

## A NEW EXPERIENCE EXHIBIT FOR CASUALTY INSURANCE COMPANIES

BY

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The "Casualty Experience Exhibit" is a special report form which has recently been drafted by the New York Insurance Department. It is designed to furnish information that will aid the department in connection with the supervision of insurance rates. However, it is to be expected that the data obtained through the use of this exhibit will prove of value to the individual companies and the various ratemaking organizations.

The blank in its present form consists of four parts as follows:

- Part 1. An underwriting exhibit by lines of insurance
- Part 2. A special report of acquisition and field supervision cost by lines of insurance
- Part 3. A report of loss ratio experience on New York State risks
- Part 4. A special report covering workmen's compensation loss experience by policy years on New York State risks.

It is impossible to determine from the annual statement of a multiple line company what the underwriting results are in any single line of insurance. This fact points to the desirability of a greater refinement in the data furnished by the companies and has made necessary the preparation of a special form of report which will give such information.

The Underwriting and Investment Exhibit, which has been a part of the Convention blank for over ten years, provides for an analysis of the gain or loss from underwriting and the gain or loss from investments on the total transactions of a company. The Underwriting Exhibit by Lines is an elaboration of the underwriting section of the present exhibit. It does not take the place of this exhibit which will remain as a part of the Convention blank but is supplemental thereto. A more refined analysis of the underwriting results is provided for in two respects. In the

first place the data is reported separately for each line of insurance and secondly the expenses are subdivided into five groups as follows:

- Investigation and adjustment of claims
- Acquisition and field supervision expenses
- General administration expenses
- Inspection and Bureau expenses
- Taxes, licenses and fees.

The new exhibit follows along much the same lines as the exhibit contained in the annual statement. Policy fees on accident and health insurance, inasmuch as they represent a portion of the amount paid by the policyholder for his insurance, are included under premiums. Total premiums earned are then determined in the usual manner.

In the determination of losses incurred the amounts for unpaid losses at the beginning and end of the period are required to be reported on the basis of the company's own estimate of these losses rather than on the basis of statutory or formula reserves. This means that in the case of liability, compensation and credit insurance, the amounts to be entered in the exhibit as unpaid losses will differ from the amounts required to be reported in the annual statement as reserves for losses. With this exception the total figures entering into this exhibit should correspond with those reported in the annual statement blank.

The commissions and other items of acquisition and field supervision expense to be reported in this exhibit will correspond with the net disbursements in the annual statement blank, being affected by the commissions received and paid on reinsurance.

Included under general administration expenses will be the greater part of the so-called home office expenses, excluding only the expenses of investigation and adjustment of claims, acquisition and field supervision, inspection and bureau expenses, taxes, licenses and fees and expenses incurred in connection with investments.

The sections referring to inspection and bureau expenses, and taxes, licenses and fees are largely self-explanatory and need no comment. Item 54 under Other Underwriting Items corresponds with the net gain or loss from the so-called "Underwriting Profit and Loss Items" section of the Underwriting Exhibit on page 8 of the Convention blank.

Item 56 is an adjustment item which has been inserted in order to permit a balance of the total gain from underwriting, line 55, with the gain from underwriting as reported in the Underwriting Exhibit of the annual statement. The only difference between the two results should arise because of the use of two separate methods in determining the reserve for unpaid losses for liability, compensation and credit insurance and the difference between these two sets of reserves at the beginning and end of the year should be entered at line 56. As an aid to the audit of this exhibit the amounts of the reserves as carried in the annual statement at the beginning and end of the year are required to be reported as a footnote at the bottom of the page.

It is not believed that serious difficulty will arise in allocating expenses to the various groups. The purpose of the disbursement should determine the classification. Investigation and adjustment of claim expenses, acquisition and field supervision expenses, and inspection and bureau expenses should include the salaries of the claim department, the agency force and the inspection department, respectively, the rent of space occupied by these departments and the miscellaneous office or other expenses in connection with each.

