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Economic Status of the Property and Casualty Insurance Industry with Special Reference to Virginia

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ECONOMIC STATUS OF THE PROPERTY AND CASUALTY
INSURANCE INDUSTRY WITH SPECIAL REFERENCE TO VIRGINIA

Clarence Jung

1987-5

ECONOMIC STATUS OF THE PROPERTY AND CASUALTY
INSURANCE INDUSTRY WITH SPECIAL REFERENCE TO VIRGINIA

A Working Paper

I. Introduction

Conditions in the property and casualty insurance industry in the past several years have caused great concern to both the insureds and the insurers. Premium rates for some lines, particularly certain liability coverages, have increased significantly (some observers would say catastrophically). For some businesses and governmental units insurance coverages have either been cancelled or are not available.

The situation in the industry has often been referred to as a crisis. And reactions to this crisis have included calls for investigations of the industry and an increased degree of government regulation. Private citizens and business firms have blamed insurance companies; insurance companies have blamed the legal system; representatives of the legal system tend to blame the insurance companies and so on.

The purpose of this paper is to explore the nature of this problem; its dimensions; its probable future direction and possible remedies; and the manner in which it is being dealt with in Virginia.

II. Dimensions of the Problem

The origin and extent of this problem are not easily defined. It apparently began to be evident around 1983 or 1984, and was widely felt in 1985 and 1986. Much of the evidence is anecdotal - coming from risk managers for corporations or governmental bodies and to some extent from

APPENDIX B

Umbrella/Excess

Table 1

Changes in Premiums And Limits At Last Renewal

	Premiums			#	Limits			Improved	Coverage Conditions		
	Less Than 10%	10-100%	Over 100%		Less Than 10%	10-50%	Over 50%		No Change	Somewhat Restricted	Highly Restricted
<u>1984</u>											
1st qtr	100%	0%	0%	1	100%	0%	0%	1			
2nd qtr	0%	25%	75%	4	50%	25%	25%	4			
3rd qtr	25%	13%	63%	20	50%	13%	38%	8			
4th qtr	20%	15%	65%	20	65%	11%	26%	19			
<u>1985</u>											
1st qtr	4%	30%	67%	183	61%	28%	10%	181			
2nd qtr	4%	21%	76%	183	43%	31%	26%	280			
3rd qtr	4%	13%	83%	204	38%	31%	31%	200			
4th qtr	2%	17%	81%	313	30%	21%	48%	312			
<u>1986</u>											
1st qtr	6%	33%	41%	157	34%	26%	41%	157	2%	26%	56%
2nd qtr	12%	42%	39%	260	50%	27%	22%	255	5%	30%	49%
3rd qtr	28%	50%	19%	176	65%	20%	8%	179	6%	39%	47%
4th qtr	61%	32%	6%	294	92%	7%	4%	293	19%	51%	31%

ordinary consumers - and not easily quantified. Nonetheless it has been so widely reported that there is hardly any question that it is a legitimate problem.

That the price and availability of property and casualty insurance, particularly liability insurance, are severe problems of industry and government is indicated by a survey initiated in 1986 (and repeated in 1987) by the Risk and Insurance Management Society, Inc. - RIMS - asking its members to evaluate current insurance conditions. The members of this society are the risk managers (meaning the people who buy insurance and try to minimize the cost of risk exposures) for businesses and governments throughout the country.

The two surveys - in January 1986 and January 1987 - showed that there was "sharp deterioration of conditions. . .starting in 1985, giving way to a less rapid deterioration in 1986 and, in some cases, actual improvement." (RIMS 1987 Insurance Availability Survey, 1987, p.3) For example Table 1 (taken from Appendix B of the report) indicates that for Umbrella/Excess Liability coverage there were virtually no premium increases or lowered limits of coverage in first quarter of 1984, but the third quarter of 1985 found 83% of the respondents reporting premium (i.e., price) increases of over 100% and one-third of the respondents reporting limits decreases of over 50%. That the "crisis" seems to be easing somewhat is shown by 4th quarter 1986 figures of only 6% of the companies facing such price increases and only 4% facing large decreases in limits. Coverage restrictions seem to have been continuing (in a somewhat erratic way) in 1986.

