IS THE RATE MAKING PLAN THE CHIEF TROUBLE WITH COMPENSATION INSURANCE?

BY

WINFIELD W. GREENE

It is hard to realize that compensation insurance, now regarded as the "black sheep" of the casualty family, was once considered an attractive and promising class of business. Nevertheless, a satisfactory underwriting profit accrued from the compensation business in its first years before employees generally became claim conscious. True, this initial prosperity soon waned, and black figures, changing to pink, then to red, prompted the substantial rate increases of 1917; but America entered the war, employment and wage rates were simultaneously augmented, and overnight, compensation insurance became once more a breadwinner, and, indeed, the chief support of the casualty group.

Alas, the memory of those brighter days but intensifies the present gloom! In the fateful year 1920, rate making authorities reached the conclusion that employers were paying too much for their compensation coverage, and sizeable rate reductions were accordingly effected. Since 1920, compensation pure premium cost has been progressively increased, first by the shrinkage of payrolls in 1921-22; then by the mechanization of industry, the liberalization in the letter and in the interpretation of compensation laws, and the rise in medical costs which went on quite steadily during the ensuing years; and, lastly, by the drastic payroll deflation and the increase in industrial disease claims which have taken place since 1929. Premium rates in terms of payroll have been increased at frequent intervals, but these rate increases have generally lagged behind the rise in pure premium cost, and, as a consequence, throughout the past ten or twelve years the compensation business has shown a substantial underwriting loss for the stock companies. The following figures, taken from Table IX, Part III, New York Insurance Reports, epitomize the underwriting results for the years 1923-31 in respect of compensation business for participating and non-participating carriers respectively:

TABLE I

Workmen's Compensation Insurance

Comparison of Countrywide Results for Participating and Non-Participating Carriers 1923-31

Year	Premiums Earned	Losses Incurred	Loss Ratio	Acquisition Cost Ratio	Other Expense Ratio	Total Expenses Incurred	Total Expense Ratio	Underwriting Gain	Underwriting Gain Ratio
Non-Participating Carriers:									
1923	$ 97,464,028	$ 65,845,066	67.6%	18.0%	24.0%	$ 40,976,678	42.0%	$− 9,357,716	− 9.6%
1924	110,158,840	78,799,661	71.5%	17.9%	24.2%	46,328,110	42.1%	− 14,968,931	−13.6%
1925	121,856,029	82,212,068	67.5%	17.8%	23.8%	50,715,499	41.6%	− 11,071,538	− 9.1%
1926	138,129,997	93,150,364	67.4%	17.4%	23.1%	55,871,967	40.5%	− 10,892,334	− 7.9%
1927	144,236,109	94,194,808	65.3%	17.8%	24.0%	60,161,026	41.8%	− 10,119,725	− 7.1%
1928	142,467,027	90,612,507	63.6%	18.1%	23.8%	59,728,600	41.9%	− 7,874,080	− 5.5%
1929	152,414,449	103,806,536	68.1%	18.3%	24.2%	64,718,200	42.5%	− 16,110,287	−10.6%
1930	150,222,959	103,392,278	68.8%	18.2%	25.3%	65,376,695	43.5%	− 18,546,014	−12.3%
1931	125,802,969	91,329,610	72.6%	18.6%	26.9%	57,292,085	45.5%	− 22,818,726	−18.1%
Total	$1,182,752,407	$803,342,898	67.9%	18.0%	24.4%	$501,168,860	42.4%	$−121,759,351	−10.3%
Participating Carriers:									
1923	$ 28,071,846	$ 18,721,488	66.7%	4.4%	18.9%	$ 6,529,418	23.3%	$ 2,820,940	10.0%
1924	32,139,814	20,416,047	63.5%	4.1%	18.5%	7,251,925	22.6%	4,471,842	13.9%
1925	34,206,818	21,126,111	61.7%	4.0%	18.0%	7,508,866	22.0%	5,571,841	16.3%
1926	39,658,451	24,726,474	62.3%	4.0%	17.6%	8,585,801	21.6%	6,346,176	16.1%
1927	42,784,173	26,564,333	62.1%	3.9%	16.9%	8,916,282	20.8%	7,303,558	17.1%
1928	46,342,793	30,268,065	65.3%	4.0%	17.3%	9,868,369	21.3%	6,206,359	13.4%
1929	49,833,307	34,678,537	69.6%	3.9%	17.5%	10,649,971	21.4%	4,504,799	9.0%
1930	46,136,057	29,136,198	63.2%	3.9%	18.8%	10,483,203	22.7%	6,516,656	14.1%
1931	37,745,496	24,897,705	66.0%	4.3%	20.9%	9,521,540	25.2%	3,326,251	8.8%
Total	$ 356,918,755	$230,534,958	64.6%	4.0%	18.2%	$ 79,315,375	22.2%	$ 47,068,422	13.2%

Above figures are from Part 2 of Table IX, New York Insurance Reports, Part III.

