

PROCEEDINGS

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THE CASUALTY ACTUARY AND SOCIAL INSURANCE

PRESIDENTIAL ADDRESS BY RALPH H. BLANCHARD

Article II of our Constitution states that "The object of the Society shall be the promotion of actuarial and statistical science as applied to the problems of casualty and social insurance . . ."

While some attention has been given to social insurance in papers and presidential addresses and in the appointment of a Committee on Unemployment Insurance, consideration of that subject has been meager in comparison with discussion of the problems of casualty insurance as a business. Certain of these problems are directly related to social insurance, particularly those of workmen's compensation insurance (without which the Society might not exist). But here the emphasis has been on the technique of the business of implementing workmen's compensation laws rather than on social policy or governmental administration.

I suggest that the casualty actuary, whether motivated by social consciousness or by self-interest, should devote more attention—considerably more—to the social-insurance field. He can be of great usefulness in giving technical guidance to governmental action, in determining the lines to be drawn between social and private insurance, and in conducting private insurance in the light of the present and probable future development of social insurance. Above all, he should avoid shutting himself up in his present corporate bailiwick, where he is insulated from outside and possibly disturbing currents.

It might be well to stop a moment at this point to inquire what is meant by the term *social insurance*. The "definitions" of the term that I have seen all lack the essential quality of a definition—that it *define*. Rubinow devoted an entire chapter of his book on Social Insurance to the "concept of social insurance" but emerged without having defined it. Mowbray intimates in a section heading of his general text that he is about to present a definition, but proceeds to list the "essential features of a complete social insurance scheme." Often the term is used with no attempt at definition.

I have long cherished a rather awkward definition but one which, I submit, does *define*: Social insurance is any form of insurance in which the government goes beyond the regulation of practices and the dissemination of infor-

mation. It may do so by compelling insurance, by shifting the cost, by subsidy, or by becoming itself an insurer. To the extent that it acts in any one of these directions, insurance becomes social insurance, and I should include within its scope compulsory automobile insurance, governmental schemes of war-risk insurance, governmental crop insurance, as well as the more commonly recognized workmen's compensation, unemployment, old-age, and disability insurances. While I believe that this definition properly distinguishes between private and social insurance, it includes certain governmental activities insurancewise which are not generally thought of as "social insurance" and which would be of minor interest to members of the Society. Our attention should be given primarily to those schemes of social insurance which are established or advocated to meet a broad social need, which aim to provide an adequate minimum income, and which are usually compulsory as to membership.

It is particularly important for the membership of this Society to note and ponder all manifestations of a conviction that private initiative, regulated by supervisory authorities, is not adequately meeting the risk problem of the public. Such a conviction has social-insurance legislation as its outlet. We should be prepared to contribute our best judgment and technical ability to social insurance where that is desirable or inevitable, and to conduct private insurance in such fashion as best to satisfy the needs not met by social insurance. In a rationally organized society the two would be complementary rather than competitive.

Social insurance, as a broad national policy, is something of a novelty in the United States, but the rest of the world has long accepted it. If you would learn how far it has been accepted, I recommend that you read "Approaches to Social Security—An International Survey," published this year by the International Labour Office. This study indicates that "There is a strong, broad tendency to bring all persons employed in manual work and the lower ranks of salaried employees within the scope of compulsory insurance in all its branches."¹

In Great Britain, some 18 months ago, there was appointed an Inter-departmental Committee on Social Insurance and Allied Services, of which Sir William Beveridge was named chairman, to draw up a scheme to meet postwar security problems. The *New York Times* reported recently that he will recommend "the introduction of a comprehensive system of social insurance and the establishment of a national income minimum below which none would fall." More significant for us, there was introduced in Congress on September 9th of this year a bill,² providing for a broad federal social-insurance program and adding disability and hospitalization benefits to the

¹ p. 35.

