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THE WAR INSURANCE ACT.

ADDRESS OF THE PRESIDENT, JAMES D. CRAIG.

The six months which have elapsed since our last meeting have been momentous ones. The complications and hazards in all the branches of insurance with which we are so deeply concerned have increased, and all of us have been sobered by our enlarged responsibilities. The largest insurance proposition ever considered has been adopted by the United States government in the form of its war insurance Act. The appropriation for the first year as apportioned by Congress under Sections 17, 18, 19 and 20 of the "Act to authorize the establishment of a Bureau of War Risk Insurance in the Treasury Department" is \$176,250,000. For the second year it has been estimated that the cost will be over \$380,000,000, contingent, of course, upon the war lasting through that year. To the above sums must be added the premiums to be paid by the men in the service themselves. On the basis of a million men the first year, each insured for the maximum sum of \$10,000 at a premium approximating \$80, the aggregate premium would be \$80,000,000. A few years ago, before we were educated to talk in hundred millions, and even billions, such figures would have staggered us.

The benefits provided were decided upon after a number of conferences with insurance experts, much of whose advice was followed. It must be a source of gratification to the members of this Society to know that the estimate of costs for the first and second years, as already given, was largely prepared by a Committee of Five, of which your President and one of your Vice-Presidents were members, while both of your Vice-Presidents have recently been working for the government on actuarial problems involved in other provisions of the Act. In addition to these, several of our

members have rendered great assistance to the government. One has been appointed a captain in the Army, assigned to the Treasury Department and has had an important part in the whole proceedings. While we would enjoy his presence at this meeting, we are glad to know his absence is the result of a call to France in connection with this government insurance.

In addition to family allowances which are simply conditional increases in salary, payable to various members of the soldier's family, the benefits provided under the Act follow, in general, both compensation and life insurance, although, strictly speaking, they are neither. Under compensation insurance the object is to indemnify an employee, in so far as it is practicable, for losses incurred in the industry through death or through partial or total disability. Such indemnity must consequently be based upon the loss, and is solely a function of the earning capacity. The government Act recognizes compensation principles in so far as it endeavors to indemnify against death and total or partial disability resulting in the performance of duty while in the employ of the government, also in making the benefits contingent upon the number and relationship of dependents, but ignores the principle of making this indemnity a function of the earning power. It was originally proposed to make the benefits contingent somewhat upon the remuneration paid by the government, but Congress eliminated this feature and provided uniform amounts, irrespective of the pay, so that the compensation allowed to the widow of a major is the same as that allowed the widow of a private. The financial loss incurred by men joining the Army or Navy, is not measured by the pay allowed by the government, and the actual loss from death or disability incurred by different men is not attempted to be gauged by the benefits granted.

Under the life-insurance part of the Act the benefit payable in installments in event of either death or total disability is in reality an additional compensation benefit granted by the government, in accordance with the usual basic principles of Workmen's Compensation, conditioned upon the employees paying part of the cost. In fact, Section 400 of Article IV of the Act commences:

"That in order to give to every commissioned officer and enlisted man . . . greater protection . . . than is provided in Article III, the United States . . . shall grant insurance against the death or total permanent disability of any such person . . . upon the payment of the premiums as hereinafter provided."

“The premiums as hereinafter provided” do not in all probability represent the entire cost, and under Section 20 the government appropriated \$23,000,000. The risk covered being so largely an occupational hazard of the most hazardous degree, with by far the larger proportion of the probable cost borne by the government, ought to be considered as part of the indemnities granted.

In the discussion prior to the passage of this Act, numerous criticisms were made, particularly against Article IV dealing with insurance. Those parts of the Act relating to allotments of pay, family allowances and compensation for death or disability were generally looked upon as valuable and constructive contributions to the great problem of the care of dependents, but there were serious and fundamental objections to certain features of the insurance part, and, unfortunately, when these were pointed out, attempts were made to divert the issue by endeavoring to make it appear that the insurance companies were antagonistic to the bill. We, as actuaries and statisticians, know this was not so. Can we not state here to the credit of those identified with company interests that they absolutely put behind them every thought of personal or company advantage, pointing out only those objections to the Act which should have been pointed out for the good of insurance, as well as for its continued development, and offering only those suggestions which were deemed to be for the general good.

In brief, it was pointed out that if the compensation benefits were not sufficient, they should be made so, while if they were ample, no further benefits were needed. In any event, no benefits should be offered under which discrimination was allowed in favor of those who were well able to protect themselves and which absolutely ignored those less able to pay. Other criticisms related to the loss of the insurance, unless applied for within 120 days, and to the forfeiture of the insurance in certain cases to the government.

This Act brings about a situation in government insurance quite the opposite from that to which private companies are accustomed. Throughout the country supervisory legislation is being enacted every year for the protection of policyholders, guarding their interests in almost all conceivable ways, not even permitting any contract to be issued without the express approval of the Insurance Department.

In this Act, however, the safeguards usually demanded of private companies have been given comparatively little consideration and the whole matter has virtually been placed in the hands of two officials.

Section 402 of the Act states:

“That the Director, subject to the general direction of the Secretary of the Treasury, shall promptly determine upon and publish the full and exact terms and conditions of such contract of insurance.”

