

# PROCEEDINGS

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## A MID-CENTURY LOOK AT CASUALTY INSURANCE

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It seems inevitable that the year 1950 should produce for the *Proceedings* some sort of a comparison of casualty insurance as it existed at the beginning of the present century and as it is today, nearly fifty years later. Whereas I have no special talent as a historian, a preliminary canvass of this idea indicated that it held some promise as a basis for "remarks by the President" as our by-laws graciously term this item in the order of business. Obviously, a comprehensive comparison is out of place on this occasion. In fact, even the brief mention of present conditions necessary for comparative purposes could be boresome to an informed audience. However, possibly a then-and-now review could develop some comments of interest and a few observations beneficial to our present-day perspective.

As an authentic source record descriptive of casualty insurance shortly after the turn of the century, reference will be made to a Manual of Liability Insurance, published by an individual insurance carrier, and placed in the hands of its agents with the instruction "must not be loaned or shown to any person not in the employ of said Company." The manual became effective July 1, 1902, at a time when liability insurance embraced almost all of the important forms of casualty insurance except accident insurance and its related coverages. Thus, this one manual is the 1902 equivalent of the five-foot shelf of manuals, rating plans, statistical plans, etc. which are the modern tools of the trade. Within its green linen covers are eighty-three printed pages neatly thumb-indexed and containing complete rules and instructions for correspondence, daily reports, policy issuance, cancellation forms, minimum premiums, classifications, and rates for a dozen sub-lines of liability insurance. One cannot help but marvel at the extent of the subject matter described concisely, yet adequately, within the physical limits of a single manual of such diminutive size.

There are many references from this manual which could be cited to convey some of the atmosphere of this post Gay Nineties period. A few will suffice if they are aided by an agile imagination. For example, agents are cautioned to write legibly, an instruction definitely antedating the common use of the typewriter. The classification section for Manufacturers' and Contractors' showing rates for Employers' Liability, Workmen's Collective, and Public Liability coverages occupies about half of the entire manual. Among the classifications which have become obsolete with the passage of time is one for

Coach, Carriage, or Wagon Manufacturing and three separate classifications for Blacking Manufacturing, one each for Harness, Shoe, and Stove. As evidence that this is not an abridged manual, there are seven individual classifications to cover the Button Manufacturing industry—Bone, Celluloid, Ivory, Metal, Pearl, Rubber and N.O.C. What kind and how many Button Manufacturing risks fell within the N.O.C. classification is a question for speculation. A page of classifications is required for the gas industry and there are many covering street railroads, including one classification for "Street Railroad Operation—Surface—Horse."

The classification section for Teams Liability shows for each class the premium per team and an additional premium charge for the "Loading and Unloading" hazard. It is my understanding that this loading and unloading premium was designed to compensate for the extra hazard to the public involved in such a case as a lumber dealer delivering a load of new material at the site of a building project. One of the highest-rated teams classifications is "Police Patrol" with a premium of \$100 and,—picture this, there is an additional loading and unloading charge for this classification of \$10.

None of the classifications in the manual carries a code number. Evidently, all coding was accomplished either in the home office as an additional operation or possibly it was the intention to compile experience statistics by laborious hand methods on a risk by risk basis.

The first automobile liability policy issued in this country was written about four years prior to the publication of this 1902 manual. Consequently, it is not surprising to find in the manual only one page devoted to Automobile Insurance and rates. Rates were stated to be the same in all parts of the country. There was one classification for private cars, one for commercial cars, and five classifications for public vehicles. One of the latter is for "herdics." The dictionary defines a herdic as a kind of low-hung cab. My imagination fails me in visualizing this type of motor vehicle.

The 1902 manual has an interesting instruction to agents regarding the collection of premiums.

"Where premiums, either advance or additional, are not reported to the home office within sixty days, the Company may proceed to collect them by special representative. If the premium is collected by the Company's representative, a deduction of 25% will be made from the commission. If it becomes necessary to employ an attorney, 50% of the commission will be deducted. If suit is instituted to collect, no commission will be allowed to the agent."

Evidently, the company was fully aware of the seriousness of the problem of premium collection, which persists to this day, and moved directly and precisely to meet it in the manner indicated.