The RIMS data cited above indicate why so much concern was generated throughout the country about the price and availability of property and casualty (in particular, liability) insurance in the mid-1980s. This concern was reflected in legislation in virtually every state in the union, as well as by studies by the General Accounting Office and by congressional investigations. In Virginia, an organization calling itself Virginians for Law Reform was created and the Attorney General issued a call for state regulation of insurance rates and attention by the Commonwealth's Bureau of Insurance to levels of profits of insurance companies doing business in Virginia. The AG's concerns were in turn reflected in two laws passed in the 1987 General Assembly aimed at increased regulation of the industry.

These laws (H1234 and H1235) require that the Bureau of Insurance conduct a survey of the industry each year as to availability, price and coverages of all lines of insurance. Based on an analysis of these data, the Bureau is to determine whether there are "troubled" lines. Hearings would then be held and the Bureau would determine whether the competition is effective. If it is not, then prior approval (i.e., regulation) would be required.

Because the insurance industry is exempt from federal regulation (and from the antitrust acts), whatever regulation comes about is at the state level and so it may be instructive to look at the nature of regulation in the Commonwealth of Virginia as it reflects regulation throughout the national economy. As background, there is set out in the next section of this working paper a discussion of the important factors in the insurance markets as these factors determine price, availability and coverages in this industry.

III. Nature of Insurance Markets

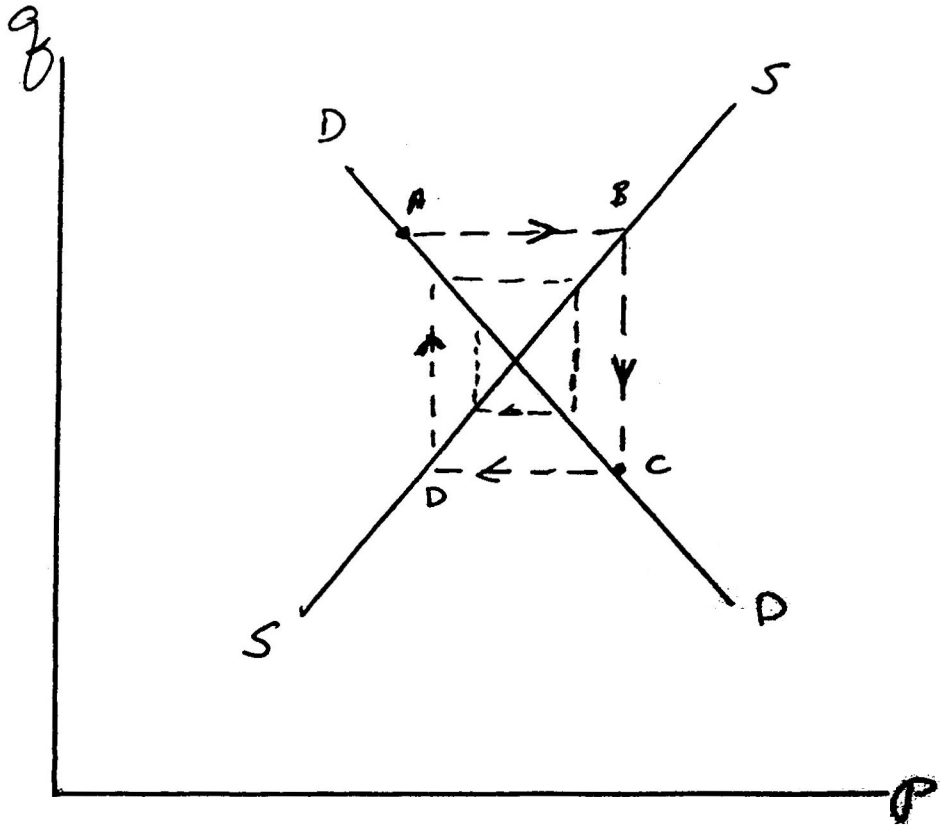
A. An Overview

This section represents an attempt to summarize the workings of the industry as these activities generate coverages and determine prices and availability.