THE PRESENT COMPENSATION SITUATION

The above indicated underwriting results for the non-participating group, are in themselves sufficient evidence of the gravity of the present situation. In spite of the considerably more favorable results for the participating group, it is not too much to say that compensation insurance in the United States is at this time organically unsound; for no business is healthy when the major part of it is conducted at a loss. This comment might not be justified if a temporary period of unfavorable underwriting was the only untoward symptom. Such, however, is far from being the case.

The stock carriers, as a group, have never profited from their compensation business except during the early years of the Acts when the rates *happened* to be pitched too high, and again, during the war and immediate post-war periods, when payrolls were abnormally (and unexpectedly) inflated. The untimeliness of the rate reductions of 1920 was soon recognized, and in 1923, and in each and every subsequent year, efforts have been made to correct the rate level, but never with more than partially favorable results. A sharp revival of industrial activity, plus other "inflationary" or "reflationary" phenomena, may improve compensation underwriting results before the close of the current year, may conceivably turn the red figures to black; but there can be no assurance of a permanently profitable future for the compensation business of the stock companies as long as it is conducted upon the very lines which have produced the calamitous results of the past decade.

Aside from devastating underwriting results, other signs of insecurity in the compensation business are not lacking. There is a truce between stock and non-stock carriers as to the proper system of rates and rating plans, but fundamentally the two groups are at loggerheads as to what this system should be. Rate making bodies and the various state authorities having jurisdiction over premium rates have frequently been in disagreement, and time and again rate increases requested by the carriers' organizations have been denied in whole or in part. The business is subject to an abnormally high turn-over, a factor which is disturbing to both parties to the insurance contract, and productive of undue expense to the carrier. The expense ratio of the

business (generally greater for stock carriers than is the allowance for this item in the premium dollar) is so high as to be regarded by certain assured and certain supervising authorities, as unreasonable. Many of the more responsible assured have become "self-insurers", and thereby recorded their dissatisfaction with the value of full coverage as compared with its cost. The threat of monopolistic state insurance looms constantly, nor is this menace lessened by the dissatisfaction with the compensation business often voiced by insurance executives.

Some Solutions Hitherto Suggested

In discussions of the "compensation problem", the theme of *abandonment* is lately to be discerned with increasing frequency. As Sir Walter Raleigh is reported to have remarked of the headsman's axe, "This is a sharp medicine, but it cures all diseases!" Companies taking this step would assuredly end their compensation troubles; but there is reason to fear that such a "remedy", if generally applied, would not be beneficial to the casualty business.

1. Coverage of the compensation and the other liability hazards of any given risk *by the same carrier* is generally the most economical arrangement from standpoints of assured and company alike. If the stock companies as a group abandon the compensation business, they will be paving the way for loss of a large part of the related lines (automobile and other public liability and property damage) to the carriers that take over the compensation business.
2. Agitation for monopolistic state funds is perennially persistent and is not confined to compensation insurance. The demand for compulsory automobile liability insurance, coupled with a compensation scheme for automobile accidents and a monopolistic state fund, is equally strong. Relinquishment of the compensation business by the stock companies will add great impetus to this monopolistic movement in the automobile liability field.
3. It is hazardous to argue that because of the public's peculiar interest in the workmen's compensation system, com-

> pensation insurance is any less an appropriate field for private enterprise than are the other casualty lines. It is true that the public has expressed its concrete interest in the compensation plan through the enactment of the compensation laws, but, on the other hand, legislative bodies are constantly giving equally concrete expression to the increasingly active interest of the public in other lines of casualty insurance. The dividing line between those kinds of insurance which are strongly tinged with the public interest, and those kinds which are not, is rapidly shifting, if not fading out altogether; and any attempt to delimit the field of private insurance upon basis of such an uncertain distinction is bound to result unhappily.

Compensation insurance is a member which cannot be amputated without impairing the vitality of the entire casualty organism.

