

DISCUSSION BY DONALD E. TRUDEAU

Mr. Harwayne, in his capacity as consulting actuary, is to be congratulated for his fine effort in making what probably is the first attempt at a costing of the Basic Protection Plan. This reviewer found the task of analyzing Mr. Harwayne's manipulations a bit tedious, not so much because of the content of the paper under discussion, but because he had to read and reread the Basic Protection Plan under its various guises. One wishes that Mr. Harwayne had included as part of his paper a brief synopsis of what the Plan was all about and what it purports to accomplish. This inclusion would have made the commentary, assumptions, and calculations easier to follow. A deficiency of the paper is its lack of continuity and logical structure. This deficiency is particularly evident in using the many Tables as reference points for factors that appear in Tables 1, 2, and Appendix A.

The basic assumption that Mr. Harwayne makes in his paper is that Basic Protection costs can be determined directly as a function of present costs. This I would argue with at great length. Since present average claim costs include not only economic loss but also considerable amounts for medical costs, pain, suffering, inconvenience, and to some extent awards for permanent, partial, or total disabilities, it seems unreasonable to apply the factors .883 for the income tax exclusion and .853 for the deductible and 10% work loss offset to the total present indemnity cost. The same reasoning may be made with respect to the functional relationship Mr. Harwayne assumes in the case of allocated claim expense. If, as the Basic Protection Plan contemplates, a great reduction in the number of cases going to suit will occur, then the allocated claims expense provision seems very much inflated. However, some of this inflation dissipates when one considers that property damage claims that arise in conjunction with bodily injury must still be handled on a third party basis.

The Basic Protection Plan contemplates no provision for pain and suffering except on an optional basis and when this category of loss exceeds \$5,000. Mr. Harwayne in Note 2 of Table 2 says that "Basic protection costs from auto data include the cost of pain and suffering in the same degree as is contained in the present liability system for the specific limits of coverage." Again the functional relationship and the assumption that this pain and suffering cost is equivalent to what the insured would pay for the optional pain and suffering benefits and the excess over \$5,000 if a tort case arose out of the claim. I would assume that this is the basis of Mr. Harwayne's quote; however, he makes no mention of this in his paper.

The Basic Protection Plan makes specific provision for a tort exemption for death cases, the first \$100 of loss, pain and suffering over \$5,000, and out of state accidents. The insured, in order to be as fully covered as under the present third party system, would have to provide himself with coverage for these types of claims. Mr. Harwayne's paper makes no mention of these additional coverages except with respect to the extra-territorial provision. Admittedly, a costing of these elements would be hazardous, but they seem important enough as a group to account for a substantial positive increment to the costs as presented in the paper.

There is little doubt in the reviewer's mind that the Basic Protection Plan will cost less than the present system. However, this fact appears to be only common sense when one considers the various offsets and exclusions which are contained in the plan. But, how much less and why seems to be the primary consideration. A number of "savings estimates" are derived in the paper, yet the true cause of these savings is not explained. In the paper the following statement appears: "The volume of New York State automobile bodily injury liability insurance premiums in 1964 amounted to \$585.3 millions for all insurers, which, assuming the intermediate savings estimate of 15% under the Basic Protection Plan yields an annual savings of \$87.8 millions." This statement makes fine quotable material and can be interpreted in many ways. This reviewer would interpret it to mean that the entire 15% reduction could be properly analyzed as being due to the \$100 deductible or 10% of work loss offset and the 15% income tax exclusion. These same provisions could be made part of the present system. Then what are the benefits, if any, which accrue to the insured under a program such as the Basic Protection Plan?

Some obvious benefits, such as the consideration of collateral sources and the elimination in part of large legal fees to plaintiffs' attorneys are not covered in any depth in the paper. Others, such as the question of whether or not a more equitable distribution of insurance loss costs to various types of claimants is afforded under this plan is not covered at all. The answer to this question seems to be an implicit yes but the degree to which this distribution of loss costs under the Basic Protection Plan differs from that under the present system receives little attention. Perhaps the writer can make a case of this by pointing to his analysis of workmen's compensation costs. This analysis is thoughtful and very informative. However, no thorough comparison with present costs by type of injury is made. Such a comparison is solely needed if a true picture is to emerge concerning the merits of the Basic Protection Plan.

