

**TRANSACTIONS OF SOCIETY OF ACTUARIES  
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**UNDERWRITING**

- A. What new underwriting methods and procedures have been introduced in order to reduce expenses?
- B. What considerations enter into the determination of nonmedical limits in the following classes of risks:
  - 1. Juvenile under age 10?
  - 2. Married women?
  - 3. Term insurance?
  - 4. Business insurance?
  - 5. Third party insurance?
- C. To what extent can inspection reports be eliminated on applications for small amounts of insurance, particularly at younger ages?

Discussing section A, MR. L. JEFFERSON STULCE described the underwriting approach to Life of Georgia's new monthly Intermediate line of insurance. Underwriting costs are reduced (1) by limiting inspection reports to certain occupational, age, and amount groups; (2) by setting nonmedical limits at the younger and middle ages to require medical examinations only for infrequently sold higher amounts; and (3) through simplification of underwriting and issuance procedures.

The application is brief and simplified and no copy of it is attached to the policy. To protect against material misrepresentation, the policy contains the following sound health provision:

This policy shall take effect as of the Effective Date stated above, provided the first premium is paid and the Insured is then in sound health and free from bodily injuries. It shall be conclusively presumed that the Insured was *not* in sound health, and the policy shall not take effect, if within one year prior to the Effective Date the Insured received institutional, hospital, medical or surgical treatment for a condition which was material to the risk unless reference to such treatment is either (a) endorsed on the policy by the Company or (b) contained in a written application for this policy. This provision is made subject to the Incontestable provision.

Expenses are reduced by the use of IBM equipment to issue policies, by the requirement of at least one month's premium with all applications, and by permitting the designation of only one person as beneficiary.

The average monthly premium for intermediate policies is \$2.12 for juvenile business and \$3.34 for adult business, and policies of this size will not support refined selection procedures. The nonmedical limit is \$4,000 up to age 40, \$2,000 from age 41 through 45, and \$1,000 from age 46 to 55. Nonmedical business is inspected (using industrial type reports) on a

sampling basis. A recent investigation showed that 14% of Intermediate applications were being inspected, resulting in a rejection of 10.6% of the cases inspected. It appears that expensive underwriting procedures cannot be justified on this business until perhaps age 40 or 45, and most medical examinations are above age 45.

MR. WILLIAM L. GORDY, of the Retail Credit Company, suggested that each life company should make its own study to determine the value of inspection reports both tangible and intangible. He wondered to what extent the present good situation in mortality rates had been caused by the practice, prevailing over many years, of informed selection of all risks.

MR. CARL E. BLUTAU, of the Hooper-Holmes Bureau, referred to a study of 500 inspection reports, which turned up questionable information on 5.1% of the cases in the \$100,000 category, ranging down to 3% in the \$15,000 category. He felt that this was sufficient to justify the cost of inspecting these cases. He also referred to a study of young drivers involved in accidents. Contrary to expectation it appeared that economic level, family background, and the like, did not have any bearing on the accident rate for young drivers.