successive paid amounts from the latest known incurred amount, she obtains what may be considered the most appropriate reserve that could have been established at each prior year end. The two elements of loss would also be expressed as percentages of earned premium as of each evaluation date.

If all elements of loss development maintained a consistent pattern in relation to each other and to earned premium, the later accident years could be projected to ultimate incurred on the basis of older accident year developments, and current reserves evaluated accordingly. Miss Salzmann wisely and properly emphasizes that this is not necessarily so, and that the date would be "informative" but not "conclusive evidence" as to adequacy of current reserves.

To this writer the data would be useful for observing trends, and even more useful in that any significant departure from what appears to be a general pattern should provoke a study in depth, beyond the material in Schedule P. This would include average costs on closed claims, rate of settlement, etc., i.e., the elements named for the "most sophisticated approach" in the paper.

Another approach might be to relate paid losses to the latest known incurred loss, eliminating the factor of premium adequacy, but here again the data could only be informative, because the ratios indicated by a sufficiently mature accident year would not reflect changes taking place since that time.

In her concluding remarks, Miss Salzmann names several other areas which should be studied in a redesign of Schedule P, and among them is the matter of distributing unallocated claim expenses. In such a study, question might be raised as to whether this element of expense should even be included in Schedule P. Recognizing that in all other respects the two types of claim expense must be kept in close association with each other, and with losses, it seems nevertheless that unallocated claim expense is relatively more static, akin to administration expense, and does not belong in an exhibit tracing developments on the more uncertain and volatile elements of loss and allocated claim expense.

To conclude — and as always, it is a pleasure to compliment Miss Salzmann on her paper.

DISCUSSION BY PAUL M. OTTESON

Ruth Salzmann's paper suggests improvements to Schedule P "which are practical and feasible at the present time." With this limitation of subject matter scope in mind the author proposes a calendar/accident year basis to replace the policy year basis now used in establishing the Parts 1 and 2 statutory reserve requirements; and she also presents new exhibits to replace the present Part 5 now used to test and reflect adequacy and accuracy of balance sheet unpaid loss estimates.

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The Schedule P reserve now appearing in the liability section of the balance sheet can consist of either or both of two elements which are completely different in nature: (1) a voluntary reserve established according to no prescribed rules or standards, and (2) a statutory reserve requirement based directly on an incurred loss ratio formula. These two very different types of reserves are included on this "line" singly or in composite and without distinction or identification.

The author chose not to consider the voluntary reserve aspect of the problem nor to consider whether the statutory reserve requirement under either the present or proposed basis really serves a useful purpose. The objective of the paper on this point therefore relates to simplification and economy rather than significant improvement in the finished product. Nevertheless, the simplification contribution is very real and most worthwhile.

The statutory reserve requirements now computed according to a policy year basis are no more meaningful or useful than they would be computed according to the proposed calendar/accident year method; and the policy year basis does involve additional complications and expense.

The author's material comparing calendar/accident year results with policy year results is appropriate and well presented.

DEVELOPMENT OF INCURRED LOSSES

The most important contribution of Miss Salzmann's paper lies in her suggested exhibits pertaining to development of incurred losses with an eye toward the future as well as on the past.

Part 5 of Schedule P now represents a very valuable and important exhibit; the retrospective picture of unpaid loss adequacy and accuracy, however, is not presented as clearly or forcefully as it might be. The complete message comes through "loud and clear" under the "aggregate" development proposed in Miss Salzmann's paper.

Part 6 as proposed should be an extremely valuable addition to the annual statement. However, the reviewer believes very strongly that this exhibit should be on a "losses only" basis the same as the present and proposed Part 5. Since she considers the present Schedule P "timing" percentages for unallocated claims expense as arbitrary it is not clear why the author chooses "the most comprehensive evaluation" basis combining losses and loss expense.

A practical application of these exhibits using actual company data reveals that they will prove to be most effective and useful. Companies will find this type of exhibit very worthwhile whether or not it becomes part of the official annual statement blank.

CONCLUDING REMARKS

The proposals relating to Parts 5 and 6 should be considered for use without delay. The reviewer hopes that a broader study encompassing the entire area of "voluntary reserves" and "statutory reserve requirements" could still be made without interfering with the change in Parts 1 and 2 from a policy year to a calendar/accident year basis.

Miss Salzmann's paper represents a valuable "improved Schedule P" contribution.