What are the benefits to the insured through the elimination of pain and

suffering costs except under an optional feature and for the excess over \$5,000? As the reviewer mentioned earlier in this review, Mr. Harwayne assumes the cost of pain and suffering under the Basic Protection Plan in the same degree as under the present system. But what are the true costs of pain and suffering under the present system? The optional pain and suffering feature of the plan contemplates the payment of a fixed amount (\$100—\$500) per month if the claimant is disabled and unable to work at least one week. The cost for this coverage could be determined by obtaining statistics on the percentage of claims that are disabling, the average length of disability, the percentage of disabling cases that cause loss of income, etc. These statistics could be so related to calculate a pure premium. This pure premium could then be related to that portion of the present automobile bodily injury liability pure premium that provides for pain and suffering and a truer comparison made.

The reviewer feels that in the costing of the Basic Protection Plan a different approach could have been taken by Mr. Harwayne. He could have costed the plan in much the same manner as individual accident and health rates are determined. For disability cases, a sample of automobile accidents as paid under individual accident and health plans would reveal length of disability by various socio-economic criteria such as age, sex, marital status, and occupation. Medical costs by type of injury could be obtained from a number of sources including automobile med pay plans, Blue Cross and Blue Shield programs, and also employee health programs as well as individual and group health coverages. I believe this type of analysis would offer a truer comparison of costs and distribution of costs than the method employed.

Some additional observations on the data and assumptions that Mr. Harwayne did use in his study:

- 1) The 15% factor used to discount payable economic loss to reflect the income tax exclusion seems high. A lower factor such as 12% would seem more reasonable in view of the fact that recovery for this loss is limited to a maximum of \$750 per month.
- 2) It is felt that unallocated claims expense will rise under the Basic Protection Plan due to the necessity of determining collateral source benefits, actual economic loss, and extent of injury.
- 3) The assumptions and calculations in Appendix A could have been elaborated on more thoroughly to allow for a more adequate understanding.

In conclusion, the reviewer would consider this paper as the first shot fired

in what promises to become without any doubt a controversy in which actuaries and insurance people in general will embroil themselves for a long time to come. One can only pity the company actuary who may have to determine a classification system that will fit this plan, the state insurance department official who may have to approve it, and the agent who may have to sell it.

DISCUSSION BY RICHARD J. WOLFRUM

The Paper Is a Timely One

The concept of some sort of an automobile compensation system, particularly for bodily injury caused by the operation of an automobile, has intrigued many people, principally academicians, for over forty years. However, all of the efforts to cope with problems of actually devising a system of this type has been for naught in this country.

Nevertheless, it is a rare time now when you can pick up a trade journal or other insurance publication without reading an article by someone advocating a serious review of the efficacy of the present negligence system of handling automobile liability claims. The authors are no longer only academic people, but are responsible executives in insurance companies, well known legal authorities, and members of legislative and judiciary bodies.

The proposal that seems currently to be receiving the most publicity and discussion is the well thought out system advanced by Professor Keeton and Professor O'Connell (which I will refer to in my discussion as the "Keeton System"). Therefore, Frank Harwayne's costing of the Basic Protection portion of the Keeton System is most timely. I hope it will inspire and encourage more members of the insurance profession, particularly casualty insurance actuaries who should be the ones involved in evaluating the financial aspects of plans of this type, to examine objectively the features of this Keeton System or any other system which can be viewed as representing a progressive improvement over the present system. Too often the discussion of these proposals have been based upon emotions, self-interest, conjecture, personal judgment, or, worst of all, a one-time personal experience by a claimant, claim examiner, or an attorney for either side in the settlement (or non-settlement) of a particular claim.

Proper Insurance Data Not Available

As you review Mr. Harwayne's paper, it immediately becomes clear that the proper data to evaluate a general compensation system for auto-