HOMEOWNERS—THE FIRST DECADE

BY

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The Homeowners policy completed its first decade of existence in 1960, the first multiple line dwelling package with an indivisible premium having been introduced in September of 1950. During this period, the Homeowners policy has grown at such a rapid rate that it now occupies an extremely important position in the industry. In the year 1960 companies wrote approximately three quarters of a billion dollars in premium countrywide.[1]

With a volume of these proportions, this policy is now an established part of the property insurance picture. It has revolutionized the business not only by its own fantastic growth but also by the precedents which it set and which are now being carried over into the commercial field. Because the policy is so well established, the birth pains connected with its early development tend to be overlooked. We propose, therefore, to retrace the history of the Homeowners policy with primary emphasis on rate making and to evaluate the original approaches and objections thereto in the light of subsequent experience.

EARLY DEVELOPMENTS

While the Homeowners was the first multiple line indivisible premium dwelling package policy in the United States, a comprehensive householders policy had been sold for many years in Great Britain. Insofar as the package and indivisible premium aspects are concerned, similar approaches were accepted parts of the insurance picture in the United States, with a variety of coverages being furnished in a single policy or endorsement for a single rate or premium. To name just a few, there were the Extended Coverage Endorsement in the fire field, the Personal Property Floater in inland marine and the Comprehensive Personal Liability Policy in casualty. The Homeowners Policy can thus hardly be described as something completely new in the insurance business. Therefore a brief summary or review of the developments leading up to the first Homeowners filing is necessary in order to understand why this policy was so long in coming and has had such a definite impact on the industry.

The insurance business in the United States, contrary to the practices in other countries, developed in a compartmentalized fashion. Originally, although many companies had broad charter powers, they tended to confine themselves by choice to a relatively narrow field of endeavor, such as insuring structures against the peril of fire only. Gradually this division between types of insurance worked its way into the statutes and regulatory policies of most states with the result that individual insurance companies could write only certain lines of insurance. The property insurance field was divided into the broad groupings of fire, marine and casualty. While a group of companies could be formed to cover the entire property insurance field, it was

[1] The 1961 Spectator Fire Insurance Index shows 1960 net premiums written of $770,378,210 for Homeowners Multiple Peril for stock, mutual and reciprocal companies. See Exhibit I for the growth by year of Homeowners premiums.

not legally possible to write both fire and casualty coverages in a single policy in the name of a single company.

Periodically over a period of years interest was expressed in the principle of multiple line underwriting, that is, the writing of the traditionally separate lines of insurance in a single company. The National Association of Insurance Commissioners and its predecessor on more than one occasion considered the desirability of multiple line legislation.[2] However, very little progress had been made in the early 1930's, the "Nation-Wide Definition" restricting the writing power of marine companies further solidified the compartments. Finally in 1943 the Multiple Line Underwriting Committee was set up from the industry by the National Association of Insurance Commissioners. This Committee, popularly known as the Diemand Committee for its chairman, John A. Diemand, came up initially with several recommendations for statutory changes broadening the underwriting authority of fire and casualty companies.[3] At about the same time, in June 1944, the Supreme Court announced its decision in the South Eastern Underwriters Association case with this being followed by Public Law 15 which set up a moratorium during which the states were given the opportunity to set up sufficient supervision of insurance to avoid federal regulation. Most states were consequently faced in the late forties with the necessity of adopting or revising insurance statutes at a time when there was also increasing interest in multiple line legislation. The enforced ending of the status quo brought about by the required statutory changes greatly facilitated the task of those interested in multiple line underwriting. By 1949 several states had finally passed "full" multiple line statutes and it became legally possible to write a multiple line policy.[4]

THE DWELLING PACKAGE POLICY

Thus in 1949 the stage was set for the industry to pass from the talking stage to the actual implementation of policies and practices which could reap the benefits claimed for multiple line underwriting. The industry could begin moving toward the goals described by John A. Diemand in 1947:

". . . the business of insurance should be conducted in such fashion that it supplies to those who wish it the widest possible coverage, in the simplest possible contracts and at the lowest possible rates. . . .

"The policyholder wants protection against any form of loss which he might suffer with respect to his property, his person or his business. . . . The companies . . . must be able to sell at the lowest possible rates consistent with sound business practices and the right to a fair profit."[5]

There was, of course, no simple solution or single route in moving toward these goals. With respect to personal insurance, there was no automatic process by which the insuring public could be "given" broader protection at lower cost. One problem, that of demand, was very clearly set forth by Wil-

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[2] E.g., Proceedings of the National Convention of Insurance Commissioners, 1891, pp. 6, 53; 1904, p. 137; 1914, pp. 13, 14.

[3] These recommendations were for multiple line authority with respect to foreign business, reinsurance, automobile, aircraft and personal property floaters.

[4] One of the most important of these states was New York, where such a statute became effective July 1, 1949.

[5] John A. Diemand, "Dead-Line Ahead", Best's Insurance News (Fire and Casualty Edition, January, 1947) Vol. 47, No. 9, p. 21.

liam D. Winter of the Atlantic Mutual Insurance Company: "It is argued that there is no public demand for these broad policies. It is equally true that insurance has never been sought; but has been sold by the insurance companies. As better policies were developed endeavor was made to interest the public in these broad forms of protection."[6] In other words, most insureds were not actively demanding broader or better coverage, at least not until such time as they had a loss for which they were not individually reimbursed.

Another problem was that of cost. Doubts were expressed by many that packaging several coverages into a single policy would result in any material savings. Compounding this problem was the fact that many insureds had not been buying separately the various coverages which would logically be built into any true multiple line dwelling policy. Without some sort of saving, it could hardly be expected that they would be any more likely to buy these coverages simply because they were all written into a single policy form.

Thus, if a multiple line policy in the individual homeowners field was to have any success, it had to have features or benefits which were sufficient to create a demand, or, perhaps more realistically stated, it had to be a policy which could be sold.

To satisfy the foregoing, it is reasonable to say that the multiple line dwelling policy had to have either broader coverage than was available via the various individual line policies or it had to be sold at a price lower than the sum of the premiums on these individual policies, a quantity discount. Ideally, of course, the policy should incorporate both broader coverage and lower price. And since so many insureds did not carry insurance other than fire and extended coverage, a policy which furnished fire, extended coverage, burglary and liability insurance would cost them more than their existing insurance. If only a modest discount or reduction in cost from the components built into the multiple line policy were possible, the policy would cost so much more than the average insured's existing coverage that it would be attractive only to those relatively few insureds who were already fully covered.

However, a policy which had broader coverage and a lower price still had to comply with the basic legal requirement that "rates shall not be excessive, inadequate or unfairly discriminatory." The multiple line dwelling policy had to be a product which could be sold not only to the insuring public but also to the state regulatory agencies. It had to be so designed and supported that it could be approved by the state insurance departments.

THE FIRST HOMEOWNERS FILINGS

The first true "Homeowners Policy," in the sense that the words are used today, was developed by the Insurance Company of North America. This policy was formally filed with the Insurance Department of Pennsylvania on August 11, 1950 and approved effective September 11, 1950.

This policy, which was called "Homeowners Policy Multiple Form," was a true multiple line contract providing coverage previously available only under separate policies and described as Fire, Extended Coverage, Theft, Personal Liability, and Medical Payments. Since this was the first real answer

[6] William D. Winter, "Multiple Line Underwriting—Why Not Here?", Best's Insurance News (Fire and Casualty Edition, January, 1949) Vol. 49, No. 9, p. 27.

to the problem of taking advantage of multiple line opportunities and at the same time coming up with a saleable product, the filing letter submitted with this policy represents a valuable document in any consideration of Homeowners rating.

Purposes: The basic reasons for the existence of a Homeowners policy are clearly set out in this filing under the heading "Purposes and Advantages."

