

ABSTRACT OF THE DISCUSSION OF PAPERS READ AT
THE PREVIOUS MEETING

EMPLOYMENT AND UNEMPLOYMENT—

W. R. WILLIAMSON

VOLUME XXVII, PAGE 256

WRITTEN DISCUSSION

MR. CLARENCE A. KULP:

This paper of Mr. Williamson may very well be a landmark in the history of this Society. It is hazardous to prophesy—25 years ago social insurance to a distinguished President of this Society seemed just around the corner—but it would be an excellent thing both for the actuarial profession and the institution of social insurance if this paper were the first of a notable series.

The paper is centered essentially around two ideas: limitations on the application of actuarial methods to unemployment insurance and related social services; the need nevertheless to apply this method, primarily to secure more exact information about the operation of the federal-state system of unemployment insurance, principally of its costs and the capacity of the employed group to absorb these.

Illustrative of the first point is the discussion of the essential indefiniteness and relativity of the concept of unemployment itself, and of its *alter ego*, employability. The author contrasts the current German concept of employability, which results, often by means we in this country are still a long way from accepting, in a population 60 per cent gainfully employed. This might be called the authoritarian or planned economy concept of employability and employment: everyone is employable who has half a leg to stand on, and entirely without relation to his preferences or former living and work standards. This approach produces the highest practicable ratio of working to total population. Near the other extreme of the range Williamson places the United States under "normal" conditions, with less than 40 per cent of gainfully occupied to total persons. The concept of employability actually depends indeed not only on the country and political-

social system but within a country on the state of the labor market, on the relative demand for and supply of various kinds of workers, on the level of the unemployment insurance fund and on a dozen other factors. It is inevitable that unemployment therefore lacks and will always lack the relative definiteness and objectivity of such events as loss of life, industrial accident and automobile liability loss. Statute and administrative regulation can do something to mitigate these lacks, but in the nature of the case these must also be arbitrary in the sense that a line must be drawn at some point but that could be drawn with equal logic at a half-dozen or a score of other points. The task of the actuary and the statistician is not helped of course by the multiplicity and variety of state laws and state administrative standards in this country. There is no plea in the Williamson paper for federalization of unemployment insurance or even for uniform coverage in state unemployment insurance laws, but one of these would seem essential in order to overcome the "diversity" of data inevitably produced by the current system.

The author characteristically does not tarry over the imperfections of the data nor ask us to wait for better statistics as a prerequisite to beginning actuarial work in the new field. The objective of the actuarial approach seems to be twofold. Primary is the task of "cost determination," the provision of quantitative materials on "the number of individuals covered . . . the amount of time worked for each employee . . . the income which determines tax receipts, the extent of unemployment with sufficient data to determine the facts of benefit receipt." So much is clearly the task of the actuary as against the statistician strictly regarded: the emphasis on cost, on the measurement of a hazard, on the equating of benefit and contribution. A second objective is to provide more exact and meaningful data on the state of the labor market: the number and quality of workers of various skills, experience and training available on the one hand and sought by employers on the other. The actuary is for example to supply information on "unused man power [in] the current defense emergency."

Now, from one point of view this second objective, although it is not squarely the job of the actuary, may be regarded, if he does not roam too far from costs, as a natural extension to or

incident of the actuarial task. There are a number of indications that the author regards it quite as important as, and perhaps independent of that of cost-calculating itself. The case here for major emphasis on this second function is both explicit and implicit. Illustrative of the first is the need of the defense program we have cited; of the second, favorable reference to the program of "old age and survivors insurance [which] punctiliously shows for . . . individuals specific amounts of earnings . . . ;" and to early unemployment insurance laws "varying benefits in accordance with work history over many years," with the consequent product of "a considerable volume of case histories most helpful to long-range cost analysis." At the point suggested by these functions and objectives, it seems that the actuary leaves off and the labor market statistician takes up. The latter considers himself as definitely a professional as the actuary, with his own requirements for admission to his guild, his own concepts of appropriate subject matter, his own professional standards. I should be opposed to this proposed extension of the actuary's function indeed for a second reason. The author as we have seen strongly suggests that unemployment insurance benefits should be related more directly to the individual's work history and the benefit base extended over a longer period of time. Whatever one may think of the propriety of individualizing, and extending in depth as it were, the records of our labor personnel—carried in Germany to the Arbeitsbuch or labor passport for each worker, with a complete work, skill and wage record for a working lifetime—a parallel approach in unemployment insurance is quite a different matter. There is no standard formula of course. Here, as in every social insurance, each nation must achieve an operating compromise between the always more or less inconsistent and sometimes opposing objectives of a degree of individual equity on the one hand and of the requirements of broad social policy and administrative practicality on the other. But everywhere unemployment insurance in the nature of the hazard is more nearly pure mass insurance, with the corollaries of a minimum of accounting and actuarial refinements and of emphasis on individual equities, than any other. Comparatively, an old age and survivors insurance system is a simple bookkeeping operation. The time may come when we shall swing back to a

longer case record and to greater emphasis on these equities, as Williamson suggests perhaps through the freezing of benefit rights during the emergency. We have of course not finally arrived at the best of all possible unemployment insurance contribution-benefit formulae. It is important that, whatever we do, we keep in mind the distinctive differences between a record adequate for unemployment insurance and one adequate for labor market analysis.

MR. GRADY H. HIPPIE :

It has been most encouraging to note that able actuaries have had the courage to submit papers to the several actuarial societies during recent years on various phases of social insurance problems which generally had not been included theretofore within the scope of actuarial investigation. It is most appropriate that a paper has been submitted by Mr. Williamson to the Casualty Actuarial Society, which society should be a leader in studies of all the forms of social insurance. His paper outlines actuarial and statistical approaches to the problems connected with the social insurances. It is tremendously worthwhile to have an able actuary with valuable training and experience outline the social problems connected with unemployment.

The brief references made by Mr. Williamson to the governmental agencies dealing with unemployment and unemployment insurance are very interesting. The nature and extent of the research and analytical work undertaken by governmental and private agencies are but little short of amazing to persons not associated with the work.

Workmen's Compensation, a branch of the social insurances with which the Casualty Actuarial Society has been chiefly concerned, has developed over a long period of years to a far greater extent than have other social insurances. It is quite likely that if the other social insurances had developed to anything like the extent of Workmen's Compensation, an appreciable percent of the benefits which have been paid as Workmen's Compensation would have been transferred to some of the other social insurances—in particular, unemployment and sickness insurance.

It seems reasonable to start from the premise that the whole community must accept the responsibility to provide at least a minimum standard of subsistence for all its members. As to the best means of attaining this end, we must expect a variety of views. Notwithstanding the marked extent to which various social insurances have already developed largely through the activities of governmental leaders at Washington, we cannot afford to accept blindly the present situation as our ultimate goal. It is to be hoped that actuarial analyses and studies will in due course make it possible to present facts which will indicate the forms of social insurance which are most worthwhile, the weakness and strength of each form of social insurance and which, if any, form might better be abandoned in favor of other forms of insurances or benefits. I believe there has been no hesitancy in the past and that there will be no hesitancy in the future in presenting facts which are disclosed by investigations and analyses.

It is possible that outright relief or public assistance will be found to have far better psychological and economic consequences than some of the forms of social insurance. Individual initiative, the will to work, and the satisfaction arising from a sense of independence must not be stifled. It may require many years of study, investigation and experimentation to answer definitely some of the simplest questions relating to the merits of the various forms of social insurance.

It is most important that workers be brought to a realization of the fundamental fact that the coffers of the states and the nation are not inexhaustible and that every dollar spent by the Government for social benefits or otherwise must be collected from individuals, corporations and employers generally who do not have an unlimited ability to pay taxes.

It appears that the direction of the social insurances is becoming more and more centralized in Washington. Mr. Williamson points out that the strategy of the tax offset has been effective in developing unemployment compensation programs in all the states. No state can afford to refuse to adopt and to continue an unemployment compensation program. This is considered by many to be an encroachment upon states' rights. This view deserves careful analysis and consideration.

As Mr. Williamson points out, it sometimes seems that relief administration has recently become one of the nation's major industries. It seems to me that far too little attention has thus far been given to the tremendous overhead expenses which are necessarily involved in the administration of various social insurances. Any unnecessary overhead expense is pure waste. Should not greater emphasis be placed on this phase of the problem? Perhaps there is some less expensive angle of approach to the problem of unemployment which might attain substantially as good or better results. I think it is pertinent to inquire whether the need for relief and for unemployment and other social insurances could be greatly reduced, if not eliminated, in some instances. Fundamentally the most effective way to deal with unemployment is to prevent it. It may be feasible to find a practical means of at least reducing unemployment substantially by marshalling the intellect, the capital, the employers and the resources of the nation in such a way as to accomplish in large measure the desired objective.

First, make it possible for employers to give employment to laborers under decent working conditions. If then deficiencies appear, it will be time for the states or the nation to cover the indicated needs through relief or programs of social insurance.

I think it is reasonable to assume that employers in general dislike unemployment almost as much as do the workers. It would, therefore, seem that at least as much emphasis should be placed on solving the problems of the unemployment of capital or the unemployment of employers as is being placed currently upon unemployment and other social insurance benefits. An actuarial approach to the economic problems should be most welcome.

There is a dearth of material in the proceedings of actuarial societies on the unemployment of capital. Would it not be most desirable to stimulate actuarial consideration of the problems involved in the employment of capital, particularly insofar as such problems relate to employment and unemployment of workers? Actuaries must become more accustomed to working with basic data which are far less exact than the data with which they have generally worked in the past.

Carefully planned census studies of industry, industrial capacity and economic needs of the nation should be helpful in any

endeavor to solve the problems of the unemployment of capital as well as the unemployment of labor.

There are ample governmental public and private agencies, if they can be properly coordinated and directed, to classify and analyze industrial plants, industrial processes, machines and tools, resources of raw materials, skilled workers, common laborers, technicians, research workers, and last, but not least, the employers themselves.

The planning of the necessary analyses and studies of the nation's capacity to produce commodities, raw materials and food would require ability of the highest order, but I have no doubts that men with such ability are available.

If adequate analyses are made available, is it not reasonable to hope that industry, agriculture, public works, etc., can be geared to such a level or varying levels as to reduce unemployment to a minimum and greatly lighten the load on relief agencies?

If the states can be brought into line as they have been on unemployment and other social insurance programs, is it not reasonable to assume that industry, agriculture, capital and labor can be brought into line by somewhat similar means of tax offsets or otherwise to conform more closely to a broad pattern of production and operation which is best for the social welfare of the nation? Some control or direction of production in a particular line or lines of industry may be helpful. Overproduction of either necessities or luxuries may be as harmful at times as underproduction at other times.

If facts can be brought to light through analyses of the varying needs of the nation, it may be within the realm of possibility that a feasible means can be found to direct and control in a broad way the numbers of specialists, scientists and workers trained for particular professions and vocations. Possibly the development and growth of factories, farms and mines can be controlled and directed within certain broad limits in such a way as to avoid acute crises. Dying industries might be revived or diverted into other channels of productivity. Financial assistance might be given to employers or industries under certain circumstances.

