THE COMBINED FIRE AND CASUALTY ANNUAL STATEMENT BLANK

BY

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SCOPE

This is the second installment of the above paper (see *Proceedings*, Volume XXXVII, Number 68) and deals with the following phases of the blank:

Financial Statement
Exhibits and Schedules

FINANCIAL STATEMENT

The following excerpt is quoted from "The Weekly Underwriter", issue of February 3, 1951:

> "Within the past few years the interest of assureds in these annual statements has taken on new aspects. The companies have been cognizant of that fact, with the result that most of the statements are now clear and concise and readily understood by the public.
>
> "These statements make evident at a glance the financial status of a carrier—lay bare the assets, type of assets, total of capital funds, obligations, and type of obligations. All this to the modern assured is important information."

While it is not certain that the writer of the above had in mind the subject blank, it is reasonable to claim that such blank meets the criteria implied in the second paragraph of the quotation.

As stated in the previous installment, the financial condition and operating results are exhibited concisely on three pages. This installment deals with these pages, including such references to other pages as are pertinent or essential.

All references to the previous blank, unless otherwise qualified, are to the 1949 Miscellaneous blank and all references to the new blank are to the 1951 Fire and Casualty edition.

ASSETS (Page 2)

The history and development of insurance annual statement reports show that the original form of report was a rather simple statement based upon a modified single entry bookkeeping system. In its simplest form the statement showed the development of "cash" assets from the beginning of the year to the end of the year. Cash debits (premiums, interest, etc.) represented increments according to source, and cash credits (losses, expenses, etc.) decrements according to purpose. Ledger liabilities, other than capital stock, were not contemplated. This form, with necessary amendments to reflect non-income items affecting the balancing of the ledger assets between years (adjustments in book values, surplus paid in, capital paid in and changes in other ledger liabilities), was consistently adhered to throughout the existence of the superseded blanks.

The change from cash to earned or accrued income brought in the Non-ledger Assets section and legal requirements or Insurance Department rulings accounted for the Non-Admitted Assets section. As a result, the Assets page produced the "Total Admitted Assets". However, to determine the statement (allowable or admitted) values of certain specific assets it was necessary to modify the book (ledger) values by either the non-ledger or the non-admitted values. The advantages of the new form of Assets page appear to be obvious.

Attention is called to changes in reporting under the new blank which result in total assets differing from the total produced under the previous forms. In the previous Miscellaneous (Casualty) blank uncollected premiums were reported gross as to commissions whereas in the new blank commissions on such premiums are charged as a disbursement. Consequently, the uncollected premium item—Item 8—is net as to commissions.

In both the previous Miscellaneous, and Fire blanks the net discount applicable to assets and liabilities due to foreign exchange discount rates was reported as a non-admitted asset whereas in the new blank it is transferred to the liabilities page. This treatment avoids a negative asset item.*

Further comments on other asset items will be made in connection with consideration of other sections of the blank.

LIABILITIES, SURPLUS AND OTHER FUNDS (Page 3)

The liabilities page does not differ materially from that of the previous blank. Items 1–13 provide for the same information as previous Items 1–36, except as hereinafter noted. Data of an analytical or statistical nature, net losses or claims outstanding by line and status, and reserves for loss adjustment expenses by line of business previously required by the Miscellaneous blank, have been omitted and are incorporated elsewhere in the blank. No liability for commissions, other than contingent commissions, is necessary for the reason previously given. Also, as previously pointed out, a new item (Item 17) to reflect the net adjustments in assets and liabilities due to foreign exchange rates has been added.

In the last paragraph of the first installment reference is made to several basic changes from the superseded forms not included in the "final edition" of the blank put out by the industry. This contemplated the following items:

14. (a) Unearned premiums on reinsurance in unauthorized companies.
    (b) Reinsurance on paid losses $................ and on unpaid losses $................ due from unauthorized companies.
    (c) Total $.................
15. Less funds held or retained by company for account of such unauthorized companies as per Schedule F, Part 2.
16. Excess of liability and compensation statutory and voluntary reserves over case basis and loss expense reserves (Schedule P).

Items 14(a) and 14(b) had been previously required as special items by some states.

Item 1 requires outstanding losses net as to all reinsurance, both authorized and unauthorized, and case basis loss reserves for the liability and the work-

* In theory each asset convertible to or collectible in foreign funds and each liability payable in foreign funds could be adjusted to discounted values, thus eliminating the necessity of the item in question.

men's compensation lines. Item 2 requires that specific loss expense reserves be carried for the liability and compensation lines. Item 10 requires that the unearned premium reserve be shown net as to all reinsurance both authorized and unauthorized. Consequently, Items 14, 15 and 16 are necessary to reflect the net additional charges against surplus to conform to statutory requirements.

Item 15 was not included in the 1950 Blank but was added in 1951. The purpose of this Item is to permit the company to offset amounts included in Items 14(a) and 14(b) to the extent of

1. Deposits made by unauthorized reinsurers to secure or to guarantee the reimbursement of the company for paid or unpaid losses recoverable from such reinsurers.
2. Funds due such reinsurers but withheld by the company under treaty or reinsurance agreements.
3. Balances payable to such reinsurers.

In determining the total amount to be included in Item 15, each reinsuring company is considered as an entity, that is—if for any reinsuring company the offsets to Items 14(a) and 14(b) exceed the amounts of such Items, the excess must be disregarded. (See also comments under Schedule F, Part 2.)

UNDERWRITING AND INVESTMENT EXHIBIT (Page 4)

STATEMENT OF INCOME

This section exhibits the operating income for the year on the earned or realized basis, both before and after Federal income taxes. It follows as closely as possible the basis required for computing such taxes.

Underwriting Income. Items 1–7 correspond to Items 5, 14, 19, 24, 25 and 26, Page 8 of the previous blank.

Investment Income. Item 8 corresponds to Item 56, Page 9 of the previous blank. Item 9 will correspond in most instances to the difference between Items 57 and 62, Page 9 of such blank.

Other Income. Item 10 corresponds to Items 29 and 33, Page 8 of the previous blank. Items 11–17 correspond to Items 30 and 34, Page 8 of such blank. Note that Item 19 corresponds to Item 77 of the previous blank.

CAPITAL AND SURPLUS ACCOUNT

This section exhibits the movement of surplus to policyholders for the year and reflects net income, unrealized gains or losses, direct charges or credits to surplus, and dividends to stockholders or to policyholders.

Item 23 will correspond in most instances to the difference between (a) the sum of Items 58–60 and (b) the sum of Items 63–65, Page 9 of the previous blank.

Item 24 corresponds to Item 39, Page 8 of the previous blank.

Items 25, 26 and 27 are required because of new liabilities Items 14, 15 and 16, Page 3. The remaining items correspond to similar items included in Items 70–76 and 78–81, Page 9 of the previous blank, after allowing for the fact that capital stock is reflected in the "Capital and Surplus Account" but was not reflected in the "Miscellaneous Exhibit" of the previous blank.

In the discussion of the two previous sections, it was brought out that income is on the earned or realized basis. However, realized and unrealized capital gains are not defined. Consequently, in referring to these items, the qualification "in most instances" was used. There are differences of opinion as to what constitutes "realized" and "unrealized" capital gains or losses. A conservative definition of realized capital gains or losses contemplates only profit or loss on actual sales. A more liberal definition contemplates the inclusion of market value appreciation or depreciation. Those holding to the conservative viewpoint would no doubt concede that there are changes in values which, while involving no actual sale or other disposition, might reasonably be considered as "realized". One such example is an asset which, due to certain circumstances or developments, has definitely suffered a loss in its asset value which, in all probability, will not be regained.

Because of the foregoing differences of opinion and practices, the blank as finally adopted left the decision of allocation between realized and unrealized gains or losses to the individual company.

SUMMARY OF SURPLUS AS REGARDS POLICYHOLDERS

This section requires no particular comment. The total increase or decrease agrees with Item 36 of the Capital and Surplus Account.

