THE COMBINED FIRE AND CASUALTY ANNUAL STATEMENT BLANK

BY

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INTRODUCTION

At its June 1950 meeting in Quebec, the National Association of Insurance Commissioners adopted the report of the Committee on Blanks of that Association which incorporated a new combined Fire and Casualty annual statement blank, effective for the returns for calendar year 1950.

It is generally conceded that the new form of blank is a definite forward step in the field of insurance reports from the standpoint of insurance departments, insurance carriers and the general public.

From the standpoint of the insurance departments it provides a single form for the reporting of financial condition, operating results and pertinent supporting and collateral information for all types of insurance carriers other than life, fraternal societies, and title insurance companies. It possesses the advantage of greater uniformity and should result in economy by the elimination of the separate forms of blank which it supersedes.

From the standpoint of the companies it provides a form which is more readily understood by company officials not particularly versed in the intricacies of accounting and to whom the peculiarities of the superseded forms are not readily understandable. The pertinent facts disclosing financial condition and operating results are exhibited concisely on three pages (Pages 2, 3 and 4). The previous division of asset items into ledger assets, non-ledger assets, and assets not admitted, has been discontinued and superseded in the new blank by a showing of each type of asset at statement (or allowable) value. The previous division, peculiar to insurance company statements, made it difficult to determine the statement value of certain types of assets. While the liabilities page does not differ materially from those in the previous statement blanks, it has the advantage of conciseness since only essential totals are provided for. The details which are unessential, such as outstanding losses by line of business and status and loss adjustment expenses by line of business, have been properly relegated to supporting exhibits. In case of fleets or groups of companies consisting of both Fire and Casualty carriers a single form of statement blank has its advantages both from a preparation standpoint and uniformity of accounting records.

From the standpoint of the general public the blank has the advantage (Pages 2, 3 and 4), in addition to eliminating unessential statistical detail, of providing exhibits of assets and liabilities in forms more comparable to those of other types of corporations with which an interested public is more familiar, and producing in concise form the year's operating results on a revenue basis and the accounting thereof in the capital and surplus account along conventional lines.

SCOPE

This is the first of two or three installments, or papers, dealing with the following phases of the combined blank.

1. History and development.
2. Financial statement.
3. Exhibits and schedules.

HISTORY AND DEVELOPMENT

While the history and development of the annual reports required from insurance companies in general are available in certain publications, such as Proceedings of National Association of Insurance Commissioners and insurance department reports (particularly New York), and papers prepared for other actuarial societies, it is believed that a retracing of the course will be of some interest. It is also, to a certain degree, pertinent. The historical data will be confined only to that which, in the mind of the writer, is essential. Much of the historical and factual data has been taken from a paper "The 'Convention' Statement of Life Insurance Companies" by C. O. Shepherd, presented at the May 1937 meeting of the American Institute of Actuaries and printed in the Institute's publication The Record, Vol. XXVI, Part 1, No. 53, and it is recommended that those members who are interested in a more detailed account of the history and development of insurance companies' reports refer to this paper.

In the formation of insurance companies of the modern type, fire insurance companies antedated life insurance companies. A substantial number of fire companies were organized in the first and second decades of the 19th century, and a few even earlier, but the first of the modern type life insurance companies was established in 1843. There are minor exceptions to this general statement. Also, prior to 1843 there were certain foreign companies transacting business in this country. The earlier incorporation of fire insurance companies was not a material factor in the development of annual reports but such reports resulted from the development of life insurance written primarily, as indicated in the period prior to 1843, by foreign insurance companies. The reasons for this are obvious. The fire insurance companies were engaged in writing policies of short duration whereas the life insurance companies, as today, wrote contracts for life duration or a comparatively long term of years. Consequently, although solvency of all types of insurance carriers was important, the continued solvency of life insurance companies was of greater concern to those supervisory officials who interested themselves in the subject than the continued solvency of the fire insurance companies.

In 1828 New York State enacted a statute requiring that every moneyed corporation thereafter organized file a financial statement annually with the Comptroller of that state. From 1828 to 1860, when the Insurance Department was organized, the form was prescribed by the Comptroller. In the processes of evolution differentiation was made by type of corporation and forms were developed exclusively for the use of insurance companies. The earlier forms were little more than questionnaires asking for certain information, some of which was merely of a statistical nature. One such form in use during the 1830's carried the caption "A Full and Perfect Statement of the

Affairs of the ———— Company." However, there was no assembly of either resources or obligations and no showing of surplus (net worth). Some further progress was made in the intervening years up to the end of the first half of the century. As of January 1, 1849 a fire company voluntarily supplemented its regular report by a so-called general balance of its books. This balance showed the usual items of assets, including premiums due. Its liabilities, however, were restricted to capital stock, dividends (apparently declared and unpaid), losses by fire unsettled, and profit and loss. No liability was established for unearned premium reserve or unpaid expenses. The company, however, abandoned this supplementary form in its filings for subsequent years.