One who is interested in such matters could spend considerable time selecting other references in the manual which cast sidelights, both amusing and instructive, on the times and on the conditions in the casualty insurance business of the era at the beginning of the century. A more serious view of the situation as revealed by the 1902 manual discloses many features which either are identical with or at least very closely resemble the practice of casualty insurance in 1950. This applies particularly to the kinds of liability insurance

then available. In the old manual, there are sections devoted to Automobile, Contingent Liability insurance for Owners or General Contractors, Elevator, Employers' Liability, General Liability, Physician's and Surgeon's Liability, Manufacturers' and Contractors', Teams, Theatre, Vessel insurance and Workmen's Collective. This list could meet the requirements of a modern multiple line casualty insurance carrier if it were to be supplemented with Products Liability insurance and several property lines, and if Workmen's Compensation insurance were to be substituted for the lines which it has since largely supplanted, namely, Employers' Liability, and to a less extent, Workmen's Collective.

Workmen's Collective insurance was an elementary form of Group Accident "at occupation" insurance with benefits defined in the policy in terms of wages of the injured. A limited choice of optional coverages was offered, including one which is of current interest because of its resemblance in part to New York statutory disability coverage. For an additional rate of 40 cents per \$100 of payroll, "occupation only" coverage was extended to "twenty-four hour coverage" with total disability benefits equal to one-half weekly wages not exceeding twenty-six weeks or \$500. Note that the coverage is accident only and not accident and sickness as is the case with modern disability coverage. The Workmen's Collective coverage also included lump sum benefits for death and permanent total cases and fractional benefits for specific dismemberment cases. It is rather odd to meet in this old manual a close relative of a subject which is receiving intensive study at the present time.

The basis of exposure for premium determination for each of the liability lines in 1902 is identical with that in use in 1950. Basic limits of liability at a time when eggs were selling for 10 cents a dozen were \$5,000 per claim and \$10,000 per accident, as is the case today. Higher limits could be obtained for a percentage increase in premium. The General Liability line with a minimum premium of \$10 for one building could be written on a three-year basis at a premium equivalent to three annual premiums, less 10% payable in instalments of 50%, 30%, and 20%, a familiar basis which has only recently been revised to a moderate extent. The old manual contained a table of short term insurance rates, very similar in content to our present short rate table. Many of the old classification wordings are not unlike those in use today.

To continue the recitation of similarities would serve no purpose other than to accentuate the wisdom and foresight of the compilers of the 1902 manual. It is a fine tribute to their work that so many fundamentals have withstood the test of half a century of usage and have provided the foundation on which has been built the towering structure of modern casualty insurance. This was a complete, practical, and comprehensive manual of casualty insurance for its time. Today, it serves as a sort of pocket museum disclosing to the reader an interesting and authentic picture of fifty years ago.

#### HOW WOULD CASUALTY INSURANCE IN 1950 APPEAR FROM THE VIEWPOINT OF 1900?

For an answer to this question, I sought an interview with an imaginary casualty insurance Old Timer who, after the manner of Rip Van Winkle, had emerged from a fifty-year period of suspended animation and who presently was engaged in an intensive objective study of modern casualty insurance.

As might be expected, his first remarks were ones of amazement at the reported aggregate premium volume of the industry, at the development of such lines as automobile and workmen's compensation insurance, and at current office practice with its machine equipment and its specialized organization of personnel. High praise was extended for the benefits to the public from accident prevention and safety activities of the last fifty years and also for the carriers' splendid record of financial stability maintained under the test and strain of war, depression, adversity, and inflation. The spirit of toleration and cooperation between carriers was regarded as a special blessing by one accustomed to the "dog eat dog" philosophy of earlier days. The Old Timer's greatest tribute to the industry was expressed when he spoke at length of the invaluable service which insurance has rendered in the economic development of the nation by softening the blows of misfortune to individuals and corporations.

When queried as to any critical observations of the practice or progress of the business which might have occurred to him, the Old Timer was slow to respond at first but later warmed up to the subject. In any enterprise, true progress is not measured solely by a vast increase in the volume of business but is found in the improvement of product or service with reduced cost to the ultimate consumer. According to this criterion, the progress of the past fifty years, other than with respect to service to policyholders, has not been spectacular. In his opinion, economies from a greater efficiency in the conduct of the business which might have been salvaged and passed along to the purchasers of insurance have been absorbed in part by an unintentioned complication of procedures. This tendency may have been encouraged by allegiance to such ideals as consistency, continuity, and uniformity, which are all valuable attributes of any business in which there is a strong public interest.

