SOME OBSERVATIONS CONCERNING FIRE AND CASUALTY INSURANCE COMPANY FINANCIAL STATEMENTS

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INTRODUCTION

Page 1 of the annual statement contains a sworn statement signed by the company president, secretary and treasurer, respectively; part of this statement reads as follows:

> ". . . . and that this annual statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to are a *full and true* statement of all the assets and liabilities and the condition of affairs of the said insurer as of the thirty-first day of December last, and of its income and deductions therefrom for the year ended on that date, according to the best of their information, knowledge and belief, respectively." (Italics added.)

This paper considers and evaluates specified phases of the question as to how well financial statements prepared under present prescribed rules and company practices meet the *full and true* objective; phases considered are:

I. Consolidated statements
II. Valuation of investment securities
III. Incurred losses
IV. Schedule P
V. Unearned premiums and prepaid expenses

Suggestions designed to improve present practices and procedures are proposed.

Two basic unique industry characteristics pertinent to this problem are: (1) the element of risk inherent in the fire and casualty insurance business is high because the determination of expected costs and price is based upon predictions of future events both as to frequency and severity; and (2) present and future solvency of the insurance carrier is of paramount importance because it is essential to the fulfillment of the insurance obligation. Consideration of these characteristics prescribes a conservative tone to the financial statements; this means that on questionable items the bias should oppose any tendency to overstate net income or surplus.

It is recognized that absolute accuracy cannot be obtained from current financial statements in which assets and liabilities are still in an *in use* or *non liquidated* status and when accuracy in valuation cannot be determined in an absolute sense. This situation prevails in all industries to a greater or lesser extent. In most industries the problem of evaluating *in use* or *non liquidated* elements involves assets; in the insurance industry the major problem concerns valuation of liabilities, particularly unpaid losses.

Insurance company financial statements are prepared according to a prescribed form and are a statutory requirement. These conditions imply uniformity in the portrayal of financial conditions and operating results. The uniform results can be accomplished only as companies understand and follow well defined accounting rules and a common philosophy concerning financial statement objectives. The rules and philosophy must be sound in principle and support the *full and true* objective.

I. CONSOLIDATED STATEMENTS

A balance sheet consolidating all insurance operations including life insurance should be filed by all companies whenever ownership or financial control *of* or *by* another insurance company is involved.

The consolidated balance sheet is the only method available to reflect properly the financial situation of a group of insurance companies when ownership or financial control by one company over another is involved. It is the only means by which total capital can be compared with and related to the magnitude of the total insurance operation. In cases where the ownership or financial control involves only fire and casualty companies a consolidated income statement should be required; interest on life insurance policy reserves presents complications in consolidating life insurance with fire and casualty insurance income statements.

Generally speaking, consolidated statements are not required by insurance departments. Solvency appears on the surface at least to be a certainty and therefore there is no great concern in the case of large and financially powerful fleets and groups. A consolidated statement from companies in a less favorable position however could point up financial problems long before they show up in the present individual company statements.

Best's Insurance Guide (small book) shows the financial figures on a non-consolidated basis. Best's Insurance Reports (large book) shows the financial figures on both an individual company and consolidated (fire and casualty company only) basis.

Situations in which a number of mutual insurance companies operate under the same management are quite common; here the problem of establishing group or composite financial statements is different than when inter-company ownership is involved. Total surplus for these groups of mutual companies is the aggregate total surplus for all companies combined; in the case of one company owning another company the total surplus of the two companies combined *actually is the surplus only of the company that owns the other company.* This situation is not well understood even by many people in the insurance business.

The problem now assumes a new dimension because of fire and casualty companies organizing life companies. Funds invested by the owning company in the life subsidiary appear to build up the subsidiary company surplus, or safety margin, while at the same time these same funds appear to serve as surplus or safety margin for the owning company. This could lead to an over-extension of the insurance operation (fire, casualty and life combined) in relation to the true consolidated surplus position.

Most stock fire and casualty company Federal tax returns are now on a consolidated basis. Life insurance companies are taxed under a different law so consolidation with fire and casualty companies for Federal tax purposes is not permissible.

II. VALUATION OF INVESTMENT SECURITIES

A. Stocks

Market value is the only proper basis for the valuation of stocks; cost is immaterial in determining current worth and should receive no consideration in financial statement valuation.

Market value will differ from cost and in recent years has generally been substantially higher. The use of market valuation has created a problem in that unrealized gain resulting from increase in market valuation has gone directly to surplus without going through the Federal tax wringer. General accounting practice usually considers income to be earned only when it is realized and thus subject to Federal tax; this unrealized form of increment to surplus is unusual although it is both logical and reasonable.

A practical solution to this problem is to establish a reserve equal to

25 percent of the amount by which the market value exceeds the cost value of the stocks. There is reasonable but not complete justification for reducing the amount of this reserve by the computed tax on a *loss carry forward* from previous years. This loss carry forward must first be applied against future income subject to tax at ordinary rates. On the other hand the loss carry forward will reduce overall future Federal taxes and the offset can be justified on this basis only.

When market value is less than cost a negative reserve is not proper. Under ordinary circumstances these capital losses when realized can be offset only against capital gains.

Only eight out of the 105 companies listed in the 1965 Best's Reproduction of Financial Schedules set up this reserve for Federal tax on unrealized gains.

Companies with Liability Account for Federal
Tax on Unrealized Capital Gain—1964 Annual Statement

	Amount of Liability in $000's
American Motorists Insurance Company	683
American Mutual Liability Insurance Company	2,100
Employers Mutual Casualty	500
Employers Mutual Insurance Companies, Wisconsin	7,655
Farmers Insurance Exchange	6,265
Liberty Mutual Insurance Companies	12,542
Shelby Mutual Insurance Co. of Shelby, Ohio	700
Truck Insurance Exchange	1,767

These companies are predominately mutual and reciprocal. Some companies likely did not establish the reserve because of loss carry forwards.

