

DIGEST OF INFORMAL DISCUSSION

WAR RISK UNDERWRITING

- A. 1. What degree of antiselection has been evident among those subject to potential military hazards? Have unusual amounts, a larger amount of term insurance, etc., been applied for by young males?
2. If a normal pattern of new business is maintained with or without plan, amount or underwriting controls, do theoretical or practical considerations justify assuming the potential war service hazards on new business?
3. Is evidence of an acute antiselection necessary before the introduction of war clauses is advisable?
- B. What are the advantages and disadvantages of including a permanent war clause in all policies?
- C. Is it practical to issue policies to men doing military flying, or who are subject to the risk of military flying, with an extra premium which will cover the aviation hazard while in the home area or the aviation hazard other than that of combat?

MR. L. S. NORMAN, in discussing section A, said that no significant antiselection was evident in American United's "post-Korea" business compared with "pre-Korea" business written during the first half of 1950. New business in the young adult age groups written during the first quarter of 1951 had a higher premium per thousand, a lower average sized policy and was a lower proportion of total new business. Mr. Norman believed that cooperation by agents to control antiselection had been helpful. The company began early to use a war clause on men in service and men ripe for service and to emphasize that "war scare" business is likely to have poor renewal.

Even though a normal pattern of new business is maintained, most companies are assuming varying degrees of potential war service hazards on some of their new business. He felt that, as a practical matter, we have, in times of peace, been rather generally agreed that life insurers should assume the potential war service hazard of future wars. In times of war we have generally considered it necessary and proper for new policies to exclude the war service hazards of the war then current. Whatever their theoretical justification, these practices have worked and have had general public acceptance.

In the present "half-war situation" these practices would call for excluding war service hazards of the war in Korea while assuming potential additional hazards that would be occasioned by enlarged hostilities.

Mr. Norman stated that he regarded a war clause as an underwriting control to be used whenever antiselection would otherwise occur, without waiting for acute antiselection to develop.

MR. H. G. PAFF stated that the Prudential experienced a wave of antiselection in July 1950 when applications at the military service ages became an increasing percentage of the total. Greater numbers of applications were also received from persons above normal military ages but with reserve connections or special skills. Some continuing antiselection is still apparent. Company rules limiting the amount of insurance accepted on lives at military ages have limited antiselection by individuals but not by class. Presumably many of the class eligible for military service would not be in the market for any amount except for present abnormal conditions.

Mr. Paff stated that if a war clause is not used and a normal pattern of new business is obtained by restrictions on the amount of business agents may submit at military ages, the company deliberately accepts some war losses. However, it avoids disturbing the agency force and the public. Under unusual circumstances the cost of filing war clause forms, establishing underwriting rules, etc., may be greater than the small extra mortality loss incurred. In weighing the arguments both for and against use of a war clause, he felt that controls necessary for a normal pattern of new business are more disturbing to the agency force than use of a war clause. Also, it is better for public relations to offer insurance with a war clause rather than to deny insurance through an underwriting limit.

Mr. Paff said that evidence of acute antiselection is not necessary before introduction of a war clause is advisable. The question reduces to deciding whether the premiums for age groups and classes subject to war hazards are sufficient to cover the risk assumed. Under present conditions it seems quite clear that the regular premium is not adequate to cover war hazards. Taking business without a war clause subsidizes a small group of policyholders at the expense of the policyholders as a whole. This practice could result in severe criticism of the companies by policyholders at whose expense the subsidy is given.

MR. R. E. MOYER compared the present period with the period prior to Pearl Harbor and stated that it is well to consider the difference in attitude of the general public today and ten or eleven years ago. He felt that conditions today are more conducive to antiselection in the purchase of life insurance than before Pearl Harbor. There was a bulge in the proportion of the John Hancock's business coming from male lives of military age during August and September of 1950, and an increase in the average size of policy. Underwriting practices were directed largely

toward controlling this situation on a general consideration basis without the establishment of specific classes of risks which would be granted insurance only with war restrictions. The proportion of risks submitted by this group declined steadily toward the end of the year. Few representatives solicited applications from those on active duty in the armed services. The company did impose some amount and plan limitations on those actively in service.

Mr. Moyer stated that, while such a pattern might be considered as reasonably close to normal, a study of it will indicate that a considerable amount of potential military hazard can be built up from business written during a relatively short period. In view of the possibility that the existing emergency may last several years, it was felt that war restrictions should be used in connection with those applicants who were either already in the service or were fairly sure to be within a short time and that some plan and amount restrictions should be applied to others in this general group who had some likelihood of future military service. Mr. Moyer said that it is not difficult in the present situation for an underwriter to distinguish where antiselection is taking place because of possible military hazard. Handling such applications on an individual basis is always difficult because the agent feels that he should be in a position to know what the company is likely to accept. John Hancock regulations have been drafted as specifically as possible and have operated smoothly.

Mr. Moyer felt that no insurer has gone sufficiently far in regulating war hazards so that antiselection does not exist.

