UNIFORM ACCOUNTING
A STUDY OF REGULATION

BY

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So many speeches have been given and so many papers written in the past few years on the subject of Uniform Accounting that this writer suffers a sense of guilt for adding these notes to the din. A review, however, of the recent *Proceedings* of the Society reveals that this current hue and cry, loud as it has seemed to us in the market place, has failed to penetrate the sound proofed walls of our actuarial ivory tower. One's immediate reaction is, of course, that this is just as well, but sober judgment tells us that Uniform Accounting is a very significant current in the broadening river of regulation which had its rise in the S.E.U.A. decision, and even actuaries must keep abreast of the stream. This paper is, therefore, written primarily for the record, but since the author is a confirmed disputant, he cannot refrain from an occasional comment of his own.

REVELATION

It seems that those who live in a chaos seldom see the chaos. It takes a more sublime eye, more detached from these earthly efforts, to recognize the basic disorder by which we order our affairs. In reviewing the *Proceedings* of the Society and other related writings the author has been interested to find rather less criticism than expected of the way in which the insurance business conducted its accounting prior to the introduction in 1945 to the New York legislature of an insurance-department-sponsored uniform accounting bill. A Current Note in Vol. *VIII*, page 340, does state, "The question of the proper allocation of administrative expense by lines of insurance is one which heretofore has received too little attention in casualty insurance." This was back in 1921-22 and the implication was that the shortcoming was being corrected forthwith. Mr. R. S. Hull, the author of that note, wrote further in the same vein in his paper "The Allocation of Administrative Expense by Lines for Casualty Insurance Companies," appearing in Vol. *IX*, page 38. Mr. H. O. Van Tuyl in commenting on Mr. Hull's paper, Vol. *IX*, page 310, states, "Heretofore, in making rates the percentages of the premium estimated to be needed for expenses have been determined on the basis of very inadequate data." The tone of anticipated improvement seemed fully justified by the impending birth of the Casualty Experience Exhibit later reported on by Mr. Van Tuyl in Vol. *X*, page 17, "A New Experience Exhibit for Casualty Insurance Companies."

Seven years later, in Vol. *XVII*, page 41, "The Theory of the Distribution of the Expenses of Casualty Insurance," Mr. F. S. Perryman writes, "However, it cannot be said that the distributions of expenses of all companies even to lines of business is entirely satisfactory. Too many rules of thumb and premium volume pro rates appear to be used by a good many companies—not all small ones—and we should not still have these at this stage of the development of casualty insurance."

Again another seven years later, Vol. *XXIV*, page 45, in "The Distribution of Casualty Administration Expense by Line Insurance," Messrs. Thomas F. Tarbell and Harry V. Waite, the authors, quite frankly inspired by Mr. Perryman's earlier paper, still say, "Too little importance has been attached to the equitable distribution by line of insurance for this classification (general administration expenses.)"

Mr. Sydney D. Pinney, in his presidential address made before the Society May 16th, 1941, Vol. *XXVII*, page 238, implied an overstatement when he said, "Without exception, each one who has previously written in our *Proceedings* on the subject of expense allocation for casualty insurance has recognized the need for improvement in the cost accounting methods followed by the companies." It must be admitted that the submission of a paper suggesting improved methods necessarily implies a recognition of the need for improvement, but relatively few papers viewed the subject with the alarm Mr. Pinney's tone suggests.

Of all the voices crying in the wilderness Mr. Perryman's seems to have been charged with the most prophetic quality. His paper referred to above, presented before the Society November 21, 1930, is a masterly analysis of the problems of expense allocation and has undoubtedly been used as a foundation on which has been built most of the constructive thinking (and some that is less constructive) on the subject to date. In rereading his words today one is struck with the same sense of vague familiarity experienced by a habitue of Tin Pan Alley in hearing a musical composition by an old master. Some of his phrases have been unduly syncopated, there has been perhaps too much vapid repetition of his more catchy tunes, but the inspiration is manifest.