B. Bonds

Bonds of a specified grade or better are valued on an amortized rather than on a market basis. At present the amortized valuation often exceeds the market valuation by a substantial margin.

A statement valuation in excess of market value is difficult to defend under an accounting system which emphasizes convertibility to cash as the basis for asset valuation. An abrupt change in valuation basis would cause a surplus movement hardship for many companies; therefore if any change in valuation basis is made it should be done in steps so that the effect on surplus can be spread over a number of years.

III. INCURRED LOSSES

A. General

The validity of the present accounting system, often referred to as the annual statement method is related in large part to the accuracy of unpaid and incurred loss information contained in the financial statements.

Determination of accuracy of incurred loss figures involves a study of facts rather than of accounting theory or principles. Incurred losses charged against operations in the official company statements represent losses paid plus unpaid losses at the end and minus unpaid losses at the beginning of the period; this formula for incurred loss determination is called the *calendar year basis.* The *developed accident year basis* on the other hand values losses according to the year in which they happen or occur; valuations and revaluations are then made far into the future until certainty in valuation is approached and finally reached.

A statistical study is used to serve as a basis for measuring the degree of accuracy actually present in recent and current calendar year incurred loss figures for a large number of companies.

The lines of business included in this study are workmen's compensation and auto bodily injury; these are considered most difficult from the standpoint of estimating unpaid losses accurately. The companies selected are those included in Best's Reproduction of Principal Schedules from Fire and Casualty Convention blanks and whose calendar year losses incurred for the line involved amount to over $2 million. Additional comparable companies whose annual statements were available are also included.

In setting up this study one problem was encountered immediately. Many companies had to be excluded because their annual statement page 8 was set up on an individual company basis and Schedule P was set up on a group basis. It was thus not possible to make a comparison between the calendar year incurred losses shown on page 8 and the developed accident year losses shown in Schedule P, part 5. The annual statement should require the information contained in Schedule P, part 5 to be completely homogeneous with the page 8 loss information.

Comparison of calendar year losses against developed accident year losses is an effective way to view the degree of accuracy contained in the financial statement incurred loss figures. If the unpaid losses are strictly accurate there will be no difference between the calendar year basis losses incurred and the developed accident year losses. If the degree of inadequacy or redundancy is consistent these two figures should also closely approximate each other and reasonably accurate calendar year basis incurred losses will result. If the degree of redundancy or inadequacy changes, there can be wide differences between the developed accident year and the calendar year losses; underwriting results then can be highly distorted.

The statistical information used in this study includes 71 companies with over $1 billion in annual auto bodily injury losses and 38 companies with $600 million in annual workmen's compensation losses. This sample should be sufficiently large and representative to portray industry aggregate results with reasonable accuracy.

1962 was selected as the year for which to compare losses computed on these two bases. An earlier year would permit a longer loss development period but the information would be less current.

The estimated final valuation is computed by multiplying the 1964 valuation of these 1962 accident year losses by a factor representing for each company the following fraction: $\frac{\text{1960 losses valued December 31, 1964.}}{\text{1960 losses valued December 31, 1962.}}$ This assumes that the 1960 accident year valuation as of December 31, 1964, is a reasonably accurate approximation of the ultimate valuation and also that the development factors from the end of the second year to the end of the fourth year will be the same for accident year 1962 as for accident year 1960. The distortion of results attributable to the inaccuracies of these assumptions is believed to be limited.

The exhibits are listed in detail by individual company; this will permit study of the variations by individual company and consolidation of the data into other selected classification categories.

B. *Auto Bodily Injury Recapitulation*

Concerning the auto bodily injury (Exhibit A) recapitulation, the amount of losses incurred charged against 1962 operations was too low by (column d − column a = $49,421,000) or 4.5 percent in spite of the fact that the 1962 statement established some redundancy for 1962 accident year losses. The redundancy in total unpaid losses on December 31, 1961 released in 1962 thus was greater than the redundancy established for accident year 1962 in the 1962 statements.

One significant result of this shrinkage in redundancy was to delay the impact of the deterioration of the automobile underwriting situation upon the official financial statements of insurance companies.

According to the estimated ultimate valuation of 1962 losses, it appears that the aggregate 1962 accident year losses were valued very precisely on December 31, 1962 (column b – column d = $11,030,000). The 1962 valuation of these losses was 1 percent less than the valuation of these losses as of December, 1964 and 1 percent more than the estimated final valuation.

The small difference between 1964 calendar year and accident year totals means that the aggregate unpaid loss provisions December 31, 1963 were much more precise than on December 31, 1961. During 1964 the loss development for all companies in aggregate was practically nil. The 1964 development indicates a small redundancy in 1963 unpaid losses for stock companies and a small inadequacy for mutuals and reciprocals.

Considering the high degree of difficulty in the valuation of auto bodily injury unpaid losses, the aggregate industry results appear surprisingly accurate. Many individual companies produced calendar year basis incurred losses which were unusually close to the developed accident year figures. Results for some of the companies were far from precise and the closeness of the aggregate figures does represent some offsetting of redundancies against inadequacies.

C. *Workmen's Compensation Recapitulation*

The recapitulation (Exhibit B) indicates that for the years involved in the study the degree of accuracy in the aggregate calendar year incurred losses was surprisingly high; differences between accident year and calendar year results are much smaller than for auto bodily injury coverage.

Accuracy in calendar year incurred losses assumes special importance in workmen's compensation. Calendar year incurred loss experience is used directly in ratemaking through the rate level adjustment factor. The Insurance Expense Exhibit provides this loss experience data by state. The official source of all calendar year loss experience elements, however, is the line of business breakdowns in the annual statement; these then are tied directly to the official company statement totals for all coverages combined.