> Multiple line legislation . . . makes it possible to give the householder better insurance coverage than any that is presently available.
>
> Recent studies by agents and insurance companies show that fixed costs in selling and handling insurance contracts are of such size that small policies are written at a loss both to agent and company. This means that the more modest property owner loses, too, because if there is not profit to agent and to company, there is no incentive to reach the uninsured and under-insured property owner.
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> A multiple line policy combining several coverages into one contract has the following advantages:
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> 1. It makes possible significant savings which can be passed on to the policyholder.
> 2. It provides broader and more convenient coverage through packaging.
> 3. It overcomes cost problems presently facing agent and company.
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> These advantages become available when the policy is simplified and standardized as a fixed package which permits unit processing. It is believed that the coverage combination herein proposed accomplishes these objectives and will meet with wide acceptance. This can be proved, however, only through actual experience and it may be desirable to modify the package somewhat after testing.

Coverage: By present day Homeowners standards, the "Homeowners Policy Multiple Form" was intentionally kept quite simple in order to facilitate the establishment of the package principle and to pave the way for the more comprehensive forms which soon followed. The coverage options were limited and there was little flexibility. Fire and Extended Coverage were provided on the dwelling in amounts of $6,000, $8,000, $10,000 or $12,000 only with contents coverage at 30% of these amounts. Theft coverage was from within the dwelling and for a single limit of $1,000 while liability coverage was only with respect to the premises and for single limits of $10,000 bodily injury and property damage and $250 medical payments.

Basic Principles and Support of Rating Plan: As was well recognized in the filing, this package had not had the test of actual experience and the possibility of modifications was kept in mind. However, there are certain basic principles in this first filing which have continued to play a vital part in Homeowners rate making down to the present day. Among these are the indivisible package premium and the sizeable package discount. These points are covered in the "Support of Rating Plan" section of the filing letter. Because of the newness and controversial nature of the package discount, the arguments in support of the 20% reduction from components are probably covered more comprehensively than was ever necessary in formal filings made after the ice had been broken, and are thus of particular interest.

> Since this rating plan is to be used in connection with what is for rating purposes an entirely new kind of insurance, no past experience of this or any other insurer is available. The applicant has, therefore, relied upon its judgment, based upon the *past* experience of the North American Companies in handling separately the coverages that are combined in the policy. . . .
>
> The sum of tariff premiums for the component coverage was reduced by 20%, the justification for which is set forth in detail as follows:

Although expenses are usually expressed as a percentage of premium income, many expenses are approximately constant per policy regardless of the size or type of the policy. This makes the true cost of small policies relatively heavy and packaging provides a means of reducing these expenses.

In order to determine the correct premium to be charged for the policy, it is necessary to express the expenses in a more accurate form than is usually employed. For this purpose, expenses must be subdivided into three groups.

(1) those which are best expressed as a constant per policy,

(2) those which are best expressed as a percentage of the premium income,

(3) overheads on (1) and (2).

The expenses in group (3) can then be distributed appropriately between groups (1) and (2), and the total expenses then take the form of a constant plus a percentage of the premium income.

A detailed analysis of the expenses of the fire business of the North America Companies shows that for 1949 those expenses which are best expressed as a constant per policy represented 5.95% of the net premiums written, or $3.16 per policy. A conservative estimate of the constant per policy costs of a policy written in the Burglary Department is $4.00 and in the Liability Department, $3.50.

When fire, theft and liability coverages are combined in one policy, the cost of handling the combination policy, provided it is rated as a single contract, is little, if anything more than that of a single policy in any of the departments that now handle separately the coverages combined in the policy. Thus, an allowance of $4.00 per policy should prove adequate for the policy under consideration.

For the remaining costs, it is reasonable to take the mean of the expense ratios of the individual contracts, except for commission, where the rate payable is determined, and Inspections and Payroll Audits, which are not applicable to this policy. In obtaining the mean expense ratio the proportions 4-2-1 have been used for fire, theft and liability, as these are the average proportions in which the individual components are combined. These costs are shown in the following table, which is based on the figures published in the North America Companies' Insurance Expense Exhibits for 1949. All ratios are to net premiums written.

Expense Ratios for Homeowners Policy Multiple Form

	Fire Companies	Indemnity Company		Proposed for Homeowners Policy
	Fire	Burglary & Theft	Liability other than Auto	
Commission				20%
Other acquisition expenses incurred	7.89%	7.70%	7.80%	
General expenses incurred (excluding Inspection & Payroll Audit)	6.89%	10.04%	8.91%	
Total	14.78%	17.74%	16.71%	
Expenses best expressed as a constant per policy	$3.16 or 5.95%	$4.00 or 9.50%	$3.50 or 6.05%	$4.00
Expenses best expressed as a percentage of the premium	8.83%	8.24%	10.66%	9.00%
Taxes	2.93%	2.89%	2.79%	3.00%

The average term of the policies included in the above computation is 2.4 years and an inspection of the proposed Premium Chart shows that it is reasonable to expect an average premium (when reduced to this term) of $75.

On the basis of this average, the total permissible expense ratio will be 37.33% and hence, if profits and contingencies absorb approximately 5% of the premiums, the permissible loss ratio will be 57.67%.

Packaging not only produces savings in handling costs; it also provides improved risk selection which will result in improved loss experience. When an insured buys individual policies to cover against specific hazards, it must be assumed that in each instance he is exposed to such loss to at least an average degree. When, however, an indivisible package is purchased, the same risk cannot be expected to show severe exposure for each of the coverages provided. In the policy it is estimated that losses under the package will be reduced by at least 10% from the sum of the individual policies.

The loss ratio (including loss costs) under the individual components has in the past been less than 50%, so it is to be expected that the losses under the package policy, if the full component premiums were charged, would be less than 45%. With a permissible loss ratio of 57.67%, the component premiums must be reduced by

$$\frac{57.67 - 45}{57.67} = 22\%$$

or, say 20%, to provide a premium which is not excessive.

This filing also established the use of premium groups, whereby a single average premium group was used in place of the individual premiums of similar size produced by different component rating categories. This enabled a considerable simplification via reduction in the size of the premium chart which would otherwise have been required.

The filing finally set forth that judgment and the experience of the component coverages should not be permitted to support the premium indefinitely. It was, therefore, proposed that statistical records be kept which could be accumulated for the purpose of testing the adequacy of the premiums in the filing. In other words, the intention was that the plan would be self-rating when an adequate volume of experience had developed.

Homeowners Intermediate and Comprehensive Policies: This first policy was joined by two companion policies filed by the same company just two months later in November 1950. One was the "Homeowners Intermediate Policy" which was very similar to the "Homeowners Multiple Form" but increased the number of building amount options between $6,000 and $12,000, broadened the theft coverage from the building to the premises and expanded the liability to a full Comprehensive Personal Liability basis.

The other new package was called the "Homeowners Comprehensive Policy" and was designed to cover larger amounts and a greater variety of risks. It provided for amounts of building fire insurance from $10,000 to $50,000 in intervals of $2,500, with contents increased to 40% of the amounts (compared to the 30% in the "Multiple Form" and "Intermediate"). Theft coverage was provided in an amount equal to the fire coverage on household and personal property with 10% of this coverage applying worldwide. Options were made available for broadening the Comprehensive Personal Liability and Medical Payments Coverage with respect to limits, incidental professional occupancy and additional dwellings.

Theft Charge: An important feature of this policy was the treatment of theft. The filing stated: "The basis for the component charge for the theft coverage is that contained in the Burglary Manual . . . modified to reflect enforced insurance to value." In arriving at the total theft component charge, only

20% of the contents limit was used for the premises coverage and 10% for off premises. These percentages were used because it was felt that they would produce a correct premium for the theft risk, having in mind that persons would be required under the package concept to carry theft limits very much nearer to the full value of their property than was customary when a separate theft policy was written.

Package to be Self-Rating: While the original Homeowners filing provided that the package should be self-rating, the Homeowners Comprehensive Policy filing stated in a more positive manner the intention not to rely on components in the future and to treat the package as a separate entity statistically. The pertinent paragraphs are:

> The applicant's judgment at the outset has been related to existing fire and casualty rates for the types of coverage provided by the policy. It must be emphasized, however, that these existing rates are merely used as a basis of departure and that they will not, in the future, determine the premiums at which the policy will be sold.
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> It will be necessary in the future, because the initial rating plan is experimental, to alter that plan if and when the applicant has acquired sufficient statistics to prove by experience the necessity for such an alteration. For this purpose the applicant proposes to maintain a statistical plan.