Perhaps it is no mere Utopian dream to picture a stabilization fund for industry, agriculture, mining and governmental under-

takings which could be more easily, simply and less expensively operated than a stabilization or unemployment insurance fund for workers. A stabilization fund for industry could be used to aid employers when their particular industry or class of business is in a depression even though the remaining industries might be prosperous. Such a fund might be made the means of aiding in the liquidation of dying industries or in making it possible for them to change over to other lines of production. Call it subsidy, if you will, but there is just as much reason for subsidizing industry in order to promote employment as there is for subsidizing labor to relieve unemployment.

A stabilization fund for industry might become the means of leveling down the peaks of prosperity and leveling up the valleys of depression. The results of research work might be made more readily available to industry for the purpose of stimulating the production of new or better products. In the long run, anything that may be done to promote the proper employment of capital would be highly beneficial to industry, to workers, and to the country generally.

Public works should be so planned and timed that they would be of aid in picking up slack in employment during periods of depression.

The movement to key changes in wages and salaries to changes in the cost of living will probably have far reaching consequences in the future. An increase in wages for W.P.A. workers was recently announced for the purpose of offsetting the rise in the cost of living. Many employers have made changes recently in wage scales and salary scales based upon changes in cost of living.

Actuarial analyses of this and of other problems of employers should prove to be of equally great value to workers as actuarial analyses of unemployment problems. The broadening of the scope of work of actuaries should be welcomed. Through making sound analyses of the problems of employers and by clear presentation of the facts, actuaries may even become pioneers in social and economic developments.

Successes in wars apparently have become more and more dependent upon statistical and actuarial analyses. Mr. Williamson points out that the major reason for the current analysis may be the defense emergency and the need for a maximum use of

available man power. We must agree with him as to the desirability of knowing more about the reserves of labor and of applying actuarial analysis.

In October, 1941, the daily newspapers gave a prominent place to a statement of the British Minister of Labor regarding the need of accurate statistics in effecting changes in Great Britain's mobilization of man power.

Is it not of at least equal importance to know more about the reserves of capital and of employers and to apply actuarial analysis? We must have not only mobilization of man power but mobilization of employers, machines, equipment and capital necessary for the production of materials for both war and peace.

In regard to the transition from the emergency to peacetime activities, I believe that actuaries generally will fully agree with Mr. Williamson as to the need of maintaining a thoroughgoing control record system as to the occupations which can be handled by transfer from the then less important defense industries. I think it is equally important to have a record system as to the machinery, materials, manufacturing processes, employers and capital which can be transferred to proper channels of peacetime production.

MR. ROBERT J. MYERS :

Mr. Williamson has devoted his paper to that important topic which fortunately, or unfortunately, all of must be deeply concerned with if we intend to live, eat, and dress in our accustomed style. Formerly, employment and the lack thereof were matters of purely individual concern. In fact, in the very earliest days of history, when society was so individualized, there was no such thing as lack of employment but rather lack of sufficient time to devote to working and producing. Industrialization has, along with its many benefits brought the type of lack of coordination which we term unemployment. Governments have gradually attempted to solve this problem, but frequently it appears that the problem has only become worse. Since economic matters can not be analyzed in test tubes as is done by the physical scientist in his research, it is impossible to determine whether government intervention has actually made matters worse, or whether

it has helped to prevent them from becoming even worse than they might otherwise have been. In the next few years, the defense program may pretty well eliminate the immediate problems of unemployment, but there is the specter of the future to be coped with. At any rate, Mr. Williamson has given a very adequate description of the several governmental agencies dealing with the problem of employment and unemployment.

Of particular interest are the charts which Mr. Williamson presents in the latter half of his paper. Too frequently economic discussions of "work" are strictly qualitative in nature, but Mr. Williamson has introduced a quantitative outlook by building up plausible statistics where actual ones are not available. The research economist is highly desirous of obtaining actual data on the various categories of employment and unemployment sketched out by Mr. Williamson, but from practical view-points, it may be too expensive a matter to collect and tabulate so many classifications. As a pioneering venture plausible estimates are the best procedure. An even more interesting display could be made by a three-dimensional chart projecting the several populations according to work status in different calendar years.

Chart II is a schematic representation of the covered labor force ranked according to "efficiency" in maintaining covered employment in an "average" year. It may be considered as indicating the average employment status of 100 different equal groups arranged according to the amount of covered employment. Thus, the "aristocracy" of covered employees, the upper 10 groups, are employed full time in covered jobs. The next lower 10 groups lose possibly only a day or so of employment. In fact, even the 45th group from the top has employment in all but two weeks of the year. From this point on, there is a rapid drop until for the "have nots" the amount of covered employment is quite small. For instance, the 10th group from the bottom has only about eight weeks of covered employment on the average, and more than 50% as much unemployment; of course, a large number of individuals in this group have non-covered paid work.

In considering unemployment compensation, Chart II is perhaps the most interesting one, since the areas of potentially compensable unemployment may be compared to the period of covered employment. As may be seen, Area D is quite small as

compared with Area A. By crude calculations, I have determined that the ratio of D to A is about .032 which indicates that the cost of unemployment compensation benefits averaging half-pay is about $1\frac{1}{2}\%$ of pay-roll or well below the usual net contribution rate of 2.7%. Of course, it should be recognized that this chart is crudely based on the experience of 1940, a year of relatively good employment and a year of even better unemployment compensation experience, since employment is rising and taking up the slack of recently unemployed workers.

Further indications as to unemployment compensation costs may be obtained from Chart II; Area C, representing the waiting period, is practically negligible in size. This seems to indicate that the waiting period could be shortened even further without too great an increase in cost; however, by so doing, we might change the shape of all of the curves somewhat, because there would be less incentive to get a job as quickly as possible. Area E, which relates to the period following exhaustion of benefit rights, is, on the other hand, rather large, being almost the size of Area D. This indicates that payment of benefits during the entire period of unemployment without any duration limit whatsoever would, roughly, double costs under unemployment compensation. Here again, such a change in the unemployment compensation program might drastically affect the shape of the curves, so that Area D might become several times as large as it is shown. Likewise, Area G, representing unemployment of those who had too little covered employment to meet the eligibility conditions for benefits receipts is rather large as compared to Area D, roughly 4 times as great. This indicates the huge financial burden present if all unemployment were to be compensated through this program. The present system has considerable of the individual equity element present as compared to a "Townsend Plan" type which would pay benefits to all unemployed as a right rather than through relief channels.

In view of the heightened defense efforts since Mr. Williamson prepared his paper, it would be interesting to have him make further comments on employment and unemployment conditions in the immediate future and especially after the cessation of the war.

AUTHOR'S REVIEW OF DISCUSSIONS

MR. W. R. WILLIAMSON*:

All three discussions, by Mr. Myers, Mr. Hipp, and Mr. Kulp, are helpful contributions on the subject of employment and unemployment.

Mr. Myers's use of numerical relationships drawn from the charts gives a definiteness and directness which the charts themselves lack. He suggests the possibility that our cures "may tend to increase the disease." He asks about the post-war emergency.

Mr. Hipp's comments included discussions of (a) the possibility of a jurisdictional dispute between the social insurances, (b) the importance of a flexible concept of social insurance, (c) the possible danger in benefit programs to individual initiative, the will to work, and an adequate sense of independence, (d) the limitations of too great centralization, (e) the importance of overhead expenses, (f) the necessity for an attitude of prevention or conservation.

His conclusion as to the relative importance of work and relief, as to the fact-finding techniques, as to the training of enough professional men, as to the importance of the employer, are all extremely pertinent.

Mr. Kulp's vivid discussion includes two points on which he essentially invites my comments, (a) the doubt as to the correctness of the actuary's excursion into the field of the labor market statistician, (b) the doubt as to the wisdom of more individual benefit variation in order to reflect past work histories.

With the first I have no quarrel. There is a hopeful suggestion in the sampling methods now used by the W.P.A. in the direct inquiries of the Bureau of the Census that measures are afoot to discover for us more information about employment. When no fact-finding function has been adequately developed in any existing agency, the actuary has had to make up for the omission, and is not excused from developing statistical displays merely because such development would bring him into criticism. Moreover, he may not merely accept the illustrations prepared by other groups without a full study of the significance of such data.

* The opinions as expressed in this article are those of the author, and do not represent the views of the Social Security Board.

I probably am less enthusiastic than Mr. Kulp about an increasing individual equity in unemployment insurance. I do feel that the size of the family should be recognized in benefit determination. I suppose it inescapable that some variation in benefit has to occur because of the wide range in living standards in different portions of the country, particularly the differences between urban and rural costs of living.

The Canadian venture into unemployment insurance has emphasized individual equity to so pronounced a degree that, I feel that they too should reduce the accent on this function and increase their recognition of presumptive need because of size of family. They happen to have a rather nominal recognition of dependents, quite inadequate to differentiate between the bachelor and the man with a large family. It appears that the legislation was completely ignorant of my Casualty Actuarial Society paper on social budgeting and its thesis that social insurance does not function in terms of banking. I am as little impressed by the effort at securing pronounced individual equity in unemployment insurance as I would be to find the payments under fire or casualty insurance reflecting the past duration of my premium payment history. Instead, I favor the utmost of simplicity and directness, together with such benefit levels as will encourage return to employment.

Mr. Myers's inquiry about the post-war emergency leads to a statement that I should like to count upon our continuing our new-found work habits beyond the duration of the defense requirements. It seems certain that, under some form of assistance, we shall pay benefits to the unemployed, and that, so far as our combined relief, assistance, and insurance benefits structure developed, there is no question about escaping the cost of this burden. Therefore, it seems much more constructive, even as Mr. Hipp suggests, to keep the potential unemployed at work, by transferring them from the slowing-down defense industry over to the normal lines of production. We citizens who are paying all the bills recognize that the major reason for our tremendous increase in national debt is the maintenance of millions of citizens and their families in idleness. Not in this fashion will we secure for ourselves adequate, sound, up-to-date housing,

well-built, modern roads, complete flood control, and the other recognized needs of the people.

I am inclined to doubt the need of additional agencies for the payment of benefits, sponsored by an unwise belief in a post-war depression greater than our pre-war depression. I trust that our insurance knowledge as to the danger of too ready a payment to claimants may help to avoid a type of benefits so apt to demoralize our citizens.

The W.P.A. has recently been releasing a new type of report on employment and unemployment. The last to come to my attention is Special Memorandum No. 6, dated October 27, 1941, on "Worker Resources of Households," and a discussion released in October 1941 on "Sampling Procedures and Method of Operation in the W.P.A. Monthly Report of Unemployment."

In the paper I referred to questions asked by the Bureau of the Census in reference to employment and unemployment. Preliminary reports based upon the 5% sample have now been released by the Census. We are making preliminary charts to show the relationship of employment, unemployment, and the various reasons why people remain outside of the labor market.

From these two Governmental organizations there will develop considerable conflict in the apparent extent of unemployment, a conflict which I believe to be the beginning of a more thorough understanding as to the facts in this important area.