MR. F. G. WHITBREAD said that in July and August 1950 there was sufficient evidence of antiselection in new business submitted to the Reliance to require the imposition of restrictions. Since their adoption, no evidence of antiselection has been seen.

It is sometimes necessary for the main body of policyholders to absorb losses which develop in small groups of policyholders in the course of time and with changed circumstances. However, the deliberate acceptance without extra premium of a small percentage of business from structural steel workers or from applicants with high blood pressure or from other substandard risks, with the justification that a normal pattern of business can nevertheless be maintained, would be contrary to a proper sense of trusteeship. Potential war service hazards are no different from other special hazards, unless we can accept paternalistic or socialistic reasonings. The "normal pattern of new business" approach is an unsound procedure which beguiles the ignorant and satisfies the rationalizations of those who, for one reason or another, desire to accept this type of business on a standard basis. The practice of large companies may force

smaller companies into accepting the philosophy in self-defense and, in this respect, practical considerations may justify smaller companies in adopting the line of reasoning suggested.

The use of a war clause is not only to combat antiselection but also to eliminate war deaths, the cost of which would otherwise have to be borne by policyholders who are not subjected to significant war hazard. The introduction of a war clause, then, should not be dependent alone on the presence of antiselection.

MR. F. P. CHAPMAN said that the Metropolitan had experienced only a modest amount of antiselection since the start of the Korean war. In August 1950 the ordinary issue was less than the average monthly issue during the first six months of 1950 and 7% less than May, although it was about one-third higher than that of August 1949. The percentage distribution by age groups showed increases only at ages under 20, the 15 to 19 group increasing from about 7.2% in May 1950 to about 9.5% of the total in August. The proportion of total business issued in the critical ages from 20 to 24, as well as higher ages, decreased slightly. By January 1951 the proportion of total business issued in various age groups had reverted to about the same as that issued in May 1950.

When considered by plan, as well as by age, there is a little more evidence of antiselection. August issues on the term plans at younger ages, for example, increased more than enough to offset the normal seasonal decrease. Five year term insurance issued at ages under 30 in August was about 40% higher than that issued in May and about double that issued in August 1949. On term plans the most marked increases were in the mid-twenties and on the whole life or life paid-up at age 85 plans in the higher teens. Unlike the age distribution, this shift toward lower priced plans seems to have continued in 1951.

Mr. Chapman felt that lack of serious antiselection may be attributed largely to the care with which the field force has written business since the start of the Korean war. Announcement was made to the field force late in July that the amount of life insurance which would be issued to persons potentially liable to active service in the armed forces would be limited to not more than the amount of insurance which would normally be applied for. Thereafter the field force did such a good job in underwriting directly in the field that the home office rules on limitations had to be applied to only about .2 of 1% of the applications received.

Mr. Chapman said that the Metropolitan has no immediate intention of using a war clause. The amount of new business subject to an actual war hazard in Korea is small in comparison with the total volume of new

business issued. Through February 1951 the Metropolitan had only two claims, involving \$13,000 of insurance, on ordinary policies which would have been limited if a war clause had been used on all such policies issued since June 30, 1950. This represents only about 2% by amount of the total claims on such policies during the same period. He felt that the main purpose of including war clauses is to prevent antiselection. Any situation which indicates the probability of a significant degree of antiselection, in spite of underwriting controls, might well be a sufficient reason to introduce war clauses.

MR. W. C. BROWN stated that analysis of new issues of July and August 1950 in the Colonial Life did not reveal any degree of antiselection. He felt this could be attributed to the fact that his company, which operates a debit business, is a small, well-knit organization, with no agents operating extensively in any military area. Agents have been well trained in the business they should submit.

MR. PAUL K. FRAZER, in discussing Section B, said that, although some payments of life insurance would have been avoided if a permanent war clause had been in use, it is worth a great deal to policyholders to know that they have insurance which fully insures, and much of the popularity and acceptance of life insurance is due to this fact. We should be reluctant to depart from this arrangement, unless we cannot otherwise protect ourselves from antiselection.

A war clause has never been used until after war has broken out. It hardly seems proper to argue that our premium rates do not include an allowance for war losses when our practice has always been to pay them on business previously issued. To take the position that war claims should not be paid in full, regardless of when the insurance was applied for, is a narrow point of view regarding the vast majority of our policyholders whose purchases of life insurance have not been motivated by any thought of serving with the armed forces.

Mr. Frazer said that we are in the business of insuring risks at proper rates; and if every able-bodied young man has to serve a tour of active duty and perhaps participate in a shooting war it is his opinion that the life insurance companies must regard any death claims which arise as being the result of a normal life and, therefore, absorb the losses. This does not mean that we should leave ourselves wide open for antiselection by professional soldiers and others who want to purchase insurance at bargain rates because of being in service or about to go in. As in the past, it will be necessary to use a war clause in time of war as the only underwriting tool which can protect us against antiselection. Prior to the time

a war clause is needed, plan and amount restrictions probably are required in order to obtain normal plan and age distributions on new business.

