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SOME CONSIDERATIONS IN THE DEVELOPMENT OF AN INDIVIDUAL ACCIDENT AND SICKNESS PROGRAM

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THE 1950's have seen a remarkable increase in activity among the large life insurance companies with respect to Individual Accident and Sickness insurance. (For convenience, the expression "A & S" will be used instead of the longer term "Individual Accident and Sickness.") Since 1950, nine companies with a billion or more of Ordinary life insurance in force have entered the A & S field; an equal number of such companies had entered the field prior to 1950. Thus, 18 of about 42 companies with a billion or more of Ordinary life insurance in force now write A & S insurance.

There is some reason to believe that the trend of life companies entering the A & S business will continue. Both the public and the government are becoming increasingly aware of the need and desirability for the widest possible coverage against the loss of income because of disability and against the cost of medical care. This should lead to an expansion of the market for A & S insurance which should attract still other companies to the field in the future.

The New York Life Insurance Company entered the A & S field in June 1951. In designing our program, we were handicapped by a lack of the kind of information which is available in connection with life insurance. We derived a great deal of general information from published sources such as Mr. Faulkner's book on the subject but there were certain aspects of the business for which little information was available.

This situation has improved considerably during the last few years. The recently published lectures of the Huebner Foundation and the new A & S panel notes of the Society should provide general information on such problems as the calculation of premium rates and reserves, general description of coverages, regulation of the business, etc.

As yet, however, limited data are available on other more practical aspects of the business. At the time we entered the A & S business we were able to make only very rough estimates of what might be expected in the way of volume of new business, distribution of business by type of benefit and by age at issue, renewal and claim experience, etc. Statistics of this nature from other companies would have been of great assistance to us in formulating our program and in setting up our administrative organization.

For the benefit of actuaries in companies contemplating entering the A & S field or those interested in reviewing their present programs, this paper presents an analysis of our first two and a half years in the business. Because this represents a relatively short period of time, the statistics in this paper do not cover those aspects of the business where large volumes of data studied over fairly long durations are required to obtain reliable results. Thus, they do not include data on morbidity rates such as will be compiled by the Society's new Committee on Experience under Individual A & S Insurance.

THE NEW YORK LIFE'S PROGRAM

A brief review of the development of our A & S program will provide the background required for reviewing some of the results of our first two and a half years in the business. The fundamental decision we made in constructing our program was that we would follow closely the practices of some of the more prominent companies which had had considerable experience in the business. In this connection, we were influenced chiefly by the programs and practices of the larger life insurance companies because their methods of operation and the characteristics of their agency forces resembled ours more closely than was the case for those companies concentrating on the casualty types of coverages. A summary of certain A & S practices of some of the larger life insurance companies is shown in Table 1 of the Appendix.

Types of Coverages Offered

The first decision which confronted us was whether to issue the noncancelable or the "commercial" form of A & S insurance. In choosing the commercial form, whereby the company has reserved the right to reunderwrite policies, we were influenced by the fact that well over 90% of the total Individual A & S business was issued on this basis. (See Table 2 of the Appendix which gives relative volumes of business for different types of A & S insurance for all companies.) It seemed evident to us that by means of the commercial A & S form we could offer larger amounts of indemnities to a larger portion of the insuring public at a lower cost. We also believed that it would be wise to gain experience in the A & S field with this form of coverage instead of the noncancelable form, especially in view of the unfavorable experience of a number of life insurance companies in past years with noncancelable A & S insurance and with the income disability benefit. Although under the commercial form of A & S the right to cancel policies at any time is sometimes reserved, our policies provided for the right to reunderwrite only at the end of each term period.

With respect to the specific benefits in our program, we also decided to adopt those types which had been found to be popular by companies active in the field. While we might have been tempted to experiment at first with new types of benefits, we decided to defer any such action until we had obtained some experience of our own upon which to base our decisions.

A brief description of our portfolio of policies and benefits is shown in Table 3 of the Appendix. It may be noted that our initial portfolio consisted of only four basic policies, two accident policies (A-1 and A-2) and two sickness policies (S-1 and S-2). Sickness policies were issued only in combination with accident policies. Although some companies issue accident and sickness insurance combined in one policy, our practice was to issue two separate policies. However, both policies could be applied for on a single application.

By means of these four basic policies, we were able to offer loss-of-time and medical expense benefits to both men and women in both hazardous and nonhazardous occupations and to offer suitable benefits to those not in receipt of an earned income. These policies were of the schedule type wherein the applicant had considerable latitude in his choice of benefits. While some of these benefits bordered on being "frill" benefits, such as the double benefit for common carrier accidents, we believed that they would be attractive from a merchandising standpoint.

Our early experience with the initial four policies demonstrated clearly the popularity of the medical expense types of coverage, especially the hospital and surgical benefits. Consequently, in September 1952, we introduced the Family Hospital Expense policy and, in March 1953, an Individual Hospital Expense policy. These policies were of the package type where the applicant's only choice was as to the amount of the hospital daily benefit. This was available in five amounts—\$5, \$8, \$10, \$12 and \$15. The policy automatically included a \$250 surgical schedule and a \$5,000 polio benefit. A maternity benefit of ten times the daily benefit was automatically included in the Family Hospital Expense policy. With these policies, our portfolio included all of the more common types of benefits offered by companies active in the commercial A & S field.

On June 14, 1953, our second anniversary in the A & S field, we introduced a Major Medical Expense policy which was available on both a family and an individual basis. While this form of coverage is admittedly still in its experimental stages, we believe that it offers such great possibilities in providing substantial protection against medical expenses of major proportions that every effort should be made to offer it on a sound basis. The policy is available on two plans, one with a $300 deductible amount and a maximum benefit of $5,000 and the other with a deductible amount of $500 and a maximum benefit of $7,500. Both plans have a 25% co-insurance provision. In order to minimize the possibility of duplication in coverage, and in recognition of the fact that persons with higher incomes tend to incur higher medical expenses, we restricted the $300 deductible amount plan to persons with no basic hospital coverage and with annual incomes of less than $10,000. Practically all (98%) of our major medical expense coverage has been issued on the $500 deductible amount plan. This reflects the fact that many persons have basic hospital insurance coverage and that major medical coverage is attractive to persons with higher incomes. A sample of our applications for these policies showed that 73% of applicants had existing hospital insurance and 45% had incomes of $10,000 or more. While 18% of applicants for major medical coverage were eligible for the $300 deductible plan, only one out of every nine of such eligible applicants chose that plan.

Commissions

The commission scales currently in use for the plans that we issue are shown in the table below.

NEW YORK LIFE COMMISSION RATES
(Payable to the Writing Agent)

	1st Year	2d Year	3d and Subsequent Years
Accident (A-1 and A-2)	40%	20%	10%
Sickness (S-1 and S-2)	40	20	10
Hospital (AS-1 and AS-2)	20	20	10
Major Medical (AS-3)	40	20	10*

* No commissions after the tenth year.

In adopting a nonlevel scale of commissions for our A & S business, we departed from the general practice of most life companies in the business at the time of our entry. As Table 1 shows, only one of the five larger life insurance companies who were in the commercial A & S business prior to 1950 had a nonlevel commission scale. Our decision to adopt a nonlevel scale was motivated primarily by the consideration that such a commission pattern was more consistent with the services that would be provided by our agents in selling and servicing accident and sickness business.

Another important factor influencing our decision was the expectation of being able to return a larger part of the premium dollar to our policyholders. Of course this expectation was based on the assumption that the persistency of A & S business would be fairly good. The persistency rates which we obtained on our four basic plans before the introduction of the hospital expense policies appeared to be favorable. The persistency rates obtained after the introduction of those policies have been affected by the rewriting of many of our basic policies on the newer plans—a practice we have permitted because of the administrative savings which result from having all of the members of a family covered under one policy form. The renewal commissions were set at a higher level than for life insurance because it was recognized that the agent would be required to spend more time in servicing claims and, perhaps, in conservation efforts than is the case for life insurance.

In setting the commission scale for hospital policies, a first year commission rate lower than that for other A & S policies was adopted in recognition of the fact that this form of insurance requires less selling effort than other types of A & S policies.

Major medical insurance, on the other hand, seemed to resemble life insurance more closely than A & S insurance from the standpoint of the service provided by the agent. Claims occur less frequently and, because of the deductible and coinsurance features, the plan is more difficult to sell. We gave consideration to an even steeper scale for this plan than for our basic A & S policies, but selected essentially the same scale in order to avoid having a multiplicity of commission scales.

Home Office Organization of A & S Department

An important decision that must be made prior to entering the A & S business is to determine what form of home office organization is best for the company. At the one extreme, the new operation might be completely integrated with the life insurance functions, with sales, underwriting, issue, maintenance, claims and actuarial procedures handled in the appropriate life insurance department. At the other extreme, a completely separate department might be set up with divisions paralleling the life operation but staffed by A & S specialists.

It is likely that most companies entering the business would adopt a form of organization lying somewhere between these two extremes, with the degree of integration or separation depending on the characteristics of the company and of the contemplated A & S operation. Such characteristics as size of company, extent to which related coverages (disability income, double indemnity, etc.) are issued, and estimates as to future volume of A & S issue, would tend to influence the decisions on organization.

In setting up our program we adopted complete integration at the executive level. While we leaned toward the integrated type of organization at the administrative and clerical levels, we found that for most functions it was difficult to achieve complete integration at the inception of the program. Close supervision by experts was essential in getting the operation started and in training personnel, so that in the early stages it was desirable to centralize many of the A & S operations. As people have become trained and as the volume of business has expanded we have attempted to integrate certain A & S functions with the life departments. Policy writing, preparation of card records, premium billing, and actuarial procedures are now handled in the life departments although to some extent the actual A & S functions are handled by separate A & S personnel within these departments.

While we were interested in integrating those operations which were closely related to the life operations, we decided that most underwriting and claims procedures should be handled in a separate A & S department.

As for the underwriting, there are many dissimilarities between the morbidity and mortality experience associated with certain impairments. In addition, both life and A & S underwriting require a high degree of specialization, the retention of a great number of details, and the ability to master quickly the many changes in underwriting rules and practices. We were convinced that for our company there was a danger that, at the start, the integration of the underwriting operations for the two lines might lead to a deterioration in the quality of both the life and A & S underwriting.

The claim procedures for A & S are also distinctly different from those of the life business. The high frequency of claims, the high proportion of small claims, the difficulties arising from pre-existing conditions and questionable claims, require that entirely different claim procedures be used for A & S. These basic differences in the nature of claims were chiefly responsible for our decision to maintain a separate A & S claim unit.

Although we settled on separate claim and underwriting units for the A & S business, certain "fringe" underwriting operations such as the receipt and checking of the application against various records were handled in the same departments as the life applications.

In approaching the problem of integration with respect to underwriting and claims procedures, a new company might first maintain separate units, and as personnel are trained and rules and practices become fairly stabilized give more attention toward integrating certain operations within these functions. We have taken one such step with respect to underwriting by having the "clean" cases for small amounts underwritten at the clerical level. A simplified manual has been prepared for use in underwriting such cases. It seems very likely that after a suitable trial period, such cases might be completely underwritten in the appropriate life department. As a matter of fact, several months ago our top underwriter was given responsibility for both life and A & S underwriting.

With respect to claims procedures, we do not, as yet, visualize any integration with the life claim organization in the home office. However, just as some life claims are handled in the branch offices, we feel that, as our A & S business becomes well established, steps can be taken toward having certain claims handled at the local level. This would result in some integration and would also tend to speed up the processing of claims.

REPORT ON OUR FIRST $2\frac{1}{2}$ YEARS OF OPERATION

Volume of Business

One of the problems which confronts a company which is considering entering a new line of business such as Individual A & S is that of estimating the volume of business it might expect to obtain. Not only is it of interest to know whether a sufficient volume would be obtained to justify the time and effort of management which must be diverted from other pursuits in order to establish the new line of business, but the practical problem of providing for personnel and office space must be met. As a guide to a company which is considering entering the Individual A & S field, detailed figures on the numbers of applications received, policies issued and notices of claims reported to the Company are shown in Table 4 of the Appendix. This business represents the efforts of a field organization of about 4,000 full-time agents who produce about $1,000,000,000 of paid-for ordinary insurance annually on about 220,000 policies.

Before entering the A & S business we were somewhat concerned that our agents, influenced by the greater ease with which some forms of A & S insurance are sold, might concentrate unduly on this business and neglect their life insurance sales. Our experience indicates that there is little danger of this occurring with a field organization which has specialized in the sale of life insurance. In our first half year in the A & S business, we received 10 A & S applications to every 100 life applications. The ratio continued at about 10 to 100 during 1952. During 1953, about 14 A & S applications were received for every 100 life applications. The 1953 increase in the ratio of A & S to life volume can be attributed almost entirely to the broadening of the A & S coverage offered with the addition of hospital and major medical plans to the portfolio.

Our experience has shown that A & S sales will lag unless the company energetically pushes this business. Special sales campaigns with intensive sales direction have been considered advisable in order to maintain sales progress. One-day sales campaigns were held in the second quarter of 1952 and the first and fourth quarters of 1953 and a one-month campaign was held during the third quarter of 1953.

The campaigns had a significant effect on sales for each quarter; the number of applications in those quarters in which one-day campaigns were held increased on the average by about 20% over the previous quarter; in the quarter in which the one-month campaign was held, applications increased 50% over the previous quarter. In addition to this immediate effect on volume, the level of sales after each campaign remained higher than the level before the campaign. For a life company entering the A & S business, one of the major problems is that of awakening the interest of the agents in A & S selling. We have found that special sales campaigns serve this purpose effectively.

The results of our sales campaigns have also demonstrated the measure of control that management has over the relative distribution of life and A & S business produced by the agency force. For example, during the fourth quarter of 1953, a major promotional effort was made in connection with life insurance with no special recognition being given to A & S sales (except for the one-day campaign held during this quarter). The result was a marked increase in the volume of life business and a slackening in A & S production. These results have important implications for a one-line company which takes on an additional line of business. It appears that merchandising efforts must be so directed that reasonable results as to relative volume of business between the two lines will be achieved.

In order to serve as a guide for a company contemplating entering the Individual A & S field, I would say that an established life insurance company operating on a national basis, and willing to put emphasis on the sale of the new line, might find its accident and sickness applications running in the neighborhood of 10 to 20 for every 100 life applications.

Distribution of Business by Plan

The table below shows the distribution of policies issued and average yearly premiums for the second six months of 1953.

All of the plans were issued during the entire six months period and the distribution of issues should, therefore, give some indication of the relative popularity of the various plans.