The proper allocation of expenses to the various lines of insurance presents a more intricate problem but one, nevertheless, which is believed to be susceptible of practical solution. The application of cost accounting principles to this problem is quite necessary in order to arrive at satisfactory results. While taxes, for instance, may properly be split in accordance with premiums written, it is generally conceded that the use of this basis throughout in apportioning expenses to lines is incorrect. Each company will be required by the department to furnish a statement giving in detail the method followed in its allocation of expenses.

Part 2 is a special report of acquisition and field supervision cost and is a refinement of that section of the Underwriting Exhibit having reference to these expenses. The net premiums written on the company's "direct" business is determined by eliminating all premiums arising from reinsurance accepted or ceded. In arriving at the commissions paid on the company's direct business the net amount reported in the annual statement is first entered and then the commissions paid on reinsurance accepted from other companies is deducted and the commissions

received on reinsurance premiums ceded is added. The acquisition and field supervision expenses other than commissions are to be similarly determined and the total of these two will represent the aggregate cost for acquisition and field supervision.

The rules in regard to acquisition and field supervision cost which were adopted a year ago by a conference of stock companies and approved by the National Convention of Insurance Commissioners, established certain standards in regard to these expenses. Limitations of two kinds were provided, one of these being a limitation as to the number of agents who might receive more than minimum or producers' commissions and the other a limitation of the total amount that a company should expend for acquisition and field supervision. While there are differences of opinion as to the principle of limitation of agents, there appears to be complete agreement as to the desirability of limiting the total expenditure in connection with the acquirement of business. The data called for in part 2 should furnish accurate information as to what these total costs have actually been for each line of insurance.

Part 3 is a report of losses paid and incurred and of premiums written and earned during each of the last five years on risks located in New York State. An analysis of premium writings by states has always been made by insurance companies because of the necessity of paying taxes to each state based on the premiums written on risks located therein. The annual statement likewise has required a report of net premiums written and losses paid in the state on whose behalf the report is made. It will, therefore, be seen that, as regards net premiums written and losses paid on risks located in New York State, the information is readily available. Certain difficulties are encountered, however, when we come to the items "premiums earned" and "losses incurred." In order to determine premiums earned the unearned portion of New York State premiums in force at the beginning and end of each year must first be ascertained. It has not been customary to keep a separate record of premiums in force in each state. To build up an absolutely accurate record at this time covering the transactions of the last five years would involve an unreasonable amount of labor. It is believed that approximately accurate figures can be obtained in other ways. The premiums in force and the unearned premiums determined therefrom bear a

fairly constant relation to the net premiums written in a particular line of insurance. By determining the ratio of the total net premiums written in a year to the total unearned premium reserve at the end of that year and applying such percentage to the net premiums written in New York State, the approximate amount of unearned premiums for the state can be obtained. Where the variation in premium volume in the state by months differs from that shown by the entire business, the writings of each month both in the state and the country, should be weighted to reflect the greater effect on the unearned premium reserves of the premiums written in the later months of the year. Where abnormal cancellations or reinsurance transactions are known to affect the net writings further adjustments should be made.

The reserve for unpaid claims on New York State risks at the end of each year should be quite readily determined from an examination of lists of unpaid claims where such lists, made up during recent years, have been kept on file.

By means of this exhibit the loss ratio results in each line of insurance during the preceding five year period as well as in each year of that period, will always be available.

Part 4 takes the place of the policy year exhibit previously called for in Schedule "W". The arrangement has been changed somewhat but the essential features of the former report are retained. Instead of providing for a report of developments as they stood at the end of each of the last five years, the developments at the end of the preceding year only are brought forward from the previous report. The developments of the last calendar year are then set forth and the policy year totals brought down to December 31st of that year appear as a final result. The loss ratios to date on New York State compensation policies issued during each of the last five years will be shown as well as loss ratios on the aggregate of all policies issued prior thereto.

