

A UNIFORM STATISTICAL PLAN AND INTEGRATED RATE  
FILING PROCEDURE FOR PRIVATE PASSENGER  
AUTOMOBILE INSURANCE

BY

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DISCUSSION BY C. H. GRAVES

Mr. DuRose has published a very interesting paper illustrating the dilemma confronting a rate analyst when reviewing automobile liability rate filings made with an insurance department. Using Wisconsin as an example, Mr. DuRose pointed out that in 1957 two hundred and five companies either filed automobile liability rate revisions, had such filings made on their behalf by rating bureaus, or continued to write under filings made prior to 1957. If each company had made only one filing in 1957 or had a filing made on its behalf by a rating bureau, the Department Rate Analyst would have had to review ninety-eight\* separate and distinct filings of automobile liability rates for private passenger cars and would have had to determine if such filings met the requirements of the rating law that rates "not be excessive, inadequate or unfairly discriminatory."

It will be readily realized that this would represent a tremendous assignment. From the viewpoint of an insurance department rate analyst, the volume of work to be handled is reduced in almost direct proportion to the increase in number of companies becoming affiliated with rating organizations. Fortunately for the rate analyst, the requirement of the Wisconsin rating law that each company file its rates also permits companies to fulfill that requirement by joining rating bureaus which make one filing on behalf of all its affiliated companies.

Although Mr. DuRose stated that "the Mutual Insurance Rating Bureau, in filing rate revisions, usually depends on the combined statistics of M.I.R.B. and N.B.C.U.," he failed to mention that the Mutual Bureau filings are based on the experience of all companies reporting to the Mutual Bureau and National Bureau which, it should be noted, would include the experience of a large number of independent companies. Considering only private passenger experience, the following table presents a distribution of the number of private passenger cars by groups of companies\*\*:

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\* In 1957, ninety companies were affiliated with the National Bureau for services in Wisconsin and nineteen with the Mutual Bureau for such services.

\*\* 1956 P.D. exposure as reported to Wisconsin by the statistical agencies.

	<i>No. of Cars</i>	<i>Percent</i>
National Bureau Members and Subscribers	106,929	11.5
Other Companies Reporting to the National Bureau	88,841	9.6
Mutual Bureau Members and Subscribers	50,153	5.4
Other Companies Reporting to the Mutual Bureau	48,102	5.2
Companies Reporting to the Midwestern Independent Statistical Service	<u>631,895</u>	<u>68.3</u>
Total	<u>925,920</u>	<u>100.0</u>

It is not without significance that a private passenger car rate revision made by the Mutual Bureau which utilizes the experience of all companies reporting to the National Bureau and Mutual Bureau, would be based on 31.7 per cent of the total number of private passenger cars and not on the 5.4 per cent written by its members and subscribers.

It is possible for the Mutual Bureau to make a rate filing based on the combined experience of all companies reporting to the Mutual Bureau and National Bureau because of the fact that all such companies follow the same automobile liability statistical plan. Companies reporting to the Midwestern Independent Statistical Service do so in accordance with the automobile statistical plan published by the National Association of Independent Insurers, and it should be noted that Wisconsin experience is reported in a form not easily combinable with the experience reported to the Mutual Bureau and National Bureau. Such experience is reported by territory with all classes combined and statewide by classification and not by class for each territory.

According to Mr. DuRose's plan, Phase I would include the promulgation of a uniform statistical plan containing uniform territory definitions and classifications. The problem of obtaining tabulations of automobile liability experience of all companies has been met in a number of states. Although in a number of states the N.A.I.I. automobile statistical plan as well as the automobile liability statistical plan of the National Bureau and Mutual Bureau has been adopted, some states require the reporting of experience by class by territory. Such experience when reported in this manner can be combined. In four states, Texas, Louisiana, North Carolina and Virginia, automobile liability rates are made on the basis of the combined experience of all companies writing in those states. Likewise, experience reported to the N.A.I.I. for New Jersey and New York is reported by class for each territory and could be combined with experience reported to rating organizations. In this connection, it may be noted that the New York Insurance Department has promulgated a statistical plan for automobile insurance presenting minimum requirements.