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Another widely advocated "solution", which might be termed the "doctrine of necessary evil", runs to the effect that compensation business is bad, that little can be done to make it better, but that the stock companies can endure the situation by limiting the ratio of their compensation volume to their other writings.

Compensation insurance results will have to improve greatly before the application of this theory will ever produce satisfactory results. During the years 1926 to 1932 inclusive, stock companies entered in New York suffered an underwriting loss, countrywide, of $105,241,107 on their compensation business, according to the summary of the New York Casualty Experience Exhibit compiled by the National Bureau of Casualty & Surety Underwriters. This sum represented 11.4% of the same companies' net compensation premiums earned, and 4.8% of the net premiums earned by these companies in the other casualty (a) lines during the same period. Accordingly, in order to "break even" on underwriting, these companies would have had to make an underwriting profit of 4.8% on such other casualty lines. As a matter of fact, the stock companies' underwriting result on

these other lines was a gain amounting to only 1.2% of the net premiums earned for such lines.

During this same period, compensation premiums represented 42.3% of other casualty (a) premiums for the companies in question. If a company with an average compensation experience was able to hold this ratio down to half the average, or 21.2%, the percentage of profit required on its residual casualty lines in order to absorb the compensation underwriting loss was correspondingly cut in two, i. e. reduced to 2.4%, which is still double the profit which was actually made on these lines. However, it is obvious that all companies cannot write less than the average quota of compensation; and it is equally clear that the stock companies cannot afford a 2.4% handicap in their general casualty underwriting.

The "necessary evil" theory, like the "abandonment" theory, is no solution, but is rather a confession of inability to overcome the difficulties of the compensation business.

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It has been contended that the solution lies in the establishment of *"one big carrier"* to handle the compensation business for the stock companies.

This very plan was tried for certain extra-hazardous classes of compensation risk, and it is a matter of record that the experiment was not a success. It is to be doubted that enough companies could be interested to warrant the launching of this project.

The plan has none of the virtues of private enterprise as normally conducted. To the extent of its adoption, the scheme would eliminate inter-company competition. The officials administering the carrier would be responsible to no single unit of invested capital, and thereby the chief safeguard to the well being of any corporate venture would be removed. Incidentally, the adoption of this plan upon any broad scale would constitute a strong argument for state-managed monopoly; for if competition,

(a) Excluding fidelity and surety, accident and health, and credit.

and thereby the incentive for efficient operation, is once eliminated from the business, what service will then be rendered by the companies, which, in theory at least, cannot be rendered equally well by a state bureau?

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Certain distinguished casualty executives have expressed the opinion that if the *compensation rate making plan* had been all that it should have been, the heavy underwriting loss, or at least the greater part of it, would have been avoided; and that hope for the future lies in the direction of improvement in rate making methods.

Like other man-made instruments, the rate making plan has been, is, and doubtless always will be imperfect; but it is fair to ask whether, in view of certain fundamentals which are beyond the control of the rate making bureaus, these bodies have not been presented with an impossible task.

Until comparatively recently, the stock carriers as a group opposed any substantial margin of safety in the rates because of the tendency on the part of the better risks to save such margin by switching to participating insurance, or to self-insurance. At the same time, stock company representatives insisted upon "adequate" rates. The resultant of these divergent desires was the doctrine of "right rates".

"Right rates", as understood by this writer, are rates so low that the difference in net cost to the assured between stock and participating insurance is inconsiderable, and yet so high that the stock carriers will make an underwriting profit. Since the combined loss and expense ratio of the participating carriers in the nine years ended with 1931 averaged 23.5 points lower than that of the non-participating companies, any rate maker who hits this target may rightfully claim his niche beside William Tell, Daniel Boone, and the other great marksmen of history! As long as the total loss and expense cost of the stock companies substantially exceeds that of the participating carriers, the former must either write at rates below their demonstrated costs, or subject themselves to further adverse selection, which again tends to increase costs; and this dilemma is one for which the rate makers are not responsible.

Is There a Better Pattern for the Compensation Business?

There is reason to believe that a study of life insurance practice might suggest helpful improvements in the compensation field. The compensation risk is a human one, not a property risk. Furthermore, the compensation insurance contract, even though undertaken nominally for a one-year term, creates a long-term relationship somewhat analogous to that of group life insurance, because the settlement of long-term claims protracts the company's contact with the employer and his employees over a considerable period.