In 1853 a special form was adopted by the New York Comptroller for Fire companies. This form was in effect until 1859. It was similar to the form previously described. In addition to amount of capital it included statements of assets, liabilities, income, and expenditures. It is significant that assets contemplated statement values as evidenced from the item "Market Value of Stocks." For some reason bonds were not included as a specific item of assets. The liabilities provide for losses due and unpaid (apparently in process of adjustment), resisted, and reported on which no action had been taken. Apparently no reserve was contemplated for losses incurred but not reported. No specific item was included for the unearned premium reserve. The income statement covered cash premiums, notes received for premiums, and income from other sources. Expenditures included losses, dividends, salaries, commissions to agents, taxes, and all other payments and expenditures. There was no balancing of assets and liabilities.

The lack of a reserve for unearned premiums was commented upon by the Comptroller in his report of March 7, 1854 as follows:

> "I have not seen in any statement received at this office from any stock company in this State a deduction from their estimated surplus profits of any sum for unearned premiums, and in all probability the cash received on the 30th day of December last for premiums is counted in the assets, which go to swell the apparent profits of the company . . ."

An Act of 1853 authorized the Comptroller to appoint one or more persons to examine into the affairs of any fire company doing business in the state. This marked a milestone in the development of insurance supervision and annual statement forms. In 1856 a special commission was appointed to examine all fire companies in New York City.

In 1858 the fire blank was amended by inserting a liability item for unearned premium reserve under the following designation:

> "Amount required to safely reinsure all outstanding risks, estimated by the President and Secretary."

The organization of the New York Insurance Department by Act of the 1859 Legislature marks another milestone in the development of insurance supervision and financial statements. The Massachusetts Insurance Department had been organized five years earlier and an exchange of ideas between the supervising officials of the two states culminated in the organization of the National Convention (now Association) of Insurance Commissioners. Between 1860 and 1865 there were numerous changes and improvements in the annual statement blanks. In 1868 the fire and marine blank incorporated an item of "Surplus" and equalized total of assets and liabilities.

Prior to 1871 there had been no uniformity as to the treatment of accrued and deferred items. In that year, the caption of the assets schedule was changed to "Assets Available." This made specific provision for accrued and deferred income items. The total of the items in the schedule was designated as "Total Admitted Assets." Subscribed was a list of "Items not Admitted as Available Assets," consisting of advances to officers and agents, cash in hands of officers and agents, other items viz: expense accounts, and furniture, fixtures and stationery. The total of such items was designated "Total Unadmitted Assets." It should be pointed out that the foregoing was merely a statement of unadmitted assets that had not been taken credit for as "Assets Available." The division of assets into ledger, non-ledger and not admitted, familiar to the present and several past generations, was not adopted until 1874. It is further interesting to note that many of the then unadmitted asset items are still so recognized and classified by law or ruling.

A form of annual statement blank for casualty companies was adopted by New York in the year 1871. It was adapted from the life blank. This blank with additions and changes necessitated by the extended scope of the casualty business was in use by New York, Connecticut, and other states until 1903 when it attained Convention status by action of the Committee on Blanks and approval of such action by the National Convention (now Association) of Insurance Commissioners. It was officially designated as "Miscellaneous" blank but is referred to in this paper under the more commonly used designation "Casualty" blank.

In 1868 an attempt was made by the then Superintendent of Insurance of New York to require the fire companies to show a balance between assets at the end of the preceding year, income and expenditures of the year and assets at the end of the current year. This did not succeed since the treatment of accrued income items had not been definitely settled and this was used by some companies as an excuse that it was not possible to produce such a balance. As a result, such balance feature was omitted in 1869 and was not reincorporated in the fire blank until 1899. However, such a balance was incorporated and required in the life blank beginning in 1875. The balance feature appeared in the New York casualty blank in 1896, three years prior to its incorporation in the fire blank.