The distribution emphasizes the popularity of hospital plans as against other types. In spite of the fact that the first year commission rate is lower on hospital policies (20% as compared with 40% on other policies), 44%

of yearly premiums and 32% of all policies issued were on hospital plans. Although the widespread need for hospital coverage is recognized, these proportions seem rather high as compared to the relative need for hospital as against loss-of-time coverages. It is likely that the applicant exercises more selection against the company on hospital plans, often purchasing coverage in anticipation of collecting benefits at some time in the near future.

The data in Table 4 of the Appendix with respect to policies issued and policies placed illustrate the effect of the introduction of new plans on the volume of new business written on plans already in the portfolio. The introduction of hospital policies naturally had a depressing effect on the sale of our four basic policies, especially the sickness policies because the

POLICIES ISSUED—JULY TO DECEMBER 1953

Plan	Policies Issued		Yearly Premium		Average Yearly Premium
	Number	Percentage of Total	Amount	Percentage of Total	
Accident A-1	6,590	30%	$ 372,707	24%	$ 57
Accident A-2	2,571	12	74,497	5	29
Sickness S-1	1,250	5	105,593	7	84
Sickness S-2	2,380	11	115,456	8	49
Family Hosp. AS-1	4,331	20	522,852	34	121
Indiv. Hosp. AS-2	2,675	12	149,606	10	56
Major Med. AS-3	2,215	10	188,669	12	85
Total	22,012	100%	$1,529,380	100%	$ 69

two types of policies offer somewhat similar coverages with respect to hospital and surgical benefits. It is still somewhat early to determine the effect on other A & S plans of the introduction of the major medical policy. However, the figures in the third and fourth quarters of 1953 indicate that the introduction of this plan has not resulted in any significant reduction in the volume of other plans. This appears reasonable since the coverage provided under the major medical plan is not duplicated to any great extent in other types of A & S coverage.

The average yearly premium figures show a wide variation by plan, ranging from $29 on accident (A-2) policies to $121 on family hospital policies. These average premiums are small as compared to the average for life policies; during 1953, for example, our average annual premium on life paid issues was about $150. Size of policy is as important an expense consideration from an A & S standpoint as from a life standpoint. A substantial portion of administrative expenses, such as underwriting, policy issue, premium collection, maintenance and claim administration expenses, are relatively constant by policy. In setting up an A & S program it should be a matter of prime concern that the plans offered and minimum amount restrictions adopted produce an average yearly premium of such a size that normal operating expenses will bear a reasonable relationship to premiums.

Distribution of Business by Mode of Premium Payment

In keeping with our decision to follow the general pattern of the industry, no extra charge was made under our original program for premiums payable for shorter term periods than one year. This procedure was followed for accident, sickness and hospital policies. However, because this practice appeared to encourage an unduly high proportion of premiums for shorter periods than one year, we decided to change our practice on the major medical plan by including additional charges in the premiums for the shorter periods. In the table below, the distribution of our business is shown by mode of premium payment.

DISTRIBUTION BY TERM PERIOD—BY POLICIES

PLAN	TERM PERIOD				AVERAGE YEARLY PREMIUM
	3 Months	6 Months	12 Months	All	
Accident A-1	39%	29%	32%	100%	$ 57
Accident A-2	13	35	52	100	29
Sickness S-1	50	20	30	100	84
Sickness S-2	49	30	21	100	49
Family Hosp. AS-1	77	9	14	100	121
Indiv. Hosp. AS-2	54	24	22	100	56
Major Med. AS-3	22	12	66	100	85
Total A & S	46%	24%	30%	100%	$ 69
Life Insurance	46%*	19%	35%	100%	$150

* Including 15% monthly, 31% quarterly.

The comparison of the distribution by mode of premium payment of the first six plans with that of the major medical expense plan provides an indication that charging fractional premiums which include additional loadings helps to control the distribution of business by mode of premium payment. For policies other than major medical expense, about 50% of the premiums are paid quarterly while the proportion for major medical is only slightly over 20%; 66% of major medical policies are paid on an annual basis. Although some of this difference probably arises because the purchasers of major medical insurance are generally in higher income brackets and therefore are more accustomed to paying insurance premiums annually, the large difference in the figures would seem to indicate that the extra premium charges for fractional premiums have played an important part in holding down the proportion of quarterly and semi-annual premium business under this plan.

Rates of Selection of Optional Benefits

As has been mentioned previously, our first four basic policies were of the schedule type with certain benefits required but with the applicant having a fairly wide selection of other benefits which could be included as part of the policies on payment of additional premiums. The table below shows the rates of selection of these optional benefits, thus providing an indication of their relative popularity.

SELECTION OF BENEFITS

PERCENTAGE OF CASES IN WHICH THE OPTIONAL BENEFIT WAS SELECTED

	Male		Female	
	A-1	A-2	A-1	A-2
Accident Policies				
Total Disability	*	†	*	†
Partial Disability	43%	†	39%	†
Accidental Death	55	57%	56	64%
Double Benefit	28	*	32	*
Blanket Medical Expense	61	*	69	*
	S-1	S-2		S-2
Sickness Policies				
Total Disability	*	57%		36%
Hospital	38%	62		74
Surgical	37	63		73
Nurses' Fees	26	23		21
Med. Attention in Hosp.	22	35		36

DISTRIBUTION BY NUMBER OF OPTIONS SELECTED

	A-1	A-2	S-1	S-2
Required benefits only	12%	36%	44%	‡
With One optional benefit	23	64	8	5%
With Two optional benefits	28	....	15	37
With Three optional benefits	19	....	14	39
With Four optional benefits	18	....	19	19
	100%	100%	100%	100%

* Benefit required in policy. † Benefit not available in policy. ‡ No required benefits in policy.

Accidental death and blanket medical expense benefits have been selected in well over 50% of all policies where these benefits are available. There is less demand for benefits such as the double benefit for common carrier accidents, nurses' fees, and the medical expense benefit providing for payment for medical attention during hospital confinement. In view of the relatively small demand for some of these latter benefits, their value as a sales aid might be more than offset by the additional administrative costs arising from policy changes, etc., after issue. The high proportion of applicants taking the more valuable options provides an argument for the use of "package" policies. The inclusion of several benefits as an integral part of the policy, thereby cutting down on or eliminating options, should have a favorable effect on expenses, since issue costs would be reduced and there would be fewer requests for changes or modifications subsequent to issue.

Distribution by Age at Issue

A comparison of the proportions of business at ages under 40 and at ages 40 and over shows a considerable variation among the three types of coverage. Only 28% of hospital coverage is issued at ages 40 and over as

DISTRIBUTION BY AGE AT ISSUE
(Age of Policyholder for Family Policies)

Age at Issue	A & S Policies—Based on Amount of Weekly Loss-of-Time Benefit	Hospital Policies—Based on Amount of Daily Hospital Benefit	Major Medical Policies—Based on Number of Policies
18–19	1%	8%	3%
20–29	17	35	11
30–39	36	29	22
18–39	54%	72%	36%
40–49	33%	20%	34%
50–59	12	8	30
60–65	1	0*	0*
40–65	46%	28%	64%
Total	100%	100%	100%

* Not issued beyond age 60.

compared to 46% for loss-of-time benefits and 64% for major medical policies. The high proportion of hospital coverages issued at the younger ages is undoubtedly due in part to the fact that these policies include a maternity benefit which is not available in major medical policies. In addition, first dollar coverage probably has more appeal to individuals at the younger ages since they can more easily visualize a need for coverage for minor conditions than for the more unusual impairments which result in abnormally high medical expenses. On the other hand, at the older ages there is more concern about impairments such as degenerative diseases which result in prolonged illnesses and unusually large medical expenses, so that at these ages major medical coverage is relatively more attractive. Also, since the average income increases by age for the insuring ages, one would expect a shift in the demand away from first dollar coverage toward coverage for the less frequent but larger medical expenses as the age increases.

Distribution by Occupational Class

The New York Life uses the Manual of the Bureau of Accident and Health Underwriters in classifying occupations. The first four classes A to D* cover principally "white collar" occupations while the last five

DISTRIBUTION BY OCCUPATIONAL CLASS—BY POLICIES—
MALE LIVES
(Class of Policyholder for Family Policies)

Occupational Class	Accident		Sickness		Hospital		Major Medical
	A-1	A-2	S-1	S-2	AS-1	AS-2	AS-3
A	25%	13%	38%	11%	15%	13%	48%
B	22	53	29	16	12	22	26
C-D*	18	9	33	10	19	12	16
A-D*	65%	75%	100%	37%	46%	47%	90%
D-E	18%	11%	†	35%	22%	22%	6%
F-H	17	14	†	28	32	31	4
D-H	35%	25%	†	63%	54%	53%	10%
Total	100%	100%	100%	100%	100%	100%	100%

* Class D* is called "D star." † Coverage not available.

(D to H) include most of the "blue collar" occupations. Percentage distributions have been shown only for male lives; about 80% of female lives fall in the "A" occupational classification.

A relatively high proportion of our A & S business is written on "blue collar" risks and in this respect our A & S business follows the pattern of our life business. The proportions of business on individuals in "blue collar" occupations are particularly high on hospital policies and are relatively low on major medical policies. Although differences in age at issue distribution and income level account for some of this variation, there is certainly an indication that first dollar coverages have more of an appeal to "blue collar" workers than do policies which have high deductible amounts but which provide substantial coverages for abnormal medical expenses.

Underwriting Problems

One of the advantages of the commercial A & S form of insurance is that, by retaining the right to reunderwrite at renewal, the company can be somewhat more liberal in its initial underwriting than might be the case if its policies were noncancelable. For instance, weekly or monthly indemnity benefits can be offered to persons whose earned incomes might change markedly in the future. Similarly, the company's limits of issue and retention can be somewhat more liberal than might be the case if renewal were guaranteed. Thus, the commercial A & S form of insurance has the advantage of permitting the company to offer larger indemnities to a greater proportion of the insuring public, and at a lower premium, than might be the case for noncancelable insurance.

Despite the fact that our policies permit us to reunderwrite at renewal, our philosophy with respect to initial underwriting is to select risks carefully so as to minimize the need to decline early claims for pre-existing conditions or to reunderwrite at renewal. However, there is a practical limit to the extent to which a company can go in seeking out adverse information at the time of issue. Where the company's files and the inspection report reveal no adverse information on the applicant and where his application is "clean," the insurance will be issued without going to the further expense of obtaining a medical examination.

Unfortunately, we do not always get a complete picture of the applicant's physical condition. In some cases the information is not disclosed with respect to conditions for which an applicant expects to receive medical treatment in the near future. In other cases an existing physical impairment may not be considered to be of sufficient importance to be reported to the company in the application. In any event, if sound insurance principles are to be followed, A & S insurance offered on an individual basis cannot be issued to provide coverage for such pre-existing conditions.

The administration of early claims on recently issued business will, therefore, always be complicated because of the prevalence of claims involving pre-existing conditions. Technically, our policies permit us, during the first two policy years, to decline a claim for a pre-existing condition whether or not the policyholder knew of his condition before he applied for insurance. In practice, however, we administer claims under A & S policies on a somewhat more liberal basis. Before we decline a claim on the basis of a pre-existing condition, we must, of course, first determine that there is no question that the medical impairment did exist at the time the policy was issued, but we do not decline a claim on this basis alone. We also satisfy ourselves that the policyholder knew, or should reasonably have known, of this condition when he applied for the policy. Generally, his knowledge is proven to us by his having obtained medical treatment for the condition before the policy took effect.

The question as to whether or not a given physical impairment existed prior to the time of issue is not always clear-cut. While we pursue a liberal policy with respect to claims, it is not always easy to find a fair and equitable course of action with respect to the renewal of the policy. Although a large majority of the cases which have not been renewed because of physical impairment have involved pre-existing conditions, a few policies have not been renewed because of changes in physical conditions which appeared to have occurred after the policies were issued. Of course, this action has not been taken until after a substantial amount of benefits has been paid. We have followed this practice because our premiums are at the usual commercial accident and sickness premium level and are, of course, below the general level required to provide benefits on a noncancelable basis. As nearly as possible, we have attempted to adopt renewal underwriting practices which are consistent with those of comparable life insurance companies in the commercial accident and sickness field.

Since all our business is still in its early durations, the ratio of cases reunderwritten to cases up for renewal has probably been higher than the corresponding ratio for a company that has been in the business for some time, because of the relatively large number of cases involving pre-existing conditions. During our first $2\frac{1}{2}$ years in the business, policies came up for renewal about 129,000 times and some 2,085 of these were referred to the underwriters because there was some doubt as to whether we would offer insurance to these policyholders if they had presented themselves as new applicants. We took favorable renewal underwriting action on 1,759 or about 85% of these 2,085 policies. Our underwriting standards for renewal of existing policies were definitely more liberal than our standards for new business. Adverse underwriting action on cases where we either offered renewal only with a medical impairment rider or refused renewal entirely was taken on 15% of the cases that were reviewed or about .3% of the policies that came up for renewal. Well over half of these adverse underwriting actions were for physical impairments, usually clearly preexisting and undisclosed in the application. The rest involved other underwriting factors such as overinsurance, habits, morals, uninsurable occupations, etc.

In developing the major medical expense policy, we were especially concerned with the problem of renewal underwriting for a policyholder whose physical condition deteriorates after the policy has taken effect. With this form of insurance, the policyholder is not so much concerned with the first several hundred dollars of medical expenses due to routine disabilities as with the more remote possibility of incurring large expenses as the result of a severe injury or sickness. This form of insurance is unquestionably regarded by the policyholder as one which provides long-term protection. For this reason, we believe that the insured should have some assurance that renewal would not be refused should his physical condition deteriorate. Hence, we added to the renewal provision of the major medical expense policy the provision that the Company would not refuse renewal solely on the basis of a change in physical condition. With this type of renewal provision, however, it is desirable to provide that an aggregate maximum benefit will be payable for all medical expenses arising from the same or related physical conditions. The Company does, of course, reserve the right to refuse renewal for reasons other than a change in physical condition and to change premium rates for classes of policyholders.

Nature of Claims Received

The number of notices of possible claims reported to the Company is shown in Table 4 in the Appendix in order to illustrate the large number of claims that arise shortly after a company has entered the Individual A & S business. These data may be helpful in estimating the volume of work which must be done by the claims personnel. In order to give a better idea of the volume of claim work to be expected, the claims shown in Table 4 include not only those claims upon which payments have been made, but also notices of claims on which no payment was made.

