

still must consider such factors as allowance for catastrophe losses and credibility in determining how far experience should be reflected in revised rates.

The estimating of increasing costs on deferred hull repairs indicates that loss reserving can occupy a position comparable to the rest of the industry. Improvements in communication and transportation have greatly reduced the traditional delays in reporting losses, but there is still a sufficient lag, particularly on export cargo, to make important the accurate estimating of the incurred but not reported reserves.

The quotation from Winter mentioned before should have a familiar ring to the fire side of the business. The extreme difficulty of forecasting weather patterns and the need for a prolonged period of experience parallel very closely the problem in developing adequate extended coverage rates—particularly in those states subject to devastating hurricanes at irregular intervals.

With Mr. Robertson's paper finally getting ocean marine insurance into our *Proceedings* and serving as a reminder that our Society is interested in all fields of property insurance, we can hope that there will be forthcoming more detailed studies in those areas of ocean marine where actuarial techniques and experience can be of assistance.

A REVIEW OF THE EXPERIENCE OF MASSACHUSETTS WORKMEN'S COMPENSATION EXPERIENCE RATED RISKS

WALDO A. STEVENS

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DISCUSSION BY M. G. McDONALD

Mr. Stevens has followed the suggestion contained in a recent address of President Pruitt wherein it was implied that the actuary should get out of the "niche" and assist the underwriter. This paper presents comprehensive data which should provide a better market for debit rated risks in general. Of course, there are other considerations employed by the underwriter in viewing applications from debit rated risks besides loss ratio and modification. Many times an underwriter with a solid safety engineering unit behind him can convert the risk from the debit to the credit side of the ledger. In other instances competent field forces find misclassification which when brought to the attention of the supervising bureau results in a shift. In addition, the experience of other lines is viewed as possible support.

Mr. Stevens makes several comments on the Massachusetts exception in the application of the off-balance factor to experience rated risks exclusively and further suggests that the exception be eliminated. However, he offers no better solution than exists outside of Massachusetts. Approximately ninety percent of premium developed

in Massachusetts in the most recent years comes from experience rated risks. The insertion of the off-balance into the manual rates, without further adjustment, merely increases the size of the off-balance factor. The current 1.03 factor applied to rated risks in Massachusetts would in all probability approach the 1.087 in Connecticut manual rates (Mr. Marshall, P.C.A.S., XLI). It is difficult to explain to trade associations and the public that such a change is desirable, necessary or in the public interest.

Back in 1938, (Vol. XXV, Part I) Mr. Thomas O. Carlson, Current Notes Editor, reported that in New Jersey, "The expected loss factor used for determining expected losses in the experience rating of risks has been increased several points above the standard permissible loss ratio. This is equivalent in effect to the introduction of a differential between experience rated risks and non-experience rated risks, and the resulting deficiency in rate level is made up by a factor included in the manual rates."

Apparently from Mr. Marshall's description of the National Council procedure, the inclusion of the correction for off-balance in the manual rate is standard practice and little or no offset is made in the expected loss factors. As Mr. Marshall points out, this method results in the reflection of almost 100% of the off-balance correction in the modified rate of the very low credibility risks while the opposite is true for the 100% credible risks, necessitating the doubling of the indicated off-balance factor.

Such an increase in Manual Rate Level in Massachusetts would be received by small risks, 80% of the total, with horror and the rate hearing would take on the aspects of the Massachusetts Auto hearings. It seems to the reviewer that Mr. Stevens has the ability and the source data to investigate the possibility of making the experience rating plan balance within itself or to materially reduce the off-balance factor so that correction, therefore, in Manual Rates would be more reasonable. A paper of this nature would make interesting reading.