

SOME OBSERVATIONS ON ACCIDENT AND HEALTH INSURANCE.

BY

THOMAS F. TARBELL

The several phases of the subject of accident and health insurance have been rather extensively treated at various times in our *Proceedings*. The subject, however, is always a live one and as conditions in the business are constantly changing it seems to the writer not inopportune to bring up this subject, for stock taking at least, at the present time.

HISTORY AND DEVELOPMENT

Accident insurance in the United States began in a rather feeble way in 1850 but its real history dates from 1863 with the chartering of The Travelers Insurance Company, Hartford, Connecticut. The original charter granted authority to insure against travel accidents only but in the following year the charter was amended to include insurance against all kinds of accidents.

Health insurance in the United States was undertaken in a small way by a company in Philadelphia in 1847. It did not prove popular and was practically dormant until the middle Nineties when the practice was instituted of attaching to accident policies riders covering certain specific diseases or illnesses. The list of specific diseases was gradually extended under the force of competition until the present forms of separate health policies, giving practically unlimited coverage, were evolved.

The growth of accident and health business has not been extraordinary and has failed to keep pace with the increase in life business. The following table shows the premiums written at five year intervals from 1910 to 1925 by companies admitted to do business in Connecticut as shown by the Connecticut Insurance Department Reports:

<u>Year</u>	<u>Accident and Health Premiums (including Non-Cancellable)</u>
1910.....	\$24,936,793.
1915.....	33,089,447.
1920.....	56,871,214.
1925.....	83,369,974.

During the fifteen-year period 1910-1925 the premiums increased 234%. During the same period the first year premiums

written by the life companies reporting to Connecticut increased 376% and the new business written increased 471%. The percentages given are not true percentages of increase as the companies making up the results are not the same at the beginning and end of the period. This lack of homogeneity, however, is not of sufficient importance to vitiate the general conclusion.

SELLING METHODS

Competition plays a prominent part in the marketing of all forms of insurance. This factor takes different forms in different lines of insurance. In life insurance stress is placed upon financial strength and net cost to the policyholder. In compensation insurance legitimate competition is based upon financial strength and service. In life insurance there is little difference in rates or net cost and in compensation insurance the rates in most states are the same for all stock carriers. In commercial accident and health insurance the situation is somewhat different. Here a *laissez faire* policy of competition has had full play. Companies have been unrestricted in the making of rates, classification of risks and in granting so-called additional benefits generally known as "frills". Consequently competition has been based principally upon these three factors.

There are, of course, other reasons why commercial accident and health insurance has not made as great progress in the personal insurance field as life insurance. Sales resistance always has been a marked feature of these lines. A man cannot deny the certainty of death but in the matter of accidental injury or illness, if he is in full possession of his faculties and in good health, is inclined to be over-optimistic. The business once obtained is hard to retain, the lapse ratio being very high in the early years. Unfortunately also there has been too much shifting of business from one company to another in the past, which is a bad feature in any line of insurance.

Unscientific rate making and competitive rate making requiring subsequent adjustments of rates upward have also contributed to the instability of the business.

Claim settlements in the past have been a source of dissatisfaction to the insured and a certain amount of dissatisfaction from this source will ever be present in the business unless human nature changes materially. The low rates resulting from free

competition in earlier days would scarcely permit of a liberal adjustment of claims and companies found it necessary to be more technical than would have been the case had rates been upon a more adequate basis. Uniform standard provisions laws adopted generally by the states following an investigation of the accident and health business by a committee of the National Convention of Insurance Commissioners in 1911 have been a great benefit to both the companies and the insured and have helped toward stabilization of forms and practices.

Many of the drawbacks to better sales conditions have their sources in other features of the business, but it is apparent that much can be accomplished by concentrating more upon the idea of thoroughly selling the prospect on the coverage, providing him with a form of contract best suited to his needs and keeping him sold in the original writing company. Reducing the number of forms of contracts would also be a benefit to all concerned.

RATES

Rates, as I have previously mentioned, have always been an individual company matter and generally have been based upon judgment or competition instead of statistical experience. If a rate proved inadequate as shown by the subsequent loss ratio the rate was increased. Any such trial and error method of rate making is indefensible for a line of business that has outgrown its infancy.

