LIFE ASSURANCE—SOME UNDERWRITING ASPECTS

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It is proposed here to indicate how life assurance proposals are considered by those who have to underwrite them for the offices.

A life assurance office exists to provide assurance protection on fair terms for as many as possible of those who seek it. Consider this from the point of view of the underwriter, who is the person responsible in a life assurance office for the acceptance of proposals; assume that he is reasonable, experienced and anxious to secure good new life assurance for his office. What materials has he, and what does he do?

The Materials.

There will be some or all of the following:—

1. *The proposal form signed by the life to be assured.*

It may give details of personal and family history, but some offices leave these to be elicited at the medical examination. It should be filled up by the signatory; completion of forms by agents and other third parties is dangerous since it leads so easily to mistakes and omissions. Life assurance is based necessarily on mutual confidence—trust in the office by the policyholder and reliance by the office on the accuracy and completeness of the information that the policyholder gave at the outset. Anything that imperils this relationship is undesirable, and experience has shown that the completion of proposal forms by interested third parties is apt to do so.

2. *Reports from one or more "private friends."*

Occasionally these give vital information not otherwise available. Anything guarded in the answers calls for consideration, especially on the point of "habits," but the underwriter must be on his guard against the not uncommon case of a report by an ultra-particular person who wishes to avoid making any definite statement, though in fact there is nothing whatever to be hidden or minimised.

3. *Report by the Agent or an official of the Company.*

These forms sometimes help the underwriter in deciding whether there appears to be a proper reason for the assurance, and whether the amount proposed is consistent with the position, etc., of the applicant. Speculative or excessive assurances tend to produce bad claims. Though the great majority of persons in this country may be under-assured, there are a few who for various reasons—inimical to the common interest of the life assurance office and its policyholders generally—try to get more cover than they ought to have. The risk is greater still if excessive assurance is sought by a third party. Whenever anyone seeks to effect for his own benefit an assurance on the life of another person, it is essential that the office should be satisfied as to the validity of the assurable interest and of its pecuniary nature and sufficient extent. In the case of immediate assurances on the lives of young children, there are definite legal restrictions on the amount payable at death during their early years.

4. *Medical Report on the Office's own form from a Doctor selected by the Office.*

Either in itself or by reference to the proposal form, this will give details of personal and family history, the present personal condition found by the examiner (as to height, weight, heart, lungs, nervous system, abdomen, urine, etc.), his general impression and his recommendation. For female proposers there will be supplementary information.

5. *Report on the Office's form from the Private Medical Attendant.*

These reports are not always required, but permission to get them is given by the proposer, and they will be obtained if

- (a) the other papers present special features such as a history of serious illness;
- (b) the amount to be assured (or the total amount allowing for risk under existing policies) is relatively large;

- (c) the life proposed is getting on in years;
- (d) the proposal is under a scheme whereby medical examination would not be required if the other papers were considered satisfactory. There are many such schemes, and as a rule they apply only to persons below, say, age fifty at entry and to moderate amounts of life assurance. Even so, a report from the private medical attendant is often obtained as a matter of routine for all non-medical cases above a relatively low limit, which may be £500 or less.

6. *Miscellaneous information, such as*

- (a) results of urine tests by analysis;
- (b) blood sugar tolerance curves;
- (c) specialists' reports;
- (d) reports of private and confidential enquiries as to habits.

Most of these are got, as a rule, on the specific suggestion of the company's principal physician, though sometimes, from long experience of working with him, the underwriter is able to save delay by obtaining them in anticipation.

It does not follow that all these papers will be before the underwriter when first he sees the case, or that some of them will ever be wanted. Typically, he will have Nos. 1 to 4, or, in an ordinary "non-medical" case, Nos. 1 to 3 and 5.

What the Underwriter does.

He considers the papers to decide whether the case should be accepted as it stands, or further information should be got, or the proposal should be referred to the company's principal physician for advice.