EXHIBITS

The exhibits consist of:

- Underwriting and Investment Exhibit—Parts 1, 1A, 2, 2A, 2B, 2C, 3, 3A and 4
- Exhibit 1
- Exhibit 2
- Exhibit 3
- Exhibit of State Business

All of the foregoing, except Exhibit 3 and Exhibit of State Business, substantiate or elaborate on various items contained in the financial statement proper. They are considered in order.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1—INTEREST, DIVIDENDS AND REAL ESTATE INCOME (Page 5)

This part shows the development of net investment income earned reported in Item 8, Page 4. Item 12 of the part "Depreciation on real estate (for companies which depreciate annually on a formula basis)" is a new item not provided in the previous blank. The intent of this item is given in a memorandum prepared by a committee representing the fire and casualty industry and a subcommittee of the Committee on Blanks of the National Association of Insurance Commissioners designated as "Suggested Procedures for Compiling 1950 Fire and Casualty Annual Statement Blank" (hereinafter referred to as "Procedures") and is as follows:

> "This is a new item in the 1950 Blank. It contemplates the annual depreciation charge where a depreciation formula is used to write down home office and other properties that are being held for company occupancy or as a long-term investment. Any excess depreciation charge over such annual periodic charge should be included in Part 1A—Capital

Gains and Losses on Investments. For example: If a company which has not been depreciating its home office real estate on a formula basis decided to do so and depreciated the value over the unexpired assumed lifetime of the property, only that part would be included in Item 12 which represents the depreciation charge which would have been made if the company had been depreciating the property from the outset. The annual depreciation charge included in Item 12 of Part 1 would be included in Schedule A, Part 1, Column (9) and/or Schedule A, Part 3, Column (6) and footnotes appended reading as follows: 'Includes $...... depreciation included in Page 5, Part 1, Item 12, such annual depreciation charge should also be included in Schedule A, Part 1, Column (15) and/or Schedule A, Part 3, Column (12)."

PART 1A—CAPITAL GAINS AND LOSSES ON INVESTMENTS (Page 5)

The following is quoted from the "Procedures", underlining supplied.

"The information for compiling this part is available from the various asset schedules and corresponds to that provided for in the 1949 Blank.* Note, however, that as respects real estate, Column (4) excludes depreciation included in Part 1, Item 12. Note further that while in general the amount to be reported in Item 9 will be the difference between Columns (1) and (2) of Item 8, and Item 10 will be the difference between Item 9 and Item 8, Column (6), <u>the actual distribution of Item 8, Column (6) is left to the discretion of the company.</u> In the case where a company enters in Item 9 the difference between Columns (1) and (2), no detailed statement or memorandum need be attached. A note to that effect will be sufficient.

"Note that companies which do not make book entries for the accrual of discount or amortization of premiums on bonds or mortgages, or do not include depreciation of real estate in Part 1, will include the net current year's increase or decrease between the book and admitted values in Part 1A, Column (5)."

PART 2 —PREMIUMS WRITTEN AND PREMIUMS EARNED (Page 6)
PART 2A—PREMIUMS IN FORCE (Page 6)
PART 2B—RECAPITULATION OF ALL PREMIUMS (Page 7)
PART 2C—RECAPITULATION OF FIRE PREMIUMS (Page 7)

These parts require the same premium information as required by, and provided for, in the 1949 Fire, and Miscellaneous Blanks and require no further explanation except to call attention to the fact that in the development of unearned premiums and earned premiums, reinsurance in both authorized and unauthorized companies is required to be reflected.

Note that Column (7), Part 2, provides for earned premiums by line of business and that the Total of this column is carried to Item 1, Page 4.

Part 2C provides for the details of net premiums in force by term and expiry and the unearned premiums thereon as summarized in Item 1, Part 2B.

PART 3—LOSSES PAID AND INCURRED (Page 8)

Columns (1)–(4) provide the same information as required by the corresponding columns of the Loss Payment section of Page 3 of the previous blank.

* Page 9, Items 57-65.

Column (5). The change during the year in the non-ledger assets for salvage and reinsurance recoverable on paid losses is taken care of in this column. Note that such salvage and reinsurance is to be reflected in Column (5) if the same was reported as a non-ledger asset in either the prior or current year.

Column (7). This column provides for net unpaid losses, current year, the same information as in Column (6), Page 5 of the previous blank, except for the workmen's compensation, liability other than auto, and auto liability lines. The amounts are the same as reported in Column (6), Part 3A (see below).

PART 3A—UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES (Page 9)

Columns (1)–(6) of this part require for unpaid losses the same type of data as required by Page 5 of the previous blank for all lines of business, including workmen's compensation, liability other than auto, and auto liability, as provided for by Schedule P as amended in 1950 and hereinafter discussed. Note further than the amounts to be entered in Column (6) for the workmen's compensation, liability other than auto, and auto liability lines are the case basis reserves, excluding loss expense, Schedule P, Part 1, Column (12), and Part 2, Column (10).

The amounts to be entered in Column (7) for all lines of business correspond to the unpaid loss adjustment expenses as provided for on Page 5 of the previous blank for lines other than workmen's compensation, liability other than auto, and auto liability. The amounts for these latter lines are shown in Column (12½), Schedule P—Part 1 and Column (10½), Schedule P—Part 2 of the statement under consideration.

The total of Column (6) is carried to Item 1, Page 3, and the total of Column (7) to Item 2, Page 3.

Note that as respects both Part 3 and 3A the development of unpaid and incurred losses requires the reflection of reinsurance in both authorized and unauthorized companies.

PART 4—EXPENSES (Page 10)

This part, with minor editorial changes and the omission of non-expense items, contains the same information as provided for on Pages 3 and 5 of the previous blank, with one exception:

> In the case of casualty companies the commissions to be entered in Item 2 (a), (b), (c) and (e) are, as previously pointed out, the incurred commissions for the calendar year.

The amount of Item 23, Column (1), checks with the total of Column (7), Part 3A, Page 9, and Item 2, Page 3.

Item 23, Column (2) checks with the sum of Items 3, 4 (Underwriting) and 5 (Underwriting) Page 3, and Item 23, Column (3) checks with Items 4 (Investment) and 5 (Investment), Page 3.

EXHIBIT 1—ANALYSIS OF ASSETS (Page 11)

This exhibit substantiates the statement (admitted) values of assets as reported on Page 2 and provides substantially the same information in columnar form as that provided for on Page 4 of the previous blank in the ledger assets, non-ledger assets and assets not admitted sections.

Blank Line 7 contemplates assets of a nature similar to Items 1–6. Blank

Lines 12 and 13 contemplate assets of a nature similar to Items 8–11. Blank Lines 18–21 contemplate assets of a miscellaneous nature.

The amount appearing in Item 8, Column (3) is the amount of agents balances or uncollected premiums (including reinsurance assumed) over three months due, net as to commissions and dividends, but without deduction of ceded reinsurance balances payable over three months due. The amount of ceded reinsurance balances payable does not appear on the exhibit but is separately set out on Page 2.

EXHIBIT 2—ANALYSIS OF NON-ADMITTED ASSETS (Page 11)

The purpose of this exhibit is to develop the net change during the year in non-admitted assets, excluding investment items, to be entered in Item 24, Page 4.

EXHIBIT 3—RECONCILIATION OF LEDGER ASSETS (Page 12)

This exhibit provides the necessary information to facilitate the reconciliation of ledger assets between years taking into consideration cash income and disbursements, profits and losses on sales of assets, adjustments in book values of ledger assets and any other items affecting such reconciliation. The required information is available from the various parts and schedules of the statement and the ledger liabilities in the statements of the current and previous years.

EXHIBIT OF STATE BUSINESS (Page 14)

This exhibit requires no particular comment. It was adapted from the previous Fire blank and provides for the reporting of both losses paid and losses incurred. The previous miscellaneous blank provided for the reporting of losses paid only.

