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DIGEST OF INFORMAL DISCUSSION

WAR PROBLEMS

A. What problems arise in issuing limited amounts of life insurance without a war clause to members of the Armed Forces on active duty?

B. What types of death losses does the Actuary consider to be war deaths not provided for in existing premium rates? What provisions with respect to "status," "results," "war service," "home areas," etc., are required to exclude such deaths?

C. What are the problems created by the war from the standpoint of protective provisions in disability and accidental death clauses? In what ways are they being met?

MR. A. P. MORTON pointed out that many injustices are committed in the name of limited amount underwriting in dealing with war risk hazards, such as the inequity of taking for different amounts the man in service and the man not quite in. We limit only a few for potential war hazard or we limit many unnecessarily if we do the job with a heavier hand. We fear (1) class antiselection from people subject to potential military service who would normally not be in the market, such as young doctors and dentists, and (2) individual antiselection from those most likely to be exposed. We know that the insurance we issue is going to cost us extra war claims and we are subsidizing this class of risks at the expense of the rest of our policyholders, forgetting that this is a distortion of an insurance company's proper function. We hope to keep down the total volume of war risk business to make the subsidy as small as possible.

Limited amount underwriting at $5,000 or $10,000 per life will not do much for us on the average G.I., since this amount on top of $10,000 National Service Insurance is about the limit of a G.I.'s purse. It may even have the effect of increasing total sales to such applicants through the sales approach that "$10,000 is all I can get for you; soon you may not be able to get any amount without war restrictions." Neither will it do much for us on the count of individual antiselection, since the G.I. or civilian with some private means can get all he wants by applying to two or more companies. Some of us are hopeful that limited amount underwriting will generate enough friction to result in a reduction of the amount purchased, but this effect will undoubtedly be small.

He concluded that companies are following a program of limited amount underwriting for two reasons: (1) to make an unsound practice

look less unsound by pointing with pride to low limits which show great caution on individual risks; (2) because every other company is doing it and the cost to any one company of not limiting might be tremendous.

MR. HARRY WALKER agreed with Mr. Morton with regard to the undesirable results of issuing limited amounts without war clauses.

He suggested a rewording of section B to refer to the types of death losses which mutual life insurance companies might assume without imposing an undue burden on existing policyholders. He believed that with respect to members of the armed forces such a company should assume the payment of any claim which would have occurred in the absence of military service in time of war. The obvious example is the cancer death. The obvious exclusion would be the combat death. He also felt that deaths such as those due to diseases resulting from military service in tropical areas should be excluded. He therefore favored the language appearing in Section 155 of the New York Insurance Law based on "result of service in the military, naval or air forces of a country at war."

It may be difficult to support a war exclusion clause restricting liability where the cause of death occurs within the United States unless we exclude both civilian and military war deaths. Although he preferred the "result of service in the armed forces" type of exclusion, it is likely that in order to secure Insurance Department approval it will be necessary to adopt either the "result of war" or "result of an act of war" type of exclusion. The primary reason for adopting any war clause at this time is to avoid exposing the company to excessive amounts of insurance on applicants vulnerable to military service and this objective will be achieved regardless of the particular phraseology adopted.

He thought that any serious inconsistencies between the protective provisions in the disability and double indemnity riders and the exclusions for the basic death benefit should be avoided. For instance, there might be danger of a company being forced to pay the accidental death benefit even though denial of the basic death benefit were sustained if the former provision excludes "death as a result of war" while the latter excludes "death as a result of war or an act of war." It might be argued in such case that the company must have intended broader exclusions under the basic death benefit than under the double indemnity benefit.

MR. RALPH KEFFER quoted Mr. Poissant to the effect that the number of normal National Service Life Insurance claims was about in line with the claims to be expected by an insurance company under normal conditions and that about $3,300,000,000 out of nearly $4,000,000,000 total death claims was due to the extra hazard. Mr. Keffer stated that this was equal to the aggregate Ordinary, Group and Industrial death

claims which were paid by all life insurance companies in the United States during the years 1942, 1943 and 1944. Such extra hazard claims were twice the aggregate surplus held by all such companies at the beginning of the war. For the year 1944 total deaths due to extra hazard were 940% more than the normal claims and such claims under age 30 were 1,100% in excess of the normal claims, though millions of men in service were not exposed to actual war conditions.

