

Non-Cancelable Policy Observations

By G. S. Galloway, Manager American Service Bureau, Chicago.

Owing to the attention that is now being attracted to non-cancelable accident and health insurance by those engaged in accident and health lines, the following article will be of much interest:—

I firmly believe that the non-cancelable policy will become a fixture in the accident and health insurance field, and while I do not believe that it will ever enjoy the wide and almost universal popularity of the more familiar forms of accident insurance, yet it will doubtless be sold extensively by the life insurance companies and larger accident and health companies that sell the so-called commercial policies.

I find that many underwriters with whom I have discussed this subject seem to overlook the fact that the only real uncertain feature of the non-cancelable policy is the non-cancelable provision itself. The cost of every other provision in the policy is capable of exact determination by those underwriters who have had sufficient experience and who have reduced their experience to figures that may be used in making rates. Before you can undertake to issue a non-cancelable policy, you should have figures that will tell you just what changes you can safely make in present standard rates—on account of the liability exception periods that are provided for in most non-cancelable policies.

A Look in the Bank.

When you issue a non-cancelable policy you are looking into a very dark and uncertain future and the question of adequate reserves becomes of controlling importance. When you are dealing with the possibility of paying for total and permanent disability to claimants who may be anywhere from eighteen to twenty-five years of age, you have a very serious problem before you to determine what reserves may be necessary to take care of claims that continue through a long period of years. The possible liability involved in such claims is far greater than the average liability under life insurance policies.

Then you can also readily understand that the state insurance departments will not let you overlook this very important requirement as to reserves when you submit for approval a non-cancelable policy form. Then after determining what additional rate to charge for the non-cancelable provision of your policy, you are facing the further necessity of fortifying yourself with underwriting safeguards that are but little known in the average accident and health office.

As has been pointed out by other recent writers

on the subject, the appearance of non-cancelable policies on the market found a prompt welcome from many impaired risks.

A question of vital importance to a company that it putting out a non-cancelable policy is how to guard against the acceptance of impaired or otherwise undesirable risks, on the non-cancelable plan.

The losses under non-cancelable policies, particularly those having provisions covering the liability exception periods, will doubtless average much larger in proportion to the premium charged than losses under the usual accident and health policy. In fact, it is my belief that the possible liability under such policies will, as stated before, average much higher in proportion to the premium charged than losses under life insurance policies.

The average life insurance policy, I understand, is about twenty-five hundred dollars. If you get a permanent and total disability claim for one hundred dollars a month, it will not take long to pay out more than twenty-five hundred dollars. The premium rate for that one hundred dollars a month will doubtless be considerable less than the average life insurance premium. This point is mentioned merely to suggest the importance of careful underwriting.

Selection of Risks.

It would seem that the company writing the non-cancelable policy should employ every available means to make a careful selection of its risks.

The first and most important thing is the medical examination such as is required by life insurance companies. Next is the careful use of all available record information, showing impairments reported by other life, accident and health insurance companies, assessment associations and fraternal beneficiary societies. In other words, every possible source of information should be searched by the underwriter when assembling the facts concerning an applicant for a non-cancelable policy.

A risk that is reported impaired for life insurance on account of present physical condition, previous history, family history, habits or any other similar condition is also liable to be just as undesirable for an accident and health insurance policy on the non-cancelable plan.

Another equally indispensable facility of the careful underwriter is the confidential inspection report. The medical examiner must report the information that he finds on examination and rely further on the statements made by the applicant as to his past health, habits, family history and other points of equal importance to the underwriter.

All life underwriters and many of the leading accident underwriters regard the inspection report