The situation, then, prior to the enactment of uniform accounting legislation was one of considerable flexibility, which weakened the prestige of the rate maker and complicated the problems of state supervision of rates.

LEGISLATION

In 1945 the New York Insurance Department sponsored a bill before the State Legislature amending the insurance law to give the Superintendent of Insurance power "to prescribe uniform methods of keeping accounts, statistical data, records and books to be observed by insurers———. He may also——— prescribe, by regulation, forms of accounts, records and memoranda to be kept———." In public hearing this bill was urged by the Superintendent because "the insurance business says there is need of uniform accounting and has been working on it for twenty-two years but still hasn't got the answer." In view of this twenty-two years that have elapsed "the day of voluntary effort is over."

This bill was vigorously opposed by the companies on the stated grounds that the companies were making great progress toward uniformity of allocation on a voluntary basis, that other states might prescribe uniformity that was not uniform with New York, and most especially that supervision of and prescribed uniformity in the methods of bookkeeping were most unnecessary and undesirable. At the hearing the suggestion was made by Richard Wagner Esq., legislative counsel for the Association of Casualty and Surety Executives, that this third objection could be eliminated by substituting "uniform *classification* of accounts, statistical data and records," thus giving the superintendent power to prescribe the substance but not the form. Of interest is the reporter's comment on this point made in the National Underwriter for March 1, 1945: "Evidently Mr. Dineen did not regard this as a satisfactory means of accomplishing his aims, for he made no reference to it later when he rose to speak in defense of the bill."

Mr. Tarbell in 1929 and again in 1941 had written in his paper "Casualty Insurance Accounting and the Annual Statement Blank," *Proceedings* Vol. *XV*, page 141 and Vol. *XXVII*, page 294, "Methods of casualty insurance accounting are not and probably never will become standardized. Opinions differ as to the most efficient methods of compiling accounting data." In March of 1945 Mr. Tarbell's qualifications as a prophet seemed to be something less than perfect.

The opposition of the companies, however, was successful and the measure was killed in committee.

It would seem that Mr. Dineen was more impressed with Mr. Wagner's suggested modification of the bill than the National Underwriter's reporter had detected, for in 1946 he again sponsored a bill, but this time the wording was that "the superintendent shall have power——to prescribe uniform classifications of accounts to be observed, and statistics to be reported." This revised bill received no opposition from the companies, was passed by the Legislature March 19, and signed by Governor Dewey March 28, 1946.

Whether or not a law providing only for "uniform classifications of accounts ——and statistics" can rightly be called a uniform accounting law, that name, which grew out of the implications of the original bill, has prevailed. The insurance superintendent does not have power to prescribe uniform *methods* of account and Mr. Tarbell may be reinstated as a prophet for the industry.

At this point the fire insurance industry began to grow increasingly aware of the implications of this uniform accounting law. Possibly casualty men showed less concern because of their assurance that their accounting was already fairly satisfactory, the prophetic utterances herein cited to the contrary notwithstanding. But Superintendent Dineen had been rather blunt about certain fire insurance rate making deficiencies and had already begun an investigation of fire insurance practices in expense allocation, financed by special appropriations obtained from the Legislature.

Early in March, even before the bill was passed, the National Board of Fire Underwriters approached Commissioner of Insurance James M. McCormack, Jr. of Tennessee, as president of the National Association of Insurance Commissioners, with a view to promoting the consideration of uniform rules for expense allocation on a nationwide basis. Much fear was being currently expressed that with New York prescribing uniform rules other states might exercise their constitutional sovereignty by prescribing other uniform rules. Thus the industry might be required to conform to uniform rules made intolerable by a lack of uniformity. The subject was discussed by the committee on laws and legislation of the National Association of Insurance Commissioners in June 1946, with Mr. Dineen asking the committee to take no action for at least a year in order to enable his department to study the matter further and eliminate any "bugs." No action was taken. Subsequently the Fire and Marine Committee of the National Association of Insurance Commissioners appointed a Sub-Committee on Expense which named the New York Department as its agent in the expense distribution investigation of fire insurance companies still going on. Thus the National Association of Insurance Commissioners sought to avoid the calamity envisaged.

