

# PROCEEDINGS

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## THE PASSING SHOW

PRESIDENTIAL ADDRESS BY THOMAS O. CARLSON

After the battle of the quotations at our last meeting, I feel that you should be spared the shock of listening to an address from me without the inclusion of at least one or two more by way of tapering off.

This is in no sense of the word a sermon, but at the outset I wish to commend to you these words from Ecclesiastes as expressive of the aim of the actuary: "I applied mine heart to know, and to search, and to seek out wisdom, and the reason of things." Anyone who can say that has fulfilled his obligations to his profession and to himself. As a group we could ask for no more lofty an inscription to memorialize our role.

The label that I have put upon these remarks implies a detachment from the current situation that is less and less possible for the actuary as time goes on. Only a few years ago actuaries were looked upon even by many of their own executive superiors as the insurance counterpart of the ivory-tower dweller. Perhaps our acceptance as fellow humans stems in part from the fact that our verses clearly do not meet ivory-tower specifications. But the blame historically must rest, I fear, upon the widespread introduction of rate regulation with its requirement that insurance people must seek out and be prepared at all times to present "the reason of things" in their sphere of activity.

It may be observed that a pattern is being repeated. The early papers that are already referred to as classics in our literature were produced under the stress of regulatory requirements in the workmen's compensation field. If as an actuary you are in the habit of looking upon regulatory developments with a bilious expression, relax your facial muscles a bit with the thought that except for such developments, your field of work and opportunity would not have broadened as it has in recent years. This is one more application of the saw that whenever history repeats itself the cost goes up. For every actuary ten years ago, there is work for twenty today.

I am casting reflections upon nobody when I refer to the intervening stretch as a period of doldrums, the characteristics of which were dictated largely by an environmental atmosphere of expediency and a long recession from the crest of actuarial activity that marked the early days of this Society. In emerging from this period we may well ask ourselves, as did that greatest of mountaineers, Leigh-Mallory, on scaling a particularly difficult peak: "Have we vanquished an enemy?" And we must reply with him: "None but ourselves." Admitting by way of gambit that actuaries are under executive supervision and subject to executive interdiction, it is nevertheless true that in many

respects we have been our own worst enemies. How? you will ask. Primarily by not being sufficiently articulate. To a lesser extent by not having sufficient courage in our convictions to press them persistently. We must strive to be both firm and articulate in expression, which means that we must also be firm and articulate in comprehension. We have been too inclined to see ourselves as the underwriters love to picture us. If that weakness ever overtakes you again, think of these definitions of actuary and underwriter adapted from old definitions of optimist and pessimist: An actuary is one who recognizes that the future contains only uncertainty in the final analysis, while an underwriter is one who fears that the actuary is always correct.

Our responsibilities at the present time exceed any that have ever been laid upon us as a group in the past. The outlook in all third party lines is very ominous. I am reminded of the phrase with which Gerard Manley Hopkins begins one of his sonnets: "No worst, there is none." That is, there is only a continuous worsening, no such ultimate as worst is at this stage discernible. The problem of analysis, the mere fact finding in this instance, is a task of extreme complexity because the relationship between the inflationary spiral and the movement of loss costs is in reality the result of an interweaving of many chain reaction developments in the price field. The time lag and the degree of the impact of these various chain reactions in the spiral differ greatly. It is possible to measure the results only in an aggregate form. The relationship from year to year in the aggregate form is not constant, nor is the time lag. The only resort in such a contingency is projection on the basis of insurance data, utilizing the general relationship between insurance costs and external price movements only as a support for the principle of projection. If the actuary had the bargaining power of a John L. Lewis, the task would be simple indeed because the necessities are clear. Supervisory authorities, however, are more and more inclined, especially when reviewing a rate increase, to outdo in cautiousness the dude visitor to Texas who was buying a saddle and was asked whether he wanted one with a horn or one without a horn. After careful consideration, he answered hesitantly, "Well, I guess I could do without a horn. There doesn't seem to be much traffic on these prairies."

In this emergency then, the role of the actuary in seeking out the reason of things is highlighted. It is not enough for him to establish the facts as best he can; he must establish the reason for those facts developing as they do. This will involve far more than mathematical analysis. It will involve an understanding of underwriting developments and problems, of the interplay of external economic factors, of legislative and juristic developments. All of these fields, incidentally, are embraced in the scope of the Fellowship examinations of this Society and this brief appraisal of our current problems may clarify for the student why we require of him preparation in so broad a field of study.

