

DISCUSSION OF PAPERS READ AT THE
MAY 1958 MEETING

AUTO B.I. LIABILITY RATES — USE OF 10/20 EXPERIENCE
IN THE ESTABLISHMENT OF TERRITORIAL RELATIVITIES

BY
MARTIN BONDY

VOLUME XLV — PAGE 1

DISCUSSION BY R. L. BORNHUETTER

We are now experiencing an era of automobile liability ratemaking in which it is an absolute necessity that adequate territorial rates be established and maintained. In developing rates by territory the question of what experience is to be used is definitely a major factor. The author's discussion on the use of 10/20 bodily injury experience for territorial relativity in New York is certainly an able contribution to this problem of developing territory liability rates. As more and more states increase their financial responsibility limits above the 5/10 basic limits, the problem dealt with in this paper becomes more relevant in areas outside of New York.

Several phases, such as the appropriate credibility procedure to be applied to the incurred losses between 5/10 and 10/20, have been discussed by Mr. Simon in his review of this paper or will be presented in a separate paper which has been recently submitted to the Society by Mr. Roberts.

The main point this writer would like to make in this area of ratemaking is the problem of developing a true picture in some of the smaller territories as respects the relative level of settling claims for these areas when compared to others.

At the present time, the National Bureau of Casualty Underwriters utilizes the latest three calendar-accident years of experience in most states for the purpose of developing private passenger car territory rates. In smaller territories the true characteristics as respects varying levels of claim settlement probably cannot be adequately reflected when only three years of experience are used for territory review.

Offhand then, this problem presents another area for possible research, namely, the review of territorial experience for a much longer period than three years with an attempt to establish any significant differences in the claim characteristics which would lead to higher claim settlements or more frequent excess losses. By grouping territories according to their characteristics, favorable or unfavorable, the problem of reflecting the claim settlement level in these territories could be recognized by the use of separate increased limits tables.

These tables would recognize and reflect the basic differences in territory characteristics under discussion. Certainly it is intended that there should be only two or three tables per major classification type (e.g., private passenger cars). By periodic review every three or four years these assignment groupings could be kept current. Actually, this is not a new thought; however, it seems to be a field which could be investigated especially in this day of high claim settlement costs. Granted, there are many problems in this type of rating procedure and some may render the method completely impractical.

In summary, it is the writer's opinion that the use of 10/20 experience for territory rate development is certainly a step in the right direction but it is not the complete answer to the problem of establishing overall adequate rates for individual territories.

DISCUSSION OF PAPERS READ AT THE
NOVEMBER 1958 MEETING

THE ADVANTAGES OF CALENDAR-ACCIDENT YEAR
EXPERIENCE AND THE NEED FOR APPROPRIATE TREND
AND PROJECTION FACTORS IN THE DETERMINATION
OF AUTOMOBILE LIABILITY RATES

BY

PAUL BENBROOK

VOLUME XLV, PAGE 20

DISCUSSION BY R. LINO

At a time when adverse underwriting results for automobile liability insurance, particularly for private passenger cars, are a subject of great concern to the insurance industry, Mr. Paul Benbrook's paper, "The Advantages of Calendar-Accident Year Experience and the Need for Appropriate Trend and Projection Factors in the Determination of Automobile Liability Rates" is indeed a welcome and timely addition to the *Proceedings* of the Casualty Actuarial Society.

Mr. Benbrook's diversified experience substantiates his qualifications to discuss this subject. His paper, which outlines the advantages to be realized by the use of calendar-accident year experience in lieu of policy-year experience, and which discusses the reasons why trend and projection factors are essential if rate levels are to be realistic for the period in which they are to apply, should be of particular interest

- (1) to the technicians of both insurance companies and ratemaking organizations who have the responsibility of developing ratemaking systems for the establishment of adequate insurance rates;