Obviously, but with some not-so-obvious subtleties, the insurance industry attempts to identify customers who need insurance coverages and who will be "profitable." This leads the industry to seek geographic and industry targets which will be profitable and so to "underwrite" customers in these markets that profits are earned. Thus, the first element in the insurance equation is: Underwriting Profit/Loss. The search for profitable underwriting will generate different results for different lines and for different locations. (Representatives of states or industries where underwriting profits seem large may, then, in fact protest these decisions - as did the Attorney General of Virginia in 1987; see testimony of February 2, 1987.)

Since the dollar volume generated by the sale of insurance policies is meant to cover losses that will extend over quite a period of time, the companies "reserve" some portions of these premiums for the payment future losses. Just how much is reserved and how these reserves are accounted for are topics that generate much discussion and disagreement. Questions arise as to whether reserves should be committed for losses greater than actually experienced (even actuarially) because of the weak link between past experience and future losses (see the GAO report on general liability); whether the amounts reserved should be decided using

The Cobweb



the present value of future losses or their actual estimated dollar value. And some critics of the industry argue that even unrealized capital gains on the insurance company's portfolio should be counted as income. (In this connection, see the ISO report.)

The process of economic adjustment in the industry appears to follow the classic "cobweb" model. This is a model, generally attributed to Mordecai Ezekiel in the 1930s, the interaction of supply and demand forces in an industry characterized by a gestation period on the supply side. Of course, the production of most goods (and often, services) requires some gestation period, but is most graphically illustrated in the field of agriculture where gestation often has a literal interpretation.

The cobweb is illustrated in the figure on the facing page and has now become a part of most Principles courses. In time period 1, the price is such that the quantity demanded, point A, is less than the quantity supplied, but supply lags demand by one period. Thus in period 2, the quantity supplied is at point B on the supply curve (now meaning that "supply exceeds demand") so the price drops, point C. The drop in price causes a drop in quantity supplied in the next period, point D, and so on.

What such a model shows is that even an industry characterized by pure competition can generate cycles in price and output behavior. Broadly interpreted, the model gives a feel for the cyclical nature of the property and casualty insurance industry. Of course, the variables are more complex than in the simple model - incorporating as they do, premium rates, underwriting experience, investment income, and various

expenses of doing business - but the process is well exemplified by the cobweb.

A major force in the industry is the often little-noticed, but highly important, field of reinsurance (and to some extent excess lines insurance). As the name implies, reinsurance is insurance written for insurance companies by reinsurers. Companies will write policies for their customers and then will "lay off" various strata, retaining only what they consider manageable exposures. This market seems to move in mysterious ways, with Lloyds of London always appearing to be the basic force in the industry. And - what is most important - the trail of justification for the "difficulties" of the industry always seems to disappear into the mists of that industry. (This, it appears, is an area that might fruitfully be researched - perhaps it already is.)

Overarching the performance of this industry is the regulatory power of government; government, that is, at the state level. Well before the spate of interest in "deregulating" all sectors of the economy, the idea of allowing competition to regulate insurance markets had become widespread among many states. Exhibit 1 shows the regulatory status for each of the fifty states and the District of Columbia. The focus of this paper is, in fact, on identifying the role of the state regulatory bodies in influencing the performance of the industry. That topic will be addressed in the next section. However, it may be useful first to outline some of the major points of disagreement among interested parties with respect to measuring that performance.

B. Issues in the Measurement of Industry Performance.

This sub-section summarizes some of the major issues on which interested parties disagree in measuring the industry's economic health and its contribution to society.

First, and possibly foremost, there is the question of measuring the expenses of the industry, in particular its loss experience. There are, of course, actual losses paid out, about which there is little or no question. But there are also losses incurred but not reported (IBNR). The industry tends to report losses in terms of estimates of what the companies will eventually be liable for. If measured, however, in terms of actual cash pay outs, the amounts will be considerable lower. (See Attorney Mary Sue Terry's testimony, largely supplied by Dr. John W. Wilson.)

Second, there is the question of whether to take account of the "present value" of future losses. E.g., a thousand dollars to be paid out ten years from now has a present value of about five hundred dollars if the rate of interest is seven percent. Thus, the true economic cost to an insurance company of paying a future claim is its present value. The Internal Revenue Service has in fact ordered companies to value losses on this basis, although for rate making purposes companies still use actual cash value of the estimated required reserves.