D. *Accuracy Improvement*

Effective techniques, adequate time, and meaningful accuracy tests are three important ingredients in the establishment of accurate unpaid and incurred loss information. This study will consider only *time* and *tests.*

Additional time is one form of remedy. One company of medium size, for example, has a rule that no loss experience is ever released without at least one month development. In a very large operation where "averaging" has more opportunity to work this rule may not be necessary; in a small or medium size operation it definitely improves loss experience accuracy. The rule materially reduces the incurred but not reported problem and it permits claims examiners to have some knowledge at least of the severity potential involved in recent claims.

It is possible for the above mentioned company to meet the March 1 annual statement filing date after a loss development of one month. A later filing date may encourage additional companies to improve the accuracy of their unpaid losses through using a development period of one month or longer.

The present annual statement blank affords opportunity of measuring accuracy in unpaid losses to persons very familiar with the blank and who are willing to study and analyze page 8, Schedule O, and parts 1, 2, and 5 of Schedule P. Most company presidents however would have little awareness as to how closely their auto bodily injury losses incurred figures in column 9, page 8 compared with the valuation of losses for the corresponding accident year as developed and reported in part 5 of their Schedule P. This comparison could prove to be of management significance in evaluating operating results.

An exhibit testing the relationship between calendar year basis and developed accident year basis losses incurred would highlight the degree of accuracy of the losses incurred figures used in the official income statement.

Exhibit C illustrates an effective test of unpaid loss provisions which is useful in high claim frequency lines such as auto property damage and accident and health. Information in this exhibit reveals:

1. A repetitive relationship between paid and unpaid losses by individual company; and
2. Wide differences among companies in the timing of loss settlements.

An exhibit of this type will bring a discrepancy to light much earlier than the present Schedule O setup.

E. General Recapitulation

Problems in lines other than auto liability and workmen's compensation are not considered in this study. The problem in general liability would be comparable with auto bodily injury but on a smaller volume.

On the remaining lines the loss valuation problems are considered to be less difficult.

The calendar year basis of incurred loss determination is advantageous when year-to-year accumulation of results is practical and important. Errors in one accounting period are automatically corrected by offsetting errors in future periods. This correction process serves well in establishing income subject to Federal income tax or in evaluating results that are cumulative for a long period of time.

The Exhibit A results emphasize the need for the accident year basis with a development period for auto bodily injury when the timing of loss costs is important, as in ratemaking. These results also suggest the usefulness of individual company reviews of their own financial results at later dates using developed accident year losses for bodily injury and possibly other lines in place of the page 8 calendar year basis incurred losses.

Objective standards of permissible error in unpaid or incurred losses would be difficult to promulgate; variation in amounts and percentages would both have to be considered because of vast differences in size of operations. State regulatory authorities and the Internal Revenue Service have a vital interest in the accuracy of unpaid and incurred losses; these organizations have authority to take appropriate action in particular situations.

IV. SCHEDULE P

Schedule P contains four separate and distinct types of provisions:

1. Statutory reserve requirements;
2. Voluntary reserve provision;
3. Claim expense analysis;
4. Incurred loss development.

Any amount shown under the Schedule P statutory or voluntary provision is called a reserve; this is the only place in the balance sheet where the term "reserve" is used.

The statutory reserve requirement and the voluntary reserve provision are not set out separately in the balance sheet; this lack of separation is unfortunate because the significance and meaning of each type of reserve is entirely different. It is necessary to check the computation of this reserve in Part 1 and Part 2 of Schedule P in order to determine whether the balance sheet liability is a voluntary reserve or a statutory requirement.

The Schedule P statutory requirement does not affect a large proportion of companies. A study has been made of the 71 companies included in Exhibit A and of the 38 companies included in Exhibit B to get some perspective as to the applicability of this requirement. The results of this study are contained in Exhibit D which indicates that only 10 of the 71 Exhibit A companies were required to set up statutory reserves for liability insurance. The statutory requirements for these companies were necessitated by the relatively low loss ratios on general liability as indicated in Section A, Exhibit D. If these companies had written a larger proportion of automobile insurance, their statutory Schedule P requirements would have been decreased or eliminated.

The combination of auto liability and general liability experience for the purpose of computing Schedule P requirements is subject to question. There often is a difference in the loss experience pattern between these two lines of business; the statutory reserve will then depend upon the proportion of these two lines of business written.

Only three of the 38 Exhibit B companies were required to set up statutory reserves on workmen's compensation. The applicability and significance of the Schedule P statutory requirements for workmen's compensation thus is very limited at the present time.

Consideration should be given to the *second period* definition for which the statutory requirement is applicable. At the present time each of the three current years is treated separately and distinctly and each is treated in a similar manner. The degree of certainty in loss valuation for the earliest policy year certainly is far greater than the degree of certainty in the loss valuation for the latest policy year in the period. The statutory reserve requirement could give greater emphasis to this latest policy year. Such a change would serve another useful purpose; it would partly obviate the existing situation whereby the release of Schedule P reserves to surplus at the end of the third year can cause distortions to surplus movement of considerable significance and can even turn a surplus loss into a surplus gain. This distortion in surplus movement resulting from the release of Schedule P reserves is a problem to be recognized; for one of the companies in Section A, Exhibit D this release of reserves changed a 1964 surplus loss of $1,536,000 into a surplus gain of $1,361,000.

A second solution to the two types of problems mentioned above would be to reduce the number of policy years in the second period from three to two. The purpose of this change is to apply the statutory reserve principle to the area where the unpaid loss provisions are least certain.

Much has been said and written about accident year versus policy year and about the proper basis of establishing the loss ratio levels at which the statutory reserves begin to apply; this study will not attempt to probe these phases of the problem.

The voluntary reserves in Schedule P indicated in Section C, Exhibit D amount to more money and involve more companies than do the statutory reserve requirements. A balance sheet mechanism which provides an arrangement for voluntary reserves in the liability section should be questioned; a voluntary reserve is not a liability. On the other hand, if provisions for unpaid losses in excess of the estimated ultimate settlement value are necessary or advisable it is better that they be set up as voluntary loss reserves in Schedule P than as excessive redundancies in the unpaid loss provision. The voluntary amounts in Schedule P will not affect income subject to Federal tax and also will not affect statutory gain or loss; they should not serve as a surplus movement stabilization fund. If the risk of unforeseen circumstances merits a special reserving procedure, such procedure should be mandatory rather than voluntary so that all companies would be involved on a uniform basis.