We are living in an era of social and economic turmoil, of deep-rooted evolution tantamount to revolution in living and in thinking. Change is in the air: not the normal progressive change that stimulates like a charge of ozone, but rather a force that builds up like the electric potential on a towering mountain summit, foreboding with its continuous muted sizzling, and terrifying in the random destruction of its explosive releases. The most amazing

anomaly of our economic history is the meekness with which the American people are accepting the encroachment of bureaucratic controls that flirt dangerously with dictatorship over broad areas of business management, without apparent regard to the informed counsel of experience. There is a line in the Book of Proverbs that says: "In the multitude of counselors there is safety." If such a quotation sounds platitudinous, remember—as a friend reminded me recently—that the wisdom of the ages is wrapped up in such platitudes. One of the weaknesses of this era of technicalities, complexities and continuous innovation is its abhorrence of the commonplace, its disdain of the obvious.

These are generalities with widespread application. You can all supply countless illustrations from our national and political scene and I shall mention one or two from the insurance field. Before doing so, in order to illustrate the ramifications of this trend of rejecting the recommendations of committees and agencies appointed ostensibly to advise, let me note an instance in an area which is comparatively restricted and which is in no sense of the word a vital factor in the structure of our economic society, namely, organized baseball. (I trust there are no Dodger fans with six-shooters in the audience.) The government in investigating the baseball salary controversy called in a special committee composed of Messrs. Kieran, Cobb and Byrd, but in the solution produced in Washington the findings of that special committee were utterly ignored.

The pattern is one of mere lip service to consultation with experts. I do not argue here that consultation involves abdication to the arguments of such experts but rather that if their viewpoint is rejected, then good and sufficient reasons for the rejection should be forthcoming. Anything that smacks of specious reasoning in such a situation should be indicated as such in plain terms.

Now for one or two illustrations from the insurance area. In giving these I am fully aware that there may be those within this body who consider me guilty of heresy in discussing a controversial subject in my capacity as an officer of this Society. On the other hand there are so many currents of thought today, and such strong currents, that it is impossible to speak of any situation in the insurance business without being to a certain extent controversial. With this apologetic explanation let me proceed to my object lessons.

Back in 1947 state supervisory officials spearheaded a movement toward the adoption of uniform accounting regulations, a movement with which none of us will quarrel in principle. In the initial discussion stage, members of the industry repeatedly made the point that the background of experience of individuals within the industry should be utilized from the outset, the more so since the impact of the regulations would be borne by the carriers and would affect the internal administration of the carriers markedly. Such tenders of cooperation were ignored and the industry was permitted to criticize only a finished product, with all the psychological and other difficulties normally attendant on such a procedure. A perfectionism in objective that could not have been possible for anyone experienced in company accounting and administrative problems led to the rejection of amendments that simple common sense cried out for. I will mention one illustration here, the differentiation of inspection cost, which is an extremely important item for some of the casualty lines. The argument against such differentiation was twofold: in the first place

inspection cost could not be differentiated by all carriers for all lines, and in the second place it could not be differentiated in any event because each time an underwriter looks at an inspection report he performs inspection work which must be assigned to the inspection item if inspection is to be differentiated at all. The only compromise then possible was the acceptance of a statement propagandizing the fact that the commissioners' uniform accounting committee were of the opinion that inspection costs could not be properly differentiated, thereby casting a stigma upon the production of information which was an indispensable adjunct to the rating of certain casualty lines.

Let me hasten to add that many of these difficulties are now ancient history, that a closer harmony has been established, and that time has smoothed out many problems. What I wish to emphasize is the sinister characteristic of the manner in which this development was forced upon the industry. The fact remains that, initially, regulations relating to the internal administration of the companies and running counter to the recommendations of all individuals with experience in the field were imposed arbitrarily upon the companies. And recent developments demonstrate the necessity of maintaining alertness in this respect.