Insurance issued without war restrictions by life insurance companies in time of war would undoubtedly include a far greater proportion of lives exposed to the direct hazards of war than occurred under National Service Life Insurance. Obviously insurance companies cannot assume actual war risks at present premium rates upon any considerable volume of business. A company cannot issue unrestricted insurance freely unless it assumes either that there will be no war or that those who purchase such insurance will not be sent to war hazard areas. It cannot limit applications without declining some applications for no other reason than that the company has already assumed its maximum liability. This would appear to involve elements of discrimination which are not easily justified.

The Life Committee of the N.A.I.C. has agreed that certain war hazard restrictions are justified, but it has not adopted the logical conclusion that it is proper to exclude all hazards of war. The recommendation that no exclusions exist for the home areas can scarcely be justified and an extension of such areas to the Aleutian and other Pacific islands does not appear logical. All servicemen are under military orders and no distinction can be drawn to justify payment in event of death of certain men and not of others. The provision that a company will be liable in the case of death of a policyholder who is returned to the home area and lives six months before death occurs is not consistent with the principles adopted by the Committee. This recommendation makes an illogical and discriminatory distinction between those who happen to be sent to hospitals in the United States and those sent to hospitals outside the designated home area. However, the removal of restrictions six months after discharge from the service may well be used to avoid arguments about the causes of deaths which occur after all military activity has ceased.

Insurance companies can continue to meet the regular insurance needs regardless of the amount involved. War hazards cannot be provided for by application of insurance principles. This responsibility should rest upon the taxpayer and the obligations are the same wherever death occurs. It is reasonable that there should be a uniform exclusion of the war hazard applicable universally and without discrimination.

MR. E. A. DOUGHERTY stated that bombing of our cities or actual

invasion of our borders may affect financial security of the life insurance industry by (1) destruction of assets, (2) extra mortality among those holding old policies and (3) extra mortality among those applying for new policies. The use of war clauses will not save the companies from the impact of the first two items. The third item is the only one where a war clause may help and we must not ignore this because the other two are more unmanageable.

He believed the extra premium approach is not practical because no one knows what the extra premium should be. We have a social obligation to offer insurance at *some* price, but where we cannot determine the price within reasonable limits we cannot offer the insurance. The question of "status" probably has little bearing. Bombs do not discriminate between the civilian and the military and the distinction between combatants and noncombatants may have ceased to exist. "War service" or "home areas" should have no place in our exclusion clause.

He expressed the opinion that the only possible basis for general agreement would be a complete results clause excluding the risk of death resulting from war or any act of war, declared or undeclared, no matter where such death may occur and regardless of civilian or military status. Many will seek to compromise with this approach, but there are so many possible compromises that the companies and the Commissioners will go off in all directions like spokes from the hub of a wheel. It is only at the hub that the spokes come together.

He emphasized that state laws which do not permit such a clause should be changed now, when war may be coming up the street, rather than when it has already crossed our threshold. It would be a long slow process but we should at least acquaint our legislators with the urgency of the matter. Otherwise we may be caught flat-footed in an emergency and might even have to shut off temporarily the writing of new business.

MR. A. L. JOYCE said that the actuary in his rate structure does not contemplate deaths resulting from war hazard, whether due to enemy action, disease, military service or aviation activity and whether occurring at home or abroad. Companies offering unrestricted coverage will be subject to antiselection and will receive an undue proportion of extra hazard business, probably with a large average size policy, which could adversely affect mortality experience in the age groups involved.

It is difficult, if not impossible, to formulate adequate war clause provisions because of the statutory requirements of some states and the attitude of some supervisory officials who do not confine their activities to the law. A "results" clause should exclude deaths resulting from military service, including any diseases peculiar to military service exposure, but

such a clause will be disapproved in many states. The problem is to attempt to develop provisions which will maintain equity between existing and future policyholders.

There is no ideal solution since the life insurance industry, unlike other insurance carriers, has not been willing to include permanent war exclusions in its contracts although a hazard of this nature is not one which private enterprise should be expected to carry. Hence it is necessary to salvage as much of the ideal as possible.

MR. E. L. BARTLESON did not believe that existing premium rates should be considered as providing specifically for any war deaths. Where the risk is indefinite and remote we may fairly charge it against margins in the premiums for contingencies and dividends. The scaling down of all claims would not be inequitable or necessarily fatal to the institution of life insurance if a major war with atomic bombings should exhaust our contingency reserves. However, it seems an obvious imposition on policyholders not subject to extra risk to issue a policy without either an extra premium or limitation of liability where the risk is particular and imminent, as in a current application by a member of the armed forces.