Both the statutory and voluntary reserves should be reported "below the line" rather than in the liability section of the balance sheet. These reserves should be reported separately so that the regulatory authorities would know whether the incurred loss totals produced by regular unpaid loss provisions were lower than the statutory reserve attachment points; from there on they could analyze each company situation on its own merits.

Parts 3 and 4 of Schedule P concern the allocation of unallocated claims expense to policy year. Unallocated claims expense is not subject to positive, objective definition. Further, the definition of the proportion of total unallocated claims expense already paid on unpaid claims is even less positive and objective. Schedule P definitely would be improved if all claims expense were completely eliminated from consideration; Parts 3 and 4 then could be eliminated.

Part 5 of Schedule P does not affect directly the financial statements themselves but it is one of the most valuable exhibits in the annual statement.

The liability suits section of Schedule P serves no useful purpose and therefore should be eliminated.

V. UNEARNED PREMIUMS AND PREPAID EXPENSES

A unique feature in the fire and casualty insurance company accounting method is the concept of unearned premiums and the establishment of earned premiums (premiums written plus the unearned premiums at the beginning and minus the unearned premiums at the end of the period) as gross underwriting income.

The unearned premium liability is quite generally referred to as the unearned premium reserve but it is of interest to note that both in the langauge of the annual statement blank and in Section 832 (b) (4) of the Internal Revenue Code the use of the term "reserve" is studiously avoided. The implication of the language is that unearned premiums are a liability rather than a reserve. This is in contrast to the language used in the life insurance annual statement blank where the policy reserve is called "aggregate reserve for life policies and contracts."

The Canadian annual statement blank also uses the term "unearned premiums" and omits the term "reserve" but in determining the amount of balance sheet liability the unearned premium is "carried out" at 80% of the total computed value. Although the unearned premiums are carried out at 80% in the balance sheet the full 100% figure is used in determining earned premiums for computing loss ratios by province. Also, the full 100% unearned premium is used to establish income subject to the Canadian Federal income tax.

Arguments frequently are advanced that the unearned premiums in the financial statements should be set up at less than the full 100% value. Certain expenses, particularly agents commissions, are paid when the premium is written rather than when it is earned. The portion of this expense attributable to the unearned portion of the premium is known as prepaid expenses which then is frequently referred to as equity in the unearned premium reserve.

In annual reports to stockholders insurance company management frequently takes the equity in unearned premiums into account and makes interpretative adjustments to earnings figures produced by the basic accounting system. Interpretative adjustments of statement figures are necessary in making an intelligent evaluation of both the *worth* and of the operating results of an organization.

Investment houses and statistical firms analyzing company results are constantly appraising the type of expenditures made today which will increase the earnings tomorrow. An example of this is a sentence taken from the Walston & Co. Market Letter of September 20, 1965, which reads as follows: "The Mead Johnson Research Staff has been more than tripled since 1954; in 1965 research expenditures are up to $5.75 million or around $1 per share." The implication of this statement is that this research expenditure is an investment in future enterprise rather than a cost properly and entirely chargeable against 1965 operations.

Insurance statistical services such as Best & Co. use a regular formula in computing equity in unearned premiums. Also, in computing operating ratios, expenses other than claims are related to premiums written in preference to premiums earned.

The interpretative adjustments of figures by Best & Co. and by company managements in stockholders reports do serve a useful purpose in considering and emphasizing elements which are of importance in the longer range analysis and valuation problems. This subjective form of financial analysis has been considered as supplement to rather than revision of the official financial statements.

The full amount of the unearned premiums represents a liability; the question then is whether the prepaid expenses can properly be capitalized as an asset or as a deduction from the full unearned premium liability.

An argument favoring this capitalization is that these expenses are analyagous to costs contained in goods in process in a manufacturing company; these costs are an integral part of the value determining selling price and reimbursement will be accomplished when the inventory is liquidated. These costs are then included in establishing inventory valuation.

The opposing argument places emphasis on the liquidation value concept which underlies the accounting method for financial institutions, including insurance companies. In the event of a straight liquidation, without sale or reinsurance, expenses paid to company employees including commissions or other remuneration paid by a direct writing company to its salesmen would have no reimbursement value. The asset value of potential reimbursement from agents would be dubious; the agent has earned his remuneration and recovering vast sums would prove very difficult.

A more plausible potential reimbursement of prepaid expenses would be through reinsurance commissions if the unearned premiums were reinsured rather than liquidated. Nearly all insurance unearned premiums have some commission value; cases where loss experience is so bad that the commission value is zero exist but are exceptional. However, commission valuation rules with general applicability are difficult to establish; expected losses and loss expense vary by line and by company and change from year to year. Also, ability to negotiate reinsurance at a given commission rate could never be considered as reasonably certain for all companies.

A valuation study concerning 30 companies in which there is a general interest in the stock was published by The First Boston Corporation in 1965. In this study "estimated liquidating value" is defined as follows: "This consists of the sum of policyholders' surplus (adjusted to reflect market values of all securities owned), unauthorized reinsurance, estimated equity in the unearned premium reserve, and any excess of statutory loss reserves over case basis reserves. In computing the equity in the unearned premium reserve, ratios of 40% for fire insurance business and 35% for casualty insurance business are used in most cases. No allowance is made for contingent Federal income taxes which might be incurred on realization of such equity. The estimated liquidating value bears no necessary relationship to the amount which might be realized in actual liquidation."

The report then compares the estimated liquidating value per share with the market value per share. The market value of these stocks at a later date was added to the information contained in the First Boston report; Exhibit E reproduces this information.