Rates for accident insurance have been graded roughly by classes (Select, Preferred, Extra Preferred, Ordinary, Medium, Special, Hazardous, Extra Hazardous) according to occupational hazard. As no combined accident experience by occupations has been compiled, the assigning of risks to classes has been based upon certain individual companies' experience and judgment. Classification of risks, however, is uniform among a considerable number of the companies having membership in the Bureau of Personal Accident and Health Underwriters and a special committee of that bureau known as the Committee on Manual Classifications is doing most excellent work.

Commercial health rates at the present time are not graded by age, occupation or residence, except that an increase in rates is usually made for ages over fifty.

In the field of commercial health insurance the Bureau of

Personal Accident and Health Underwriters has done excellent work along statistical lines. The combined experience of a majority of the member companies covering policy years 1921-1923 inclusive and compiled under the direction of the Committee of Five on Statistics of the bureau has recently been issued. This compilation should be very valuable for future rate making and underwriting purposes. Anyone interested in the underwriting or statistical features of health insurance will find this compilation of experience well worth careful study.

It would seem that there is still a large field for statistical and actuarial work in connection with the scientific determination of accident premium rates. While the experience under accident insurance has been satisfactory in the past, it is desirable for future guidance to know as near as possible the cost of the various features covered by the contract. This is especially so because of the increasing claim frequency from automobile accidents, more than 25% of accident claims at the present time arising from this source. There is a tendency to issue policies providing increased or special benefits for automobile accidents and unless the cost of such benefits is predetermined the results are likely to be discouraging if not startling. Compilation of the available combined experience of a group of companies should be a great help in future rate making.

UNDERWRITING

Commercial accident and health insurance present very few astute problems in the selection of risks from the standpoint of physical hazard. The two most important factors in underwriting are occupation and amount of indemnity applied for. The moral hazard must be carefully considered. The experience under certain occupations has been very unsatisfactory. Health insurance in general shows a high loss ratio on policies providing full indemnity regardless of house confinement, also on forms providing life indemnity. It is questionable if health policies providing full and unlimited indemnity for non-house confining disability can be successfully underwritten. In order to improve the underwriting results in health insurance, companies are resorting more and more to the issuing of only policies with a definite waiting period of two weeks or more. This form of deductible insurance has several advantages from the stand-

point of both the companies and the insured but is not effective to overcome the moral hazard incident to policies paying full indemnity for non-house confining disability and life indemnity.

The amount of indemnity applied for must be considered from the standpoint of earning capacity, not only present but future. Consideration must be given to physical impairments which develop at the older ages when business activities usually lessen and earnings frequently decrease. Also if the present occupation is one the earnings from which depend upon the whims of fashion or some transient public fancy, the case must be carefully weighed for latent moral hazard. Accident and health disability insurance should be restricted to indemnity insurance and the speculative element eliminated. The combined health experience, heretofore mentioned, shows quite conclusively that the rate of morbidity increases with an increase in the size of policy (weekly or monthly indemnity) and that constant vigilance in the underwriting of the larger risks is absolutely necessary.

Careful underwriting in the beginning should be stressed. The agent should be impressed with the mutual advantage from a careful selection of prospects on his part and should be instructed to secure complete and accurate information on all questions contained in the application blank. The use of the cancellation clause or refusal to renew is like locking the barn after the horse has been stolen and leaves a dissatisfied customer who can hardly be expected to spread the doctrine of accident and health protection among his friends and acquaintances.

CLAIMS

In order to determine the results of the operations and the adequacy of rates it is necessary to have as accurate an estimate as possible of the incurred cost of unsettled claims. There are at the present time, so far as I am aware, no reliable tables of claim reserves for estimating the incurred cost of temporary (total or partial) disability claims. The bulk of the unsettled claims are of this nature and the practice of basing reserves upon average claim costs extending over a period of years without giving due weight to the amount of indemnity involved or the nature of disability cannot be expected to yield reliable results.

