cases of Schedule P voluntary reserves for companies establishing such reserves reveals this lack of uniformity, consistency, and objectiveness most emphatically.

UNEARNED PREMIUMS AND PREPAID EXPENSES

The following reviewer's statement is unusual and somewhat puzzling:

"A more consistent approach is to regard premiums as being taken into income when written and the corresponding acquisition costs charged off at that point."

This seems like a great departure from the customary earned premium definition of income which provides the basis of the annual statement accounting method. Further, it is difficult to relate this statement and the ensuing argument developed by the reviewer to the argument he actually selected in supporting the 100% unearned premium reserve concept.

DISCUSSION BY JOSEPH LINDER

I must confess to a feeling of disappointment upon reading Paul Otteson's paper and studying the exhibits, the preparation of which must have taken considerable time and effort. My appetite was whetted in the opening paragraph of his paper when he underlined the words "full and true" in the quotation from the sworn statement contained on page 1 of the annual statement. I am sure that all of us would like the annual statement to be "fuller and truer." Personally I believe that substantial improvement is not only highly desirable but entirely feasible with a substantial bonus in the form of economy in record-keeping. I must seriously question, however, whether Mr. Otteson's "observations" do much to help a most praiseworthy cause.

In considering the section on Consolidated Statements, I must first assume that, regardless of purchase price or other investment, a wholly owned or controlled subsidiary would have a per share *carrying value* based on an amount which is not in excess of combined capital and surplus. (This is the law in New York and some other states, and I am sure that Mr. Otteson will readily agree with me that it should be so by regulation, at least, in all states.)

Had Mr. Otteson limited his advocacy to multiple line companies, I would probably be in agreement with him if the group were all stock companies or even if the parent company were a mutual company with one or more stock subsidiaries. I might even be willing to agree, somewhat

grudgingly, if the group consisted entirely of mutual companies with some form of relationship to each other such as pooling.

Taking now the case of where a multiple line company (stock or mutual) enters the life field through the purchase or organization of a stock subsidiary and that the per share carrying value of the subsidiary will be based on an amount not exceeding that of combined capital and surplus. If we consider the annual statement balance sheet of the parent company at the end of any year, there is exhibited an increase (decrease) in surplus which is made up of the sum of two elements—multiple line operations and life operations. If we adjust for the change in the carrying value of the life subsidiary, analysis of multiple line operations are evident from the annual statement of the parent company to exactly the same extent as they would be if no life subsidiary were involved. Analysis of life operations are evident from the annual statement of the life subsidiary.

I am simply unable to understand the pertinence of Mr. Otteson's remarks where a multiple line company is the parent of a life company or, for that matter, where a life company is the parent of a multiple line company. Except for the accident and health coverages, there can be no inter-relationship of premiums between multiple line companies and life companies (acceptances, cessions, pooling, etc.) To this reviewer, such possible inter-relationship, rather than ownership or common management, is one of the chief reasons for consolidation.

In the section on Valuation of Investment Securities, Mr. Otteson suggests that not only should stock holdings be valued at market, but that consideration should be given to the establishment of an appropriate capital gains tax reserve against unrealized appreciation. While I am in agreement with Mr. Otteson on both counts, I am afraid that there would be considerable opposition, with some validity, against the establishment of the reserve against unrealized appreciation.

On bonds, however, I think that amortization of the higher grades is appropriate. While it is true, of course, that "convertibility to cash" should theoretically be the basis, we must not be unmindful of the fact that at times even Federal government issues have sold at most substantial discounts from purchase price. Also, under ordinary circumstances, only a small part of the bond portfolio would require "forced" liquidation. It seems to me that the gradual accumulation of a mandatory securities valuation similar to that for life companies, is a satisfactory solution.

A considerable portion of the paper is devoted to the two related topics of Incurred Losses and Schedule P. With much of his discussion as to the

posing of the problem, I am in agreement. As I see it, the extremely difficult problem of loss reserves is one which must be subject to constant and intensive study. There is no panacea. For carriers of at least reasonable integrity and competence, which probably includes all of the companies selected by Mr. Otteson, the results achieved are, on a percentage of adequacy basis, about what would be expected. The problem, however, is acute with some of the companies *not* included in the tabulation.

It has long been my feeling that the annual statement is badly in need of revision on the important matter of the exhibiting of loss data. Such revision would permit not only retrospective evaluation of loss reserves but prospective evaluation, even though the latter would of necessity be limited. So far as Schedule P is concerned, I am somewhat disappointed that Mr. Otteson's talents were not devoted to a more fundamental consideration as to the value of the parts preceding Part 5. Isn't somewhat more radical surgery indicated?

The remaining item which requires comment is that of Unearned Premiums and Prepaid Expenses. These items are not only not the same thing but either one is extremely difficult to define, let alone measure, in an annual statement which is the same for all types of carriers. More importantly, recognition in the annual statement of either item is, in the opinion of this reviewer, fundamentally unsound. Mr. Otteson's discussion, and his presentation of estimated liquidating values and market prices, points up the fact that investors constitute a set of legitimate claimants to information which is based on, but is *supplementary* to, the data contained in the annual statement. Public accountants constitute another set of legitimate claimants. There are others. Here, consideration should be given to the part that the annual statement plays in the supervision and regulation of insurance carriers, particularly the question of actual or imminent insolvency. It would appear that the introduction into the annual statement of judgment or controversial items not relating to statutory solvency would enormously complicate the supervisory and regulatory problem, without any compensatory gain.

AUTHOR'S REVIEW OF DISCUSSION BY MR. LINDER

The first paragraph of Mr. Linder's review evaluates the paper on a "complete, total" basis in a very positive manner and tone.

Various parts of the paper are then considered individually and in these considerations the differences in viewpoint between the reviewer and the author appear less "complete" than the general evaluation in the first paragraph would suggest.