

interesting for college students. Actuaries too, might cavil at the chapter on Insurance Finance, retained almost verbatim from the third edition, especially the uncritical acceptance of the Roger Kenney standards on company financial strength, and the erroneous implication that, after reading the chapter, the layman can, by following nine handy rules, understand an insurer's financial statement and judge its financial strength by himself.

Nevertheless, Professor Serbein has done us a great service by bringing up-to-date this standard reference work on property insurance coverage and policy forms.

Dennis F. Reinmuth, *The Regulation of Reciprocal Insurance Exchanges* (The Huebner Foundation Series), 234 pages, Richard D. Irwin, Inc., Homewood, Illinois, 1967.

Reviewed by RAJ RATNASWAMY

Like the American Indian, with his intangible political status, the reciprocals constitute a quasi-separate segment of the insurance industry whose corporate legal status is neither fully defined nor definable, representing a peculiarity not uncommon in the American way of doing things. In fact, in chapter 1, Dr. Reinmuth does state that reciprocals are indeed typically and exclusively American in origin and existence. There are few books on the subject of reciprocals, and so this author deserves special congratulations and thanks for his effort.

On page 1 of the book, the author describes vividly the image of six New York dry goods merchants discussing over lunch their common problems in obtaining fire insurance. Later, each signed a memorandum agreeing to pay each of the other five a maximum of \$2,000 in case of loss by fire, all without forming any corporation.

Other firms later joined this arrangement, soon necessitating a committee and then an office manager and finally an attorney-in-fact who would handle and sign all the transactions on behalf of the subscribers. Funds were established through collection of "deposits" subject to refundability of unused moneys called "savings."

Similar reciprocals were formed in several parts of the country, and by 1925 Best's Insurance News showed six classes of reciprocals, such as sprinklered risks, mercantile, lumber, automobile, etc., a total of 117 reciprocals with \$45 million in premiums. In 1964 the top eleven reciprocals listed by Best's had total assets of \$782 million and premium writings of \$668 million, of which \$537 million was in automobile insurance lines.

In chapter 2, *The Legal Status of Reciprocal Exchanges*, Professor Reinmuth describes the legal differences between stock companies, mutuals, and reciprocals; but unfortunately his discussion is not as comprehensive as this reviewer would have liked. In this chapter, also, he shows concern over the considerations that the attorneys-in-fact of some of the reciprocals are proprietary in nature, like a management corporation, and that the subscribers' contracts are drawn up by the attorneys-in-fact. These contracts authorize his control, limit his liabilities, and agree to fixed allowances for expenses; they permit few flexibilities and afford limited recourse to the subscribers for actions comparable to elections by stockholders or policyholders in stock or mutual companies.

The author does acknowledge, however, that the large auto club inter-insurance exchanges, which write the great bulk of the total premiums of all reciprocals combined, have non-proprietary attorneys-in-fact, and that these reciprocals do enjoy exemplary low expense ratios.

There have been few scandals, if any, involving reciprocals. However, the author's concern is again reflected in his final chapter, *Conclusions*, wherein he states, "The apparent legal ability of the attorney-in-fact to manipulate, sell or merge with other management interests, including a corporation owned by him, are a few of several possible types of abuses of subscribers' interests."

Note the words "apparent" and "possible." This reviewer concedes that there are dangers and complicated legal problems; also that reciprocals are indeed involved in insurance activity affecting the public interest and welfare, and that abuses are conceivable. These are justifications for suitable general supervision and regulation as with other types of insurers, but are not reasons enough for dissolving all existing reciprocals or converting them to other forms of insurers.

In his chapter on liquidation, conversion, and merger of reciprocals, the author concedes that many aspects are subject to regulation. He enumerates most of the few that pose special problems. For example, in California, where prior approval of the Insurance Commissioner is not required for assessments, it is possible for the attorney-in-fact to declare assessments prior to liquidation; and in the case of proprietary reciprocals, he can determine how much should come from the subscribers and how much from the attorney-in-fact. There are also questions regarding time allowed for assessments to determine which set of policyholders will be assessed. States other than New York do not specify that claimants and creditors shall be given preferential treatment over the subscriber as such.

The Insurance Commissioner has general authority over liquidations, conversions, and mergers of reciprocals; but in several states there are no statutory provisions governing some of the pertinent aspects. Also, certain reciprocals can be liquidated through reinsurance without subscribers' consent.

Many of the problems the author cites, however, do relate to potentialities involving proprietary attorneys-in-fact, and involve only a few states. Passage of new statutes can overcome many of these problems.

The book is highly readable, with well-ordered appendix, bibliography, and index of cases. It makes worthwhile reading for all students of insurance and certainly for actuaries. It succeeds in broadening understanding of many of the concepts involved in mutuals versus stocks, insurer versus insured, fixed liability versus assessability, policyholder versus stockholder, the ownership of surplus in case of liquidations, tax considerations, and other items.

The actuary will find this book no less interesting nor any less diverse than the lawyer, for much of it offers true challenges for quantifications and financial analyses. The reviewer recommends it.

Gerald R. Hartman, *Ratemaking for Homeowners Insurance* (The Huebner Foundation Series), 304 pages, Richard D. Irwin, Inc., Homewood, Illinois, 1967.

Reviewed by RICHARD H. SNADER

Dr. Hartman's book is well organized, well written, and should be useful to students of insurance. The scope of the book goes far beyond the subject matter suggested by its title. Ironically, the author devotes most of his talent to the events leading up to the current state of the art of Homeowners ratemaking, but his description of the procedures now in use is the weakest part of his book.

The earlier chapters are concerned with the fundamentals of insurance ratemaking. In these chapters the author introduces the term "rating" which he uses throughout the book apparently to mean *any* technique used to determine the proper rates to be charged. He also introduces the term "insurance coverage units." This term is not defined but is apparently intended to be a synonym for exposure units defined by the amount of insurance purchased.