Market value represents liquidation value *through sale;* when this value exceeds the statement value the excess represents going concern value, meaning that the business is worth more than the value of its net assets. When market value is less than statement value the implication must be either that the going concern value is negative or that the statement values produced by the accounting method are excessive.

The value comparisons in Exhibit E should sound a note of caution to the general idea of introducing equity in unearned premiums into the official company balance sheets; the formulas commonly in use would tend to portray an exaggerated rather than a conservative view of financial capacity. In a high risk industry where solvency is a paramount consideration this would be unfortunate.

SELECTED FIRE AND CASUALTY INSURANCE COMPANIES
AUTO BODILY INJURY LOSSES
(In $000's)

Source: Calendar Year Basis — Annual Statement, Page 8, Column 9
Accident Year Basis — Annual Statement, Schedule P, Part 5A

	(a)	(b)	(c)	(d)	(e)	(f)
	1962 Losses				1964 Losses	
		Accident Year — Valued				
Company	Calendar Year	1962	1964	Est. Final	Calendar Year	Accident Year Valued 1964
Aetna Casualty and Surety Company	60,835	65,250	64,247	61,484	77,857	80,702
Aetna Insurance Company	13,627	16,601	14,978	14,349	23,627	24,753
Agricultural Insurance Company	2,871	3,127	3,178	3,083	3,601	3,447
Allstate Insurance Company	136.003	147,988	142,764	138,624	159,105	169,380
American Employers' Insurance Company	6,394	8,397	7,349	7,018	10,088	11,290
American Family Mutual Insurance Co.	7,846	7,989	8,653	8,575	10,269	10,081
American General Insurance Company	1,778	1,826	1,835	1,747	2,796	2,757
American Motorists Insurance Company	9,820	11,037	10,526	9,484	13,125	13,911
American Mutual Liability Insurance Co.	7,927	7,028	8,835	8,119	11,734	11,050
American Re-Insurance Company	4,254	5,902	6,144	6,162	7,498	7,242
American States Insurance Company	4,500	4,779	4,240	4,215	4,598	5,099
Auto Owners Insurance Company	5,069	4,865	5,445	5,385	6,285	5,279
Bituminous Casualty Corporation	2,011	2,244	2,310	2,164	2,083	2,295
Boston Insurance Company	3,303	3,053	3,765	3,682	4,770	4,353
Buckeye Union Casualty Company	6,374	5,867	6,648	6,455	6,448	5,683
California State Automobile Association	12.542	12,091	11,652	11,361	12,098	14,146
Continental Casualty Company	22,148	23,152	20,119	19,636	14,476	16,602
Cosmopolitan Mutual Insurance Company	2,797	1,769	4,392	4,502	6,587	3,433
Detroit Auto. Inter-Ins. Exchange	12,082	12,284	11,359	11,779	15,755	14,981
Employers' Casualty Company	3,079	3,042	3,042	3,002	3,386	3,343
Employers' Mutual Casualty Company	6,124	6,335	6,792	6,595	6,682	6,596
Employers' Mutual Liab. Ins. Co. of Wis.	9,097	9,100	8,755	8,519	9,791	10,437
Employers Reinsurance Corporation	4,267	4,927	5,980	5,053	5,329	5,425
Farmers Insurance Exchange	37,991	35,560	37,947	38,023	42,520	41,958
Federal Insurance Company	4,982	6,204	6,088	5,954	8,624	8,271
Federated Mutual Impl. & Hdwe. Ins. Co.	2,587	2,969	2,836	2,765	4,002	4,138

EXHIBIT A (Cont.)

SELECTED FIRE AND CASUALTY INSURANCE COMPANIES
AUTO BODILY INJURY LOSSES—Continued
(In $000's)

Source: Calendar Year Basis — Annual Statement, Page 8, Column 9
Accident Year Basis — Annual Statement, Schedule P, Part 5A

	(a)	(b)	(c)	(d)	(e)	(f)
	1962 Losses				1964 Losses	
		Accident Year — Valued				
Company	Calendar Year	1962	1964	Est. Final	Calendar Year	Accident Year Valued 1964
General Fire and Casualty Company	1,520	1,871	1,820	1,747	3,326	2,921
General Insurance Company of America	8,241	9,547	8,945	8,489	6,846	7,815
General Reinsurance Corporation	6,128	6,556	7,419	7,263	7,678	8,021
Government Employees Insurance Company	24,623	24,409	23,817	23,888	34,176	34,393
Hanover Insurance Company	9,523	10,583	10,022	9,581	11,019	11,752
Harleysville Mutual Casualty Company	4,926	4,721	5,789	5,673	7,267	6,435
Hartford Accident and Indemnity Company	63,336	68,884	66,729	64,460	76,413	79,905
Insurance Company of North America	30,287	31,004	30,701	30,026	37,556	39,404
Interinsurance Exchange of the Automobile Club of Southern California	13,830	15,490	16,706	16,355	19,495	19,293
Keystone Insurance Company	4,838	4,396	5,416	5,167	5,638	4,690
Liberty Mutual Companies	42,774	51,431	45,072	44,531	50,467	55,532
Lumbermen's Mutual Casualty Company	22,279	25,209	25,871	24,396	27,790	28,158
Manhattan Fire and Marine Insurance Co.	1,651	2,413	2,824	2,770	2,295	2,847
Maryland Casualty Company	20,270	20,351	20,278	20,177	20,391	20,463
Merchants Mutual Insurance Company	10,435	10,412	10,541	10,383	11,000	11,485
Michigan Mutual Liability Company	7,462	7,420	7,232	7,124	8,592	8,795
National Grange Mutual Insurance Company	6,992	7,085	8,208	8,027	10,117	9,301
National Union Fire Insurance Company	4,643	3,660	4,402	4,728	6,486	5,858
Nationwide Mutual Insurance Company	58,537	59,324	64,271	66,649	80,682	75,947
New Hampshire Insurance Company	4,947	5,159	5,057	4,819	5,054	4,998
North American Reinsurance Corporation	2,821	3,574	3,246	2,905	3,110	3,530
Northwestern Mutual Insurance Company	5,900	5,764	6,561	6,502	6,810	6,361
Ohio Casualty Insurance Company	13,881	13,421	13,285	13,219	12,885	13,088
Pacific Indemnity Company	5,746	5,512	6,305	6,261	6,670	6,058
Pennsylvania Mfg. Assn. Insurance Co.	1,859	1,965	2,289	2,408	2,818	2,355
Phoenix Insurance Company	4,864	6,241	6,010	5,884	9,796	9,812
Public Service Mutual Insurance Company	1,838	2,670	3,269	3,155	4,432	4,038

