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PERSONAL CASUALTY LINES ON A GROUP BASIS

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1. The traditional approaches of group life and health versus individual policies for fire and casualty.
2. Problems in product design, underwriting, classifying and rating.
3. The impact of federal income tax laws.
4. Regulatory constraints.

The discussions will focus primarily on personal automobile insurance.

MR. DANIEL J. FLAHERTY: One of the roles of the moderator is to define the topic for discussion. Since investigation will show that our subject, group personal casualty insurance, does not presently exist in any extensive manner, your speakers and I agreed that we would at least tell you what we are not going to discuss.

We will not discuss what is commonly known as mass-merchandising where policies are individually underwritten, rated, and delivered; the premiums usually being paid through payroll deduction. Those plans generally use rating systems that are independent of the insured's membership in a particular group. That is, two insureds being alike in all respects other than the group to which they belong will be charged the same premium. Generally mass-merchandising plans have not lived up to expectations from either a marketing or profitability viewpoint.

One could logically ask why are a group of actuaries talking about a product that essentially does not exist? Of course, if that person were familiar with actuaries, he or she would know better than to look for logical reasons. I would like you to consider a few things while I go on with these introductory remarks. Think about how much a year you are currently paying for property and casualty insurance on your car,

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your home or apartment. If you are risk averse, think about your personal umbrella policy and other coverages for items like jewelry, boats, trail bikes, motor homes etc.

While you mentally sum these premiums, and do not be surprised if they approach \$1,000 per year, think about why you have all those policies and when was the last time someone tried to sell you his brand of auto insurance. In fact, contemplate when was the last time you did any comparison shopping?

By now you may have begun to form some conclusions about the nature of the personal casualty insurance market. First, you buy these policies because you must. Even if you want to assume the risk, others, be they banks or motor vehicle licensing bureaus, will insist on insurance. Second, the annual premium is a significant sum, especially for auto insurance, our primary concern this morning. Third, chances are that no one has called you recently about buying any casualty insurance. You probably sought out the agent or company who is writing your present coverages. Finally, when you compare your current premiums with those you paid five or ten years ago, you can begin to appreciate the increasing attention personal lines gets from regulators and legislators. These investigations can be categorized under the heading of the issues of availability and affordability. They deal with systems for classifying risks, the mechanisms for handling residual markets, the treatment of expenses in ratemaking, issues that permeate the agenda for these two days of meetings.

Is it only these issues that prompt interest in the subject? Are there other reasons as well, such as a way for the life insurance industry to capitalize on its existing distribution system for group products, or alternatively, to have a product to distribute if national health insurance ever arrives?

Continuing with the use of the audience as a sample of the market place, as you listen to the speakers, expand your actuarial horizons so to speak, by simultaneously considering your reaction from two other viewpoints. First, as an employee and potential consumer, would you be willing to enroll in a group plan? Second, many of you are managers in large corporations, often located in major cities with a large population of relatively young employees. Will the owners of the business for which you work benefit from offering such a group auto program?

MR. VINCENT W. DONNELLY: "Insurance has become a necessity of our daily living."

"Unless automobile and homeowners insurance, in particular, are available at fair rates, many consumers will not be able to drive cars or own homes."

"Problems in the availability and affordability of essential insurance are not new, but they are more serious today than ever before."

These statements were made by Senator Howard M. Metzenbaum at the opening of public hearings this January investigating whether individuals were being deprived of their equal rights to obtain insurance at fair rates.

Pick up a recent issue of any trade publication, and you are likely to see headlines similar to the following:

"AUTO MARKET SEEN TIGHTENING IN MICHIGAN EVEN FOR GOOD DRIVERS." (Insurance Advocate, 2/25/78)

"NEW JERSEY FAIR PLAN DEFICIT FOR FISCAL YEAR ENDING SEPTEMBER, 1977, \$9.7 MILLION." (Insurance Advocate, 3/4/78)

"MODIFIED OPEN RATING SYSTEM BILL INTRODUCED IN NEW JERSEY." (Journal of Commerce, 3/9/78)

It goes without saying that Senator Metzenbaum's remarks and the points raised in the articles quoted have put the issues of availability, affordability, so-called "redlining," and treatment of the residual market on the front burner. Is group insurance the answer? It is not my intention to answer that question for you today. Nor do I mean to imply, by quoting Senator Metzenbaum and the noted headlines, that all of the stated problems actually exist in the auto insurance industry today. However, if one or more do exist, and if "true group" auto is thought to be a partial solution then I am here to tell you that the key to the answers lies in the hands of our legislators and insurance regulators since only one state, Illinois, has actually incorporated "true group" auto practices into its insurance laws.