A material factor will be the type of Life Assurance desired.

Different Types of Life Assurance Policy

Life policies are of many kinds, though they are not really so numerous as the various names imply. For present purposes they can be listed thus:

- (a) Term assurances. (Simple cases with level sums assured—like the one assumed below, and also cases with decreasing sums assured—like family protection benefits).
- (b) Whole of life policies.
- (c) Endowment assurances.

Each of these policies, as soon as it is effected, will put the life assurance office on risk. Of what? Of having, in the event of death, to pay the sum assured; under (c) there will be also the liability to pay the sum assured if the life assured survive the endowment term. The matter is stated here in stark simplicity, and questions such as bonus additions and war risks are put aside; they do not affect the point now under consideration.

The three types have been put in ascending order of magnitude of premium as the following example of a without-profits policy for £1,000 in the case of a life aged forty at entry shows. Typical premiums, payable yearly in advance, will be:

- for (a) £13 (Term of assurance 10 years),
- „ (b) £26,
- „ (c) £48 (Endowment term 20 years).

Next, consider the essential features between these three cases:

- (i) In all of them, the office from the moment when the contract has been completed is liable to pay £1,000 should death occur. If the life assured die within the first year of assurance, all that the office has received is the first premium, and it has incurred expenses (general charges and probably medical fees, agent's commission, etc.). These charges, with allowance for cost of risk, may well have

absorbed much of, or even all, the first premium, so that broadly the office stands to lose £1,000 or so under any one of the three contracts should death occur in the first year.

- (ii) The yearly premiums differ widely, and it is obvious that they must. In (a) a claim may never occur at all, since such a policy covers death, if that happen within the term of ten years. In (b) a claim is certain, but will not arise until death, perhaps at a very advanced age. In (c) a claim is also certain, and will occur, at the latest, after 20 years.
- (iii) In all the three cases, the yearly premiums are fixed from the outset and cannot increase as the life assured gets older, though it is well known that, throughout adult life, at any rate, the chance of death in any year of age grows with the age.
- (iv) Each yearly premium should be regarded as containing (apart from provision for expenses) two elements:
 - (α) Something to pay for the current death-risk of the year.
 - (β) A balance to be reserved and accumulated against future death-risk and, in the case of a policy of type (c) the maturity of the endowment assurance if the life survive to the end of the 20 years.

This is so because, as the age of an adult increases, the chance of death in any year becomes greater and the premiums on a policy could not remain as fixed originally unless they contained enough to make possible accumulations in the earlier years against the later period when each current premium by itself would not suffice to meet the risk then ruling. Under the example of a policy of type (a), running at the most for ten years, there will not be much scope for risk-increase on account of age, but there will be some such growth, and the premiums paid will allow for a relatively small saving and accumulation from the earlier years to supplement the inadequate later ones. By age 50, if the life assured survives, all the reserve will have been so used and nothing will remain. The contract will then come to an end and all its provisions will have been fulfilled. In other words a sort of average premium for a one-year term assurance has been charged throughout—it was rather too high at first and somewhat too low later, but over the whole period it will have just met all demands.

Under (b), however, a considerably higher premium is paid; much of it must be reserved and accumulated at interest; at very advanced ages, the reserve will be a high percentage of the sum assured, and at the highest age to which mortality tables extend (usually about 105) the reserve will be equal to the sum assured.

Under (c), a still more rapid increase of reserve will be both feasible and necessary because of the much larger premiums, and because the full sum assured must be in hand if the policy remain in force at the end of 20 years, when it will mature for payment.

The reference throughout to “a policy” or to “a life assured” must not obscure the fact that life assurance premiums are not calculated on the basis of individuals. The actuary obviously cannot fix a special premium for each “minutely-particularised” individual. He must use tables that are derived from the experience of a very large body of persons, preferably not too dissimilar in type. His results, therefore, when applied to any case, are average figures, and the question for the underwriter is “Does this person whose life is to be covered by this policy come up to the average standard?” And this question is not related to his present state of health, which may be unexceptionable, but to his prospects of average longevity, not only in relation to the standard, but also with reference to the term for which the policy is to run. A life assurance office has (or should have) such a standard to which, as a matter of experience and of common sense, its underwriter seeks to conform.