By 1875 the general forms of the financial statements required by New York had become fairly well stabilized. One basic change was the treatment of uncollected premiums. In the fire blank these were carried as a non-ledger asset until 1902 when they were transferred to ledger assets on the familiar "Agents' Balances" basis (net as to commissions) to conform to the established "Account Current" method of reporting by agents. In the casualty blank the non-ledger asset basis was continued until 1909. Prior to the adoption of the Convention edition in 1903 the non-ledger item of premiums in course of collection was on a net basis. The gross premiums, also the commissions payable thereon and the net premiums were shown. In the 1903 blank the non-ledger assets showed the gross premiums and the commissions payable thereon were included on the liabilities page. The only change as respects this item in

1909 was the transfer of the gross premiums in course of collection from a non-ledger to a ledger asset, the commissions payable thereon were still included on the liabilities page.

The scope of the blank was gradually extended to meet changes in methods of operation and practices and details were incorporated ostensibly for the purpose of furnishing a better picture of both operations and financial condition.

In the casualty blank schedules were added to implement laws governing the computation of loss reserves for established or new lines of business and tests of adequacy of loss reserves as reported in previous years' statements. The following is a list of the more important schedules with dates of incorporation in the blank.

Schedule		*Year*
G		1903 or prior
O	Part 1	1910
O	Part 2	1941
P	Liability, Parts 1-4	1903
P	Liability, Part 5	1934
P	Compensation, Parts 1-4	1913
P	Compensation, Part 5A	1934

Schedules M, Parts I-IV, designed to elaborate on certain types of company expense, were incorporated in both the fire and casualty blanks in 1946.

The foregoing brief history of the evolution and development of the fire and casualty annual statement blanks is helpful, if not essential, to an understanding of some of the factors which influenced the development and adoption of the 1950 combined blank.

The growing intricacies of the business, particularly casualty business, and the gradual increase in the scope of detailed information in the annual statements and supplementary exhibits and reports reached a stage where companies were hard pressed to make filings with the supervising authorities on the dates required by statute. This inspired thought and study by accountants, particularly fire accountants, looking to an amelioration of the growing burden. As a result, an informal committee of the Insurance Accountants Association, a fire insurance accountants association, developed a stock fire blank in the early 1940's consisting of two parts. Such blank did not involve any basic or material changes but merely divided the existing blank into its two natural divisions. In brief, Part I consisted of the essential details of operations and financial condition, and Part II the various supporting exhibits and schedules. Part I corresponded to pages 2, 3, 4, and 5 of the existing blank, excluding the exhibits of details of premiums written, losses paid, and losses outstanding by line of business which it was proposed to incorporate along with the other supporting exhibits and schedules in Part II.

The idea behind the two-part blank was the hope that if adopted by the National Association of Insurance Commissioners companies would be permitted to file Part I in compliance with statutory requirements and to file Part II at a somewhat later date.

The two-part blank was subsequently submitted to the Association of Casualty and Surety Accountants and Statisticians for its consideration.

The desirability of a united front was obvious. The idea of a two-part blank did not appeal too strongly to that organization, or at least to certain members, as it was felt that it would be desirable, if not essential, that the details of written premiums, paid losses, and outstanding losses, be balanced with the totals, or "controls" reported on pages 2, 3, and 5 of the proposed Part I before filing the same, and consequently the potential saving in time might not be material.

However, informal discussions between representatives of the two associations led to the logical conclusion that it would be desirable to have a joint committee of the associations meet and discuss the specific proposal and any other proposals or ideas of mutual interest or concern involving the respective annual statement blanks. Such committee was appointed by the respective associations and the first meeting was held on November 27, 1945. The result can best be stated by quotations from the minutes thereof:

> "After considerable study the following motion was unanimously passed:
>
> > 'Whereas there is a demand for presenting the Fire and Casualty Annual Statements on a modern and uniform basis, following the generally accepted principals of accounting, it is the consensus of this Committee that we prepare on the accrual basis one form of statement to be used for both Fire and Casualty Companies.'
>
> It was further agreed that the work incident to the necessary studies to be made in connection with suggestions for revised annual statements would progress through the medium of two major sub-committees.
>
> 1. Those members located in Hartford and Boston.
> 2. Those members located in New York, Newark and Philadelphia.
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> These sub-committees to continue to study and have sub-committee meetings whenever conveniently possible in New York and Hartford. It was agreed that there would be an interchange of results developed from these sub-committee meetings and that an over-all full Committee meeting would be called when conveniently possible sometime in March, 1946."

The motion contemplated the separation of all exhibits and data of a statistical nature from the financial condition and operating results section as well as the development of a statement which would serve the requirements of both stock fire and casualty companies.*

A combined fire and casualty blank was more desirable than essential at the time although there existed some overlapping of coverages, particularly auto collision and personal property floater. Furthermore, the practice of establishing fire or casualty running mates was growing and for such groups a combined blank, permitting a maximum degree of uniformity in accounting systems, was highly desirable.