Before we analyze the current regulatory status of "true group" auto insurance, or its future status, let us briefly examine how the concept of group insurance emerged in the life and health insurance regulatory process. That might give us all a better idea of what is in store for "true group" auto insurance.

The first contract of group term life insurance was written in 1912 to cover the employees of Montgomery Ward. The first National Association of Insurance Commissioners (NAIC) Model Group Law was adopted in 1918. The record books indicate that the NAIC adopted its first Model Group Law "to prevent abuses which might easily creep in". I point this out in order that we can all understand that the earliest NAIC Model Group Law was not intended to permit something -- group term life insurance was not then illegal -- nor was it designed to prohibit anything. Thus, the emergence of the regulation of group life insurance in 1918 came about in an entirely different marketing atmosphere than that which greets the

potential emergence of the regulation of group automobile insurance. Right now, group auto insurance is effectively prohibited in at least 30 jurisdictions, and depending on how you read various Attorney General Opinions, etc., it may or may not be effectively prohibited in the majority of the remaining jurisdictions.

Group life insurance has become a household phrase, growing from a paltry \$13.2 million in force in 1912 to over \$1 trillion in force at the end of 1977. The group life insurance success story did not just happen. It was permitted to occur through a body of state law exemplified by a Model Law which has consistently followed and adopted emerging practices which prove to be in the public interest.

If "true group" auto insurance is to enjoy anywhere near the same success as group life insurance, it will have to start from a point of much greater regulatory disadvantage than did group life insurance. There are currently 24 jurisdictions which have so-called "Fictitious Group" laws which probably completely preclude the marketing of "true group" auto insurance. These are the types of laws which say that "no insurer . . . shall make available through any rating plan or form . . . any . . . casualty . . . insurance to any firm . . . at any preferred rate . . . or form of contract based upon any fictitious grouping of such firm . . ." Usually these types of laws then go on and attempt to define the various types of "fictitious groups" and sometimes include persons brought together through employment and membership thereby completely eliminating the primary market for "true group" auto insurance, employers and unions.

There are currently 26 jurisdictions which have "Unfair Rate Discrimination" laws or regulations which either specifically prohibit group rating by requiring that group and individual policies covering the same risks have the same rates or permit it subject to very stringent guidelines (i. e. minimum number of lives, participation percentages, etc.) In addition, a quick review of state policy forms and rate filing regulations indicates that 20 jurisdictions subject group policies to more strenuous requirements than individual policies. While no in-depth study has yet been made, it appears that some of the financial responsibility laws will need to be modified so as to permit the issuance of certificates if "true group" auto insurance is to be viable.

These types of laws: Fictitious Group, Unfair Rate Discrimination, Policy Form and Rate Filing, and Financial Responsibility laws are only part of a larger body of laws which may eventually impact on the marketability of group auto insurance. For example, in a survey of insurance commissioners conducted by Booz, Allen & Hamilton, 23 jurisdictions responded "no" to the question, "Would you accept certificates issued to your residents under a master group policy issued to an out-of-state employer?" By responding "no" the commissioners indicated that they might apply their own state's laws to out-of-state group contracts. Such an occurrence could severely restrict the development of multistate group auto policies.

To briefly reiterate, "true group" auto insurance is effectively prohibited in at least 30 jurisdictions. It is only permitted in one state. I think you will now agree with my statement at the top of this program that the future of "true group" auto insurance lies first in the hands of our legislators and regulators.

It would be inappropriate for me to address the legislative problems facing group auto insurance and omit the Federal scene. The labor bargaining and tax treatment of group-type products are covered by the Taft-Hartley Act and the Internal Revenue Code. Favorable treatment within these Federal laws is considered desirable, if not necessary, to the marketing success of any group insurance product. At present, group life and health insurance, and group legal on a temporary basis, are all treated favorably by the tax and labor bargaining laws, and this has undoubtedly contributed in part to the phenomenal sales success of these products. Limited efforts were put forth by the late Senator Hart, during the 94th Congress, and Senator Williams, during the 95th Congress, to grant similar treatment to group auto insurance. Bills were introduced but continue to languish in committee. It is quite possible that favorable labor bargaining status could be gained by group auto in the near future, but favorable tax treatment has been severely clouded as a result of President Carter's tax reform proposals which directly address group life and health insurance.

Speaking of the future, one might ask what is in store for the regulation of group auto insurance? While I do not have a crystal ball, I can give you some idea of some sources of potential change in the manner in which group auto business is regulated today.

Because of the pervasiveness of state laws prohibiting group auto insurance, and in light of the growing concern with the present auto insurance distribution system on the part of regulators, and the growing interest by consumers, one might anticipate an effort to develop an NAIC Model Law much along the lines of the Group Life Insurance Definition. While no such effort is yet underway, it is being studied. Any such Model would be the forerunner of action on the part of individual states. This process is extremely slow and is prone to a resulting "fruit basket" of state laws.

A much more radical and quicker solution is potentially available through ERISA. Those of you familiar with the provisions of ERISA are probably saying, "ERISA does not have anything to do with auto insurance", and you are 100% correct. However, you will recall that a minute ago I was talking about legislation introduced by Senator Williams which would incorporate group auto insurance into the Taft-Hartley Act as a permitted fringe benefit for union bargaining purposes. Well, the definition of "employee benefit plan" under ERISA also makes reference to the Taft-Hartley Act. Now you ask, "How does that fact have anything to do with the regulation of group auto insurance?" Once again I would have to say, "At present, nothing." However, ERISA has a preemption section which,

if interpreted broadly, could potentially preempt all state regulation of "employee benefit plans", and given the earlier facts, this could lead to the elimination of Fictitious Group, Unfair Rate Discrimination, and other state laws which now regulate group auto insurance. Admittedly, this has to be classified as "far out", and it is only presented here today in a theoretical context.

I am pleased to see the Society of Actuaries and Casualty Actuarial Society discussing the expansion of "group" concepts to the personal lines business. I am equally sure you will all agree, especially after you hear Ron's and Dennis' comments, that "true group" auto will be a definite part of "expanding actuarial horizons".

MR. C. RONALD RILEY: As Vince has indicated, current legal constraints effectively prohibit a viable group auto product. I will therefore assume that a passive regulatory climate will prevail in the future. My presentation will not provide solutions. Rather, it will emphasize the identification of problems. In this fashion, I hope to create an awareness of the challenges presented by group auto.

Product design for automobile insurance involves four considerations:

1. Defining the type of coverage to be provided.
2. Defining the amounts or limits to be provided.
3. Identifying the drivers to be insured.
4. Identifying the vehicles to be insured.

Automobile insurance whether written on an individual or group basis is a package of several distinct coverage grants, just as group medical care includes hospital, surgical, major medical, dental services, etc.

Three coverages constitute the traditional benefits commonly identified as automobile insurance; namely, liability, no fault, and physical damage. With respect to liability insurance, the public policy set forth in Financial Responsibility statutes and mandatory or compulsory liability regulations will probably continue to be applicable to a group auto plan.

Financial Responsibility statutes dictate a minimum amount of liability coverage. These statutes specify an amount, such as 10/20/5. In this situation an insured operator would be required to carry bodily injury liability in the amount of \$10,00 per person, \$20,000 per accident, and \$5,000 property damage liability. Moreover, uninsured motorists coverage for bodily injury and perhaps property damage in an equal amount would also be required.

The statutory minima for these coverages vary by state from \$15,000 to \$60,000 per accident, the most common being \$25,000 or \$50,000. However, the average limits actually purchased on a countrywide basis are \$60,000 to \$100,000 per accident.