CONCERNING THE RELATION BETWEEN THE COST OF TRAFFIC
ACCIDENTS IN A PARTICULAR COMMUNITY AND THE

CONDITIONS THEREIN—

ALBERT W. WHITNEY

VOLUME XXVII, PAGE 285

WRITTEN DISCUSSION

MR. D. J. LYONS:

Mr. Whitney's paper deals with a subject which he is most competent to discuss. Previous papers presented by him, not only to this Society but to the Actuarial Society of America, as well, indicate that he has given much careful thought to the rating of risks for the various kinds of insurance. This particular

paper reminded me of one presented by Mr. Arthur Hunter to the Actuarial Society of America in 1911, outlining a numerical rating system for applicants for life insurance. The theory of the plan outlined in Mr. Hunter's paper was much the same as that underlying Mr. Whitney's proposal. However, in the case of Mr. Hunter's paper, factors were available to test the proposal. Tests were made by some of those discussing the paper and in one extreme case it was found that an individual rated according to the plan could expect to live four percent longer than eternity. Mr. Whitney has proposed a rating plan for automobile insurance and has developed the underlying mathematics. No attempt is made in the paper to derive the various factors or to give practical illustrations of the plan. In this respect, Mr. Whitney's paper is much less vulnerable in the matter of discussion than was Mr. Hunter's. It may be pointed out in passing that despite all the objections raised the numerical rating system has been generally adopted and is firmly established in life insurance underwriting at the present time.

Mr. Whitney has developed the formula $\pi = TPSV$ where " T " is the length of time a car is in use per car year; " P " equals the density of probability of an accident; " S " equals the average severity of accidents in a given territory; and " V " is the index of claim costs —. It is interesting to note that Mr. Whitney's density of probability " P " is a function very similar to μ which is known as the instantaneous force of mortality in life insurance. As far as I have been able to find, the mathematics in this paper, as in all of Mr. Whitney's papers, is sound. It may be pointed out, however, that the partial derivatives in Taylor's theorem appear on page 292 as total derivatives. This is probably the result of a typographical error.

Mr. Whitney has referred to the increased cost involved in schedule rating but has indicated that preventive activities have, in the past, more than paid for themselves. If the additional cost is accompanied by fewer accidents the money will be well spent. In many lines of insurance a portion of the premium, sometimes substantial, is used for the prevention of losses. There is no reason why this should not be the case with automobile insurance. The lack of accuracy of the plan would be, as Mr. Whitney has indicated, a disadvantage at first, but with the passage of time

and the accumulation of adequate statistics, this condition would remedy itself just as it has in the case of the numerical rating system in life insurance underwriting.

I do not feel qualified to discuss the many practical objections to Mr. Whitney's proposal. It is recognized that there are many problems to be met in determining the proper factors for use with such a plan. A great many communities would not have sufficient exposure. Variations between communities in pure premiums for automobile insurance are undoubtedly due in large measure to different factors within each community. It has, however, been urged by some that with the ever-increasing travel radius of each car, consideration should be given to the fact that many of the accidents in a given community are caused not by the residents of that community, but by those who come from a distance. This view overlooks the fact that the natives may be largely responsible for the community's physical characteristics and to some extent, at least, for the attitude of the local courts.

As Mr. Whitney has stated, the determination of "P", "S", and "V" is the largest part of the job of developing the plan. The difficulties become apparent if we attempt to list the various factors which must be considered. Among these factors are the road conditions, the traffic regulations, the population and driving density of the community, the character of the drivers, the character of the general population and the attitude of the courts. It is likely that Mr. Whitney's plan would require a careful investigation of each of these factors in order that each might be valued. The complexity of the problem is immediately apparent and the difficulties in the way of a solution are great. From the public viewpoint, it does seem logical that if the safety standards of a community were a factor in the determination of automobile insurance rates, there would be a great incentive in each community to obtain the very best and most effective safety standards. Notwithstanding the practical objections, I suggest that we cannot dismiss lightly the implications of Mr. Whitney's suggestion from the point of view of improving safety conditions with a resulting reduction in the number of automobile accidents.

In Massachusetts, under the compulsory automobile insurance law, the insurance commissioner has wide authority in the matter of rates charged in that state for automobile insurance. In New

Jersey, as well as in many other states, no responsibility rests with the insurance commissioner in connection with automobile rates or policy forms. Companies are in large measure free to go their own way in transacting the automobile insurance business. This is true although these same states require the insurance commissioner to exercise great control over other lines of insurance such as workmen's compensation, fire, life, and accident and health, both in the matter of rates and policy forms. The various states, through the motor vehicle and highway departments, are interesting themselves more and more in safety activities. It may well be that in the future, some states will determine to exercise control over automobile insurance not only with a view of providing indemnity for the injured party, but also to furnish an incentive for a reduction in the number of automobile accidents. A plan such as that suggested by Mr. Whitney would undoubtedly appeal to the governing bodies of the states as likely to accomplish this purpose. The Motor Vehicle Commissioner of New Jersey, in correspondence with the writer, recently expressed himself as being very much in favor of some such plan from the standpoint of safety. The safe driver and private passenger classification plans furnish an incentive for more careful driving. Mr. Whitney's suggestion is toward the same end. It is well that our attention is directed along these channels and Mr. Whitney is deserving of our thanks for his efforts as evidenced by the splendid paper which he has presented.

MR. J. A. MILLS :

Mr. Whitney is to be congratulated on having presented a paper which should stimulate the thinking of those of us who too complacently assume that the existing experience basis is the one and only method of rate making. He has made a very interesting comparison between a "cause" or schedule rate basis of making automobile rates and the existing experience basis. He has been careful to mention not only the advantages, but also the disadvantages of the combination cause and experience rating method that he advocates. The paper is therefore of special interest and value to the new student of rate making who may

have questions in his mind regarding the merits of the methods currently employed in making automobile rates.

Although the advantages of the experience method over the method that is advocated are few in number, they are so potent from a practical standpoint that a citation of the disadvantages does not detract materially from their potency. The cause method by itself is admittedly more expensive to use than the experience method. It therefore follows that the use of a combination of the two would more than double the present cost of promulgating automobile rates.

Mr. Whitney points out that the cause basis of making rates has been used in fire insurance. However, the values placed on the causes underlying fire losses have been determined on a judgment rather than a statistical basis. Rate adjustments in the fire field have been predominantly downward, and competitive conditions appear to have played their full part in the timing of these adjustments. It is a definite possibility that competition might play an even greater role than at present in the making of automobile rates if they were determined on a cause basis.

Unfortunately for the rate maker, the accuracy of the valuation placed on each of the causes contributing to accidents must be proven to the satisfaction of insurance buyers, and therefore, insurance commissioners. If one may judge from past experience, very little difficulty would be encountered in adjusting rates downward when the indications pointed to lower rates, but it might prove to be a disheartening and, perhaps, an impossible task to convince a community when its rates should be increased.

Adopting the cause method of making rates might shorten, but it could not be expected to eliminate the lag between the experience period underlying the rate and the policy period to which the rate is applied. It would be a formidable and time consuming task to keep abreast of the many changes that influence loss costs, but in some cases this might not prove as time consuming as the process of securing agreement on them amongst insurance carriers, insurance buyers, and insurance commissioners. Agreement and approval are not always immediately forthcoming even when rates are based on an established formula that has been applied to reasonably accurate exposure and loss data. Under the cause basis of developing rates we necessarily would be deal-

ing with the same companies, the same insurance buyers, and the same insurance commissioners. This suggests that a new set of causes might sometimes obtain by the time the valuation of the previous set was approved. To illustrate, gasoline rationing could produce an important effect on pleasure and commercial car accidents, but for some time past we have not been in a position to tell what changes might be made in the controls placed on gasoline consumption from one week to the next. Under the circumstances who would like to undertake the job of evaluating the influence of rationing on motor vehicle loss costs during the next twelve months.

The lag between the experience period underlying the rate and the policy period to which it is applied might be shortened somewhat further if adjustments were made on policies in force whenever one cause or another indicated that insurance rates should go up or down. Unfortunately, it is expensive to handle rate changes. Most automobile policies are issued for an annual premium of less than \$50, and the added cost of making frequent changes would necessitate an upward adjustment in the expense loading as would also the added cost of a more expensive method for making rates.

In actually applying the formula developed, the crux of the problem, as Mr. Whitney has stated, will be the process of evaluating the factors P , S , and V . Not the least of the difficulties will be the allowance which must be made for the constant movement of vehicles from an area of high accident frequency to one of low accident frequency. Not only are cars used on vacation and business trips which take them far afield, but there are quite a few locations over the country where cities with widely differing accident frequency rates are either very close together or actually touching. In addition, it is a characteristic of the modern day auto that a great deal of its normal driving mileage is built up in areas with entirely different driving conditions from those of its place of principal garaging. A study of highway usage in seventeen states made by the United States Bureau of Public roads indicates that an average urban owned vehicle travels about 59% of its annual mileage on rural highways and only 41% on urban streets. The proportion of rural travel naturally is higher in small than in large cities, but even in the case of cars

registered from cities of over 100,000 population, rural travel was found to make up 40% of the annual mileage.

It would be interesting to have Mr. Whitney pursue his study further by developing approximate values for his "P", "S" and "V" factors. We believe, however, that their acceptance generally would vary directly with the extent to which they were the product of statistical data rather than pure judgment and that great difficulty would be encountered in making proper allowance for the fact that the causes which give rise to accidents in the place of principal garaging are not necessarily indicative of the total insurance cost.

MR. H. T. BARBER :

Professor Whitney has again made a notable contribution to casualty actuarial science in the form of this paper. The novelty of the subject matter and the author's ability to treat it in a clear, logical, and not too complicated manner has resulted in an excellent paper of general interest, one which merits careful study and consideration by automobile rate makers as it contains many comments adaptable to current automobile rating problems. It gives the reader a fresh insight into this perplexing question and uncovers a wide field for future statistical exploration.

A written discussion of a paper of this character can follow one of several courses. One might agree with the author completely and proceed to develop further his suggestions, or the discussion might assume a critical attitude and endeavor to point out any suspected weaknesses in the presentation. The present writer elects to pursue a third course of less definite character, namely, to record his observations from a review of the paper even though these comments may appear to be disjointed and possibly insignificant in importance in some instances.

It is claimed that the schedule rating method of making automobile rates provides a more effective measure of the hazard since an adjustment in rate can be put into effect immediately. However, before a rate adjustment can be made, it is necessary to obtain knowledge of the fact that conditions have changed. It may be assumed that improvement in conditions will frequently be brought to the attention of the rate making authorities by

outside sources, but provision should be made for periodic reviews which will test the propriety of all of the elements composing the rate. Presumably, such a review would be based upon a statistical foundation. Likewise, it must be assumed that many of the elements entering into the rate will rest on a statistical foundation. The writer is inclined to believe that the same difficulties with respect to time lag which are attributed to the present method, would crop out under the suggested method in these necessary statistical studies. In fact, the difficulty might be accentuated because of the multitude of causes which will each be reflected in the rate. Presumably this will increase the number of sub-divisions of statistics and require a longer experience period to establish dependable experience indications for each. On the other hand, if the elements of the rate are based on judgment, it may be pertinent to inquire why the same judgment adjustments cannot be imposed upon rates based on experience treated in the customary manner.