He thought that the hazard of training accidents (other than aviation) and the war hazards of armed forces within the home areas might fairly be ignored so long as no limitations are imposed on civilians and that liability might be limited only for war service deaths outside the home areas. Adequate protection is not afforded by a clause which limits liability only for deaths resulting from an act of war. We may have deaths due to exposure and disease or where the exact cause cannot be established, such as the missing in action. We may presume death in case of these missing but the further presumption that death was due to an act of war may fail to stand up in disputed claims. Even if statistics should indicate that 90% of the missing die from an act of war we cannot resort to lottery to pick the 10% for payment.

He suggested the following as an example of a clause which affords as much protection as can safely be offered by a company:

> The liability of the company shall be the limited benefit defined below if the insured, while outside the Home Areas in the military, naval or air forces of any country which is at war (declared or undeclared) or which is participating in any armed conflict against hostile forces, dies from any cause other than (i) disease not due to enemy action, or (ii) bodily injury or drowning not due to service in such forces, provided such death occurs either while the insured is in such forces or within six months thereafter.

He noted that this is a modification of the much maligned status clause and that there must also be suitable exclusion of the aviation risk. He

suggested that home areas be defined to include only Canada, the 48 States and the District of Columbia, except for a company regularly operating in Hawaii or the West Indies. A fair benefit to pay under a war clause is the policy reserve, but return of premiums will not cost a great deal more and is probably better understood by policyholders and beneficiaries. He felt that a better benefit under localized and intermittent war might be to limit the liability for only five years, with return of premiums in event of death in the first year and grading to the full benefit after five years. A policy with such graded benefits applicable to all deaths could be sold without a war clause and this might solve some of our troubles in getting such a clause approved.

MR. J. A. CAMPBELL said there was little difference of opinion as to the danger of war but considerable divergence with respect to methods of avoiding or limiting war losses. He proposed to outline the views which have led the London Life to use a results clause covering overseas service for civilian risks at ages 15 to 30.

It is dangerous for actuaries to use the experience of the most recent war as a basis for dealing with a possible future war, the characteristics of which can be quite different. Canada had 51,727 battle deaths out of total enlistments of 616,782 in World War I, which is at the rate of 84 per 1,000. In that war four divisions of Canadian troops were in action within 8, 13, 18 and 24 months respectively of the outbreak of war. These divisions remained at full strength through the remainder of the war and took part in all of the larger battles. In World War II there were 32,408 Canadian battle deaths out of total enlistments of 1,032,422, or at the rate of 32 per 1,000. Air and naval forces were engaged from about 1941, but army divisions did not go into action in full strength until June 1944. Had the Canadian army been fighting all through the years 1940–1945 the casualty record might have been very similar to that of World War I.

It is vitally important to North American countries that Western Europe remain on our side in any new war. It appears that there will be no effective resistance to Russia on the continent of Europe unless a large armed force of Americans and Canadians is present from the outset of any war. Overseas commitments of troops are exceedingly unpopular and it is politically essential that the program be introduced in a gradual way, but once this policy is embarked upon it will be almost impossible to withdraw from it. It is therefore probable that if a war should break out in Europe we would immediately have substantial forces involved and would be fighting a defensive battle with substantial losses similar to Korea. War is a possibility and, in view of the form it might take, it has seemed to his company that some definite war risk exclusion is called for.

The London Life has no confidence in the effectiveness of selection as a

means of escaping war losses. Canadian companies had war clauses in their policies from August 1, 1914, and this did not prevent them from having heavy war losses from forces which were recruited after the declaration of war. If armed forces are already trained and equipped and perhaps in position when war is declared, there will be even less hope that losses can be controlled by selection.

His company's solution has been the adoption of a results war clause excluding deaths while on overseas military service and also providing certain aviation restrictions. This clause is used in policies issued to members of the armed forces and to civilians between the ages of 15 and 30. Such a clause eliminates antiselection, simplifies underwriting procedure and makes restrictions on certain types of plans unnecessary. It also seems to be reasonably in line with public opinion since there has been no great objection by applicants. A war clause of this type is believed to be a reasonable precaution against the very large losses which might occur in a European war. The company is taking at face value the announced policy of the United States and Canadian governments that every assistance will be extended to the countries of Western Europe against the spread of Communism.

He emphasized that introduction of a war clause in time of peace is a break with tradition on the North American continent. That tradition became possible only because of our preferred position in the world and because in previous wars other countries have been better prepared than we and have taken the brunt of the first attack. Since our position has now changed it is felt necessary to abandon the tradition of a policy of giving full coverage against war risks.

