

REVIEWS OF PUBLICATIONS

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Multiple-Line Insurance, G. F. Michelbacher, McGraw-Hill Book Company, Inc., New York City, New York, 1957 Edition, pp. xiii, 660.

As the revolutionary changes in casualty, surety, fire and marine insurance are at the point where the first and largest steps have been taken — this book is not only timely, but practically a necessity for those who want an up-to-date text. The author points out that you could wait until eternity for conditions to “jell”, but I think he has written this first “step” at precisely the right time. It is apparent that the author and the contributors are Casualty men and that this is a revision of a Casualty book. However, as revisions take place, as they must with books of this type, the emphasis upon certain lines may not disappear, but emphasis of importance by subject will occur.

The organization of material is generally good, and there is no loss of words or use of extra ones, which this reader always appreciates. Parts of the book give the impression that all casualty, surety and fire business has gone multiple-line, whereas only a small percentage of the business is written in some kind of “package”. Companies may now be writing all lines, but such functions as underwriting, rating, and adjusting are normally separated by line. There are also specialty companies which are here to stay.

Chapter 5 — Rate Making — Manual Rates, first explains the problem of the rate maker and the basic elements of rate making. The theoretical approach is fine, but a practical application could have been discussed. Rate making in some cases is in reality the adjusting of last year's good loss ratio up to a permissible, or adjusting last year's poor loss ratio down to a permissible. This is probably what is wrong with some rate making today — changes are so fast and varying that the rates are bound to be inadequate or may be excessive. As there are a number of ways of making rates, and as each line of insurance is somewhat different, it would be helpful if explanations of rate making by line were presented. More emphasis might have been given to the fact that the rates must be sufficient to pay all losses incurred under the policy, cover expenses, and make provision for profit; also, that past experience can be used only as a guide to make the rates for the future.

Methods of collecting experience are explained in the book; however, some confusion always seems to exist. In many attempts at explaining the differences between calendar year, policy year and accident year experience, this reviewer has found the drawing of diagrams the best way. Not only do diagrams show basically the different kinds of experience, but they also show time relativities. The policy year diagram is shown as a parallelogram. The initial or incomplete policy year used in auto private passenger and commercial

non-fleet rate making is half of the parallelogram — a 45° right triangle. For the accident year experience, a square with a diagonal line is used, which represents the two portions of the accident year experience, i.e., premiums and losses on last year's policies and on this year's policies. The policy year and accident year diagrams must include loss valuation dates. The calendar year is represented by a square drawn with broken lines.

In the chapter on Statistics it was helpful to find the different kinds of calendar year statistics defined. However, it is hazardous to assign any kind of calendar year experience to a line. Also, it should be pointed out that probably the only reliable calendar year loss ratio is the loss ratio computed on an earned and incurred basis. A written to paid loss ratio has its place but probably only on a comparative basis. Rate level adjustment factors are entirely based upon calendar year statistics on an earned and incurred basis.

On page 424 — Internal Statistics, the comment is made that the "net" basis should be used in reviewing risks as only the net amount is at risk. An underwriter should view the acceptability of a risk on a gross basis, as he has a responsibility to the reinsurer.

On the subject of divisible vs indivisible premiums, both sides of the argument could have been outlined and perhaps a compromise suggested. The compromise could be a formula breakdown. On page 426 it is implied that the MPIRO statistical plan met the challenge of providing reliable statistics. However, the question of the rerating by classification has not been answered. The problem is, once the original grouping is made, how can statistics ever be produced which will show whether the original grouping remains correct.

In the very good chapter on Government supervision one discussion was omitted. Some independents have stated that the rating law is applicable mainly to rating bureaus. The basis of their premise is that rating laws would not exist if it weren't for the concerted actions of bureau members. It might also be brought out that it is quite difficult to regulate rates of independent insurers as their small sample of business can vary substantially from year to year. Should a regulatory official compel an independent insurer to decrease rates when experience is good, or increase rates when experience is bad? Increasing rates may result in rates higher than bureau rates, thus practically putting the independent insurer out of the business. Except for large independent insurers, regulation of independents is a perplexing problem.

Particularly good explanations appear on page 67 — Choice of insurers by the insured; page 86 — Credibility; page 111 — Experience rating for individually owned private passenger automobiles; and the statistical analysis of an insurance company in the latter part of Chapter 18 and also in Chapter 21.

In Chapter 4, in defining the different insurers, it is important to point out that the participating companies are both stock and mutual, and that mutuals may be non-assessable. There are also direct writers

and agency writers in both the stock and mutuals. On page 53 it is stated that governmental managed insurers have made little headway. However, in a number of states, State Funds write a substantial amount of Workmen's Compensation—this can be considered as an inroad into the private ownership of insurers.

It was refreshing to read the whole history of a subject in one place. Aside from using this book for reference purposes, the reviewer believes that advanced college students and those in the beginning and in the midst of their insurance careers, will find its many down to earth discussions and its many practical answers of great value to them, but even more to those studying for the Society or CPCU examinations.

JOHN H. MEUTTERTIES

"The First Thirty Years" Casualty Insurance Companies Serving Massachusetts, Boston, 1957. Pp. 53

While this factual commentary on the operation of the Massachusetts Compulsory Automobile Liability Insurance Act is intended primarily for the benefit of the Massachusetts motoring public, it deserves attention outside the state as well.

The purpose of the volume is to "clarify some of the common misconceptions and misunderstandings sown among the Massachusetts public for so many years". There is no attempt made to marshal arguments either for or against the principle of compulsory automobile insurance.

Separate chapters are devoted to the requirements of the law regarding public rate hearings and rate making authority, rising insurance costs, the making of compulsory rates, the under-25 driver problem, and the operation of territorial rating. There is also a chapter devoted to some of the many proposals for changing the law that have been offered at various times. Among these proposals are merit rating, insuring the driver, compulsory with a deductible provision, and allowing deviations downward from the maximum rates set by the Commissioner. Two recommendations currently being considered are, a change to allow the surcharging of assigned risks, and a revision of the law to include property damage liability as a compulsory coverage. The volume recommends the surcharging of assigned risks and points out that this is allowed by every other state in the country. Regarding the inclusion of property damage liability under the law no mention is made of any advantages or disadvantages.

The last chapter is entitled "Reducing Human Suffering and Insurance Costs". The chapter recommends a system of "no-fix" traffic enforcement. Under this system when a motorist receives a ticket, the ticket becomes the property of the court, and any attempt to "fix" the ticket from that point on is regarded as a prima facie case of contempt of court. Statistics indicating a downward trend in claim

frequency for New Jersey, which has such a law, are cited as evidence that comparable results could be attained in Massachusetts with such an enforcement program.

The reviewer believes that more strict enforcement, including a "no-fix" ticket law, is only one of the areas where improvements could reduce human suffering and insurance costs. Perhaps the last chapter could well have included recommendations for improved driver education and examination, uniform traffic regulations, frequent vehicle inspections, and safer highways.

The appendix includes an informative comparison of the New York Compulsory Motor Vehicle Financial Security Act with the Massachusetts Compulsory Automobile Liability Insurance Act.

The insurance industry in the past has done too little in the way of public relations. If the volume helps to fill this gap at all it will have been worthwhile.

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