Having established that reserves in some amount are needed (though the exact amount is open to various interpretations) the companies find themselves with liquid resources that are then invested in various income-producing investments. For rate-making purposes, companies often

tend to look at the underwriting experience alone and to try to use actuarial data to establish rates that will yield an underwriting profit. However, in terms of corporate policy, companies consider investment income and realized capital gains to be a part of their income stream. Some observers even argue for the inclusion of unrealized capital gains in estimates of insurance companies profits on the ground that "some day" these will be in fact realized. However, this is almost certainly a minority view and would probably not be recognized by financial analysis and economists.

Underwriting policies constitute a third area about which there is disagreement, in this case as to what constitutes appropriate behavior from a social point of view. There are two dimensions to this area. First, the extent to which policy holders in one geographic area, or class of insured, are generating profits for the company while other areas or classes are receiving what some observers term a subsidy. Second, and closely related to the first, the question of availability - oftentimes a measure of the "tightness" of the market, as for example when more drivers go into the assigned risk category for automobile insurance.

IV. Approaches to Evaluation of Industry Performance

Any evaluation of industry performance must begin with a review of the market structure of the industry. Market structure is measured by the number of firms in the industry, the ease of entry and exit of new firms, and the degree of product differentiation.

In applying these criteria to a particular industry, broad measures of judgment and economic theory must be introduced. For example, industries may be more competitive than the raw data would indicate if they can be called "contestable" markets. That is, if there are potential competitors who are indeed potential - will in fact come into the market - then the industry can be said to be competitive and the forces of the marketplace should lead to socially optimum levels of prices, costs, and output.

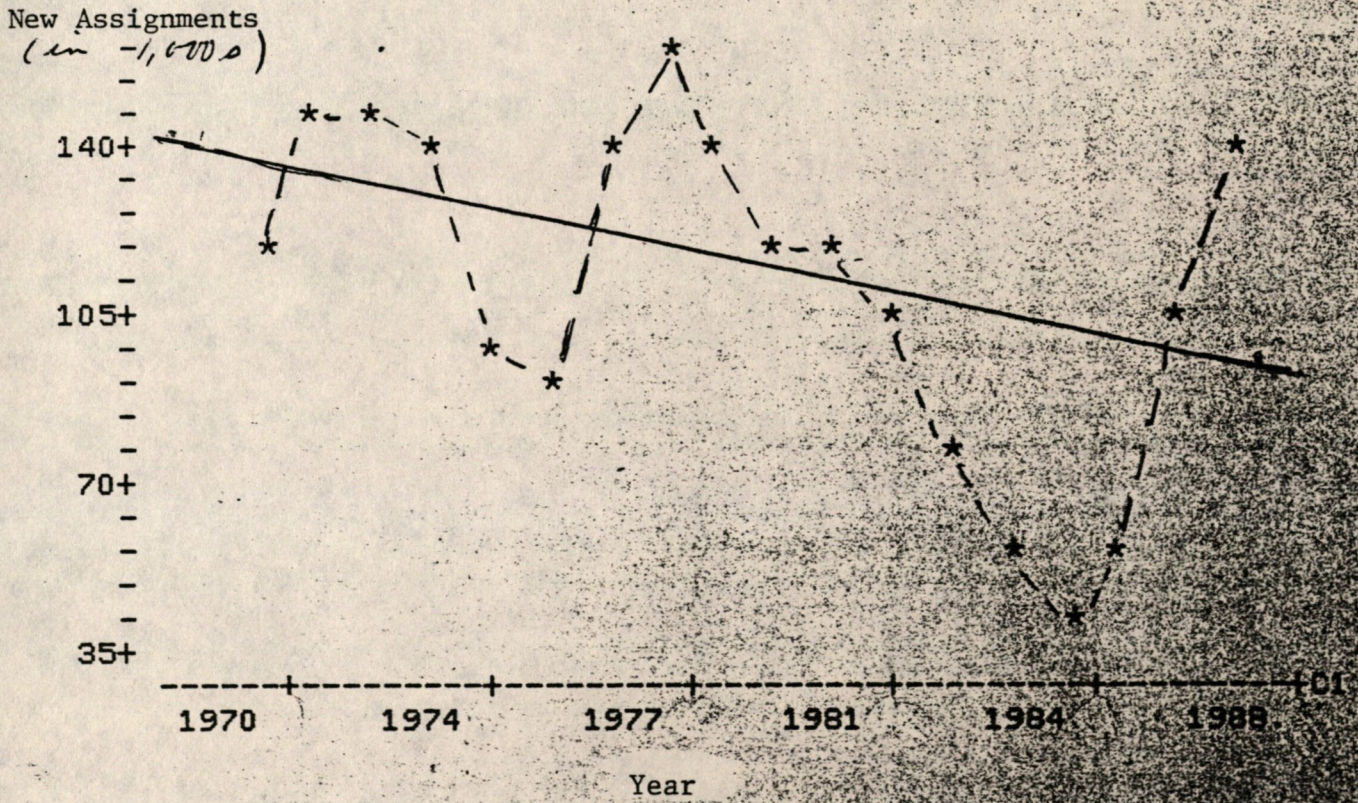
For the insurance industry, the focus is on the level of prices (premiums), the availability of coverages, profitability of the firms and their solvency. The question is whether the industry is sufficiently competitive that coverages are available at prices which enable companies to remain solvent and yet produce only a "reasonable" rate of return. If so, then there is no need for government regulation. If not, then the state should regulate the industry.