Statistical Plan: While no statistical plan was actually filed, the company did proceed to accumulate its experience in accordance with a statistical plan which treated the basic premium as indivisible and provided codes to identify policy form, construction, protection, policy amount and territorial zones within the state. Cause of loss codes were provided to identify losses as to coverage.

MULTIPLE PERIL INSURANCE RATING ORGANIZATION

Background and Organization: Following these initial filings, at least one other company[7] came out with a Homeowners Policy and the industry was faced with the necessity for action with respect to dwelling packages. At the same time problems both as to filing and rating methods were being encountered elsewhere in the multiple peril field with the "Manufacturers Output" Policy.

A growing segment of the insurance industry was considering it desirable to develop a more uniform approach to the entire problem of multiple line packages. However, superimposing the development of such packages on an organizational setup which had been developed over the years to handle insurance on a compartmentalized basis was no simple task. Mr. Louis R. Burbach, Vice President of the Atlantic Mutual Companies, in discussing packages before the Mutual Insurance Advisory Association on November 14, 1950, said in part with respect to the rating aspect:

> Other than a company acting independently and supported by a forward-looking supervisory official, who has the power to establish a rate for such a package as the all risk dwelling cover or the output policy? . . .
>
> A possible alternative might be the broadening of the charters and licenses of each rating organization to embrace all lines of property and liability insurance. This, however, immediately injects complications from the company point of view. Companies cannot very well be represented by two or more rating organizations on

[7] The Eastern Underwriter (February 9, 1951), Vol. 52, No. 6, p. 21.

a single line of insurance because this inevitably would result in using different and therefore discriminatory rates for the same type of insurance.[8]

As one answer for the handling of the package policies, a group of stock companies began discussions in the fall of 1950 which culminated on May 23, 1951 in the organization of the "Multiple Peril Insurance Rating Organization," more commonly known as "MPIRO." The initial membership included Home Insurance Company, Insurance Company of North America, Springfield Fire and Marine Insurance Company, Fireman's Fund Insurance Company, Fire Association of Philadelphia, Aetna Insurance Company, The Employers' Fire Insurance Company, Pearl Assurance Company, Limited, St. Paul Fire and Marine Insurance Company, The Phoenix Insurance Company, The National Fire Insurance Company, The American Insurance Company, The Bankers Fire and Marine Insurance Company, The American Surety Company and Zurich General Accident and Liability Insurance Company, Limited.

Purposes: The object of MPIRO was described in a statement to the National Association of Insurance Commissioners at their June 1951, meeting in Swampscott, Massachusetts, as being limited to the making and filing, under state regulatory laws, of underwriting rules, classification of risks, policy provisions, forms, rates, premiums and rating plans as required by law and to compiling and analyzing statistical and other data in order to accomplish the foregoing. This was to be accomplished, on a nationwide basis, with respect to all risk, multiple peril and other policies written for an indivisible premium for which the members or subscribers had not delegated rating and filing authority to any other rating organization.[9]

MPIRO Dwelling Committee: In order to attain the MPIRO objectives, various committees were set up, including a "Rating Committee for Householder's Comprehensive Dwelling Policy" which, for convenience, we shall call the Dwelling Committee. The chairman of this committee was Bradford Smith, Jr. of the Insurance Company of North America, and the other members during most of the formative period leading up to the introduction of the organization's Homeowners Policies were the Employers' Fire Insurance Company, Fireman's Fund Insurance Company, Home Insurance Company and Providence Washington Insurance Company.

The Dwelling Committee first met on November 8, 1951 and covered considerable ground, reaching agreement on a number of basic points.[10] The first policy was to be on a named peril basis rather than all risk. It was to include, with respect to the building, fire, extended coverage and additional extended coverage perils and additional living expense, but to exclude earthquake. Liability coverage was to be equivalent to that contained in the comprehensive personal liability policy. Contents was to be covered for the same perils as the building, including theft on and off premises. As a means of inducing proper amounts of coverage, coinsurance was considered but dropped in favor of making the amount of contents insurance automatically a certain percentage of the

[8] The Weekly Underwriter (November 18, 1950), Vol. 163, No. 21, pp. 1135, 1138, 1139.
[9] The Eastern Underwriter (June 8, 1951), Vol. 52, No. 23, p. 20. Proceedings of The National Association of Insurance Commissioners, 1951, pp. 520-522.
[10] MPIRO—Dwelling Committee Minutes—November 8, 1951.

building insurance. There was to be a minimum amount on the building and coverage above this minimum was to be available only in round figure brackets. Deductibles were to follow the practices of the components initially although consideration was to be given to the desirability of an across-the-board deductible. The initial efforts were to be aimed at developing a contract for the owner-occupied dwelling. The first thought was to provide an annual rate and it is interesting to note that the committee felt that the majority of companies seemed in favor of a continuous policy. Insofar as rating was concerned, the best initial approach was considered to be a buildup of rate by components, considering the rates on the various perils when covered separately, adjusting for any truly demonstrable saving in expense and arriving at tables of indivisible rates or premiums. While details of any statistical plan were deferred, it was agreed that such a plan should attempt to relate loss cost to exposure and should maintain loss information by cause.

Following a series of fifteen meetings plus many hours of effort between meetings (and materially assisted by subcommittees made up of underwriters, accountants, statisticians and qualified actuaries from the member companies of the Committee), the Dwelling Committee by June 1952, had reached the point where it could submit a definite report recommending a comprehensive policy form with rates, rules and statistical plan together with a request for permission to develop a more limited (basic) policy.[11] These policies were to cover on a named peril basis for a single premium with a single expiration date "the normal hazards encountered by a person who owns his own home and lives in it." They were designed for the mass market rather than the "carriage trade." The reasons given for choosing the named perils rather than "all risks" approach were that "all risk" necessitated too large a premium for ready saleability and that the Committee wished to avoid some of the difficulties of the personal property floater field. After establishing the named perils policies, the Committee did wish to consider developing an "all risk" coverage.

The "Comprehensive Form" was to cover fire, extended coverage, additional extended coverage and theft on both real and personal property associated with the principal residence as well as comprehensive personal liability coverage and medical payments. The policyholder was to be required to take all the perils provided. Amounts of coverage were to be mandatory with premiums stated for bracketed amounts of coverage with the key figure being the amount of coverage on the dwelling ranging from $8,000 to $50,000. Additional property coverages (all stated as percentages of the dwelling amount) were to be 10% on appurtenant private structures, 40% on household and personal property on premises, 4% on household and personal property off premises (subject to $1,000 minimum) and 20% additional living expenses. Comprehensive personal liability and medical payments limits were to be $10,000 and $250 respectively with increased limits optional for an additional premium. The "Basic Form" was to be the same as the Comprehensive except for eliminating additional extended coverage and the $1,000 minimum on off premises coverage, reducing additional living expenses to 10% and treating the auxiliary property coverages other than contents as an optional application of the dwelling insurance. The policies were

[11] MPIRO—Report of Householder's Comprehensive Dwelling Policy Rating Committee —June 11, 1952.

to be written only for a three-year term as a compromise between the lack of rate responsiveness in five-year terms and the expense of annual policy writing.