On April 17th, 1946 Superintendent Dineen addressed the (Fire) Insurance Accountants Association on the subject, "The Development of Uniform Classifications of Accounts." In this address he outlined seven main objectives the Insurance Department hoped to accomplish by the law. It was the Department's hope, said Mr. Dineen, that the new law would

(1) Obviate the criticism that it is illogical for companies to charge uniform rates made in concert when little uniformity is employed in compiling the figures upon which the uniform rates are based;

(2) Provide a more scientific basis for the making of rates and for the regulation of rates;

(3) Aid the management of competing companies to compare both aggregate costs and the components of such costs;

(4) Enable companies to do equity among all classes in the distribution of expenses as regards such considerations as expense constants and discounts for size;

(5) Furnish superior statistical data demonstrating that price differentials are not unfair price discriminations under the Federal Trade Commission Act and the Robinson-Patman Act;

(6) Convince Congress that the performance of the states in this field measures up to the congressional policy established in the Interstate Commerce Act and Federal Power Act;

(7) Aid in convincing the public that insurance rates are fair and equitable.

It is interesting to note that five of the seven objectives given deal specifically with rate making, while the implications in item six also are primarily in the rate making field. Only item three has no rate making considerations and is, by its nature, an unsolicited by-product which could hardly be made the objective of regulatory legislation. Again, in his concluding paragraphs, Mr. Dineen repeated, "This plan should be a tool designed to improve rate making and rate regulation." In speeches and testimony prior to the passage of the bill, also, Mr. Dineen had made it clear that improvement in rate making and rate regulation was his objective. Nowhere does one find, at this time, any thought that the uniform accounting regulations would be of assistance in insurance department supervision of the financial stability and performance of companies. The aims were actuarial rather than fiscal.

INVESTIGATION

The New York Department's investigation of fire insurance accounting practices culminated in a "Preliminary Report on the Uniform Accounting Investigation," dated November 27, 1946, copies of which were made available to the public. The Department then turned its attention to the casualty companies, publishing in December, 1947, a second report entitled "Methods of Expense Distribution in Casualty Insurance Companies." Both these reports present analyses and tabulations of company practice in expense allocation with the conclusion fairly obvious that companies have not been uniform. Upon study however, the variation became less pronounced, since usually most companies were uniform in principle, the variations being confined largely to a few companies in each instance. Much of the apparent variation sprang from true functional differences among companies which would appear as differences in allocation because the long established classifications as set up in the annual statement were a mixture of expenses by "nature" and expenses by "purpose," using Mr. Perryman's terms. To some extent the variations resulted also from differing philosophies, with some companies placing "purpose" ahead of "nature" and some "nature" ahead of "purpose." The philosophy, however, that prompted one company to allocate a part of the rent of post office boxes to salaries was novel at least.

In the casualty report, but not in the fire report, tabulations were made of company practice in distributing expenses by lines of business. This was the type of allocation most frequently found wanting by the various contributors in the *Proceedings* from which quotations were given above. Here the report shows a rather persistent leaning toward allocation by premium volume, which of course in its rate making implications is a Procrustean treatment. The ultimate result of such a practice, if persisted in, would be to produce uniform indicated expense loadings for all lines, regardless of actual differentials. Ten of the sixty companies reporting used premium volume to allocate either in whole or in part the salaries of loss department employees, and three used it for allocating the (already) allocated loss adjusting expenses. Had the allocation of losses been treated in this report one might be led to wonder, from the evidence at hand, whether some companies would not have reported that allocation also by premium volume.

