To sumarize this session, there appeared to be a general willingness to do something about the small risk problem, but the consulting actuaries were willing to go further than the company men.

In the second session, devoted to problems which we didn't expect to be able to do anything about, attention was turned to the "fragmentation of the Bureaus" which has affected other lines, and the Compensation actuaries asked "Can it happen to us?" They also asked "Do we want it to happen to us?" The general impression which was conveyed was that the Compensation men within the companies have no particular desire to copy present practices of the Automobile field, and that the Automobile men are too busy with their own problems to do any missionary work on Workmen's Compensation. The slightly less restrictive climate of Illinois and Rhode Island, particularly as respects experience rating, was discussed briefly, but there appeared to be no great desire among those present to extend this atmosphere to the rest of the country. One or two men felt that a "no prior approval" law might be helpful in obtaining rate increases, but shuddered at the disruption which might be caused by "subsequent disapproval."

One member expressed the opinion that the strict regulation of Workmen's Compensation had supported certain ratemaking "crudities" which a system of free and open competition would soon erase. At the word "crudities," ears were pricked up and eyebrows raised all over the room, but no tempers flared, because old-time Compensation men, who had long been hardened to accusations that their rating systems were too refined for their own good, could find an accusation of crudity amusing, but not annoying. The accuser was allowed to explain that one crudity, in his opinion, was the use of payroll beyond that required to produce the weekly benefit. The more orthodox members explained that this crudity was offset by other crudities, such as the experience rating plan and the retrospective rating plan, and that we had planned it that way.

Speaking generally, the members showed no particular fear of relaxation of regulation, or any especial desire for it.

RATE MAKING FOR PACKAGE POLICIES

(Summation by LeRoy J. Simon, Associate Actuary,
Insurance Company of North America)

The seminar opened with the statement of an objective for the session: "To have an open discussion of how rates *should* be made for a package policy when it has reached the state of mature development with a large volume of information available."

After outlining our ground rules, we went directly into a discussion of the difference between the Homeowners package and the commercial package. The Homeowners is a large total volume of business with many, many relatively homogeneous units. This is not the case with commercial packages such as motels, apartments, stores and so forth. They won't be so nicely homogeneous. The liability premium, for example, might be 10% of the total premium on one policy; and on another policy in the same type of package, the liability portion might represent 70% of the premium. This is definitely going to have an effect on the rate making.

There were three principal schools of thought on how information should be collected and, therefore, on how rates might be made. The first one was to send all the premiums and losses back to the lines and classes from which they originally came; and maybe also be able to identify the package figures by some special overall line code. The second system was to keep rate making information for packages in five broad categories. Category A would be property insurance for the mandatory coverages or the core of the package; or perhaps mandatory or core coverages, excluding some unusual hazards. Category B would be property insurance not included in Category A. Category C would be liability insurance again for the mandatory or core coverages for the package, again possibly excluding unusual hazards. Category D would be the rest of the liability insurance and E would be the comprehensive crime coverages. The third system for keeping track of the experience and hence guiding the rate making in the future would be to keep virtually no detailed rate making information except on an overall loss ratio basis for the package. This was referred to as analogous somewhat to the fire approach.

A statistical plan was outlined by one company which had been operating in the commercial package field for some time. The plan involved the following features:

(a) There was a major division of premiums between Property Insurance (fire, EC and V&MM) and Liability Insurance (BI, PD and Med Pay).

(b) The Property Insurance premium was broken down into buildings, contents and earnings.

(c) The Liability Insurance premium was broken down into the basic policy exposure with additional codes for restaurants, gift shops, swimming pools and so forth.

(d) A construction-protection code was used.

(e) A type code allowed the year-round, non-resort type of motel to be differentiated from the seasonal and primarily resort type.

(f) An exposure code grouped the motels into 0-10 units, 10-20 units and so on.

Another company also had a plan that was similar to this. A third company coded the information back to the original coverages which made up the package.