Because the standard provisions in Individual A & S policies require that prompt notice be given to the company of an injury or an illness, policyholders frequently report disabilities to the company that do not result in claims covered under the terms of their policies. In the case of accident policies, about 6% of the notices of possible claims which were reported to the Company to the end of 1953 had been closed without payment at that time. In 69% of such cases, the policyholder made no actual claim for benefits under the policy. In the case of 16% of claims under accident policies reported to the Company and closed without payment, the claim was denied because the injury occurred when the policy was not in force.

The proportion of notices of possible claims which were closed without payment under sickness and hospital policies has been much higher. In many cases, the type of claim submitted to the Company indicated that the policyholder did not understand the nature of his contract. For instance, one-third of notices of possible hospital claims which were closed without payment were claims for medical expenses which had not been incurred in a hospital. The other main type closed without payment on sickness and hospital policies was for loss resulting from a physical impairment which existed before the policy took effect.

Our experience with claim notices which have been closed without payment has indicated clearly that a life insurance company entering the Individual A & S field should place special emphasis on certain aspects of its training of agents. First, the agents' training program should emphasize the importance of explaining carefully to applicants the nature and terms of the coverages offered in the policies. Second, agents should be trained to explain carefully that pre-existing physical conditions cannot be covered under the terms of an Individual A & S contract, just as a fire insurance policy cannot be obtained on a burning building.

Our experience with respect to claims which have been paid has also been very revealing. While we were aware of the fact that Individual A & S insurance involves much more frequent claims for a much smaller average size than is the case for life insurance, we were surprised at the large proportion of claims which were for very small amounts—72% of claims under all types of coverage were for $100 or less. Table 5 in the Appendix shows the distribution of claims paid under the various types of policy forms by amounts of claims payments. These claims were those closed up to the end of 1953, and therefore excluded claims on which additional payments were to be made after that time. For this reason, the table probably tends to understate the true average size of claims incurred during the two and one-half year period, but this factor should not affect the broad conclusion that an unduly high proportion of claims has been for nominal amounts.

In the case of accident policies, the benefit which has contributed mainly to the large proportion of small claims has been the blanket medical expense benefit. A distribution of the claims paid under this benefit is shown in Table 6 of the Appendix. More than half of the claims paid under accident policies involved this benefit only. This benefit provides coverage for virtually all types of medical expenses which may arise as the result of an accident, from the first dollar of medical expenses up to the maximum benefit (at least $1,000).

The preponderance of small claims under the blanket expense benefit logically raises the question as to the desirability of a deductible feature. Based on the claims paid under this benefit, the table below shows the percentage reductions (for all ages and occupational classes combined) in the number of claims and the total amounts paid for a blanket expense benefit with a maximum benefit of $1,000 and with the indicated deductible amounts.

PERCENTAGE REDUCTION IN NUMBER OF CLAIMS AND IN TOTAL AMOUNTS PAID FOR BLANKET EXPENSE ACCIDENT BENEFIT OF $1,000

Deductible Amount	Men		Women		Boys		Girls	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
$ 10	24%	15%	22%	12%	36%	25%	36%	18%
25	57	30	52	25	73	44	63	34
50	78	42	73	37	87	57	76	50
75	85	49	80	45	92	64	85	60
100	88	54	85	50	94	69	88	67

As the table indicates, a deductible amount of as low as $25 would eliminate over half of the claims under the blanket expense benefit. As a practical matter of course, it is likely that the introduction of a deductible amount would not achieve the full savings indicated by the foregoing table since many claims slightly below the deductible amount might tend to increase to somewhat more than the deductible amount. Nevertheless, the use of a deductible amount would have the advantage of eliminating claim administrative expenses for many cases involving small amounts where such expenses are disproportionately high in relation to the benefits.

In the case of the Family and Individual hospital expense policies, a source of frequent small claims has been the emergency treatment benefit whereby reimbursement is made for out-patient care performed in a hospital in the event of an accident. The maximum amount payable under this benefit is three times the amount of the daily hospital benefit. It was included in our hospital policies because we believed that policyholders would not understand why such medical expenses, although very minor, were not covered under the terms of a hospital contract. While the inclusion of this benefit appeared to solve one problem of policyholder relations, it introduced another. Based on our experience, policyholders who have received emergency treatment in a doctor's office as the result of injuries cannot understand why their expenses were not covered as they would have been if treatment had been obtained in the emergency ward of a hospital. In addition, the inclusion of the benefit was responsible for numerous small claims. A practical solution might be to eliminate the benefit entirely from hospital policies.

Financial Experience—Allocation of Expenses

A company which enters a new line of business can generally expect that a drain on surplus funds will result during the early years. The total of such items as the cost of setting up the operation, the high initial acquisition expenses, the cost of establishing unearned premium reserves on a gross premium basis, and the cost of claims, will generally exceed the earned premiums by a substantial amount for several years. The actual amount of this drain on surplus may vary considerably depending on the company's experience as to claims and expenses.

With respect to the claim experience, it is quite possible that results will appear rather favorable during the first few years of operation. Underwriting selection may contribute to early favorable results for sickness and hospital benefits. In the case of hospital insurance, the usual waiting periods of six months for the "elective" operations (*e.g.*, appendectomies, tonsillectomies, etc.) and of ten months for the maternity benefit also tend to produce artificially low loss ratios as long as a substantial portion of such insurance is still in its first policy year at the year end. Actually the morbidity experience as shown in the Annual Statement for the first several years of operation will depend to a large extent on the estimated claim liabilities at the year ends. In the case of our Company, the ratios of the estimated claim liabilities (reserve for unpaid losses and for future contingent benefits) to total accumulated losses incurred were 72%, 48%, and 39% at the end of the first, second, and third calendar years respectively. Thus, it is evident that for our operation the loss ratios during the first few years have been largely dependent on our estimates of the claim liabilities for these years.

The expense rates during a company's first few years of operation will depend not only on the actual level of expenses within the company, but also on the type of administrative operation which is established and the manner in which expenses are allocated to the new line. In general, the more a company has leaned toward establishing separate administrative departments or units for handling the new line, the more it will have tended to increase expense rates. For instance, if separate underwriting and claims departments are established, the work of those departments cannot be expected to reach normal efficiency immediately. It is likely that all of the expenses of such new departments would be charged against the new line during their training and "shake-down" periods. In particular, the claims department would produce artificially high expense rates during its early years of operation because, for reasons mentioned previously, the volume of claims is relatively low at first and increases rapidly.

Artificially high early expense rates are less likely to occur where the work for the new lines is absorbed by an existing life department. For instance, if the work of writing A & S policies is absorbed by the Life Policy Issues Department, the expense charge to A & S is likely to be based on the proportion of work units performed (weighted by the relative complexity of writing life and A & S policies). This has been the case in our Company, and the favorable unit cost for writing an A & S policy has been in contrast to an unfavorably high unit cost for making an A & S premium collection. For the latter function, we established a separate unit to handle the billing and accounting of A & S premiums. All of the expenses of this unit have been charged to A & S. Because this unit has undergone a training and shake-down period, the unit cost for collecting an A & S premium has been about twice that of collecting a life premium.

These differences in the expense results depending on the type of operation which is established to handle various functions are not mentioned to suggest that the "integrated" type of operation is superior to the "separate department" type. Rather, the differences are mentioned so that a company which is considering entering the A & S business can better estimate what its results may be in the early years. The differences in expense rates between the two types of operations should tend to disappear as the volume of work assumes normal proportions.

One item of expense allocation which is of particular interest to a one line company which has issued only life business in the past but which is entering a new line is that of the method of charging "general company overhead" expenses against the new line. Such expenses might include those of the Board of Directors and the executive officers of the company, company contributions to charitable organizations, the Public Relations Department, Library and institutional advertising. These types of expenses generally do not increase as the result of entering a new line of business, and it would appear logical not to charge any of such expenses against a new line during its early years of operation. Of course, one of the reasons for entering a new line of business is that the new line will help bear a portion of such expenses, thus reducing the expenses of the life business which supported the entry into the new field. One plan might be for the new line to assume gradually its normal share of such expenses so that at the end of a period such as five or ten years the new line is charged its full share.

POSSIBLE FUTURE TRENDS IN THE A & S BUSINESS

While we have been in the A & S business but a short time, analysis of our experience points out certain areas where changes in benefits or policy structure might be desirable. Some of the possibilities have been mentioned in the course of presenting our experience. However, certain general observations might be made in order to focus attention on the more important of these possible changes.

The Renewal Provision

Probably one of the most widely discussed features of A & S insurance today is the provision in commercial A & S insurance which gives the company the right to refuse renewal. The use of this provision even if used sparingly may cause policyholder dissatisfaction and could detract from the good will and reputation for fair dealing which life insurance companies have earned for themselves.

The obvious alternative to avoid this dissatisfaction is to issue noncancelable insurance. However, this alternative is not without its problems. The major consideration is the problem of adequately controlling the business so as to avoid large financial losses. If the business were to become unprofitable, such losses would have to be met from the surplus created by life insurance policies. The income disability experience of life companies, particularly the very large ones, stands as a warning of the danger in issuing any forms of noncancelable A & S coverage which provide benefits in the event of loss of income. In the case of policies containing both the life insurance and disability income benefit, the latter benefit is an integral part of the total contract so that any disability losses can generally be recovered from margins in the life insurance premiums. There is no such safeguard on noncancelable A & S policies.

Another important consideration is the type of agency training required so that the field force can do a proper job of underwriting disability coverages. Companies selling only A & S and little or no life insurance generally have agents who are trained to do a thorough A & S field underwriting job. On the other hand, agents trained in selling only life insurance who are capable of recognizing good life insurance risks would have more difficulty in selecting good A & S risks. The differences in underwriting such risks are quite marked, and improper evaluation may well lead to an unsatisfactory claim experience. It would also create problems for the agent on those cases where adverse home office underwriting action is taken on an A & S application while a life insurance application on the same life is approved. This problem is accentuated for noncancelable types of coverages because the company does not have the option to reunderwrite at renewal.

In attempting to develop an A & S program which meets the needs of the insuring public and yet can be satisfactorily controlled, the best answer for a life insurance company might lie somewhere between the commercial and noncancelable approaches. One possible solution is the one taken in the major medical policies of the Equitable and New York Life. Under this renewal provision the company gives up the right to refuse renewal solely because of a change in physical condition, thus giving the policyholder assurance that the policy will not be canceled because his health has deteriorated. This leaves the company free to refuse renewal or to renew with modified premiums or conditions for such reasons as moral hazard, overinsurance, or a change to an uninsurable occupation. This right to refuse renewal would have a salutary effect even though it were exercised with great restraint. Under this type of provision the company also retains the right to change the scale of premium rates of all such policies or those in certain classes if the experience should prove unprofitable. It is to be expected that a company would not be capricious about such a change in rates. This type of renewal provision is especially suitable for "experimental" types of coverages such as major medical insurance.

A second approach, used by the Prudential on hospital expense policies, moves even more in the direction of noncancelable insurance by relinquishing the right to refuse renewal for any reason, but retaining the right to increase premiums for an entire class of policyholders.

Either approach tends to minimize policyholder criticism and at the same time gives the company a large measure of control over the financial results of the business. When the scale of rates for a whole class is increased because of unfavorable claim experience the reaction should not be unduly unfavorable. The public has, to some extent, been conditioned to such changes through changes in rates for group insurance, Blue Cross and Blue Shield, and automobile insurance. If premium rates are reasonably adequate, it is likely that a later increase in the rates would be made very infrequently if at all. Proper timing in making needed increases would be important under these types of renewal clauses. By making rate increases soon enough after the need for an increase develops, increases could be kept small and thus there would be less resentment and fewer lapses by the better risks. Undue postponement of such a move resulting finally in substantial increases might greatly aggravate rather than help the situation by causing large numbers of the better risks to drop their policies.

Deductible Amounts and Elimination Period

As noted earlier in this paper, a characteristic of our A & S business has been the great number of claims for small amounts. For all A & S coverages, out of 6,300 claims over 70% have been for $100 or less. For the blanket expense accident benefit about 60% of the claims have been for $25 or less. A life insurance company operating with larger average premiums and accustomed to handling claims of substantial amounts would have to adopt simpler procedures to handle efficiently a coverage with many claims for small amounts.

The answer may well be found in the increased use of deductible amounts and longer waiting periods. For hospital and medical expense benefits, the insured might be required to bear the first $25 or $50 or so of the cost of such benefits. Similarly, for loss-of-time coverages, the benefits presumably might begin with the eighth day or even later.

If we are to inculcate a conception of sound insurance principles in the public mind, we have to educate the public away from expecting coverage for the first dollar of claim cost—a cost which is more in the nature of a budgetary item—and toward recognizing the need for insurance against the less frequent but more substantial accident and sickness costs.

Simplicity of Benefit Structure

In discussing the rates of selection of optional benefits the point was made that the so-called "frill" benefits appear to have less appeal than the more comprehensive benefits. Thus, in setting up our original program, we may have overestimated the merchandising value of these frill benefits. Our experience has shown that offering a great many options increases administrative problems and adds materially to the cost of issuing and maintaining A & S policies.

In broader terms, there appear to be good reasons for keeping the entire benefit structure for A & S policies as simple as possible. In addition to the problems created by the extensive availability of options, other refinements such as special exceptions and limited benefits also cause complications in issue and administration and may ultimately result in policyholder dissatisfaction. Furthermore, the relatively small average size premium does not provide expense margins adequate to cover the cost of extensive "tailoring" at issue or handling after issue.

A simplified benefit structure also has certain advantages from a merchandising standpoint. The less involved the benefit structure, the easier it is to train agents and to arouse their interest in A & S selling. For the life agent, A & S commissions will, in most cases, provide only a minor part of his total income. It is unreasonable to expect such an agent to devote a great deal of time to mastering the principles of an A & S program which may be even more complicated than the life program from which he derives most of his income. The A & S program must be accepted enthusiastically and be completely understood by the field force in order to obtain a satisfactory volume of such business and to hold policyholder dissatisfaction to a minimum.

Extension of Coverage to Substandard and Other Risks

Among the other areas deserving attention is the possible extension of broader coverage to substandard risks. Fortunately, there has been a recent awakening of interest in this field and many minds are now giving serious attention to providing coverage at an extra premium to persons who up to now could secure only a limited form of protection (with coverage "ridered out" for specified illnesses) or who are denied coverage. Along with the problem of substandard risks, the question of whether A & S insurance can be granted to individuals at ages higher than those who are now issued A & S insurance also needs study.

CONCLUSION

Improvements in many of the above features have been attempted in one way and another. The industry is experiencing an awakening interest in the need for improved coverages and in some instances a better conduct of the business. Undoubtedly some of this resurgence of interest has been accelerated by the entry of many life insurance companies into the field, as well as by the attention which government and public bodies have given to it.

