

DISCUSSION BY ERNEST T. BERKELEY

I had hoped that somebody would write a paper on this subject to put together a coherent, chronological record of the chain of the many events involved in the development and growth of the Homeowners policy, thus providing a convenient, informative reference for the person with a casual or minimum knowledge of the subject and also the person who may have actually played a part in the shaping of this history but who needs a knowledge of collateral events to put his contribution in proper perspective.

Mr. Hunt has written such a paper and has done an excellent job of it. The theme is developed in an orderly manner and is well documented. This is another valuable paper for the Society and I am sure it will be appreciated by a large number of readers.

Under the section headed "Basic Principles and Support of Rating Plan," the paper cites the analysis of expenses made by the Insurance Company of North America and included in its Homeowners filing with the Pennsylvania Insurance Department on August 11, 1950 to support the discount of 20% applied to the sum of the tariff premiums for the component coverages. This stirs memories!

In the "Rating Plan" section of the paper which deals with the rating methods developed by the Dwelling Committee (that is the Rating Committee) at the Multiple Peril Insurance Rating Organization in the latter part of 1951 and the early part of 1952 just prior to the launching of the Homeowners policy program, reference is made to the application of a 20% discount to the sum of the component premiums. Following this there is a brief explanation of the reasons for the discount, both as to expense savings and loss savings. Many of the details have necessarily been omitted and I thought some of them might be of interest.

On March 6, 1952 the Dwelling Committee of MPIRO through its Chairman, Mr. Bradford Smith, Jr. of the Insurance Company of North America, appointed a Subcommittee of actuaries consisting of:

Company	Represented by
Insurance Co. of North America	Mr. L. H. Longley-Cook, Chairman
Home Insurance Company	Mr. Arthur Roedel
The Employers' Fire Insurance Co.	Mr. E. T. Berkeley

This is where I first came on stage in the Homeowners show.

The Subcommittee was instructed to investigate the question of expense savings involved in the issuance of a Homeowners policy on an indivisible premium basis and report back.

In its study the Subcommittee followed the same general lines as the Insurance Company of North America did in its earlier analysis, that is, dividing expenses into three groups for fire, burglary and theft and liability:

- (1) Those best expressed as a constant per policy
- (2) Those best expressed as a percentage of premium
- (3) Overhead on (1) and (2)

This basic information enabled us to express expenses for fire, burglary and theft, and liability as a constant amount per policy plus a percentage of

premium and then by combining these indications in the proper proportions we were able to arrive at estimated expense figures for the Homeowners policy which were necessary for discount determination.

Each member of the Subcommittee undertook a study of this type for his own company for the year 1950 but, due to some unavoidable delays, by the time the Subcommittee's report was made it was possible to use the year 1951 instead. This study was a time-consuming and painstaking job, and still a very rewarding one.

The results obtained by each of us, working completely independently, were very similar.

In our report to the Dwelling Committee, dated May 29, 1952, we did not and, in fact, could not recommend a specific discount factor to be applied to the sum of the component premiums because of a number of variables which we were not asked to evaluate. Rather we recommended certain discounts which depended on the values placed by the Dwelling Committee on the following elements:

1. Commissions
2. Provision assumed to be contained in the manual premiums for losses and loss adjustment expense
3. Provision to be made for profit and contingencies
4. The saving in loss experience (if any) as a result of packaging

After consideration of all factors the Dwelling Committee concluded that the loss savings could be estimated at 10% and the expense savings at 10%, thus making the 20% discount referred to in the paper. These figures are associated with a 20% commission and a 6% provision for profit and contingencies.

The pertinent discount tables as set forth in the Subcommittee's report are shown below:

A. If no saving in loss experience as a result of packaging:

<i>Commission Assumed</i>	<i>Provision in Manual Premiums for Loss and Loss Adjustment Expenses</i>	
	50%	55%
	<i>Discount</i>	
20%	17%	9%
25%	9%	0%
30%	0%	—

B. If there is a 5% saving in loss experience as a result of packaging:

<i>Commission Assumed</i>	<i>Provision in Manual Premiums for Loss and Loss Adjustment Expenses</i>	
	50%	55%
	<i>Discount</i>	
20%	21%	13%
25%	14%	5%
30%	5%	—

C. If there is a 10% saving in loss experience as a result of packaging:

<i>Provision in Manual Premiums for Loss and Loss Adjustment Expenses</i>		
	50%	55%
<i>Commission Assumed</i>	<i>Discount</i>	
20%	25%	17%
25%	18%	10%
30%	10%	1%

The total discount figure of 20% as finally agreed upon is the same as that arrived at by the Insurance Company of North America two years earlier and serves to confirm the soundness of that company's original analysis.

Several other instances come to mind where a committee of actuaries or statisticians was given a special assignment.

First there was the Actuarial Subcommittee appointed in 1954 to study the so-called "Floor Plan" problem in the State of Georgia. As the paper indicates, the final decision was to determine the floor plan premium by using the tariff fire and extended coverage rates on the dwelling and fire tariff rates on the contents.

Then there was the Statistical Committee appointed in 1955 to develop a Homeowners Statistical Plan for promulgation by the Actuarial Bureau of the National Board of Fire Underwriters as statistical agent.

Finally came the Actuarial Subcommittee appointed in 1958 to develop a rating procedure shortly after the consolidation of MPIRO and Interbureau into MIC. The essential features of this procedure are given in the paper and need not be repeated here. One item that may be of some interest is the premium volume required for 100% credibility which the Subcommittee recommended be set at \$5,000,000 of earned premium. This recommendation was not the result of a real study of the problem—due to lack of time—but was based on the standards then existing in several states. Credibility factors for premium volumes less than \$5,000,000 were set forth in a special table. The so-called "seasoning" factors for reducing the indicated credibility when less than five years' experience was available were not part of the report of the Actuarial Subcommittee.

In its report the Actuarial Subcommittee suggested that the problem of credibility should be studied more thoroughly at a later date with a view to putting it on a more solid actuarial basis but, so far as I know, this has never been done. The lack of continuity in Actuarial Committee membership, the changing character of the organizations responsible for Homeowners, and the gradual maturing of the rate-making procedure have all been contributing factors.

The question of credibility and the treatment of catastrophes in Homeowners rate-making, together with some related problems, need actuarial study and I am hopeful that, at least when the history of the second decade of Homeowners is written, it will include an account of the satisfactory disposition of these items.

The author of the paper has given a very informative account of the rating procedure used initially by the Insurance Company of North America for determining premiums on its Homeowners policies but has omitted any de-

scription of the method employed by that company to arrive at later rates on the basis of actual experience. Perhaps it was felt that the inclusion of this material would lengthen the paper beyond reasonable bounds and that a separate paper would be a more suitable vehicle. In any case, I think that such a presentation would be most interesting and would serve to round out the history of the first decade.

I notice also that no direct reference has been made to commission on Homeowners policies, presumably because the expense ratio used in the rate-making procedure is of the same indivisible form as the premium. Nevertheless, it is a factor of great importance—although somewhat variable in size—and sometime it deserves a place on the pages of history. Maybe, as the author seems to imply, this is not the time or the place. Possibly it belongs in the story of the second decade along with credibility and catastrophes, after it has been given specific recognition in the making of rates.