THE PROBLEM OF SUBSTANDARD AUTOMOBILE RISKS

(Summation by Frank Harwayne, Chief Actuary, New York State Insurance Department)

I'd like to give a vote of thanks to Dutch Day, Tom Murrin and the audience that participated in this session. Both sessions of the seminar were well attended. The chairman brought out that both the young and the old have substandard risks which cannot find an insurance market other than in the assigned risk plan or a specialty company for substandard risks. Elden Day covered the substandard risk as he is known through assigned risk plans. In general, incurred losses on assigned risks have exceeded premiums for many years. In 1959, the assigned risk plan incurred loss ratio, countrywide excluding Massachusetts, was about 98%. A sample study of 500 assigned risks in New York State shows these risks are not attributable to any small group of specialized producers. These risks account for 800 applications approximately; the policies stay in force for approximately 11 months; 13% are in the plan for the full three year period; 50% of the new applications are renewed. Tom Murrin developed the thought that the substandard risks are inextricably wound into the assigned risk plan and that it may be necessary to establish a different classification and rating system for such risks, in contrast to that for voluntary risks. He pointed out that although classification rate differentials presently appear adequate, it may take considerable time for substantial segments of the young driver class to obtain voluntary insurance.

Much discussion centered about the definition of substandard risks. It was finally believed that an acceptable objective definition is difficult, if not impossible. Although an acceptable definition was not obtained, there was general agreement that adequate insurance coverage at a fair price is the basic problem. In view of the virtual necessity of the automobile to most Americans today, and in view of the legal and moral need for automobile insurance, to convince the substandard risk that it is proper to classify him differently from his neighbor, appears to be a major problem. This is particularly so if his neighbor has the same characteristics as he, yet is classified and rated on a preferred basis. The underwriter's basis for discriminating between risks cuts across classifications and may be youth, age, marriage, divorce, disability, occupation, residential area, driving experience, lack of credit standing, prior rejection for insurance coverage, and so on. Classifying a risk on the basis of acceptability to the underwriter may not appear equitable.

Some suggestions were put forth for consideration. One was the possibility of a longer term contract with specified differentials for age along the lines of the mortality table, but the rate would not be guaranteed. Another was further experimentation with the substandard subsidiary insurance company.

Both sessions ran overtime as a consequence of the members' lively participation. I might add that, possibly on account of the nature of the problem, we just were unable to find any solution and, as indicated here, we had substantial difficulty really in getting clear basic definitions.