A copy of this plan is included in the "Examination of Insurance Companies" Volume 5, Chapter 10, published by the New York Department in 1955. One cannot seriously object, I believe, to an insurance department requirement for a minimum plan similar to that promulgated by the New York Department, because such a minimum plan would provide the department with data which could be utilized for rate review purposes.

In addition, the Ohio Insurance Department has promulgated uniform statistical definitions for use of all companies in reporting automobile liability and physical damage experience. These uniform definitions were developed after consultations with representatives of the various statistical agencies and with representatives of independent companies.

It should also be noted that with respect to fire and allied lines, the Wisconsin Insurance Department, as has practically all the other states, promulgated a uniform statistical plan which is followed by all companies in reporting fire and allied lines experience to the three statistical agencies, namely, National Association of Independent Insurers, National Board of Fire Underwriters and Mutual Insurance Advisory Association.

As reflected by the title of his paper, Mr. DuRose would establish, in addition to a uniform statistical plan, an "Integrated Rate Filing Procedure". Quoting from his paper, "I submit that it is not possible to obtain the stated objectives of the rate regulatory laws without . . . the establishment of an integrated rate filing procedure based on certain factors developed from the analysis of the consolidated underwriting experience of all companies".

It is this idea which would receive opposition from both independent companies and rating bureaus. As outlined in the paper, under this integrated rate filing procedure:

- (1) It would be necessary that all rate filings reflect the territorial and classification relativities that are indicated from the consolidated experience. (In this connection, it may be pointed out that in filings made by the National Bureau and Mutual Bureau, classification relativities for private passenger cars are based on countrywide data.)
- (2) All rate filings would have as a foundation the pure premium indications of the Uniform Statistical Plan. (This "pure premium" approach to rate making was discussed by Donald P. McHugh, Counsel for the U.S. Senate Antitrust and Monopoly Subcommittee, in his address at the N.A.I.C. Zone 2 meeting in April, 1959.)
- (3) The pure premium would be established by the Insurance Commissioner.
- (4) The establishment of pure premiums and relativities would be effective on the same specific date each year.

- (5) The Insurance Commissioner would establish a rate or premium for each classification in each territory, reflecting the pure premiums determined under the Uniform Statistical Plan, the over-all average stock company expenses and an acceptable allowance for profit and contingencies.

Under this procedure, "a company or rating bureau, rather than filing rates, would file a series of factors representing percentages of the established base". In other words, under this plan the Commissioner would determine the rates, and a company or group of companies could deviate uniformly from such rates if such deviations could be supported.

The plan as outlined in Mr. DuRose's paper is essentially the Texas method for determining rates, and it should be pointed out that the Texas regulatory law provides for the determination of rates by the Texas Board of Insurance. Under the All-Industry regulatory law, adopted in most states, the making of rates is a function of the companies. The power of the Commissioner is one of review—not one of rate making.

It would appear that Mr. DuRose's plan was motivated by the problem of dealing with rate filings made by the large number of independent companies operating in Wisconsin. It is admitted that this is a problem, but I do not believe that insurance companies are in favor of state-made rates as the solution to this problem.

## ESTIMATING ULTIMATE INCURRED LOSSES IN AUTO LIABILITY INSURANCE

BY

FRANK HARWAYNE

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DISCUSSION BY J. M. CAHILL

The elaborate formulae treatment of Mr. Harwayne is dealt with by Lewis H. Roberts in an Appendix to this written discussion.

I intend to direct attention to the practical rather than to the theoretical aspects of Mr. Harwayne's treatment of this subject. It will quickly be inferred that I see little merit in embarking on the use of complicated formulae in ratemaking to ascertain what is disclosed by other available statistics that are both relevant and up-to-date.

Mr. Harwayne's whole analysis is based on that part of the New York Supplemental Insurance Expense Exhibit which shows the development of New York automobile bodily injury experience by policy year. This Exhibit carries the experience of each policy year from its initial valuation as of 12 months on through the successive annual revaluations to 84 months of development.