This paper has been prepared with the object of furnishing some statistical information which may be of assistance to other life companies contemplating entering the A & S field. It is also hoped that other companies already in the business may present their statistics and views in a discussion of this paper. I firmly believe that A & S insurance fills a great social need which can best be served by private enterprise. Therefore, I hope that some of the suggestions made for improvement in the coverages now provided will lead, even if in only a small way, to a greater meeting of that need by the insurance industry.

APPENDIX

TABLE 1—INDIVIDUAL ACCIDENT AND SICKNESS PROGRAMS OF FOURTEEN LIFE INSURANCE COMPANIES

Company*	Participating	Types of Policies Offered†					Commission Practices			Premium Practices	
		Commercial A & S			Noncancelable A & S		Level or Nonlevel Scale	Lower 1st Yr.		Level from Age at Issue	Fractional Premium Loading
		Loss of Time	Family Hospital	Major Medical	Loss of Time	Family Hospital		Hosp. vs. Sick.	Sick. vs. Acc.		
Companies entering individual A & S before 1950											
Aetna	No	P & S	P	...	...	...	Level	Yes	Yes	No	No
Occidental	No	P & S	P	...	...	...	Level‡	Yes	Yes	Yes	No
Conn. Gen'l	No	S	P	P	...	...	Level§	No	Yes	No#	No
Metropolitan	Yes	P	P	...	...	...	Nonlevel	No	No	Yes	Yes
Great-West	No	P	P	...	...	...	Level	No	Yes	No	No
Companies entering individual A & S after 1950											
New York Life	Yes	S	P	P**	...	...	Nonlevel	Yes	No	††	‡‡
Equitable	Yes	...	...	P**	...	...	Nonlevel	...	...	Yes	Yes
Linc. Nat'l	No	P	P	...	P	...	Nonlevel	No	No	Yes	Yes
Mutual	Yes	S	S	...	...	...	Nonlevel	Yes	No	Yes	Yes
Prudential	Yes	...	...	...	P	P§§	Nonlevel	No	No	Yes	Yes
Guardian	Yes	S	S	...	S	...	Nonlevel	Yes	No	Yes	Yes
Bankers	Yes	S	...	...	...	...	Nonlevel	...	No	Yes	Yes
Prov. Mut.	Yes	...	...	...	P	...	Nonlevel	...	No	Yes	Yes
State Mut.	Yes	...	...	...	P	...	Nonlevel	Yes	No	Yes	Yes

* Listed in order of having entered (or re-entered) the Individual A & S field.
† "P" refers to package policies wherein all benefits in the policy must be taken; "S" refers to schedule policies wherein optional benefits are contained in the policy. With either form of policy, additional benefits may be added by rider.
‡ Nonlevel for policies issued in conjunction with life insurance policies.
§ Nonlevel for Family Hospital and Major Medical policies.
# Except "yes" on Family Hospital policies.

** Renewal of these policies cannot be refused solely on account of a change in physical condition.
†† For Family Hospital and Major Medical policies—yes; for other plans—no.
‡‡ For Major Medical—yes; for other plans—no.
§§ While renewal of this policy is guaranteed, the premiums for classes of risks are not guaranteed.
NOTE.—This table shows the practices of other companies as of March 1, 1954.

TABLE 2

VOLUME OF PREMIUMS WRITTEN UNDER VARIOUS TYPES OF ACCIDENT AND SICKNESS INSURANCE

YEAR	INDIVIDUAL			GROUP	BLUE CROSS AND BLUE SHIELD	TOTAL
	Non-cancelable	Commercial	Total			
1932..	*	*	*	*	Not Issued	$ 187,534,592†
1940..	*	*	*	*	*	344,997,908†
1942..	*	*	*	*	$ 60,279,409‡	448,367,277
1945..	*	*	$310,868,068	$ 217,626,519	125,171,805	653,666,392
1950..	$50,708,000	$593,600,000	644,308,000	657,188,000	622,950,000	1,924,446,000
1951..	55,780,000	677,341,000	733,121,000	897,575,000	762,975,000	2,393,671,000
1952..	64,018,000	797,708,000	861,726,000	1,081,697,000	890,994,000	2,834,417,000
1953..	*	*	992,683,259	1,302,073,975	1,111,728,242	3,406,485,476

* Figures not available.

† Includes only Individual and Group A & S.

‡ Blue Cross only; Blue Shield figures not available.

SOURCES.—Figures for 1932, 1940, 1942, 1945 from *Insurance Year Books;* 1950, 1951, 1952, from *Spectator* magazine; 1953 from *Accident and Health Review.*

TABLE 3

NEW YORK LIFE'S INDIVIDUAL A & S PLAN PORTFOLIO

	Brief Description of Benefits	Benefit Automatic or Optional
Accident Policy Form A-1 (introduced 6/14/51)		
Total Disability	Weekly Indemnity—1st day—Lifetime	Automatic
Partial Disability	40% of Total Disability—6 months	Optional
Accidental Death		Optional
Dismemberment		Automatic
Double Benefit	Above benefits doubled for certain common carrier accidents	Optional
Blanket Expense	Reimbursement for virtually all medical expenses up to maximum	Optional
Accident Policy Form A-2 (introduced 6/14/51)		
Accidental Death		Optional
Dismemberment		Automatic
Double Benefit	Above benefits doubled for certain accidents	Automatic
Blanket Expense		Automatic
Sickness Policy Form S-1 (introduced 6/14/51)		
Total Disability	Weekly Indemnity—8th, 15th, 22d, or 29th day—Two years	Automatic
Hospital	Daily Benefit for 70 or 365 days—Miscellaneous hospital expenses up to 10 times Daily Benefit	Optional
Surgical	Reimbursement according to schedule	Optional
Nurses' Fees	Daily Benefit up to 70 days	Optional
Med. Att. in Hosp.	$3 per day during hospital confinement up to 70 days	Optional

TABLE 3—*Continued*

	Brief Description of Benefits	Benefit Automatic or Optional
Sickness Policy Form S-2 (introduced 6/14/51)		
Total Disability	Weekly Indemnity—8th, 15th, 22d, or 29th day—One year—One-half benefit if not house-confined	Optional
Hospital, Surgical, Nurses' Fees, and Medical Att.	Same as in S-1	
Family Hospital Expense Policy Form AS-1 (introduced 9/15/52)		
Hospital	Daily Benefit for 100 days—Miscellaneous hospital expenses up to 10 times Daily Benefit—Maternity benefit up to 10 times Daily Benefit	Automatic
Surgical	Reimbursement according to $250 schedule	Automatic
Polio	Reimbursement up to $5,000	Automatic
Out-patient Emergency Treatment for Accident	Reimbursement up to 3 times Daily Benefit	Automatic
Individual Hospital Expense Policy (introduced 3/10/53)		
	Same benefits as in Family Hospital Expense Policy except no maternity benefit	
Major Medical Expense Policy (introduced 6/14/53)		
	Reimburses for 75% of "eligible medical expenses" incurred for a given illness during hospital confinement and during the two months preceding and six months following that confinement which are in excess of the Deductible Amount ($300 or $500) with a maximum payment of $5,000 or $7,500	

TABLE 4

Volume of Business of the New York Life

	Apps. Rec'd*	Policies Issued					Policies Placed					Notices of Possible Claims				
		Acc.	Sick.	Hosp.	Maj. Med.	Total	Acc.	Sick.	Hosp.	Maj. Med.	Total	Acc.	Sick.	Hosp.	Maj. Med.	Total
1951																
6/14 to 6/30..	698	122	54	......	......	176	17	5	......	......	22	......	......	......	......	......
3d Quarter....	5,861	4,826	2,371	......	......	7,197	3,166	1,415	......	......	4,581	44	17	......	......	61
4th Quarter...	5,561	5,019	2,607	......	......	7,626	4,667	2,182	......	......	6,849	188	66	......	......	254
Total 1951..	12,120	9,967	5,032	......	......	14,999	7,850	3,602	......	......	11,452	232	83	......	......	315
1952																
1st Quarter...	5,411	4,829	2,545	......	......	7,374	3,750	1,848	......	......	5,598	264	137	......	......	401
2d Quarter....	6,782	5,605	2,629	......	......	8,234	4,345	2,070	......	......	6,415	353	165	......	......	518
3d Quarter....	5,409	5,011	2,505	47	......	7,563	4,927	2,146	......	......	7,073	530	190	......	......	720
4th Quarter...	6,475	3,548	1,752	2,229	......	7,529	3,484	1,635	1,684	......	6,803	569	162	58	......	789
Total 1952..	24,077	18,993	9,431	2,276	......	30,700	16,506	7,699	1,684	......	25,889	1,716	654	58	......	2,428
1953																
1st Quarter...	8,133	4,641	2,047	2,198	......	8,886	3,154	1,410	1,435	......	5,999	553	271	225	......	1,049
2d Quarter....	7,749	3,935	1,682	2,940	35	8,592	3,891	1,505	2,524	......	7,920	583	220	407	......	1,210
3d Quarter....	12,052	5,280	1,955	3,799	1,134	12,168	4,389	1,463	2,963	761	9,576	782	247	614	2	1,645
4th Quarter...	8,387	3,881	1,675	3,207	1,081	9,844	3,834	1,487	2,992	1,080	9,393	815	229	821	16	1,881
Total 1953..	36,321	17,737	7,359	12,144	2,250	39,490	15,268	5,865	9,914	1,841	32,888	2,733	967	2,067	18	5,785
Grand Total	72,518	46,697	21,822	14,420	2,250	85,189	39,624	17,166	11,598	1,841	70,229	4,681	1,704	2,125	18	8,528
Dependents Covered....	......	......	......	......	......	......	3,158†	......	18,065	2,814	......	......	......	......	......	......

* The same application is used where both accident and sickness policies are applied for. When a sickness policy is issued, it is issued as a separate policy but only in combination with an accident policy.

† For Blanket Expense benefits.

TABLE 5

Distribution of Claims by Amounts Paid—By Types of Policies
(Claims Closed 6/14/51 to 12/31/53)

Amount of Claim Payment	Accident Policies				Sickness Policies				Hospital		Total	
	A-1		A-2		S-1		S-2		AS-1 & AS-2			
	Number	Cum. %	Number	Cum. %	Number	Cum. %	Number	Cum. %	Number	Cum. %	Number	Cum. %
$ 0.01–$ 25.00	688	30.1%	985	60.3%	24	9.0%	125	14.0%	425*	33.8%	2,247*	35.5%
25.01– 50.00	407	47.9	279	77.4	37	22.8	130	28.5	219*	51.3	1,072*	52.5
50.01– 75.00	238	58.3	118	84.6	27	32.9	114	41.2	196	66.9	693	63.5
75.01– 100.00	203	67.2	43	87.2	29	43.7	110	53.4	167	80.2	552	72.3
100.01– 200.00	351	82.6	99	93.3	61	66.5	186	73.9	168	93.6	865	85.9
200.01– 300.00	153	89.3	44	96.0	30	77.7	120	87.2	44	97.1	391	92.0
300.01– 400.00	75	92.6	15	96.9	16	83.6	56	93.4	20	98.7	182	94.9
400.01– 500.00	43	94.5	15	97.8	8	86.6	28	96.5	6	99.2	100	96.4
500.01– 600.00	34	96.0	3	98.0	10	90.3	10	97.6	3	99.4	60	97.3
600.01– 700.00	15	96.7	7	98.4	4	91.8	12	98.9	3	99.6	41	97.9
700.01– 800.00	9	97.1	2	98.5	2	92.5	......	......	1	99.7	14	98.1
800.01– 900.00	11	97.6	4	98.7	3	93.6	4	99.3	1	99.8	23	98.5
900.01– 1,000.00	8	98.0	6	99.1	4	95.1	22	99.5	......	......	20	98.8
1,000.01– 2,000.00	33	99.4	11	99.8	9	98.4	5	100.0	2	100.0	60	99.8
2,000.01– 3,000.00	6	99.7	2	99.9	2	99.2	......	......	......	......	10	99.9
3,000.01– 4,000.00	3	99.8	1	100.0	1	99.6	......	......	......	......	5	99.9
4,000.01– 5,000.00	5	99.9	......	......	......	......	......	......	......	......	5	99.9
5,000.01– 10,000.00	2	100.0	......	......	1	100.0	......	......	......	......	3	100.0
Total	2,284	100.0%	1,634	100.0%	268	100.0%	902	100.0%	1,255*	100.0%	6,343*	100.0%
Aver. Claim Payment	$153.26		$65.54		$274.14		$151.08		$73.51†		$119.68	

* Including claims for in-hospital emergency treatment for injuries, each with a maximum benefit of three times the daily hospital benefit.

† Excluding the 221 claims for in-hospital emergency treatment for injuries, the average claim payment is $87.14.

TABLE 6

DISTRIBUTION OF CLAIMS BY AMOUNTS PAID—BLANKET EXPENSE ACCIDENT BENEFIT
(Claims Closed 6/15/51 to 12/31/53)

Amount of Claim Payment	Adults				Children*				Total	
	Men		Women		Boys		Girls			
	No.	Cum. %	No.	Cum. %	No.	Cum. %	No.	Cum. %	No.	Cum. %
\$ 0.01–\$ 5.00	173	9.3%	50	8.1%	101	15.0%	25	14.7%	349	10.5%
5.01– 10.00	277	24.2	87	22.2	137	35.6	37	36.4	538	26.7
10.01– 15.00	262	38.3	78	34.8	124	54.1	15	45.2	479	41.2
15.01– 20.00	194	48.8	57	44.0	80	66.0	21	57.6	352	51.8
20.01– 25.00	151	56.9	50	52.1	48	73.1	9	62.9	258	59.6
25.01– 50.00	389	78.0	127	72.5	92	86.8	22	75.8	630	78.5
50.01– 75.00	135	85.3	43	79.5	36	92.2	15	84.6	229	85.4
75.01– 100.00	52	88.1	32	84.7	15	94.4	6	88.1	105	88.6
100.01– 125.00	49	90.7	15	87.1	6	95.3	5	91.0	75	90.9
125.01– 150.00	32	92.4	9	88.6	6	96.2	1	91.6	48	92.3
150.01– 175.00	18	93.4	12	90.5	4	96.8	2	92.8	36	93.4
175.01– 200.00	6	93.7	9	92.0	3	97.2	2	94.0	20	94.0
200.01– 250.00	30	95.3	15	94.4	6	98.1	3	95.8	54	95.6
250.01– 300.00	15	96.1	6	95.4	5	98.8	2	97.0	28	96.4
300.01– 350.00	7	96.5	2	95.7	3	99.2	3	98.8	15	96.9
350.01– 400.00	10	97.0	3	96.2	2	99.5	....	....	15	97.4
400.01– 450.00	5	97.3	4	96.8	....	....	....	....	9	97.7
450.01– 500.00	7	97.7	....	....	....	....	....	....	7	97.9
500.01– 600.00	6	98.0	1	97.0	....	....	2	100.0	9	98.2
600.01– 700.00	5	98.3	3	97.5	1	99.6	....	....	9	98.5
700.01– 800.00	2	98.4	4	98.1	....	....	....	....	6	98.7
800.01– 900.00	7	98.8	1	98.3	....	....	....	....	8	98.9
900.01– 1,000.00	14	99.6	9	99.8	3	100.0	....	....	26	99.7
1,000.01– 2,000.00	6	99.9	1	100.0	....	....	....	....	7	99.9
2,000.01– 3,000.00	....	....	....	....	....	....	....	....	....	....
3,000.01– 4,000.00	....	....	....	....	....	....	....	....	....	....
4,000.01– 5,000.00	1	100.0	....	....	....	....	....	....	1	100.0
Total	1,853	100.0%	618	100.0%	672	100.0%	170	100.0%	3,313	100.0%
Aver. Claim Payment	\$63.04		\$73.87		\$34.44		\$47.88		\$58.48	

* Children: age 0 to approximately age 18.