REGULATION

On March 1, 1948, the New York Insurance Department issued its first concrete proposals in the "Preliminary Draft of Operating Expense Classifications," and followed that very promptly on April 26th, 1948, with the "Preliminary Draft of the Allocation of Expenses to Companies, Expense Groups and Lines of Business."

Back in 1946, when the first preliminary report on the uniform accounting investigation was made, Shelby Cullom Davis, the then Deputy Superintendent of the New York Department, wrote in its introduction, "Since the Department is acting as agent in doing this work for the Sub-Committee on Expense of the Fire and Marine Committee (of the N.A.I.C.) any recommendations will undoubtedly come from the latter body after adoption, it is hoped and expected, by all the Insurance Commissioners." By 1948 the N.A.I.C. had dismissed the Sub-Committee on Expense and had set up in its stead a Uniform Accounting Committee.These preliminary drafts of March 1 and April 26, 1948 were "prepared by the New York Insurance Department in consultation with the Uniform Accounting Committee of the National Association of Insurance Commissioners."

On May 17, 1948, the Uniform Accounting Committee of the N.A.I.C. held a hearing in the New York Insurance Department offices in New York City. Since this was barely three weeks after the second and more controversial draft had been released, the general cry was for more time. A few of the more radical innovations were questioned by certain speakers but most of the industry representatives who spoke expressed their inability to do the subject justice because they had been unable to give it adequate study. Commissioner J. P. Gibbs of Texas, Chairman of the Committee, adjourned the hearing after asking that the industry have concrete proposals in hand for presentation before the committee another three weeks later when it should meet on June 7, in Philadelphia during the N.A.I.C. convention. Industry representatives were not at all sanguine about their ability even then to make an appropriate presentation, and so expressed themselves.

The uniform accounting provision of the New York insurance law states in part, "Any regulation or amendment thereto shall be promulgated by the superintendent at least six months before the beginning of the calendar year in which the same shall take effect." On June 1, 1948, Robert E. Dineen, Superintendent of Insurance for the State of New York, addressed a notice "to all Fire and Marine and Casualty and Surety Insurers authorized to do business in the State of New York" to the effect that a hearing would be held in New York City "on June 22nd, 1948 at 10 a.m. to consider the adoption of a regulation, effective January 1, 1949 relating to uniform classifications of expenses." A copy of the proposed regulation, designated as No. 30, was attached to the notice. The notice also stated that "if it is your intention to offer objections—it is required that you—submit—on or before June 17, 1948 a memorandum in writing, specifying in detail what your objections are and definite reasons therefor." June 17 then was the real deadline.

Thus the two "preliminary drafts" became the "proposed regulation" of the New York Department.

On June 7 the Uniform Accounting Committee of the N.A.I.C. met. As requested by Mr. Gibbs on May 17 a committee representing nearly all branches of the industry had done some feverish conferring and now presented a rather extensive report. Our prophets of the past, as might be expected, had now become the spokesmen of the present. The report was written and signed by Mr. Perryman as chairman of the industry committee but, due to his absence, was presented to the commissioners committee by Mr. Tarbell. The position taken by the industry report was that insufficient time had been given for an adequate study and testing of the regulations, that everyone was in favor of uniformity, proper uniformity, that the basic approach of the New York Department was sound, traditional, and to be expected, that such study as had been made revealed some rather serious weaknesses, which were presented as an indication of the need for further study and certainly not as a complete list of shortcomings, and that insufficient time had been given——.

The Uniform Accounting Committee of the N.A.I.C. listened very politely and took no action other than to endorse in principle the proposals made by the New York Department and to request the convention to continue the committee in order that it might give the problem further study and make a report at the December meeting.

There followed in the next two weeks some very intensive conferences between the industry committee and the New York department with a view to reconciling differences on some of the features of the proposed Regulation No. 30 that were regarded by the industry committee as objectionable.