In view of these points, it is clear that the type of policy desired must be an important element in the underwriter’s consideration of the papers before him. Thus, if there be a family history of early death from cardio-vascular disease, a proposal for an Endowment of a Term Assurance may be accepted at ordinary rates, whereas a surcharge would be required for a Whole of Life policy.

The underwriter will seek the advice of the office’s principal physician on any case that shows special features. Often—and the plan has obvious advantages—this advice will be given in conference at which various cases are considered in turn. Sometimes further enquiries and

investigations will be suggested by the physician, and when the results are known the case will be brought to him again, so that he may recommend such terms (if any) as appear to be right from his point of view. The office will adopt his advice, of course, save in quite exceptional conditions, and will be responsible, naturally, for any departure from it.

Thus, the doctors who help proposers and the offices by making the actual examinations or furnishing reports from their own records may be quite satisfied that what they say or suggest will not be assessed from any purely lay point of view; on the contrary, in cases showing abnormal features (and these are the ones that matter for present purposes) the information that they have provided will be weighed by specially experienced physicians, who take full account of the value of the impression formed by a doctor in personal touch with the candidate.

Most of the proposals received by a life assurance office are found, after examination and scrutiny, to be acceptable on the normal terms. What of the residue? Some must be declined outright; others need to be postponed for a period, either very short (as in a case of very recent notable illness or of temporary defect) or quite long (where there is something that may prove eventually to be serious, or where the history shows gross disease of a type that, for some years after apparent recovery, is likely to recur). Finally, there are the proposals that can be accepted at once on special terms.

Ways of Fixing Special Terms

- (a) The addition to the age of so many years—this means that a proposer aged 40 who is "rated up" five years, will be asked to pay (whether the policy is for the whole of life or is an Endowment Assurance or a Term Assurance) a surcharge equal to the difference between the ordinary Whole of Life premium at age 45 and that at age 40.
- (b) The charging of a cash extra, the amount of which will vary, of course, according to the estimate of the degree of additional risk involved in the case. Sometimes, this cash extra may be payable only for a limited term of years.
- (c) The imposition of a "contingent debt" or "lien." Under this plan, the normal premium is payable, but the policy provides that, in the event of death during a stated term of years, a deduction shall be made from the sum nominally assured. This deduction may either decrease from year to year, or be constant during its currency. The term for which it extends is sometimes quite short, but it may be for the whole duration of an Endowment Assurance, though, of course, the full sum assured would be payable under such a policy if the life survived to the maturity date. Under a Whole of Life policy a "debt" will not operate beyond a term equal to, say, the ordinary expectation of life at the age at entry. Further, it is not unusual to allow entire remission of the debt should death occur from accident.

Some offices lean more to one method of rating than to another, though the underwriter and the principal physician of an office should try to use for any particular case the plan that seems to be most appropriate having regard to their estimate of the nature and the incidence of the extra risk. At best, in the present state of knowledge, nothing like scientific accuracy is obtainable, but the number of life assurance offices is large, and so the proposer's field of choice is wide. If he considers himself unsuitably treated by the office to which he proposes at first, there is nothing (except perhaps the advice of his doctor) to prevent him from trying, and sometimes getting, better terms elsewhere. The common view of proposers that to be surcharged by one office means similar or more severe treatment by any other office is quite erroneous.

Finally, it seems worth while to repeat that the primary problem to be solved by the underwriter is not whether a particular proposer is now in unexceptionable health, but whether, having regard to all the circumstances, his chance of survival (to the extent laid down by the mortality table used in calculating the ordinary premiums) can be taken as being normal for the duration of the assurance that he desires.