SCHEDULES

Except for the omission of Schedule H, the addition of Schedules F and K, and amendment of Schedule P as revised in 1950, the various schedules, with minor changes, are the same as those of the previous blank. They are included in this paper primarily for the benefit of students preparing for the Society examinations and others desiring a knowledge of the contents, scope, and requirements for compilation. This section of the paper is in general a revision of the paper "Exhibits and Schedules of the Casualty Annual Statement Blank" originally appearing in "*Proceedings*", Volume XVI., Part I (Number 33), November 19, 1929. They fall into three general classifications, as follows:

MISCELLANEOUS SCHEDULES

Special Deposit Schedule
Schedule of All Other Deposits
Schedule E—Reinsurance Recoverable
Schedule L—Rates of Dividends for Participating Policies
Schedule M—Payments for Certain Purposes or Services
Schedule T—Exhibit of Premiums Written, Losses and Dividends Paid, by States and Territories and method of allocation of premiums by State
Schedule F—Reinsurance Premiums in Force

INVESTMENT OR ASSET SCHEDULES

Schedule A—Real Estate
Schedule B—Mortgage Loans
Schedule C—Collateral Loans
Schedule D—Bonds and Stocks
Schedule N—Bank Balances
Schedule X—Unlisted Assets

UNDERWRITING AND RESERVE SCHEDULES

Schedule G—Development of Unpaid Fidelity and Surety Losses and Claims Outstanding at the end of the seven prior calendar years

Schedule K—Reserve for Credit Losses

Schedule O—Test of Loss Reserves (excluding liability and compensation) as of end of previous year in the light of developments during the current year

Schedule P—Liability and Compensation Loss and Loss Expense Reserves

The principal purposes of these schedules are as follows:

(1) To provide insurance departments with sufficient information to determine if companies are complying with state laws.
(2) To provide insurance departments with sufficient data and details to permit a partial audit of the financial statement during the interim between regular periodic examinations which are usually made at intervals of from three to five years.
(3) To afford information, in addition to that directly bearing upon operating results, of general or specific interest, particularly as respects a company's investments.

The schedules are taken up individually in the order in which they appear in the statement blank.

SPECIAL DEPOSIT SCHEDULE (Page 15)

As a condition precedent to granting authority to transact business, certain states require that a deposit of securities* be made with a designated state official for the exclusive benefit of policyholders (and creditors) in the particular state. This schedule contains a description and other details of securities so deposited. It has no direct bearing upon the financial statement.

SCHEDULE OF ALL OTHER DEPOSITS (Page 15)

As a condition precedent to granting authority to transact business, certain states require that a company must have a deposit of a stated amount in the form of approved securities with the proper official of its home state or some other state for the benefit of all policyholders (and creditors). United States branches of foreign companies are required to make similar deposits in some states in lieu of capital. The foregoing types of deposits are known as general deposits. As in the case of special deposits, they have no direct bearing upon the financial statement.

* In lieu of a deposit of securities some states permit the filing of a corporate surety bond.

SCHEDULE A (Pages 16 and 17)

This schedule consists of three parts as follows:

Part 1—Real estate owned at the end of the year, together with a "Classification" thereof by state and foreign country.

Part 2—Real estate acquired (including additions and permanent improvements) during the year.

Part 3—Real estate sold (including payments on "sales under contract") during the year.

The schedule as a whole balances between years according to the formula set out at the bottom of Page 17, which is reproduced below for the purpose of further comments:

VERIFICATION BETWEEN YEARS

Book Value, December 31, Previous Year (Item 4, Col. (1), Exhibit 1, Page 11)		———
Current Year:—		
Increase by Adjustment: Totals, Part 1, Col. (8)		———
Totals, Part 3, Col. (5)		———
Cost of Acquired, Part 2, Col. (5)		———
Cost of Additions and Permanent Improvements, Part 2, Col. (6)		———
Profit on Sales, Part 3, Col. (9)		———
Total		———
Less:—		
Decrease by Adjustment: Totals, Part 1, Col. (9)	———	
Totals, Part 3, Col. (6)	———	
Received on Sales, Part 3, Col. (8)	———	
Loss on Sales, Part 3, Col. (10)	———	———
Book Value, December 31, Current Year (Item 4, Col. (1), Exhibit 1, Page 11)		———

In addition to the general balance of the schedule, Part 3 balances as follows:

The difference between the book value at date of sale and consideration received on sale equals the net profit or loss on sale, as the case may be. In most instances the descriptions at the heads of the various columns are self-explanatory. The following explanations and comments may be helpful to a clearer understanding of some parts of the schedule and some of the problems encountered in practice in compiling the same.

PART 1

REAL ESTATE OWNED DECEMBER 31

Column (5): This column (actual cost) shows the gross cost, less incumbrances, if any, and including costs of additions and permanent improvements.

Column (17): This is the amount which the company has actually charged itself during the year for its own occupancy.

PART 2

REAL ESTATE ACQUIRED DURING THE YEAR

Column (5): *Cost to Company during year.* This column calls for gross cost to company, less incumbrances assumed, if any, of real estate as it stands at date, or dates, of purchase, i.e., the cost of the land, if unimproved, or cost of land and improvements, if improvements exist at date of purchase, including, of course, cost of acquiring title. It should not include any amounts expended for additions and permanent improvements subsequent to date of acquiring title.

Column (6): *Amount expended for Additions and Permanent Improvements during the year.* This column calls for amounts expended during year for additions and permanent improvements on all real estate made subsequent to acquiring title, including that acquired prior to the current year and that acquired during the year, which are charged to capital (asset) account. Ordinary repairs and expenses charged to expense account should not be reported in this column, but in Column (15) "Expended for taxes, repairs and expenses" of Part 1.

Column (7): *Book Value December 31st of Current Year Less Incumbrances.* There is some uncertainty as to what should be reported in this column as respects amounts expended for additions and permanent improvements during the year on real estate held at the end of the previous year. A majority of companies show only the book value corresponding to the amounts expended for such additions or improvements, and a small minority show the total book value of the property at the end of the year—the book value as of the end of the previous year plus the cost of the additions or improvements made during the year—subject, in each case, to increases or decreases by adjustment in book values reported in Columns (8) and (9) of Part 1.

PART 3

REAL ESTATE SOLD DURING THE YEAR

If, as is sometimes the practice, increases or decreases in book value are made to bring the book value to the sale price, the amount to be entered in the "Book value at date of sale" column is the book value after such profit or loss adjustments have been made, i.e., the sale price.

Where sale is made subject to existing incumbrances, the amount to be entered in the "Amount received" column is the sale price less the existing incumbrances.

Where, however, a sale is made of unincumbered real estate, the company taking a mortgage as part payment, the amount to be entered in the "Amount received" column is the gross sale price.

Sales under contract. Footnote "††" requires that the book value at date of sale shall be the amount of the partial payment received during the year until the book value is exhausted. This means that no profit will be shown until the total of the partial payments exceeds the book value at date of sale, or if the contract sale price is less than the book value at date of sale, no loss will be shown until the final installment is paid.

It is believed that the footnote is for guidance and that other methods of reporting such transactions are permissible. One such method is to prorate the book value and contract sale price over the period of the contract and to report the respective pro rata amounts for each installment payment. This will produce a pro rata profit or loss for each installment.

However, in instances where the contract sale price is less than the book value at date of contract, it is generally preferable to reflect the loss immediately and decrease the book value to the sale price. On the other hand, where the contract sale price exceeds the book value at date of contract, it is preferable not to reflect the entire profit at that time but to spread it over the term of the contract because of the possibility that, through default, the entire anticipated profit may not be realized.

Attention is called to the fact that the schedule will not balance between years according to the formula hereinbefore stated if during the year there have been transactions involving changes in the amounts of incumbrances:

(a) Increase of incumbrance (including the incumbering of previously unincumbered property).
(b) Liquidation or decrease of incumbrance.

