

1. The problem is complicated by coverage differences.
2. Experience to date has vindicated early judgment as to proper package discounts.
3. Separate rates should be made for various coverage combinations.
4. We are handicapped by current requirements such as Schedule P reportings and Insurance Expense Exhibit classifications.
5. Extended Coverage is a package and presents no insurmountable problem.
6. The problem is complicated as respects the determination of an appropriate exposure base.
7. Packages contain a lack of homogeneity.
8. Catastrophe coverage and small loss coverage should be treated differently.
9. The indivisible premium approach is important for maximum expense savings.
10. Necessary detail may be provided through sampling procedures.
11. We should rate property coverages in one rate with variations for different liability coverages.

HOW CAN ACTUARIAL ANALYSES HELP COMPANY CLAIM DEPARTMENTS CONTROL AVERAGE CLAIM COSTS?

SUMMATION BY MARTIN BONDY

Rather than restrict themselves to the literal boundaries of the title, the participants expanded the topic to HOW CAN ACTUARIAL DEPARTMENTS HELP CLAIM DEPARTMENTS FUNCTION MORE EFFECTIVELY. In exploring this subject, we traded experiences on jobs we had done and ideas on some we had considered doing but had not yet done. One of the topics discussed was the shortcomings of average claim costs as a yardstick of performance because of

- 1) differing methods of counting claims, and
- 2) differences in distribution by class, territory, etc.

The effect of growth on calendar year average claim costs was noted.

An interesting topic on which not much light was shed was the question of the correlation of speed of settlement with size of settlement. Is it more economical to settle claims more quickly or to resist a larger proportion of the claims? On account of the strong correlation between speed of settlement and size of claim, the possibly mistaken conclusion has been arrived at that quick settlement automatically brings about a savings in loss costs. It seems that correlation may have been mistaken for causation. In order to determine the effect of speed of settlement, controlled experiments were suggested, although no one had ever heard of any, or had devised such an experiment.

The solution of general business problems by mathematical techniques was

suggested as a possible activity of an actuarial department. Examples of such problems are

- 1) most effective deployment of claims offices, (This sounds like an operations research transportation problem.) and
- 2) correlation or other statistical studies to show what type of person (attributes, education, age, etc.) makes the best type of claims adjuster.

Some actuarial departments had helped their claims departments in staffing the various offices by projecting expected claim volumes for future periods.

Mr. Masterson brought up an interesting illustration of motivating claims men by translating figures into meaningful terms. In a bulletin or some other communication to the claims department he noted that reduction of \$1.30 per notice on Auto PD would produce a one point reduction in loss ratio. Similar small dollar reductions produce the same type of effect in other lines. Unfortunately he did not say whether this had improved the average claim cost. In any case, however, the message is clear. His figures are certainly meaningful in terms of our everyday experiences rather than dealing with thousands or millions of dollars.

The question of getting average claim statistics for fire insurance was raised. It was brought out that since policies are often split among many insurers, average claim costs for a single insurer may not be meaningful.

All in all, this type of discussion can prove of assistance to the practicing company actuary. It pointed up the value of exchanging ideas in a workshop type of seminar as opposed to an instructional or orientation type seminar.

As the reader will note, many interesting problems and studies were suggested but not many solutions were offered. The discussion served more to excite people than to calm them by providing them with satisfactory solutions to pressing problems.

The tenor of the discussion indicated the preponderant philosophy of our membership towards their role in the company. They were predominantly preoccupied with reserve levels even though the topic had little if anything to do with this subject.

The idea seemed to be that the actuarial department, as one conferee so clearly put it, should serve to wave red flags before operating departments in order that they might realize the existence of problems and solve them in their own way. The idea of suggesting courses of action to a claims department appeared, in the minds of most of those present, to transcend the authority and scope of the actuary.

For all the knowledge and training we bring to bear on problems, we may still be limiting our functions too much to historical or past-performance aspects, and too little to the managerial or executive.