A second advantage claimed for the schedule rating method is that it has a greater preventive effect. With the knowledge that the rates are based on causes it is expected that the public will take a greater interest in removing these causes in anticipation of an immediate reward in the form of rate reductions. In estimating the value of this advantage it must be remembered that the vast majority of automobile premiums are obtained from single car private passenger risks paying an annual bodily injury and property damage premium of possibly \$40 on the average. Any potential reduction in a premium of this size is not enough of an incentive to interest the individual car owner in accident prevention from a dollars and cents point of view. Of course, an occasional politician may point to the aggregate savings in premium obtained by the removal of certain causes at his insistence, but this interest of the politician may prove to be a boomerang in that the rates produced by the prospective method would be more vulnerable to political pressure than rates based on past experience.

The admission that rates determined by schedule rating would be "far less accurate" and "far more expensive" than those based on experience calls attention to two major obstacles to the acceptance of the prospective method by insurance carriers and super-

vising authorities as an alternative to present practice. To anyone who is familiar with the situation, it is obvious that these characteristics are directly contrary to the universal demand for more exact rates and for keeping expenses at a minimum. Coupled with the author's contention that the new method should be regarded as an absolute alternative to the present and that it cannot be considered as supplementary, they seem to make the case for the prospective method dark and hopeless. However, the writer feels that this last contention can be successfully challenged and that there is considerable potential advantage in a combination of the two systems. Why can we not take a system of manual rates which appears to be functioning reasonably well today and refine these base rates in accordance with the method described in the last few paragraphs of the paper? Such adjustments might be based on data independently compiled from those used in establishing base rates but, if this information is reasonably accurate, the resulting rates should represent a distinct improvement, to the advantage of both assured and carrier. A procedure of this kind and possibly some information of value in underwriting individual drivers seem to offer the most promise of immediate benefit from an analysis of data along the lines suggested by the author.

The formula $= TPC = TPSV$ which is rigorously developed and analyzed in the paper also has a common sense appeal. Pure premium equals exposure times probability times cost, the last representing a combination of accident severity and a reflection of local claim conditions. As the author points out, the evaluation of each of these terms is a task of no small proportions. It may be of interest to speculate on this phase of his analysis.

One source of information which could undoubtedly be utilized in the proposed study is the standard report of motor vehicle accidents used in notifying insurance carriers and state motor vehicle authorities of the occurrence of an accident. The writer has taken the items of information which appear on these reports and has grouped them according to their significance and bearing on the elements of the author's suggested rating formula. As might be expected, there is nothing revealed in this report form which relates to the evaluation of "V" and of "T" except possibly the question as to the purpose for which the vehicle was being used

at time of accident. This latter item might give a slight clue as to exposure but, in general, "T" as well as "V" must be determined from a different source of information. There is some briefly outlined information in the report which relates to the value of "S", the index of accident severity. The form calls for a list of persons injured, nature and extent of injuries and medical aid rendered, also, a brief report on property damaged. Presumably, more detailed information as to accident severity is left for the claim investigator to develop.

The report form does constitute perhaps the best available source of information as to the value of "P" and its component parts as listed by the author. A rough grouping of items according to their relation to causes is set forth below.

- (a) Causes pertaining to the State.
 - 1. State of residence of the car owner.
- (b) Causes pertaining to the community.
 - 1. Town or City in which accident occurred.
 - 2. Road location of accident, such as street intersection, rural intersection, between intersections, highway, curve, hill, railroad crossing, bridge, etc.
 - 3. Condition of road, such as pavement, street lights, traffic control, driving aids.
 - 4. Accident resulted from collision with pedestrian, automobile, railroad train, fixed object.
 - 5. Action of pedestrian, such as crossing at intersection diagonally, with or against signal, children playing in street, coming from behind parked car, walking on highway.
- (c) Causes pertaining to the individual.
 - 1. Age of driver.
 - 2. Sex of driver.
 - 3. Speed of car.
 - 4. Action of driver, such as exceeding speed limit, violating right of way, wrong side of street, failure to signal, reckless driving.
 - 5. Operating experience of the driver in months or years.
- (d) Causes related to the car.
 - 1. Make of car, model and year manufactured.
 - 2. Condition of car, such as defective brakes, defective lights, defective steering mechanism, no chains, puncture or blowout.

(e) All other causes.

1. Weather—(clear, fog, rain, snow).
2. Condition of road—(dry, wet, snowy, icy).
3. The hour of the accident.
4. The day of the week of the accident.
5. The direction of the car, such as going straight, turning right or left, parked car, skidding, slowing down, backing up.

In addition to these, there will doubtless be many other items of information not called for specifically by the report form which will be revealed in the description of accident.

A statistical compilation of a large number of completely filled out reports might indicate the frequency with which each item is connected with accidents. Presumably, a norm for each could be established and the departure of each territory from the norm measured. Then the next question would be what relative weight to assign to each condition. To determine this statistically, it would be necessary for someone to analyze each report and list all of the contributing factors with a judgment assignment of the relative importance of each. It is conceded that the accuracy of this judgment might very well be questioned in individual cases but the aggregate results should be of value in determining the relative importance of each item. The suggested procedure is not greatly different from the studies which established the original values of the 1923 Industrial Compensation Rating Schedule.

Such an analysis of a volume of data sufficiently large to be indicative represents a task of large proportions and yet it would cover only part of the study called for by the author's recommendations. Undoubtedly, special studies would have to be conducted of claim files and court records to determine the approximate value of "S" and "V". Inspection reports of the facilities of each community as respects police, highways and traffic control would be required and probably some new record of individual car use giving data on mileage, average speed and gasoline consumption would be necessary to complete the study.

It may be expected that the natural inertia of undertaking a statistical analysis of the magnitude and type required by the proposed method of establishing automobile rates will operate

to prevent a serious comprehensive effort along the lines indicated by this paper unless the present rate making method for some unforeseen reason should fail and necessitate a fresh attack on the rate making problem. As indicated previously, the writer feels that a partial survey on a prospective basis might yield returns commensurate with the expense involved, in the form of adjustments which might be applied to existing rates and in uncovering information of value in the selective underwriting of individual car risks. Experimentation on a moderate scale might lead to more extensive study as the comparative advantages of the suggested method become more widely appreciated.

AUTHOR'S REVIEW OF DISCUSSIONS

MR. ALBERT W. WHITNEY :

I am taking advantage of this occasion when you have been engaged in examining my actuarial offspring to say how much interested I am, after many years of absence from your meetings, to find how well you have found yourselves. You certainly seem to be more intelligent than we used to be and I am glad to see that you are more frivolous. We were oppressed by the fact that we were not entirely sure that there was or ought to be any such thing as a casualty actuary and so we had to seem as important and serious-minded as possible.

I am glad to have a chance to reply to the interesting discussions by Messrs. Mills, Barber and Lyons, because they have raised points, some of which I had meant to cover in my paper and forgot to do so. Mr. Mills asks, for instance, a particularly important question—whether the mobility of the automobile, which shows its effect in the fact that a considerable proportion of accidents happen away from home, can be taken account of. The difference between the schedule-rating of a fire risk which stays put and the schedule-rating of automobiles which do not stay put occurs to one. But the two things are not congruent, even aside from the question of mobility, for the fire risk is rated on its own conditions while the rating in the automobile field is on the average condition for all cars. It is not very difficult to find the time on the average that cars are operated in the given

community as compared with the time that they are operated out of the community. If in a particular case cars are operated 75% in the community, then evidently they should be schedule-rated on the basis of conditions in the community for only 75% of their exposure. It is a question, I confess, to know what to do with the remaining 25%. If all the cars betook themselves to some one other community, we could give them a rate made up 75% of the rate for their own community and 25% for the other community. Since, however, they rove in general over a much larger territory, the rate for the outside exposure would probably have to be based on some form of countrywide experience. I do not think the difficulty would be by any means insuperable, although this condition would naturally reduce the effectiveness of such a schedule-rating from a preventive point of view. Since prevention is far and away the most important reason for schedule-rating, it would be necessary to acknowledge that the effectiveness of the system would be reduced to just that extent.

Mr. Barber refers to my statement that the two systems are alternative and not supplementary. That statement was made on a basis of pure theory. They are two separate and distinct methods of rating, one in terms of consequences and the other in terms of causes. However, you cannot tell what you may have to do in actual practice. The problem of getting numerical values for the effect of the different causes will be so difficult that I can quite believe that in actual practice it may be necessary to make use of a mongrel solution. We can be very sure for one thing that it would be quite necessary to depend on the experience of the community in order to determine the general level of rates. The most that we could expect to do would be to apply schedule-rating to the question of the relativity among the different elements of the hazard.

It must be observed that schedule-rating has no place as a rating system unless there is a preponderant interest in prevention. That is exactly the situation in fire insurance. Fire insurance rating has always been viewed from the preventive side. Casualty insurance is a lineal descendant of life insurance and life insurance has had little concern with prevention: that has been left to the doctors and to other agencies. Life insurance has been considered almost solely from the point of view of social

and economic security. Casualty companies, confronted with the workmen's compensation situation where prevention was evidently extremely important, did embark on schedule-rating and it produced exceedingly important results. I have no doubt that schedule-rating of communities is feasible for automobile insurance and that it could be used approximately as successfully as in the workmen's compensation field, but it certainly cannot come and should not come unless and until the time arrives when there is sufficient interest in traffic accident prevention to make it worthwhile. That may happen, however, for we cannot go on indefinitely killing 40,000 people a year, injuring one million more and incurring a direct loss of two billion dollars a year. It seems inevitable that sometime we shall wake up to the seriousness of this situation and do something about it and if and when that time comes, I presume that the schedule-rating of communities will appear to be worthwhile.

I am pleased that my mathematics seem to have passed the evidently careful scrutiny of Mr. Lyons. His suggestion that P , the density of probability of an accident, is the same kind of thing as μ , the force of mortality in life insurance, is unquestionably correct. μ measures the instantaneous tendency to die; P measures the instantaneous tendency to have an accident. I am glad that P finds itself in such good company. As to notation I will say that I wrote the formula on page 292 in terms of partial derivatives but the printer did not seem to be prepared to cooperate in expressing any such invidious distinctions and rather than get into an argument, I preferred to remember that a very creditable English book where I learned my calculus seemed to get along all right with only one set of symbols.

CASUALTY INSURANCE ACCOUNTING AND THE ANNUAL STATEMENT

BLANK—

THOMAS F. TARBELL

VOLUME XXVII, PAGE 294

WRITTEN DISCUSSION

MR. NORTON E. MASTERSON :

A mid-western lawyer was discussing the relative merits of two eastern law schools. He criticized one because in his opinion its

professors taught the law as they thought it should be—and not the law as “she is.” Fortunately, for students of the Society, Mr. Tarbell has followed his previous paper with another along the same pattern. He stresses casualty insurance accounting as “she is” and does not confuse the student who desires factual information only. It would be difficult, I am sure, for many of us to keep from being side-tracked to become critics and reformers of the status quo.

There is little room for criticism of Mr. Tarbell’s factual presentation. It is a revision of a good paper which has stood the test of time. For twelve years the original paper has helped students studying for our examinations. Like its predecessor, this paper was prepared primarily for students of our Society.