The following modifications should be made in the formula:

As respects (a)—Following the item "Received on sales, Part 3, Col. (8)", interpolate the item "Increase in incumbrance(s) during year".

As respects (b)—Following the item "Cost of Acquired, Part 2, Col. (5)", interpolate the item "Liquidation of (or decrease in) incumbrance(s) during year".

Checks between various data in the schedule and certain items of the parts and exhibits follow:

The total of Column (6), Part 1—Book value less incumbrances—checks with Item 4, Column (1), Exhibit 1.

The difference between Columns (6) and (7)—Market value less incumbrances—Part 1, checks with Item 4, Column (2), or Column (3), Exhibit 1, and the increase or decrease in such difference during the year checks with Item 4, Column (5), Part 1A.

The sum of the totals of Column (8), Part 1 and Column (5), Part 3—Increase by adjustment in book value during year—checks with Item 4, Column (3), Part 1A.

The sum of the totals of Column (9), Part 1 and Column (6), Part 3—Decrease by adjustment in book value during year—checks with Item 4, Column (4), Part 1A, Page 5. (See also comments on Real Estate depreciation, Parts 1 and 1A, Page 116).

The sum of the totals of Column (14), Part 1 and Column (11), Part 3—Gross income less interest on incumbrances—checks with Item 4, Column (3), Exhibit 1.

The sum of the totals of Column (15), Part 1 and Column (12), Part 3—Expended for taxes, repairs and expenses during year—checks with the sum of Items 19 and 20, Column (3), Part 4, Page 10.

The sum of the totals of Column (16), Part 1 and Column (11), Part 3—Gross income less interest on incumbrances—checks with Item 4, Column (3), Part 1, Page 5.

The sum of the totals of Column (17), Part 1 and Column (12), Part 3—

Expended for taxes, repairs and expenses during year—checks with the sum of Items 19 and 20, Column (3), Part 4, Page 10.

The total of Column (9), Part 3, checks with Item 4, Column (1), Part 1A.

The total of Column (10), Part 3, checks with Item 4, Column (2), Part 1A.

SCHEDULE B (Page 18)

The schedule proper shows "all mortgages owned December 31 of current year, and all mortgage loans made, increased, discharged, reduced or disposed of during the year". In addition, there is provided a recapitulation or classification of loans by state and by foreign country.

The schedule balances between years as follows:

	Amount unpaid December 31 of previous year..	$______
Add:	Amount loaned during year................	______
	Total.........................	$______
Deduct:	Amount paid on account or in full during year..	$______
	Difference—equals amount unpaid December 31 of current year.........................	$______

The various checks between the schedule and the parts and exhibits follow:

The total of the column "Amount unpaid December 31 of current year" checks with Item 3 (a) and (b), Column (1), Exhibit 1.

The totals of the columns providing for interest past due* and accrued check with the amount shown in Item 3, Column (6), Part 1, Page 5.

The total of the interest column—"Gross Am't received during year", less the total of the column "Paid for accrued interest on mortgages acquired during the year", checks with the amount of Item 3, Column (3), Part 1, Page 5.

As a rule, no difficulty is experienced in preparing this schedule. Where there is a foreclosure on a mortgage, the mortgage loan account is credited with the amount of the mortgage plus any taxes or other expenses or charges, and interest on mortgage loans with the amount of interest due; the corresponding debit is to real estate account. Occasionally a mortgage is sold or a compromise settlement accepted for less than the face amount. In such event, the face amount of the mortgage should be entered in the "Amount paid" column, as the schedule makes no provision for profit or loss, and a footnote added showing the details. The net loss should be entered in Item 3, Column (2), Part 1A.

SCHEDULE C (Pages 19 and 20)

This schedule consists of three parts as follows:

Part 1—Collateral loans in force at end of year.
Part 2—Collateral loans made during the year.
Part 3—Collateral loans discharged in whole or in part during the year.

Provision is made in each part of the schedule for a record of all changes in collateral during the year. The purpose of this requirement is to show whether

* Unless "unadmitted" by statute.

or not the collateral security was adequate at all times.

The schedule balances between years as follows:

	Amount of loans as of December 31 of previous year	$
Add:	Amount loaned during the year, Part 2	
	Total	$
Deduct:	Amount repaid during the year, Part 3	$
	Difference—equals amount of loans as of December 31, current year	$

The various checks between the schedule and the statement parts, and exhibits follow:

The total of Column (5), Part 1—Amount loaned—checks with Item 5, Column (1), Exhibit 1.

The totals of the interest due and accrued columns, Part 1, check with the amount of Item 5, Column (6), Part 1, Page 5.

The sum of the interest received columns in Parts 1 and 3 checks with Item 5, Column (3), Part 1, Page 5.

The preparation of this schedule presents no particular difficulties In case a borrower defaults and the sale of the collateral does not realize a sufficient amount to pay off the loan, the loss should be shown in the manner indicated for showing the loss under a mortgage loan.

SCHEDULE D (Pages 21, 22, 23 and 24)

This schedule consists of five parts as follows:

Part 1—Bonds owned at the end of the year.
Part 2—Stocks owned at the end of the year.
Summary of bonds and stocks owned at the end of the year by classification.
Part 3—Bonds and stocks acquired during the year.
Part 4—Bonds and stocks sold, redeemed or otherwise disposed of during the year.

The schedule as a whole balances between years according to the formula set forth at the bottom of Page 23 and is similar to the formulas for the balancing of Schedules A, B, and C:

VERIFICATION BETWEEN YEARS

1. Book value of bonds and stocks, per Items 1 and 2, Exhibit 1, Column (1), previous year		$
2. Cost of bonds and stocks acquired, Col. (5), Part 3		
3. Increase by adjustment in book value:		
(a) Col. (10), Part 1	$	
(b) Col. (9), Part 2		
(c) Col. (9), Part 4		
4. Profit on sale of bonds and stocks, Col. (11), Part 4		
5. Total		

6. Deduct consideration for bonds and stocks sold, Col. (5), Part 4........... $________

7. Decrease by adjustment in book value:
   (a) Col. (11), Part 1.... $________
   (b) Col. (10), Part 2.... ________
   (c) Col. (10), Part 4.... ________ ________

8. Loss on sale of bonds and stocks, Col. (12), Part 4........................ ________ ________

9. Book value of bonds and stocks, per Items 1 and 2, Exhibit 1, Column 1, current year.................. $________

Part 4 of the schedule balances as follows: The difference between the book value at date of sale and the consideration received on sale equals the net profit or loss on sale, as the case may be.

Before considering checks between the schedule, the parts, and the exhibits, the reporting of additional details in case of companies valuing bonds upon the amortized basis will be considered. The increases for accrual of discount and decreases for amortization of premium are usually included in Columns (10) and (11), Part 1, and Columns (9) and (10), Part 4. Increases or decreases made for any other purpose (such as increases or decreases to adjust the book value up or down to the market value in case of bonds not subject to amortization, i.e., perpetual bonds, bonds in default as to principle or interest, and bonds not amply secured) are also included in these columns.

Where a company values its bonds on the amortized basis, changes in market values do not affect surplus except in case of bonds not subject to amortization. The book and amortized values will be the same, provided a company adjusts its book values to market values in case of bonds not subject to amortization, since for such bonds the market value will be used as the amortized value, i.e., the same amounts will be entered in both Columns (4) and (16), Part 1. Otherwise, there will be an excess in favor of one or the other basis.

Where a company values its bonds on the amortized basis, the increases for accrual of discount and decreases for amortization of premium (but not the increases or decreases to bring book value to market value in case of bonds not subject to amortization) will be entered in Columns (17) and (18), Part 1. Both types of increases or decreases will be entered in Columns (9) and (10), Part 4, as this part does not distinguish between types of increases or decreases.

The following are the various checks between the schedule and the parts and the exhibits:

The total of Column (4), Part 1, checks with Item 1, Column (1), Exhibit 1.

