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

that rates are calculated for today's circumstance and sold to cover tomorrow's exposure. It is recognized that this is no new opinion, but perhaps it should be said more often. That ratemaking is ideally prospective is something that *should* be accepted for *"shouldness"* sake. In burglary insurance, the need for prospective rating considerations is compound. In addition to the effects of inflation, there is an increasing frequency in the underlying crime events which generate the losses. In other industries contracts may be entered into based on current costs and the ultimate costs may generate a loss, but this is a result due to an inadvertent cost estimate. This is not the "expected" basis for doing business as it is so often in the insurance industry.

What has been said so far was stimulated by Mr. Newman's paper, but does not constitute a review. The subject in this paper was well delineated, placed in perspective, and very well described. To state it simply, in my opinion, the author did his job and did it exceedingly well.

AUTHOR'S REVIEW OF DISCUSSIONS

As mentioned in the presentation of this paper to the Casualty Actuarial Society in November, 1966, its purpose is simply to describe current ratemaking procedures for burglary insurance, and to provide the casualty actuarial student with some insight into the reasons underlying these procedures and why they may differ from those common to other lines of business. In the following discussion, I have tried to clarify certain areas in which interest has been expressed—particularly the development of the Master Rate Table and the use of trend factors.

MASTER RATE TABLE

Background

Prior to August, 1964, the burglary rates applicable to a particular class of risk were determined by reference to a series of rate schedules which were published for each buglary subline. Each territory within a state was rated in accordance with the schedule closest in line with its experience indications. For example, if we assume that for the Money & Securities Broad Form—Inside Premises Coverage, past experience indicated that Territory 3 in State X should use the Money & Securities rate schedule 5, and if we further assume that each rate schedule reflects a 5% increase in rate level over the last numerically lower schedule, then a 12% increase in rate level in Territory 3 for this subline would be translated