MR. B. R. POWER felt that many actuaries in Canada are of the opinion that a general war clause, making no distinction between service and civilian deaths or between deaths within or outside the so-called Home Areas, should at all times be included as a permanent feature of every life insurance contract. However, competitive considerations have entered so prominently into the picture that no company in Canada is known to have taken such a step, and discussions relating to war clauses have inevitably veered to ways and means of avoiding adverse selection under current conditions.

With respect to the use of a war clause of the limited type, there is a substantial group of companies which are using a limited war clause providing full cover within the Home Areas but restricting the amount payable in the event of death as a result of war occurring outside the Home Areas; in some cases such restrictions apply only to deaths occurring while the policyholder is in the armed forces and in other cases to both service and civilian deaths. There are strong arguments justifying the inclusion

of a war clause in all policies but only one company in Canada is known to be following this practice. Companies representing about half of Canadian premium income are currently using a war clause for servicemen and, in some cases, for certain categories of younger male civilians. The Canadian Life Insurance Officers Association has drafted a model war clause for the guidance of its member companies.

MR. E. A. RIEDER remarked that the mark of distinction for an actuary is his expert knowledge of mortality tables and their use rather than his brand of whiskey. He calculates them during periods free from wars and epidemics and lets them "age" or applies an artificial aging process before he uses them. All normal deaths are clearly provided for in the tables used for computing premiums, because underwriting techniques are improving and the mortality trend is downward. It is only through this downward trend that indirect provision is made for war deaths.

Mr. Rieder pointed out that civilian war deaths are equally likely at all ages but service war deaths are concentrated at the younger ages. Contingency margins (expressed in deaths per 1,000) should decrease with age, but the artificial margin added to "age" the CSO Table is smallest at the younger ages where the greatest war risk occurs. War deaths may equitably be charged against the business at all ages, but a heavy concentration of business at war service ages both increases the war risk exposure and reduces the average mortality margin. In order to avoid an undue concentration of business at these ages we must strengthen underwriting measures when recruiting for the armed forces is active and the potential war hazard is increasing.

He observed that some companies choose to control the situation by individual selection, while others prefer the group method of policy exclusions. The latter method counters antiselection and safeguards solvency if war becomes a reality. The ratio of war claims settled in full to the face amount of war claims settled under a war clause during World War II was 1 to 1 in Canada and 7 or 8 to 1 in the United States. He believed this great difference in experience was due to the difference in underwriting measures during the interval between September 1939 and Pearl Harbor, during which period antiselection was controlled in Canada by a universal war clause.

When war fever is on the rise the company that is slow to take counter measures may be flooded with risky applications. When war fever is on the wane the company that is too restrictive will get repercussions from its field representatives. If barriers are raised generally when the fever rises and lowered as the fever subsides, the risks will be distributed proportionately among all companies, and if war comes net cost positions will be affected proportionately.

He remarked that every application is preceded by a drama entitled "Sales Presentation *overcomes* Sales Resistance." Our salesman, "The Knight of the Rate Book," *slays* the "Dragon of Sales Resistance." If the Dragon is weak with disease the struggle is short, but give him health and strength and the encounter may last for weeks, even years. But let the Knight be armed with inflation and the Dragon's weakness be underinsurance, or let the Dragon's head be turned with thoughts of aviation or war, and the conquest is then comparatively easy. At the end of each such conquest we receive an application. If the Dragon is sick a substandard contract or none at all is fitting recognition. If his head was turned by aviation we insert an aviation clause. If war caused his downfall, why don't we add a war clause?

MR. J. R. GRAY felt that a war clause should be inserted in all policies issued to members of the armed forces on active duty. It would be unfair to other policyholders to allow men subject to this risk to take policies which they otherwise would not have taken. None of the mortality tables currently in use for participating premiums were based on experience covering war years, nor is it likely that war deaths were included in the mortality represented in dividend scales. The mortality risk applicable to a soldier would seem to be a risk not provided for in existing premium rates to the extent that it exceeds the total mortality risk applicable to a civilian in peacetime.

Although he believed that we should make life insurance subject to as few restrictions as possible, it was his opinion that we could no longer feel with assurance that this continent is free from the risks of war. The question is not one of selection against us but one of the ability of our companies to meet a catastrophic volume of claims coincident with widespread destruction of assets. To be reasonably safe we should have a permanent war clause in all policies applicable both at home and abroad, and it might be better if there were the right under certain circumstances to scale down all death claims irrespective of cause of death. Neither of these courses is possible in the United States at the present time.

