

### MORAL HAZARD IN LIFE ASSURANCE.

Summary of Paper read before Insurance Institute of Montreal, by Mr. A. B. Wood, F.I.A.

After dwelling upon the necessity of careful medical selection by life insurance companies, Mr. Wood's paper refers to the adverse selection on the part of undesirable lives endeavouring to obtain insurance. Cases entirely acceptable from the standpoint of the medical examiner may be decidedly undesirable owing to their speculative character or to more serious moral hazards.

The existence or non-existence of an insurable interest can generally be discovered if truthful answers are obtained to the following questions:

Who will benefit by the policy applied for?

Will the beneficiary sustain any financial loss through the death of the assured?

Who is to pay the premiums on the policy?

If these questions bring out the fact that the beneficiary will not sustain any financial loss through the early death of the assured, but on the contrary will actually profit thereby, it may be taken for granted that the case is of a speculative nature and one that should be declined. If the premiums are to be paid by the beneficiary the risk is seldom one which the company should assume. A creditor, undoubtedly, has the right to insure the life of his debtor, but such policies as a class have been found to be undesirable, particularly if the creditor is paying the premiums. Persons in financial difficulties are subject to severe mental and nervous strain which induce various forms of disease resulting in early death.

### FINANCIAL CONDITION.

The ability of the applicant to carry the amount of assurance applied for, furnishes a valuable clue to the existence of a moral hazard. It has long been felt that there was a moral hazard connected with policies for large amounts, and in order to study this question the Actuarial Society of America in its Specialized Mortality Investigation completed in the year 1903, made an examination into the mortality among persons who had been assured for policies of \$20,000 or over on one application. Taking the whole experience, regardless of age at entry or duration, the actual deaths were found to be 107.8 p.c. of the expected. Examining, however, the separate groups of lives it was found that in the case of young entrants, ages 15 to 28, although the mortality for all durations combined was almost exactly normal, or 100.6 p.c., the actual deaths during the first five years of assurance exceeded the expected by 18.6 p.c. After five years the mortality was favourable—the heavy mortality during the earlier period being apparently due to the few speculative risks which the companies were not successful in eliminating.

The two middle groups of entrants comprising the principal years at which assurances are taken out show only a slightly heavier mortality during the first five years as compared with that after five years. The old lives, however, aged 57 to 70 at entrance, were decidedly unprofitable—the actual deaths for all years of assurance combined exceeding the expected by 25.4 p.c. These results impress the necessity of examining with the greatest care every policy when the amount applied for is large, but especially if the applicant be either very

young or advanced in years. There should be an ascertaining in each case as to whether or not there is a valid reason for assurance of the amount carried and applied for, and whether the applicant is personally able to pay the premiums without assistance.

### FEMALE LIVES.

While there is a legitimate field for assurance among women, it must be borne in mind that there is probably no class of lives in which there is greater moral hazard involved. The mortality among female lives furnishes a most interesting field for study, indicating as it does the selection, either conscious or unconscious, which is constantly at work against the company. While the total death rate among females in the general population is practically the same as that of males, it will be found that single females, aged 20 to 45, exhibit a somewhat lower rate of mortality than single males, while in the case of married females the death rate is considerably higher than among married males. The marked difference found between the mortality of female annuitants and female assured lives is thus accounted for. The great majority of the former are single women and all are self-selected lives confident in their prospects of longevity. On the other hand, the unfavourable death rate of female assured lives is probably due to the fact that the companies have accepted a much larger proportion of married women than exists in the general population, and that many of such risks have been of a speculative character. Great diversity of practice prevails among companies in their rules governing the acceptance of female lives. When the applicant is an unmarried woman earning her own livelihood such business can be safely accepted on the same terms as apply to male lives. When the applicant is a married woman, if the beneficiary will actually sustain some financial loss through her early death, the case may be taken with a small extra premium to cover the normal extra risk incident to such lives. But policies on the lives of married women payable to their husbands should be rejected unless it is actually proven to the satisfaction of the company that the husband has a definite monetary interest in her life which would cease at her death.

This is seldom the case. Other undesirable female risks are cheap forms of policies on young single women dependent on others for support, or on elderly women, payable to sons or daughters. One very effective means of eliminating or minimizing moral hazard is to restrict doubtful cases to an endowment assurance of 10, 15 or 20 year's duration.

### AGE.

Adverse selection seems constantly at work both at the very young and the very old ages, as already noted when considering mortality under policies of large amount. Young lives applying for large amounts or assuring on a cheap plan present a very suspicious aspect, while all applications on persons over 55 years of age should be scrutinized with unusual care.

(To be continued.)