It will be seen that the new exhibit is to a large extent a development of reports that have heretofore been in use. Part 1, while patterned after the present underwriting exhibit, will take the place of the expense analysis previously called for in Schedule "W" covering compensation insurance. The ratios determined from the combined returns of all companies should furnish very dependable indications of the cost of each element of the expense. Part 2, furnishing an accurate report of acquisition

and field supervision expenses, becomes necessary as a result of the adoption of the rules affecting these expenses. The first two parts cover the countrywide transactions of the company whereas parts 3 and 4 are confined to a report of experience on New York State risks. A comparison of the loss experience in New York State in each line of insurance with that of the entire country is made possible from the data to be reported in part 3. In making rates for workmen's compensation insurance the loss ratio returns contained in Schedule "W" have in the past been of considerable value and part 4 of the new exhibit provides for a continued report of this policy year experience.

It is expected that the printed blanks in their final form will be ready for distribution by the close of the year. Returns are to be made thereon not later than April 1, 1924. A preliminary draft of the blank to be furnished to stock companies is appended hereto. A similar blank adopted to the mutual company statement is being drafted.

Some of the data called for in this Casualty Experience Exhibit has never before been available. Individual companies may have made such an analysis of their experience but no State department, so far as known, has called on companies generally for so complete an analysis of their operations. It is believed that the cooperation of the technical men in the accounting and statistical departments of the companies can be relied upon in the solution of the various problems involved in the preparation of accurate returns.

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## CASUALTY EXPERIENCE EXHIBIT

consisting of

- Part 1—Underwriting Exhibit by Lines of Insurance.
- Part 2—Acquisition and Field Supervision Cost by Lines of Insurance.
- Part 3—Loss Ratio Experience on New York State Risks.
- Part 4—Workmen's Compensation Loss Experience by Policy Years.

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REPORT TO THE  
SUPERINTENDENT OF INSURANCE  
OF THE  
STATE OF NEW YORK  
FOR THE YEAR ENDING DECEMBER 31, 1923.

PART 1—UNDERWRITING EXHIBIT BY LINES OF  
INSURANCE

I. PREMIUMS

1. Net premiums per items 4 to 20, page 2.
2. Policy fees per item 21, page 2.
3. Add unpaid return and reinsurance premiums Dec. 31, 1922  
per items 36 and 37, page 5 of 1922 statement.
4. Total.
5. Deduct unpaid return and reinsurance premiums Dec. 31,  
1923 per items 36 and 37, page 5.
6. Balance.
7. Add unearned premiums Dec. 31, 1922 per items 25 and  
25½, page 5 of 1922 statement.
8. Total.
9. Deduct unearned premiums Dec. 31, 1923 per items 25 and  
25½, page 5.
10. Premiums earned.

II. LOSSES

11. Losses paid per items 1 to 17, page 3.
12. Deduct salvage and reinsurance recoverable Dec. 31, 1923  
in non-ledger assets, page 4.
13. Balance.
14. Add salvage and reinsurance recoverable Dec. 31, 1922 in  
non-ledger assets, page 4.
15. Total.
16. Deduct unpaid losses Dec. 31, 1922 (a)
17. Balance.

18. Add unpaid losses Dec. 31, 1923 (a)
19. Losses incurred during 1923.

### III. INVESTIGATION AND ADJUSTMENT OF CLAIMS

20. Investigation and adjustment of claims per items 18 to 22, page 3.
21. Add unpaid expenses of investigation and adjustment of claims Dec. 31, 1923 per items 20 to 24, page 5.
22. Total.
23. Deduct unpaid expenses of investigation and adjustment of claims Dec. 31, 1922 per items 20 to 24, page 5 of 1922 statement.
24. Total expenses of investigation and adjustment of claims incurred.

### IV. ACQUISITION AND FIELD SUPERVISION EXPENSES

25. Commissions per items 24 to 28, page 3.
26. Policy fees retained by agent per item 23, page 3.
27. Add unpaid commissions Dec. 31, 1923, per items 26 to 30, page 5.
28. Total.
29. Deduct unpaid commissions Dec. 31, 1922 per items 26 to 30, page 5 of 1922 statement.
30. Commissions incurred.
31. Acquisition and field supervision expenses, other than commissions (b).
32. Add unpaid acquisition and field supervision expenses Dec. 31, 1923 included in item 31, page 5.
33. Total.
34. Deduct unpaid acquisition and field supervision expenses Dec. 31, 1922 included in item 31, page 5 of 1922 statement.
35. Acquisition and field supervision expenses incurred other than commissions.
36. Total acquisition and field supervision expenses incurred (sum of items 30 and 35 of this exhibit).



