

What was not so obvious, however, was the subtle questioning of whether companies using their same old traditional methods are allocating expenses in the best manner and whether advantages would accrue to the company that was able to refine its procedures beyond those of its competitors.

The extent to which a company accurately allocates its expenses through successively smaller breakdowns by line of business, kind of business, region, state, territory, coverage, etc. is based on practical considerations of the cost of a finer, accurate breakdown compared with the benefits derived therefrom. Modern computing systems have made it less expensive and easier to accomplish the detailed allocation, but the impetus for doing so has yet to produce tangible results.

Mr. Wade's paper seems to be offering us actuaries a challenge. We must be aware of the shortcomings of our companies' expense allocation practices. We should be the ones to determine the benefits to be gained by narrowing the difference between actual and practiced expensing. We can be the ones to convince our companies of the need for change in this area if such be our conclusion. Our companies are already adhering to the standards set forth for preparing the expense exhibit of the annual statement. They have no reason to go beyond those standards unless we convince them it is to their advantage to do so.

Mr. Wade's paper was refreshingly readable. Though seemingly lacking in technical development, the expense allocation methods practiced by the industry are so varied as to make the reason for such omission obvious. It should be welcomed by the Society for its informative value and as an inducement to others to submit similar type papers. In the challenge Mr. Wade presents to us as actuaries, his paper can be a noteworthy contribution to this Society—much will depend on how we respond to it.

AUTHOR'S REVIEW OF DISCUSSIONS

Rather than attempt to respond to individual points of criticism concerning the paper, although the temptation to do so is sometimes very great, a few basic points concerning the author's motivation for writing a paper on the topic of expense analysis and for selecting the particular format utilized in the paper is perhaps in order.

Selection of Topic

The author firmly believes that a periodic reexamination of all rate-making procedures is necessary if actuaries are to continue to command the respect of the rest of the insurance industry.

Upon scanning recent *Proceedings* of the Society a dearth of information concerning expense analysis is obvious. The author therefore concluded that an article on expense analysis was necessary and that it should attempt to create an uneasiness in actuaries with respect to the current techniques for including expense provisions in rates.

Selection of Format

A detailed review of procedures currently in use would be of educational value, but, in and of itself, would not necessarily result in actuaries being sufficiently disturbed about those procedures to reexamine them. In addition, in an area as undocumented as expense analysis, there would be many inaccurate details which would draw the attention of reviewers and divert them from the more substantive issues concerning the appropriateness of current techniques.

An alternative approach, which was also rejected, would be to attempt some sort of theoretical justification for an improved system of expense analysis. The difficulty with theoretical proofs is that they are generally either insufficient and readable or sufficient and unreadable. In either event, the author felt that there was little to be gained by attempting theoretical proofs. For the purists who require such proofs it can only be suggested that, while a theoretical proof may be desirable, it was certainly not forthcoming prior to the installation of current procedures and should not be required prior to the installation of improved procedures.

As a result of the above considerations, it was the author's view that the greatest contribution to the Society could be made by giving a cursory review of current techniques and then several provocative examples to illustrate some problems which might result from using "standard" procedures. It was never the intention of the paper to offer a panacea for problems in expense analysis, but rather to point out some current difficulties and perhaps suggest some alternative methods of attack. If an actuary decides to keep his current procedures after examining these alternatives in the light of his organization's data limitations, then the author would indeed be content as it indicates that current procedures are the best available to date. Unfortunately, this will not always be the case.