Insurance accounting presents several significant departures from commercial accounting practices and Mr. Tarbell warns his readers at the outset that “text books on general or commercial bookkeeping and accounting are not of material benefit to the student of insurance accounting other than to ground him in fundamental principles.”

The commercial and college-trained accountant is impressed with the difference between his experience or training and actual practice in casualty insurance accounting when it comes to determining assets and liabilities. In commercial accounting there is a precise recording of liabilities legally documented and supported in the general ledger with the principal assets determined by appraisal, estimation or inventory. In casualty insurance accounting the student discovers almost the opposite—a careful and exact recording of principal assets (for the most part legally documented bonds and stocks and mortgages) in the general ledger with the principal liabilities being determined by appraisal, estimation or inventory.

The universal use of tabulating cards and machines by casualty insurance companies has had a direct effect on the nature of the journals and general ledger maintained by such companies. Mr. Tarbell mentions general ledger accounts by lines of insurance for certain recordings. On page 295 he refers to premium and loss journals by line of insurance. On page 307 reference is made to bookkeeping entries for each of the various kinds of loss transactions for each line of business. On page 309 the statement is

made that separate ledger accounts are maintained for assigned loss expense by line the same as in the case of losses. In practice, many of these subsidiary accounts are tabulating machine distributions of general ledger control accounts. In other words, the tabulating machine method of accounting has tended to reduce the purely bookkeeping procedures of journalizing and general ledger posting to the maintenance of control accounts only with all sub-ledger accounts, analyses and breakdowns prepared in the manner of statistical exhibits or tabulations.

On page 304 two methods of accounting for profit and loss items are mentioned as being in general use. The method followed in Mr. Tarbell's paper makes use of a single controlling Profit and Loss ledger account with annual statement detail maintained by subsidiary accounts. I prefer the second method which is to carry separate profit and loss ledger accounts for each such annual statement item.

My comments in the two preceding paragraphs may appear inconsistent. On the one hand, I prefer single general ledger control accounts for premiums, losses, and loss expenses with analyses by lines recorded as supplementary tabulations but, on the other hand, I have expressed a preference for separate general ledger accounts for each profit and loss item. The former involves tabulating card analyses of single general ledger accounts which serve as control accounts but in the latter, I prefer to avoid a grouping of several accounts required to be separately recorded in the statement and which involve relatively infrequent entries of somewhat unrelated items.

In his comments on unallocated loss expense on page 309, Mr. Tarbell points out that disbursements as shown on page 3 of the statement will not check with the Trial Balance as respects many items—salaries, traveling expense, rents, etc. This is true if the transfer from underwriting expense accounts is made to unallocated loss expense by memorandum or in statement work sheets only. It is also possible to transfer, by means of journal entries, definite amounts or percentages of underwriting expenses paid by accounts to unallocated loss expense after the first or regular monthly trial balance is drawn off. In a second or subsequent trial balance there would be recorded the net amounts to be

reported as disbursements by underwriting expense account on page 3 of the statement.

In addition to the four journals mentioned on page 295—for recording premiums written, premiums paid, losses paid and expenses paid—mutual and participating stock companies must record dividends paid to policyholders.

Mr. Tarbell's revision of his former companion paper, which appeared in Proceedings XVI under the title Exhibits and Schedules of the Casualty Annual Statement Blank, has been presented at this meeting of the Society. Mr. Tarbell has rendered a distinctive service to the Society and its prospective members by his timely revisions of his two former papers on casualty insurance accounting.

MR. C. S. COATES :

Mr. Tarbell has admirably achieved the objective stated in his paper, of showing briefly the "rationale of the annual statement and the application of bookkeeping and accounting principles to the various insurance accounts." While it is true that his paper was prepared primarily for students of our Society, it also is true that those of us who have a more complete knowledge of the subject will benefit from a careful reading of this paper.

The writer found particularly refreshing Mr. Tarbell's references to the formula relationship between assets and receipts and disbursements which underlies the theory of the casualty annual statement, and also the comments on that seeming misnomer on the Income page, item 34, "Increase in liabilities during the year on account of reinsurance treaties."

In the author's comment on the handling of "Losses paid" and again in his comments on "Other non-ledger assets" no reference is made to the possibility that a company paying in full a loss upon which it has reinsurance recoverable may use the amount of reinsurance recoverable as a reduction of its liability for unpaid losses, either by insertion in column 3 at the head of Liabilities page 5 under the proper line of insurance for Schedule "O" lines, or by reducing the case basis outstanding reserve posted in the proper column of Schedule "P," parts I and II, on Schedule "P" lines. While in pure theory it might be argued that a rein-

insurance recoverable on a paid loss should not be used as a reduction against the amount owed on other unpaid losses, this situation is no different than the situation found in the makeup of the "Premiums in course of collection" figures on the asset page where reinsurance premiums payable are used to reduce the amount of premiums receivable.

In connection with the author's description of the "Premiums in course of collection" asset item it would be interesting to have his comments on the methods of securing in actual practice the *line of insurance breakdown*. In these days of increasing clerical costs arising, among other things, from the increase in reports required from insurance companies, the amount of expense to which a company should go to determine the line distribution accurately is a nice question. Under the generally accepted existing plans for production of business and collection of accounts it is almost impossible to secure an absolutely accurate distribution by line of insurance. The same situation of course obtains for the corresponding liability item of "Commissions, brokerage and other charges due or to become due to agents or brokers." It might also be worthy of comment in connection with the handling of the premiums receivable item to show that it is entirely possible for a certain line of insurance to have a negative balance due either to large unpaid return premiums being entered shortly before the close of the year or more possibly to a partial or complete reinsuring of premiums in force under that particular line of insurance. If a company negotiates a quota share reinsuring of premiums in force at the end of the year and has not completed the transaction by actually paying the reinsurance premium the common practice of deducting the unpaid reinsurance premium from the uncollected original premiums could easily result in a negative balance.

In the author's comments on Assets item 39 "Market value of real estate over book value, per Schedule A," the unqualified statement is made that insurance companies are required to compile their statements upon market values of assets. The author himself refers to an exception to this rule in his immediately following paragraph where he comments on the common practice of companies valuing bonds on the amortized basis by entering in item 40 of the non-ledger assets the excess of amor-

tized values over book values, or by showing in the non-admitted assets any excess of book value over amortized value.

In conclusion, we believe the Society owes Mr. Tarbell a vote of thanks for completing this most helpful exposition of the items in the casualty annual statement blank. We hope that he will complete at an early date the promised similar write-up of the exhibits and schedules. His comments on schedules "G," "O" and "P" will be particularly helpful if he will go a little farther than just explaining today's actual handling, and comment on the conditions giving rise to the insertion of these schedules and on the usages to which they are put.

MISS EMMA C. MAYCRINK :

The following comments on Mr. Tarbell's paper entitled Casualty Insurance Accounting and the Annual Statement Blank are offered to emphasize the value of the subject which Mr. Tarbell has covered in such a meticulous manner.

Familiarity with the subject should be of the utmost value to many people who work in the accounting, actuarial and statistical departments of casualty insurance companies but who unfortunately will never have the opportunity to read the paper unless the members of this society having contacts with or actual supervision of the accounts department make it available to them.

Mr. Tarbell begins with the following statement: "Methods of Casualty insurance accounting are not and probably never will become standardized." It would seem to me that the Convention Blank should be recognized as the standard of the ultimate aim of insurance accounting and methods of keeping the books of accounts to fit the blank should be adopted. Railroad accounting for instance was standardized in accordance with the rules laid down by the Interstate Commerce Commission many years ago.

It is true that many bookkeepers and accountants of insurance companies do not recognize the Convention Blank as standard and therefore do not keep the books of accounts and subsidiary records so that they will be able to tie each account into the items called for annually by the blank or quarterly, as in New York State. As a result of not having the accounts set up to

conform to the blank and because in many companies the accounts are kept on some system introduced by bookkeepers or accountants who are accustomed to commercial accounting and who are not familiar with the fundamentals of insurance accounting, much time is wasted and eventually unnecessary expense to the company is incurred.

I might cite an instance in connection with the examination of a new company. This company, which had an accountant not familiar with the Convention Blank and not interested in it, had its first department examination when the volume of business was small. It took three weeks to examine the company and make out a financial statement. After a year or more when the company had increased in size, the executives in charge realized that with their bookkeeping methods it was just about impossible to make a report in accordance with the annual statement requirements. They hired a new accountant who immediately studied the requirements of the blank and changed his books of accounts to support the items of the annual report. It took less than three days to examine the company after the changes were made.

The argument for recognition of the Convention Blank as standard and truing up the companies' accounts to its requirements is that the blank is uniform for all states and, while it is reviewed annually by the Committee on Blanks, a sub-committee of the National Association of Insurance Commissioners, the committee is slow to make radical changes in the items which make up the Income, Disbursements, Assets and Liability pages.

As a result of this uniformity, statistics can and have been taken for many years from the companies' reports by the various supervising departments and are published in department reports and also by the several insurance publications. The insuring public and the insurers have valuable information from such reports of not only the casualty insurance business but also of the life insurance business and the fire insurance business. The publications are to the insuring public as the Moody's and the Poor's manuals are to the investing public.

In order to understand the basic principles of the Convention Blank it is necessary to take specific notice of the difference between the so-called cash method and the accrued or revenue method of reporting.

As Mr. Tarbell has stated, Page 2 of the report calls for the ledger assets at the end of the previous year and all income and increases of ledger assets during the year, page 3 calls for all disbursements and all decreases in ledger assets for the year. Page 4 lists the ledger assets and the total is the balance or ledger assets at the end of the year. The blank provides for adjustments of assets by adding to the ledger assets non-ledger items such as accrued interest and adjustments in values which are not carried on the books. Deductions are made of not admitted assets such as the excess of book value over market or amortized values of assets and also such assets as are not admitted by law or departmental rulings such as furniture and fixtures and agent's balances due for over ninety days.

These three pages of the blank therefore may be summarized by two arithmetical formulas, the first which is a balancing of the assets carried on the books is as follows:

Ledger assets of the previous year plus income minus disbursements = ledger assets of the current year.

And the second formula which is a valuation of assets and affects surplus is:

Ledger assets plus non-ledger assets minus not-admitted assets = admitted assets.

The liabilities as Mr. Tarbell points out are not entered upon the books of account but are determined by means of memoranda accounts by inventory of the various registers and by formula methods. There may be a few exceptions but the carrying of ledger liabilities should be avoided where it is possible. I would go further than Mr. Tarbell and say that even borrowed money and funds held under reinsurance treaties need not be on the ledger. The treatment of the liability accounts according to the convention blank method is one of the chief objections of the commercial accountants to the method of accounts according to the Convention blanks. Actually the liabilities as determined by an inventory method should be kept as permanent records even though no entries for the same are made in the general ledger. However, these records are as much a part of the books of account as if the entries were made in the general ledger.

The best answer to the objections against this method of recording liabilities would seem to be to point out that the two

largest and most important liabilities of an insurance company are the reserves for outstanding claims and the reserve for unearned premiums. It is an easy matter to demonstrate that these reserves are in a constant state of flux and in a going company can never be constant. In this respect the insurance company's accounts can never be as simple as those of a commercial concern.