SELECTED FIRE AND CASUALTY INSURANCE COMPANIES
AUTO BODILY INJURY LOSSES—Continued
(In $000's)

Source: Calendar Year Basis — Annual Statement, Page 8, Column 9
Accident Year Basis — Annual Statement, Schedule P, Part 5A

	(a)	(b)	(c)	(d)	(e)	(f)
	1962 Losses				1964 Losses	
		Accident Year — Valued				
Company	Calendar Year	1962	1964	Est. Final	Calendar Year	Accident Year Valued 1964
Safeco Insurance Company of America	13,519	14,981	13,130	12,434	15,713	17,838
St. Paul Fire & Marine Insurance Co.	16,941	18,494	17,986	17,374	18,918	19,985
Security Mutual Casualty Company	10,057	7,361	10,527	10,843	12,254	8,374
Sentry Insurance Companies	21,933	21,466	22,286	22,152	20,342	20,678
Shelby Mutual Insurance Company	5,820	5,838	5,520	5,510	6,390	6,333
Southern Farm Bureau Casualty Company	4,340	4,948	4,954	4,924	6,454	6,277
State Auto. Mutual Insurance Company	8,882	8,537	8,926	9,024	11,389	10,812
State Farm Mutual Auto. Insurance Co.	102,301	112,715	112,715	112,715	165,471	163,283*
Swiss Reinsurance Company — U.S. Branch	3,448	4,368	3,973	3,556	3,802	4,315
Trinity Universal Insurance Company	2,851	2,607	3,110	3,088	4,135	3,462
Truck Insurance Exchange	7,264	7,024	8,016	8,096	7,153	7,041
United Pacific Insurance Company	2,486	2,544	2,819	2,746	3,026	2,836
United Services Auto Association	8,968	10,208	11,376	11,183	16,970	14,611
U.S. Fidelity and Guaranty Company	40,195	39,007	41,194	40,988	46,338	42,131
Utica Mutual Insurance Company	8,819	10,707	11,735	10,949	11,254	12,220
Western Casualty and Surety Company	6,475	5,923	7,108	7,030	9,006	8,336
Wolverine Insurance Company	3,049	2,504	2,909	2,836	3,133	2,513
Zurich Insurance Company — U.S. Branch	10,249	10,817	11,813	11,707	14,362	12,692
RECAPITULATION						
Mutual Companies	360,402	380,715	394,231	392,093	489,607	478,766
Reciprocal Companies	92,677	92,657	97,056	96,797	113,991	112,030
Stock Companies	598,977	639,135	630,774	612,587	724,455	742,848
All Companies	1,052,056	1,112,507	1,122,061	1,101,477	1,328,053	1,333,644

* Does not include uninsured motorist losses for policy year 1963, accident year 1964. Full calendar year uninsured motorist losses are included in column (e).

EXHIBIT B

SELECTED FIRE AND CASUALTY INSURANCE COMPANIES WORKMEN'S COMPENSATION LOSSES

(In $000's)

Source: Calendar Year Basis — Annual Statement, Page 8, Column 9
Accident Year Basis — Annual Statement, Schedule P, Part 5A

	(a)	(b)	(c)	(d)	(e)	(f)
	1962 Losses				1964 Losses	
		Accident Year — Valued				
Company	Calendar Year	1962	1964	Est. Final	Calendar Year	Accident Year Valued 1964
Aetna Casualty and Surety Company	51,429	54,694	53,357	51,756	55,908	61,289
Aetna Insurance Company	5,734	6,277	5,855	5,673	8,111	8,550
American Employers' Insurance Company	5,797	7,370	6,394	6,241	7,987	8,721
American Motorists Insurance Company	8,194	8,334	8,439	8,431	11,031	10,929
American Mutual Liability Insurance Co.	31,528	31,103	34,382	34,832	42,515	40,772
Argonaut Insurance Company	17,137	17,075	16,999	17,288	24,780	24,251
Auto Owners Insurance Company	2,373	2,223	1,935	1,832	1,458	1,312
Continental Casualty Company	21,170	21,764	20,593	21,334	14,003	14,364
Cosmopolitan Mutual Insurance Company	3,646	3,504	4,094	4,340	4,879	3,827
Employers' Mutual Casualty Company	5,005	5,536	5,225	5,199	5,053	5,301
Employers' Mutual Liab. Ins. Co. of Wis.	54,650	54,448	54,543	54,979	66,075	65,951
Federated Mutual Impl. & Hdwe. Ins. Co.	2,800	2,898	2,912	2,973	3,149	3,108
Greater New York Mutual Insurance Co.	3,065	3,581	4,210	4,202	5,275	4,922
Hanover Insurance Company	4,341	4,744	4,042	4,054	4,565	5,023
Hartford Accident and Indemnity Company	38,532	41,264	40,722	41,007	44,137	45,732
Industrial Indemnity Company	28,421	24,175	27,062	26,981	25,808	25,190
Liberty Mutual Insurance Companies	99,972	97,964	99,579	97,986	100,804	105,050
London Guarantee and Accident — U.S.	3,305	3,571	3,435	3,504	3,312	3,532
Lumbermen's Mutual Casualty Company	16,916	16,848	17,876	18,198	19,823	18,197
Maryland Casualty Company	15,433	15,224	15,308	15,660	16,730	16,120
Merchants Mutual Insurance Company	2,300	2,354	2,535	2,558	3,220	3,173
Michigan Mutual Liability Company	17,964	16,170	16.990	17.364	18,907	17,209

