

DISCUSSION BY FRANK HARWAYNE

Mr. Morison has given his account from the inside of the industry activities relating to the study of workmen's compensation expenses by size of risk. As a participant he apparently believes that two opposing sides were primarily engaged in a struggle on what and how information was to be developed which would support the then existing premium discounts, rather than in an effort to find out in what degree expenses are affected by the size of the risk. He covers the limitation of general expenses and speaks of "budgetary allowance," i.e., an amount which is included as a budgetary part of the total, irrespective of what actual expenditures may be. He describes the procedures in teleological terms rather than as a straightforward attempt to find out the facts. It is unfortunate that his exposition appears to be one-sided; students of the problem may discover from Moreland Commission Reports¹ and elsewhere² that reasonable individuals will not be prevented from criticizing a part of the expense allowance simply because insurers term it a "budgetary allowance."

In view of the industry's total resistance to the use of production cost figures in evaluating cost graduations and premium discounts the NAIC Technician's Subcommittee was unable to insist upon the development of meaningful statistics and was impelled to avoid absolute conclusions on this item. The NAIC Technician's Subcommittee pointed out that absolute conclusions on production costs could not be reached; this was set out as a preliminary to developing the most positive aspects of the study. It also removed the controversial "transfer" item which is predicated on the net difference between accounting definitions as they existed almost two decades ago and the current definition. Strangely enough, no progress has been made by the industry in carrying out the criticism implied by the transfer item that the present definition of terms is improper.

¹ See Moreland Commissioner Charles S. Hamilton, Jr., *Administration of the Workmen's Compensation Law in the State of New York*, December 30, 1954, pp. 32-34. See also Moreland Commissioner Joseph M. Callahan, *Costs, Operations and Procedures under the Workmen's Compensation Law of the State of New York*, January 28, 1957, pp. 91-95, in particular, p. 94, "The figures show that the insurance companies are being allowed 0.9% more than they are actually paying for acquisition costs. Whatever may be the considerations involved in attempting to require a reduction in acquisition costs, e.g., broker's and agent's commissions, there would appear to be no justification for permitting the insurance companies an allowance in excess of what they actually pay."

² See for example Chairman Victor Borella's Report of the Governor's Workmen's Compensation Review Committee, *Review of Workmen's Compensation in New York State*, December, 1962, pp. 72-74.

Mr. Morison's description of the study is more one of a search for facts to maintain the status quo rather than, as the Technicians' Subcommittee believes, a search for facts to determine whether or not the status quo was proper.

An interesting aftermath to the study which Mr. Morison states "produced results which preclude the necessity of undertaking another project of such magnitude and such expense in the foreseeable future" is pointed up in the following statement submitted by a company which participated in the study:

"In studying this data, (analysis of expense by size of risk for policy year 1963 and analysis of size of policy for the calendar year 1963) it became immediately apparent that our former actuary had included, for the expenses classified as Inspection, Boards and Bureaus, only Bureau expenses in the company's analysis for policies carrying an annual premium size of \$999 or less and that he had charged the entire Inspection expense to policies carrying an annual premium size of \$1,000 and over. This error produces an expense understatement of approximately two percentage points for policies with a premium size of \$999 or less and an expense overstatement of about .38% for policies carrying a premium size of \$1,000 or more.

"We also noted that under the expenses classified as Payroll Audit there is apparently a misallocation of such expenses, particularly in the premium categories of \$500 to \$749 and \$750 to \$999. In the company study this is indicated at 1% and 0.7% respectively for the two premium size categories."

If respected participants in this study can now disown their own company's figures we can well ask whether or not Mr. Morison is correct in assuming no further study is necessary in the foreseeable future.

DISCUSSION BY PAUL A. VERHAGE

The paper provided by Mr. Morison gives us an excellent chronological summary of the progress and results of the 1965 expense study by size. This paper will remain a permanent record for members and students alike of the Casualty Actuarial Society of the difficult and time-consuming labors performed to bring the study to completion.

The author has placed the actual allocation techniques in a secondary position. He leaves this aspect of the study to be summarized in the circular letter from the National Council which suggested available allocation