

BOLESLAW MONIC FUND FOUNDATION

Prize Award

1974

DISABILITY INSURANCE

The class of insurance variously known as "Permanent Health Insurance", "Permanent Sickness and Accident Insurance", "Continuous Disability Insurance", "Non-cancellable disability Insurance", "Disability Income Insurance" etc. has undergone substantial development in various countries during the last decade or so.

Under policies of this kind, the private insurer undertakes to pay benefits on a stated scale in case of disability as contractually defined; as a rule the insured pays a fixed annual premium during the whole term of the contract (usually terminable at age 60 or 65), the insurer having neither the right to cancel the policy nor to adjust the premium, irrespective of the individual claim experience or the general claim experience of a given class of policyholder.

Experience has shown that there can be considerable changes in the disability risk. Factors such as:

- an economic depression;
- increasing claims consciousness of the public;
- the influence of liberal claim settlement practices of social insurance;
- medical progress;
- the effect of stress in modern society;

may have a considerable impact on the risk.

How and to what extent factors such as these, causing temporary or permanent alterations in the risk, can adequately and responsibly be taken into account in the rating has not been satisfactorily answered in the existing literature. There is in fact a growing body of opinion that non-cancellable disability insurance based on fixed premium rates cannot justifiably be transacted by a private insurer in view of possible changes in the underlying risk situation.

QUESTION

If long-term non-cancellable disability insurance at fixed premium rates is considered not to be technically feasible and it is thought necessary for the private insurer to retain the right to adjust premiums in the light of changing circumstances (but with the right to cancel the policy only if the policyholder does not accept the increase), how can the need for such adjustment be diagnosed in good time and how can the amount of the adjustments be determined by actuarial methods and/or methods based on credibility theory? Attention should also be given to the use of these methods as regards adjusting the reserves carried in the balance sheet in case a deterioration of the risk is revealed.

The method of periodic premium adjustment would also have to be justified to the public and be such that this class of business, which from the point of view of social desirability has so much to recommend it, would not lose its attractiveness.

N.B. In view of the many varieties of disability insurance transacted in different countries, entrants are requested to define fully the form of disability insurance they will treat in their paper and where necessary to explain their terminology.

RULES OF THE PRIZE AWARD

1. Awards totalling Dutch florins 8,000 (1st prize of D.fl. 5,000, 2nd prize of D.fl. 2,000 and 3rd prize of D.fl. 1,000) are envisaged for the best original and previously unpublished contributions on the above subject. The Committee of the Boleslaw Monic Fund Foundation, which will judge the entries, however reserves the right to divide the total sum made available for awards in a different manner or to withhold all or part of this sum, if in its opinion there is insufficient merit in the entries submitted.
2. The competition is open to anyone of any nationality whether or not directly employed in the insurance industry.
3. Entries must be typewritten and may be in English, French, German, Italian, Spanish or Dutch. They must be in the hands of the Secretary-Treasurer, Boleslaw Monic Fund Foundation,

c/o Nederlandse Reassurantie Groep N.V., P.O. Box 7846, Amsterdam, not later than 28th February, 1975.

4. Entries must be submitted under a pseudonym; under the same cover, but in a separate sealed envelope, a note is to be enclosed repeating the pseudonym and giving the name and address of the author.
5. The Committee of the Boleslaw Monic Fund Foundation will announce the awards as soon as possible after the closing date of the competition and in any case not later than 30th June, 1975.
6. The copyright of any entry which is awarded a prize will be vested in the Boleslaw Monic Fund Foundation. Entries to which no prize is awarded will be returned to the authors.

The Committee of the Boleslaw Monic Fund:

Sir George Maddex, Chairman
H. Ammeter
J. Engelfriet
E. Franckx
E. J. Slager, Secretary-Treasurer.