For those who want to study the revenue or accrual basis results, the blank has a profit and loss statement on such basis in the underwriting and investment exhibit, which recapitulates the items of income, disbursements and liabilities as reported for the previous and the current year.

The exhibit not only divides profit and loss on underwriting from investments profit and loss but breaks up the underwriting items to show a comparison of incurred losses and incurred expenses in relation to premiums earned. Because of this method a test of the adequacy of rates and the companies' underwriting experience can be made and also of the expense ratio which is an indication of company management.

The underwriting and investment exhibit balances to surplus so that in this case the formula is:

Surplus at the end of previous year plus income and profits minus disbursements and losses = surplus at end of current year.

When Mr. Tarbell completes his paper giving the details of the various schedules and their relation to the items of the financial statement, I hope that the two parts will be printed and made available for distribution to many who are interested including not only the students of this society but others who are keeping accounts of insurance companies or who are studying the casualty insurance business for any other reason.

MR. J. C. MONTGOMERY :

To add anything of value by way of current discussion of Mr. Tarbell's carefully prepared paper to Mr. Davies' interesting review (volume 16, page 191) of the original paper, which was first presented in 1928, while keeping within the avowed purpose of the author, is quite a problem. As respects what is intended to be included in the various items comprising the annual statement, Mr. Tarbell has left little room for controversy, and while

the title of the paper might imply the inclusion of a description of various methods of recording and compiling the data, the author has reiterated his position as indicated in his review of Mr. Davies' discussion, pointing out that such an undertaking was necessarily beyond his intention and the space available.

A paper so painstakingly prepared would seem, however, to justify the additional space necessary to emphasize the accounting procedure required to develop the final results of operation on the revenue basis, or, as it is often termed in insurance, the earned and incurred basis. To stop with a description of the significance of items included under the Income, Disbursements and Ledger Assets might lead the novice to conclude that the remaining steps necessary to complete the annual statement are more or less incidental, whereas, of course, the changes in reserves and certain assets involving elements of income are an indispensable part of the actual gain or loss. True, the author mentions the fact that these steps are effected as part of the Underwriting and Investment Exhibit, but the student might be excused for not understanding at first glance the importance of the transition. It might be of assistance to explain, for example, that the Underwriting and Investment Exhibit procedure, which takes into consideration these reserve and accrual elements as of the beginning and end of the accounting period, involves the same principle which, in commercial accounting, uses the initial and final inventory values of merchandise on hand to determine the cost of sales incident to establishing the gain or loss. In short, the cash basis is adjusted to the revenue basis to the extent of the net changes in reserves and accruals during the accounting period.

For the benefit of those for whom Mr. Tarbell primarily assembled his original and revised papers, principally students and those having some knowledge of general accounting but little, if any, contact with actual books of account for insurance companies, perhaps the fact might be stressed that the principal difference between the finished statement of an insurance company and that of a commercial organization is one of presentation, since, in the last analysis, as above mentioned, the annual statement develops through the Underwriting and Investment Exhibit, the same true factors of gain or loss as they might appear in a

commercial statement, although, as Mr. Tarbell has indicated, in summary rather than itemized form. Other items affecting surplus, but not related to current operations, also are taken care of as in commercial accounting in a special section, in which surplus, at the beginning and end of the accounting period, is reconciled. Thus we see that while the two methods appear to be following different courses, in reality their objective is the same, and necessarily so.

If the Income and Disbursement sections are recognized in their true light, namely, as subordinate basic schedules of information, their function is clearer. They are essentially only the equivalent of a treasurer's report of receipts and outgo and, taken by themselves, have but limited value in an accounting sense until combined with or modified by changes in reserves related thereto. In some circumstances they can be misleading to the partially informed. Even to many in departments of insurance companies other than financial, they are at times confusing in their import. A solution might be to rearrange the annual statement so as to give the Underwriting and Investment Exhibit its proper prominence in accordance with standard accounting procedure, and to consider Income and Disbursements as supporting schedules only. Doubtless a method of consolidating the cash transactions and reserve changes could be devised, by means of which the result on a revenue basis would be more readily obtained without sacrificing the facility with which the statement, as now constituted, can be verified by State Insurance Departments.

Incidentally, it appears that Mr. Tarbell's formula, on page 296, defining the principle underlying the annual statement, is not quite complete, if by the expression "annual statement" we have in mind the complete accounting for change in a company's financial position during the year. The formula should include reference to the increases and decreases in accruals, reserves and liabilities, which, as above discussed, convert the cash basis to the revenue basis.

Although not specifically provided for in the printed form, certain items are occasionally inserted in the statement which illustrate the unusual effects resulting from the accounting procedure followed in its preparation. One such concerns what

appears to be a "minus" asset, a form of accounting contradiction. These minus assets arise principally from receipts which are of a trust nature, and not related to elements of income or expense. Often they represent deductions from salaries which are by law withheld by the employer to pay various Federal and State taxes, such as Social Security, Federal Old Age and income taxes. They are, in fact, liabilities, and in any other form of accounting appear under that heading. If such transactions are treated as income or disbursements, as the case may be (an alternative form of unorthodox accounting), the "minus" asset effect can be avoided, it is true, but at the expense of minor complications elsewhere in the preparation of statements for public consumption.

It might also be in order to explain that while the annual statement uses certain headings peculiar to insurance, such as "ledger," "non-ledger" and "not admitted" assets, there is no absolute necessity to maintain these distinctions in a company's internal accounting procedure if a complete ledger showing all assets and liabilities is preferred. Interest accrued, designated "non-ledger," can, for example, be journalized and posted prior to closing the books annually, or at any desired interim period; also, that while, as Mr. Tarbell mentions on page 323, the liability items, with a few exceptions, are not taken from the books of account, this is simply because the statutory loss and premium reserves first require adjustments through extensive specialized calculations after December 31. While, in practice, the annual statement is first completed before formulating the closing entries for the ledger, this is merely because the annual statement is, by comparison, but the "work sheets" which are the foundation in standard accounting for the adjusting entries necessary to close the books.

The author's purpose obviously was neither a defense of the construction of the annual statement nor a criticism of it. His paper is valuable as a source of up-to-date definitions of the items appearing in the statement as it is required to be compiled, and, as such, nothing of importance appears to have been overlooked. The foregoing comments are, therefore, offered merely to amplify certain points. Those interested in securing a basic understanding of what is considered to be a complicated subject, will find its material most helpful.

AUTHOR'S REVIEW OF DISCUSSIONS

MR. THOMAS F. TARBELL :

The author appreciates the interest shown in this paper as evidenced by the number and scope of the discussions. The various points brought out are constructive, helpful and clarifying.

As Mr. Masterson has pointed out, the author has dealt with casualty insurance accounting as "she is." Mr. Montgomery's suggestions for possible improvements in the form and make-up of the statement are pertinent and might well be given consideration by insurance departments, which control the ultimate form of the annual statement blank. More emphasis upon results rather than details would undoubtedly make the statement more understandable from the point of view of the layman.

One very important point, brought out by Miss Maycrink and others, is that the blank is standard and, while accounting and other records may vary by company, they must be so designed as to conform to the requirements of the blank. So long as the requirements are met, it is not essential that methods be standardized.

Mr. Montgomery's remarks pointing out the differences between commercial accounting and insurance accounting, and showing that the two attain the same ultimate end, the operating results and surplus changes, are a valuable addition. It is obviously possible, by journalizing non-ledger assets and liabilities, to adjust the books of account at the year end to the "revenue" basis and provide a check between the general ledger trial balance and the statement for practically every item. However, there appears to be no particular advantage in this and it is rarely done.

"Minus" ledger asset items normally exist in the accounts of casualty companies. They occur in connection with return, refund and reinsurance ceded unpaid premiums and in such accounts as agents' sundry balances. These accounts, however, are combined with corresponding debit balances and the net balance is normally a debit. However, as Mr. Coates points out, it is possible that the net balance may be a credit. In such cases, it is usual to show the item as a "minus" ledger asset.

The use of reinsurance recoverable on paid losses on the compensation and liability lines as an offset to or reduction of unpaid

losses, as suggested by Mr. Coates, is, the author believes, a general practice, as Schedule E of the statement does not contemplate such reinsurance.

The problem of accurately determining the distribution of premiums in course of collection by line of insurance is a troublesome one. Companies handling premiums on an "item" basis usually set up separate premiums in course of collection accounts by line. This account is debited for written premiums and credited for paid premiums. However, in the handling of thousands of premium items, it is impossible to avoid errors by line. Such errors in the balances of the accounts can only be eliminated by periodical inventories of the individual items supporting the balances. Companies operating on the "accounts current" basis must analyze the individual unpaid balances to determine the accurate distribution of such premiums by line. The fire annual statement blank recognizes the "accounts current," or "agents' balances" basis of accounting. Commissions are recorded on the "written" rather than the "paid" (casualty) basis and consequently the balances are net (less commissions). This method has certain advantages as it simplifies the accounting records and could be used by casualty companies whether operating on the "item" or "accounts current" basis.

Mr. Masterson's comments regarding journals, ledger and sub-ledger accounts and statistical exhibits are particularly pertinent and could be greatly expanded. The present tendency is to set up inclusive control ledger accounts and provide for details in sub-ledger accounts. Certain journals and ledger accounts are no more than statistical tabulations. This indicates the desirability of an up-to-date treatise on the details of casualty insurance accounting. While Mr. Hull's book "Casualty Insurance Accounting" is an excellent volume, so much progress has been made since it was written that much of the material is out of date.

The author acknowledges the deficiency in the definition of the principle underlying the annual statement pointed out by Mr. Montgomery. It should have been brought out in the paper that this principle applied to that part of the statement dealing with income, disbursements and ledger assets. Mr. Coates properly takes exception to the general observation that the statements of insurance companies are compiled on the basis of market values.

The exception to which attention is called, the use of amortized values for bonds, should have been pointed out in the paper.

THE NEW YORK MOTOR VEHICLE SAFETY RESPONSIBILITY ACT—

HAROLD M. JONES

VOLUME XXVII, PAGE 331

WRITTEN DISCUSSION

MR. WALTER T. EPPINK :

The paper prepared by Mr. Jones concerning the New York Motor Vehicle Safety Responsibility Act sets forth in a complete and comprehensive manner an analysis of the Page-Anderson Bill as it was signed by the Governor. However, several months have elapsed since that time and much discussion has been had concerning the actual operation and the administrative difficulties presented in connection with this law. It is my purpose, therefore, to try to supplement his Article to some extent by a discussion of some of these problems and at the same time touch on one or two of his statements which might be subject to controversy.

Mr. Jones states that although this is not a compulsory insurance law, it is the nearest thing to such a law that has been adopted since the Massachusetts Compulsory Act. The Massachusetts Act was adopted in 1926. The New York Act follows very closely the New Hampshire Act which was adopted in 1937. As a matter of fact, one of the important inducements to the adoption of this Act in New York State was the successful operation of the law in New Hampshire.

