

November 1, 1948

SUBJECT: INSURANCE

TO: ALL AUTHORIZED INSURERS WRITING GROUP O[ILLEGIBLE WORDS] BLANKET ACCIDENT AND HEALTH INSURANCE IN THE STATE OF NEW YORK

Gentlemen:

Re. Group and Blanket Accident and Health Insurance Premiums

Following the issuance of an opinion by Deputy Superintendent Harris, dated October 15, 1948, a number of companies operating in the group accident and health field asked that the matter be reconsidered by this Department, which has been done. That opinion arose from the fact that certain companies had employed lower premium rates in New Jersey to provide group accident and health coverage under the so-called Cash Sickness Benefit Law of New Jersey than were charged in New York for comparable coverage.

We think that the situation is largely the result of the practice on the part of the companies writing this kind of insurance-in the interest of sound and conservative underwriting - of utilizing a rate structure which permits them to write practically all risks, irrespective of size or class. This means that if the initial rate is needed for some cases, it may be redundant for others and vice versa. Generally speaking, the problem becomes more emphasized as the size of the group increases. The business has met this problem - and buyers understand it - by adjusting the net costs for the various groups by means of a dividend or rate refund, depending on the experience of the plan, including the expenses thereunder. If lower initial rates were charged by reason of the grading of groups by number of lives, this would simply mean that in such cases smaller dividends would result. However, if this principle is adopted, it should be applied uniformly, not arbitrarily and not restricted to a single state. In the casualty business this situation has been met by the use of premiums graded by size of risk. Apparently the industry has not considered this principle as suitable to the group accident and health business.

This Department, in its effort to protect New York policy-holders against rate discriminations, does not wish to stifle experimentation nor do we want to discourage competition among private carriers and with state funds created under compulsory accident and health laws such as the New Jersey statute. If there are distinguishing features under the New Jersey plan which produce differences in expenses or claim experience, or both, it would not be discriminatory to charge different rates in New Jersey as compared with New York. Illusory differences, born of a desire to meet competition, are not enough. The differences must be real and tangible - capable of substantiation by factual proof. Failure to observe this requirement might well expose the pricing policies of the business to a justifiable criticism.

It has been suggested, however, that the compulsory feature, because it requires approximately 100 per cent participation, will produce more favorable morbidity experience than under voluntary plans and that this distinguishes plans, such as the New Jersey one, from the voluntary plans in use in New York and elsewhere. In answer to this, we point out that for many years accident and health group insurance has been written under policies providing 100 per cent participation, such as the non-contributory form. Further, many contributory groups have nearly 100 per cent participation. With this background of experience, it has not been demonstrated to us that there is any appreciable difference in the claim experience on 100 per cent groups or nearly so, than under groups with a lower participation, sufficient to warrant any substantial reduction in the premium rate.

Although the insurance benefits provided under the New Jersey plan are compulsory as compared with similar insurance written on a voluntary basis in New York, it seems to be agreed that the reduction in premium rates approximating 15 per cent cannot be justified solely by reason of the difference in expenses incurred, exclusive of commissions and taxes, in the two plans.

It is agreed that certain economies are possible under a compulsory plan in the collection, administrative and installation expense, particularly in the case of smaller groups, and such economies may be given effect in the premium rate. It was generally agreed by the representatives of the interested companies that the difference in over-all expense (including first year and renewal expenses) might reach 5 per cent of the premium. Even if it may be shown that there be a greater difference when first year expenses alone are compared, this would not be a proper basis for the reduction of premium rates. According to the information submitted, any difference in expense rate on larger groups under a compulsory plan and under a self-administered plan, is not significant.

A number of companies have made quotations on the basis of reduced rates under the compulsory plan of New Jersey without extending similar treatment in New York. As to applications taken and quotations made at lower' rates, I cannot recognize that such actions are in compliance with the law as interpreted by the aforementioned opinion, unless such premium reductions are consistent with the views pressed herein.

Very truly yours

[SIGNATURE]

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