He questioned why we should be stricter with servicemen than with civilians with regard to war deaths in their normal abode. When a civilian or member of the armed forces goes abroad he is subject to additional hazards and those are the risks to be excluded. The home areas would seem to be those in which the policyholders live or to which they may reasonably be expected to travel.

The Canada Life changed two years ago to disability and accidental death clauses which make exceptions of causes which are the result of service in the armed forces. Older clauses provided for termination, in

some cases if the insured serves in the forces of a country at war and in other cases if he engages in active service. The company has decided that when a policyholder inquires as to the effect of service in the armed forces it will offer to change the older clauses from termination to exception clauses.

MR. B. L. DALY analyzed the problems under section C into underwriting, administration and policy drafting.

The underwriting problem depends on the extent of the protective provisions in the contract. A result type clause will give partial coverage in time of war but a status clause is usually accompanied by a suspension provision. The effect of the suspension clause is not clear in the present situation. The Penn Mutual has continued to issue policies with disability and accidental death benefits to military risks on the assumption that the suspension provisions are not now operative. This undoubtedly involves some additional risk.

The administration problem is largely one of claims administration in so far as the result clause is concerned. The fear of claim difficulties has probably led many companies to use a status clause. He referred to two practical difficulties with a suspension provision: (1) expense of effecting suspension and (2) determination of whether we are actually at war. With respect to the Korean conflict, enforcement of the suspension provisions may be delayed in the hope that military action will be of short duration and remain localized. This approach carries the implication that full coverage is being extended and may provide less protection to the company than under a result clause. A second method would be to suspend the provision only if the insured leaves the home area. A third method might be unilateral action to substitute a result clause for a status clause and suspension provision.

These problems suggest the desirability of redrafting current provisions which were adopted before the present type of military action had been experienced. The war hazard itself rather than any wartime occupational hazard should be excluded, except that an occupation sufficiently hazardous to be excluded in peacetime should be specifically excluded. Extension of the disability exclusion to the civilian war risk requires appraisal of the civilian hazard as sufficiently great to warrant such exclusion. This may be debatable at a time when most companies are not introducing a comparable restriction with respect to the life insurance risk.

Some companies may feel that the occupational hazard of wartime military service should also be excluded in the expectation that other than war claims will be higher than during peacetime military service. Military accidental deaths may be offset against the reduction in number of civilian

deaths that might be experienced in wartime because of such factors as reduced use of automobiles but there appears to be no corresponding offset for the disability hazard. Also, the use of a military service exclusion avoids conflicts between a company's claim administration of its contracts and the government's administration of government disability pensions.

MR. H. A. GARABEDIAN suggested that an appropriate answer to section C might be "the same as for World War II" and that the discussions of these problems in the *Record* for the years 1944, 1945 and 1948 would serve as excellent refreshers of the problems and ways in which to meet them.

The John Hancock regards the Korean conflict as war in administering disability and accidental death clauses and the date of cessation of hostilities in 1945 as the end of World War II for this purpose. In the case of disability clauses issued since October 1945 and in all accidental death clauses on Ordinary insurance the company has used a provision which excludes liability for certain war risks, with the clause remaining in force unless voluntarily canceled by the insured. There has been little administrative difficulty with this type of clause. Although there is a strong urge to cancel when the area of coverage is reduced, particularly when the exclusion is on a "status" basis as in their currently issued accidental death benefit clauses, the company has been successful in avoiding cancellations by pointing out the advantages in preserving rights and avoiding later difficulties with regard to new evidence of insurability and possibly less favorable rates and conditions.

Disability clauses issued prior to October 1945 provided for automatic termination upon entry into service in time of war and the experience with this clause during World War II was most unhappy. There were difficulties in identifying affected policyholders. Cases are still coming up which involve cancellation of the clauses and refund of premiums. Clauses have been restored upon new evidence of insurability, charging premiums on the original basis from date of restoration and disregarding any reserve deficiencies. To minimize difficulties coverage has usually been restored unless the veteran had a service-connected disability. Administration of this type of clause makes for poor public relations in its involvement of the veteran, who does not like to have his clause voided or restoration refused.

The company is following World War II principles with respect to the Korean war. No Ordinary disability claims have yet been presented but the war exclusion provisions have been invoked in the case of three accidental death claims. Disability and accidental death coverages have not been granted to applicants in the armed services since the beginning of the Korean war.