## V. GENERAL ADMINISTRATION EXPENSES

37. General administration expenses per items 29, 33, 34, 44, 45 and 46, page 3. Also any administration expenses in items 49, 50 and 51, page 3.
38. Add unpaid general administration expenses Dec. 31, 1923 included in item 31, page 5.
39. Total.
40. Deduct unpaid general administration expenses Dec. 31, 1922 included in item 31, page 5, of 1922 statement.
41. Total general administration expenses incurred.

## VI. INSPECTION AND BUREAU EXPENSES

42. Maintenance of Boards and Bureaus per item 47, page 3, including \$..... for inspection and accident prevention.
43. Inspection and accident prevention expenses not included in item 42 above per item 32, page 3.
44. Medical fees and salaries per item 31, page 3.
45. Add inspection and Bureau expenses unpaid Dec. 31, 1923.
46. Total.
47. Deduct inspection and Bureau expenses unpaid Dec. 31, 1922.
48. Inspection and Bureau expenses incurred.

## VII. TAXES, LICENSES AND FEES

49. Taxes, licenses and fees per items 37 to 43, page 3.
50. Add unpaid taxes Dec. 31, 1923 per item 32, page 5.
51. Total.
52. Deduct unpaid taxes Dec. 31, 1922 per item 32, page 5 of 1922 statement.
53. Taxes, licenses and fees incurred.

## VIII. OTHER UNDERWRITING ITEMS

54. Gain from premiums charged off, disallowed, etc. (c)  
 55. Total gain from underwriting.  
 56. Adjustment item. Difference between liability, compensation and credit losses incurred as reported above and as determined on basis of reserves reported as liabilities in the annual statements of 1922 and 1923.  
 57. Total gain from underwriting as per item 39, page 8.

## IX. RATIO OF LOSSES AND EXPENSES TO EARNED PREMIUMS

58. Losses incurred..... (19 ÷ 10)  
 59. Investigation and adjustment expenses incurred..... (24 ÷ 10)  
 60. Acquisition and field supervision expenses incurred..... (36 ÷ 10)  
 61. General administration expenses incurred..... (41 ÷ 10)  
 62. Inspection and Bureau expenses incurred..... (48 ÷ 10)  
 63. Taxes, licenses and fees incurred..... (53 ÷ 10)  
 64. Total expenses other than loss expenses  
     (sum of items 36, 41, 48 and 53 ÷ 10)  
 65. Other underwriting items..... (54 ÷ 10)  
 66. Net gain from underwriting..... (55 ÷ 10)

General Note:—The above references, except where otherwise stated, indicate the items and pages of the annual statement as of December 31, 1923. See "General Instructions" on last page of this exhibit for further directions.

(a) Unpaid losses should be based on individual estimates of outstanding claims and should agree with the amounts reported in column 7, page 5, of the annual statement for each line except liability, compensation and credit. The amounts reported in the annual statements as reserves for unpaid losses under these lines should be entered herewith:—

	Liability	Workmen's Compensation	Credit
December 31, 1922	\$.....	\$.....	\$.....
December 31, 1923	\$.....	\$.....	\$.....

(b) Include in this item all payments to general agents, branch office managers, agents and agency or branch office employees for salaries, allowances, bonuses, prizes, rewards and traveling expenses and all expenditures for rent, heat, light, maintenance of offices, exchange, advertising, postage, telephone, telegraph, express, and all other expenses incidental to the conduct of agencies and branch offices, including the cost of policy-writing and the collection of premiums but excluding expenditures for taxes and governmental impositions or expenditures actually made in good faith for the adjustment of claims, the making of inspections and payroll audits.

