be too serious, (4) building up some surplus staff of female help who would be trained to replace men as they are forced to leave, (5) preparing refresher courses in job training methods so that staff can be trained for new jobs in shorter time.

MR. F. B. GERHARD described the work of a "War Conservation Committee" which was organized during World War II. There was a small policy committee of senior officers and a working committee of junior officers. An extensive program of classifying all important operations in order of priority was undertaken. Operations classified in group 1 were those that could be most readily eliminated or postponed with the least inconvenience and harm to policyholders and field staff. Those in group 2 were supposed to be eliminated or postponed if conditions later became more acute, while operations in group 3 were to be eliminated or postponed only in case of dire necessity.

A tremendous amount of detail work was done reviewing and classifying operations throughout the company. As a result of this activity, there were many instances where line management saw opportunities to make savings by postponing or eliminating work or by improvements in procedures, sometimes on their own authority and sometimes after approval of the War Conservation Committee. A large number of changes were made which resulted in a substantial reduction of the staff. Almost all of these changes were initiated and carried through by line management.

If a greater manpower stringency should develop in the future, it was believed that most satisfactory results would be obtained by leaving the initiative for elimination and postponement of work to line management. Any War Conservation Committee would function only where proposals crossed departmental lines and could not be satisfactorily resolved by line management, or where the importance of policy decisions would prompt line management to ask for a review by the War Conservation Committee.

MR. R. C. PERRY made suggestions regarding recruiting and training of employees during an emergency. Step one in an aggressive recruiting program which had been followed was to get in touch with female employees who had left the company within recent years. Many of these employees are interested in returning to work at least temporarily and some companies have employed such persons during the day on a part time basis, operating morning and afternoon shifts.

The second step has been to send out a team of interviewers to a number of high schools to discuss employment opportunities with members of

the graduating class. These interviewers are equipped to give various pre-employment tests and thus assist in proper placement.

A third step has been to recruit part-time workers, principally from local colleges, to form a night crew capable of performing many of the routine tasks.

The real problem lies in the difficulty of obtaining replacements to meet normal turnover requirements plus such additional personnel as is needed because of growth and losses to military forces. This is particularly applicable to upper level clerical workers, first line supervisors and technicians of various kinds, positions which, to a considerable degree, are filled by men.

Perhaps the best approach to this problem is a stepped up program of education and training for such career-type employees as are available either now or in the future. Even such a program may meet with unexpected difficulties, particularly in the technical field. Any long delay in the educational process—whether it be between high school and college, during college or after completion of college—tends to make it more difficult to again develop the habit of study. Then, too, any such delay means that the prospective student is more mature and probably has family or other conflicting interests which make him less receptive to devoting the necessary hours to study. This is probably going to require re-examination of educational programs and is likely to lead to setting aside more office hours for education rather than relying on employees to devote any substantial amount of personal time to study. At the same time additional consideration should be given to courses such as those offered by the Life Office Management Association Institute as a means of providing a broad background of life insurance information.