Rating Plan: With respect to rating methods, the Committee felt that when the policies had been on the market long enough to provide credible data, they might be rated largely on the basis of that experience. However, as a starting point they recommended using the cost of the various coverages at existing annual tariff rates for bureau companies, adjusted for differences in coverage. A term factor of 2.5 was to be used to produce the three-year premium, since a study of the distribution of existing business indicated that it represented a close approximation to the effective premium level for the coverages involved. The premiums thus produced from components were then to be reduced 20% for anticipated savings divided equally between expenses and losses. The expense savings were based on a comparison of the costs of one policy and premium with the several polices and premiums which would otherwise be required to duplicate the coverage, with consideration having been given to the savings to be realized in the areas of policy writing; premium transmittal and collection; checking, accounting and filing; statistical premium cards; and premium calculation. The loss savings and improved experience were anticipated from better insurance to value, better selection of risk (the owner-occupant), reduction of adverse selection by requiring coverage of all perils provided at predetermined amounts, and certain restrictions in coverage. After computing premiums for all combinations of component rate classifications, the premiums which were reasonably close were to be grouped and rounded to the nearest $3 to simplify the premium chart.

Premium Computation: Included in the report was a sample premium computation giving the details and explanation of the proposed rating method. The regular fire, extended coverage and additional extended coverage rates were applied to the full building and premises contents amounts. However, since fire rates provided ten percent outbuilding coverage, only ten percent of the regular rates were applied to the outbuilding limit to cover the fact that the coverage was a separate item of insurance in the package. Similarly, only ten percent of the rates were applied to that part (one-half) of the additional living expense already provided in the fire rules, while the full rates were applied to the remainder. The 100% blanket residence theft rates were applied to only 20% of the contents amount (subject to a $1,000 minimum amount). For the off premises coverage the tariff fire and allied lines rates were applied to the difference between ten percent of the premises contents amount (the coverage contemplated in the fire rules) and the $1,000 minimum limit incorporated in the policy. The rate for theft away from premises without coverage in autos was applied to the full off premises limit. The charge for liability coverage was the regular comprehensive personal liability premium. Only one-tenth of the tariff charge for residential property of others in the custody of the insured was included since this exposure applied for the average insured only for brief periods of time such as while traveling or on vacation rental premises.

Installment Plan: Because of the relatively large average premium which would be developed in packaging the various coverages, an installment payment plan

was considered essential. For ease of computation, an installment charge of 3⅓% of the premium was recommended with the installments to be one-third of the premium plus 10% at inception and one-third at each of the two subsequent anniversaries. To fit in with this plan, all basic premiums were rounded to $3 as mentioned above.

Credit for Existing Insurance: Recognizing that prospects for the package would be likely to have existing policies for one or more of the coverages, the Committee considered the credit to be given for such coverage. It strongly recommended that existing insurance be cancelled as the simplest and most economical answer to the problem. To provide for those cases where there were good reasons for not cancelling, it was suggested that credit be allowed on the basis of 80% of the unearned tariff premiums for certain existing insurance. By applying the 20% package discount to the premium credit, the credit would, of course, be less than the return premium available under short rate cancellation of such existing insurance.

Statistical Plan: Finally the report included a statistical plan. This plan provided for the premium to be reported on an indivisible basis and classified as to policy form, additional liability coverages, state, construction, protection and rating zone. Term, expiration and dwelling amount were to be shown and losses were additionally to be coded as to cause, coverage and deductible or size.

Background Studies: Certain of the rating considerations leading up to the Committee's June 1952, report are covered in the published minutes and indicate the thorough manner in which the Committee arrived at its recommendations. For example, in arriving at the charge for the on premises theft component, only 20% of the on premises contents limit was used (subject to a $1,000 minimum amount). However, before agreeing on this procedure the Committee considered the value of the elimination of mysterious disappearance, the value of the theft exposure involved for the amounts above those on which the premium charge was computed (based on a study of theft claims paid by an individual company) and the value of the addition of a limited unattended automobile cover. Since the evaluation of these items produced a final premium only one percent less than the standard tariff rates it was decided to use these standard rates without modification. Before deciding on the installment plan, two other plans were also considered.[12]

Homeowners A and B: Following their report to the organization, the Dwelling Committee proceeded with preparations for actual filings. One of its first decisions was to use the now familiar designations "Homeowners Policy A" and "Homeowners Policy B" in place of "Basic" and "Comprehensive." This was decided on for reasons of simplicity and ease of reference and also with the further development of a Homeowners series in mind. It was then decided that the only basic differences between Policies A and B would be that A would not include additional extended coverage and would have only 10% of the building amount as the additional living expense amount. The other limitations of A which had originally been recommended were discarded because they did not seem justified by the relatively small reductions they would produce in the premiums.

[12] MPIRO—Dwelling Committee Minutes—February 13, 28 and 29 and April 15, 1952.

The "Floor" Plan: A problem which was encountered at about this point in the development of the filings was the realization that the rating plan produced premiums which in some of the higher premium groups were less than that charged for the specific fire and allied lines coverages in the package. Two distinct views were expressed in this connection. One was that a "floor" should be built into the rating plan so that no premium should be less than that charged for the specific fire and allied lines coverages plus a percentage load. The other view was that, since the rating plan was developed step by step and accounted for all exposures, comparisons with other rating structures were irrelevant. After discussion, the first view prevailed and the rating plan was modified to provide that the premium developed by the Homeowners rating procedure should be increased where necessary so as to exceed in all cases the premium for specific fire and allied lines coverages.[13]

With all the major rating decisions behind them the Dwelling Committee was finally ready in the summer of 1952 to proceed with the filing of the formal Homeowners program. The filings were initially restricted to a relatively small number of states selected because of their location and importance in order to permit experimentation under various conditions. During the month of October 1952, the Homeowners A and B policies were put into effect in the states of California, Colorado, Delaware, and Pennsylvania.

Revised Statistical Plan: Shortly after these filings the Dwelling Committee, along with consideration of additional individual state filings, undertook a re-evaluation of its originally proposed statistical plan. In the interests of simplification and reduced handling and processing costs, a revised statistical plan was proposed which dropped the information necessary for development of policy year data. It also reduced the digits required to report policy form, policy amount, construction and protection from seven to three and the cause of loss digits from four to one.

Status—1953: By the end of 1953, the Homeowners A and B policies were in effect in at least nineteen states. While this left many states where the policies were not yet available, the Homeowners had not only arrived but was really rolling. One company had, by this time, already written over four million dollars in Homeowners premiums.

INTERBUREAU AND THE CDP

While this paper is concerned with rating and other aspects of the "Homeowners" package, we must recognize that this package did not initially meet with complete acceptance within the industry and was, in fact, actively opposed by an influential group which disagreed with handling the multiple line dwelling policy as a new kind of insurance on an indivisible premium basis. A group of stock companies formed the Interbureau Insurance Advisory Group to develop packages which could be filed jointly by the rating organizations responsible for the several components. The group developed in 1954 the "Comprehensive Dwelling Policy" which first became effective in Connecticut on August 18, 1954.[14] This policy, better known as the "CDP," was

[13] MPIRO—Dwelling Committee Minutes—July 24 and August 1, 1952.

[14] The National Underwriter (May 13, 1954), Vol. 58, No. 19, pp. 1, 26, 27; The Eastern Underwriter (August 6, 1954), Vol. 55, No. 32, p. 20.

designed for the same insured as the Homeowners—namely the owner occupant of a one or two family dwelling—but was on a named peril divisible premium basis. To qualify for the premium discounts in the rating plan, certain minimum requirements had to be met, including the purchase of at least three coverage groups—fire and allied perils coverage on dwelling and contents, premises theft coverage and comprehensive personal liability coverage. Coverages available on an optional basis included off premises theft, theft of specific items on a scheduled basis, specific glass coverage and a named perils personal property floater, with premium modifications applicable to the required coverages extended to these optional coverages. Other minimum requirements were 80% insurance to value for fire insurance and 30% insurance to value (subject to a $1,500 minimum amount) for on premises theft.

This policy was intended to have a high degree of flexibility, with no percentage or mandatory relationships between the various coverages, leaving the insured relatively free to purchase amounts of insurance in any one coverage group to fit his personal needs. With this emphasis on divisible premiums, optional coverages and optional amounts, the CDP was in a sense an approach to packaging exactly opposite to that incorporated in the Homeowners policy.