Further, the general nature of injuries resulting from automobile accidents tends to increase the severity and duration of

disability and unless these factors are given due weight we may fall into the error of underestimating our claim reserves, and thus producing a more favorable incurred loss ratio than will ultimately be realized.

A table of claim reserves for temporary disability cases based on a suitable unit of indemnity compiled from combined experience, and subdivided by type of injury or kind of illness, would be of great assistance. I would not suggest tables by individual types of injury or kinds of illness but by groupings of such types of accident or kinds of illness as experience shows produce substantially the same average periods of disability. The effect of age upon duration of disability should be tested in any such analysis in order to determine upon the advisability of further subdividing the claim reserve tables by age groups.

Claim reserves for life indemnity cases are considered at a later point.

NON-CANCELLABLE ACCIDENT AND HEALTH INSURANCE

No paper on accident and health insurance would be complete without some reference to the non-cancellable policy. This form of policy has been issued since 1915 but it was not until 1921 that it took on any considerable impetus. It was looked upon at that time by some as a panacea for all the ills of the accident and health business and several companies pushed the contract with great enthusiasm. The results do not appear to have come up to expectations. In 1925 only seven companies were writing the business in any volume and the premium income amounted to approximately \$4,185,000.00.

There are several reasons for the failure of non-cancellable accident and health insurance to come up to expectations. In the first place adequate premium rates were higher than underwriters or agents anticipated and as companies found it necessary to increase rates, the business became more difficult to sell. The lack of any dependable domestic statistical experience resulted in dividing the companies roughly into two groups on the question of adequate rates and reserves and the rulings of insurance departments on these subjects have not served to clear the atmosphere. Underwriting results, due to failure to appreciate the importance of carefully underwriting this business, or the impossibility of successfully underwriting it, as some maintain,

influenced some of the companies to withdraw entirely from the field or write the business only as an accommodation.

It is possible that this business got off on the wrong foot and still has a big future. It should be possible in the near future to develop sufficient experience to test the adequacy of present rates and determine, if necessary, a new set of rates. The question of incurred claim cost is an important one for this line of business and a proper table based upon combined experience would help solve the problem. At the present time the standard imposed by ruling of the New York Insurance Department for claims of more than one year duration is Hunters' Table of Mortality among disabled lives with $3\frac{1}{2}\%$ interest and there is a question as to whether or not this claim reserve basis is too stringent. There is no question but that both policy and claim reserves should be adequate but if there is a future for this business its development should not be impeded or discouraged by requiring the maintenance of redundant reserves.

The accumulation of combined claim experience would facilitate the problem of the supervising state insurance officials in prescribing a claim valuation basis and would give the companies a better measuring rod for judging the results of the business and determining upon future policy. It would seem desirable to have tables of reserves for temporary disabilities and permanent total (life indemnity) disabilities. In case of the latter, such reserve tables should differentiate between permanent disability resulting from accident and that resulting from illness or disease. The exposure under non-cancellable policies will soon provide sufficient volume to furnish dependable rates of disability and if we have the necessary data for determining the incurred claim cost the problem of rates and reserves based upon domestic experience can be satisfactorily solved.

A further word upon the subject of underwriting. What has been said regarding the underwriting of commercial accident and health insurance applies with even greater force to non-cancellable business. The medical examination has not proved the safeguard that was expected and is in fact of little value except as an underwriting guide in passing upon the physical hazard at the time of application. A defense of fraud is difficult to successfully maintain in the courts. The moral hazard is greater as there is no relief through a cancellation clause. Occupation must

be given most careful attention from the standpoint of steadiness of income and probable future trend of earnings. Last but not least, and this as previously indicated, applies to commercial business as well, speculative contracts should never be issued. Unless the applicant will suffer a financial loss by the occurrence of the hazard or hazards insured against, the policy should not be issued and no policy should be issued for an amount of indemnity in excess of such financial loss.

The foregoing comments upon the accident and health insurance situation cover only a part of the phases which may properly occupy the attention of all interested—agents, underwriters, claim officials, actuaries and supervising state officials. The main point that I desire to bring out is the desirability and ultimate advantage of adopting sound fundamental principles—agency, underwriting and statistical—and building sanely thereon.
