here presented, even if extended to include derivation of the class rate levels from loss experience, is *not* proposed as a substitute for judgment in the fire rating process. It is hardly an original observation to state that so long as insurance loss remains a random variable and certain practical requirements must be met, judgment cannot be eliminated from any rating process. If the theory proposed has any practical value it will be first as a guide to judgment, second as a possible method of eliminating a certain amount of false starts and lost motion in the preparation or major revision of a rating schedule once it has been decided exactly what specific requirements that particular schedule must meet. Which, in final essence, is all that this or any other rating "theory" ever can accomplish.

OBSERVATIONS ON THE LATEST REPORTED STOCK INSURANCE COMPANY EXPENSES FOR 1960

BY

FRANK HARWAYNE

Volume XLVIII, Page 109

DISCUSSION BY SEYMOUR E. SMITH

I found Mr. Harwayne's paper quite interesting in that, while aware of the fact that there are wide variations in actual expenses by individual company, this is the first time that I have seen, in exhibit form, average expenses by premium volume and also the range of lowest and highest. To a certain extent I suspect that the difference in expense ratios between the large and small volume writers may be affected by the percentage of large risks to volume. However, this distortion should not affect the basic differences shown in Mr. Harwayne's exhibits.

Without in any way detracting from the importance of expense requirements as such, my own feeling is that expense ratios are merely one facet in the overall picture of profitability. Individual company management decisions as to policy can have quite an effect on expense ratios. For example, in certain lines of insurance a company may decide that improved profitability could result from higher levels of expenditure for such individual functions as underwriting, claim, engineering and inspection, etc. Out of curiosity, from the same source used by Mr. Harwayne, an exhibit has been prepared showing underwriting profits for a number of lines by size of company. The company size is based upon the premium volume for the individual line. There is apparently a definite relationship between the higher expense ratios noted by Mr. Harwayne for the smaller sized companies and the profitability for these same companies, as will be noted in the exhibit. The average underwriting gain for the smaller sized companies is considerably below the average for all stock companies combined. However, when considering companies, averages can be very misleading. As will be noted from the figures for the high and low profit company in each group, some small companies manage to conduct a very profitable operation and some large companies have sustained substantial underwriting losses.

In today's highly competitive and rapidly changing insurance market the wide range of profitability figures seems to emphasize the importance of management in individual insurance company operations. While the problem of making a profit may be a bit more difficult for the *average* small company as compared with the *average* large company, the wide range of results seems to indicate that quality of management rather than corporate size is the major controlling factor.

Mr. Harwayne, in his paper, has raised the question as to whether part of the expense savings of efficient carriers ought not be passed on to the policyholder. It appears to me that this question is becoming rather academic as the rapid growth in the recent past of independent filings, deviations, special package policies and the writing of participating insurance by stock companies is in large measure doing exactly this.

I found Mr. Harwayne's paper interesting—particularly since it has whetted curiosity for developing additional data on the various facets affecting profitability of operation.

1960 STOCK COMPANY UNDERWRITING NET GAIN (Adjusted)*

Premium Range (in millions)		Fire	Comp.	Other B.I.	Automobile B.I.	Automobile P.D.	Automobile Coll.	Automobile Compr.
1 - 2	Average	-5.9%	-4.6%	2.8%	-11.3%	-6.3%	-3.6%	5.3%
	High	12.4	14.7	44.3	19.7	20.6	12.5	46.3
	Low	-26.0	-36.8	-24.9	-34.3	-27.3	-17.1	-11.5
2 - 4	Average	-2.3	-8.1	-1.5	-5.3	-0.9	3.3	3.7
	High	19.9	10.5	13.3	29.8	33.3	43.5	11.5
	Low	-32.4	-27.0	-56.6	-32.4	-15.4	-15.3	-35.7
4 - 8	Average	-0.5	-3.8	5.3	-12.0	9.7	5.9	5.8
	High	23.7	7.7	23.8	12.3	10.3	23.7	15.6
	Low	-18.6	-15.1	-6.4	-36.9	-6.1	-5.5	-4.3
8 - 16	Average	0.0	1.5	3.7	-4.6	1.6	9.9	6.3
	High	5.3	21.5	15.6	4.4	7.6	26.2	11.7
	Low	-3.5	-17.5	-7.0	-15.0	-2.9	-2.3	-0.8
16 - 32	Average	1.3	4.2	5.5	-4.4	4.7	9.7	7.1
	High	15.0	14.6	10.0	5.1	6.2	x	11.9
	Low	-4.8	-0.5	-0.1	-15.4	2.9	x	3.8
32 - 64	Average	1.8	-2.7	3.9	1.0	4.6	5.1	15.1
	High	6.8	3.5	9.3	21.8	8.6	10.1	x
	Low	-4.4	-17.9	-1.0	-10.1	-4.0	0.5	x
64 - 128	Average	-0.1	-0.3	x	-4.2	5.3	19.7	x
	High	3.1	x	x	0.4	x	x	x
	Low	-4.8	x	x	-14.7	x	x	x
All Stock Companies		0.5	0.0	3.7	-2.7	2.7	7.8	6.4

*From Loss and Expense Ratios booklet published by the New York Insurance Department