The CDP took an important place in the multiple line picture. Some measure of the influence of its adherents can be gained by listing the members of Interbureau at the time of the first filing. They were Aetna Life Group, America Fore Group, Atlas Group, Caledonia Group, Century Insurance Company, Commercial Union Group, Crum & Forster Group, Excelsior Insurance Company, Hanover Group, Hartford Group, London & Lancashire Group, Loyalty Group, New Amsterdam Group, New Hampshire Group, North British Group, Ohio Farmers Companies, Phoenix of London Group, Royal Exchange Group, Royal Liverpool Group, Scottish Union Group, Standard of Detroit Group, Sun Insurance Group, Travelers Group, Union Insurance Society of Canton, Ltd., United States Fidelity & Guaranty Company, and Yorkshire Group.

SUBSEQUENT DEVELOPMENTS

Competition: Following the introduction of the Homeowners A and B Policies, the dwelling package field was far from static. MPIRO was not operating in a vacuum but was being subjected to competitive pressures both from the CDP and from the independent market which from 1953 included one large insurer[15] who had originally been a member of MPIRO.

The Floor Plan Revised: One feature of the MPIRO rating plan which in practice soon exhibited undesirable effects was the "floor plan." In states such as Georgia where there were relatively high fire rates, strict application of the floor plan produced premiums so high that the saleability of the package was affected. In addition the action of other markets in due course applied continuing pressure to this plan but there was considerable opposition to any material changes. Finally, after study by a special committee it was decided

[15] The Insurance Company of North America. MPIRO Special Meeting Minutes, April 8, 1953.

as a compromise to determine the floor plan premium by using the tariff fire and extended coverage rates on the dwelling and the tariff fire rates on the contents. By fall of 1955 the floor plan was apparently completely dropped since the Rating Committee was instructed to work out competitive premiums keeping in mind only maintenance of NBFU town gradings.[16]

Policy C: Policy C, the third in the Homeowners series, was introduced by the Insurance Company of North America in the fall of 1954. This policy was designed to round out the package program by making complete "all risk" coverage available in one policy, incorporating the "All Physical Loss" form[17] with respect to the building and the Personal Property Floater with respect to the contents. It varied from Policies A and B by setting the contents amount at 50% of the building amount and the minimum liability limits at $25,000 with $500 medical payments. The minimum building amount which could be insured was set at $15,000 or almost double the minimum amount of $8,000 in Policies A and B. These minimums reflected the anticipated needs of the type insured to whom this policy was expected to appeal and also represented an effort to avoid some of the problems of the Personal Property Floater by a minimum contents amount of $7,500. The rating method used was described as follows:

> Policy C is rated on a base of Policy B premiums plus a loading, which is applied on a nationwide basis, for the additional perils covered under Policy C. This loading was computed in three steps: (a) the increased charge for the All Physical Loss form on the dwelling above the cost of fire, extended coverage and additional extended coverage already included in Policy B; (b) the difference in cost between a personal property floater for 50% of the dwelling amount and fire, E.C., A. E. C. and theft for 40% of the building amount as included in Policy B; and (c) the increased cost of $25,000 Liability and $500 Medical Payments over $10,000 Liability and $250 Medical Payments included in Policy B. As the basic exposures of fire and windstorm are included in the premiums for Policy B, this increased cost worked out to be almost the same figure countrywide and amounts to $87.00 for three years, and this is the figure added to all Policy B premiums up to $35,000. Above that figure the loading increases slightly to a high of $105.00 for a $50,000 dwelling.[18]

There were some doubts on the part of individual members of MPIRO as to the wisdom of coming out with this policy, including questions as to the adequacy of the profit margin, the confusion that might be created by another new package and the possible cleavage in the industry which might result from differences over the jurisdiction of rating organizations.[19] However, by

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[16] MPIRO Executive Committee Minutes, January 14, 1954, September 22, 1954 and September 22, 1955.

[17] In 1951 the Fireman's Fund Insurance Company had introduced in California a broadened form of dwelling cover (eventually called the special homeowners comprehensive or "SHO" policy) which insured the dwelling against "all physical loss" subject to certain exclusions. By the spring of 1954 this form was being used in other parts of the country and was being copied by other companies. In July 1954, the Inter-Regional Insurance Conference recommended the adoption of an "All Physical Loss" form for attachment to the standard fire policy, with the resulting coverage producing the equivalent of the SHO policy.

The National Underwriter (November 29, 1951), Vol. 55, No. 48, p. 1; (March 25, 1954), Vol. 58, No. 12, p. 5; (July 1, 1954), Vol. 58, No. 26, pp. 1 & 24.

[18] Letter dated November 1, 1954 from Insurance Company of North America to Insurance Commissioner, State of Rhode Island.

[19] MPIRO Executive Committee Minutes, December 20, 1954 and February 18, 1955.

March 1956, MPIRO was in a position to announce its Homeowners C policy with coverages and premiums comparable to those already on the market.

Tenants: Completing the Homeowners series in approximately its present form, Chubb & Son introduced a tenants policy in the fall of 1954. This policy was limited to apartment tenants and covered fire, extended coverage, additional extended coverage, theft and comprehensive personal liability. The off premises limit was set at 10% of the premises contents amount, with personal baggage off premises being covered on an all physical loss basis. Additional living expense coverage was set at 20% of the premises contents amount. A $20 deductible applied to all physical losses except those caused by fire. The policy could be written for contents amounts ranging from $1,000 to $50,000. The only options were for increased liability limits. Rating was simple, consisting of a flat annual charge of $25 plus a rate applied to the contents amount. This rate was lower for larger amounts of insurance and also varied by rating territories within each state.[20]

This was followed in 1955 by the tenants program of the Insurance Company of North America with separate policies and rates for apartment and dwelling risks.[21] The policies, while not identical in coverage, both generally duplicated for the tenant the coverage furnished by Homeowners Policy B. As with the Chubb policy, additional living expense coverage was set at 20% of the premises contents amount but the off premises coverage, while 10% of the premises contents coverage, was subject to a minimum amount of $1,000. The basic rating approach was to use the premium grouping method of Homeowners with a minimum number of territories and groups in each state.

Effective March 15, 1956, MPIRO came out with its tenants facility. Rather than using a separate policy, coverage was furnished by means of a form designed to be attached to the regular Homeowners Policy B with the coverage being comparable insofar as possible to that policy. The minimum premises contents amount available was $4,000. The premium chart format was very similar to that in general use today with premiums shown for various rate intervals and contents amounts. The chart was entered using the tariff fire and extended coverage rates applicable to the risk.

Broadened Coverages and Rate Changes: During the period from 1952 to 1956, in addition to the development of the above packages there was also considerable activity with respect to available coverages. In Pennsylvania, for example, the first MPIRO A and B policies had a mandatory wind deductible. However, this deductible was optional in the component fire policy and full coverage was available in other dwelling packages. As a result, MPIRO found it necessary by July 1953 to put its deductible on an optional basis. Gradually other changes were made to make the Homeowners more flexible with the changes in some cases having been initiated by independent companies and in other cases by MPIRO. In March 1955 the Special Building Endorsement providing "all physical loss" coverage on the dwelling was made available for attachment to Policy B. In the spring of 1956, provisions were

[20] The National Underwriter (September 30, 1954), Vol. 58, No. 39, pp. 2 & 33; The Eastern Underwriter (October 1, 1954), Vol. 55, No. 40, pp. 16 & 21.

[21] The National Underwriter (February 9, 1956), Vol. 60, No. 6, pp. 2, 30, 31.

made for purchasing additional contents coverage on A and B. Odd amounts of insurance were permitted by interpolation of the premium chart, with this change having been brought about largely because of the insistence of mortgagees on specific amounts of insurance. Later in the year, B policies were available with the broad form perils built in replacing the more limited additional extended coverage perils and with the deductible applicable to certain of the broad form perils on an optional basis.

Also during this time there were a number of premium changes, many reflecting changes in the component rates. Others, however, were the result of the competitive situations, with MPIRO responding to the pressure of both the independent market and increases in discount in the CDP program.

