

DISCUSSION BY L. L. TARBELL, JR.

Once again the Casualty Actuarial Society is indebted to Mr. Longley-Cook for a paper dealing with the property insurance business. Since this business has traditionally been "non-actuarial," few members of the Society have devoted time to an examination of the procedures used by property insurance rate makers and, therefore, contributions in this area are valuable knowledge for the actuary.

This paper discusses a problem which the property business has recognized for some time. The question phrased in "property" language is, "Should you establish rate levels for the business you presently write or for the business you would like to write?"

The dilemma presented in the mixture of stock and non-stock experience is really one of classification and, as Mr. Longley-Cook points out, when the business tends to differentiate between insurance carriers on the basis of monetary considerations, service facilities, friendship with insurance agents or whatever, the type of carrier with which the insured places his business does, in effect, classify the business. Since fire rating bureaus file the same rate level and develop rates for given buildings and occupancies regardless of the type of insurer, the non-stock carrier, because of better selection, underwriting, or other factors, enjoys a margin of underwriting profit potential which contributes toward dividend distributions. Naturally, the most direct and obvious solution to the problem would be the establishment of separate stock and non-stock rate levels. This has been the practice in the casualty lines (except for workmen's compensation) for quite some time and arguments such as those Mr. Longley-Cook has presented in his paper could be presented to substantiate this approach.

The mathematics of this problem are relatively simple; however, the solution is not as uncomplicated. From a practical point of view, the stock insurers are, in my opinion, forced to consider non-stock experience in the establishment of rate levels (either directly by inclusion of the experience or indirectly through judgment) since to do otherwise would tend to force the rate levels higher and allow the non-stock insurer a larger market within which to operate. Using the example which Mr. Longley-Cook presented in his paper, the indicated rate level for stock companies only is some 5.2% higher than the present level or the level indicated by the combined experience. If the higher level were achieved, the mutual companies would have available rates which would allow them to relax their

underwriting and selection criteria so as to sweep in a larger market which would still be profitable.

A review of figures from *Spectator* for states where fire bureaus operate on different bases (SEUA where mutual experience is included for rate level, and New England Fire Insurance Rating Bureau where stock only experience is used to set the rate level except for the State of New Hampshire) produces the following:

	<i>1965 Earned Premium (000's Omitted)</i>		
	<i>Stock</i>	<i>Mutual</i>	<i>Total</i>
SEUA	88,876	27,255	116,131
% of Total	76.5%	23.5%	100.0%
NEFIRB	65,088	32,915	98,003
% of Total	66.4%	33.6%	100.0%

Louisiana, New York, and Texas, where mutual experience is included for rate level, show the following distributions:

	<i>Stock</i>	<i>Mutual</i>	<i>Total</i>
Louisiana	25,421	2,750	28,171
% of Total	90.2%	9.8%	100.0%
New York	141,311	38,711	180,022
% of Total	78.5%	21.5%	100.0%
Texas	72,676	9,801	82,477
% of Total	88.1%	11.9%	100.0%

These figures would seem to indicate that the stock companies maintain a larger share of the market where the rate levels are determined on a combined basis. However, the figures for the State of California, where rate levels are set on a stock only basis, show that 92.2% of the business is controlled by the stock insurers, and figures for Illinois and Ohio, where rate levels are determined on a similar basis, show 82.1% and 73.7% of the business written by stock insurers. These differences may be accounted for by the geographical distribution of mutual insurance companies which traditionally have been strongest in the eastern regions of the country.

The problem then resolves itself into one of a business decision as to how divergent stock and non-stock rate levels can or should be, and whether or not stock insurers feel that present non-stock business can be attracted to the stock carriers. It is in this area that the actuary for a

stock company can best serve his management by analyzing rate level indications and business distributions and advising accordingly.

It would seem that a more thorough investigation of this subject with emphasis both on state rating procedures and market penetration by the various types of carriers would be necessary in order to fully explore this problem and Mr. Longley-Cook is to be thanked for his paper which opens this area to investigation.

AUTHOR'S REVIEW OF DISCUSSIONS

I greatly appreciate Mr. DuRose's careful review of my paper on profit in fire bureau rates. This is an important subject and Mr. DuRose's comments call for a considered reply. My paper aimed to show that, if mutual and independent loss experience is included in the data used for making bureau rates for stock agency companies, the rates developed may not, in fact, be adequate for such companies and will certainly not provide the 5% profit in the Commissioner's formula.

Mr. DuRose argues that regardless of whether my contention is correct, fire insurance rating bureaus may be required by law to use all the experience of the companies for which they make rates, namely, all members and subscribers. It is unfortunately true that in the regulation of insurance there has been a tendency to seek to determine matters of ratemaking, not on the question of the adequacy of the rate for various companies which would seem to be the intent of the law, but on the literal interpretation of the wording of other sections of the law which were written many years ago without contemplating conditions as they exist today. This is, of course, very understandable because an insurance policy is a legal document and must be interpreted strictly with little regard to intent and it is not unreasonable for the same philosophy to carry over into the field of ratemaking.

A cobbler should stick to his last, and, not being a lawyer, I do not intend to try to argue the law. However, I must point out that if Mr. DuRose's argument is, in fact, the law, it is being otherwise interpreted in many states and in many lines of business; further, the difficulty could be overcome by having separate stock and mutual fire rating bureaus or by a proper interpretation of profit, which should consist of 5% *plus* the differential between the loss experience of stock member companies of the bureau and the loss experience used to make rates.

The reviewer makes the point that, "It is yet to be established that