When an application is received for a policy on a certain plan of insurance, we must, therefore, consider what the reserve on that policy will be from year to year. We can then tell what amount will be at risk each year, and can thus form an opinion as to whether the plan is one upon which the insurance can be granted. If we consider that there is too much at risk around those ages at which we suspect that there may be an excessive rate of mortality, we must change the plan to one which shows a smaller amount (if any) at risk around the dangerous ages.

For example, let us suppose that an applicant is applying for a whole life policy at the age of 35, and that there is a strong tendency to, say cancer in the family history. It would be felt that while the life was insurable at ordinary rates for the next twenty years, it would be well to get off the risk around age 55. In such a case the whole life policy would be refused and a twenty year endowment insurance offered. In this way the policy would mature before the life reached the age when the extra mortality would be expected.

If it were thought that there was only a slight tendency to cancer, a twenty payment life policy might be offered. In this case, although the policy would not mature at the end of the twenty years, still, as all the premiums would have been paid in by that time, the reserve on the policy would be considerably higher than on the whole life policy, and the amount at risk at the end of the twenty-years would consequently be less.

On the other hand, if there was a history of tubercular trouble in the family, and the applicant was of good physique, a policy would probably be granted on the whole life plan; but as, on the average, a heavier mortality would be expected in the early years of the policy, owing to the tubercular history, a lien or contingent debt would be placed upon the policy remaining level for perhaps five years, and then running off in equal instalments during perhaps the next ten years. If the life dies during the first fifteen years from any cause other than accident, the amount of the lien standing against the policy at the date of the death of the insured, would be deducted from the face of the policy in paying the claim. In this way only the poor lives pay any extra premium, and this is one of the strongest arguments in favor of the lien system.

The British practice of meeting the case of a sub-standard life of, say, 35 years of age, who applied for a whole life policy, is to accept the life and grant a policy on the plan applied for; but the policy would be issued at a premium as for a life aged perhaps 40 years, instead of 35. This is what is meant by "rating up a life five years."