Homeowners and the CDP: While the CDP was introduced as an alternative to the Homeowners Policy, it was not long before its companies were writing both forms. By 1955 Interbureau had set up its own Homeowners statistical plan and during 1955 companies serviced by that organization wrote over sixteen million dollars in Homeowners premiums, using filings made on their behalf by the various state rating organizations. This sixteen million was a very sizeable figure, considering the fact that only forty-three million dollars in premiums were written by the MPIRO companies who had strongly committed themselves to the indivisible package. At the same time, since the CDP was actually filed by the rating organizations responsible for the individual components, it was available for use by any companies belonging to those organizations, including those who also might belong to MPIRO. The result was that an increasing number of companies wrote both the Homeowners and the CDP, with most companies having adopted this practice by 1956.

Statistics: Statistical problems were created by the fact that the MPIRO and Interbureau Homeowners statistical plans, while very similar, were not identical. Furthermore, neither organization could collect data from non-member companies except for the few instances where they had been appointed statistical agent by an individual state. The Actuarial Bureau of the National Board of Fire Underwriters was brought into the picture and agreed to serve as statistical agent for Homeowners business for all stock companies subscribing to the Actuarial Bureau as well as members of MPIRO and Interbureau. In addition, other stock companies were allowed to report to the Actuarial Bureau in accordance with its appointments as statistical agent in most states. A uniform statistical plan was drawn up for use by all subscribers, although items coded under the MPIRO and Interbureau plans were accepted for 1956 because the uniform plan was not issued until March 1956. The National Board plan was essentially the same as that used by MPIRO. Because the National Board's collection of data commenced with all premiums written and losses paid after January 1, 1956 without reference to the effective date of the policies involved, they actually included the run off of losses on premiums previously reported to the other organizations. As a result the National Board did not initially have available the necessary information for producing data on an earned premium-incurred loss basis. For the years 1956, 1957, and 1958 they did make their compilations available to the rate advisory organization for incorporation with its previously compiled information as to premiums in force and losses outstanding so that advisory group

was able to produce composite experience figures. However, Homeowners data was not actually published by the National Board itself until the calendar year 1959 results.

Multi-Peril Insurance Conference (MIC): In the spring of 1956, the fact that so many companies were finding it necessary to write the packages of both MPIRO and Interbureau was creating more and more problems. In May MPIRO set up a committee to meet with Interbureau representatives to discuss the possibility of consolidation. The end result of the various ensuing discussions and meetings was a definite decision in the fall of that year to merge the two groups, with the merger finally being consummated on May 1, 1957. The resulting organization was the Multi-Peril Insurance Conference (better known as MIC), which was intended to act in an advisory and research capacity for its members and their rating bureaus. Standing committees were established to handle the various areas contemplated and included a dwelling committee.

The MIC Dwelling Committee: The MIC Dwelling Committee had as its initial assignment the development of a single package policy to replace the existing Homeowners and CDP, with this package to make maximum utilization of the simplicity of the Homeowners and the flexibility of the CDP. By the summer of 1958 the Committee had concluded the initial phase of its project and was ready with a program which resembled in many respects the old Homeowners program. [22] The "new" MIC program included five form options which were referred to by number rather than letter. However, Form 1 was equivalent to Policy A, Form 2 to Policy B, Form 3 plus 4 to Policy B plus Special Building Endorsement, Form 4 to Tenants and Form 5 to Policy C. Options not previously available in the MPIRO—MIC program were provisions reducing Form 1 and 2 contents to 30% of the building amount and for increasing outbuilding and additional living expense coverage. The theft coverage included in Forms 1, 2, 3 and 4 was considered approximately the same as the personal theft coverage available in a separate policy and charges were provided for approximating broad theft coverage in Forms 2 and 4 on an optional basis.

To the extent that existing package experience was credible, it was to be utilized in determining the rate levels under the "new MIC" program. A credibility table was set up based on premium volume with "seasoning" factors for reducing the indicated credibility when less than five years' experience was available. However, for the purpose of adjusting rate relativities with respect to town grading, construction, building amount, territory and any other rating variables, the individual package premiums were recomputed from components using rating methods very similar to those in the original Homeowners. While a heavy discount was used in determining these formula premiums (the three-year rate was to be 40% off three times the annual rate, i.e., 1.8 annuals, except for the Personal Property Floater element of

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[22] That the resemblance was close is illustrated by the following statement of Curtis M. Elliott, insurance professor at the University of Nebraska:

"The 'so-called new homeowners' is not really a combination of the old homeowners and the comprehensive dwelling policy as it is so advertised. . . . It is nothing more than a slightly changed homeowners."

The National Underwriter (October 31, 1958), Vol. 62, No. 44, p. 30.

Form 5), they, of necessity, still had to be compared with existing premiums in order to determine what further adjustment was required to accomplish the rate level change indicated by the experience. An illustration of the evolution of this approach is contained in the filing made by the bureau companies in New York in the fall of 1961. In this case the component annual rates were multiplied by three and then reduced by ⅓ rather than 40% since this produced formula premiums which were fairly close to the level in the existing Homeowners program.[23]

Probably the most important consideration with which MIC was faced was a definite and continuing competitive situation.[24] In recognition of this fact it was contemplated that the rate level would be established on the basis of a 54% permissible loss ratio which, with 6% for profit and catastrophes and 6% for loss adjustment, leaving 34% for all other expenses. These ratios were determined on a judgment basis, with the 34% expense ratio presumably being selected as the maximum the MIC companies could allow without losing still more ground to increasing competition. That the expense ratio was not developed from actual experience can be seen by referring to Exhibit II which shows stock company expenses of approximately 42% in both 1956 and 1957.

The 1958 Statistical Plan: In connection with the "new" program, the National Board put into effect a "1958 Statistical Plan" to provide for the separate compilation of business under this program. In addition to assignment of a separate major peril code, provision was made for segregation of the Form 3 plus 4 business (the old B plus Special Building Endorsement) and also the reporting of business by rating zone, a feature of the old plan which had never actually been put into effect.

The "New" MIC Program: The "new" MIC program was put into effect in some twenty states between November 1958 and April 1959. However, much of the independent market did not follow the program and in fact soon acted to re-establish their competitive advantages by reducing premiums and broadening coverages insofar as the named perils packages were concerned. With respect to the C Policy (many of the independents chose to continue using the original letter designations for the packages), one company sought to avoid increasing the already high premium level by incorporating a so-called "full" deductible applicable to all physical damage perils other than fire and lightning. The deductible amount was $100 and, on an optional basis, could be reduced to a $50 deductible.

The "New, New" MIC Program: With competition continuing in spite of its new program and generally reduced premiums, MIC discontinued further filings, restudied the situation and came out with what was inevitably dubbed the "new, new" program. This program first became effective in Indiana on August 31, 1959. In addition to generally lower premiums for equivalent coverage, the principal change was to adopt the mandatory "full" deductibles

[23] Exhibit "D" attached to filing dated November 22, 1961 which was submitted to New York Insurance Department by New York Fire Insurance Rating Organization.

[24] The letter submitting the November 22, 1961 New York Fire Insurance Rating Organization filing emphasized this situation with such comments as ". . . . under present competitive conditions . . ." and ". . . bureau companies have not been competing successfully in the Homeowners market. . . ."

of $50 or $100 on Form 5 and an optional $50 "full" deductible on the other forms. The reduced premiums were undoubtedly influenced by the moves of other companies but also must have taken full advantage of the increased credibility created by the availability of more complete premium and loss data.

Inter-Regional: While not of particular concern insofar as rating is concerned, mention should be made of the fact that, effective February 1, 1960, there was a merger of the various fire rate advisory organizations, as a result of which MIC was merged into the Inter-Regional Insurance Conference. However, this appears to have had no effect on rate advisory and research procedures, with the former MIC organization continuing to function as a department within Inter-Regional.