The decision to recommend a statement exhibiting assets at statement or admitted values, and operating results on the earned-incurred basis in summary form, with supporting details shown in supplementary exhibits and schedules was influenced by a contemplated new form of Life blank which incorporated these features and which was being developed by a joint com-

*Convention Blanks in use at that time and prior to 1950 were: Stock Fire, Mutual Fire (not used in all states), Foreign Fire (U.S. Branches; also not used in all states), Miscellaneous (used for Stock, Mutual and U.S. Branches) and Reciprocal.

mittee of actuaries representing the American Life Convention and the Life Insurance Association of America.

With the foregoing general objectives in mind the two sub-committees developed a rough draft of the proposed blank and this was studied and discussed at a meeting of the full committee held in Stockbridge, Massachusetts in June 1946 and the basic features of the blank were agreed upon. No particular areas of disagreement were encountered as it was found to be a rather simple matter to produce a form which would accommodate the reportings of both fire and casualty companies. The problem incidental to different systems of premium reporting and collection was solved by the logical decision that the "net balance" basis would be adopted, since the casualty companies could readily convert to this basis at the year end for annual statement purposes, whereas it would be impracticable for the fire companies to convert to the "gross premiums in course of collection" basis.

Schedule O presented a minor problem. The fire companies, because of the multiplicity of reinsurance arrangements and treaties, both external and internal (inter-group), would find it impracticable, if not impossible, to compile this schedule. Consequently, it was agreed that the scope of this schedule should be confined to the so-called casualty lines.

Following the Stockbridge meeting a proposed revised form of blank (excluding schedules) was made up, reproduced, and distributed to the supervising insurance officials of all states in the latter part of 1946. The reactions of the officials and their actuaries were mixed as might be anticipated when it is realized that the proposal was somewhat revolutionary, especially as it did not make specific provision for a balance of ledger assets between years. However, there was sufficient sentiment in favor of the proposal to encourage the committee to continue its efforts, and a revised edition of the blank which met some of the objections advanced against the original edition, and also reflected certain constructive criticisms, was issued and distributed in 1947. The second edition was received more favorably but did not gain approval by the Committee on Blanks of the National Association of Insurance Commissioners at its 1948 meeting.

In the meantime, two practically concurrent developments in the industry and in the field of supervision gave impetus to the proponents of the new blank. One was the trend to multiple line underwriting operations and the other the enactment of the New York Uniform Accounting Law. The first made it essential that a blank be adopted which would make provision for both fire and casualty lines and the second made it desirable that uniformity of expense accounting, and consequently of reporting, be attained. The New York Insurance Department had adopted supplementary blanks in 1947 for reporting the details of casualty business written by fire companies and fire business written by casualty companies. The now well known New York Regulation 30 was promulgated in 1948 to become effective with the 1949 annual statements.

As a result of the foregoing developments the time had arrived for a final decision on the proposed blank, or some other form of combined blank. At the April 1949 meeting of the Committee on Blanks the following action was taken by the Committee:

"Multiple Line Blank (Fire and Casualty Lines)

> A proposed combined annual statement blank for fire and casualty insurers was submitted in December 1947 and considered at subsequent meetings of this committee. Considerable progress has been made after extended discussions in respect to suggested changes and additions. A sub-committee of six has been appointed to meet with the joint committee of fire and casualty accountants and statisticians to prepare a revised draft."

The meeting contemplated by the above was held in May 1949 and, as a result, a further revised edition was printed and distributed to the state supervisory officials and to the industry in December 1949. It was adopted at the April 1950 meeting of the Committee on Blanks and, as stated in the initial paragraph of this paper, was subsequently approved by the National Association.

A word of explanation of the principal differences of opinion between the industry and the Committee on Blanks is in order. These were two in number. The Committee on Blanks felt that the statement should contain (1)—an exhibit containing an analysis of assets into ledger, non-ledger, non-admitted, and statement (admitted) and (2)—an exhibit providing for a balance of ledger assets between years. The industry felt that such exhibits were not essential and that the preparation of the same would involve extra time and additional expense. The final edition incorporated these two exhibits (Exhibit 1, Page 11 and Exhibit 3, Page 12) at the insistence of the special committee and the blank was approved by the Committee on Blanks in such form.

The blank adopted contains several basic changes from the superseded forms which were not included in the "final edition" of the blank put out by the industry. These will be commented upon in the next installment.