(Since a company may value and report its bonds on three bases and, in case of companies valuing the same on the amortized basis, may report the amortization and accrual amounts on two bases, all checks hereinafter given, as respects columns and statement parts affected, are given for each basis, as follows:

Basis of Valuation	Amortized Values Reflected in Book Values	Increases and Decreases in Amortized Values Reflected in Interest Received
(a) Market Values	—	—
(b) Amortized Values	Yes	Yes
(c) " "	Yes	No
(d) " "	No	Yes
(e) " "	No	No

Bases (a), (b) and (e) are in general use. Bases (c) and (d) are theoretically possible.)

The difference between Column (4) and Column (7), Part 1, checks with Item 1, Column (2) or Column (3), Exhibit 1 on basis (a) and the increase or decrease in such difference during the year checks with Item 1, Column (5), Part 1A.

The difference between Column (4) and Column (16), Part 1, will be "0" on bases (b) and (c) and there will be no increase or decrease during the year.

The difference between Column (4) and Column (16), Part 1, will check with Item 1, Column (2) or Column (3), Exhibit 1, on bases (d) and (e) and the increase or decrease in such difference during the year will check with Item 1, Column (5), Part 1A.

The total of Column (9), Part 1—Interest due and accrued—checks with Item 1, Column (6), Part 1, on each basis.

The sum of the totals of Column (9), Part 1 and Column (13), Part 4—Interest received—less the interest portion of Column (7), Part 3—checks with Item 1, Column (3), Part 1 of statement on bases (a), (c) and (e).

The sum of the totals of Columns (9)—interest received—and Column (17), Part 1, Column (9)—amount representing accrual of discount*—and Column (13), Part 4, minus the sum of Columns (18), Part 1, (7)—accrued interest on bonds—Part 3 and Column (10)—amount representing amortization of premium*—Part 4, checks with Item 1, Column (3), Part 1 of statement on bases (b) and (d). See also footnote "*", Part 1, Page 5.

The sum of the totals of Column (10), Part 1 and the bond portion of Column (9), Part 4, checks with Item 1, Column (3), Part 1A on bases (a), (d) and (e).

The sum of the totals of Column (11), Part 1, and the bond portion of Column (10), Part 4, checks with Item 1, Column (4), Part 1A on bases (a), (d) and (e).

The difference between the totals of Columns (10) and (17), Part 1, plus the bond portion of Column (9), Part 4, representing increases other than for accrual of discount, checks with Item 1, Column (3), Part 1A on bases (b) and (c).

*Columns (9) and (10), Part 4, include all "increases" and "decreases"—those affecting amortized values and those made for other purposes (such as adjustments to bring amortized values to market values or vice versa).

The difference between the totals of Columns (11) and (18), Part 1, plus the bond portion of Column (10), Part 4, representing decreases other than for amortization of premium, checks with Item 1, Column (4), Part 1A on bases (b) and (c).

Column (12), Part 1, is included for informative purposes only.

The total of Column (4), Part 2, checks with Item 2, Column (1), Exhibit 1.

The difference between Column (4) and Column (6), Part 2, checks with Item 2, Column (2) or Column (3), Exhibit 1, and the increase or decrease in such difference during the year checks with Item 2, Column (5), Part 1A.

The sum of the totals of Column (8), Part 2 and Column (14), Part 4—Dividends received—less the dividend portion of Column (7), Part 3, checks with Item 2, Column (3), Part 1 of statement.

The sum of the totals of Column (9), Part 2 and the stock portion of Column (9), Part 4 checks with Item 2, Column (3), Part 1A.

The sum of the totals of Column (10), Part 2, and the stock portion of Column (10), Part 4 checks with Item 2, Column (4), Part 1A.

The bond portion of Column (11), Part 4, checks with Item 1, Column (1), Part 1A.

The bond portion of Column (12), Part 4, checks with Item 1, Column (2), Part 1A.

The stock portion of Column (11), Part 4, checks with Item 2, Column (1), Part 1A.

The stock portion of Column (12), Part 4, checks with Item 2, Column (2), Part 1A.

Infrequent and unusual transactions sometimes present questions as to the proper reporting of the same in the various parts of the schedule, keeping in mind that the schedule must balance between years according to the formula set out on Page 23 of the blank. The following comments cover the schedule entries for such transactions as are most generally met with in practice:

Stock Dividends. Since, as a rule, stock dividends are not income, the proper method of reporting the same in the schedule is to enter them on Part 3, giving description, date acquired and par value as called for. Under name of vendor, the notation "Stock Dividend" should be made. The cost to Company should be "0". The accounting and schedule entries on subsequent sale of stocks acquired as a stock dividend should conform to Federal income tax requirements. See "Regulation 111—Income Tax—Internal Revenue Code" and Supplements thereto.

Sale of Rights. The total proceeds from sale of stock rights do not represent profit. The major portion of the proceeds represents a return of capital and the profit or loss is usually a comparatively small amount. For this reason the simplest method of handling the accounting for annual statement purposes is to assume no profit or loss on sale of rights but to credit book value with the full amount of the proceeds. In such case the entries in Schedule D, Part 4, are as follows:

In the description column, the number of "Rights" should be inserted before the name of the stock; "0" in the par value column;

the consideration received (total proceeds) in both the cost to company and the book value at date of sale columns.

However, it is preferable to determine the actual profit and loss in accordance with Federal income tax requirements, particularly to establish an adjusted cost in the event of subsequent sale of stock holdings. For determination of the actual profit or loss and adjusted cost, see "Regulations" referred to above.

Transfers to Schedule X. The approved method of treating transfers to Schedule X—Unlisted Assets (see Page 137)—is to decrease the book value to "0" by profit and loss entry. The usual entries are made in Part 4 of the schedule, "0" being entered in the consideration and book value at date of sale columns; the date charged off in the date sold column; and the notation "Transferred to Schedule X" in the name of purchaser column.

Transfers from Schedule X. Transfers from Schedule X (reinstatement of assets previously transferred) must pass through Part 3 (Schedule D). The following entries should be made:

The usual entries will be made in the description and par value columns; the date of transfer in the date acquired column; the notation "Transferred from Schedule X" in the name of vendor column and "0" in the cost to company column. An increase by adjustment should be made in Part 1 to re-establish the book value; also the original cost should be entered in the actual cost column of Part 1.

Receipts in Form of Securities. Receipts are not always in cash but sometimes consist of securities. This frequently happens where reinsurance of all the outstanding risks of a company is effected. In such cases the value fixed upon the securities should be considered as the purchase price and properly entered in Schedule D, Part 3, in case of the accepting company, or as the sale price and properly entered in Schedule D, Part 4, in case of the ceding company. The "Name of Vendor" in Part 3 will be the ceding company and the "Name of Purchaser" in Part 4 will be the accepting company. A similar rule would apply to any securities received as salvage and included in Parts 1 or 2. The fair market value would be reported as salvage recovered, and such value entered in the "Cost to Company" column of Schedule D, Part 3, since the transaction (from an accounting standpoint) is exactly the same as if the company received the amount in cash and immediately invested it in the security in question. The "Name of Vendor" will show the notation "Salvage Recovery."

Exchange of Securities. Exchanges of securities may arise from pure "swaps" carried out through a broker, but more frequently result from "reorganizations". The schedule accounting procedure in general is as follows:

Part 4—The book value of the old securities at the date of exchange should be considered as the sale price.

Part 3—The book value of the old securities at the date of exchange, minus the cash received or plus the cash paid, if any, will be considered as the purchase price (cost to company) of the new securities and the actual cost for Part 1 or 2.

Note that the foregoing assumes no profit or loss involved in the transaction. This will be the situation in most instances. The rule, however, does not apply if a book profit or loss is involved, and in such rare instances each transaction must be handled in accordance with the particular circumstances. See also "Regulations" previously referred to.