The amount of liability coverage offered by the group plan represents an important plan decision. Clearly, the minimum amount available must satisfy the statutes, but the real issue is whether the plan will offer a base amount or a base amount plus several options.

Typically only about one third of the market purchases the minimum limit. Hence a base amount equal to the minimum limit will not satisfy two thirds of the current market. Only about 20% of the market carries more than \$100,000 per accident. Therefore, most plan participants will require liability amounts in the range of \$25,000 to \$100,000 per accident.

Next, the cost of higher limits of liability should be considered. A \$50,000 benefit will increase cost about 10%, and a \$100,000 benefit will increase premium rates by only 20% as compared to a \$25,000 benefit. The incremental cost for higher limits is quite small.

Any plan with optional liability limits will incur substantial administrative costs, which will be quite disproportionate when compared with the incremental premium rates for the increased benefits. Moreover, a salary related scale of liability benefits a la traditional group life insurance hardly seems worth the effort.

Finally, there is and probably will continue to be a market for excess liability insurance. Generally an excess liability policy provides coverage of \$1,000,000 and requires \$100,000 of primary automobile liability. These products would be individually underwritten and complement the group auto plan in the same fashion that personal life insurance complements group life. Hence, it appears that the group plan should provide a flat amount of liability insurance in the amount of \$50,000 to \$100,000 with excess amounts available via a standard personal policy on an individually underwritten basis.

The final item of importance in this coverage area is Uninsured/Underinsured Motorists coverage (U.M.). The uninsured population is estimated to be 20% countrywide. This varies considerably by state and even by area within a state. For example, California claims an insured population of over 90%, but in some urban areas where the cost of insurance is substantial, the percentage of uninsured motorists may be 50%. This simply means that in these areas, one half of the serious accidents involve an uninsured operator. U.M. provides coverages for such accidents. If this coverage is marketed properly, it will reduce the need or legislative desire for compulsory liability insurance.

The second coverage area to be considered is no fault or personal injury protection. Approximately one half of the states currently require some form of no fault insurance. A parallel coverage grant is available in all other states. This grant is called medical payments.

These coverages are most important in a group auto plan because in these areas the group auto plan can provide substantial claim savings. In many jurisdictions, no fault or medical payments benefits duplicate the payments under an existing group health plan. There has been and will continue to be political and industry motivated arguments concerning the issue of primacy. Except where the issue has been settled by legislative decree, the insurance industry as a whole continues to contribute to the spiraling cost of medical care by permitting duplication of benefits.

When an employer sponsors a group auto plan, he will not tolerate duplicate payments. Various studies within the group health industry indicate the claim savings will be in the range of 1 1/2% - 5% of group health claims. Viewed from a different perspective, the savings could be 40% to 80% of current no fault benefits. The only essential requirement in this area is that group auto and group health plans be properly integrated.

The final coverage to be considered is physical damage. This segment of the group auto plan includes the traditional coverages of collision, comprehensive, and perhaps emergency road service.

1. Some would maintain that even in a favorable environment, a group auto plan should only include the traditional liability and no fault coverages. Within this scenario, each employee would attempt to secure physical damage coverage via the voluntary personal automobile market. This is unrealistic. Physical damage coverages represent about 40% of the total available auto premium and cannot be ignored. An employee with a group auto liability plan would have difficulty securing physical damage insurance in the personal market.

Any carrier entering the group auto market must provide both liability and physical damage products. The typical two car accident may involve one or more liability claims and a collision claim. With separate carriers, claim administration would be complex, expensive, and quite inefficient.

2. Physical damage is required by virtually all loan institutions financing the purchase of automobiles. Approximately one third of the vehicles now insured are three or fewer years old. With the rapidly increasing price of private passenger automobiles, it is not uncommon to see 48 month finance contracts. Then, taking account of used car sales with a finance contract, a conservative estimate would be that 60% of insured automobiles are covered by a finance contract. Therefore, it should be concluded that group auto must include the traditional coverage grants, both liability and physical damage.

