organizations continue the use of such factors for any length of time if average paid claim costs fell sharply while the consumer price index continued to rise? If, as a result of the awakened public interest in automobile safety, there were a noticeable and continuing reduction in highway accidents, would it not be equally proper to introduce a claim frequency trend factor?

I observe that if Mr. Stern had treated the subjects that make up most of my comments on his essay the paper would have been longer than it already is. This is more a reflection of the vastness of the subject than a criticism of Mr. Stern's fine work. In what he set out to do, namely, to present a clear, comprehensive description of current automobile liability ratemaking procedures, Mr. Stern has been eminently successful.

DISCUSSION BY JAMES F. GILL

Mr. Stern's paper is a complete revision of his paper, "Current Ratemaking Procedures for Autobobile Liability Insurance," presented at the November meeting in 1956. The author is to be complimented; he has prepared an excellent paper which will be of tremendous value to the student as well as others not familiar with automobile ratemaking procedures.

Mr. Stern explains in the Preface that his paper has the same objective as his previous paper in that it is a description of the ratemaking process rather than an evaluation. The paper clearly indicates the author's comprehensive knowledge of the subject, and because of his thorough knowledge of this subject he has inadvertently not clarified some of the procedures, at least for the student. My remarks involve only some questions that might occur to the student.

The author states in the Introduction that many non-bureau companies use rates promulgated by the bureaus, frequently on the basis of a percentage departure. Mr. Stern then states that apparently such filings are supported, though by means different and presumably less exacting than is required of rating organizations. The student may wonder if this is so and why it is so.

It might be well to note that eight industry organizations, including the rating bureaus and the major trade associations, drafted a memorandum in August of 1947 setting forth recommendations on important points with respect to the administration of the Kentucky Casualty and Surety Rate Regulatory Law which became effective October 1, 1947. The memorandum in part states:

"When a rate manual or a revision thereof becomes effective for a rating organization on the basis of supporting information submitted, it is desirable to permit independent filing companies which file that manual to obtain acceptance of similar rate filings. To do otherwise might force the independent company either to reproduce the supporting data already on file with the Department in connection with the particular changes or to affiliate with the rating organization in order to be able to use the same manual. Special provisions and departures introduced in the manual by independent filing companies should be supported by them, of course, because for such features they would not be able to depend upon the supporting information submitted by the rating organization for its manual. A rating organization may likewise avail itself of supporting information submitted by an independent filing company for its filing."

To the best of my knowledge, this memorandum continues to reflect the views of the industry.

The description of trend factors indicates that if the statewide rate level is to be based on the latest accident year, a trend factor reflecting eighteen months of subsequent data would be used. However, a trend factor of longer duration would be used if the statewide level were to be based on two accident years. No mention is made at this point as to the period of time. However, the reader will learn in the section dealing with statewide rate levels, provided that he studies the table on page 77, that the trend factor can be 21 or 24 months.

The section, The Making of Rates, states the use of a formula does not mean that automobile liability insurance ratemaking should or has become a mechanical process. This is true. However, the author further states that the rate maker has to be willing and able to depart from the formula by superimposing on it such modifications as special circumstances require. It would have been very helpful if some examples of such modifications had been given.

In the section dealing with the Statewide Rate Level, Mr. Stern refers to an earlier example in reference to premium at present rates, indicating that the present rates not only reflect the rates that are printed in the manuals but also the rules that are superimposed upon the rates, reflecting, where applicable, rate reductions given to compact cars, multi-car risk, driver training credit and the application of the safe driver insurance plan. However, the example does not indicate how the safe driver insurance plan is applied.

In the same section, the author explains the development of statewide rate level changes and shows in Exhibit 7 factors to adjust losses for subsequent change of average paid claim costs. In the explanation, he states these factors were modified in the rate filing, recognizing other relevant information. The reader is left to his own devices as to what the author means by "other relevant information."

As mentioned before, the paper will be a very fine addition to the *Proceedings* of the Casualty Actuarial Society, and in preparing a paper requiring the detail incidental to ratemaking procedures, it is almost impossible not to leave some areas unexplained. In any case, Mr. Stern is to be commended for a fine paper.