On June 22, the New York Department held its formal hearing with all testimony taken under oath in order to provide the proper legal foundation in the event the matter were made the subject of "judicial review by any insurer or organization aggrieved thereby," as provided in the law. Material was formally placed in evidence, protagonists and antagonists spoke their pieces like well rehearsed actors and as the National Underwriter of June 24 reported, "Deputy Martineau adjourned the hearing after everyone had his say." Only Mr. Conick, speaking for the National Board of Fire Underwriters, stirred the embers when he quoted from Mr. Dineen's speech of April 17, 1946, before the Insurance Accountants Association, "But this we emphasize. If this program is to be a success, it cannot be the product of the companies alone or of the New York Department or even the joint product of both. The project is national in its scope. It calls for the cooperation of insurers throughout the length and breadth of the land in collaboration with the National Association of Insurance Commissioners."

On June 30, the Department issued its now famous Regulation No. 30 giving the force of law to the proposals with minor changes, proposals which the industry had seen for the first time on March 1 and April 26.

In December the National Association of Insurance Commissioners adopted the New York uniform accounting rules (Regulation No. 30) as instructions for completing the expense portions of the Annual Statement and the Insurance Expense Exhibit for companies doing business in New York and subject to Regulation No. 30, as to 1949 operations, and for other companies optionally as to 1949 but on a mandatory basis as to 1950.

Little opposition was expressed in public by the commissioners to this program, except for Mr. Harrington, Commissioner of Insurance for Massachusetts, who spoke rather sharply against the resolution on the not unreasonable ground that the annual statement, which is fundamentally a financial statement and for that reason subject to an early filing date, should not be burdened with requirements for rate making data. Mr. Harrington, apparently, still thought of the uniform accounting movement as actuarial in purpose and not, as some seemed to be considering it, a virtue having its own reward. Mr. Harrington quite possibly was recalling the June, 1946 meeting of the commissioners where he was one of the leaders in urging consideration for the gathering of uniform data as an adjunct to the new rating laws of the various states. At that time he praised the direction being taken by New York.

The next official step was the creation by the New York Insurance Department effective April 1, 1949, of a Uniform Accounting Bureau and the appointment of James J. Higgins as Chief of the Bureau. As stated in the Journal of Commerce, March 31, "Mr. Higgins was directly responsible for the basic theory, construction and actual wording of Regulation No. 30." Mr. Higgins was also appointed chairman of the Sub-Committee on Uniform Accounting Instructions of the Uniform Accounting Committee of the National Association of Insurance Commissioners. Thus on both the New York level and the national level the machinery is now set for orderly processes of interpretation and revision with some assurance of coordination between the two levels. Mr. Morrill, Deputy Superintendent of the New York Department, in an address before the Insurance Accounting and Statistical Association, May 20, 1949, said in commenting on this arrangement, "Although in New York our rules have the force of law, and can be amended only through a procedure prescribed by statute, we will adapt that procedure so as to follow the actions of the N.A.I.C. rather than attempt to lead the procession."

One is led to wonder, however, whether the N.A.I.C. can contribute any actions for New York to follow in view of the wording of the first rule of procedure adopted June 26, 1949 by the Sub-Committee which reads, "All proposed amendments and revisions shall be filed with the Chairman of the Sub-Committee on or before January 1 of each year." Since the "before" cannot exist, it would seem that New Year's day will be a busy day for some.

DISPUTATION

It is not the purpose of this paper to discuss the regulations in detail. Such scope should be reserved for other authors and other papers. This record, however, would be incomplete without some report of the more important points of controversy. The New York Department accepted many of the minor suggestions made by the industry and incorporated them in its final official regulation. One such amendment is noteworthy in that the original proposal of the insurance department revealed a certain quality of supervisory cynicism which, it is to be hoped, is not deserved by the industry. In the original proposals the item "Donations to Organized Charities" was required to be included in the "Advertising" account. At the suggestion of the industry it was transferred to "Miscellaneous."