Individual Company Changes: While there have been subsequent changes in premiums and some modifications of the liability coverage, for the industry (at least that part of it represented by the rating bureaus) the general Homeowners picture through 1961 has remained as it was with the advent of the "new, new" program. Individual companies in the independent market, of course, continue to be a strong factor in the overall picture and have introduced procedures whose effect on the industry cannot yet be fully measured. The merit rate principle so popular in the automobile field was put into effect in Massachusetts in December 1958 by one company with a 10% credit allowed on renewals, where the expiring policy had been claim free. This feature has been adopted in other states and by other companies. Several companies have also adopted economy type packages including such features as continuous policies, direct billing, machine policywriting and premium payment options more frequent than annual. One company has included in its Homeowners program a Tenants C comparable to Policy C with this package also now available on an industry basis in Texas. These are all indications that the Homeowners field is far from static and can be expected to continue to change.

CONCLUSION

The Past: The Homeowners package has been subjected to almost continuous pressures of various types from the time it was first introduced. However, a review of the early filings and other material reveals that there has been startlingly little change in many of the basic concepts which at that time seemed so controversial. The fixed percentage relation of contents amount to building amount, the indivisible premium, the breakdown of losses by cause and the minimum set on building amount are still features of the policies today. The original package discount and the furnishing of burglary limits equal to the full contents with the charge based only on a percentage of the coverage have not only been justified but seem like very modest estimates compared with those in effect today. The position that the package premium level should be adjusted on the basis of its own experience is an established practice, with bureau companies having indicated that an annual review of such experience is a basic part of their rating program.

In addition to the basic principles which the Homeowners package established for itself, its development has had important effects on other segments of the business. Its very introduction required in many states the upsetting and amending of long existing rating and filing practices—easing the way for

further valid changes in such practices. Such features as the premium payment plan and grouping of premiums led to or eased the way for simplified premium installment plans, modification of the term rules and simplified protection gradings for dwelling. The newness of the package encouraged independent action and, in some instances, permitted independence for the first time because existing organizations had not had an opportunity to preempt the field.

The Homeowners concept can be considered to have stood the test not only of time but also of experience. As mentioned earlier, the total industry written premium volume in 1960 reached three quarters of a billion dollars, attesting to the widespread acceptance of this type package. As shown in Exhibit II, the countrywide experience of companies entered in New York for the period from 1956 (the first year Homeowners was a separate line in the annual statement) through 1960 has fluctuated somewhat but overall has produced operating ratios well within 100%. Thus the discounts and partial charges which were an important part of the original rating plans definitely did not produce inadequate premiums.

The Future: With the substantial rate reductions which have been commonplace in recent years in some parts of the Homeowners line, increasing concern has been expressed as to the future of personal multiple line business. As shown in Exhibit II, the industry operating ratio for the five years ending in 1960 was 94.6% and for 1960 alone was 97.0%, with corresponding figures for stock companies 96.8% and 98.2% respectively. These figures, while indicating a past profit, give small comfort for a future at reduced rate levels. However, there are two aspects which shed a better light on the situation.

First, while the "new" and "new, new" programs have resulted in materially lower premiums in most states for Forms 1 and 2 ("A" and "B"), there has been a general tendency to overlook the fact that the effective rate level for Form 5 ("C") has been increased by the incorporation of a mandatory "full" deductible without fully compensating premium reductions. In some states the Form 5 changes were accompanied by an actual dollar increase in premiums so that the combined effect of the deductible and premium increase was a really substantial increase in rate level. Thus, the Form 5 changes acted in most instances as an offset and greatly softened the effect of the Form 1 and 2 reductions on the overall rate level.

Second, the "new" and "new, new" programs contemplate a combined loss and loss adjustment expense ratio of 60%. As shown by Exhibit II, this figure has not been reached by any segment of the industry in any year through 1960 and, on an overall basis, there is a margin of several points. These figures are not adjusted for rate changes but do include an appreciable volume of business written under the new programs. However, it should also be noted that the new rate levels are predicated on an allowance of 34% for expenses other than loss adjustment. Thus the stock companies on the basis of actual experience can look forward to operating on a non-profit basis unless they reduce their expenses.[25]

[25] When the three leading independent stock companies are subtracted from the stock totals in Exhibit II, the expense ratio for the remainder increases by over a point and would produce an actual loss with a 60% loss and loss expense ratio.

No review of the Homeowners picture would be complete without pointing out that, while the policies have been a success on an overall basis, there has been a marked variation by policy form. This is clearly illustrated by Exhibit III. The most troublesome has been Policy C (Form 5) and, as shown above, strong steps have been taken to improve the situation via premium increases and coverage reductions. In addition, most companies have adopted increasingly stringent underwriting requirements. However, it will also be noted that year after year Policy B consistently has shown higher loss ratios than Policy A, with the difference ranging from three and one half to almost eight points. A partial answer is indicated by the "New Basis" results shown in Exhibit IV, where Form 3, the equivalent of the old Policy B with Special Building Endorsement, is showing decidedly poorer experience than Form 2. Form 1 (the old "A") is nevertheless still showing the best results of all the forms. On the basis of the early results under the new program it would appear that some increase is required in the price differential between Forms 1 and 2 with increases also being made in the specific charges for the Special Building Endorsement. While progress had been made with Form 5, the same early results indicate a complete solution has not been reached. The 58.2 loss ratio does reflect full coverage business written under the first phase of the new program but at the same time has no allowance for unreported losses.

Homeowners is here to stay but, as with any line of insurance, there are and will be problems. Under the pressures of competition, premiums have been reduced and there is no indication of a situation developing whereby premiums will become excessive or have any "fat." At the same time there is no indication that losing money has become fashionable and rates will inevitably go up (or expenses will be cut or both) if there are clear indications of unfavorable experience. In the process of growing in the short space of ten years to an annual premium volume of three quarters of a billion dollars, Homeowners has had an interesting and profitable past. Its present importance from the premium volume standpoint will force continued careful consideration of its rates and coverages with the result that its future is bright both as to interest and profit.

Exhibit I

Homeowners Written Premiums (1)

Year	Premiums	Source
1950	$ 30,000	(2)
1951	777,000	(2)
1952	1,317,000	(3)
1953	2,906,000	(3)
1954	15,587,000	(3)
1955	83,490,000	(4)
1956	178,912,000	(5)
1957	240,680,000	(5)
1958	344,710,000	(5)
1959	522,604,000	(5)
1960	763,765,000	(5)

(1) All forms including predecessors of A, B and C.
(2) Written by Insurance Company of North America.
(3) Combined figures of MPIRO and Insurance Company of North America. For MPIRO, 10% of 1952-1953 total allocated to 1952 and 90% to 1953.
(4) National Underwriter (April 4, 1957), Vol. 61, No. 14, p. 1
(5) Stock and mutual companies from Best's Aggregates and Averages.

Exhibit II

Countrywide Homeowners Experience 1956-1960 (1)

