

CORRESPONDENCE.

MR. CHATHAM'S PAPER—THE REASSURANCE QUESTION.

To the Editor of the Transactions of the Faculty of Actuaries.

SIR,—Inasmuch as there appears to be a difference of opinion regarding the advisability of an office "B" agreeing to reassure *with* profits a without-profit policy effected with another office "A", I shall be glad if you will permit me to add the following to what has been said on the subject.

It is a principle now pretty generally accepted, that a reassuring office should not be asked to run a greater risk, in proportion to the sum assured, than the office effecting the reinsurance. I do not say that the principle is a correct one; but, if it be accepted, it appears to follow that Mr. Chatham's conclusion is sound.

In the discussion which followed the reading of the paper, Mr. Sprague drew attention to the fact that offices will as readily accept first-class lives on the one scale as on the other—not having separate standards for the two. This is admitted, and renders it, at first sight, not apparent why "B" (in our hypothetical case) should refuse to grant a participating policy when the proposer has proved his eligibility to the satisfaction of "A's" medical officer. It must, however, be borne in mind that "selection"—in so far as it affects the question under discussion—is exercised not by the office but by the proposer. In this instance the latter has selected the without-profit scale, and therefore it may reasonably be assumed that he will be subject to the heavier mortality apparently existing among the holders of non-participating policies. Now, Mr. Chatham's figures indicate that "B" would run the risk of having its bonus loading to a considerable extent expended in counteracting the effect of that higher mortality. "A" does not run this risk, and hence if equality, as between the two offices, is to be maintained, "B" cannot agree to "A's" proposition, unless satisfied that the table selected by the proposer has been chosen for some reason other than that supposed usually to influence the choice.

It only remains to be added that, while the above reasoning holds good, yet circumstances alter cases. The premium scales of the two offices may render the conclusion inapplicable in their case. It is just in those cases, however, that the reassuring office is *not* likely to be asked to consider the question.

The point is perhaps rather of theoretical interest than of practical importance.

I am, SIR,

Your obedient Servant,

JOHN EDGAR.

22 GEORGE STREET,
EDINBURGH, 12 *March* 1902.