Referring to Homeowners rating history, it started as a sum of components and remained this way for some time. As component rates changed, so did the Homeowners rate change. In 1957 at least one company swung over to using the Homeowners experience to set the Howeowners rates. The natural question is, "Will commercial packages follow the same pattern, and what will be the deterrents to it doing so?" It was agreed that the experience under the package would be different from the non-package business. There was considerable doubt if there would even be a large enough volume to really make rates for any given package. Also, there was the fact that the fire peril in these commercial packages, is on a schedule-rated rather than the simple class-rated basis we had in Homeowners. This certainly is going to create a difference that might be a deterrent to putting rate making in the package on its own basis. Two important features that couldn't be discussed too thoroughly were reinsurance problems and the catastrophe problem. This latter question arose in connection with rate making for all the property coverages as a single unit. The presence of a hurricane in two years would distort the figures, so would the absence of a hurricane in two years distort the figures. The same catastrophe problem arose in the experience rating area also. It appears that experience rating is applicable to the liability portion of the commercial package policy and the question arose as to what it is going to do to the total package.

We just touched on certain phases of the indivisible rating problem—such as state taxes and reinsurance. The area of completely divisible rating raised problems of excessive cost of handling, difficulty in expense allocation, the loss of vital information from mixing with non-package business. Cause-of-loss coding seemed essential as a minimum requirement, regardless of what type of a system anyone favored. Accident year records on the losses seemed to win the most approval, with calendar year a rather weak second. No one talked about a policy year approach. An interesting discussion centered around reporting premium and exposure data in sparse detail, and then using sampling techniques to get specific details. Losses would be recorded with care, in detail and by cause. This is untested as yet, and offers an interesting area for actuarial investigation. One company has found that sampling techniques in insurance are difficult to use statistically.

An important part of the seminar was the rules under which it operated. It was hoped that with these rules we would get a free and easy exchange of ideas and viewpoints. They were as follows:

1. The chairman has all the problems and no special privileges.
2. No lectures.
3. Do not speak to the chairman—speak to the person farthest away from you in the room.
4. We are not primarily going to discuss current practice or currently proposed procedures, but they may be referred to as starting points.
5. You may *not* be quoted by anyone—be candid, open, frank.

At the conclusion of the seminar, it was decided to rewrite the seminar rules in light of the experience gained. With due deference to George Orwell and the *Animal Farm,* the revised rules are as follows:

1. The chairman has only a few special privileges.
2. No lectures from the floor.
3. Do not speak to the chairman except to ask his advice.
4. We are not primarily going to discuss current practice of the chairman's company, but it may be referred to as a faultless system.

5. Be candid, open, frank, in telling the chairman your future plans.

To be serious for a moment in closing, package policies are new; they are unique; they're different from the sum of their components in both loss and expense elements. We must do our best as actuaries to recognize this and act on it. I think we have to ask ourselves, "Are marketing methods, statistical plans, and rate making procedures for package policies being formulated in such a manner that we will be doing our very best for the insured, or will we fall significantly short of this ideal?"

Question by Mr. Berkeley: I wonder if the seminars arrived at any conclution as to how rates might be made for motel policies? The Inter-Regional Actuarial Committee which has that problem right now would like to know if you did find a solution.

Response by Mr. Simon: Well, I think if we had to vote on some of the different cases that I've talked about here, that probably the majority of people would favor the system of recording statistics in the A through E categories that I enumerated. There would be good minorities in what I call the fire system camp of no detail; and I'm sure that there would be a good minority in the put-it-back-to-the-original-components camp, too. I think that the accident year system would be favored by most people. Again, the fire people would say that you do not need this for the fire part if you're going to make rates separately there. The liability experts have been accustomed to the accident year basis for rate making and hence voiced no objection to its use in motels.

ACCIDENT PRONENESS

(Summation by Ernest T. Berkeley, Actuary, Employers' Group)

As Bill Leslie has just pointed out, this is one of the two non-actuarial subjects that were taken up at the seminars yesterday afternoon. Judging by the interest shown by the seminar participants and the lively discussion that took place, I think the experiment was a complete success.

Since actuarial chairmen are not supposed to know anything about non-actuarial subjects—and I certainly fall in that category—I took the precaution of asking Dr. Leon Brody to come to the seminar to make some opening remarks and answer questions. Dr. Brody is the Director of Research at the Center for Safety Education at New York University. I am very grateful to him for the fine contribution he made and I am sure the seminar participants are too.

In view of the importance of the subject of accident proneness in the automobile field, it was decided to limit the discussion pretty much to that area, although industrial accidents were also touched upon to some extent.

In his initial statement Dr. Brody sketched the dimensions of the accident proneness problem and what might be done about it. The picture is a familiar one to everybody I know, with thousands of persons being killed every year in automobile accidents, millions of people injured and property and related