When it is considered that an army of 2,000,000 men insured for \$10,000 each makes an aggregate of \$20,000,000,000 and that this is three fourths as much as the total insurance now in force in the entire United States in all life insurance companies combined, the power vested in one or two individuals is apparent.

The contrast between the supervision of a state over private insurance companies and the practice when a state enters the insurance business itself is not entirely new to us. The state of Wisconsin ignores its own insurance laws generally in connection with its own state insurance funds.

In favor of the Act, it was contended that the American soldiers as American citizens should be encouraged in private initiative, in self-help and self-reliance, and be stimulated to safeguard themselves against the inevitable things in the life of every man and not merely in the life of the soldier fighting for his country; also, that they should not be deprived of the power of making payment out of their pockets for their own protection in the future, and that there was not a single private in the war who could not afford, if he wished it, to take \$10,000 of insurance at the rate offered, to contribute to the support of his family and still have enough left for spending money in France.

The general criticism against placing excessive authority in one place has also been lodged against that part of Section 302 relating to partial disability, where the schedule of ratings as to the reduction in earning capacity is both adopted and applied by the bureau in charge. Under compensation insurance the awards are usually made by independent bodies or state commissions, but in this government Act the entire matter of preparing a schedule and of then applying it all rests in the same body with appeal only to the courts.

Under Section 302 where provision is made for total disability

various amounts of monthly compensation are given based upon the dependents, after which it expressly provides that certain particular disablements shall receive a flat compensation of \$100 per month. There is apparently no good reason why certain particular disablements should receive this special consideration. If compensation is granted in event of total disability, it ought to be sufficient to provide for all forms, and it is very probable that the clause as it reads, allowing \$100 a month, will largely nullify the specific benefits enumerated, because, after provision for "the loss of both feet, both hands or both eyes, or becoming totally blind," the words "or helpless" are included as one of the conditions under which \$100 a month shall be granted, and any strict construction of the law will probably hold that in any case of total disability, the soldier was helpless.

The vastness of this whole undertaking, both of compensation and insurance, combined with its general uncertainty, should make for conservatism and an endeavor to reduce the uncertainties to a minimum. It was suggested that the indemnities paid on the compensation basis be increased in value by \$1,000, \$2,000 or even \$4,000 or \$5,000 and be made to apply to everyone, in place of the optional insurance. This suggestion was not accepted. In preparing its actuarial report the Committee stated:

"The net amount payable by the government for the year ending September 1, 1918, would be \$46,000,000, if 25 per cent. of the men were covered for \$5,000 each."

It was subsequently thought that 25 per cent. of the men would take not more than \$2,500 of insurance and Congress therefore apportioned \$23,000,000, instead of \$46,000,000. Which is the nearer figure we do not know, but as far as we are able to discern from the present published returns, the majority of the men seem to be applying for the maximum of \$10,000. In the *New York Times* of October 24, 1917, the statement was made that twenty-seven applications had been received from the members of a single company for \$10,000 each, while in the *Economic World* of October 20, 1917, we read:

"The officers and men gathered at Camp Mills, N. Y., for example, are stated to have applied for the insurance virtually without a single exception, and, except in a trivial number of cases, for the maximum amount allowed, \$10,000."

In the *Bulletin of the War Study Society* of August 1, 1916, it is stated that France has had 885,000 men killed in the war and 2,115,000 wounded, of whom 634,000 are invalids, and it might be well to reflect upon the ultimate cost to this government if the war lasts long enough to cause any such losses. The loss from the sinking of the *Antilles* on its return voyage, with relatively few persons on board, will probably run into hundreds of thousands of dollars.

One fact stands out prominently. The importance and the indispensability of insurance has been officially recognized by the United States government. In the address of Hon. W. G. McAdoo, Secretary of the Treasury, delivered at the Annual Convention of the American Bankers' Association, at Atlantic City, N. J., September 28, 1917, is the following:

“When war comes to a nation the first essential is money. We must keep our soldiers and sailors armed and equipped with the best that money can buy and American skill devise. We must constantly provide them with necessary clothing and food; we must pay their wages; we must, as a humane and just Nation, support their dependent families while they are risking and giving their very lives for us; we must supply them with a reasonable amount of life insurance.”

Here the support of families and life insurance is considered in the same breath with equipment, clothing and food. Immediately after the paragraph just quoted follows an argument in favor of insurance. In this argument it is stated that when a nation reaches out and takes a man, in addition to conscripting part of his income and compelling him to leave his home, it also destroys the insurability of that man. Here we have an official expression of the high estate of insurance. It is not sufficient that a man be equipped and that he be clothed; he must also be insured. It is permissible to conscript his resources and to take him away from home and family, but his insurability must not be destroyed. Surely we can feel proud of our business and of its efficiency when, in these strenuous days of war, the governing officials feel constrained to consider it just as essential as the more spectacular necessities of arms and ammunition.

It is not possible at this early date to enter into a full discussion of the measure, but the above outline of some of the activities of the last six months has been drawn to your attention in order that

you may be more fully cognizant of the part your officers and fellows are taking and in the hope that if opportunity presents itself, you will at all times offer your services with at least a full realization of the immensity of the contract with which you are dealing and with the knowledge that, as members of the Casualty Actuarial and Statistical Society of America, you have had special training which should enable you to cope with large problems.