MR. L. S. NORMAN said that if we ever hope to win general acceptance of the idea of including a war clause in all policies, the concept of a war clause primarily as a means of avoiding antiselection seems essential. Such a clause would serve its main purpose at the time of issuance and might be self-canceling after a few years if the insured does not enter military service within that time.

MR. F. P. CHAPMAN said that life insurance over the years has developed an enviable reputation of providing insurance which really insures. People have learned to expect that, once the contestable period has passed, any life insurance taken out during peacetime will be paid without question, regardless of the cause of death, as long as the policy is kept in force. This reputation is a very valuable asset to life insurance companies. Before deciding to include a permanent war clause, the need for this action should be weighed very carefully against the probability of jeopardizing this invaluable reputation.

MR. E. A. RUSE stated that it might be said that there are two features of life insurance with respect to which actuaries have allowed intuition and expediency to prevail over actuarial foresight—settlement options and permanent war exclusions.

One school of thought, which has set the pattern to date, says in effect it is both the duty of the companies and in the public interest that the life insurance industry provide permanent and unconditional protection against the war risk at standard premium rates, as long as the solvency of the company or companies is not imperiled. This school of thought does not claim that the war hazard is insurable at standard rates. It simply claims that the possibility of a catastrophic war imperiling the life insurance companies is sufficiently remote to be ignored, on condition that when war looms or becomes a fact certain types of applicants would be rejected, or made subject to a partial or total exclusion of the war risk. When the emergency is past, if finances will permit, this school of thought would cancel all such exclusions and return to issuing new business on an unrestricted basis.

The other school of thought says, in effect, it is both the duty of the industry and in the public interest that the life insurance companies exclude the war risk permanently and unconditionally. This school of thought claims the hazards of war are not the product of natural forces, are not subject to the law of averages, and cannot be reduced to statistical proba-

bilities. This school of thought refuses to accept the remoteness of the possibility of a catastrophic war as an argument for insuring a hazard which all agree could be uninsurable if it happens. This school argues that life companies are trustees for millions of policyholders and their first duty is to protect and strengthen the business for their benefit. New business is only justified in the eyes of existing policyholders and their beneficiaries when it will strengthen and perpetuate the business by spreading the risk at adequate premium rates.

There is little doubt, Mr. Ruse believes, that in the event of a global war the past and present practices of many companies will lead to a strain upon dividends and, if there are a substantial number of war claims, may reduce operating surplus or even force some companies into liquidation. If this last possibility, remote though it may be, can be avoided by admitting that the hazards of war are not insurable, there is, in Mr. Ruse's opinion, some measure of responsibility upon the industry and the insurance commissioners to seek ways and means to make it mandatory upon the companies to exclude the war hazard on an unconditional and permanent basis.

MR. HARWOOD ROSSER said that a preview of public reaction to a permanent war clause can be obtained from disability and double indemnity riders which include it. He felt that these clauses produce a great deal of confusion and ill-will in the minds of policyholders in military service, even though the basic policy contains no war exclusions.

MR. W. C. BROWN stated that the Colonial Life had a permanent war clause on all policies up to the date of the commencement of three separate wars and on those dates, for patriotic reasons, waived them. He felt that the force of competition would induce many to follow the same course if we had a permanent war clause.

MR. F. P. CHAPMAN, in discussing section C, said that the Metropolitan at present is issuing policies to men doing certain types of military flying. Regular pilots in the Army Transport Command or the Navy Air Transport Service are accepted for an extra premium. Regular pilots of heavy bombers and reconnaissance planes are accepted with a slightly larger extra premium. Pilots in the active reserves, who have flown as reserves and contemplate such flying in the future, are accepted with an extra premium which depends in part on the hours of flight. Paratroopers and airborne troops are accepted with a small extra premium. All of these cases are, of course, subject to the Metropolitan's current rules designed to prevent the issuance of more than a normal amount of insurance. No conclusion has been reached as to whether this procedure could be con-

tinued in the event that at some future date the Metropolitan decides to use a war clause.

MR. R. C. PERRY said that presumably the question of providing at least partial aviation coverage for those doing military flying appears on the agenda for discussion because of attempts being made to establish a voluntary federal government insurance program for air force personnel over and above the \$10,000 gratuitous indemnity now provided for all members of the military forces. He expressed concern whether ratings for aviation risks can be established without sufficient factual data on scientific evaluation of experience. Mr. Perry said the problem requires examination from the standpoint of antiselection inherent in a greater concentration of risk. The prospective insured is able to make a reasonable estimate of the period of greatest hazard and is thus in a position to pick and choose the most advantageous time to apply for insurance and the most advantageous time to terminate the insurance or apply for removal of rating.

MR. H. F. ROOD commented, in regard to the aviation hazard, on the difficulty of defining the home area because of flights that begin within the home area and end outside, or take off in the home area and come back to it. He devised such a clause with a latitude and longitude which was far enough from our coast line so the Lincoln National could take more of the cases it wanted to cover.