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, may themselves be limited on a per accident basis by a concurrent excess agreement.

Pro rata excess, or participating excess—excess insurance wherein a given limit is shared on a percentage basis by a number of carriers; this is the usual situation with large excess covers.

Surplus lines—any classes of insurance or limits of coverage which a producer, unable to place in the admitted market, offers to the non-admitted market.

Following agreement on definitions, the seminar discussed the relative merits of direct excess insurance and regular insurance, that is, insurance from the ground up. Some of the participants thought excess insurance might be more flexible, more capable of being tailored to the needs of the individual risk. Others claimed that the needs of most risks, even the biggest, can be handled by existing insurance forms and that there is a distinct advantage to getting all needed protection in one piece of paper. It was agreed the particular problems, and the capacity, of the individual risk would determine the direction of its insurance buying.

So far as rating tools are concerned, the seminar learned that the published excess limits tables, deductible tables (Chubb or Factory Mutuals), and guide (a) rates are useful to excess underwriters, but only as guides, to be modified by underwriting judgment, or seat-of-pants wisdom. One of the best and most powerful guides is the competitor's quote. However, the excess market has become so competitive that some underwriters feel, on occasion, that if they get the account their rate was too low.

Past experience of a risk, if available, is one of the best rating guides, but the indications of such experience are also to be evaluated critically, with an eye to credibility. Even at this stage of the discussion there was no suggestion in the seminar that actuaries might have a useful function in the process of underwriting or rating an excess contract. The principal rating problem seemed to be that in most cases the experience is nil. The game becomes one of guessing probabilities of events that have never happened before, and there appeared to be no consensus that this is a job for the actuary rather than the underwriter.

One of the complaints was that losses reported under excess covers seldom seem to be of a type that might have been predicted. Mr. Frey told of checking into a loss where the reserve was over $100,000 and the only discernible injury was the loss of a couple of toes on the right foot. He learned that, unfortunately, the claimant was the only man in the country who made his living by playing the guitar with his toes.

There apparently are few compilations of insurance data, or any other kind of data, that are useful on a regular basis to excess underwriters. It was mentioned that actuaries will be probing the large loss area in the next several years hoping to discover relationships that will be meaningful both for the reinsurance and the excess insurance business. Mr. H. S. Beers, President of the Aetna Casualty and Surety Company, in his address to the Society at this meeting, predicted that it is the actuary who will be expected to solve problems in the insurance business that now appear to be impossible. Mr. Beers did not pinpoint any such problems but very likely the problem of rating excess coverages is one of them.

How can the actuary be useful today in the realm of excess insurance?

The participants in the two sessions of this seminar agreed that actuarial work could probably be done in the aggregate excess field, where losses in the aggregate are the subject of the contract; and also in the field of loss development, where the solvency, or at least the profit, of the excess underwriter may be affected. The actuary probably is most useful today as a consultant, or technical advisor, or sounding board for underwriters in his own company on special excess insurance cases. But it is not likely that actuaries in the near future will be supplying with any degree of certainty the probability of a loss under an excess contract.

PACKAGE POLICY RATEMAKING

SUMMATION BY EDWARD S. ALLEN

A discussion of principles for package policy ratemaking at the present stage of package policy development will obviously produce more questions than answers.

The paramount question raised in this seminar was the proper definition of a package policy. Rather than attempting a definition, it was assumed that the title of the seminar was inclusive of all types of combinations of basic coverages in a single policy but that the approach to the establishment of ratemaking principles should be different for a package such as the special automobile policy than for packages such as the new commercial multiple peril policies.

In the former, the traditional procedures can probably be adapted to the problem whereas, in the latter, the variables in risk requirements and rating procedures for the coverages involved are such as to present a considerable challenge.

For commercial packages, we discussed whether the rating approach should involve (a) ratemaking for basic classifications as it exists today with all package experience assigned back to basic classes, (b) package experience to be reviewed on a loss ratio basis for the determination of appropriate package discounts or (c) the treatment of packaged coverages as a separate line of insurance to be rated without reference to basic classification indications.

The overwhelming expression of opinion was in favor of (c). One member expressed himself in favor of (a) but none in favor of (b). Also, among those in favor of (c) there was some minor sentiment for also maintaining all experience in basic classifications until we compile a body of credible package experience.

One member reported that his company has attempted the determination of a basic indivisible commercial package rate for stated coverages with modifications applicable for optional perils or exceptional coverages such as elevator liability. It is his opinion that this basic rate can be revised based on a review of the package experience.

Since discussions in the two sessions of the seminar developed in quite different directions, it might be of interest to the participants, as well as others, to list some of the comments and opinions expressed incidental to the general conclusions as summarized above. An abbreviated list is as follows: