

AUTHOR'S REVIEW OF DISCUSSION

Before replying to the reviews let me summarize my independent investigation of the pure premium cost elements of the Basic Protection Plan. The sequence is as follows:

	Pure Premium		
1. Present: Indemnity and uninsured motorist	\$46.23		
2. Medical payments	6.50		
3. Allocated claims	6.89		
4. Total	\$59.62		
		25% More Claims	Total Pure Prem.
5. Basic Protection: Auto data	\$46.23	\$11.56	\$57.79
6. Allocated claims	6.89	1.72	8.61
7. Half of claimants' attorneys fees	3.45	.86	4.31
8. Less: \$100 or 10% deductible			— 8.50
9. Sub-total			62.21
10. Less: 15% of payable economic loss due to income tax exclusion			— 5.76
11. Sub-total			56.45
12. Less: Off-sets for Disability Benefits Law			— 3.47
13. Net cost auto data			52.98
14. Adjustment for workmen's compensation data			— 7.74
15. Sub-total workmen's compensation basis			45.24

The values are	Liability	Basic Protection	
		Auto	Auto & W.C.
	\$59.62	\$52.98	\$45.24
	100%	89%	76%
Cost of 10/100 limits	9	9	9
Total cost	109%	98%	85%

A modified approximation of the foregoing states

1. Frequencies could be reduced 3% on account of self-insured vehicles

2. The 25% additional claims, largely unreported today would cost only 80% of the average claim cost
3. Allocated claim expense for both insurer and insured would drop 10%
4. Deductible will cost 5% more than computed
5. Recoveries from other sources will be equal to that from Disability Benefits Law
6. 10% of cases termed serious by the Motor Vehicle Department would be non-serious in workmen's compensation terms.

The modified figures would be

	Liability	Basic Protection	
		Auto	Auto & W.C.
Cost of 10/100 limits	100%	79%	66%
Total cost	9	9	9
	109%	88%	75%

I find the comments by Don Trudeau, Ernest Berkeley and Dick Wolfrum extremely enlightening. I would like to take them up in that order.

The reader will have to judge for himself as to the paper's continuity and logical structure. I will simply say that complicated plans untried and unproven ordinarily require comparable exposition and development.

Concerning the particular factors used in the deductible calculation, it should be obvious that the removal of pain and suffering will reduce the average claim cost; consequently a \$100 deductible in relation to a reduced average claim cost is bound to eliminate a larger proportion of the total cost (area of the distribution curve) than \$100 in relation to the average cost including pain and suffering. I see this as a criticism that the factors developed may *overstate* rather than *understate* the cost.

I wonder if Don really means to say that property damage allocated claim expense is currently being charged to bodily injury liability.

Some criticism is made for not dealing directly with optional coverages. Certainly the cost of optional coverages must be determined if options are to be provided. I do not, however, look on these elements as being part of the mandatory coverage contemplated under the Basic Protection Plan and have left this for future consideration when, as, and if people want this program. Recognition of extra-territorial coverage must be afforded

since the Basic Protection Plan conceivably could be adopted in one state and not in another.

It is true that the type of deductible in the Basic Protection Plan could, with legislative enactment, be applied to the present liability system. It is my purpose only to make an objective evaluation of the expected cost of the Basic Protection Plan. A thorough reading of the book could be made by others, not necessarily actuaries, and if they cared to, they could pass judgment as to its advantages or disadvantages.

With regard to the allocation of cost to individuals, it doesn't make much sense to measure the detailed microcosm of cost allocation to individuals until some hard conclusions are reached with respect to the macrocosm of the Plan's overall cost. Dick Wolfrum brings out some thoughtful conclusions and I for one would be most happy to undertake to develop the distribution of cost further in the future.

Concerning pain and suffering, my reaction to the question of "true" costs is that it appears to lead toward a futile philosophical question sometimes used in courtroom histrionics, namely, how much is a man's life worth, a moment of unendurable pain, etc. There is no useful answer except possibly in statistical terms. Don proposes an interesting derivation of pain and suffering pure premium. Don's difference in approach on costing the Basic Protection Plan, I would say, could be answered by saying that's what makes horse races. I personally do not have this type of accident and health data available to me. I would be very pleased to have Mr. Trudeau's company or any other company volunteer its data for this purpose.

I do not fully appreciate Don's criticism of the factor for income tax exclusion.

Regarding Appendix A, I do point out that the values to me appear reasonable, but an adequate actuarial basis to support all of the values contained in those calculations is lacking.

Turning to Ernest Berkeley's very kind review, I must say it's a new and pleasant feeling to note my colleagues brand me "overly conservative." Perhaps it is a demonstration of my objectivity in developing the cost; heretofore, as a professional actuary, I have sometimes heard myself labelled the reverse of "overly conservative."