		Net Premiums Written	Net Premiums Earned	Loss & Loss Adj. Exp. Ratio to Earned	Other Acq.& General Ratios to Earned	Other Acq.& General Ratios to Written	Comm.&Taxes Ratio to Written	Loss & Loss.Adj. Ratio to Ea.	Other Expenses Ratio to Wr.	Total Operating Ratio
Stock	1956	139,139,641	63,166,651	57.1	28.1	12.8	29.3	57.1	42.1	99.2
	1957	179,490,033	121,158,639	58.4	18.6	12.6	29.3	58.4	41.9	100.3
	1958	256,212,251	191,190,690	56.9	15.7	11.7	29.3	56.9	41.0	97.9
	1959	371,597,715	264,885,314	51.8	15.7	11.2	28.4	51.8	39.6	91.4
	1960	538,551,056	389,641,231	58.7	15.6	11.3	28.2	58.7	39.5	98.2
	1956-1960	1,484,990,696	1,030,042,525	56.5	16.8	11.6	28.7	56.5	40.3	96.8
Mutual	1956	27,385,465	12,978,477	45.2	41.7	19.8	17.5	45.2	37.3	82.5
	1957	39,153,903	27,062,458	47.1	27.8	19.2	18.5	47.1	37.7	84.8
	1958	53,308,365	42.133,763	46.1	21.0	16.6	19.4	46.1	36.0	82.1
	1959	79,943,352	60,766,880	42.8	19.9	15.1	20.3	42.8	35.4	78.2
	1960	107,949,357	86,146,611	53.3	19.4	15.5	21.8	53.3	37.3	90.6
	1956-1960	307,740,442	229,088,189	48.0	22.1	16.4	20.2	48.0	36.6	84.6
Ad.Prem.Coop.	1956	445,662	178,770	48.9	42.0	16.8	8.2	48.9	25.0	73.9
	1957	713,582	455,268	45.9	27.8	17.7	10.8	45.9	28.5	74.4
	1958	1,124,229	780,845	49.2	24.2	16.8	11.6	49.2	28.4	77.6
	1959	1,637,905	1,179,900	52.5	22.7	16.4	13.3	52.5	29.7	82.2
	1960	2,282,214	1,776,043	57.2	20.4	15.9	15.2	57.2	31.1	88.3
	1956-1960	6,203,592	4,370,826	53.0	23.4	16.5	13.0	53.0	29.5	82.5
Reins. Co.	1956	4,123,295	1,909,495	46.0	5.8	2.7	39.6	46.0	41.9	87.9
	1957	7,131,052	4,743,414	48.5	4.3	2.9	39.4	48.5	42.3	90.8
	1958	10,169,242	7,589,135	46.3	3.9	2.9	39.5	46.3	42.4	88.7
	1959	21,288,842	15,216,330	48.8	3.0	2.1	40.0	48.8	42.1	90.9
	1960	28,691,291	21,967,614	58.3	3.0	2.3	40.7	58.3	43.0	101.3
	1956-1960	71,403,722	51,425,988	52.4	3.4	2.4	40.1	52.4	42.5	94.9
Total	1956	171,094,063	78,233,393	54.8	29.8	13.6	27.6	54.8	41.2	96.0
	1957	226,488,570	153,419,779	56.1	19.8	13.4	27.7	56.1	41.1	97.2
	1958	320,814,087	241,694,433	54.7	16.3	12.3	27.9	54.7	40.2	94.9
	1959	474,467,814	342,048,424	50.1	15.9	11.5	27.5	50.1	39.0	89.1
	1960	677,473,918	499,531,499	57.7	15.7	11.6	27.7	57.7	39.3	97.0
	1956-1960	1,870,338,452	1,314,927,528	54.8	17.2	12.1	27.7	54.8	39.8	94.6

(1) Developed from the Loss and Expense Ratio Tables published by the New York Insurance Department.

Exhibit III

Homeowners Country-wide Experience By Form
"Old Basis" (1)

Inception	Written Premiums (2)	Earned Premiums	Losses Incurred (3)	Earned-Incurred Ratio
A Through 1955	26,458,911	6,582,288	2,937,233	44.6
1956	35,562,702	15,150,144	6,454,570	42.6
1957	48,835,895	27,392,010	11,206,483	40.9
1958	62,961,871	44,579,090	17,935,198	40.2
1959	68,559,994	64,983,161	21,835,629	33.6
1960	41,983,138	66,112,703	24,859,595	37.6
Total	284,362,511	224,799,396	85,228,709	37.9
Inception				
B Through 1955	41,979,330	9,608,015	4,937,049	51.4
1956	64,352,103	27,607,644	12,755,558	46.2
1957	93,998,424	51,853,581	24,606,460	47.5
1958	135,995,527	88,493,126	42,339,029	47.8
1959	154,088,864	136,379,754	51,194,509	37.5
1960	114,022,902	149,256,026	63,326,883	42.4
Total	604,437,150	463,198,146	199,159,488	43.0
Inception				
A&B Through 1955	68,438,241	16,190,303	7,874,282	48.6
1956	99,914,805	42,757,788	19,210,128	44.9
1957	142,834,319	79,245,591	35,812,943	45.2
1958	198,957,398	133,072,216	60,274,227	45.3
1959	222,648,858	201,362,915	73,030,138	36.3
1960	156,006,040	215,368,729	88,186,478	40.9
Total	888,799,661	687,997,542	284,388,196	41.3
Inception				
C Through 1955	20,942,120	2,329,143	1,499,665	64.4
1956	49,811,858	17,640,238	12,609,095	71.5
1957	47,716,359	33,781,927	30,927,789	91.6
1958	63,050,323	49,510,219	36,855,015	74.4
1959	64,914,352	64,137,282	35,980,853	56.1
1960	39,416,420	62,161,943	39,251,406	63.1
Total	285,851,432	229,560,752	157,123,823	68.4
Inception				
Ten. Through 1955	——	——	——	——
1956	2,561,380	313,775	297,690	94.9
1957	4,593,105	1,895,781	998,055	52.6
1958	6,792,984	4,092,855	1,958,958	47.9
1959	8,571,290	6,549,070	3,244,408	49.5
1960	6,800,307	7,975,869	4,100,971	51.4
Total	29,319,066	20,827,350	10,600,082	50.9
Inception				
Tot. through 1955	89,380,361	18,519,446	9,373,947	50.6
1956	152,288,043	60,711,801	32,116,913	52.9
1957	195,143,783	114,923,299	67,738,787	58.9
1958	268,800,705	186,675,290	99,088,200	53.1
1959	296,134,500	272,049,267	112,255,399	41.3
1960	202,222,767	285,506,541	131,538,855	46.1
Total	1,203,970,159	938,385,644	452,112,101	48.2

(1) Experience of stock companies under National Board of Fire Underwriters "1956 Statis-Plan" and earlier statistical plans. Developed from figures compiled by Multi-Peril Insurance Conference, Inter-Regional Insurance Conference and Actuarial Bureau of National Board of Fire Underwriters.

(2) No adjustment has been made to reflect rate changes.

(3) Figures do not include any allowance for incurred but not reported losses.

Exhibit IV

Homeowners Countrywide Experience By Form
"New Basis" (1)

		Written Premiums (2)	Earned Premiums	Losses Incurred(3)	Earned Incurred Ratio
Form 1 ("A")	1958	37,500	--	25,217	--
	1959	23,573,016	4,466,512	1,759,493	39.4
	1960	70,454,388	27,533,803	13,045,378	47.4
	Total	94,064,904	32,000,315	14,830,088	46.3
Form 2 ("B")	1958	137,135	--	33,668	--
	1959	42,701,155	8,145,119	3,527,009	43.3
	1960	133,875,875	54,733,839	28,596,920	52.2
	Total	176,714,165	62,878,958	32,157,597	51.1
Form 3 ("B+")	1958	109,546	--	31,280	--
	1959	14,939,146	3,183,290	1,869,666	58.7
	1960	78,998,137	25,132,884	14,585,792	58.0
	Total	94,046,829	28,316,174	16,486,738	58.2
Forms 1, 2, 3 ("A&B")	1958	284,181	--	90,165	--
	1959	81,213,317	15,794,921	7,156,168	45.3
	1960	283,328,400	107,400,526	56,228,090	52.4
	Total	364,825,898	123,195,447	63,474,423	51.5
Form 4 ("Tenants")	1958	9,304	--	1,239	--
	1959	2,447,898	456,481	256,793	56.3
	1960	10,291,483	3,510,766	1,945,629	55.4
	Total	12,748,685	3,967,247	2,203,661	55.5
Form 5 ("C")	1958	3,348	--	436	--
	1959	8,973,062	1,464,614	732,302	50.0
	1960	15,185,213	7,222,174	4,326,482	59.9
	Total	24,161,623	8,686,788	5,059,220	58.2
Total	1958	296,833	--	91,840	--
	1959	92,634,277	17,716,016	8,145,263	46.0
	1960	308,805,096	118,133,466	62,500,201	52.9
	Total	401,736,206	135,849,482	70,737,304	52.1

(1) Experience of stock companies reporting to the Actuarial Bureau of National Board of Fire Underwriters under its "1958 Statistical Plan".

(2) No adjustment has been made to reflect rate changes.

(3) Figures do not include any allowance for incurred but not reported losses.