Where bonds are exchanged for part bonds and part stocks, an apportionment of the book value of the old securities (bonds) will be necessary for determining the respective costs of the new securities (bonds and stocks), taking into consideration also any cash received or paid in connection with the exchange. No fixed rule can be given. In some instances stock received on reorganization represents potential future value only, and where this is the case it is a question of whether or not the new stock should be assigned any book value or cost. Each transaction must be considered in the light of the particular circumstances. See also "Regulations" previously referred to.

Stock Split-Ups. Where stock of a certain par value is exchanged for a larger number of shares of the same class of stock of a smaller par value, the transaction should be carried through Parts 3 and 4 of Schedule D, treating the book value at the date of exchange as the sale price for Part 4 and the purchase price for Part 3. As the change is one of form only, no profit or loss on sale should be considered and on Part 2 of the schedule the amount to be entered in the cost to company column should be the cost of the original stock.

SCHEDULE E (Page 25)

AMOUNTS RECOVERABLE ON PAID AND UNPAID LOSSES

This schedule contemplates the reporting of all reinsurance recoverable, both authorized and unauthorized, for all lines of business combined. (The schedule in the previous blank excluded reinsurance recoverable on the liability and compensation lines.)

The grand total of Column (1) checks with Item 11, Page 2, and the grand total of Column (2) checks with the total of Column (3), Part 3A.

Separate totals should be made for authorized companies and for unauthorized companies. The totals of Columns (1) and (2) for unauthorized companies will check with the corresponding amounts of Item 14 (b), Page 3.

SCHEDULE F (Page 26)

This schedule is divided into three sections, as follows:

Part 1 (a)—Ceded Reinsurance as of December 31, current year
Part 1 (b)—Portfolio Reinsurance effected during last three months of current year
Part 2 —Funds withheld on account of reinsurance in unauthorized companies as of December 31, current year

All the sections are new in the 1951 Convention Blank.

PART 1 (a)

Although this section is new as a Convention form, a similar form has been required by certain individual states and was contemplated in the 1950 blank. (See heading of Part 2A, Column (6) "Deduct Reinsurance in Force (Schedule

F) Authorized and Unauthorized companies"). It is believed that the section contemplates a division between "authorized" and "unauthorized" companies.

The new part differs from the previously contemplated part in that it requires the "Unearned Premiums (Estimated)" on such reinsurance in force for each individual reinsurer.

The report of the Committee on Blanks, National Association of Insurance Commissioners, contained no suggestions as to methods to be used in estimating the unearned premium reserve on ceded reinsurance by company, and the methods employed by individual companies will depend upon the basic punch card data available. Some direct writing casualty companies, because of a small volume of reinsurance ceded, may be in a position to compute the unearned premium reserve accurately for each authorized and unauthorized company. Where the volume of such reinsurance involves a large number of reinsuring companies, such method may not be practicable. In such instance the following method might produce sufficiently accurate results:

1. Compute the total unearned premium reserve for all companies combined (authorized and unauthorized).
2. Compute the unearned premium reserve accurately for each unauthorized company.
3. Subtract the total of 2 from 1.
4. Compute ratio of 3 to total premiums in force for authorized companies.
5. Apply ratio from 4 to the premiums in force for each authorized company.

In the case of portfolio reinsurance* a modification of the above method would be necessary.

The foregoing represents the author's idea of a method that might be acceptable, but he does not guarantee its acceptability. It is possible that in due course the Committee on Blanks will suggest methods for estimating the ceded reinsurance unearned premiums.

Question might be raised as to the necessity of including in the section the unearned premium reserve by company for authorized companies.

PART 1 (b)

The apparent purpose of this section is to provide information on the matter of whether a company has ceded a substantial amount of its liability in order to temporarily improve its financial condition or has assumed a substantial amount of the liability of a company to temporarily improve the financial condition of such ceding company.

The column "Amount of Original Premiums" contemplates the aggregate gross policy premiums for the full terms of the policies and the column "Amount of Reinsurance Premiums" contemplates the aggregate pro rata unearned premiums, at date of cession or acceptance, for the unexpired portions of the terms of such policies, without deduction for any commissions received or paid on such premiums.

PART 2

The purpose of this section is, as stated on Page 115, to permit the ceding company to offset liabilities for unauthorized reinsurance by deposits made

*In general, the transfer in whole, or in part, of liability on policies in force, by one company to another company, or companies. Such reinsurance may include a single line or combination of lines, or the entire business of the ceding company.

with the company, by funds withheld by the company, and by any other balances payable to unauthorized accepting companies—each unauthorized company being considered as an entity.

The sources of the data to be included in each column of the section are as follows:

Column (1)—Part 1 (a)—Unauthorized companies. Total for unauthorized companies checks with Item 14 (a), Page 3.

Column (2)—Schedule E, Columns (1) and (2)—Unauthorized companies. Totals of Columns (1) and (2) of Schedule E for unauthorized companies check with the respective inside amounts of Item 14 (b), Page 3.

(The foregoing assumes that entries for all unauthorized companies will be entered in this section of the schedule. The entries may be limited to companies where an "offset" is involved. In such case the checks stated under Columns (1) and (2) will not apply.)

Column (4)—That part of Item 12, Page 3, applicable to unauthorized companies. (It is assumed that "deposits" are included in the company assets and also included as a liability (ledger) in Item 12, Page 3.)

Column (5)—That part of Item 8, Page 2, representing "reinsurance balances payable", applicable to unauthorized companies, plus any other credits due unauthorized companies not otherwise reflected; but subject to requirements of any state having laws governing such credits.

The total of Column (6) checks with Item 15 (Amount of deduction), Page 3.

SCHEDULE G (Page 27)

DEVELOPMENT OF NET UNPAID FIDELITY AND SURETY LOSSES AND CLAIMS

This schedule shows the developments to date of unpaid losses and claims outstanding as of the ends of the seven calendar years prior to the year of statement. Its purpose is to indicate whether or not a company is maintaining adequate loss reserves for these lines of business. The test for any particular year's reserve consists of comparing the total of the amount paid to date plus the present (current year) liability or reserve with the reserve as of December 31st of the year under consideration.

For example, to determine the adequacy of the reserve as of December 31, 1944, in view of subsequent developments the total amount paid during the period 1944–1950 on losses and claims outstanding December 31, 1944, plus the liability or reserve on such losses and claims still unpaid December 31, 1950, is compared with the liability or reserve set up as of December 31, 1944.

The schedule is based upon known losses and claims outstanding, i.e., excludes reserves for losses and claims incurred but not reported.

The amounts in Column (2), unpaid December 31, 1950, in the 1951 statement will check with the amounts in Items 22 and 23, Column (4), Part 3A of the 1950 statement and the amounts unpaid as of December 31st of previous years, check with Items 5 and 6, Column (4), Page 5 of the respective statements for one year previous.

SCHEDULE K (Page 27)
RESERVE FOR CREDIT LOSSES

This schedule, with the additional provision for "Voluntary reserve", is designed to provide the same loss reserve data as required by Items 17 and 18, Page 5 of the previous blank.

The reserve is determined in part on the basis of known reported losses and in part on a loss ratio or formula basis similar to the Schedule P formula applicable to the three most recent policy years.

Only two companies, within the knowledge of the author, write this line. The 1950 annual statement of one of these companies shows the following method of implementing the reserve into the statement proper:

> The net amounts of Items 1, 2(e), and 3(e) are carried to Item 27, Column (4), Part 3A. The corresponding *gross* amounts are entered in Column (1) and the *reinsurance recoverable* in Column (3). Column (5) shows "0". The difference between Item 5 of the schedule and the sum of Items 1, 2(e), and 3(e) is reported as a written-in item on Page 3 of the statement, designated as Item 16A—"Excess of credit statutory reserve over specific Reserves". The method follows that provided for reporting the aggregate reserve for liability and compensation losses.

SCHEDULE L (Page 27)
RATES OF DIVIDENDS IN EFFECT DECEMBER 31

This schedule is informative only and applies only to companies writing participating policies. Note that it requires rates of dividends in effect at the end of the year and not rates paid during the year.