SELECTED FIRE AND CASUALTY INSURANCE COMPANIES WORKMEN'S COMPENSATION LOSSES—Continued

(In $000's)

Source: Calendar Year Basis — Annual Statement, Page 8, Column 9
Accident Year Basis — Annual Statement, Schedule P, Part 5A

	(a)	(b)	(c)	(d)	(e)	(f)
	1962 Losses				1964 Losses	
		Accident Year — Valued				
Company	Calendar Year	1962	1964	Est. Final	Calendar Year	Accident Year Valued 1964
Nationwide Mutual Insurance Company	4,382	4,533	4,701	5,209	5,220	5,484
New Jersey Manufacturers Insurance Co.	18,644	15,523	17,358	16,629	19,700	18,965
Pacific Employers Insurance Company	11,331	10,930	12,392	12,268	16,501	14,975
Pacific Indemnity Company	4,474	4,630	4,829	4,776	5,140	5,178
Pennsylvania Mfg. Assn. Cas. Co.	10,576	10,337	10,177	10,146	11,515	11,064
Phoenix Insurance Company	2,203	2,808	2,627	2,577	4,215	4,131
Public Service Mutual Insurance Company	1,864	2,515	2,599	2,680	3,035	2,718
St. Paul Fire & Marine Insurance Co.	6,733	7,576	6,878	6,830	7,578	8,295
Security Mutual Casualty Company	4,024	3,262	4,095	4,140	4,080	3,351
Sentry Insurance Companies	11,790	11,355	12,307	12,418	14,975	13,986
Texas Employers Insurance Association	17,521	16,884	16,683	16,516	16,599	17,103
Truck Insurance Exchange	6,182	5,994	6,665	6,698	7,992	7,394
U.S. Fidelity and Guaranty Company	30,182	31,664	32,679	32,418	34,714	32,487
Utica Mutual Insurance Company	5,394	6,259	5,256	5,288	6,023	6,874
Western Casualty and Surety Company	3,583	3,623	3,831	3,781	4,225	3,907
Zurich Insurance Company	10,753	11,675	11,059	11,081	12,631	12,580
RECAPITULATION						
Stock Companies	297,972	303,258	304,036	302,435	332,591	335,283
Mutual Companies	285,194	281,437	289,922	290,264	321,090	318,338
Reciprocal Companies	6,182	5,994	6,665	6,698	7,992	7,394
All Companies	589,348	590,689	600,623	599,397	661,673	661,015

EXHIBIT C

SELECTED FIRE AND CASUALTY INSURANCE COMPANIES

Auto Property Damage

Ratio: Ratio Unpaid Losses at End of Year to Losses Paid for that Year
1962 Unpaid Losses from 1963 Annual Statement, Schedule O, Col. 9
1963 Unpaid Losses from 1964 Annual Statement, Schedule O, Col. 9
1964 Unpaid Losses from 1964 Annual Statement, Page 8, Col. 7
Paid Losses for All Years from Annual Statement, Page 8, Col. 6

Company	1962	1963	1964
Aetna Casualty and Surety Company	.55	.56	.51
Aetna Insurance Company	.59	.60	.43
Agricultural Insurance Company	.68	.56	.73
Allstate Insurance Company	.57	.58	.56
American Employers' Insurance Company	.56	.62	.73
American Family Mutual Insurance Co.	.33	.35	.33
American General Insurance Company	.34	.35	.21
American Motorists Insurance Company	.77	.83	.90
American Mutual Liability Insurance Co.	.75	.75	.71
American Re-Insurance Company	.56	.34	.68
American States Insurance Company	.33	.30	.33
Auto Owners Insurance Company	.33	.38	.35
Bituminous Casualty Corporation	.53	.57	.64
Boston Insurance Company	.56	.50	.50
Buckeye Union Casualty Company	.46	.48	.56
California State Automobile Association	.49	.47	.47
Continental Casualty Company	.69	.82	1.11
Cosmopolitan Mutual Insurance Company	2.34	2.63	2.18
Detroit Auto. Inter-Ins. Exchange	.35	.33	.39
Employers' Casualty Company	.47	.42	.49
Employers' Mutual Casualty Company	.37	.40	.42
Employers' Mutual Liab. Ins. Co. of Wis.	.48	.52	.59
Employers Reinsurance Corporation	1.23	.11	.23
Farmers Insurance Exchange	.38	.39	.43
Federal Insurance Company	—	.68	.88
Federated Mutual Impl. & Hdwe. Ins. Co.	.35	.32	.36
General Fire and Casualty Company	1.28	1.36	1.69
General Insurance Company of America	.53	.57	.73
General Reinsurance Corporation	.73	.25	.67
Government Employees Insurance Company	.44	.43	.42
Hanover Insurance Company	.35	.70	.72
Harleysville Mutual Casualty Company	.55	.54	.49
Hartford Accident and Indemnity Company	.56	.57	.58
Insurance Company of North America	.84	.87	.96
Interinsurance Exchange of the Automobile Club of Southern California	.45	.41	.49
Keystone Insurance Company	.41	.45	.31

EXHIBIT C (Cont.)