HENRY F. ROOD:

It has only been within the last year or two that the Society of Actuaries has decided to add personal accident and sickness insurance to its examination syllabus and to collect data on such accident and sickness policies for morbidity studies. Although there have been several discussions of personal accident and sickness insurance on the Society's programs, I believe Mr. Phillips' excellent paper is the first of its kind in the *Transactions*. His complete coverage of the accident and sickness field will serve as a foundation not only for study by students but, I hope, for many future contributions on this subject.

The paper has been of special interest to me because the Lincoln entered the accident and sickness business only six months later than the New York Life. Many of our decisions were the same as those of the New York Life and many of the results of our first two and a half years of operations parallel those described by Mr. Phillips. Rather than be repetitive in relating the areas where we agree, I shall largely confine my remarks to the differences in approach to common problems or in the results which have been achieved.

We began to issue accident and sickness insurance on January 1, 1952, with four noncancelable policies providing for loss of time benefits for both accident and sickness, three noncancelable policies providing for loss of time benefits for accident only, and two combination policies providing for loss of time benefits for both accident and sickness. The combination policies are written only in conjunction with new life insurance and are of the commercial or nonguaranteed renewable type—*i.e.*, the Company has the right to refuse renewal of these policies if it so desires.

Several important factors dictated our entry into the accident and sickness business in this manner. We were anxious to provide true insurance benefits rather than prepaid medical expense coverage. We felt that noncancelable policies providing substantial coverage at fairly high premiums would fill a greater need to the class of policyholders which we hoped our better trained full-time career agents would solicit. Also, we hoped to avoid some of the problems which exist when a company finds it necessary to refuse renewal of a policy or to deny claims not covered.

It seemed desirable to begin with a program which paralleled life insurance and income disability claim practices, underwriting practices and administrative procedures as closely as possible. This enabled us to use our own life insurance staff without going outside the Company for specially trained accident and sickness talent.

At the time we were getting ready to enter the accident and sickness business we acquired control of the Reliance Life Insurance Company which had been issuing commercial accident and sickness policies for many years. We did not know whether the forms of commercial insurance we wanted to issue would parallel those of the Reliance Life or what problems would be involved if we tried to change the coverage offered, the step rate premiums, and perhaps the level commission scales used by that company. Also, Reliance agents were clamoring for noncancelable insurance, and the development of such a program for both the Lincoln and Reliance would serve a double purpose.

At the time we entered the accident and sickness field we announced that we expected to introduce commercial policies at a later date. This was done in November 1952, when seven commercial plans were added to our line. These included two policies with loss of time benefits for both accident and sickness, two policies with loss of time benefits for accident only, one policy with benefits for accidental death and dismemberment and accident medical expense, one plan for individual hospital and surgical benefits, and one plan for family group hospital and surgical benefits. Here again we were influenced, both in timing and as to the forms of coverage offered, by the fact that the merger of the Reliance and the Lincoln was scheduled for January 1, 1953, and it was important that we have coverage paralleling that sold by the Reliance agents before they began to represent the Lincoln. A summary of the benefits provided by our various policies is shown in Table 1.

Mr. Phillips' paper lists nine life insurance companies that have entered the accident and sickness business since 1950. It is interesting to note that the Lincoln National is the only one of the nine companies issuing "package" commercial policies. Also, curiously enough, the Lincoln is the only company offering nonparticipating accident and sickness policies. However, in common with all the other eight new entries, Lincoln policies provide for level premiums from issue to expiry, for nonlevel commissions, and in common with all except the New York Life for loaded fractional premiums. The commissions which we are allowing for commercial policies are very similar to those of the New York Life, being slightly higher in the first, third, and fourth years, while our commissions on noncancelable are generally lower except in the first year. A schedule of soliciting agents' commissions is shown below:

Year	Non-cancelable	Combination	Commercial
1	45%	Same	45%
2	15	as	20
3–4	10	Life	15
5–10	5*	Policy	10*
11 on	....	....	10*

* Nonvested Service Fees.

TABLE 1

THE LINCOLN NATIONAL LIFE INSURANCE COMPANY INDIVIDUAL A & S POLICIES—SUMMARY OF BENEFITS

POLICIES PROVIDING MONTHLY INDEMNITY FOR TOTAL DISABILITY

NAME OF POLICY	TYPE OF POLICY	TOTAL DISABILITY BENEFITS		PRINCIPAL SUM	PARTIAL DISABILITY BENEFITS
		Accident	Sickness		
Executive	Noncan.	Lifetime	120 months*	No	50%—6 months—Acc. and Sick.
Preferred 60 A & S	Noncan.	60 months* Lifetime by rider	60 months*	Yes	50%—6 months†—Acc. and Sick.
Preferred 36 A & S	Noncan.	36 months* Lifetime by rider	36 months*	Yes	50%—6 months†—Acc. and Sick.
Preferred 15 A & S	Noncan.	15 months* Lifetime by rider	15 months*	Yes	50%—6 months†—Acc. and Sick.
Preferred Lifetime Accident	Noncan.	Lifetime	None	Yes	50%—6 months†—Acc. only
Preferred 60 Accident	Noncan.	60 months*	None	Yes	50%—6 months†—Acc. only
Preferred 36 Accident	Noncan.	36 months*	None	Yes	50%—6 months†—Acc. only
Salary Protector	Combination	Lifetime	24 months	No	None
Income Protector	Combination	24 months	12 months	No	None
Special A & S	Commercial	Lifetime	24 months	Yes	50%—3 months—Acc. only
Standard A & S	Commercial	24 months	12 months	Yes	50%—3 months—Acc. only
Special Accident	Commercial	Lifetime	None	Yes	50%—3 months—Acc. only
Standard Accident	Commercial	24 months	None	Yes	50%—3 months—Acc. only

POLICIES NOT PROVIDING MONTHLY INDEMNITY FOR TOTAL DISABILITY

Name of Policy	Type of Policy	Benefits Provided
Basic Accident	Commercial	1. Principal Sum Accidental Death and Dismemberment 2. Accident Medical Expense Benefit
Hospital and Surgical	Commercial	1. Hospital Room and Board—Acc. and Sick.—120 days 2. Other Hospital Expenses, up to 10 times Benefit 1. 3 Surgical Benefits—Acc. and Sick.

* Benefits do not run beyond age 65, except that minimum benefit period is one year.

† Monthly Indemnity for partial disability and total disability combined limited to number of months shown in the policy title.

Volume of Business

The volume of accident and sickness business written by the Lincoln has been comparable to that of the New York Life although we have probably done less in the way of specialized accident and sickness sales campaigns. However, we did acquire an agency force from the Reliance Life which had been selling accident and sickness insurance for some time. In 1952 when only noncancelable and combination policies were sold and prior to the merger of Reliance, the Lincoln received 6 accident and sickness applications for each 100 life applications. In 1953 and the first six months of 1954 when all types of policies were sold, we received about 17 accident and sickness applications per 100 life applications, as compared with 14 for the New York Life.

In examining the production of individual agents from time to time, we have found that agents producing large volumes of accident and sickness business are the same agents that produce large volumes of life business. Moreover, the accident and sickness production has shown no tendency to cut into the life production of our agency force. These observations have confirmed our original opinion that accident and sickness insurance would result in increased earnings for the agents. It is also evident that the addition of accident and sickness insurance is not a cure for the agent who is failing in the business.

Mr. Phillips' Table 1 shows a striking trend in premium and commission practices of accident and sickness companies. There is a decided shift from level commission scales with lower rates of commission on sickness benefits than on accident benefits to a nonlevel commission scale with the same rates of commission on both accident and sickness policies. Also there is a definite shift from step rate premiums increasing perhaps 50% at age 50 to level premiums for the duration of the contract. The trend is away from quarterly and semiannual premiums which are 25% and 50% of the annual premiums respectively to somewhat higher fractional premiums. All of these changes reflect the tendency on the part of life companies newly entering the business to pattern their operations more closely after life insurance procedures and to attempt to return a larger proportion of the premium dollar to the policyholder in benefits. In our opinion there is also a trend away from accident only policies to contracts providing both accident and sickness benefits.

Distribution of Business by Plan

The distribution of Lincoln National business by plan shows significant differences from the New York Life. Table 2 in this discussion shows the distribution of accident and sickness policies paid for during the first six months of 1954. In order to make closer comparisons with Mr. Phillips' table, I have shown separately the distribution of policies excluding noncancelable contracts, since this form of coverage is not offered by the New York Life.

It is interesting to note that 40% of all business and 33% of the commercial business by number of policies, or 51% for all business and 40%

TABLE 2

THE LINCOLN NATIONAL LIFE INSURANCE COMPANY
INDIVIDUAL A & S POLICIES PAID FOR—JANUARY TO JUNE 1954
DISTRIBUTION BY TYPE OF BENEFIT

Type of Benefit	Policies Paid For		Percentage of Total				Average Annual Premium
			Number		Annual Premium		
	Number	Annual Premium	Incl. Noncan.	Excl. Noncan.	Incl. Noncan.	Excl. Noncan.	
Noncancelable							
A & S loss of time	342	$ 59,024	10%	......	19%	......	$173
Accident loss of time	48	3,293	1	......	1	......	69
Combination							
A & S loss of time	334	19,306	10	11%	6	8%	58
Commercial							
A & S loss of time	689	78,788	20	22	26	32	114
Accident loss of time	301	19,682	9	10	6	8	65
A D & D & Accident Medical Expense	364	8,276	11	12	3	3	23
Individual Hospital	667	36,242	19	22	12	15	54
Family Hospital	703	83,234	20	23	27	34	104
Total, including Noncan.	3,448	$307,845	100%	......	100%	......	$ 89
Total, excluding Noncan.	3,058	$245,528	......	100%	......	100%	$ 80

for commercial business by annual premiums, contains sickness loss of time benefits. These figures are not exactly comparable with those of the New York Life because the coverages are somewhat different, but they do indicate that the Lincoln has issued a substantially higher proportion of policies with sickness loss of time benefits.

At least part of this difference is undoubtedly due to the fact that the Lincoln has offered "package" policies in which both accident and sickness loss of time benefits are contained in a single policy, while the New York

Life has issued "schedule" contracts with separate policies for accident and sickness benefits. The type of coverage offered by the Lincoln has made it easier and more natural to put the primary promotional emphasis on the combined accident and sickness coverage.

The average premium for all business issued by the Lincoln is $89.00 per policy, which is significantly higher than that of the New York Life, again because of the use of the "package" policy. Where comparable policy forms exist, it appears that the New York Life experienced a slightly higher average premium.

As with the New York Life, hospital coverages are extremely popular, comprising 39% of total business by number of policies. While this type of coverage does not fit our basic philosophy to offer substantial insurance benefits rather than prepaid medical coverage, we felt it was impossible to promote an accident and sickness line which did not include this coverage. However, our rates are fairly high compared to those of many companies in the accident and sickness field. We feel that we should charge substantial premiums so that we can afford to be fairly liberal in our claim practices and our policy with respect to renewal, as we wish to avoid misunderstandings and disappointment on the part of our policyholders and agents. However, it has not always been easy to explain to our agents the need for higher premiums than are charged by some companies who may be using this policy as a door opener and for that reason perhaps are willing to offer it as a loss leader.

Optional Benefit Riders

A hospital rider providing a monthly indemnity for six months is offered with noncancelable and combination policies. Sixty-seven percent of the noncancelable policies and 59% of the combination policies paid for during the first six months of 1954 were issued with these riders. Recently we have also offered to add a surgical rider to noncancelable policies, but it is too early to determine the extent of its acceptance.

An accident and medical expense rider providing for virtually all medical expenses resulting from accident is offered with the commercial loss of time policies. Forty-five percent of the commercial policies paid for during the first six months of 1954 had this rider attached. A sickness hospital rider providing monthly indemnity for six months during hospitalization for accident or sickness and a sickness surgical benefit are also offered with commercial policies. During the first six months of 1954, 22% of commercial policies paid for were issued with the sickness hospital rider, and 19% with the sickness surgical rider.

An in-hospital physician's fee, a nursing benefit, and a supplementary accident medical expense rider are offered with individual and family group hospital policies. Of the policies paid for during the first six months of 1954, 23% were issued with the physician fee rider, 9% with a nursing benefit rider, and 21% with the supplementary accident and medical expense rider.

Accurate comparisons with the New York Life cannot be made because of the difference in policy forms; however, Mr. Phillips indicates that more than 50% of the policies were issued with the accident medical expense benefit. This compares with 45% for the Lincoln National.

Table 3 shows the distributions by age at issue of the Lincoln National

TABLE 3

THE LINCOLN NATIONAL LIFE INSURANCE COMPANY
INDIVIDUAL A & S POLICIES—JANUARY TO JUNE 1954
DISTRIBUTION BY AGE AT ISSUE

Age at Issue	Noncancelable*	Combination*	Commercial Loss of Time*	A D & D with Acc. Med. Exp.†	Individual Hospital†	Family Hospital†
0– 9	....	....	....	12%	‡	....
10–19	....	1%	1%	22	16%	1%
20–29	16%	32	18	20	37	27
30–39	52	47	37	20	17	34
40–49	26	19	28	16	16	27
50–60	6	1	16	10	14	11
Total	100%	100%	100%	100%	100%	100%

* Figures based on amount of Monthly Indemnity.

