

DEFENCE OF GROUP INSURANCE

EQUITABLE LIFE OF NEW YORK IN LESSON TO AGENTS, EXPLAINS ITS PRINCIPLES—MORTALITY EXPERIENCE FAR BETTER THAN EXPECTED.

The Equitable Life of New York has lately inaugurated a correspondence course of instruction for its agents. One of the lessons, which constitutes an interesting defence of group insurance is as follows:—

Medical Examination, Why Necessary?—If the law of mortality indicates that people normally situated die in accordance with a fixed law, why does the life insurance company require each applicant to be examined by a physician and pronounced a satisfactory risk before it will issue a policy on his life? If the law of mortality is reliable, why the need of these examinations? If some policyholders die prematurely, will not the result on the average be satisfactory, whether applicants have been examined or not? This is a pertinent question and must be answered:

Insurance is not Compulsory.—If all the people in the United States, or all the people in a single State, were compelled to insure, or if they would all apply voluntarily, medical examinations could be dispensed with, because the law of mortality would then work without interference. As a matter of fact, it has often been said that if a life insurance company could insure the lives of all the people passing on the street in front of its office, the risks would be more desirable on the average than those obtained through medical selection, because few invalids and no bedridden people walk along the street, and among such pedestrians the young and vigorous preponderate.

Adverse Selection.—But the insurance company cannot compel people to insure. *It can only insure those who apply.* And if it announced that it would accept every person who applied, most of the healthy people would remain away, and all the invalids, including those with one foot in the grave, would flock to it. Thus what is called "adverse selection" would saddle upon it a body of policyholders, who, instead of dying in accordance with the mortality table, would die very much more rapidly.

RIGID CONDITIONS OF GROUP INSURANCE.

In Group Insurance Examinations are Unnecessary.—A clear understanding of this will show you that the Equitable acts prudently when it goes to a corporation or business firm and enables the employer to insure the lives of all the employees under one blanket policy, on what is called its group plan of insurance. In such a transaction medical examinations are dispensed with, because the society will not grant the insurance except under the following rigid conditions:

1. The group must be large enough to permit the law of mortality to work with precision.
2. The entire body of employees must be included.
3. They must consist of workers who on the average are young and vigorous and not aged and infirm.
4. The group must be a living, active body, renewed from time to time by the introduction of young and healthy lives as those who are old or infirm drop out.
5. The occupation and environment of the group must be wholesome and satisfactory in all respects.

When entering into such a transaction the society judges of the quality of the group as a whole. It would not insure at normal rates the patients in a

hospital, no matter how large the group. On the other hand, the employees of a business house (where the majority are young, vigorous and alert, and where their work is healthy), have proved to be better risks on the average, than an equal number of ordinary citizens who have passed a medical examination.

It is a big job to follow up individual insurers and find out all about their employment, habits, environment, etc. In the case of a large group the contrary is true. The company ought to be more successful in selecting these groups than in selecting an equal number of unrelated individual risks.

Such a group is held together by a tie far stronger than the value of the insurance. This gives it continuity and permanence. The company can, for example, well afford to insure the members of a stock exchange, because they are held together by their business and the value of their seats. In such a case the insurance is merely incidental, and the members are constantly retiring as they grow old, and young men are constantly coming in.

In the case of a fixed group on the other hand, the wisdom of insuring them would be less obvious, because the group might break up and no one be able to tell exactly what had become of the individual members. Moreover, each member would be constantly growing older, and as no new members would come in, the average age of the members as a body would steadily increase.

ONLY FAVORABLE GROUPS ACCEPTED.

Of course, it is essential to the permanency of group insurance that only obviously favorable groups should be accepted.

In the groups we are taking the automatic withdrawal of old lives and the automatic introduction of fresh lives results in keeping the mortality rate substantially uniform. This is indicated by the fact that the rates charged on such groups show a tendency to remain substantially uniform.

The experience of assessment companies is very different from this. Those who drop out are usually the vigorous and the young. The old and infirm hang on. Hence, after a time the condition of such an organization becomes impaired, and it becomes more and more difficult to secure new members.

When Examinations Can be Dispensed With in Individual Cases.—In England certain companies issue policies based on a certificate of health from the applicant and a lay inspection with the additional safeguard that only part of the insurance is paid if death intervenes during the first or second year.

Careful Inspection Means Profit.—Considering the insurance business as it is generally conducted; that is to say, subject in each case to a medical examination, it is important to note that the mortality experience of a company will depend largely on the character of the examinations made by its physicians. Every properly managed company assumes that its actual death rate will be at least as favorable as that indicated in the mortality table on which its premium charges are based. This might not be the case if these examinations were made carelessly. But no skilfully managed company would be content if its death rate barely corresponded with its mortality table. Its aim is to make its examinations so thorough, and to select its risks so carefully, that its death rate shall be lower than that shown in its mortality table. Then large savings will be made and credited to surplus, and that will enable the company to make larger refunds (mis-