3. Should comprehensive and collision be offered as separate coverage with the right of selection? Antiselection will definitely increase if the employee has the right of choice. Consider a typical group medical care plan. Does the employee generally have the right to select some coverages and reject others? No. Hence, comprehensive and collision may be combined and offered as a physical damage package. Granted, the physical damage package may be an option, but separate comprehensive and collision options should be avoided.
4. If physical damage is available in the group plan, what safeguards can be instituted to avoid "prior damage" claims? The problem is analogous to the "prior condition exclusions" of a group health plan. There are three types of solutions for this dilemma:
 - a. Pay all such claims but anticipate such in the premium rates. This is unrealistic because the premium rates could be exorbitant.
 - b. Pay all such claims and use normal rates but have the claim adjuster decide what is current damage and what is prior damage. The policyholder would fund the prior damage claims. However, the claim adjuster would have a most difficult assignment and the policyholder may be unwilling to finance prior damage claims.
 - c. Prior damage claims could be denied. There is likely to be a rather severe reaction from the employee particularly if his integrity is being questioned by the claim adjuster.
5. Most automobile insurance contracts have a common rating philosophy. In general, this philosophy is termed "merit rating" or a Safe Driver Insurance Program. The essence of this philosophy is to surcharge the insured for various at fault accidents and convictions that occurred in the recent past. The concept is statistically valid. For every accident or conviction incurred, the probability of a subsequent accident is increased when compared to the same probability for an accident or conviction free driver. Hence, the surcharge is justified as maintaining actuarial equity between drivers and creating an insurance incentive to drive safely. Should this concept be transferred to a group plan? Quite frankly, it would be an administrative nightmare, but the concept has merit and could be modified for a group plan.

One way in which this could be achieved would be to use a variable coinsurance provision for physical damage insurance. For example, on the first accident for which the insured was at fault the coinsurance would be 80/20. However, if the next at fault claim were reported within twelve months, the coinsurance would be 50%. If 24 months separated the claims, the coinsurance would be 60/40, 36 months 70/30; and finally, if 48 months separated at fault accidents, the

coinsurance would be 80/20. Such a system presents an immediate penalty to the careless driver and certainly rewards the good driver. Moreover, the system does impact "prior damage" claims because the first at fault claim would start the coinsurance time clock ticking. This system has been called "retrogressive coinsurance" or variable coinsurance. The concept is theoretically sound and not unlike the concept of progressive coinsurance in some group dental plans. Finally, any coinsurance system has the advantage of indexing the deductibles. This should have particular appeal to the group client.

In any event, deductible levels are an important parameter in plan design for physical damage insurance. Should the plan provide a uniform deductible, or will the employee have the right to select among several deductibles? Will the deductibles be a flat stated dollar amount? Indexation of deductibles might be practical or perhaps a standard coinsurance provision a la group health plans may be practical.

There are two remaining items that must be resolved: identifying the drivers and the vehicles to be insured.

1. The active employee that currently holds a valid driver's license would be the named insured, but should this be the extent of the group plan? Traditionally, personal automobile insurance has been written on a family basis, and an entire body of law has been developed as a consequence of this concept. The traditional definition is that coverage is provided for the named insured and all resident relatives in the household. This definition may not be compatible with a group concept. For example, if the employee were a 20 year old son living with his parents and sister, would the employer wish to provide automobile insurance for the employee's parents and sister?

If the plan benefits are to be extended to others in addition to employees, the definition of the plan participants must be thoughtfully considered. The employer may wish to use the current participation definition operative in his group health plan. In this area, the concept of dependency or sponsored dependents must be faced.

2. On termination of coverage, should there be a conversion privilege? To be consistent, a group auto plan should include a conversion privilege. However, only coverage should be guaranteed, perhaps for one year. The premium rate charged should reflect the inherent quality of the converted risk. This means that the terminated group insured might receive preferred, standard, or substandard rates. This will also tend to minimize any conversion charge assessed against the group contract because the rate level of the converted policy would be adequate.

3. The final issue is identifying the vehicles to be insured. The vehicles insured should be owned by the named insured, registered to the named insured, and principally garaged at the address of the named insured. This is a somewhat tighter definition than currently used in the personal automobile policy. There is a secondary issue to be considered. What constitutes an insured vehicle? Are trucks, pick ups, vans, trailers, mobile homes, recreational vehicles, mopeds, motorcycles, and antique cars included? Careful review is essential in this area for there are no easy solutions.