With respect to workmen's compensation offsets, note that some workmen's compensation claims are today being paid as third party cases and, therefore, the situation may be somewhat muddled and confusing. As Ernest points out, I did not include this element as an offset, although it probably is significant.

Turning now to Dick Wolfrum's review, it is an extremely lengthy one in keeping with the weight of the subject matter. Dick takes some issue with the use of workmen's compensation injuries by type of injury; he says it is different from those caused by automobile accidents. I point out that the workmen's compensation cost by types of injuries arising from classifications primarily involving automobile operations have been compared with workmen's compensation cost of injuries arising from the use of automobiles; the types have been averaged according to degree of injury reported to the Motor Vehicle Department. This has a tendency to reallocate injury costs according to averages of drivers, passengers, pedestrians, etc. Mr. Wolfrum's company's sample of the types of persons injured is most welcome. I wish we could get more of such data. I think the idea of an automobile bodily injury accident table has great merit.

With respect to collateral benefits, the listing of possible recovery areas is an excellent one. Some data is needed, particularly from insurers. Perhaps the 93% figure affords a good clue as to the possible appeal of the Basic Protection Plan to the average person who might expect to pay lower premiums as a policyholder and who also might expect to receive speedy reimbursement without present day red tape if he were to become a victim.

I do not disagree that we need more information on claimants' attorneys' fees. Concerning the criticism that my figures show a low cost from 66% to a high one of 89% I am confident that if I have been successful in narrowing it down to this range on the basis of very limited data the range could be narrowed down even further on the basis of additional information. In any case, the results are neither unreasonable nor inadequate in terms of pricing. Similar problems had to be faced 50 to 60 years ago in converting an employer's liability premium to a workmen's compensation premium. That conversion proved to be only temporary until actual experience took hold. In these days of sophisticated recordkeeping, the period of trial and travail during the time a conservative entry Basic Protection Plan premium might be used probably would be very short; statistics could supplant judgment very quickly.

Regarding the application of deductibles under the present system, one should consider the possibility that the policyholder today might not want to buy deductible coverage if, as a claimant, he would continue to pay legal fees of 16% to 50% of the gross recovery. It is possible that he might find the Basic Protection Plan attractive if the net to him, as a claimant, could be reasonably close to his net today as a claimant exclusive of other insurance.

I really have no comment to Dick's "guesstimate" that present day rates could be reduced by 75%. I find it an amazing conclusion and simply leave it to the company actuaries to argue over the particular figures.

The statement that the very existence of basic protection coverage may well have an effect on increasing the cost of the sum of the residual liability coverages is rather cryptic, but unenlightening.

I agree that measures would need to be developed to make sure that fraudulent claims are not easy to collect.

Concerning the five points of imponderables, only time will tell whether or not these will be marginal elements. As an individual, it appears to me that the economic incentives are somewhat lacking because the possible recovery amounts are not particularly attractive compared with the effort required to recoup the deductible.

Concerning the overall cost by classification and geographical area, I can only repeat that I would be most anxious to develop this if the program is otherwise found acceptable. Most appropriately, it could be developed cooperatively if the necessary data were made available to me.

Undoubtedly underwriting considerations will change. Present relationships between most preferred and least preferred are more like 1000% rather than 250% when one considers geographical differences.

As a general comment, underwriting considerations ought to follow *after* it is determined whether or not the insurance represents a necessary or desirable coverage and service to the policyholders and claimants.

In a broad service sense, the fact that different marketing problems will develop need not be detrimental. Perhaps such differences in rate structure could achieve a leveling out which, although it would require reeducation of underwriters, would be of some advantage to persons generally. The newly "desirable" (and currently "undesirable") risks would have few insurance problems while the newly "undesirable" (and currently "desirable") risks could reverse the present situation; those newly "undesirables" could still obtain auto insurance by using the leverage of other insurance, a fact of life today which is almost entirely obscured, except in the market place.

I would think that the 50 to 1 ratio of variation by class and territory is an overstatement; if brought to more proper dimensions it is not greatly inconsistent with the present 10 to 1 ratio.

In conclusion, I appreciate the criticisms levied by all the reviewers because, in the long run, it must result in developing an improved product

which meets the needs of the policyholder public; at the least it could improve coverage and price under the present liability system. I would hope that improvements in the system of affording insurance for proper purposes will also result in improving underwriting results, which we all know encompass a very large amount of pain and suffering. In any event, it is of the utmost importance that we actuaries recognize our responsibility to provide an impartial evaluation of any serious new program. We should be in the forefront, analyzing and developing insurance programs. It is only by working at being leaders in the insurance industry that we can hope to become leaders and not simply to remain followers of the dictates of others.