

ACCIDENT AND SICKNESS INSURANCE

- A. What principles should be observed in establishing retention limits for disability insurance?
- B. Insurers offering "commercial" forms of individual and family hospital-medical contracts are being urged to restrict voluntarily their right to nonrenew because of deterioration of health. What considerations have led to this development? What additional reserves should be established by an insurer taking such a step?

MR. JACOB FRIEDMAN stated that the principles to be observed in establishing retention limits for disability insurance would probably parallel those used in selecting retention limits for life insurance. Volume, surplus, renewability provisions, and the period of disability would be important factors. The effect of a claim on surplus can be ascertained by computing the disabled life reserve. In the World Insurance Company, if the policyholder desires an indemnity in excess of regular lifetime or long-term coverage limits, the additional benefit is available only in the form of monthly indemnity payable for one year.

With regard to section B, Mr. Friedman noted that certain organizations interested in keeping the present system of voluntary health insurance with supervision at the state level have urged insurers to voluntarily restrict their right of nonrenewal because of deterioration of health. While there is a good reason for optional renewable policies, these requests to some extent have been made in order to answer some of the criticism of our present voluntary health insurance system by groups who seem to favor a national compulsory health insurance plan.

If an insurer does restrict his right to nonrenew, the inevitable increasing claim costs in conjunction with a level premium will probably result in illusory early underwriting gains which will be offset by substantial future underwriting losses unless active life reserves are established in addition to the regular pro-rata unearned premium reserve. Such active life reserves will tend to level out and establish a more realistic pattern of underwriting gains or losses. Reserves based on company experience or those appearing in recent volumes of the *Transactions* appear suitable, except perhaps for the miscellaneous hospital benefit which has shown large annual increased costs.

MR. HAROLD L. McCOLLUM observed that with regard to section B a prime consideration is the American tradition of sympathy for the underdog. He pointed out that it is easy for the public to picture the unfortunate individual whose health has deteriorated being denied insurance

just when he needs it most. Any explanation that the contract specifically provides that the company can refuse renewal would probably be brushed off by many as being something taken away by the "fine print" in the policy. Thus it appears that the industry's desire to maintain good public relations, to retain control over its own affairs, and to meet definite insurance needs wherever possible, has given rise to the development whereby insurers are being urged to restrict voluntarily the right to nonrenew.

Mr. McCollum also stated that once an insurer has decided to restrict voluntarily the right to nonrenew business already on the books, the policies become in effect similar to guaranteed renewable contracts. If level premiums have been charged some type of reserves should be maintained, but it may be considered too large a strain on surplus to set up full reserves immediately upon making such a decision. One alternative would be to compute full reserves and set up an increase in percentage of the full amount over a period of five years or some other selected period. Another possibility would be to start a reserve program on the assumption that existing business was issued within the last year or two and to begin reserving on the two year preliminary term method. Either of these suggested approaches should be satisfactory as there has been no legal requirement of additional reserves on this type of business.