² H. R. 7534.

provision already made by the Social Security Act. This bill unquestionably embodies proposals for which there is considerable support, and it, or other similar bills, will probably be given extensive consideration by Congress.

So far, casualty actuaries have had practically no part in the origination, establishment, administration, or development of social insurance, other than workmen's compensation. Life actuaries have had some part, but they have been more or less on the side lines. Social insurance has been in the hands of persons highly interested in *ends* but somewhat impatient with questions of *means*. And the actuaries, particularly the casualty actuaries, have held themselves aloof—or perhaps their interest has not been aroused.

The greater participation of the life actuaries in the discussion and practice of social insurance is at least partly to be explained by the fact that the most generally accepted development in that field is old-age and survivors insurance. There are the further facts that social insurance, actual and proposed, does not threaten and may even benefit life insurance as a business, and that their experience with group insurance has developed their understanding of mass treatment of insurance problems. Granting that old-age and survivors insurance is primarily the concern of the life actuary, it seems to me that unemployment and disability insurance should be very much the concern of the casualty actuary. The hazards of both these fields are the same as, or akin to, those found in casualty insurance.

It may be thought that unemployment insurance does not lend itself to actuarial treatment, and it may be true that it will never be possible to predict losses due to unemployment with even approximate accuracy. But certainly the planning and administration of this form of social insurance would benefit from the type of analysis in which actuaries are skilled. Records should be set up so as to facilitate whatever actuarial analysis is possible, and full use should be made of statistical indications. Such analysis might eventually show how the unemployment risk can be controlled and measured.

Social disability insurance beyond that provided by workmen's compensation has been adopted in only one state. But we shall hear more of it, and of its concomitants, medical care and hospitalization insurance, in the future, probably in the immediate future, in the form of specific legislative proposals, recommendations from high places, and urgings from a variety of sources. In fact, the first efforts to establish a federal scheme of temporary and permanent disability insurance have been made.

Here is a field in which the casualty actuary has basic material and techniques, and in which his services in analyzing proposals and in furnishing guidance could be of outstanding value. But he must understand social insurance as such, its purposes and its essential procedures, if his services are to be really useful. He is cost-minded, realistic, and no-one so well as

he knows what figures indicate, and how misleading or inadequate they may be. One of the greatest services he can render is to point out persistently that social insurance and private insurance, whatever they may have in common, have marked and important divergencies. As Hohaus has said, social insurance "is a new creation . . . requiring an actuarial technique that may sometimes seem rank heresy to the orthodox private insurance actuary."³

The private insurer and its insureds may sell, buy, continue, or renew insurance on a mutually voluntary basis—the more important social-insurance schemes are based on compulsorily assembled groups and are operated in accordance with statutory and administrative rules which largely eliminate personal judgment and volition. In the long run, in private insurance, there must be some relationship between the cost of providing protection to the individual insured and the premium charged for it—the contribution of the individual to social-insurance schemes is generally determined by other considerations. The private insurer must make its offering attractive to the buying public—the government is restricted only by the rather tenuous control of the democratic process. Preservation of precise equities for the individual insured is the ideal of private insurance—satisfaction of social needs the aim of social insurance. And where the private and therefore mortal insurer must hold solvency first of its concerns, the government need consider only its ability to collect the special or general taxes necessary to support its scheme.

And still we hear, and shall continue to hear, arguments that this or that should be part of a social-insurance scheme because it is done in private insurance.

If it is proposed that the government furnish an insurance service which is generally needed, there are four tenable answers: that the service is entirely impracticable, that the government cannot properly furnish the service, that private initiative can furnish it to better general advantage, or that it should be furnished by the government, either direct or through the agency of private carriers. In any event the actuary should lend his special competence to the solution of whatever problems may arise.

One last word—when it is reasonably clear that social provision of insurance is desirable or inevitable, the actuary should be among the first to recognize it and to prepare for it.

³ "Social Insurance in a Democracy," an address before the American Life Convention, October 7, 1942.