† Figures based on number of policies.

‡ Less than ½%.

policies paid for during the first six months of 1954. Our experience is similar to that of the New York Life in that the lower cost policies are issued at the younger ages. Nearly a third of our combination loss of time policies were sold at ages 20 to 29 as compared with 18% for commercial business. As with the New York Life, the majority of hospital business was sold at ages under 40, perhaps because of certain pregnancy benefits. The average age for noncancelable policies is higher than for commercial policies.

The Lincoln National is currently using an occupational manual of our own design although it corresponds in many respects with the manual published by the Accident and Health Underwriters Conference. This is a five-class manual with designations running from AAA to C. Classes AAA and AA cover principally "white collar" occupations while the remaining three classes cover largely "blue collar" occupations. In a special study of 2,205 cases issued in the fall of 1953, the distribution of business by occupational classes was found to be as follows:

Class	Percentage of Policies
AAA	50%
AA	35
A	13
B	2
C	*

* Less than ½%.

These figures are for males and females combined and for that reason do not compare exactly with the New York Life male figures only. It appears, however, that the Lincoln is selling a substantially higher proportion of business among the white collar occupations than the New York Life. This is perhaps the result of our emphasis on the higher premium forms of coverage.

We have adopted the same underwriting philosophy as is expressed by Mr. Phillips in his paper. We shall certainly be more liberal in reunderwriting old policies than in accepting new applications. On commercial policies we hope our experience will be such that we shall be able to renew most cases except for suspected malingering or fraud. Our problem is complicated somewhat because on some of the older Reliance policies the premium structure may not justify such liberal action.

It may be interesting to furnish some information with respect to the ultimate disposition of applications. We recently studied about 1,500 applications received late in 1953. The results of this study are shown below:

Issued as applied for—Paid for	69.5%
Issued as applied for—Not taken	7.1
Issued other than as applied for:	
Plan or amount changed—Paid for	1.9
Plan or amount changed—Not taken	0.7
Elimination rider added—Paid for	5.1
Elimination rider added—Not taken	2.0
Not Issued:	
Withdrawn	3.1
Unacceptable for plan applied for	2.0
Declined because of amount limitations	0.3
Declined because of medical history	8.3

It will be noted that 76% of cases written were ultimately paid for, 10% of the cases were issued but not taken, 11% of the cases were declined, and 3% were withdrawn. Elimination riders were added in 7% of the applications, and over 70% of policies with such riders were accepted by applicants.

We have been quite satisfied with our progress to date. The initial production exceeded our expectations and the volume of new business to date is satisfactory although we hope it can be improved. Since we developed the business entirely from our own staff except for the addition of one underwriter whom we transferred from the Reliance Life, our initial investment was low and our financial experience has been extremely good.

We are considering the addition of a major medical policy and a deductible hospital policy. We haven't the courage of the New York Life and the Equitable to contractually provide for termination of major medical benefits only for reasons other than a change in the physical condition of the policyholder, but we plan to administer our major medical policy on that basis.

WARD VAN B. HART:

Mr. Phillips presents the problems faced by a life company entering the accident and health field during the present decade. He and his associates have been forced to face in a short time many decisions which a company like our own has handled through a slow process of evolution since we first entered this business in 1912.

It is rather healthy for us, therefore, to review our philosophy of the business in the light of his thorough summarization of the problems. We find surprisingly few points where we would take a position greatly different from his. This discussion will be confined to a few isolated points where our emphasis may be somewhat different from that brought out by his paper.

After analyzing the benefits selected in his four basic scheduled policies, he seems to draw the conclusion that a package policy embodying the favorite benefits might be more economical to handle than the scheduled policy. In our Company, however, after having switched from the package attack to the scheduled attack a few years ago, we are confident that there are few in the organization, either in the field or at the home office, who would want to go back to the package method.

He points out that his accident and sickness business follows the pattern of his life business in that a relatively high proportion is written on "blue collar" risks. Our accident and sickness business likewise follows the pattern of our life business in that a relatively high proportion is written on "white collar" risks. For all forms combined, our issue for 1953 was only 17% for classes D and higher.

Our proportion of Major Medical is considerably larger than his, and our Family Hospital decidedly less. Both of these tendencies have resulted largely from an intentional attitude adopted by the Company. Because of long-standing patterns, there is also very much more emphasis still on accident than on accident and sickness. Our proportion of annual, semi-annual and quarterly shows much the reverse of Mr. Phillips'—47%, 18% and 35% respectively; probably this is connected with some of the other points just mentioned.

We attempted to analyze the selection of benefits in the four basic policies. We are not presenting our results in tabular form, since our records do not lend themselves to presentation parallel with Mr. Phillips', in spite of the fact that our portfolio of policies is almost identical with his. In general, we are able to draw the conclusion that our options rank in popularity in much the same order as he brings out. We confirm his statement as to the popularity of accidental death and blanket medical, and the lesser popularity of the double indemnity benefit and nurses' fees.

His elaborate claim analysis brings out clearly a fact of which all of us have been growing more and more conscious—the high frequency of claims for a very small amount, particularly under the blanket accident expense benefit. It must be remembered that this benefit was introduced by most companies over about a four-year period running from 1929 to 1933. At that time, the desirability of a "deductible" would have been a very foreign concept to most of those engaged in the accident and sickness business, even in spite of the fact that it was prevalent in certain casualty coverages. The blanket accident expense benefit was designed to take the place of the rather inadequate hospital, surgical, and nondisabling injury benefits previously contained in accident policies. The innovation was welcomed by the sales forces of the companies and by the public. It made possible a much more simple and logical presentation of the desirability of purchasing accident coverage. One of our agents expressed it somewhat as follows: "It is all beautifully simple. I can simply tell the prospect that, if he has an accident, we pay for 'everything.' " This frame of mind probably led to an undesirable emphasis on the small claims. With the benefit of hindsight, we can now say that another possible attack would have been to consider the blanket accident clause as the forerunner of the major medical policy. In our Company, at least, we began quite early in the history of the blanket accident benefit to emphasize the desirability of purchasing higher maximum limits. If this attitude on our part had been accompanied by the use of a deductible clause, we would have been well along the road toward a major medical policy in the accident field.

We quite agree that greater use of waiting periods would likewise eliminate the question of small claims in the loss-of-time area. We do not differ with Mr. Phillips in his remarks concerning the out-patient benefit in the family hospital policy. It is possible, however, that all of these points are symptoms of a mode of thinking in the accident and health field which cannot be reformed overnight.

JAMES J. OLSEN:

Mr. Phillips' excellent paper has helped to fill a definite need for more data on the subject of accident and sickness insurance. I have compiled some information in regard to the Prudential's experience.

The Prudential entered the A & S business with the sale of its first policy on June 30, 1952. The 15,000 agents who were members of the union representing districts in which 83% of our district agents were assigned did not handle A & S until a union-management agreement was reached in early 1954. These agents did not become eligible to sell A & S until the middle of 1954. Thus, for the first two years of our operation our entire Ordinary agencies organization and the management of the district agencies and only 3,300 district agents out of more than 18,000 district agents were eligible to sell A & S policies.

Our monthly income policies are of the noncancelable type and are guaranteed renewable to age 65. Our hospital expense policies are also guaranteed renewable to age 65 and cannot be canceled by the Company. The hospital expense policies provide that the company has the right to change the table of rates. In the event it is necessary to change the rates it will not be applied to the policy of an individual but rather to the policies of a class of policyholders.

The problem of writing hospital expense insurance on a noncancelable basis is quite different from that of providing a monthly income benefit for loss of time. First of all, from a competitive standpoint, practically all hospital expense coverage is written on a cancelable basis. Secondly, there are outside considerations apart from the health of the insured which may materially affect the company's claim experience. This is particularly true in the field of hospital coverage. Whether a person is treated at home or in the hospital is to a considerable extent a matter of the discretion of the physician. Many of the advances in medical science make treatment and diagnosis under hospital conditions desirable from the standpoint of the doctor. Furthermore, the availability of hospital facilities may have an important bearing on the claim rate. These are the important reasons why we felt we could not guarantee premium rates. We therefore adopted a new approach of guaranteeing continuing coverage but reserving the right to change the table of premium rates. This new idea of Mr. Howell's is a logical development for policies providing expense reimbursement, such as hospital and medical expense policies.

Types of Coverages Offered

The Prudential has one series of plans which are available on the Monthly Debit premium basis and one series of plans which are available with quarterly, semiannual or annual premiums, which we refer to as Ordinary.

At the time the Prudential entered the A & S business the following plans were available.

Ordinary
- *Hospital* ($5–$15 daily benefit, issued in units of $1)
  - Personal Policies (with either $200 or $300 Surgical)
  - Family Policies (no surgical, $200 or $300 Surgical)
- *Monthly Income* (up to $500 Sickness and Accident and $750 for Accident only)
  - 1 or 2 year sickness with 5 year accident or lifetime accident
  - 5 or 10 year sickness with lifetime accident
  - 5 year or lifetime accident

Debit
- *Hospital* ($5–$10 daily benefit, issued in units of $1)
  - Personal Policies (with either $200 or $300 Surgical)
  - Family Policies (no surgical, $200 or $300 Surgical)
- *Monthly Income* (up to $150 Monthly Income)
  - 1 year sickness with 2 year accident
  - 2 year sickness with 5 year accident
  - 5 year accident

Up to the present time we have not offered any new types of coverage. However, on both Debit and Ordinary starting in May 1954, personal hospital expense policies may be sold without surgical.

Commissions

The commission rates for our Ordinary type policies are the same for monthly income policies and hospital expense policies.

Year	Commission Rates	
	Writing Agent	Servicing Agent
1st	40%	....
2d	10	5%
3d and 4th	5	5
5th and subsequent years	....	5

In recognition of the service required on this type of business we have earmarked a portion of the commission to the agent who services the policy. When a policyholder moves, the policy is automatically transferred to the office nearest the policyholder.

On our Debit policies, a new business commission is paid in the first year, no renewals are paid, but a collection fee as well as a service fee is paid.

Home Office Organization

The Prudential's A & S operation is similar in many respects to the organization of the New York Life. Many of the functions are on an integrated basis. Separate claim and underwriting units handle the A & S business. The underwriting and claim technicians work only on A & S. The service personnel for the Claim and Underwriting Departments work on both life and A & S. Responsibility for the establishment of policy and the coordination of the activities of the A & S branch is centered in one department. The department is staffed by actuarial, claim, contract, methods, sales and underwriting specialists. Most of the actuarial and contract functions are performed in this department. Since the Prudential currently has six regional Home Offices in addition to the Home Office in Newark, there is a need for a coordination of activities and it is the responsibility of the A & S Department to ensure uniformity of action in all areas, particularly on underwriting and claims.

Volume of Business

As indicated above, our full agency force was not in operation until a few months ago. During the summer of 1954 about 15,000 additional district agents became eligible to sell. At the present time about 8,000 applications are received each week. We expect that after the initial selling surge is completed the average will be about 6,000 applications per week.

The accompanying table shows the distribution of policies by plan and the average yearly premium for each plan.

POLICIES PAID FOR—AUGUST AND SEPTEMBER 1954

PLAN	POLICIES		AVERAGE YEARLY PREMIUM
	Number	Percentage of Total	
Ordinary			
Sickness (1 and 2) and Acc.	1,624	19%	$131
Sickness (5 and 10) and Acc.	193	2	210
Accident only	309	4	74
Family Hospital	3,547	41	137
Individual Hospital	2,942	34	63
Total Ordinary	8,615	100%	$110
Debit			
Sickness and Accident	4,307	12%	$ 82
Accident only	1,401	4	40
Family Hospital	17,557	49	113
Individual Hospital	12,541	35	50
Total Debit	35,806	100%	$ 84

The Debit business is 81% of the total on a policy basis and 76% on a premium basis.

The average yearly premium per policy based on 1953 issues, for our Life branch, was $113 for Ordinary and $36 for Monthly Debit.

Distribution of Business by Mode of Premium Payment

1953 YEAR OF ISSUE—BY AMOUNTS OF PREMIUM

Term Period	Ordinary A & S	Ordinary Life
Monthly	....	29%
Quarterly	74%	35
Semiannual	8	9
Annual	18	27
All	100%	100%

Distribution by Age at Issue

DISTRIBUTION BY AGE AT ISSUE
(Age of Policyholder for Family Policies)
Based on 1953 Year of Issue

Age at Issue	Acc. with 1 or 2 Year Sick.	Acc. with 5 or 10 Year Sick.	Acc. Only	Hospital Expense
	Ordinary			
18–19	1%	0%	1%	7%
20–29	20	18	20	35
30–39	43	53	41	28
18–39	64%	71%	62%	70%
40–49	30%	25%	25%	20%
50–59	6	4	13	10
40–59	36%	29%	38%	30%
Total	100%	100%	100%	100%
	Debit			
18–19	4%	....	3%	12%
20–29	33	....	29	38
30–39	35	....	34	24
18–39	72%	....	66%	74%
40–49	23%	....	23%	16%
50–59	5	....	11	10
40–59	28%	....	34%	26%
Total	100%	....	100%	100%

Distribution by Occupational Class

DISTRIBUTION OF MONTHLY INCOME POLICIES
BY OCCUPATIONAL CLASS
Based on 1953 Year of Issue

	OCCUPATIONAL CLASS	
	"White Collar" (4A and 3A)	"Blue Collar" (2A and A)
Ordinary (excluding long term sickness plans which are available to occupational classes 4A and 3A only)	48%	52%
Debit	18	82

Prudential occupational classes 4A and 3A are probably equivalent to the first four classes A to D* of The Bureau of A & H Underwriters. We do not compile statistics by occupational class on hospital expense coverage.

Average Amount per Claim

The following analysis of hospital expense claims reported from 6-30-52 to 6-30-54 is based on cash losses adjusted to take into account the claim liability and is an approximation to the average amount of payment per closed claim.

HOSPITAL EXPENSE

Kind	Number of Claims Reported	Average Amount per Claim
Ordinary	11,129	$118
Debit	12,976	94

The volume of claims under monthly income policies has not been large enough to obtain reliable average claim figures.