The most serious disagreement, and the area in which the department revealed the least flexibility, was in connection with the selection and the composition of expense groups.

Addition. It was felt that the definition of the expense group "Acquisition, Field Supervision and Collection Expenses" covered too much territory. As Mr. Perryman put it, "something has been added," the something being collection expenses. The old Casualty Expense Exhibit grouped only acquisition and field supervision expenses. The aim of the Insurance Department in enlarging the area was to create a group that would be susceptible of uniform treatment for all companies regardless of method of doing business, a least common denominator fitting stock, mutual, reciprocal, casualty, surety, fire or marine. Since the largest single denominator was considered to be the commission paid to the general agent which not only covered the functions of acquisition and field supervision, but also those of policy writing and collection, it was felt that such costs, even when borne directly by the companies should be included in the same group as commissions. From the point of view of functional uniformity there is little fault to find with the Department's point of view. The regulation however is not entirely consistent, since one of the items included under this group reads:

> "Miscellaneous activities of agents, brokers and producers *other than employees*, when performed by them; inspections; quoting premiums;

signing policies; examining and mailing policies; applications and daily reports; compiling figures for current accounts; correspondence and sundry bookkeeping and clerical work."

The words "other than employees," which I have italicized, seem to do violence to the cause of functional uniformity.

One of the rules of life is that after regulation must come interpretation. I quote from a bulletin released by the Insurance Accounting and Statistical Association October 1, 1949, which purported to have the approval of Mr. Higgins, chief of the New York Insurance Department Uniform Accounting Bureau:

> "As a result of these differences in methods of operation and the impracticability of setting down rules for segregating like expenses in the various companies into the same expense groups, New York's Uniform Accounting Section is now using the basis of whether the operation is paid for by commission or salary to distinguish between operations to be charged to Acquisition and General. There is one exception to this rule, however, and that is those operations outlined in the Regulation as definitely chargeable to Acquisition such as premium collection, commission payments, etc. These operations are considered as Acquisition no matter where performed or how paid for."

The difficulty lies, of course, in the fact that there is practically no limit to the functions which are performed by agents and paid for by commission. The regulation has attempted to provide for this difficulty by directing that commission paid for services other than those listed, "when such services are not duplicated or otherwise compensated by the company," shall be allocated to other expense groups. But, as noted, this attempt seems, by the nature of things doomed to failure.

Mr. Perryman, in one of the hearings, expressed doubt as to the wisdom of labelling under "Acquisition" so much that is clearly administrative in nature. That way aggravates public misunderstanding and criticism.

It has been suggested that another approach could be made to the problem by adding the concept of functional purity to that of functional uniformity. Admittedly commissions are a mixture of apples and pears and it would be in error to add unmixed apples to such a mixture. The regulation has attempted to correct the error by requiring that along with the apples when added some pears must be added also in uncertain proportion. The suggestion is that we might be able to separate the apples from the pears and add apples to apples, pears to pears.

Mr. Perryman's brief stated,

> "True Acquisition and Field Supervision Cost in the case of a stock company consists of two elements;
>
> "1. The amount of sales cost paid to the producer,
>
> "2. The securing, developing and supervising of the sales force."

The qualification, "in the case of a stock company," might well be omitted. If uniform accounting is to be primarily the servant of rate-making, and that has been its principal justification, functional purity in the matter of acquisition expense would seem desirable.