(c) Include agents' balances recovered, item 38, page 2, and agents' balances charged off, item 55, page 3, all other items of underwriting income or disbursement not otherwise provided for, and change in not admitted assets, items 46, 47, 48 and 50, page 4 of current and previous years' statements. Where the net result is a *loss*, indicate by minus sign.

## PART 2—ACQUISITION AND FIELD SUPERVISION COST BY LINES OF INSURANCE

### PREMIUMS

1. Gross premiums written during 1923 per column 1, page 2.
2. Add policy fees received (accident and health) per item 21, page 2.
3. Total gross premiums written.
4. Deduct gross premiums on reinsurance accepted.
5. Gross premiums written on direct business.
6. Deduct return premiums and premiums on policies not taken per columns 3 and 4, page 2.
7. Balance.
8. Add return premiums and premiums on policies not taken on reinsurance accepted.
9. Net premiums written on direct business.

## ACQUISITION AND FIELD SUPERVISION COST

10. Net commissions paid per items 24 to 28, page 3.
11. Policy fees retained by agents (accident and health) per item 23, page 3.
12. Total.
13. Deduct net commissions paid on reinsurance accepted.
14. Balance.
15. Add net commissions received on reinsurance premiums ceded.
16. Commissions paid on company's direct business.
17. Add commissions unpaid Dec. 31, 1923 on uncollected premiums (less return premiums) on direct business.
18. Total.
19. Deduct commissions unpaid Dec. 31, 1922 on uncollected premiums (less return premiums) on direct business.
20. Commissions incurred on direct net premiums written.
21. Acquisition and field supervision expenses (other than commissions paid on direct business. (a)
22. Deduct acquisition and field supervision expenses unpaid (other than commissions), on direct business Dec. 31, 1922.
23. Balance.
24. Add acquisition and field supervision expenses unpaid (other than commissions), on direct business Dec. 31, 1923.
25. Acquisition and field supervision expenses incurred (other than commissions).
26. Total of acquisition and field supervision expenses incurred (sum of items 20 and 25).
27. Ratio of acquisition and field supervision expenses incurred to net premiums written ( $26 \div 9$ ).

(a) These amounts should agree with the amounts reported for item 31, part 1 except that expense payments or refunds, if any, arising from reinsurance accepted or ceded should be eliminated.

PART 3—LOSS RATIO EXPERIENCE OF POLICIES ON  
NEW YORK STATE RISKS BY YEARS AND LINES OF  
INSURANCE

<i>Calendar Years</i>	LOSSES AND PREMIUMS
	1. Losses paid during year
	2. Losses incurred during year
1919	3. Premiums written during year
	4. Premiums earned during year
	5. Loss ratio (line 2 ÷ line 4)
	6. Losses paid during year
	7. Losses incurred during year
1920	8. Premiums written during year
	9. Premiums earned during year
	10. Loss ratio (line 7 ÷ line 9)
	11. Losses paid during year
	12. Losses incurred during year
1921	13. Premiums written during year
	14. Premiums earned during year
	15. Loss ratio (line 12 ÷ line 14)
	16. Losses paid during year
	17. Losses incurred during year
1922	18. Premiums written during year
	19. Premiums earned during year
	20. Loss ratio (line 17 ÷ line 19)
	21. Losses paid during year
	22. Losses incurred during year
1923	23. Premiums written during year
	24. Premiums earned during year
	25. Loss ratio (line 22 ÷ line 24)
	26. Losses paid during five-year period
	27. Losses incurred during five-year period
Total	28. Premiums written during five-year period
	29. Premiums earned during five-year period
	30. Loss ratio (line 27 ÷ line 29)

STATE OF..... }  
 County of ..... } ss.:

..... President, and .....  
 secretary of the....., being duly sworn,  
 each for himself deposes and says that they are the above de-  
 scribed officers of the said company, and that Part 1 of the fore-  
 going exhibit is a correct analysis of the underwriting gain or loss  
 by lines of insurance for the calendar year ending December 31,  
 1923, on account of all policies issued by the company; that Part 2  
 is a correct report of acquisition and field supervision expenses  
 incurred on all policies written during the year 1923; that Part 3  
 is a correct exhibit of premiums and losses under all policies  
 issued on risks located in New York during the period of five years  
 ending December 31, 1923; and that Part 4 is a correct exhibit of  
 the premiums earned and losses incurred under workmen's  
 compensation policies issued in the State of New York from July  
 1, 1914 to December 31, 1923, according to the best of their  
 information, knowledge and belief, respectively.