Another illustration may be drawn from the proposal presently before the commissioners to include provision for unallocated claim expense in the rates as a percentage of losses rather than as a percentage of the final premium. The result to the insuring public is the same under either alternative. The proposal follows the principle developed and endorsed by the members of an All-Industry Committee. The separation between unallocated claim expense and the other elements of the premium dollar will be maintained equally under either alternative so that no case can be made to the effect that the carriers are attempting to pull the wool over anybody's eyes. Yet certain insurance departments in important states undertake to say that one of these paths to the answer must be used and that the other path cannot be used in the mechanical process of rate determination. This is not a case of state authorities regulating rates, but rather a case of state regulation usurping administrative functioning in the ratemaking field. The implications of the action are alarming.

These illustrations could be multiplied, and in selecting these two particular ones I do not wish to imply that they are more important than others that could have been used.

Nor are these statements to be considered in the nature of an accusation. They are merely observations. No one is questioning the good faith of the supervisory officials in their actions. But somewhere along the line there is confusion in thinking, a blurring of perspective, a short-sightedness in their absorption with the many problems which present themselves continuously to every supervisory authority. All of us, both in the industry and in supervisory circles, have been so overwhelmed with the pressure of immediate problems in recent years that we have become immersed in them. It has been next to impossible to stand off so as to view them in perspective. It is evident in the national scene that the philosophy of bureaucratic supremacy is currently in the saddle in this country. Let us not forget that that is the very process that has enveloped those countries behind the Iron Curtain to the point of strangulation—though under very different auspices than here. It is inevitable that the local governmental authorities should be infected with

this broad movement of the times. Only last week a well-known official called upon the carriers publicly to back legislation to turn over more tax money to insurance departments for the extension of regulatory controls. The real tragedy, however, lies in the apathy of those affected by such developments. It is not as though they consented to or agreed with such interference in the administrative functioning of private enterprise. We in the industry have been too conciliatory. While recognizing the trend in the national political and economic scheme, the average individual has been too conscious of a feeling of frustration in attempting to combat it, because he is so many degrees removed from the point of contact. We in the industry have not been sufficiently aware that the condition conducive to frustration does not apply in the situation to which I am talking, because our contact with this situation is immediate rather than several steps removed.

How many are there who realize the measurable cost of conciliation in the determination of rate levels, which is only a fraction of the total cost including the immeasurables? The carriers in ratemaking organizations have had manual rate levels for the automobile liability coverage effective in 1948, 1949 and 1950 that had been depressed 3% solely as a result of compromises or of unwarranted delays in action on filings, and the corresponding figure in 1951 was 2%. Most of the independent carriers follow the lead of the organized carriers in determining rate levels. If it be assumed that these percentages apply reasonably to the total writings of all carriers combined, the deficiency in the premium arising out of this source alone in the development of the 1951 revisions amounts to more than \$30,000,000 a year.

Let me repeat that these remarks are not intended as an indictment of anyone. The industry must certainly share the blame, because the industry has not done the best possible job in emphasizing the facts and in presenting its case. Further, it must be admitted that much of the deficiency to which I have referred arises out of agreements of expediency. While such agreements may be immediately beneficial, they can easily deteriorate into a pattern that can be extremely costly to the carriers. There must be a limit somewhere to compromises based upon expediency.

I remember seeing a performance of Aida at the old Hippodrome in which the triumphal procession was prolonged probably fifteen minutes by parading the same two elephants and three horses down the center of the stage, off at the front right, and around behind the scenery to come down the center of the stage again time after time. The passing show we are viewing today has no such element of repetition. There is a shift of orientation occurring. This country is at the crossroads. Perhaps it has already been pushed unawares beyond the crossroads along a route which in theory we as a nation profess to abhor. Too few people are assuming the courage and the foresight to attempt to comprehend what is happening. I chose that word "assuming" carefully, to indicate the necessity of action in becoming alert. It is not a matter of intuition. We cannot remain passive, and hope to comprehend. The actuary has an obligation to grasp these developments and to be articulate and courageous in his interpretation of them relative to his own task. The private enterprise system has succeeded in making American industry the incomparable marvel of the modern world. The abrasion, the gradual wearing down, of this system, whether consciously or unconsciously motivated, is threatening in

the insurance field as certainly as it is threatening in other major industrial areas. If we believe in the maintenance of the system, we must clarify our vision, be alert to the dangers that threaten, speak out with conviction and understanding; and to succeed in these undertakings, we must have always before us the objective of seeking wisdom and the reason of things.