The National Association of Insurance Agents asked specifically that commissions be analysed and only the amounts paid for the direct production of business, in other words, item 1 above, be reported as commission. This position was motivated largely by a consideration of public relations and the feeling that the producer was being blamed by the public for a larger "take" than he was in fact taking for his sales efforts. Commenting on this request by the N.A.I.A. Mr. Thomas C. Morrill,Deputy Superintendent of the New York Insurance Department, said in an address before the Insurance Accountants Association, November 9, 1948, that it is "not without merit, at least in principle." It was "not made a part of Regulation No. 30 because our direct knowledge of insurance accounting limitations led us to believe that to require a more refined functional allocation in the annual statement, with its early filing date, was impractical, and that to insist on it would only force the industry into the very rule-of-thumb guesswork that we are trying to eliminate." The accountants of the industry, are naturally very thankful to the framers of the regulation that they do not have to make a more refined functional allocation of commissions. It might be noted at this point that the annual statement blank for the year ending December 31, 1949 as revised to integrate with Regulation No. 30, and required to be filed in most jurisdictions on or before March 1, 1950, does not require the functional separation of the expense group "Acquisition, etc." from "General," but groups these two along with "Taxes, Licenses and Fees" in one grouping of "Underwriting Expenses," the separate display of these groups being required only in the Insurance Expense Exhibit to be filed not later than May 15, 1950.

Subtraction. If the Department went too far in the definition of acquisition expense it did not go far enough in certain other directions, according to the casualty spokesmen. The regulation made no provision for segregating as expense groups the functions of inspection and of payroll audit, (or exposure audit, the new and more accurately descriptive name.) Segregation of the expense of these two functions is necessary for the making of not unfairly discriminatory rates. These expenses vary materially as to the lines and sublines of the casualty business, and also as to the size of individual risks.

The New York Department's position was that these functions represent relatively such small amounts of money in the aggregate that separate treatment is not warranted, that to define and segregate these functions would be difficult and impractical in many lines of insurance, and that it was unwilling to impose on all companies this item of cost analysis, with the force of law, but rather that whatever data is needed for rate making may be obtained by special call to the companies. Here one is led to wonder if the Department remembered the original rate making purpose of the uniform accounting movement. Some compromise was obtained by the rate makers in that the Insurance Expense Exhibit as finally adopted for the year ending December 31, 1949 provides a break-down of General Expenses into

Inspection expenses paid

Boards, bureaus and associations

Payroll audit expenses paid
Other general expenses paid.

A footnote, however, calls attention to the fact that "the allocations to 'inspection' and 'payroll audit' are not subject to Instructions for Uniform Classification of Expenses." In the light of this lack of authority in an authoritarian realm one can only conjecture with what ease supervising authority may challenge any new rate making departures predicated on such findings.

SUMMATION

It is perhaps too early to appraise the effect of uniform accounting regulations. The first full year of operation under them will not have been completed till December 31, 1949 and reports on that year will not be made public and consolidated till some months thereafter. But we have had now over a year to study the regulations as promulgated and the better part of a year of actual use in company offices. We have had an opportunity also to watch the attitude of regulatory authority develop during this period.

Although there has been considerable grumbling, companies have in general accepted uniform acounting as a part of the present day scene. Insurance accountants have, in fact, used it as a great diversion, the subject of endless papers, forums, and conferences, and a most welcome justification to senior executives for delayed reports and additional personnel. Companies are making an honest effort to understand and conform to the rules. Because of imperfections in the regulations certain amusing situations have arisen. The regulations, for example, have no specific account for "Insurance," on the assumption perhaps that insurance is one thing insurance companies do not need. Unfortunately for accounting sanity, insurance companies do buy insurance on occasion. The Committee on Interpretation of Regulation 30 of the Association of Casualty and Surety Accountants and Statisticians was recently asked,

> "Where should insurance premiums paid by a company on excess insurance over the insurance company's blanket bond be charged, such excess insurance to cover the company's own securities in its safe deposit box?"

The answer, which had to be given under the principle of analogous items provided for in the regulation, follows:

> "Since the coverage is for its own securities, the premium on the excess coverage increases the cost of the safe deposit box rental, and therefore, should be charged to Account 13—Rent and Rent Items."

Ridiculous as it may seem, this answer is probably the best that can be given. The regulation treats insurance as a substitute or *ersatz* commodity, one that is purchased in place of something better and must be so classified. The insurance industry would like to believe that insurance performs a function of its own and is worthy of independent classification and accounting.