Deductible Amounts

Mr. Phillips has suggested that for hospital and medical expense benefits, the insured might be required to bear the first $25 or $50 or so of the cost of such benefits. The purpose of this would be to eliminate many of the small claims where the cost of claim administration is out of proportion to the amount of claim payment. The average claim payment for

New York Life's hospital policies as shown in Table 5 is $73.51. I made a rough calculation and found that after taking into account a $50 deductible the average claim payment would be about $80. This, of course, assumes that the basic benefits are the same except for the deductibles, with a corresponding reduction in premiums. The problem has not been solved but rather increased, because the per policy expenses would remain the same, with the result that the policyholder would receive proportionately less for his money. If, on the other hand, a deductible is used and the basic benefits purchased are larger, so that the average premium on the deductible basis is about the same as it was previously without the deductible, the deductible approach would be satisfactory.

DANIEL J. LYONS:

Mr. Phillips is to be thanked for writing a paper which will be such a great help to new companies going into the accident and health business. One of the important points which a company entering the accident and health business must decide is whether to write noncancelable or commercial contracts. The Mutual Life and the New York Life entered the field with commercial contracts while the Prudential entered with noncancelable contracts. The Guardian started writing both. When we were considering the matter, a number of companies told us that we should write either one or the other, since an attempt to write both might result in one line driving out the other. This has not happened in our case, since 50% of our business in premium volume is on noncancelable forms and 50% on commercial forms.

I should like to stress another point which Mr. Phillips brought out in his paper, on the need to train life agents to write accident and health policies. I believe that all of the new companies have had the experience that life agents do not start writing accident and health insurance just because the home office brings out a series of policies. They must be trained and the business must be promoted over and over again. This is one of the most important matters in which a new company must do continuous work.

There has recently been a great deal of criticism of the accident and health business. Much of it has been unfair but some of it has been warranted. Even those companies not in the field must be concerned, because criticism in one line of insurance tends to carry over into other lines. We must set about immediately to clear up the bad spots which exist in the business.

One of the strongest criticisms has been in connection with the cancellation clause. Right here I should like to pay tribute to Val Howell for pioneering with a noncancelable policy where the company reserves the right to change premiums from time to time. This may well be recorded as one of the greatest current contributions to the accident and health business, particularly in meeting the criticism of the cancellation of policies.

ROBERT G. WARD:

The Provident Mutual entered the field of individual noncancelable accident and sickness insurance in March 1953. A paper as informative as Mr. Phillips' would have been very helpful to us since reliable information on many aspects of this business was simply not available.

The relative merits of noncancelable and commercial accident and sickness insurance were considered at great length. Our decision was to enter the loss of time field with noncancelable policies. There were many factors considered in making this decision, such as the objectives of the Company in entering the field, the composition of the field force and the clientele composing our market. This decision was reached with the full realization that, if a form of commercial policy seemed better suited for any future developments our Company might undertake, the door would not be closed to its use.

Our portfolio now includes the Compensator policy which provides one or two years sickness benefits with accident benefits for two years, five years or lifetime; the Stabilizor which provides five or ten years accident and sickness benefits with lifetime accident benefit optional; and the Accident Income policy which provides two years, five years or lifetime accident benefits. A noncancelable hospital indemnity rider providing a fixed monthly indemnity may be attached to any of these policies. A principal sum death and dismemberment benefit is included in all Accident Income policies and may be included in Compensator policies. Our policies are not of the schedule type and "frill" benefits were avoided. We were glad to see that Mr. Phillips found these frill benefits of questionable value.

From March 1953 to the end of August 1954 we have issued 1,602 policies. Our accident and sickness functions are completely integrated with life insurance functions, although as the amount of business grows, this organizational setup may change. We have had neither accident and sickness sales campaigns nor any particular emphasis given to this business, with the result that to the end of August we have had about six accident and sickness policies paid for per 100 life insurance policies paid for. Educational schools were held for agents at various points in the country when we entered the accident and sickness field. If sales campaigns or other promotional activities had been directed at accident and sickness production, we feel that we would have increased the ratio of A & S policies to life policies materially, probably to near the levels indicated by Mr. Phillips. Even at our current production level, we feel that our program has been successful because we have obtained the intangible benefits which were our primary objectives. More doors have been opened for life insurance sales and the agents' enthusiasm for canvassing has been stimulated.

Table 1, although based on a rather small amount of data, is an indication of the relative popularity of the various plans.

TABLE 1

POLICIES PAID FOR—MARCH 1953 THROUGH AUGUST 1954

PLAN	POLICIES PAID FOR		YEARLY PREMIUM*		AVERAGE YEARLY PREMIUM*
	Number	Percent	Amount	Percent	
Compensator—1	375	23%	$ 37,417	17%	$100
Compensator—2	575	36	81,121	38	141
Stabilizor—5	104	7	21,189	10	204
Stabilizor—10	263	16	59,489	27	226
Accident Income—2	80	5	4,313	2	54
Accident Income—5	66	4	3,764	2	57
Accident Income—Life	139	9	9,039	4	65
Total	1,602	100%	$216,332	100%	$135†

* Including premiums for principal sum benefits and hospital indemnity rider.

† The average for accident only policies is $60 and for accident and sickness policies is $151.

In 1953 our average premium per policy for ordinary life insurance business was $217. Our limited experience therefore indicates that our noncancelable A & S average premium is about 62% of our life average premium. The comparable figures from Mr. Phillips' paper are 46% including hospital and major medical policies, or 35% if these policies are excluded.

Table 2 shows the number of policies and percentages of policies issued with hospital indemnity riders, principal sum benefit, or an impairment rider.

It would be interesting to know if the frequency of our use of the impairment rider which excludes payments of benefits for accident or sickness resulting from specified causes has been in line with the experience of other companies.

In discussing the distribution of business by mode of premium payment, Mr. Phillips indicated that the lack of an extra loading on premiums paid less frequently than yearly seemed to encourage a higher frequency of premium payment. The Provident loads quarterly and half-yearly accident and sickness insurance premiums by the same percentages as are used for life insurance premiums. Table 3 shows our experience on

A & S policies from March 1953 to August 1954 and on ordinary life insurance policies during the year 1953. Stabilizor policies are on the average sold to clients with more substantial income. This might account for the relatively high percentage of Stabilizors sold on the yearly premium basis. The loading element seems to be only one of a number of factors affecting the distribution of business by mode of premium payment.

TABLE 2

	Compensator	Stabilizor	Accident Income
Total number of policies	950	367	285
With Hospital Indemnity Rider			
Number	647	257	215
Percent of total	68%	70%	75%
With Principal Sum Benefit			
Number	221	*	†
Percent of total	23%	0%	100%
With Impairment Rider			
Number	149	57	4
Percent of total	16%	16%	1%

* Principal Sum Benefit not issued with Stabilizor policies.
† Principal Sum Benefit is included in all Accident Income policies.

TABLE 3

DISTRIBUTION BY MODE OF PREMIUM PAYMENT—BY POLICIES

Plan	Quarterly	Half-Yearly	Yearly	All	Average Yearly Premium
Compensator	52%	12%	36%	100%	$125
Stabilizor	34	11	55	100	220
Accident Income	34	22	44	100	60
Total A & S	44%	14%	42%	100%	$135
Life Insurance (Year 1953)	34%*	15%	51%	100%	$217

* Including 6% monthly, 28% quarterly.

Mr. Phillips found that 54% (based on amount of weekly loss of time benefit) of accident and sickness loss of time policies were issued at ages 18 to 39 and 46% at ages 40 to 65. The following table for the Provident Mutual shows that 69% (based on amount of monthly loss of time indemnity) of our policies were issued at ages 21 to 39 and 31% at ages 40 to 55. The fact that the Provident issues the Stabilizor only to age 50 and the

TABLE 4

DISTRIBUTION BY AGE AT ISSUE

Age	By Number of Policies	By Amount of Monthly Indemnity	Average Monthly Indemnity per Policy	Average Yearly Premium per Policy*	Distribution of Hospital Riders by Number of Riders
	Compensator				
21–29	24%	23%	$168	$ 99	26%
30–39	45	47	190	120	45
40–49	24	24	185	149	23
50–55	7	6	157	165	6
All Ages	100%	100%	$181	$125	100%
	Stabilizor				
21–29	15%	13%	$202	$163	16%
30–39	50	54	234	217	52
40–49	29	28	211	243	27
50	6	5	205	274	5
All Ages	100%	100%	$221	$220	100%
	Accident Income				
21–29	32%	27%	$180	$ 48	33%
30–39	40	41	211	59	40
40–49	21	25	240	75	20
50–55	7	7	205	72	7
All Ages	100%	100%	$207	$ 60	100%
	Total				
21–29	23%	21%	$176	$ 96	25%
30–39	46	48	205	135	46
40–49	24	25	201	163	23
50–55	7	6	175	169	6
All Ages	100%	100%	$195	$135	100%

* Including premiums for principal sum benefits and hospital indemnity rider.

Compensator and Accident Income policies only to age 55 naturally produces a percentage of the business at ages under 40 higher than for the New York Life which issues its policies to age 65. The distribution of the number of hospital riders by age follows closely the total distribution of business by amount as well as number, indicating that the popularity of this rider does not vary very much by age. This table also indicates that the average monthly indemnity does not vary by age to the extent that life insurance average sizes vary, whereas the average yearly premium per policy does increase by age as might be expected.

Despite the small amount of business involved, it might be of interest to show the relative popularity of the various elimination periods. This is shown in the following table for accident and sickness paid-for production from March 1953 through August 1954.

TABLE 5

DISTRIBUTION BY ELIMINATION PERIOD BY NUMBER OF POLICIES

Elimination Period	Accident Benefits	Sickness Benefits
0 days	50%	Not Issued
7 "	6	21%
14 "	6	12
30 "	30	52
90 "	8	15
Total	100%	100%

Mr. Phillips certainly deserves a hearty vote of thanks for this pioneering paper in the field of individual accident and sickness insurance programs.

EDWIN L. BARTLESON:

One of the many problems facing a life company entering the accident and sickness field is the training of the agency force. This was especially important for the Prudential as most of our agents collect debits as well as sell Ordinary and Debit life insurance and on the average had less familiarity with accident and sickness insurance than the agents of a purely Ordinary company. Furthermore, we had decided to offer guaranteed renewable coverage, of which there is less general knowledge than there is of commercial forms.

The training course we prepared in 1952 covered (*a*) the need for A & S insurance, (*b*) the differences between A & S and life insurance, (*c*) the underwriting aspects, emphasizing the differences from life insurance, (*d*) the provisions of our policies, (*e*) the details of completing the application, (*f*) the handling of claims, and (*g*) the sales process.

Because of the few A & S specialists and the many agents, the training program required three stages. First, the A & S specialists gave an intensive two-weeks course at the home office to the training consultants. Our training consultants, who have all been chosen from the field force and whose main duties are the training of agents, gave a one-week course at centers throughout the country to field management, who as the last stage in the program were to train their staffs of agents.

Except in a few areas, this last step was never completed in 1952, as most of our district agents (who sell both Debit and Ordinary insurance) did not undertake to sell A & S insurance until 1954.

When in the summer of 1954 we were finally prepared to engage full scale in A & S insurance, it was necessary to retrain. This coincided with a general revision of our A & S policies and the training course was revised for this reason and to give effect to our experience of 1952. While field management in all areas had been engaged in personal production, it was decided to give them a two-day (14-hour) refresher course. This highlighted the changes in our policies, introduced the revised training and promotional material and re-emphasized the points to be covered in training the agents.

Field management then trained the agency staff. The course, with allotted time for each topic, required four 6-hour days and was given in 1, 2, or 4 weeks as elected by the agency staff. No agent was allowed to solicit any A & S business until he had completed this course. In addition, supplementary training had to be given in many instances to assist the agents in passing licensing examinations where required.

We have made careful checks to determine the effectiveness of the training program and what further work needed to be done. Generally the underwriting information furnished has been good. While there is a substantial percentage of avoidable errors, the accuracy compares favorably with that of life applications, which are less complicated and with which the agents have greater familiarity. Where weaknesses are appearing in the technical knowledge, we are re-emphasizing the various points in follow-up training material and in our S & A Bulletin distributed to the entire agency force. However, it is evident that the agents need further instruction in the sales process itself. To improve the sales technique, we are working both through the weekly staff meetings and by having the training consultants go out in the field with the staff managers and agents and help them close sales.

Our experience confirms Mr. Phillips' observation that A & S sales will lag after the initial surge unless the company energetically pushes this business. Our plans include giving A & S sales equivalent recognition to life sales in all special campaigns, merit plans, and financing plans; also, making a special effort to help the rather large percentage of agents who will sell little or none of the new line if left to their own devices. Our ultimate level of sales is not yet established but we believe that with this emphasis we should average at least 15 per year per agent. Our observations indicate that the A & S business complements the life business and vice versa. The number of joint sales and collateral sales in both directions is increasing.

MORTON D. MILLER:

First of all, I want to compliment Mr. Phillips on the writing of his very comprehensive paper which will undoubtedly become a milestone in actuarial literature concerning individual accident and sickness insurance. It will provide not only much needed information for other companies considering entrance into the accident and sickness business, but also a good deal of food for thought for those already engaged in the writing of such insurance.

The Equitable is one of the nine large companies referred to by Mr. Phillips as having entered this field since 1950. However, the considerations which led us to enter the business were a good deal different from those influencing other companies. Mr. Ray D. Murphy, who was then Actuary, came to the conclusion, based in part on his experiences testifying for the insurance business in connection with federal health insurance proposals being considered at that time, that the companies were not devoting their efforts sufficiently to providing coverage for incidents involving large medical bills. He felt that leadership was necessary in turning the attention of the companies to this socially desirable coverage which up until then represented something of a gap in the health insurance services being offered. Accordingly, after some period of study, we announced, effective August 1, 1951, the availability of a major medical expense policy for individuals and families. This is the only form of individual accident and sickness policy we offer. Our original policy, which was limited to medical and hospital expenses incurred in the hospital only, has since been revised and replaced, effective January 1, 1954, for new business issues by a broader policy providing for expenses incurred at home or at the doctor's office as well as in the hospital.

Although our problems of organization were much more limited than those of Mr. Phillips and although our results are in a much narrower field, certain aspects of our experience may be of interest. Largely because our program is so restricted, we are at one extreme in connection with home office organization in that we have completely integrated our accident and sickness functions with those of our other home office departments. This has worked out very well for us, although at the outset, largely because of inexperience and the difference in approach necessary between life insurance and accident and sickness, our underwriting was not as good as it has since become.

We have about the same size full-time agency force and produce about the same amount of ordinary insurance as the New York Life. We are receiving about 5 major medical expense applications for each 100 life applications. This compares with the figure of from 10 to 20 per 100 suggested by Mr. Phillips for a company which has a complete accident and health program. Our average size major medical expense premium is $82 compared with the New York Life's $85. We have always charged loading for payment of premiums other than annually and our results correspond to those of Mr. Phillips in that about 70% of our policies are currently payable annually. Our age distribution of policyholders shows somewhat lower ages than those of the New York Life. About 45% of our adult insureds are under age 40 as compared with the New York Life's 36%; somewhat less than 25% are over age 50 as compared with the New York Life's 30%.

