AUTHOR'S REVIEW OF DISCUSSION

There is no disagreement with the reviewers' observation that the loss ratio method can yield the exact same answer as the pure premium method, given the same degree of statistical detail available under both. However, one of the principal advantages of the loss ratio method, namely, its simplicity of application, can be a potential drawback. In applying the loss ratio method, there is a temptation to use the most summarized form of the data, without checking for distributional differences and rating inequities in the various classification subsets. Also, maintaining on-level factors by class and territory can sometimes be unwieldy, especially if there have been many changes.

On the subject of fixed expense loadings, I am reluctant to agree with an underlying assumption of no change in expense dollars, given today's high rate of inflation which can affect both losses and so-called "fixed expenses". Some projection of expenses is necesary, and tracking with premiums is more appropriate than remaining constant.

The reviewers also suggest the appropriateness of using state data by size of loss as a refinement of the countrywide Loss Elimination Ratio procedure. While using state size of loss distributions alone might cause problems of fluctuating results, there is no reason why the countrywide size of loss studies could not be modified for variation in average size of loss by state and by year. The greater the LER, the more incentive there is to find credible and more responsive variations from the mean. Actually, overall LER's should be declining in magnitude because of inflation, and a lot of the shifting to higher deductibles has already taken place.