DISCUSSION BY EDWARD W. SMITH

Mr. Masterson in presenting this paper has recognized that the casualty-property insurance industry has a knowledge gap in regard to our ability to correctly assess the cost of a significant portion of our product. The presentation is an effort to shed some light on the problem and to initiate steps which may ultimately fill the void.

The reader who hopes and expects to find all the answers as to the proper amount of trend to reflect in his rates will be disappointed. However, the reader who recognizes that the paper is primarily presented as a catalyst to stimulate an interest among management, regulatory officials, and the public will find that it should serve that purpose very well and — in addition — will be likely to find that some insight is gained as to the effect of economic factors on pricing problems with which he has been dealing.

I must admit to being one who hoped for more than he got. My own area of concern involves establishing rates for private passenger automobiles. Two of the most pressing problems in this area are, first, how to determine the amount of rate level change needed because of inflationary forces and, secondly, how to convince the regulatory officials and public as to the actual necessity of including such factors in rate promulgations. Perhaps the formula outlined in the paper might be pressed directly into service. Such an approach would have several advantages.

a. Trend based upon the proposal would likely be more acceptable to the public and regulatory officials, because it is independent of individual company control.

b. Shift in the areas in which a company's business is concentrated or in company settlement practices can cause trend lines to behave strangely. Such shifts are difficult to compensate for; the use of the Liability Property index would eliminate this problem.

c. The LPI would be somewhat more current than present trend data based upon paid costs could be. Liability losses average about one year in age at time of settlement thus trends based on paid losses are somewhat out of date by the time they become available.

d. If reliable trend indexes can be established, through the LPI, it would appear possible to file a rating formula with an escalation clause, based upon the movement of the index, which would require refiling only as frequencies and severity changed.

Therefore, as an initial thought, it appeared possible that this paper might be of immediate use if the index levels made sense.

I had available to me from company sources our own trend data for automobile lines covering a considerable period. For the sake of comparison I have prepared indexes relating 1967 averages with 1959, and have shown them below with the 1966 indexes prepared by Mr. Masterson. I have used a one year offset because there is some delay in payments, particularly in automobile liability lines.

Line	LPI 1966/1958	Company Index 1967/1959
Automobile BI	143.8	129.3
Automobile PD	140.6	154.5
Comprehensive	137.2	196.0
Collision	137.2	133.1

To the degree that such a comparison could be considered a test of Mr. Masterson's LPI, I would have to judge the results as inconclusive. However, it should be noted that the use of LPI as a replacement for trend would have produced rate levels which would not have been substantially different from those developed using company data, for the average trend projection used has been about three years or less. Only Comprehensive averages have really substantial differences.

I suspect that the approach used in developing the Liability Property index for automobile physical damage is not appropriate for insurance covering these lines. Mr. Masterson notes that differing mixes of business in regard to deductibles could cause a bias. In addition, an even greater bias is introduced by changing proportions of types of loss. Our results indicate that theft and vandalism losses comprise an ever increasing portion of our Comprehensive losses. Apparently a more refined index is required in this area.

Only the preparation of the auto BI index is discussed in real detail. Those interested in disagreeing will find that several elements are subject to differences of opinion, but the overall index level changes are most realistic. Of great interest is the acceleration of the rate of change especially in the most recent year. Our own figures based on paid losses through 1967 have not yet reflected this. Judgment says that such an acceleration will occur. Perhaps the next two years will prove what a valuable tool the LPI could be.

The Liability Property indexes for lines other than automobile appeared to me to be primarily useful as tools to make the public aware of the degree of inflation present in areas allied to each line of insurance, thereby making the need for premium level changes more understandable. Direct translation into rate making procedures will require considerable refinement.

The degree to which these indexes improves on the Consumer Price index is debatable. Perhaps, as interest in developing and maintaining such indexes is created, relationships which more completely measure the change in loss costs will be developed; for the present, the LPI must be regarded only as a general index.

Mr. Masterson has made a valuable contribution to the insurance industry by presenting this paper. However, it's primary value will be as a stimulant to further advances in the measurement of the effect of economic factors on insurance premiums rather than for the specific Liability Property indexes as presented. Unless Mr. Masterson's index is adopted, and improved through study, the value of the contribution will soon be lost. The industry would be best served if the NAIC would establish a subcommittee to oversee the development of such indexes, and the dissemination of the results to the public. In this way, indexes could be established which would be of great service to the industry and which the public would be most likely to trust and understand.

DISCUSSION BY RICHARD D. McCLURE

The crunch of inflation on fire and casualty insurance companies has become more painful in recent years; the creep has become a walk. Executives are increasingly concerned with the long succession of years of underwriting loss. Ratemakers are seeking new ways of projecting loss costs further into the future, so as to achieve premium levels which will be adequate to pay the losses whose cost will continue to escalate.

At the same time, rate filers are encountering stiff opposition to rate increases, especially those based on projections of past losses into the future. In too many cases the attitude of the regulators is that the companies cannot economically justify the increases.

Mr. Masterson's paper, in this light, is most timely and helpful. Here is a series of indexes related directly to our lines of insurance, but derived