But there are powerful cyclical forces at work in the insurance industry, as was noted earlier. Thus, any evaluation of industry performance must be done with a time perspective that is capable of accounting for these forces.

Furthermore, measurement of the adequacy of reserves and of the level of industry profit is subject to wide areas of judgment and interpretation.

One approach to an economic evaluation of the industry would appear to be, therefore, that of examining the availability, price, profitability and solvency for particular lines, over a time period long

Figure 1



enough to capture the cycle and for a set of states which have differing regulatory schemes. A review of such a data set, along with information on market structure of the industry, nationally and by state, should yield a useful assessment of industry performance.

Some lines of insurance seem to be more amenable to such an analysis than others. For example, the automobile line seems to generate data and to be sufficiently established so that the analysis seems plausible and relevant. Data and conditions in others lines - for example, professional liability insurance coverage for physicians and lawyers - is subject to wide areas of disagreement.

Section V, below, represents an attempt to apply this approach to two lines of insurance in the Virginia market - automobile and lawyers malpractice.

V. Application to Virginia

For automobile liability insurance, there is a readily available measure of "availability" - the number of new assignments in the assigned risk market - which clearly shows the cyclical nature of the industry.

Figure 1 depicts the number of new assignments, by year, 1968 to 1987. Regression analysis yields the trend line indicating a long-run downward trend of 3,500 assignments per year. The cyclical nature of the business is clear from this graph. In the mid-1980s, the number of new assignments is up sharply from previous years thus indicating, to some extent, that automobile insurance is not as readily available as it

ny

Table 2

New Entrants into the Assigned Risk Pool
as Lagged Response to Industry Net
Income as Percent of Premium

Industry Net	New Assignments (1,000s)
1968 - 4.6%	1971 - 122
1969 - 3.7%	1972 - 146
.	.
.	.
.	.
1983 - 2.5%	1986 - 106
1984 - -3.1%	1987 - 140 (estimate)
1985 - -4.3%	1988 - 130 (forecast)

From the data above, the regression equation is

$$\text{New Assignments} = 132 - 3.91x(\text{Net Income})$$

Adjusted R-squared is 20.7%

was. It is important to note that this is a cyclical phenomenon, and that the cycle should turn down at some point in time. Thus - the data do not argue that regulation would solve the "availability" problem.

Table 2 reflects an attempt to obtain at least a rough approximation of the time lags involved in the cycle. Net income for the industry as a percent of the premium dollar is used as a leader for new assignments in the Virginia market. With a three-year lag, there is a negative (i.e., correct algebraic sign) relationship between profits and new assignments (profits down - new assignments up) and the coefficient of correlation is significant, though not high.

Set out below is a single-equation model designed to test whether government regulation makes a significant difference in the price of automobile insurance.

$$P = 311 - 5.44 Y - 0.1 R + 6.35 S$$

(-1.98) (0.00) (2.62)

P - average premium by state
Y - average industry profit by state
R - legislation by state (regulated or not regulated)
S - state population

The parameters in this equation were determined by multiple regression analysis for all fifty states plus the District of Columbia. While the coefficient of correlation for the function is quite low, size of state population is significant and profit is marginally significant while the existence of regulation (a dummy variable) is not significant. This equation offers fairly convincing evidence that regulation (more

precisely, prior approval by the state bureau of insurance rates) is not a significant factor in determining the price of automobile liability insurance.

