

(1) lack of appreciation of the value of results, and (2) the burden of statutory accounting requirements. It seems that there might be more valid and basic reasons for this lack of progress; multiple line operations, package policies, and variations in rate levels and exposure bases might create such obstructions to homogeneity that planned results based on meaningful standards are difficult to establish. The unique characteristics of insurance operations are not considered in the paper.

Examples of how budgeting paid off are from an airline and an automobile company. An example from an insurance company together with discussion as to how success was accomplished would be more convincing.

The basis for determining the standards of planned results agreed upon between the head of each responsibility center and the next higher echelon of management could well have been explored in greater depth. Establishment of these standards is the heart of the problem; of particular interest would be the relative emphasis given to negotiating and engineering.

The subject of expense analysis and control is difficult particularly in multiple line operations. The author's appraisal of the importance of the problem is correct and further studies in greater depth would be of great value to the Casualty Actuarial Society.

AUTHOR'S REVIEW OF DISCUSSION

I am exercising the option to comment on the review of my paper by Paul Otteson because it gives me another opportunity to interest the members of the Society in a subject which has long been neglected.

Mr. Otteson believes that the difficulty in establishing planned results based on meaningful standards is a more valid reason for the lack of progress in the insurance industry in the development of cost accounting and budget systems than the two reasons which I cited. He goes on to say that the establishment of the standards is the "heart" of the problem. Unfortunately I find myself placed in the position of having to explain a concept which is found in the paper written by William Dowling* entitled "Budgeting in Casualty Insurance Companies." My paper is concerned with the need for a system and not with the techniques which might be appropriate in the various areas of insurance company operations. I share with Mr. Otteson the thought that standards are difficult to establish while differing with him on the importance of this point as it relates to being a major reason

* *PCAS, Volume XXVIII.*

for the industry's lack of progress in developing systems for planning and controlling expenses.

The two reasons I cited had to do with the lack of appreciation on the part of the industry of the value to be obtained from such a system and the burden of statutory accounting requirements. I believe the computer affords companies the means to do the job if management wants the job done.

At the time that Mr. Dowling's paper was written it was a much greater problem to develop an economically feasible system. Indeed the reviewer of Mr. Dowling's paper, Mr. W. B. Bailey,* concluded by saying that he felt "the usefulness of a budgetary plan would hardly justify the expenditures required."

My paper was intended as a brief overall description of a modern budgeting system in which considerable emphasis is placed on planning and relating expenses to the achievement of specific objectives. With several companies now developing such systems it is hoped that continuing interest in this subject will be shown by this Society.

* *PCAS, Volume XXIX.*