.....  
 President  
 .....  
 Secretary.

Subscribed and sworn to before me  
 this..... day of....., 1923.

GENERAL INSTRUCTIONS

In Part 1 of this exhibit there should be included under  
 "Investigation and Adjustment of Claim Expenses," "Acquisition  
 and Field Supervision Expenses," "General Administration  
 Expenses" and "Inspection and Bureau Expenses" the entire  
 expenses properly chargeable to each expense group. There  
 should be included in each case, the salaries of officers, agents and  
 employees to the extent they are engaged in such work, the rent  
 of office space and the other expenses chargeable either in whole  
 or in part to each such division of expense. In case the amounts  
 reported as disbursements in the annual statement blank under  
 the caption "Investigation and adjustment of claims," "Sala-  
 ries, traveling and all other expenses of agents" and "Inspections"  
 do not include all such elements of the expense, the references to

these specific statement items now appearing in the exhibit are not to be considered as limiting the amounts to be reported in this exhibit to those so reported in the annual statement.

There should be submitted with this exhibit a detailed statement of the method followed in apportioning expenses to the various groups and to lines of insurance.

Part 2 is designed to furnish reliable data as to the actual total cost for acquisition and field supervision of the business produced by a company's agents and employees. It represents a refinement of the data appearing in Part 1 in that all transactions arising from reinsurance are to be eliminated.

A company that finds itself unable because of incomplete records to report the exact amount of premiums earned and losses incurred in New York State by lines for each of the last five years will be required to report this data as precisely as conditions permit. In cases where the returns in Part 3 are based on incomplete statistical records there should be furnished a statement as to the extent that the figures are based upon estimated New York premium reserves and claim reserves.

NOTE:—

The blank in its final form will provide sixteen columns for the reporting of all data in Parts 1, 2 and 3 by lines of insurance as follows:

1. Total.
2. Accident.
3. Health.
4. Auto liability.
5. Liability other than auto.
6. Workmen's compensation.
7. Fidelity.
8. Surety.
9. Plate glass.
10. Burglary and theft.
11. Steam boiler.
12. Engine and fly wheel.
13. Auto property damage.
14. Auto collision.
15. Property damage and collision other than auto.
16. Credit, live stock or sprinkler.

**PART 4—WORKMEN'S COMPENSATION LOSS EXPERIENCE BY POLICY YEARS**  
 Showing premiums earned and losses incurred under policies issued in the State of New York during the period,  
 July 1, 1914 to December 31, 1923 (a)

		Under policies becoming effective in calendar years						
		1914-18 inclusive	1919	1920	1921	1922	1923	Total
	1.	Losses paid						
Totals	2.	Losses outstanding						
as of	3.	Losses incurred						
Dec. 31,	4.	Premiums written						
1922	5.	Premiums unearned						
(b)	6.	Premiums earned						
	7.	Loss ratio (line 3 ÷ line 6)						
	8.	Losses paid						
Develop-	9.	Change in losses outstanding						
ments	10.	Losses incurred						
During	11.	Premiums written						
1923	12.	Change in premiums unearned						
	13.	Premiums earned						
	14.	Loss ratio (line 10 ÷ line 13)						
	15.	Losses paid						
Totals	16.	Losses outstanding						
as of	17.	Losses incurred						
Dec. 31,	18.	Premiums written						
1923	19.	Premiums unearned						
	20.	Premiums earned						
	21.	Loss ratio (line 17 ÷ line 20)						

**NOTE:** All amounts in Part 4 are to be reported in dollars only.

(a) All transactions arising from reinsurance accepted or ceded are to be eliminated in reporting premiums and losses herein.

(b) These totals should correspond with the amounts reported in New York Schedule "W"—1922.