SCHEDULE M (Pages 28 and 29)

This schedule, consisting of four parts, is intended to supply certain information considered desirable by supervising insurance officials. There are no checks between the various parts and the statement proper. The headings of the various parts are self-explanatory.

SCHEDULE N (Page 30)
BANK BALANCES

This schedule shows the bank balances in each of the Company's depositories (according to company's records) at the end of each month of the calendar year; also the rate of interest on each account and the amount of interest received during the year. The amount of interest received checks with Item 6, Column (3), Part 1.

The division between "Open" and "Suspended" banks is not important at the present time.

SCHEDULE O—PART 1 (Page 31)
TEST OF LOSS RESERVES

This schedule is designed to test by lines of business (excluding liability and compensation, fire and allied lines, ocean and inland marine, but including auto physical damage), the adequacy of loss reserves set up in the previous year's statement viewed in the light of developments one year later—as of the date of the current year's statement. For lines other than fidelity and surety the test is made upon the basis of the total loss reserve (the reserve for known claims plus the estimated reserve for incurred but not reported claims). In case of fidelity and surety the test is made upon the basis of the loss reserve for known claims only.

The schedule contains certain data which is not essential to producing the results desired but which is incorporated for purposes of check and audit with the financial section and other schedules.

Briefly, the rationale of the test is as follows: The excess or deficiency in reserve, Column (11), is equal to the difference between (a)—the sum of the amount paid during the current year on previous years' claims, Column (2) and the loss reserve on previous years' claims still outstanding at the end of the current year, Column (6), and (b)—the reserve at the end of the previous year, Column (10); or to summarize algebraically:

Column (11) = Column (2) + Column (6) − Column (10)
or since Column (2) + Column (6) = Column (9)
Column (11) = Column (9) − Column (10)

The preparation of the schedule requires the maintenance of certain special statistical records which it may be of interest to note.

Net amount paid for losses must be divided as follows:

(a)—on losses incurred in previous years
(b)—on losses incurred in the current year

Reinsurance recovered during the current year must be subdivided as follows:

(a)—on losses incurred in the current year and paid in the current year
(b)—on losses incurred in previous years but paid in the current year
(c)—on losses incurred in previous years and paid in previous years

Salvage recovered during the current year must be subdivided in the same manner as reinsurance.

The schedule is subject to the following checks with the financial section and other schedules:

Column (5), (Cols. 2 + 3 − 4) checks by line with Items 12–15 and 19–29, Column (4), Part 3.

Column (8), (Cols. 6 + 7), checks by line with Items 12–15, 19–21 and 24–29, Column (6), Part 3A, and with Items 22 and 23, Column (4), Part 3A.

Column (10) checks by line with Items 12–15, 19–21 and 24–29, Column (8), Part 3 of the current year's statement and with Items 22 and 23, Column (4), Part 3A of the previous year's statement.

Note that the amounts shown in Column (4) do not enter into the development of the increases or decreases in the estimated liabilities by line at the end of the previous year. This is due to the fact that salvage recovered on settled losses, because of uncertain or intangible value, is not considered in determining loss reserves. The schedule is a test of reserve adequacy based upon actual and estimated liabilities without discounting the same for possible estimated recoveries of an uncertain or intangible value. Reinsurance recovered on settled losses does not affect the determination of the increase or decrease since the reinsurance to be reported in Column (4) contemplates only reinsurance which was carried as a non-ledger asset in the previous year's statement. Consequently such reinsurance, when recovered, should not be used as a credit against the loss reserve of the previous year.

Note also that Items 4 and 5, Columns (2), (6), (9), (10) and (11), check with the corresponding items in Schedule G, Columns (3), (4), (5), (2) and (6) respectively for the latest of the previous year's amounts.

SCHEDULE O—PART 2 (Page 31)

TEST OF NON-CANCELLABLE ACCIDENT AND HEALTH RESERVES

This schedule is designed to test the adequacy of loss reserves for a development period of two years, for the non-cancellable accident and health line on an accident year basis.

The amount of the incurred claims (last column) for the current calendar year checks with Item 3, sum of Columns (3) and (7), Schedule O, Part 1.

SCHEDULE P—(Pages 32, 33, 34 and 35)

LIABILITY AND COMPENSATION LOSS AND LOSS EXPENSE RESERVES

The make-up of this schedule conforms in general to the requirements of the standard liability and compensation loss reserve laws. (See for example New York Insurance Law, Section 326.)

The schedule is divided into seven parts as follows:

Part 1 —Reserve for unpaid liability losses.
" 2 —Reserve for unpaid workmen's compensation losses.
" 3 —Distribution of unallocated liability claim expenses.
" 4 —Distribution of unallocated compensation claim expenses.
" 5 —Development of incurred auto liability losses.
" 5A—Development of incurred liability other than auto losses.
" 5B—Development of incurred compensation losses.

The schedule was revised effective with the 1950 annual statement blank. The principal changes from the old schedule are as follows:

Part 1 of the schedule, which previously provided for auto liability and liability other than auto combined, has been divided into three sections:

SECTION A. AUTO LIABILITY BASIC DATA

SECTION B. LIABILITY OTHER THAN AUTO BASIC DATA

COMPUTATION OF RESERVE (SECTIONS A AND B COMBINED)

The columns previously providing for the reporting of case-basis reserves in Part 1, Sections A and B, and Part 2, have been superseded by two columns, one providing for pure loss case-basis reserves and the other for loss expense reserves, both allocated and unallocated.

PART 1

RESERVE FOR UNPAID LIABILITY LOSSES

The headings of the various columns are self-explanatory.

The various checks to which this part of the schedule is subject are as follows:

For each section the difference between the totals of Column (1) of the current and previous year's schedules checks with Items 18 and 17 respectively, Column (4), Part 2, of the current year's statement.

For each section the difference between the totals of Column (1) and the unearned premium reserves, Items 18 and 17 respectively, Column (6), Part 2 (of statement), checks with the totals of Column (2).

For each section the difference between the totals of Column (3) of the current and previous year's schedules checks with Items 18 and 17 respectively, Column (4), Part 3 of the current year's statement.

The amounts in Columns (4) and (5) of the schedule do not check with the financial statement, since no division of loss expense payments by line of business is provided for in the statement proper. The calendar year unallocated claim expense is, however, shown separately on Part 3 of the schedule where it is distributed to policy years upon the percentages prescribed in the standard liability and compensation loss reserve laws.

For each section the totals of Column (12) check with Items 18 and 17, respectively, Column (6), Part 3A (and Column (7), Part 3).

For each section the totals of Column (12½) check with Items 18 and 17, respectively, Column (7), Part 3A.

The computation of the reserve section requires no particular comments except to note that in computing the formula reserve the basic data for Sections A and B are combined for the three most recent policy years to produce the amounts to be entered in Columns (15), (16) and (18), also the amount to be entered in Item 24, reserve for policy years prior to the three most recent, is based upon combined data for the two sections. The reason for such combining is that the standard liability and compensation loss reserve laws do not differentiate between auto liability and liability other than auto. If the formula reserves were computed separately for each section, the aggregate reserve might exceed the statutory requirements.

PART 2

RESERVE FOR UNPAID WORKMEN'S COMPENSATION LOSSES

This part is similar to Part 1. The various checks to which the part is subject are similar to Part 1 and are as follows:

The difference between the totals of Column (1) of the current and previous year's schedules checks with Item 16, Column (4), Part 2, of the current year's statement.

The difference between the total of Column (1) and the unearned premium reserve, Item 16, Column (6), Part 2 (of statement), checks with the total of Column (2).

The difference between the totals of Column (3) of the current and previous year's schedules checks with Item 16, Column (4), Part 3 of the current year's statement.

