

AUTHOR'S REVIEW OF DISCUSSION

The author is grateful for the detailed discussion by Mr. Berquist. It shows that even after optimistic assumptions made by the reviewer the reserves still look inadequate. The question arises as to how optimistic the reviewer was? Here I have a problem since his most optimistic results are derived by a "trend line" which was drawn, presumably freehand, by "inspection of past values". I do not know how to examine the validity of assumptions underlying such a procedure.

The procedure leading to the less optimistic results can, however, be discussed in more detail. Mr. Berquist reduced the slope of the straight line rather arbitrarily by removing the effect of the lowest and the highest points in the series. This he did not do once, but six times in succession. It would be my opinion that making six optimistic assumptions in succession would tend to result in a rather optimistic result.

On general principles, a person fitting a trend line to a time series has a choice of a type of curve and a choice of a starting point. This provides sufficient scope of making widely different projections, consequently there should not be any need for "doctoring" the actual data underlying the trends. After all, if we are permitted to eliminate the highest and the lowest point in each of the six series, why not eliminate the two highest and two lowest points? Or for that matter, the three highest and three lowest points? Then, if we are at liberty to subtract a few inconvenient points, what is wrong with adding a few more convenient, strategically located points?

The reviewer expresses the opinion that my projections exaggerate the reserve inadequacy. This does not surprise me if he bases his opinion on the results of his projections.