In conclusion, it is clear that coverage definitions are a most important consideration for a group auto insurance plan. Without careful review, plan design will be deficient, and the plan benefits will be unsatisfactory. A poorly designed plan will result in excessive costs.

Group auto is on the distant horizon. The question is, will the actuarial community orchestrate the change required to produce a viable group auto product, or will we be professional musicians attempting to create harmony from a hopelessly dissonant score written by an incompetent composer?

MR. DENNIS E. HOFFMANN: Aside from the regulatory hindrances mentioned by Mr. Donnelly, there are other factors which have impeded the growth of group automobile insurance.

First, social/political pressures have been directed primarily at providing coverage in the health and life insurance area partially because the employer might be more directly concerned with the continuation of the family's income at a time of death or disability than with the destruction of an automobile, etc. Also, these needs have been more all encompassing than needs for auto insurance particularly during the early period of development of group health and life.

Second, the sales effort related to individual life and health insurance is much greater. This, obviously, arises from the differences in the nature of the needs for these products as well as product differences, themselves. Thus, from a sales point of view, life and health insurance could be more effectively marketed through the group approach.

Third, the market for property and casualty insurance is, and has been, more saturated. This difference stimulated an interest in revised marketing efforts for life and health insurance through the group approach. Pressures on insurance companies for a new marketing method in a saturated market such as personal auto insurance might be expected to be less.

Last, the post-sale servicing required by property and casualty insureds is generally greater than for life insurance and probably more complex than for health insurance. Therefore, the reduction in post-sales adminis-

trative effort associated with group auto insurance, though real, might be expected to be less than that associated with life and/or health insurance on a group basis.

Having touched upon some reasons why the group auto concept has not grown at a rate commensurate with that associated with life and health insurance, we consider the current market potential. Recent studies have indicated an increasing interest on the part of consumers, employers, and insurance carriers. One such survey performed quite recently indicated that about half of insurance company executives polled stated that true group auto insurance would assume some significance during the coming ten years. As the cost for this type of insurance increases, employer participation would begin to assume greater importance.

Other studies have indicated that employers favor such a concept. One study indicated that 83% of employee benefits managers at companies where group coverage is offered felt it worthwhile. It should be pointed out, however, that this survey was performed during a time when employer contributions were minimal or nonexistent. In fact, many employers not associated with such a concept felt it undesirable since they eventually might have to assume the cost of the plan. Most insurance company executives polled (75%) thought the concept would be favorable due to increased profit, volume, and cash flow.

It seems realistic to assume that the economic/political/profit problems encountered during the last four to five years have served to delay the pursuit of this concept for a short while, but these same factors may prove to accelerate interest in this concept during the coming few years.

The delay has arisen because the inflation of the early 1970's served (along with other variables) to place the profit picture for this line of business in an extremely unfavorable light. This resulted in insurance company management diverting large amounts of its attention to remedying the current situation through revised pricing and underwriting practices. These same economic conditions have resulted in collective bargaining positions by employee organizations directed primarily at items associated with real income and job security as opposed to any sharp increases in fringe benefits.

These same forces, however, have served to sharply increase family expenditures for automobile insurance which, in turn, has stimulated sharp consumer reaction in some areas. This reaction has precipitated regulatory/statutory intervention in forms ranging from sharp criticism of the insurance pricing/profit position to outright restrictive actions on the part of both regulators and legislators regarding such items as "excess profits", rate making procedures, territorial boundaries, risk classification, etc. It would seem logical to conclude that with the current atmosphere existing in regulatory/legislative circles, some of the problems mentioned would result in an increased interest on the part of insurance

company management, consumer groups, and regulatory/legislative people in the group auto concept, since this concept, if properly implemented, could serve to mitigate, if not, in fact, eliminate the areas of conflict that currently exist between members of these groups. Further, this elimination might be achieved while at the same time effecting a reduction in the total cost of the current automobile insurance mechanism.

Group automobile insurance, properly underwritten and priced, with adequate employer contributions, might well prove to be the necessary healing ointment for the availability and affordability problems currently cited.