SELECTED FIRE AND CASUALTY INSURANCE COMPANIES

Auto Property Damage

Continued

Ratio: Ratio Unpaid Losses at End of Year to Losses Paid for that Year
1962 Unpaid Losses from 1963 Annual Statement, Schedule O, Col. 9
1963 Unpaid Losses from 1964 Annual Statement, Schedule O, Col. 9
1964 Unpaid Losses from 1964 Annual Statement, Page 8, Col. 7
Paid Losses for All Years from Annual Statement, Page 8, Col. 6

Company	1962	1963	1964
Liberty Mutual Companies	.81	.79	.80
Lumbermen's Mutual Casualty Company	.73	.77	.80
Manhattan Fire andMarine Insurance Co.	.69	.81	.62
Maryland Casualty Company	.52	.55	.60
Merchants Mutual Insurance Company	.83	.92	1.04
Michigan Mutual Liability Company	.78	.66	.63
National Grange Mutual Insurance Company	.62	.51	.40
National Union Fire Insurance Company	.59	.58	.60
Nationwide Mutual Insurance Company	.45	.46	.40
New Hampshire Insurance Company	.69	.71	.78
North American Reinsurance Corporation	2.68	1.57	2.05
Northwestern Mutual Insurance Company	.44	.40	.31
Ohio Casualty Insurance Company	.35	.37	.41
Pacific Indemnity Company	.57	.51	.62
Pennsylvania Mfg. Assn. Insurance Co.	.64	.87	1.09
Phoenix Insurance Company	1.05	.81	.75
Public Service Mutual Insurance Company	1.58	1.57	1.52
Safeco Insurance Company of America	.51	.54	.64
St. Paul Fire & Marine Insurance Co.	.48	.44	.47
Security Mutual Casualty Company	1.46	1.34	1.12
Sentry Insurance Companies	.51	.54	.56
Shelby Mutual Insurance Company	.51	.53	.51
Southern Farm Bureau Casualty Company	.31	.30	.31
State Auto. Mutual Insurance Company	.37	.48	.34
State Farm Mutual Auto. Insurance Co.	.35	.38	.34
Swiss Reinsurance Company – U.S. Branch	2.72	1.56	2.04
Trinity Universal Insurance Company	.49	.46	.60
Truck Insurance Exchange	.66	.62	.63
United Pacific Insurance Company	.42	.38	.43
United Services Auto Association	.40	.48	.43
U.S. Fidelity and Guaranty Company	.42	.42	.45
Utica Mutual Insurance Company	.73	.71	.72
Western Casualty and Surety Company	.47	.50	.59
Wolverine Insurance Company	.39	.36	.39
Zurich Insurance Company – U.S. Branch	.58	.63	.61

EXHIBIT D

SELECTED FIRE AND CASUALTY INSURANCE COMPANIES

A. Companies Included in Exhibit A that Report Schedule P Liability Statutory Reserve Requirement

December 31, 1964

Company	Schedule P Statutory Reserve (In $000's)	2nd Period Loss Ratio Auto Liab.	Other Liab.
American Re-Insurance Company	$ 703	63.7	54.4
American States Insurance Company	349	68.7	38.8
Cosmopolitan Mutual Insurance Company	1,160	64.8	45.9
Employers Casualty Company	1,078	62.0	42.1
Employers Reinsurance Corporation	183	67.8	40.5
National Union Fire Insurance Company	248	66.9	34.9
Public Service Mutual Insurance Company	594	63.6	54.4
Trinity Universal Insurance Company	1,362	57.8	34.7
United Pacific Insurance Company	1,096	60.4	45.0
United Services Auto Association	1,525	59.6	23.1
	$8,298		

B. Companies Included in Exhibit B that Report Schedule P Workmen's Compensation Statutory Reserve Requirement

December 31, 1964

Merchants Mutual	$ 70
Michigan Mutual Liability Insurance Company	133
Texas Employers Insurance Association	1,176
	$1,379

C. Companies Included in Exhibits A and B that Report Schedule P Voluntary Loss Reserves

December 31, 1964

Company	Liability (In $000's)	Workmen's Compensation (In $000's)
Aetna Casualty & Surety Company	$ 4,000	$ 5,500
American Mutual Liability Insurance Co.	6,606	1,837
Cosmopolitan Mutual Insurance Co.	200	450
Employers Casualty Company	664	136
Employers Mutual Liability Insurance Co. of Wisconsin	4,000	6,000
Harleyville Mutual Casualty Company	250	0
Liberty Mutual Companies	65,420	44,415
Lumbermens Mutual Casualty Company	17,984	7,361
Michigan Mutual Liability Insurance Co.	750	1,367
Nationwide Mutual Insurance Company	20,000	0
Public Service Mutual Insurance Co.	1,406	0
Security Mutual Casualty Co.	1,200	0
State Farm Mutual Auto Insurance Co.	42,500	0
Texas Employers Insurance Exchange	0	3,200
Utica Mutual Insurance Company	200	500

EXHIBIT E

COMPARATIVE CONSOLIDATED STATISTICS

Thirty Fire and Casualty Insurance Companies

Company	(a) Estimated Liquidating Value 12/31/64*	(b) Sept. 23, 1965 Market Price
American Re-Insurance	$ 58.23	46
Boston Insurance	50.30	32⅛
Continental Casualty	53.81	52½
Continental Insurance	105.29	70
Employers' Group	74.07	64
Federal Insurance	56.50	57
Fidelity and Deposit	42.85	41¾
Fireman's Fund	43.33	33¼
General Reinsurance	168.66	196
Glens Falls	79.38	44¼
Great American	111.02	64⅝
Hanover Insurance	63.68	42
Hartford Fire	71.40	63
Home Insurance	113.63	65⅛
Insurance Company of North America	90.23	77¼
National Union Fire	63.26	36¾
New Hampshire	56.05	32
North River	98.11	46
Northwestern National	68.84	49¼
Ohio Casualty	24.42	23¼
Pacific Indemnity	41.46	27
Phoenix Insurance	113.95	52¾
Providence Washington	53.56	26¾
Reliance Insurance	56.34	31
St. Paul Fire and Marine	59.66	69½
Security Insurance	58.75	45¼
Trinity Universal	57.30	30
United States Fidelity and Guaranty	63.02	55½
United States Fire	66.55	30½
Westchester Fire	78.63	35¼

* No deduction made for contingent Federal income tax liability on equity in unearned premiums.

Source: Column (b) from Wall Street Journal; all other information in this exhibit from First Boston Corporation "Data on Selected Life Insurance Company Stocks and Fire and Casualty Insurance Company Stocks (1965)."