

THE PRINCIPLES OF GROUP INSURANCE

The distinctive feature of group insurance is that the unit of insurance is not the single life but a group of lives. As the group is the unit of measurement, the individual members need not all be standard lives, and no medical examinations is required; for it is only necessary to consider the eligibility of the group as a whole. If, however, a group is to be eligible for insurance, it obviously must not contain an undue proportion of damaged lives. In order to protect the insurance company against adverse selection in this respect, it is essential that the group should exist for some purpose other than that of insurance; and, moreover, membership of the group should in itself be to some extent an index of good health and activity. These conditions may be fulfilled by a group consisting of the employees of one firm, provided all or substantially all are included. The insurance may sometimes be restricted to certain departments, or to male employees only, and casual labourers are generally excluded. With a view to the prevention of adverse selection on the part of an entire group containing an undue proportion of impaired lives, a minimum limit of 100 lives is usually fixed in America for group insurance without medical examination. If the number of lives is less than 100, the group is not necessarily ineligible for insurance, but a modified form of medical examination would generally be required, the degree of stringency of the examination depending on the size of the group. In such cases it might, of course, be necessary to exclude impaired lives.

Another important safeguard against the exercise of adverse selection by the members of a group is that there should be no individual option as to the amount of insurance. That is to say, the sum insured must either be a flat amount or follow a definite formula.

Group insurance has sometimes been criticized as unsound because there is no medical examination as a general rule. But when life insurance business was started, medical examination was not required, and schemes of insurance without examination have been offered by English companies in recent years. Medical examination is only a means to an end; but it is not necessarily the only means. Its object is to maintain the standard of mortality and prevent selection against the office. As is well known, the effect of medical selection for all practical purposes wears off after a few years, the select lives merging into the general body, which may be regarded as a sample population. The group insurance system under adequate safeguards automatically gives sample populations, in which there is no adverse selection. Such groups are therefore

eligible for insurance, provided there is no undue occupational hazard. But it is very important that no opportunity for adverse selection against the insurance company should be given; and for this reason the system should not be applied to clubs or societies connected with a particular trade or employment where the membership is voluntary. An interesting example of what seems to be a misapplication of the group insurance principle may be mentioned. The Federal Insurance Department, while apparently taking no objection to group insurance, has expressed the opinion that the system is not at present legal in Canada. Certain Canadian municipalities, however, during the war have insured the lives of soldiers recruited for over-seas service with American Companies on a group basis, the premiums being paid by the municipalities. Bodies of soldiers, although good lives from a medical point of view, are not suitable for group insurance owing to the catastrophe hazard which exists in any particular regiment on active service. In other words, the risks are not sufficiently decentralized to allow of the operation of the law of average. In considering the eligibility of a group for insurance, occupational hazard is an important factor. The wage-staff of a brewery company, for example, would hardly form a suitable risk for group insurance, except, possibly, in the case of an insurance company doing a very large business and having special experience in dealing with hazardous risks. Again, two firms might carry on business of a similar character, but it does not follow that both would be accepted for group insurance on the same basis, as the general conditions of employment in the two cases might be altogether different. American companies, before accepting a proposal for group insurance and determining the scale of premiums to be charged, usually make a general inspection of the premises, similar to that made in connection with workmen's compensation insurance. Careful attention is paid to such matters as sanitation, lighting heating, fire and accident prevention devices, class of workers employed, and conditions of labour, as well as to any special risks incidental to the employment. Companies which transact workmen's compensation business have the advantage of already possessing the necessary organization for making these inspections.

The group method may be adopted in connection with any kind of insurance, whether term, whole life, endowment, or annuity, and policies on all these plans have been issued; but group insurance, as it exists in America at the present time, is practically restricted to a modified form of term insurance, under which the employer pays the

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