BURGLARY INSURANCE RATEMAKING

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DISCUSSION BY MARTIN BONDY

Steve Newman has given us a disturbingly accurate picture of the system of making rates for burglary insurance. The reader need only study the method carefully in order to guess how our results have been. Then a look at the results confirms the guess—disastrous.

A chart on page 325 of Volume LIII shows that National Bureau members have lost an average of 5.6% per year in the period from 1961 to 1965—and the situation is getting worse. To quote the author:

"The impact of inflation upon buglary loss settlement costs, as well as the increase in the number of burglaries and robberies during this period, have contributed substantially to this situation."

To illustrate this, Steve then presents us with an exhibit entitled "Crime in the United States" which shows that the number of crimes against property has increased by about 40% in the four year period covered by the exhibit.

This chart only confirms numerically what the newspapers scream at us every day.

And yet, strangely, the ratemaking procedure does not recognize this universally known fact. The rates made for providing insurance in 1967 through 1970 are based upon the crime levels of the early 1960's.

To compound this lack, loss severity levels are brought only to the anticipated level of the effective date of the revision. They are somewhat short of what their target should be—the severities which can be expected to prevail at the time the losses will occur under policies affected by the revision.

In my opinion there is one convenient measure of the trend of burglary insurance costs which has the following desirable features:

1. It reflects severity changes.
2. It reflects frequency changes.
3. It reflects changes in insured values.
4. It is based entirely upon insurance data and therefore does not rely upon analogy which is so often open to dispute.

The trend of loss ratios at present rates automatically takes all pertinent factors into account.

In the body of his paper, Steve Newman gives us a numerical example which illustrates the determination of a statewide rate level change. "The actual data were taken from a recent burglary rate filing." We have been told that the loss ratio which is "selected" to underly the proposed change depends upon the relationship among the latest 5 year, the latest 3 year, and the latest 2 year loss ratio. If a consistent upward trend exists among these three, then the latest 2 year loss ratio is selected. If a trend does not exist, then the middle one is selected. In the numerical example the three loss ratios are:

5 year	.531
3 year	.594
2 year	.610

But—the loss ratio selected is not .610. In fact, it is not even .594. It is .580, the loss ratio which will produce a 20% change.

So we magnify the errors discussed above by further compromise.

My only criticism is that Steve has been too matter-of-fact in describing the methodology. This is probably not a fair comment since the paper is an exposition and not a critique of the method. Other than this, the paper is clear and should provide a good reference for students. I hope that it will soon be obsolete.

DISCUSSION BY R. G. OIEN

One of the very nice things about Mr. Newman's paper is that, after his very clear description of burglary insurance ratemaking, he concludes with comments on the current situation for this line. Included in these comments is an exhibit of the underwriting results for a large group of comparable stock companies. The five year composite result indicating an underwriting loss of 5.6% is shown on page 325 of Volume LIII. From a comparison to the 5% provision for profit and contingencies indicated on page 319, we can reasonably conclude that a genuine problem exists for a substantial portion of the industry in this line. It would appear that "contingencies" outweigh "profits" by better than 2 to 1.

Mr. Newman indicates one avenue of possible remedy in suggesting the use of mandatory deductibles; for some sublines, with proper pricing, this may be useful. However, I would suggest that the underwriting result for this line, as well as for many others, is greatly influenced by the fact