The life companies as a group do not lack serious problems, but they are presently in a happier position than are the casualty companies. They have consistently enjoyed an underwriting profit (a). The life business is free from serious controversy, either with state authority or between companies, as to scale of premium rates. Life companies suffer a minimum of credit difficulties because they adhere to the policy of requiring payment of premiums in advance. The expense ratio of the life companies is low enough to avoid serious criticism; unlike the stock casualty companies, they compete openly in the matter of net premium cost; and, perhaps for these two reasons, they are not subject to the threat of state insurance.

Since the position of the life business is evidently more secure than that of the casualty business, it would seem worthwhile to present the attached comparison of certain of the conditions prevailing respectively in the two fields (see Table II). On the casualty side, this comparison is confined to conditions surrounding compensation insurance.

The comparison made in Table II brings out many points of difference between the conditions surrounding compensation insurance and those prevailing in the life field.

It is clear that whereas any given stock casualty company has virtually no control over the net amounts charged to its policyholders for compensation coverage, the individual life company enjoys considerable latitude in this respect.

(a) i. e., total "margins" (expense loadings plus mortality gain) have consistently exceeded total insurance expenses. Gain from surrendered, lapsed, and changed policies is an additional source of underwriting profit.

TABLE II

Comparison of Certain Operating Conditions — Compensation Insurance and Life Insurance

	Compensation Insurance	Life Insurance
Rate Levels	Level of *gross* premium rates pitched with intention of reproducing loss and expense costs of stock carriers (small emergency loading included in formula beginning 1931). In practice, inadequate to cover such costs.	Net pure premium rate level pitched in theory to correspond exactly to mortality to be expected. Practically, these net premiums provide substantial margin over normal mortality. Expense loading varies by companies, and is abundantly adequate if mortality margins are taken into account.
Uniformity of Rates	In "regulated" states, uniform for all carriers whether stock or participating (with a few exceptions). In non-regulated states, about the same situation in theory.	Participating carriers charge considerably higher gross rates than do the non-participating.
Commission Scale ("Acquisition and Field Supervision Cost".)	Stock companies are generally committed to a uniform scale of commissions, which is the same for both new and renewal business. Some of the non-participating carriers do not pay "Commissions" as such, but, instead, employ salaried solicitors. In general, the acquisition cost of the participating carriers is much lower than that of the stock companies.	Percentage-wise, there is little if any difference between the commission cost of the participating and the non-participating carriers.
Dividends to Policyholders	The greater part of the business is written by stock companies operating on the non-participating plan. The remainder of the business is written by various classes of participating carriers, including mutual companies, state-managed insurance funds, reciprocal associations, and a few participating stock carriers.	By far the greater part of the business is written upon the participating plan. Most, but by no means all, of the participating carriers are mutual companies.
Monetary Advantage to Policyholder in Continuing Policy Contract Beyond Anniversary Date	No such advantage.	Premium rates, dividend scales, and surrender values are so fixed that generally speaking, some equity is sacrificed where business is "switched" to another company.

TABLE II (Continued)

COMPARISON OF CERTAIN OPERATING CONDITIONS — COMPENSATION INSURANCE AND LIFE INSURANCE

	COMPENSATION INSURANCE	LIFE INSURANCE
State Supervision of Premium Rates	Premium rates subject to state approval in a great many states, including preponderant majority of states where there is substantial premium volume. With few exceptions, this means state requirement that there be a single set of rates for all carriers.	No direct state approval of gross premium rates, though companies charging less than a certain minimum scale are required to set up special premium deficiency reserves. This situation permits the difference in premium scales above referred to.
State Supervision of Reserves	Premium and loss reserves are both subject to theoretically rigid state requirements, but violation of the spirit of these requirements is hard to detect except upon examination of the records of the company, largely because compliance with the letter of the state requirements will not produce adequate reserves if the premium scale is not adhered to, or is inadequate for the business of a given company.	The loss reserve is a relatively minor quantity and so simple of determination that failure to set it up in full would involve outright dishonesty. The premium reserve, although elaborate in principle, is, in practice, simple of computation and easy of verification.

A stock life company may first make its choice between the participating and the non-participating plans. It exercises still further control over the assured's net cost through selection of (1) the basis of net premiums (pure premiums), (2) the expense loading formula, and (3) the dividend formula (if the participating plan is adopted). Accordingly, there is open competition among the life companies in the matter of the assured's net cost as contrasted with the condition prevailing in the compensation business where neither the individual (stock) company's loss cost nor its expense cost may under prevailing practice be reflected in the net amount which the assured pays for his coverage.