The increase in the number of insured cars immediately after the enactment of the New Hampshire Law was very substantial. However, the New Hampshire Law, as enacted, contained a provision which required proof of insurance as a prerequisite to registration from the owner of every car which was encumbered by a lien, whether a chattel mortgage, conditional sales contract, or otherwise. The New Hampshire Law became effective in September of 1937, and it was not until 1938 that this provision of the law was declared unconstitutional (in the case of *Rosenblum v. Griffin*, 197 A 701), and it was subsequently repealed.

It is obvious that a part of the substantial increase in the number of insured cars was due to this provision of the law. The exact percentage is, of course, impossible to determine. To such extent, however, the New Hampshire Law was much more drastic than our present New York State Act. Since that time, the percentage of insured cars in New Hampshire has increased and is still increasing so that the effectiveness of the law is demonstrated in spite of the deletion of that provision.

Mr. Jones also states that under the New York law, the Commissioner of Motor Vehicles is empowered to suspend or revoke operators' licenses, registration certificates and plates "upon any reasonable ground" until proof of financial responsibility is given, etc. The reference is accurate as far as it goes, but it should be borne in mind that such reasonable ground must appear on the records of the Motor Vehicle Bureau, the exact language reading as follows:

"Upon any reasonable ground, appearing on the records of his bureau, the commissioner may suspend or revoke the operator's or chauffeur's license of any person and may suspend or revoke any and all of the registration certificates and registration plates for any motor vehicle and may refuse to issue to any such person any new or renewal license, or to register in the name of such person any motor vehicle unless and until such person gives proof of his financial responsibility in the future as hereinafter provided in this article."

In commenting on the provision of the Act which prevents registration in the name of any person of a motor vehicle, the owner of which has become involved under the Act, or in other words, the so-called "marketability" provision of the law, Mr. Jones states that "only a receiver or trustee in bankruptcy, a judgment creditor, and in some cases a lien or mortgage holder, can take possession and legally register it in New York." It should be borne in mind that the judgment creditor referred to, in whose name the vehicle can be registered, is a judgment creditor who became such as the result of an action for damages resulting from the accident which caused the judgment debtor to lose his operator's and/or registration certificates.

In this connection, it is of interest to note that the State of New Hampshire originally had in its law a similar provision. Officials of that State advise that there was no other feature of

the law which gave rise to so much dissention and dissatisfaction. Automobile dealers would take in trade an automobile, the owner of which had become subject to the law, not knowing of the involvement, and when they disposed of it, the purchaser would frequently find that he could not obtain license plates for it. In the State of New Hampshire, there is but one central office for the issuance of license plates so that a fairly accurate "black list" could be maintained as to cars which were so involved. Nevertheless, its Motor Vehicle Commissioner has stated that it was almost impossible to administer this section. In New York, licenses are issued in every county of the State. An index would have to be prepared and constantly supervised and revised, listing this type of automobile according to make, motor number, and serial number. Furthermore, such information would have to be constantly relayed to each of the offices throughout the State from which license plates are issued. It is possible that by some teletype system, or otherwise, such information could be so relayed but obviously the cost would be prohibitive and in many cases subject to inaccuracies.

In this connection, also, consideration should be given to the fact that the Commissioner of Motor Vehicles is required to wait ten days after receipt of an accident report before he can take any action to suspend or revoke registration. Some such waiting period is necessary in order to give motorists an opportunity to comply with the law. During this interim or waiting period, a motorist who was so inclined could transfer his ownership of the vehicle and have it registered in some third person's name. It is obvious that such provision could be so evaded in any event.

In New Hampshire, this provision has been repealed in its entirety and officials of New York State frankly admit that if the law is continued in its present form, it would be impossible to enforce this provision. Consequently, even though some modification is made to protect the holder of a bona fide lien, the administrative problem of the Motor Vehicle Bureau will not be eliminated, and it would seem that the only practical change that can be adopted is the complete elimination of the "marketability" language.

It has been contended that such an amendment will remove some of the "teeth" from the law, but it may well be argued that

this would be preferable to a law that could not be enforced. A law which is enforced against the person who becomes subject to it to the extent that his personal operating and registration privileges are cancelled is drastic and effective in removing him from the road. On the contrary, a provision, the only effect of which can be to "punish" the automobile by making it unmarketable, will inevitably arouse disrespect for the statute when it is discovered that it is unenforceable.

Among the changes which have been proposed to the law, as Mr. Jones has pointed out, is one eliminating the necessity of reporting accidents on property damage losses where the amount of damage does not exceed \$25.00. Since its enactment, the Joint Legislative Committee of the Senate and Assembly to consider revision of the Insurance Law has held several meetings on this law, and many meetings have likewise been held by representatives of the Department of Taxation and Finance, the Motor Vehicle Bureau, State Bar Association, insurance interests, and other interested groups. At the present time, it is pretty well agreed that this amendment should be adopted.

The reasons for such an amendment are well-founded. In 1940, under the law then in effect in New York State, only those accidents involving personal injury or fatality were required to be reported. There were some 75,000 such accidents for which about 130,000 reports were made. It is estimated that there will be approximately six reports of accidents involving damage to property for each accident involving personal injury or death. This would mean approximately 800,000 property damage accident reports that could be anticipated without giving any effect whatever to the increase in motor vehicle registration. Such increase is substantial. In 1940, there were some 2,800,000 automobiles registered in New York State, and according to present estimates, there will be an increase of at least one-quarter million cars in 1941 and possibly a still greater registration in 1942. Discounting such increase, however, and based entirely on the 1940 figures, it is probable that between 900,000 and 950,000 liability and property damage accident reports could be anticipated by the Motor Vehicle Bureau. According to available statistics, if property damage accident reports involving less than \$25.00 are eliminated, 75%, or some 600,000, of such reports

would be excluded. The expense of receiving 600,000 reports, checking for completion, matching with the corresponding report from the other person involved in the accident, filing, and handling generally is tremendous. It appears that almost everyone interested in the law appreciates this fact and is in favor of this amendment.

As the law now stands, it applies to everyone whose car is involved in an accident, even though one of the parties may be completely free from negligence. The New Hampshire statutes, which contained a similar provision, were amended so that the Motor Vehicle Commissioner could waive compliance with the law as to any party whom he found free from blame. In this state, there has been considerable agitation for a similar amendment, but because of the great number of reports which are anticipated, a tremendous burden will be placed upon the Motor Vehicle Department if discretion is to be exercised on the question of negligence and responsibility for an accident. Most people involved in an accident feel that the other person was to blame, and, therefore, if this question is left to the decision of the Motor Vehicle Commissioner, it is anticipated that pressure for relief will be brought to bear in many cases. If, on the other hand, the law requires him to exact security and proof of responsibility for the future in every case, there will be less tendency to seek this relief.

Under the wording of the statute, there is still some discretion left in the hands of the Motor Vehicle Commissioner since he is required to demand "sufficient" security for the damages resulting from the accident. (Incidentally, another amendment has been proposed to change this word "sufficient" to "reasonable" to relieve the Motor Vehicle Commissioner from the possibility of personal liability if it should develop that his judgment as to what was sufficient security should prove erroneous.) If the Commissioner should determine that one party is blameless, he might ask for a very nominal amount of deposit and relieve such blameless party to this extent. Of course, such party, even though blameless, would still be required to post proof of future responsibility and thereafter forever maintain such proof. It may be argued that this is an undue hardship, but it is to be remembered that the objective of this law is to induce people to pur-

chase, voluntarily, the insurance which a compulsory law makes mandatory.

In other words, under a compulsory insurance law, the test of whether or not the person must furnish proof of insurance is whether or not he desires the car to be registered. Under this law, the test is whether or not his car is uninsured and is involved in an accident.

There is another matter of interest to which attention should be called. The wording of the statute as it now stands, provides that the Commissioner "shall not require security or proof" from an owner or operator if either "shall satisfy or has satisfied the commissioner that the liability, if any, for damages resulting from such accident is insured by a liability policy or policies, or by a bond" in the specified amount.

Under this provision, even though the Commissioner ascertains that a policy of insurance or a bond was in effect covering the automobile involved in the accident, he would still be duty bound to make sure that the liability arising from such accident was itself covered. In other words, if a breach of the policy were involved, so that the particular accident was not covered, the holder of such policy would still be subject to the law and would be required to make immediate deposit and furnish proof for the future. The administrative difficulties in enforcing any such provision are obvious. Equally obvious is the dissatisfaction which would arise on the part of a motorist who had purchased what he considered to be adequate insurance protection to discover that, because of his breach, under the terms of the policy he had no protection whatever.

In an effort to overcome these objections, the companies have agreed to substantially broaden the coverage afforded by the New York Standard Automobile Liability policy. For example, they have eliminated the under age exclusion, they have broadened the coverage in so far as driving for a consideration is involved, and they have also broadened the use of trailers. The net result of these and other changes is to afford to the insurance buying public generally, a much broader form of protection. The exclusions that now remain in the policy are comparatively few, and it is anticipated that cases which will arise involving a breach of such terms will be negligible. Nevertheless, it is

proposed to amend the law so that if a breach of the terms of the policy is involved in any particular accident, a person will still be able to drive his car so long as he had in effect a standard policy covering the automobile involved at the time of the accident. The net result of this amendment, therefore, will be that if there is in effect a standard liability policy of insurance as to the car involved, even though the particular accident is not covered, the owner and operator will still be able to drive such automobile without having his license suspended or revoked, or without furnishing any deposit of security for the damages caused by such accident.

If, however, an action is brought arising out of such accident and a judgment is recovered against such operator or owner, which judgment remains unsatisfied because the insurer denies liability and the owner or operator refuses or is unable to pay such damages, then and in that event, the licenses and registration certificates of such owner and operator are subject to revocation by virtue of the section which requires such action by the Commissioner upon failure to satisfy such a judgment.

Another significant feature of the law, and as indicative of its purpose to induce the motoring public to buy insurance protection, is the language which requires a deposit and proof forever after from an uninsured person involved in an accident. For example, even though the uninsured motorist who becomes subject to the law makes the deposit required, he is still required ever after to carry insurance or furnish other proof of financial responsibility; whereas, a person who is insured is not required to maintain proof thereafter. If he subsequently permits his insurance to lapse, however, and then becomes involved in an accident, he is in the same position as the individual who became involved without any insurance in the first instance.

This law does not become effective until January 1, 1942. Necessarily, there will be a lapse of time between the convening of the Legislature and the time when various proposed amendments can be enacted into law. Some question has arisen, therefore, as to what the attitude of the Motor Vehicle Department will be during such interim so far as the enforcement of the law is concerned. Present indications are that this Department will not too rigidly enforce those sections of the law which concededly are to be amended.

MISS BARBARA H. WOODWARD :

Mr. Jones gives a clear exposition of the requirements under the New York Safety Responsibility Act which will become effective as of January 1, 1942.

He does not argue the merits or demerits of financial responsibility against compulsory insurance but he does point out that the New York Superintendent of Insurance is in favor of a compulsory law. The main reasons for the Superintendent's preference are that a law of this type is social legislation and should provide compensation to all innocent victims for their injuries and also a financial responsibility law will of necessity be more expensive and more cumbersome to administer than a compulsory law.