Following is some information as to issues comparable to that supplied in Table 4 of Mr. Phillips' paper.

Calendar Year	Applications Received	Annual Premium on Policies Paid For
1951 from Aug. 1	5,181	$307,633
1952	8,405	515,483
1953	9,060	470,850
1954 through Oct. 1	5,855	316,088

Production in 1954 was affected by the change-over to our new policy form at the beginning of the year and is now at a rate of about 200 applications a week.

The average claim payment under our major medical expense policies with a $500 deductible has been about $500, which is eloquent testimony to the value of this type of coverage by comparison with regular hospital expense insurance, for example, in connection with which an average claim of under $100 is shown in Mr. Phillips' Table 5. The distribution of claim payments is approximately as follows:

Amount Paid	Number of Claims
Less than $500	105
$ 500 and less than $1,000	34
1,000 " " " 1,500	9
1,500 " " " 2,000	3
2,000 " " " 2,500	4
Over $2,500	3
Total	158

HAROLD R. LAWSON:

I have one or two brief comments that might be appropriate to this occasion. The first has to do with what might be called the social significance of this type of insurance. Mr. Phillips, in his very excellent paper, makes the statement that he is firmly convinced that A & S insurance fills a great social need which can best be met by private industry. I think we all subscribe to that general sentiment but, in practice, the people in general—the public that we are insuring—do not seem to be quite as interested in their social needs as we are.

The New York Life, which is a very smart company as well as a very able company, took this into account, so they decided on certain types of policies on the basis of what they thought would be most popular. They thought the commercial form would be more popular, and so on; and as for what the people chose, well, accident-only policies accounted for 42 percent of the sales. Incidentally, bearing in mind that other companies have the same practice of not issuing a sickness policy separately, these policyholders are automatically precluded from ever buying sickness insurance for themselves unless they buy it from the New York Life. Hospital policies accounted for another 32 percent. Sickness, which is probably the greatest economic waster of them all, accounted for only 16 percent of the sales, and major medical, which is a very important and a very desirable coverage, was chosen by only 10 percent.

Mr. Phillips called attention to the fact that 72 percent of the claims were for less than one hundred dollars. In fact, I think it is probably true that 50 percent of the people who had claims got back less than the average annual premium paid by the policyholders as a group. In life insurance the smallest amount that we consider worth mentioning is a thousand dollars but, according to Mr. Phillips' figures, only 83 policyholders in the two-and-a-half year period collected as much as a thousand dollars in claims out of some 85,000 policies issued. I know Mr. Phillips won't take this as a criticism of what his company is doing. They are experimenting and helping us by giving us the benefit of their experience, but I do suggest that we have not quite found the answer yet to the social problem that exists.

I would like to take just one more minute on another question, namely the attitude which, in my opinion, the smaller companies should take towards this business. Mr. Phillips mentioned that in an established life insurance company some ten or fifteen A & S policies will be sold for every hundred life policies, and other speakers have mentioned figures like seventeen and five and so on. If you consider a company that issues, say, 10,000 life policies a year for thirty, forty or fifty million dollars of insurance—and there are a lot of such companies, including my own—that would mean about a thousand or fifteen hundred A & S policies a year, or about four or five in every working day. That is—to use a slang expression—pretty small potatoes. If you estimate the premiums on those thousand policies at $65,000 or $70,000 a year, and allow 60 percent for claims and dividends and 25 percent at least for agency commissions and taxes, you would have at the most 15 percent, or $10,000 left over for all the other overhead expense and for contributions to surplus and profits, and, of course, this would not emerge immediately.

So if you consider all the dangers involved in this business, I just don't see why a small company would want to take the risks involved for such a small return. The trouble, of course, is that with these big companies going into it—and, as Mr. Phillips says, there will probably be more of them—we feel pushed into it because of the necessity of competing for agents, as we have to offer these agents the same line of merchandise to sell that other companies offer. Nevertheless, I strongly feel that for the moment the smaller companies should try to adopt a watching and waiting attitude. In spite of what Henry Rood said, that his company's financial experience has been good, take a second look at the gain and loss exhibits of the New York Life and the Prudential and some of the other companies that have recently gone into the business, and you may agree with me that at the present time discretion is the better part of valor.

MALVIN E. DAVIS:

Mr. Phillips' paper contains much that will be of interest to a life insurance company that is contemplating entering the individual accident and sickness insurance field. It also contains much of interest to companies that have been engaged in this field for many years. Reciprocally, some phases of the experience of one company in the latter category may be of interest.

Metropolitan began issuing Personal Accident and Health policies in 1921. Over the intervening three decades, the nature of our business has changed substantially. In the early years, the great bulk of the business provided accident benefits only. Gradually, policies combining sickness with accident benefits became more popular. Our premium volume on sickness coverage is now about seven times as great as for accident coverage; this contrasts with the New York Life's data, where accident premiums are double those for sickness.

When the Metropolitan entered the accident and sickness field, it introduced several innovations. Its commercial health policies had level premiums which varied with age at issue but not age at renewal. The policies were participating, and substantial dividends have been paid on most forms. A grace period of 31 days was provided in all policies. A graded commission scale for agents was used from the start. It will be noted that these practices are gaining in popularity.

From time to time new policy forms have been introduced. The most important new forms have included a "Simplex" accident and health policy for males providing weekly indemnity for total disability only (up to one year for sickness and five years for accident), with eighth day coverage, issue of which was extended in 1951 so that it would be available for all occupations acceptable for standard Ordinary insurance; a similar policy is now issued to professional and business women. In June 1952, a hospital and surgical expense policy was introduced for family groups and individuals.

Our distribution of issue by policy form during 1953 is shown in the table on page 408. Our issue of 131,427 accident and health policies compared with an issue of 740,346 Ordinary policies. This is within the ratio of 10 or 20 to 100 mentioned by Mr. Phillips. Of course, such factors as the attitude of management, educational campaigns, and incentive awards will greatly influence the relative volume of this business, as well as the more direct factors such as relative commission scales and popularity or marketability of product.

From 1921 to 1924 we issued noncancelable as well as "commercial" policies, but these were discontinued because of low sales volume and some indication of probable poor experience with the lifetime sickness benefit and short elimination period. After a 30-year hiatus, we are again offering a noncancelable policy, but with sickness benefits limited to a maximum of five years and with a 90-day elimination period.

For policies with short elimination periods there is much to be said from the viewpoint of the policyholders in favor of a commercial policy if the company is not too strict in exercising its right to refuse renewal.

At the Metropolitan our experience has been that with careful underwriting at issue and the charging of an adequate premium the proportion of cases on which renewal must be refused is very small. During 1953, the Metropolitan refused renewal on fewer than 2 cases out of each 1,000 in

	Policies	% of Total	Yearly Premium	% of Total
Accident only				
First Day Coverage...	6,452	4.9%	$ 395,612	3.2%
Acc. Medical Expense.	5,650	4.3	158,308	1.3
Total.............	12,102	9.2%	$ 553,920	4.5%
Accident and Health				
First Day Coverage...	4,577	3.5%	$ 890,146	7.2%
8th Day Coverage				
Regular Classes....	13,449	10.2	1,255,209	10.2
Extra Class........	26,441	20.2	2,226,634	18.1
Business women....	4,115	3.1	328,513	2.7
15th Day Coverage...	1,983	1.5	296,494	2.4
Total.............	50,565	38.5%	$ 4,996,996	40.6%
Hospital and Surgical				
Family.............	48,932	37.2%	$ 5,641,261	46.0%
Individual..........	19,828	15.1	1,094,062	8.9
Total.............	68,760	52.3%	$ 6,735,323	54.9%
Grand Total..........	131,427	100.0%	$12,286,239	100.0%

force. About three-fifths of the "renewal refused" cases arise from cases where the insured has received the maximum or close to maximum benefits under the policy (generally one year's sickness benefits) without indicating substantial recovery. The remainder are refused because of such factors as repeated submission of very doubtful claims, development of a moral hazard, etc. The rate of refusals, except for receipt of maximum benefits, tends to decrease with increasing policy duration.

A provision that the company will not refuse to renew coverage solely because of a deterioration in the physical condition of the insured has much to recommend it. It removes the most credible criticisms of cancelable policies while retaining to a considerable extent the protection of the company from exploitation. One disadvantage, however, is that it may not be practical to give the actual reason for termination of coverage in some instances, and the insured might contend that renewal was being refused for physical reasons.

(AUTHOR'S REVIEW OF DISCUSSION)

JAMES T. PHILLIPS:

I am indeed gratified by the interest shown in my paper and by the excellent discussions submitted.

I think it is particularly fortunate that the individuals who prepared discussions represent companies whose A & S programs are widely divergent. In fact, it appears to be a happy coincidence that A & S programs covering practically the entire range of commercial, modified noncancelable, and noncancelable A & S insurance are represented: a full line of commercial A & S insurance (Connecticut General and New York Life); a major medical program on a modified commercial basis (Equitable); a noncancelable and modified noncancelable program (Prudential); a commercial and noncancelable program (Guardian); a commercial and noncancelable program, together with combination policies issued in conjunction with life insurance (Lincoln National); and a noncancelable program (Provident Mutual).

In addition, there is a wide variation in the characteristics of the life insurance business among those companies represented in the discussions. Such characteristics as size of company, average size policy, kinds of business issued, type of agency force, etc., would influence the A & S program adopted and the characteristics of the A & S business issued. This is illustrated by the variation in the characteristics of the A & S business written by the New York Life and Connecticut General. As Mr. Hart indicated, our A & S programs are essentially the same; yet distribution of A & S business by plan, mode of premium payment, and as between white and blue collar workers are materially different for the two companies and tend to reflect the characteristics of the life insurance business of each company. Before entering the A & S business, a life insurance company can gain valuable information from a careful analysis of their life business which should influence the decisions on what type of program is best suited for the company.

I should like to comment briefly on certain other points brought out in the discussions.

Volume of A & S Business

In reviewing the comments made on the volume of A & S business written, two considerations appear to be most significant:

1. The effect of promotional and sales training efforts on volume.
2. The impact of hospital policies on volume.

With regard to the first point, there seems to be general agreement on the need for agency training and sales campaigns. Such training and promotional efforts are vital in the early and continuing success of an A & S program. Mr. Bartleson of the Prudential and Mr. Lyons of the Guardian were quite emphatic on these points, while Mr. Ward of the Provident Mutual felt that their volume could have been materially improved if special sales campaigns had been used by his company. I should guess that the excellent volume of the Lincoln National can be attributed in part to the fact that they acquired a large group of agents trained in A & S selling when they took over the Reliance. In addition to the effects on volume, it has been pointed out in both the paper and discussions that training of agents and promotional efforts, if properly directed, can help to improve public understanding of the business as well as to improve field underwriting standards.

In reference to the second point, there can be little doubt as to the volume potential on hospital policies. Mr. Rood stated that about 40% of all A & S business of the Lincoln National was on hospital policies; for the Prudential, Mr. Olsen's figures were 75% on Ordinary business and 85% on Debit business. The relatively low volume of the Provident Mutual may be due in part to the fact that they do not issue separate hospital policies. The above figures indicate that, in the present A & S market, hospital policies should be included in the portfolio if a relatively large volume of A & S business is desired.

Deductible Amounts and Elimination Periods

In suggesting the use of deductible amounts and longer benefit elimination periods I was influenced chiefly by the large numbers of small claims and the high frequency of claims under our A & S program. There is evidence in the discussions that this problem also exists for other companies. The average size claim for the Prudential on hospital policies is only slightly higher than the average yearly premium on these policies. Mr. Hart has intimated that small claims have caused the Connecticut General some concern. As Mr. Lawson has inferred, in view of this claim picture it is indeed questionable whether the industry, in attempting to meet the demands of the public for A & S insurance, has gone very far in meeting the real social need for this type of coverage.

Mr. Olsen has made some rough calculations from Table 5 of my paper which show that with a $50 deductible the average claim payment on hospital policies would increase only slightly—from about $74 to $80. As a practical matter, in view of the importance of maintaining a high average premium and a low expense ratio, any decreases in claims paid would very likely be reflected in liberalizations in the benefit structure. In other words, every attempt would be made to use the "major medical" approach in determining the premium and benefit structure under a program involving the increased use of deductibles and elimination periods. This should result in fewer but larger claims.

Mr. Miller has presented some interesting data on the experience of the Equitable with major medical insurance which closely parallels our experience in almost every respect. Except for the drop in 1954 resulting from the change-over to their new policy form, their issue has shown a steady increase and is currently running at about 5 per 100 life applications. In my opinion, this experience sounds an encouraging note for the use of deductibles and longer elimination periods. With proper promotional efforts through advertising and by a well trained agency force, I see no reason why such a program might not eventually be as acceptable to the public as the A & S programs now in vogue.

"Package" versus "Schedule" Policies

I mentioned in the paper that we adopted the "schedule" type of policies in constructing our initial A & S program in order to obtain a great deal of flexibility in the combinations of coverage which could be offered. Our experience with the schedule type policy has raised some doubt in our minds as to whether the advantage of flexibility outweighs the disadvantages of increased administrative and merchandising complications. We have found that the use of a schedule type policy tends to increase the number of requests for changes subsequent to issue, and the increased complexity of benefit structure makes it more difficult to train agents to do a satisfactory selling job. These considerations led us to adopt the "package" type of policy when we introduced the Family and Individual Hospital Expense policies—a change which was well received by our field force.

On the other hand, Mr. Hart has commented that the Connecticut General has been well satisfied with their results with the schedule type of policy. However, their schedule policies are issued on a nonparticipating basis with a level commission scale; those of the New York Life are issued on a participating basis with a nonlevel commission scale. As a result, the problem of administering policy changes is much more complicated for the New York Life and goes beyond the mere rewriting of policies. Special commission adjustments should be made so that agents will not receive first year commissions on policies issued merely to replace the former changed policies. In some cases, special dividend credits must be granted under new replacement policies to recognize benefits which are carried over from the former changed policies. A company introducing participating A & S policies with a nonlevel commission scale should give serious consideration to the extent of these administrative difficulties before deciding whether to adopt package or schedule type policies.

In conclusion I should again like to thank those who contributed to the discussions. It is encouraging to me that other companies are well aware of the problems of the A & S business and are constantly taking steps to improve the product so as to better meet the needs of the insuring public.