REPORTS OF THE SEMINARS HELD AT GROTON, CONNECTICUT AT THE 1962 SPRING MEETING OF THE SOCIETY

ANALYZING ANNUAL STATEMENTS AND EXPENSE EXHIBITS OF OTHER COMPANIES

SUMMATION BY ROBERT G. ESPIE

Seminars were held with R. G. Espie acting as Chairman, assisted by Messrs. Harmon T. Barber, Joseph Linder and Norton E. Masterson. The Seminars were opened by the distribution of a set of inter-company premium, loss and expense statistics drawn from the insurance expense exhibits and distributed to management. This exhibit compares the results of the company preparing it with those of five or six other companies which appear to be reasonably comparable by reason of size and type of operation. A supplementary exhibit shows the comparable figures for three very large companies organized and operating on a somewhat definite basis. It was pointed out that these statistics and comparisons are subject to considerable shortcomings. They can be distorted by any one of a large number of non-recurring transactions or by sharp changes in type of operation. It was suggested that they could presumably be used only as clues to areas in which further investigation must be carried out. If the ratio for any one company differs noticeably from those of others, or if the trend in a series of such ratios over a period of years shows lack of conformity, it becomes necessary to spend the additional effort to try to find the cause for difference. There is a danger that explained consistency of the figures may conceal conditions which warrant investigation—mere conformity does not indicate that everything is all right any more than lack of conformity indicates that things are unsatisfactory.

Two of the other Companies represented discussed somewhat similar presentations which they make for their managements' review. There was some comment as to whether some or all of the expense figures shown should be related to written premiums or to earned premiums or to both, one suggestion being that it does not really matter a great deal since relating expenses to either basis would probably indicate whether or not further study is required. Attention was also drawn to the very difficult problem faced in the comparison of the results of mutual companies since it appears to be essential to add dividends back to the premiums for comparative purposes, and yet dividends are not always readily available by line of business.

There was some discussion as to whether the annual statement should provide more detail for review of comparative statistics, one stand being that statistics are so necessary for comparative purposes as to require their publication in the N.A.I.C. statement. An opposing point of view contended that the annual statement's goal of testing solvency on a very strict basis made it a very poor vehicle for statistical comparisons and that it should not be further distorted for that purpose. Attention was drawn to the fact that there still remains a considerable area of discretion to management in the classification of some expenses and that, although the statistics are rather less valuable because of such variances, it is not possible to eliminate such variances without straitjacketing management.

It appeared that very few companies make comparisons of financial experi-

ence and that if comparisons are made of investment portfolios, they are not made by the actuarial staff.

From the discussion of comparative statistics and their significance there were numerous—and interesting—digressions into more detailed discussions of specific problems, such as the so-called equity in unearned premium reserves and the liability for potential capital gains tax on unrealized appreciation of securities. Each of these topics produced some lively comment.

It was generally concluded that although these exhibits have great shortcomings, and must be analyzed very carefully before conclusions are drawn from them, their possible value as clues to areas which require study is so great as to make it virtually essential that companies make an effort to produce such camparisons and study them for their own benefit. Companies cannot afford to fail to look at such comparisons.

RATING OF EXCESS COVERAGES

SUMMATION BY MATTHEW RODERMUND

There was not as much general discussion in this seminar as the chairman had hoped for, probably because the subject represented an area of insurance unfamiliar to most actuaries. However, a few actuaries who are familiar with excess insurance had been invited specifically to attend this seminar, and the Society was particularly fortunate to have as a guest at both sessions Mr. Brice Frey, Jr., Vice President of the General Reinsurance Corporation and the manager of that company's facultative facilities. The chairman is greatly appreciative of the contributions of both Mr. Frey and the knowledgeable actuaries.

Definition of terms seemed to be the first requirement in a discussion of excess coverages. For example:

Excess insurance—insurance which is remote from, but on top of, normal losses; usually it refers to coverage excess of self-insurance, or excess of underlying insurance; it is purchased by individual risks; it differs somewhat from excess of loss reinsurance, which is purchased by carriers for losses per accident or occurrence in excess of limits above which the carrier has issued coverage but above which it is unwilling to bear the loss.

Deductible—in the field of excess insurance deductible has the same meaning as retention, the amount of loss assumed by the risk or the carrier before his insurance or reinsurance is called upon; the word deductible appears to be favored in fire excesses, the word retention in casualty.

Umbrella insurance—an excess broad form casualty contract which can provide, in addition to the normal comprehensive liability coverage, advertisers' liability, false arrest, personal injury, libel and slander and patent infringement; it is written in excess of existing primary insurance and also in excess of an uninsured retention or deductible (minimum usually $25,000) on those liability exposures not covered by primary insurance.

Stop loss or aggregate excess—called excess of loss ratio reinsurance if applied to insurance companies, covers all losses in excess of a cumulative total of losses incurred over a given period of time, usually one year; losses included in the cumulative total, or those covered by the stop loss agreement,