The amounts in Columns (4) and (5) of the schedule do not check with the financial statement for the reason heretofore stated. The calendar year unallocated claim expense is, however, shown separately on Part 4 of the schedule where it is distributed to policy years upon the percentages prescribed in the standard liability and compensation loss reserve laws.

The total of Column (10) checks with Item 16, Column (6), Part 3A (and Column (7), Part 3).

The total of Column (10½) checks with Item 16, Column (7), Part 3A.

There is appended a form designated "Supplemental Work Sheet to Schedule P—Parts 1 and 2" included as a part of the "Procedures" hereinbefore referred to, which may be of assistance in readily determining the amounts to be distributed to Items 16, 17 and 18, Part 3A and Item 16, Page 3.

PARTS 3 AND 4

DISTRIBUTION OF UNALLOCATED CLAIM EXPENSES

These parts are self-explanatory. As heretofore pointed out, there is no check between the amounts and the financial statement proper. However, the following checks exist between these parts and Parts 1 and 2 of the schedule:

The "Totals" of Parts 3(A) or (B) check with Column (5) (Grand Total), Part 1.

The "Totals" of Part 4(A) or (B) check with the total of Column (5), Part 2.

PARTS 5, 5A AND 5B

TESTS OF LOSS RESERVES

These parts are designed to provide a test of adequacy of loss reserves, policy year by accident year, for a five calendar year "run off" period for each policy-accident year division. For accident years 1950 and subsequent, the test is restricted to case basis losses, excluding loss expense.

The following are the checks between these parts and Parts 1 and 2 of the schedule. (It is assumed that the development of incurred losses is based upon case basis loss reserves only):

Parts 5 and 5A—The sum of the amounts in the final column for each policy year checks with the sum of the amounts in Columns (3) and (12), Part 1, Sections A and B, respectively for each such policy year.

Part 5B—The sum of the amounts in the final column for each policy year checks with the sum of the amounts in Columns (3) and (10), Part 2, for each such policy year.

SCHEDULE X (Page 36)

UNLISTED ASSETS

This schedule consists of three parts as follows:

Part 1—Unlisted assets held as of December 31.

" 2—Unlisted assets acquired or transferred from other asset schedules during the year.

" 3—Unlisted assets sold or transferred to other asset schedules during the year.

The information called for by the column headings of the various parts is similar to that of the various investment schedules (A, B, C and D).

The schedule contemplates two types of assets: investments which, because of developments since acquisition, make their future value uncertain, and investments required to be made in the stock of certain companies allied to the insurance industry, or deposits made with bureaus servicing insurance companies such as adjustment bureaus, where the purchase of stock or the making of a deposit is required as a condition precedent to membership in the company or bureau. In the case of stock of the last mentioned type, the stock transactions are usually reflected in Schedule D, Parts 3 and 4.

The schedule does not contemplate salvage assets.

PART 1

UNLISTED ASSETS OWNED

Attention is called to the column "Book Value When Charged Off". The caption of the column is not clear and is not uniformly interpreted. The intent apparently is to show the book value before the profit and loss adjustment, reducing the same to "0" (See comments on "Transfers to Schedule X," Page 129), and most companies adopt this interpretation. However, since such adjustment precedes the transfer, a literal interpretation of the heading contemplates the entry of "0" in the column. This interpretation is followed by a minority of companies. Assets which have never been carried in the investment schedules or not otherwise reflected in the ledger assets of the company, would of course show "0" in this column.

PART 2

UNLISTED ASSETS ACQUIRED OR TRANSFERRED TO SCHEDULE

This part, as previously indicated, provides for reporting both assets acquired during the year and not included in ledger assets and transfers from investment or other ledger asset accounts.

PART 3

UNLISTED ASSETS SOLD OR TRANSFERRED FROM SCHEDULE

This part contemplates two types of transactions—the restoring of assets previously charged off to the ledger assets and investment schedules, and the sale of assets included in the schedule.

In the first instance the column "To Whom Sold" should carry the notation "Transferred to Schedule (applicable designating letter)" or "Transferred to Ledger Assets" if a non-scheduled item. See specific comments under "Schedule D—Transfers from Schedule X", Page 129.

In the case of a sale there is always a profit, so far as the schedule is concerned, since the item is not included in the ledger assets. Two methods are available for reporting the results of the transaction. The sale price may be considered as profit on sale and included in the applicable item of Column (1), Part 1A. The asset, if a schedule item, may be reinstated and the transaction reflected in the acquired and sold parts of the applicable schedule. In such case (using Schedule D for illustration), the notation "Transferred from Schedule X" would be entered in Column (3), Part 3, and the original cost in Column (5). In Part 4 the usual data would be entered in Columns (1)-(7); Column (8) would show the book value immediately prior to the original transfer to Schedule X; and Column (9) would show the same amount as in Column (8). The profit or loss on sale would then be the difference between Columns (5) and (8).

Of the two methods the second produces consistency between the original transaction and the subsequent disposal since the original decrease by adjustment is offset by the subsequent increase by adjustment; and further, such method is more consistent with Federal income tax requirements.

Income received from assets in Schedule X, Parts 1 and 3, may be reported as miscellaneous income (profit and loss), or under the classification "Unlisted Assets" in Column (3), Part 1 of statement.

SCHEDULE T—PARTS 1 AND 2 (Pages 37 and 38)

This schedule is supplementary to the annual statement proper and is designed primarily for substantiating written premium data entering into state tax returns.

PART 1

PREMIUMS, DIVIDENDS AND LOSSES BY STATES

Only Columns (1) and (5) appear to have any particular significance.
The following checks apply:

The totals of Columns (1)–(4) check with the totals of Columns (1)–(4), Part 2 of statement.

The sum of the totals of Columns (5) and (6) checks with Item 16, Page 12, where dividends on reinsurance assumed exceed dividends on reinsurance ceded, and the difference between the totals of Columns (5) and (6) checks with Item 16, Page 12, where dividends on reinsurance ceded exceed dividends on reinsurance assumed.

The total of Column (7) checks with the total of Column (1), Part 3 of statement.

PART 2

METHOD OF ALLOCATION OF PREMIUMS BY STATE

This part requires no particular comment.

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As hereinbefore stated, all item and other references are to the 1951 annual statement blank. Since changes involving item, column or other references are occasionally made by the Committee on Blanks of the National Association of Insurance Commissioners, any person reading this paper in the future and using the latest year's blank should carefully check the references in the paper and, where any references do not conform to such blank, refer to the 1951 blank and make such marginal corrections in the paper as are necessary to bring the same into conformity with the latest year's blank.

SUPPLEMENTAL WORK SHEET TO SCHEDULE P—PARTS 1 AND 2

Distribution of Total Reserves for Unpaid Liability and Compensation Losses

	Part 1		Part 2	Distribution
	Sec. A.	Sec. B.		
(1) Unpaid Losses (Case basis)	Total Col. (12)	Total Col. (12)	Total (B) Col. (10)	To Items 18, 17 and 16 Page 9 Part 3A, Col. (6)
(2) Unpaid Loss Adjustment Expenses	Total Col. (12½)	Total Col. (12½)	Total Col. (10½)	To Items 18, 17 and 16 Page 9 Part 3A, Col. (7)
(3) Total (1) + (2)			X X X X	
	Sec. A. plus Sec. B.			
(4) Total Part 1, Sec. A. + B. and Part 2	X X X X			X X X X
(5) Schedule "P" Reserve less voluntary reserve	X X X X	Line (26) minus Total Col. (20)	Line (24) minus Total Col. (18)	X X X X
(6) Difference (5) − (4)	X X X X	(A)	(A)	X X X X
(7) Voluntary reserve	X X X X	Total Col. (20)	Total Col. (18)	X X X X
(8) Total (6) + (7)	X X X X			Total Parts 1 and 2 To Item 16, Page 3

(A) If negative enter "0".

(B) Subscribers to Workmen's Compensation Reinsurance Bureau should include their share of W.C.R.B. Loss Reserves if not included by policy year in Schedule P.