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DIGEST OF SMALLER COMPANY FORUM

ANNUAL STATEMENT

A. Have any problems of particular concern to small companies arisen in preparing the new form of annual statement?

B. Are comparisons of expenses, interest rates and other items among companies of like size now more meaningful? If so, should this encourage companies to exchange convention statements with other companies?

MR. S. F. CONROD stated that the problems of the small companies do not differ from those of the larger companies, but more of the problems are likely to be centered on one person.

He pointed out that the exhibits relating to accident and health insurance, Schedule H and Schedule O, had been taken from the old form of statement without change and had not been adequately adapted to the new form. He felt that the practice of arriving at earned premiums by deducting the increase in unearned premiums and the increase in the additional reserve on noncancelable policies can lead to inconsistent results, showing an expense rate too high when related to such earned premiums, since expenses have probably been paid on all premiums received. He suggested that a more satisfactory type of loss ratio would be one defined as the ratio of amounts paid to or set aside for policyowners to premiums received. Tests had shown that such loss ratios would run several points higher and the corresponding expense ratios several points lower for companies writing a substantial amount of noncancelable accident and health insurance.

MR. A. T. LEHMAN pointed out some lack of uniformity among the various exhibits in the extent and manner of classification by lines of business. In the policy exhibit it seems improper to sandwich Group policies between the Ordinary policies and their dividend additions. Exhibit 7—Dividends—he felt might be extended to other lines besides Ordinary. He also mentioned a lack of proper referencing. For example, in Schedule O current year references were to items and pages in the old blank. Also, references in Exhibit 12 could be improved considerably.

MR. N. T. FUHLRODT felt that the denominator of the formula for the rate of net investment income should be decreased by unearned investment income just as it is increased by investment income due and accrued. For companies in which policy loan interest is payable in advance, the unearned investment income item can be substantial. Another important matter among several that are not yet entirely clear in the new form of statement is the basis of dividing capital gains and losses into their realized and unrealized components. If the realized gain is defined as the net profit on sale or maturity, then one year's unrealized loss may become another year's realized gain.

MR. R. E. EDWARDS pointed out the desirability of making the division between realized and unrealized capital gains on a basis that would permit the realized gains, when carried into the analysis of operations, to be allocated logically by lines of business so as to minimize the possibility of distorting the net gain for any particular line of business.

MR. A. T. LEHMAN, referring to Section B, believed that comparisons among companies had become somewhat more meaningful under the new form of statement, but differences in the treatment of various items must be recognized. Federal income tax is an important item which some companies charge against investment income and others against insurance. Computation of net interest before and after Federal income tax would obviate this difficulty. Referring to Exhibit 4 he said instructions should be given for the determination of realized and unrealized gains or losses, or these items should be eliminated from the statement, as they are open to misunderstanding and companies have not used the same methods.

MR. E. F. ESTES thought that comparisons with other companies have acquired little, if any, more meaning than previously, with the possible exception of General Expenses as shown in Exhibit 5. Even in this Exhibit, the methods of allocating various items are not uniform. Furthermore, the detail is shown only on a cash basis, whereas accruals are lumped.

MR. M. G. R. WALLACE did not believe that comparisons of expenses among companies of like size are now more meaningful. Allocations as between agency and home office can vary widely as a result of differences in method of operation. While expenses have been separated into Life, Accident and Health, and Investment, a comparison between a company doing Group business and a company doing only Ordinary business will not be very meaningful.

Mr. Wallace liked the present formula for earned interest based on the new definition of mean assets much better than a formula based on mean ledger assets, but comparisons between companies which differ in their treatment of Federal income tax would be facilitated if the amount of such tax were shown in the statement. This would make it possible to convert from a rate before tax to a rate after tax, or vice versa. He believed that the new statement permitted easy computation of earned interest rates on various categories of assets that were more meaningful, and he favored a wide exchange of company statements.