

DIGEST OF SMALLER COMPANY FORUM

UNDERWRITING

- A. What has been the effect on smaller companies of the introduction of low-cost policies with high minimum amounts? What means has been used to successfully meet this competition?
- B. How have smaller companies used the *1951 Impairment Study* in their underwriting?
- C. Are the lower ratings announced by some companies for aviation risks an indication of enlargement of the standard and substandard classes for rating purposes? To what extent should there be an expansion of rating classes for aviation, occupation, health, and other hazards?

MR. KARSTENS KENNEDY stated that he thought it was very practical indeed for small companies to enter the special policy field. The Provident Life Insurance Company has developed its specials in a short time so that they are about 60% of its business. He introduced some words of caution. One was that in computing rates or dividend scales, it would be well to consider that the average size policy in the special class would be the minimum for the class. Another was that it is necessary to watch the profit margins. If the special class policies prove popular and form a large share of a company's business, the balance of its business will be small policies and relatively unprofitable so that there must be adequate profit margin in the special class policies.

MR. R. P. WALKER, speaking on section A, first described the position of the Wisconsin National before certain changes, next enumerated some changes made to meet competition, and finally showed the results of these changes. For some years his Company has lagged behind the national average of percentage increase in new business issued. On juvenile business it discovered that its average size policy was roughly \$1,100 and that although approximately one third of its new policies were issued on juveniles, this accounted for only one tenth of the amount of insurance. As this is not a particularly competitive field, the Company decided not to try to be competitive from the standpoint of premium rates but to make changes from the benefit standpoint so that it was unusual in that respect. It introduced the full death benefit at age 0 and in addition offered a 20-year level term rider equal in amount to the first 20 premiums under the policy and rider. Juvenile insurance is not offered at a rate lower than endowment at age 65. At the adult ages, a complete range of

policies was offered with a minimum amount of \$2,500, as well as a special Whole Life Policy with a \$10,000 minimum. The latter policy has very competitive rates which required values at 2 $\frac{3}{4}$ % in order to eliminate the necessity for deficiency reserves. Only a few basic plans were continued with a minimum of \$1,000. Before the release of the complete new rate book, some explanatory material from it was printed as an introductory announcement to the agents. The result of the educational campaign and the introduction of policies at competitive rates has been an increase over last year of approximately 40% in paid-for business compared to the national average of 20%.

MR. G. C. THOMPSON said that the Security Mutual has felt quite severely the effect on 1954 paid-for business of the introduction of high minimum, low-cost policies by the larger companies, despite the fact that his company has for several years had special policies with minimums of \$2,500 or \$5,000 and has just introduced a \$10,000 minimum. To meet competition it offered supplementary level amount term, with the limit ultimately raised to three times the base amount, and also permitted \$25 monthly income per \$1,000 on family income riders. As a result the Company has an attractive package for those people who want low rate insurance. Its business has gone up 20% over last year, not so much because of a great increase in term but because the competitive tools allowed its agents to get a foothold in the case.

MR. G. A. MACLEAN said the Standard Life of Indiana has a \$15,000 ordinary life policy called "Gold Standard" with a premium at age 35 of \$18.88 per \$1,000. This policy is regarded as a loss leader, not because the Company is losing money on it, but because the profit margin is smaller than in other policies. Reinsurance is on a coinsurance basis, with the co-insuring companies giving a small expense allowance. The underwriting problem is eased because they are able to get the opinion of the reinsuring company where insurance is ceded. The Company also has a highly competitive \$10,000 Guaranteed Life policy, providing insurance to age 65 of the face amount or the cash value and thereafter a monthly income of \$10 per \$1,000 of face amount. The maturity value is \$1,415 per \$1,000 based on the 1937 Standard Annuity Table set back one year with 3% interest and a five year certain period.

MR. H. R. LAWSON said that there isn't a Canadian company that doesn't have at least two levels of premium rates for different size policies and that his own company, the National Life of Canada, has about five. In Canada they read with astonishment that some American company has just invented the economy size package. The reaction is about like hearing that the Russians have just invented the telephone.

Speaking on section B, MR. J. F. HOOK said that the *1951 Impairment Study* was a valuable underwriting tool for the smaller companies as it contains the most recent and most complete statistical data available to them. For most smaller companies this and previous intercompany studies provide the only reliable statistical information on substandard underwriting. In Standard Insurance Company the *Impairment Study* has been applied in two ways. First, in underwriting of individual applications frequent reference is made to it. Second, a thorough review is being made of each impairment or group of impairments and the underwriting manual is being gradually changed as the work progresses. The first application of the study has not resulted in any radical changes in underwriting. It has resulted in more favorable ratings for histories of mild ulcers, mild nervous disorders, female diseases, and syphilis, and less favorable treatment of epileptics. The second application has resulted in complete revision of tuberculosis ratings and minor changes in selection procedures for heart murmurs. Mr. Hook concluded that probably the most important feature of the *Impairment Study* is that it proves that past underwriting produced the results intended. This fact should instill confidence in underwriting procedures, especially in smaller companies.

MR. H. R. LAWSON quoted an underwriter of his Company as saying that the study has not actually been put to any extensive use. They do, however, refer to it on occasion to see how the results compare with previous information. The underwriter went on to say that they find interpretations of the results quite difficult. For that reason, they are looking forward with interest to seeing the new manual to be put out by one of the large reinsurance companies. Underwriters in the smaller companies rely to a considerable extent on such manuals for the ratings they use from day to day.

MR. L. S. NORMAN, speaking on section C, said that last year the American United Life adopted lower ratings for aviation risks. For private pilots they now have three classes rated at \$2.50, \$3.75, and \$5.00, instead of one class rated at \$5.00. He feels that narrower classifications are justified if distinctions can be made on some practical basis, if the use of a broad class would not be fair to all in the group, and if the degree of extra risk is fairly well stabilized for the occupation or impairment involved. In view of the common practice of changing the rate by only a few cents for a difference of one year in age at issue, equity would seem to call for the use of rating distinctions for other factors as narrow as can be made with reasonable ease and accuracy.

MR. ARTHUR PEDOE commented on two points. One is that tuberculosis is on its way to be practically eliminated as a cause of death

in the United States and substantial reductions have occurred in Canada, also. For that reason he feels that a family history of tuberculosis could be ignored if the applicant has a clear record himself. With respect to the broadening of ratings, he feels the rating schedules for occupation should be simplified. He would like to see his own company's cut from its present 80 pages down to 8 pages.