

Schedule, which is used in some 20 midwestern states. His discussion may be somewhat more appropriate in relation to the General Basic Schedule in use in several western states but probably still lacking the degree of accuracy or precision desirable.

The opportunity to explain or define the basis for conclusions presented are frequently overlooked. The author states that it is considered statistically impossible to determine the appropriate credits and debits in a fire rating schedule, but he offers no statement or explanation as to why this may be true. In a similar fashion, he states that "Individual risk rating techniques similar to those which apply for Workmen's Compensation are used for general liability insurance" without identifying the specific individual risk rating techniques to which he is referring.

In general, there is no description or explanation of the exposure base to which the rate is applied to produce premium. That which is given is usually nonspecific. No mention is made of the rate making problems involved with the use of fixed exposure bases such as area or frontage. I believe that this paper would be much more crisp and informative and to the point if the author would have presented a brief discussion of the various exposure bases and how such are involved in the rate making process.

The rate making procedure suggested for manufacturers and contractors liability insurance which incorporates a national loss ratio factor would appear to be vulnerable to attack on the basis that loss ratio reflects the relationship of premiums to losses but does not necessarily reflect the emergence of or trends in claims and losses. If the suggested plan were to be followed, the rate level of a given state would be pitched to the degree of inadequacy or excessiveness of rate levels of other states without consideration of the existence of a correlation between rate levels and loss costs.

It is my opinion that the presentation suffers by reason of the inclusion of the author's attempt to rationalize or compare general liability insurance rate making with fire or workmen's compensation insurance rate making. The paper does have value and is a contribution to the works of the Society in respect to the discussion of general liability insurance rate making.

#### AUTHOR'S REVIEW OF DISCUSSION BY MR. Du ROSE

Mr. S. C. Du Rose has made a number of suggestions for the improvement of my paper on general liability insurance ratemaking. Since most

of his suggestions are of a stylistic nature, I will simply attempt to explain briefly the motivation for the phraseology used in each instance.

Mr. Du Rose mentions the nonspecificity of my terms, exemplified in the phrase that liability and fire insurance rates "are influenced by the *business\** of the insured occupying the premises." The classification plan for the various general liability coverages identifies classes by type of business, e. g. meat market, department store, etc., and makes no mention of the differing hazards involved. My phraseology was drawn directly from this source. Similarly, the exclusion of workmen's compensation coverage is mentioned under the General Rules exclusions of the General Liability Manual in the following words:

"any obligation for which the insured or any carrier as his insurer may be held *liable\** under any workmen's compensation, unemployment compensation, or disability benefits law . . ."<sup>1</sup>

My own stylistic considerations caused me to use parallel phrasing at the beginnings of several paragraphs, and the word "liability" appears in all of these, including the one mentioning the workmen's compensation exclusion.

Mr. Du Rose points out that my statement about the use of the experience rating plan would be more correct by referring to it as the schedule rating plan. There is no separate schedule plan for general liability insurance; rather there is a schedule rating section in the General Liability Experience and Schedule Rating Plan.

I am pleased to find that Mr. Du Rose agrees with my analogy between general liability ratemaking and fire rate schedules, at least for some schedules. His criticism as to the incomplete appropriateness of this relationship is well-taken, but we are at least in theoretical agreement about the accuracy of my point with respect of the Mercantile Schedule for fire insurance rating in use in the East.

My lack of explanation or definition at various points may be justified by my assumption of familiarity with other papers on related subjects in the *Proceedings*. Opinions as to whether or not it is statistically possible to determine the appropriate credits and debits in a fire rating schedule have been exhaustively treated by Mr. Kenneth L. McIntosh in his paper in Volume XLVIII of the *Proceedings*, in which he states: "Any suggestion that the charges and credits of any fire rating schedule are or can

\* Mr. Lange's italics.

<sup>1</sup> *Manuals of Liability Insurance*. (National Bureau of Casualty Underwriters) p. 3.

be rigorously computed from actuarial data would be absurd under present circumstances."<sup>2</sup> Similarly, the matter of exposure bases is the subject of Mr. Paul Dorweiler's presentation of 1930,<sup>3</sup> still required reading for students taking the Society's fourth Associateship examination.

Finally, Mr. Du Rose's criticism of the national loss ratio used in Manufacturers' and Contractors' ratemaking perhaps stems in part from a misunderstanding of the adjusted national loss ratio. The M & C portion of my paper states in part:

"Before the national loss ratios can be used in the calculations, they are adjusted to the average level of the experience in the state. This step eliminates any bias which might be introduced by the use of countrywide data reflecting an average loss level different from that in the state."

---

<sup>2</sup> McIntosh, K. L. "Mathematical Limits to the Judgment Factor in Fire Schedule Rating." *PCAS XLVIII*, p. 131.

<sup>3</sup> Dorweiler, P. "Notes on Exposures and Premium Bases". *PCAS XVI*, p. 319.