4) It provides for separate assessments, for workmen's compensation, automobile insurance, and "all other."
5) It provides that the assessments shall be recognized in the rate-making process.
6) It provides for a maximum assessment in any one year of one percent of net direct premiums written.
7) It provides for unpaid claims against the insolvent company, and does not cover refunds of unearned premiums.
8) It provides for a $200 deductible.
9) It provides for a Board of Governors composed of insurance companies.

Possibly the most controversial part of the insolvency bill is its extension of coverages to other than workmen's compensation and automobile liability. There will, of course, be quite a debate as to whether each state should establish an insolvency fund or whether one should be set up by the federal government. I understand a bill has just been introduced in Congress to create a Federal Insurance Guaranty Corporation — the bill being much more restrictive on industry than Dodd's bill of a few years ago.

Mr. Bailey concludes his paper by stating, "It is hoped that full discussion of this suggested legislation in conjunction with the many other proposals currently being made will contribute to solutions which will meet the objectives and eliminate the faults . . . . . [of insurance investment regulations]." To this I agree.

DISCUSSION BY ROBERT G. ESPIE

Mr. Bailey's paper presents an interesting and comparatively novel approach to the perennial problem of assuring that insurance companies will in fact be able to carry out the promises they make to their policyholders. In fact, I would suggest that perhaps the real title of his paper should not be "Insurance Investment Regulation" but rather "Insurance Company Solvency Regulation."

The main framework of his approach may be thought of as one in which companies are allowed to prepare balance sheets according to generally accepted accounting principles with a separately-calculated test as to whether their financial position is such as to allow them to continue in business. Such an arrangement would simplify greatly the problem of pre-

paring financial statements which will be useful to investors without destroying the ability of regulators to protect the citizenry from insolvency.

Mr. Bailey has perhaps used an unfortunate phrase in the section in which he states that "insurers hold and invest large amounts of other people's money." Although the problem may be merely one of semantics, the objective of simplifying and clarifying the necessarily esoteric art of insurance accounting is not served by stating that insurance companies "hold other people's money." Although the knowledgeable reader will not fall into error, the casual reader should not be misled as to the real facts, which are that insurance company assets are owned by the insurance company and that the policyholder has a very valuable conditional promise to pay.

Mr. Bailey's direct approach to regulation against insolvency starts with the objective of providing the insurance public with positive protection against the effects of the insolvency of an insurer. Surely, the first step in such a program should be to prevent the occurrence of an insolvency which would endanger policyholders' interests.

Mr. Bailey's device of sequestering the profits of the two most recent calendar years is ingenuous, and it follows what appears to have been the original philosophy of Schedule P. It has, however, the shortcoming that while it provides an added cushion to the policyholders of a company which is operating profitably, it notably fails to provide any cushion for a company which is operating unprofitably. If one looks at this concept as being in effect a requirement of additional surplus over and above the minimum statutory requirement, it does seem odd that no such requirement should exist for a company running an underwriting loss.

There is also a question as to whether the "profits" on the latest two calendar years represent statutory underwriting profits, or statutory underwriting profits plus investment income, or profits as determined by generally accepted accounting principles. If the company's basic financial statement is prepared according to generally accepted accounting principles, there may be no calculation of the classical statutory underwriting profit. And it does not seem appropriate to define profits for Mr. Bailey's purposes as being the change in the surplus position when the surplus is determined from his proposed solvency test.

It would appear that the proposed legislation would allow a life insurance operation to value its bond holdings on an amortized basis but would

not so allow a casualty and property company. The question of using amortized values vs. market values for the bond holdings of a casualty and property company is much too important to be settled in favor of market valuation without a thorough airing.