DISCUSSION BY FRANCIS J. HOPE

It was a pleasure to review this paper, because it is concise, the ideas are clearly stated, and it suggests some things that could be done now and some thought-provoking subjects for the future.

The first stated purpose of the proposed revision of Schedule P is simplification, and with this we can hardly have any quarrel. If the primary purpose of Schedule P is to give some indication of current reserve position, then it may be done equally well on an accident year basis as on a policy year basis, and with less detail in processing. Admittedly the minimum statutory requirements present a hurdle to be overcome.

Certain rationale is cited from the report of the Actuarial (F5) Subcommittee of the N.A.I.C., to the effect that application of the statutory minimum ratios to three years of calendar/accident year premium would produce a more conservative requirement than when applied to three policy year premiums, since the calendar year premium would be greater.

As a technical point it might be noted first that, with respect to policies still in effect at the beginning of the period, such policies would be contributing losses as well as premium into the calendar/accident year period, and thus would not necessarily make the requirement more conservative. Policies which had already expired would quite probably contribute positive amounts to earned premium in the form of audit premiums, but these might be more than offset by negative amounts from retrospective adjustments from time to time.

This technical point should hardly be a deterrent to the use of earned calendar year premiums, since the effect would be quite negligible, and the statutory minimum ratios themselves do not suggest any precise form of measurement.

There is a proposal to revise Part 5 so as to show various sub-totals and aggregate developments by line, and this might be done in a number of ways. If space permits, we would suggest that an additional column be inserted between the columns as proposed, in which the amount of calendar year development could be shown by accident year. This again would merely be a saving in arithmetic, and would show at a glance the amount of contribution to calendar year incurred loss made by each accident year.

The most interesting and challenging part of the paper is the section on prospective evaluation of liabilities. Miss Salzmann would add a new Part 6 to Schedule P, in which she would trace paid and incurred losses by accident year through a series of year-end evaluation dates. By subtracting successive paid amounts from the latest known incurred amount, she obtains what may be considered the most appropriate reserve that could have been established at each prior year end. The two elements of loss would also be expressed as percentages of earned premium as of each evaluation date.

If all elements of loss development maintained a consistent pattern in relation to each other and to earned premium, the later accident years could be projected to ultimate incurred on the basis of older accident year developments, and current reserves evaluated accordingly. Miss Salzmann wisely and properly emphasizes that this is not necessarily so, and that the date would be "informative" but not "conclusive evidence" as to adequacy of current reserves.

To this writer the data would be useful for observing trends, and even more useful in that any significant departure from what appears to be a general pattern should provoke a study in depth, beyond the material in Schedule P. This would include average costs on closed claims, rate of settlement, etc., i.e., the elements named for the "most sophisticated approach" in the paper.

Another approach might be to relate paid losses to the latest known incurred loss, eliminating the factor of premium adequacy, but here again the data could only be informative, because the ratios indicated by a sufficiently mature accident year would not reflect changes taking place since that time.

In her concluding remarks, Miss Salzmann names several other areas which should be studied in a redesign of Schedule P, and among them is the matter of distributing unallocated claim expenses. In such a study, question might be raised as to whether this element of expense should even be included in Schedule P. Recognizing that in all other respects the two types of claim expense must be kept in close association with each other, and with losses, it seems nevertheless that unallocated claim expense is relatively more static, akin to administration expense, and does not belong in an exhibit tracing developments on the more uncertain and volatile elements of loss and allocated claim expense.

To conclude — and as always, it is a pleasure to compliment Miss Salzmann on her paper.

DISCUSSION BY PAUL M. OTTESON

Ruth Salzmann's paper suggests improvements to Schedule P "which are practical and feasible at the present time." With this limitation of subject