

designed as deviation, independent, group, bureau or otherwise." It is also reported that elsewhere in the proposed bill it is required that consideration shall be given to past and "provable" prospective loss experience "of all insurers" and also to past and "provable" prospective other expenses—whatever that may mean in this sense. If this legislation or similar legislation should become the law, it would materially affect the ratemaking practices of the rating organizations.

Adverse developments in classification loss experience prompting a refinement in classification differentials brings to the fore the question as to the propriety and desirability, in the ratemaking process, of establishing limitations on the maximum change in the high hazard classifications. If this principle is to be put into practice in order to keep the classification system reasonable and marketable, the correction in the off-balance with further limitation to prevent wide fluctuations in rates requires investigation and study.

Experiments are being carried on in the personal lines automobile liability field to determine the reliance which may be placed upon new measurements of exposure. Exposures by occupational pursuits have been studied for some time. More recently the academic standing of youthful drivers has been investigated and psychological testing of drivers is currently quite prevalent. The extent to which these studies will produce results that will eventually find their way into ratemaking systems is yet to be determined.

In conjunction with the future ratemaking problems of rating organizations it appears that a very important appendage must be added in the form of an expansion of existing research functions. With the electronic equipment now available, the demand will very likely increase for more activity in statistical research. This will necessitate carriers furnishing much more additional statistical information than is presently reported and it is conceivable that in due course rating organizations, in addition to performing in their own field, may be called upon to handle operations for affiliated companies which are now performed by those companies individually.

MULTIPLE PERIL RATEMAKING AND STATISTICAL PROBLEMS

BY: SEYMOUR E. SMITH

The growing development of package policies embracing two or more major lines of insurance presents problems of considerable magnitude in both the statistical and ratemaking areas. The statistical problem might appropriately be mentioned first. Up to this point, with the exception of the homeowners policies, the various individual rating organizations have taken the position that statistical data for the coverages or lines of insurance which fall within their normal jurisdiction should be separately broken out and reported within their usual classification assignments. For the long pull, this seems to offer a rather serious problem so long as the development of the various package policies is geared toward what are considered to be the most desirable risks. While it is not known whether or not this will be the pattern in the future, at least up to this point, generally speaking, the various packages have been developed by companies or groups of companies with the apparent objective of attracting to themselves so-called "cream" business.

If experience under these package policies, which are written at a discount

from normal rates, flows back into the normal classification slots, it is quite likely that the result could lead to inadequate rate levels. Experience to date under the homeowners policies is a classic example of what could conceivably happen in this connection. For many years residence fire risks were properly considered as highly desirable business. Following the introduction of homeowners policies and the rapid growth of this form of coverage, the more desirable risks tended to flow into the package area with the result that the residual experience for residence fire business consisted of, in the aggregate, the less desirable business. As a result, residence fire business per se has recently been unprofitable and substantial rate increases have been called for in many areas. If this homeowners business had been channeled back into the normal residence fire classifications, inadequate rate levels overall would have prevailed with no statistical indication as to what or where the trouble was. So long as these package policies are developed for the more desirable class of business, it appears to be highly desirable that statistical data be kept separate for these packages and that it not flow back into the normal classification channels. Even if future developments should be such that packages are developed for average rather than cream business, it would still appear desirable to keep such statistics out of the normal channels since it is at least possible that experience under package policies, for a variety of reasons, could be different from that of other risks.

In connection with this statistical problem, it might be considered of some importance that the expense of breaking out all of the various component parts could negate to a substantial degree the assumed inherent expense savings in the packaging of a number of individual coverages into a single policy. In fairness, I do not believe that my criticism of this statistical requirement should be directed to the various rating organizations since this is merely a reflection of the position taken by the company representatives in the organization. It appears to be a company problem which, while understandable, is not very fruitful to progress. The problem seems to be that basically many corporations have not as yet been able to gear themselves organizationally to cope with the problem involved in cutting across internal areas of responsibility that have heretofore been compartmented.

The second basic problem under these package policies concerns the making of rates. So far, for practically all packages, the rates have been developed by the application of judgment discounts to the existing standard rates for the various component parts. This is probably the only feasible way of starting a new package and will undoubtedly be true for a number of years for various new packages as they are launched. For the long pull, however, it would seem reasonable to assume that those packages which develop any sizable amounts of premium should carry their own weight. This would seem to require that experience be developed for each of the various major packages in total so that underwriters or rate regulatory officials can reasonably determine whether or not the over-all price for the package is proper. My own personal view is that the greatest efficiency would be served by considering the package as a whole rather than attempting to analyze it too finely into its various component parts. By this I mean that if the experience for a particular package indicates that the over-all rate is just about right, it does not particularly matter whether any one piece of it has good, bad or indifferent experience. For discussion purposes, I would suggest that the most feasible system

would be rating on an over-all basis coupled with sampling techniques to determine reasonable cost variations to reflect hazard variations or coverage options within the individual package. Specifically, this would involve the use of an indivisible premium with statistical policy designators indicating hazard or coverage variations. For example, under a motel policy, does it or does it not have a swimming pool; does it or does it not have a neon sign, etc., etc. With this approach as an exposure base and with losses coded by type of loss, it would seem that a reasonable and *inexpensive rating procedure* could be developed. In my own opinion, this would be practical to apply and would avoid the expensive process of dividing the statistical experience into a large number of individual pieces which, I suspect, under current requirements would be so finely broken out as to be rather worthless for useful application to ratemaking. As these packages grow and develop, it seems to me that in the future we will substitute existing line, territory, and classification breakouts for breakouts made up of individual packages further refined by statistical designators to reflect hazard and coverage variables which will be handled by sampling techniques.