To illustrate, he pointed to the comparative physical proportions of the 1902 manual and the corresponding present-day manuals of casualty insurance, and to further emphasize his observation, he handed me a workmen's compensation policy, issued to cover a one-employee risk. Attention was drawn to complications which resulted from the consistent application of procedures evidently designed primarily for the needs of large risks. In this case, it appears that a renewal policy was submitted to the assured by a general agent a month and a half in advance of its effective date, with a bill for the premium. The premium was determined by applying the manual rate to an estimated payroll substantially discounted from the known fact and adding to the product, the necessary loss and expense constants. Part of the advantage from the gesture of using a discounted payroll was lost because the calculated premium was less than the minimum premium of the policy. It was noted that it will be necessary for the assured to pay a few dollars additional premium after expiration of the policy in order to build the total premium up to the amount which could have been established initially as the product of the actual payroll of the one employee and manual rate plus constants. The policy itself consisted of four pages and was literally blanketed by no less than six special endorsements, identified as referring to the illegal employment of minors, board and lodging, inclusion of occupational diseases, overtime and limitation of remuneration, statutory, and an interpretive

endorsement as to "liability over" and the exclusion of contractual liability. Furthermore, once the policy was opened, it was as difficult to refold it properly as a typical automobile road map. "Actually," continued the Old Timer, "what this assured wants is to pay a flat premium for a statement from the carrier that his legal obligations to the employee under the state compensation law and otherwise emanating from the employer-employee relationship are completely assumed by the insurance carrier. He would be quite happy if this could be expressed on a single sheet of paper."

During the last few decades, the industry has made remarkable strides in perfecting its pricing technique and in the adjustment of individual large risk premiums by experience rating and by retrospective rating. This should have provided an opportunity for a simpler and possibly more approximate system of manual rates for small risks, one more in keeping with their actual interest in the subject. Where moderate amounts of premium are involved, the public does not consider it particularly sinister to substitute broad averages for a refined and detailed allocation of insurance costs.

Another instance of the complication arising from the consistent application of large risk procedures to all risks, including small ones, was noted by the Old Timer in connection with his review of unit plan statistical reportings for compensation insurance. Recognizing the advantages of the unit plan as respects the requirements for individually rated risks, he questioned if it were essential that the experience of small risks be reported in the same uniform detail or whether a substitute procedure involving aggregate reporting might produce some net economy in company administration and bureau expense without a material sacrifice in the utility of the reports.

The Old Timer suspects that a critical scrutiny of the details of ratemaking for each line of casualty insurance would reveal points where consistency with the past or within the present has submerged other considerations which might have indicated a different approach. He decries the prevalent tendency to make rates by rote.

According to his observation, the increase in complexity within the industry is partly attributable to a multiplicity of rating bureaus, each with a full complement of committees of company representatives meeting intermittently to polish and improve one facet or another of the business.

The stimulation of state regulation of the casualty insurance brought about by federal interest in the matter is something of a puzzle to the Old Timer with his 1900 background. Noting the large number of special calls for experience, losses and expenses, the regimentation of accounting practice, and many public hearings held on rating questions, he assumes that all must be necessary. He finds it difficult to fully rationalize all these activities with his theory that the true test of essentiality is whether the resulting benefit to the policyholder is commensurate with the time, energy, and expense involved.

At this point, let us bid goodbye to our friend from the past. As students of the business, we are well aware that one of its most urgent needs today is simplification: It is probably true that inertia and resistance to change have developed within the industry in the belief that if consistency in method is maintained, there will be less criticisms and more understanding on the part of the public and supervisory officials. But without change, there would be no progress and casualty insurance prides itself on being progressive and adapt-

able to new situations. Some of these qualities should be directed at reform within areas which, up to now, have been overlooked or neglected. As actuaries, we possess a heritage left to us by the founders of this Society who pioneered scientific methods in casualty insurance ratemaking. With it goes an obligation to see to it that the ratemaking systems function smoothly and efficiently. If for no other reason than to keep the faith, we should bestir ourselves now to remedy matters which fall within our own sphere of responsibilities.