In regard to payment for injuries the new law provides that, among other reasons, a motorist comes under its provisions upon involvement in an accident. The innocent victims of these "first accidents" may be left without compensation unless the motorist has voluntarily taken out insurance or is otherwise financially responsible. During 1939 there were 73,442 accidents in New York State in which 106,351 drivers were involved. Of this number 94,548 drivers were involved in their first accident. During 1940 the corresponding figures were: 72,433 accidents with 105,602 drivers, 95,863 of whom were involved in their first accident. The figures for the first eight months of 1941 show an increase over the corresponding period for 1940. The 1941 figures up to the end of August show 46,482 accidents in which 68,411 drivers were involved, of whom 62,173 were first accident drivers. Assuming that the new law will have the same effect in encouraging insurance as it has had in New Hampshire, it would still leave about 25% or 23,000 "first accident" drivers who would not be insured. This number of course would be somewhat reduced by the number of innocent drivers in accidents involving two drivers. Out of the remaining negligent drivers there will undoubtedly be a fairly large number who are not financially responsible. For this reason it might be desirable to set up a fund derived from the operator's license fees of uninsured operators with which to pay unsatisfied judgments in these "first accident" cases. The judgment creditor could then be

required to reimburse the fund before obtaining another operator's or owner's license. In this way the loophole would be filled between the financial responsibility law and a compulsory law as respects compensation of innocent victims. At the same time the safe driver would retain his safety consciousness and accident prevention attitude by not being forced to buy insurance as long as he remained accident free.

Proposed Amendments to the Law

As Mr. Jones points out, some objections to the new financial responsibility law have already arisen and discussions are under way which will undoubtedly result in amendments being introduced into the 1942 legislature. One of the topics being discussed is the status of the innocent party to an accident. Under the present law any driver involved in an accident whether innocent or guilty is required to file security for that accident and thereafter to maintain proof of financial responsibility for future accidents. The amendment under discussion will probably still require the innocent party to file security and proof until vindicated by judgment, at which time the requirement for proof of future financial responsibility would be cancelled.

Present Section 94(e) requires an insured owner or operator, in the event of an accident, to satisfy the Commissioner of Motor Vehicles that his insurance policy covers the liability arising from the accident before such policy will be accepted as security. An amendment being considered would allow the Commissioner to accept as security, the standard automobile liability policy approved by the Superintendent of Insurance, without examination to determine coverage for the specific accident involved. The standard policy has already been revised and broadened so that the chances of an accident not being covered are extremely remote. Of course when a policy is filed as proof of future financial responsibility it becomes absolute as far as third parties are concerned.

An amendment is also being considered to take care of cases where the owner and the operator of the car involved in the accident are different persons. It is proposed that the owner's insurance policy shall be sufficient security for damages caused

by the operator. On the other hand, if the operator were insured and the owner was not, the operator's policy would not relieve the owner of any of the provisions of the act. This is in line with Section 59 of the Vehicle and Traffic Law which makes the owner liable for the negligence of the operator.

As Mr. Jones has suggested, the cost and difficulty of administering the act and the method of assessing that cost has evoked considerable discussion but no amendments along this line have yet been proposed.

Since the time Mr. Jones' paper was written, the insurance carriers both stock and mutual have voluntarily organized the "New York Automobile Assigned Risk Plan." Briefly, the plan is designed to secure coverage in an authorized company for those risks who are not specifically excluded from the Motor Vehicle Safety Responsibility Act, and who are in good faith entitled to insurance but are unable to secure it for themselves. A risk becomes eligible for the plan after being refused insurance in writing by three carriers. A risk is not considered to be in good faith entitled to insurance if (1) within the preceding three years he has been twice convicted of certain offenses; (2) has a major mental or physical disability; (3) during the previous twelve months intentionally registered a motor vehicle in the State illegally; or (4) failed to pay prior automobile insurance premiums during the previous twelve months. These risks appear undesirable from an underwriting point of view and if they are unable to show financial responsibility they will be barred from the road and the best interests of the general public will be served.

The risks will be assigned to the carriers on the basis of automobile premium writings with due regard to the facilities of the carrier for servicing the risk. All risks assigned under the plan are subject to regular manual rates including the surcharge for convictions if applicable and plus a surcharge of 10% for long haul trucking risks and 15% for all other risks. Provision has also been made for charging higher rates if necessary, upon obtaining approval from the Superintendent of Insurance.

In order to prevent the freezing of a risk as an assigned risk, the insured has the privilege of seeking another carrier willing to write the risk at normal rates and any carrier is privileged to do so if in its underwriting opinion the quality of the risk has

improved. An assured may appeal from any ruling of the Governing Committee or Manager of the Plan to the Superintendent of Insurance.

It should be noted that this plan does not apply to public automobiles required to carry insurance under Section 17 of the Vehicle and Traffic Law. In this field of compulsory insurance the need for an assigned risk plan has so far never arisen.

MR. E. A. COOK :

Mr. Jones has given such a clear picture of the New York Motor Vehicle Safety Responsibility Act, which is to become effective on January 1, 1942, that it is difficult to comment on his paper. I should, therefore, like to add a few new developments, and contribute a few thoughts, which have occurred to me since the enactment.

Certain amendments to the new law have been proposed. In principle they are as follows :

1. That section 94 (e) of the Law be clarified so there will be no doubt if a person has a standard automobile liability policy in effect at the time of the accident, the penalties imposed by that section for being involved in an accident will not apply to such person.
2. That no property damage accident not in excess of \$25.00 be reported instead of reporting all property damage accidents as now required by section 94 (f).
3. That the Commissioner of Motor Vehicles may in his discretion relieve an innocent party from the penalties provided by section 94 (e).
4. That a method other than the present method be provided in assessing the cost of operating the law.
5. That something will have to be done about section 94 (h) which at present prohibits the re-registration of the automobile involved in the accident in the name of any person. Whether such proposal, if finally accepted, will make an exception in favor of bona fide holders, or whether it will remove this restriction completely, as was done in New Hampshire in 1939, is still uncertain.

An assigned risk plan for New York similar to that in operation in New Jersey, Connecticut and New Hampshire and other states has been sanctioned by the Superintendent of Insurance on an experimental basis and is to be put in operation October 15, 1941.

The matter of assessing the cost of administering the law by the Commissioner of Motor Vehicles is receiving a great deal of attention. It is generally agreed that the present method providing for assessment of insurance companies and self insurers on the basis of the number of vehicles for which proof of financial responsibility was furnished is not satisfactory. Alternative suggestions are that such assessment be based on:

1. A small extra charge for licenses to drive.
2. Net written automobile liability and property damage insurance premiums.

These two suggestions and the method at present in the law would, in effect, assess the cost of administering the law directly on the motoring public or on the insured auto owner through increased insurance rates. As the law is designed to benefit the entire public the only fair method of providing the funds for its administration would be from the general funds of the State.

In order to illustrate the forcefulness of the new law, allow me to call attention to the conditions surrounding the following hypothetical situation.

John Doe is a chauffeur for Richard Roe, who owns a truck used in his business, but not insured and the owner not in a position to provide the alternative security required by the law. John Doe, the chauffeur, is not acquainted with this fact. John Doe meets with an accident but is entirely blameless, yet due to the stringent requirements of the law his license to drive is suspended, thereby depriving him of the means of earning a livelihood. His employer's registration plates are surrendered, but the business goes on as usual because if a truck is essential to the conduct of business it is a simple matter to hire one.

This situation should be corrected as there is a little doubt it works a hardship on the chauffeur, although he may find a new employer willing to furnish proof of financial responsibility for him. It is not a simple matter to correct it and still accomplish

the intent of the law, but time and experience will no doubt bring forth some practical solution to the problem.

Section 94gg of the Act gives the Commissioner of Motor Vehicles broad discretionary powers in his dealings with self-insurers. It will be interesting to learn what rules and regulations he will set up for the close supervision and scrutiny necessary to insure the payment of damages by those who are self-insured.

There will probably be some clamoring for an immediate reduction in insurance rates based on the expected large increase in insured cars, but in fact there should be an increase in rates to provide for such additional expense as the cost of administration of the law and a great deal more home office detail consisting of filing policies or certificates, with their subsequent changes, and the probability that more extensive statistical information will be required. It is possible that the increase in insured cars will not come up to expectation, due to the increased taxation and generally higher living cost which may force many people to give up their cars, temporarily at least.

In its main provisions the new law is strict, even severe, in application, but fair to all motorists alike, and is the strongest legislative inducement to carrying insurance, short of compulsory law.

New York is now one of three states requiring evidence of financial responsibility from any one involved in certain accidents even though he may be blameless. The New York Law, however, goes a step farther than the other two and prohibits a motorist from selling or transferring his vehicle after his registration has been suspended.

Merely as an observation, it is interesting to note that any judgment arising out of an accident that is awarded for more than the maximum responsibility provided for by the law, need not be settled in full in order to lift the Motor Vehicle Department's suspension. Thus a judgment debtor, with a \$20,000 award against him, could obtain his permits on payment of the first \$5,000 of the judgment. It appears, then, that stringent as the New York Law is, the "victim" of an accident may, in many instances, still be deprived of equitable compensation.

The proposed amendment to eliminate the necessity of filing

a report of Property Damage accidents not exceeding \$25.00 is commendable, but in my humble opinion does not go far enough.

Has any Financial Responsibility Law had any other connotation than the urge to compensate for the loss of life and limb? One very rarely thinks of property damage when considering such a law. When we assert that the law was drafted to give every man, woman and child in this state greater protection against the growing menace of street and highway accidents, it appears to the writer that property damage is quite incidental to the sense of personal loss this language conveys. When one considers that the average property damage claim is for less than \$60.00 and that at least 90% of all property damage claims are settled for less than \$125.00, it would appear that property damage might well be left out of the Law's requirements and the machinery of administration enormously helped thereby. It follows, too, that the man who feels impelled towards a policy of insurance would almost invariably purchase both bodily injury and property damage coverage.

It is the property damage accidents which threaten to clog the machinery of the new law, and the expense and work involved will far out-measure any distress caused to the victims of such accidents, particularly in view of an expected increase in the number of cars insured to include this cover.

It has been said that the acid test of the new law is the machinery for its administration. Certainly, if the law were confined to the bodily injury feature, the relief from details would definitely guarantee successful administration.

In that the new law penalizes the faulty and habitually careless driver, it is a powerful incentive to safe driving, and while the bill primarily is a safety measure penalizing bad drivers, the net effect will be to increase the number of insured cars and promote more careful driving not only by those insured but also by those who are trying to avoid coming under it.

No one can foresee how the new law will work out. If we use the New Hampshire Act as a guide, we can expect some degree of success, but the problems in New York will be many times those in New Hampshire due to the tremendous difference in the number of motor vehicles involved.

There is no doubt that the new law will be instrumental in

reducing traffic accidents, because the motoring public will soon become aware of the fact that fewer accidents result in lower insurance rates.

Finally we can look for closer scrutiny of insurance rates by the Superintendent of Insurance, the probable demand for more extensive statistical information concerning such rates and the possibility that they may become the subject of political discussion.