The compensation business is operating in a vicious circle. Relatively high cost to the assured brings about adverse selection against the stock carriers. This diversion of the better risks increases not only the loss ratio, but, through the thinning of volume, the expense ratio as well. The resulting high loss and expense costs are reflected in demands for rate increases, and, to the extent to which these demands are realized, the selection against the stock companies is intensified. The example of life insurance strongly suggests that this dangerous situation may be due to error in the concepts which have hitherto governed the conduct of the casualty business.

A More Elastic Operating Code

There is reason to believe that the stock compensation business needs not so much a new rate making plan as somewhat more elasticity in its fundamental operating code. Particularly, the following articles of this code seem to require modification:

I. *There shall be no competition between stock companies in respect of the assured's net premium cost.*

There always has been, and there is bound to be, competition in the matter of premium cost. If the avowed method of operation does not recognize this competition, it will still take place through such illegitimate devices as distortion of the rating plans, misclassification, failure to report full payroll, switching of payrolls from higher rated to lower rated classifications, and so on.

II. *A stock company shall not pay dividends to policyholders.*

Payment of dividends to policyholders upon the part of a stock company may run counter to classical capitalistic theory, but on the other hand, numerous American stock life insurance companies have been paying dividends to policyholders for many decades past with no apparent damage to their financial well being or to their status as members of the life insurance group in good standing.

The writer is of the opinion that the "repeal" or "nullification" of these two "noble experiments" would greatly facilitate the rehabilitation of the compensation insurance business.

It is hardly debatable that compensation insurance can never achieve well being as long as there exists the present wide divergence between the net cost (to the assured) of stock insurance and that of participating insurance. Doubtless such a difference may obtain in some degree without harm to the business, but the present differential is so great as to bring about the progressive selection against the stock carriers which has made the situation so unstable, and so unprofitable to the stock companies. Attempts have been made to bring this differential down to a reasonable point through modification of the rate making and rating plans but such attempts have accomplished little and it seems evident that all efforts of this kind can achieve but slight success as long as the expense ratio of the stock companies continues to be substantially greater than that of the participating companies.

Can the stock companies hope to reduce their compensation expense ratio to a figure approaching that of the participating carriers? There is no inherent reason why this could not be accomplished within a reasonable time, but evidently it would require the following steps:

1. *A substantial reduction in acquisition costs on compensation business and possibly on related liability lines.*

   Present stock acquisition costs on compensation business constitute a bar to even approximate parity in expense ratios as between the stock and non-stock groups. (See Table I).

2. *Withdrawal by any given company from territories where such company has no reasonable prospect of a compensation volume sufficient to support an adequate service organization.*

Compensation insurance is a class of business which cannot be conducted successfully as a side line. No matter what operating plan is adopted, there is only trouble ahead for any carrier which enters or continues in this field without an adequate service organization, which must include competent specialists in the fields of underwriting and rating, safety engineering, medical service, claims handling and auditing. Such a well-rounded organization cannot be maintained profitably in any territory where a given company has less than a reasonably substantial volume of compensation business.

Up to this time, there have been undoubtedly too many companies in the compensation field and to an even greater extent too many compensation carriers in any given area. The result has been not enough trained personnel to go around. A reduction in the number of carriers operating in each territory would enable the companies which continue in the business to improve their operating standards and at the same time reduce their overhead expense ratios.

Doubtless it would be better for some companies now writing a small or scattered compensation volume to withdraw from the line altogether. Agency pressure may be holding such companies in the compensation field, but if this line once becomes a paying proposition to the companies that are fully equipped to write it, the other companies will be able to cut it out without serious effect upon agency plant.

3. *The adoption of some plan whereby stock company assured will over a period benefit in some degree from economies in the loss and expense costs of the carrier.*

Two logical alternatives are here presented:

A. Adherence by carriers of all classes to a single rate level with the stock companies operating on the participating plan.

B. A lower rate level for non-participating companies than that charged by participating companies. Any given stock company could then choose between the participating plan on the one hand and the non-participating plan with its lower rates on the other.

The adoption of all three of these measures could hardly be expected to bring about the millenium immediately, but the reduction of acquisition costs, coupled with the withdrawal from territories where the service lines of the individual companies are now too widely extended, would yield tangible savings at the outset and the achievement of a normal loss ratio might reasonably be expected to follow, once the present selection against the stock carriers is arrested.