Another rather interesting development in interpretation might well be noted here. As pointed out earlier in this paper, premium volume pro rates have been viewed in general with considerable suspicion by our actuarial prophets. The Uniform Accounting Regulation treats pro rating by premium volume largely as a method of last resort after all other methods have been examined and found wanting. We have spoken of the Procrustean or leveling effect of such practices. Nevertheless the bulletin of the I.A.S.A., previously quoted, which purports to have Mr. Higgins' approval, states:

> "The New York Department considered the use of premiums as an allocation basis for the secondary lines as producing a more favorable result when all factors are considered.
>
> "To use an item count basis of allocating expenses to secondary lines would increase the expense rate of small premium lines such as Auto, Fire and Theft. This could have the effect of causing premium increases for these lines which might affect their saleability to the insuring public. The New York Uniform Accounting group did not want to do anything which would result in harm to the insurance business, a reason primarily responsible for their advocating premium volume as a basis of allocation."

Whether or not one agrees with the end sought, the actuarial reasoning expressed is interesting.

For some companies Regulation No. 30 has given incentive to experiment a little in cost analysis beyond its minimum requirements. If a case has been rightly made against the industry as a whole for failure to analyse its costs satisfactorily for rate making purposes, a case can be made for a like failure to analyse for management purposes. Judged by the standards of the manufacturing industries, insurance management has operated and made decisions in comparative ignorance. Aside from the analysis of premiums and losses, which has been very well developed, there has been no real science of cost accounting. A great deal of study has been made to relate losses to their proper exposures, but little has been done to discover the reasonable and proper measures of a company's exposure to expense. Although such a science is bound to develop under present day conditions, there can be little doubt that Regulation No. 30 is giving it rapid impetus, if for no other reason than that, having been forced by regulation to lay an elaborate foundation, companies can erect a useable superstructure for themselves at such slight extra cost.

From the point of view of rate making some small benefits of uniformity are beginning to accrue. In the study of costs by size of risk it is now firmly recognized that the homogeneity of data sampled from various companies under study is fairly assured because of the uniform accounting regulation, and the industry committee now doing that study has officially made its bow in this direction. It is reasonable also to assume that more facts will be available in the future in support of, and at times in opposition to, expense loadings as utilized in submitted rate filings and deviations. Hereafter we will know the facts, we will have all the peas counted that are in the pod, we will have the apples separated from the pears. Then what?

Why did Mr. Dineen feel constrained to say in his speech before the Insurance Accountants Association on April 17, 1946, "You may rest assured that the New York Department will resolutely resist any tendency to use this law to throttle initiative and enterprise in the insurance business?" Why should Mr. Malone, Insurance Commissioner of Pennsylvania and Chairman of the N.A.I.C. Uniform Accounting Committee, feel the need to state in his address before the National Association of Independent Insurers on November 18, 1948, "I think careful thought will reveal that far from promoting uniformity in rate making, the great improvement in expense data which we have a right to expect under the new system will stimulate rate competition, based on a new confidence in expense differences revealed in operating statements?" Is it not because the danger they protest against is very real? No matter how honestly and conscientiously administered, a controlling force with regulatory authority is to play it safe. Variation means insecurity, high mountains and steep valleys are hazardous. Regulation, like erosion, exalts the valleys and lays the mountain low. Uniform accounting is a potent tool of regulation and by its name and nature it is uniform and makes for uniformity.

Mr. Morrill, Deputy Superintendent of the New York Department, is quoted by the Journal of Commerce for January 20, 1949 as saying, "Uniform Accounting is progressive, and ——— will produce substantial benefits in the regulation and management of insurance carriers." You will note that Mr. Morrill does not speak of the regulation of rates but of carriers. There is a substantial difference. And does he imply that regulation itself is progressive? We hope not, for in a thoroughly regulated society insurance fills no need and disappears.