How might such a concept be underwritten and priced to assure both market acceptability and underwriting profits? Changes would have to be made in the underwriting philosophy of most property and casualty carriers. Of paramount importance would be the determination of the account profile through some sort of sampling mechanism. Since underwriting and pricing are so inextricably intertwined, information gathered for underwriting purposes would serve the needs of the pricing function. However, from a selection point of view, the underwriter would be interested in the type of business represented by the sponsor; namely, the communities in which employees live, their sex, age, marital status, and absentee records, as well as their workers' compensation and disability records. These factors should provide the underwriter with the information necessary to determine whether the individuals of this group would comprise an entity which might be reasonably expected to return a profit to the insurer. Of extreme importance would be a last variable relating to the percentage of the individual premium to be paid by the employer. Since this figure will have the greatest impact upon the final cost to the individual member of the group, it might be concluded that this variable would also be the primary factor in ultimately determining the percentage of employee participation in the group and subsequently the success or failure of the effort.

You may have noted that many of the variables which I have alluded to are the very items currently subjected to the criticisms mentioned earlier. How then might these criticisms be muted since the same variables enter into the underwriting process? Quite simply, it might be stated that these variables are reasonably valid measures of the risk associated with an individual insured. However, through the grouping process, when coupled with adequate employer contributions, these reflections of individuality are blended to produce relative cost equality as opposed to individual cost equity. This would seem to be consistent with the currently fashionable attitudes in our society in general.

It is conceivable, however, that a group of potential individuals may prove to be uninsurable in total, particularly when considered in conjunction with the amount of contribution the employer is willing to make. However, if we are to assume that employee groups generally consist of individuals

drawn randomly from a community and a substantial employer contribution is required, then the availability problem should be mitigated and the affordability problem reduced or, in fact, transferred to the employer for the group in total. Please do not understand these remarks as reflecting my personal social views, but rather as an interpretation of a possible future reality.

Having determined that a prospective group is acceptable from an underwriting point of view, how then would a price be determined? Using the information gathered in the initial survey of the prospective group, it should be possible to obtain weighted average premiums for the group using established company and/or bureau classifications, territories, etc. The average rates determined (gross to employer contribution) will, of course, vary depending upon the types of coverage, the limits of liability, and number of classifications selected for the group.

Most of this should be relatively straightforward. However, I would like to pause a moment to reflect on the classifications inherent in a group concept. Due to the wide variation in risk encountered in the individual automobile insurance market place, it should be fair to conclude that the number of classes proposed in a given group situation will vary inversely with the amount of employer contribution desired. To elaborate, if the current Insurance Services Office classification system were to be superimposed upon the group, then the amount of employer contribution might only amount to 10% - 15% of each individual's premium since this amount, along with expense reductions associated with the group concept, should result in an extremely competitive rate for all members, thus assuring a high level of participation and predicting a reasonably good chance of success from a carrier point of view. If, on the other hand, the group is expected to operate on a single class basis, then the employer contribution must necessarily increase dramatically (perhaps far in excess of 50%) since it would then be necessary that the average premium for the group be brought to a level significantly below the general market level for high quality insureds in order that a high percentage of these individuals participate, along with the high risk drivers who will flock into the program. Therefore, I propose that the number of classes and the employer contribution must be balanced to meet the needs of the group and, at the same time, result in administrative expense reductions.

Beyond the determination of the rates thus far discussed, finer points must be introduced into the pricing process. For example, is the group to be experience rated? If so, then what time period should be selected to provide the necessary stability yet reflect with reasonable accuracy, current conditions. At what size should the losses included in the group experience rating formula be limited? It is unlikely that large losses arising from high liability limits can be totally included in the experience rating without resulting in sharp fluctuations in price from year to year. If portions of these losses are excluded from the experience rating program, then what mechanism should ultimately be employed to adjust the excess

limits premiums? Along with this experience rating concept would be determination of maximum and minimum premiums to be paid by the employer and/or the individual employee. Last, who should receive the benefit of the experience rated program; the employer or the employee, or both?

Thus, there are many questions to be answered regarding the pricing of true group automobile insurance. However, these questions are not new since the bulk of them have been answered in other applications.