It is likely that the changes in policy just discussed might pave the way for the elimination of rate level controversies from the compensation business. If the stock companies are pledged to the policy of granting to the assured through dividends or through rate differentials a fair proportion of savings in operating costs, why should state authorities oppose the adoption of abundantly adequate premium rates? If rate controversies could be done away with, as they have in life insurance, the resulting benefits to the business would be many. Since the level of cost to the assured would be determined through competition, the operating expense of rate making bodies could doubtless be reduced and these organizations could still do more and better work upon the constructive task of evolving equitable rates and rating plans. At the same time, state supervising authorities would find themselves in position to devote more intensive effort to their most important function, namely, the protection of the insurance public in respect of the adequacy of reserves and the general financial soundness of the carriers.

As regards the matter of reserves, it may be well to point out the importance of a single uniform standard, even if uniformity in premium rates is not required. The mechanics of uniform premium and loss reserve requirements would not be difficult, provided that any scale of non-participating rates bears a known percentage relation to the standard participating rate scale. It should go without saying that the approval of a rate scale lower than the standard participating scale should be conditioned upon statistical proof that the total costs (loss ratio plus expense ratio) of the applicant company warrants such lower rates.

Further Suggestions from the Life Field

Life insurance practice suggests two other reforms which might profitably be considered by the casualty business, not only with

regard to compensation insurance, but with respect to other lines as well.

1. *The Credit Problem.*

Credit difficulties have been a serious handicap to the casualty companies during the past few years. The total credit loss is not a matter of public record, since it is not confined to "Agents' Balances Charged Off", but includes the cost of "free insurance" which is concealed in "premiums on policies not taken" and "return premiums on policies cancelled". Aside from the direct monetary loss to the companies, the unsound credit situation has subjected home office, branch office and agency staffs to untold wear and tear, and has been seriously destructive of the morale of the business. In the life business, the credit problem is not a difficult one. The assured may pay his premium for a year, for half a year, or for only three months, but in any event either the premium is paid in advance of the term to which it relates (or within the period of grace permitted by the policy), or the policy automatically lapses. Why should the lapse principle not be adopted in the casualty field? True, its application might require a broader use of the installment plan of premium collection, but it would seem better to get the premium in installments than to extend coverage for which no premium is received.

2. *Tenure of the Policy Contract.*

It is now the practice in the casualty field to write an entirely new policy contract upon each yearly anniversary date. This practice is not only expensive, but it is disturbing to the insurance relationship, and the labor of preparing and delivering the new policy constitutes only part of the waste involved in this plan. The issuance of a brand-new contract encourages the assured to feel that the anniversary date is an appropriate time to "shop around". On the other hand, the issuance of a contract of indefinite term with appropriate cancellation provisions, endorsed from time to time to reflect changes in rates and policy conditions, would promote a sense of continuity in the contractual relation which would be of real value to both parties. Further than this, would it

not be worth while to consider ways and means of making "switching" unprofitable to the assured? Companies operating on the participating plan might properly require that the dividend to the policyholder shall be in part contingent upon continuance of the contract beyond the anniversary. A similar device could be employed in the case of non-participating contracts in the form of a cancellation fee equivalent to some portion of one year's difference between the standard participating rates and the scale of non-participating rates charged under the contract.

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The writer has done his best to demonstrate that the root of the troubles in the compensation business lies not in the rate making method but in the fundamental operating plan of the business; that both internal analysis and a comparison with life insurance conditions indicate that no permanent betterment can be accomplished without cutting acquisition cost, reducing the number of carriers in any given territory to a point where there is enough business to go around, and sharing the resulting economies with the assured; and that if open competition as to net premium cost were to take the place of the present rate level controversies, there might be anticipated a greater degree of stability and with it the opportunity for more efficient, economic and constructive operation.

Throughout the recent depression, industry has been engaged intensively in the endeavor to discover operating methods which will produce a profit even under unfavorable economic conditions. Action has crowded on the heels of research and outworn methods and obsolete machinery have both been ruthlessly scrapped. The business of casualty insurance cannot afford to ignore this heartening example. The present is no time for rigid adherence to the tenets of the past, save to the extent to which they have proved their merit in foul weather as well as fair.

Nor should we defer forthright dealing with the compensation problem because of the hope, or even the expectation, that better general business conditions are just ahead.