AUTHOR'S REVIEW OF DISCUSSIONS

The reviewers have discussed many facets of the subject and have made many helpful suggestions. This is clearly a controversial subject and difficult to discuss without getting involved in the political aspects of it.

One or two of the reviewers let themselves get embroiled in the terminology. I certainly do not deny that all the assets of insurers belong to the insurers. The basic problem is one of cost accounting—of dividing the the investment income into two portions: one derived from the insurance operation and a residual portion. The two portions have to be called something to distinguish them from each other, and it is difficult, as Miss Salzmann discovered, to choose names completely devoid of political and legal implications. I apologize, however, for using such inflammatory terminology as I did.

My objective was to measure, from hindsight, the actual results from underwriting. I do not share Mr. Al Curry's fear that measuring the total results from underwriting will necessarily lead to rate reductions. If what I've heard about results over the past 10 years is true, rate increases are in order. But the first step in any decision making process is to obtain all the pertinent facts. Obtaining all the facts is certainly the function of an actuary.

Several reviewers raised the question whether investment income on loss reserves should be included in underwriting results. Some reserves are discounted for interest. But in casualty insurance when such a claim is finally paid at full value, the increase in the value of the claim at the time of settlement over the original discounted reserve is charged against the underwriting results as a loss. The corresponding investment income should therefore be added back into the underwriting results in order to offset the increase in the claim value and to give a true picture of the underwriting results. The same would apply to inflationary increases in liabilities. If the increase due to inflation is charged against current underwriting operations, the offsetting investment income should be added in also to restore balance to the results.

Mr. Mayerson raised an important point about the need for study as to what the profit ratio in the rates should be. I believe such a study should include consideration of what profit ratio is needed in order to maintain a sound ratio between premium volume and surplus in an expanding and inflationary economy, as well as what is needed to provide an attractive return to stockholders. But I find it hard to see how profits can be artificially pegged at any level in a business where price and product competition is as flourishing as it is in the insurance business.