The evidence just presented deals with availability, price, and profitability in the context of regulation. Solvency does not appear to be a problem in the industry today nor has it been for a number of years. In the early part of this century, there was such a problem and that indeed was the motivation for earlier regulatory programs. Today, however, there are state Guaranty Funds (much like the FDIC) to which all companies contribute and which seem to be effective.

For the automobile insurance line, the evidence seems strong that competition is an effective regulator of the industry. While the evidence presented above must be firmed up and expanded, it is pretty clear that this will be the result. A comprehensive study by Litzenberger and Nye "Level of Competition in the California Private Passenger Automobile Insurance Market" (at Wharton and Stanford) draws a similar conclusion, using an analysis primarily in terms of market structure.

With respect to the liability market in general and certain lines in particular (such as professional liability, directors and officers, nursery schools and others) the picture is not as clear. One study, by Kathleen Carlson of Northeast Illinois University, finds that there is no evidence that prior approval (i.e., state regulation on a public utility basis) is effective - or conversely that competitive forces are not effective - in several major lines of insurance. Her methodology

was interesting. She asserts that the higher the loss ratio to premiums paid, the better - that is, the more money the "customers" are getting back. (To employ such one-dimensional analysis seems patently incomplete, but it is an interesting thesis.) Employing fairly routine tests of significance (t-test), she found that these ratios are independent of the form of state regulation.

Her methodology is, in fact, similar to the one I used in 1980 working with the Bureau of Insurance (and up-dated in Equation above) in devising a single equation model of price (i.e., premium) as a function of relevant variables including the state regulation of rates as a dummy variable.

However, a reading of the record of recent years suggests that, as indicated above, the answer is more complex for a number of lines. The severe problems of availability, huge increases in premiums and reduced coverages of recent times (1) all argue for caution in drawing such a conclusion for lines other than automobile, fire and allied lines.

It appears, here, that several factors militate against the industry and its customers. These factors center on two areas: one, the seemingly large increases in court awards against the insureds and the insurance companies some having a very "long tail" (the term standing for the fact that the time between premium payment and paying for a loss is always finite, and sometimes very "long"). As a result, insurance companies tend to "reserve" heavily against these losses; two, the apparent problems experienced in the reinsurance markets, which

(1) See the allusion earlier to the RIMS study on availability.

problems are always referred to as being like an act of God and perhaps only understandable to the cognezeti.

Of these two factors, this study leaves the reinsurance market (and related, excess lines fields) for future research. It is a topic that would seem to be ripe for research. The second is one on which data seem to be available even though their meaning and implications are far from clear.

The "reserving" policies of insurance companies appear to be the foundation of much of the presentation by Attorney General Mary Sue Terry on proposed changes in insurance regulatory laws in Virginia in February, 1987. In her paper, the attorney general argued that much of the large underwriting losses claimed by the industry are not, in fact, losses but result from "companies' setting aside large loss reserves." (1) Exhibits 3 and 4 from her report (attached to this working paper) indicate that reported losses on general liability insurance in Virginia ran 47.2% of the premium dollar whereas on an actual cash basis the figure was 14.9%. Both these figures are considerably higher for the United States, arguing (in the Attorney General's opinion) that companies are making a profit on Virginia business and are making Virginians "subsidize" operations in other states. Whether or not the argument about Virginia business being profitable is legitimate, it does appear that insurance companies are tending to "reserve" heavily - perhaps because of the perception of an increasingly litigious society, and the possibility of totally unexpected claims.

Data are just being developed bearing on these markets. Acts of the General Assembly in 1987 require the Bureau of Insurance to survey

companies each year to determine whether there are "troubled lines." These survey results have just been returned to the Bureau and will be analyzed by a staff member there (Lee Reaves). I have been promised that I could see the data, the analysis, and try to contribute to the analysis.

A particular line that is of considerable interest at the present time is that of Lawyers Professional Liability Insurance. The Virginia Trial Lawyers Association conducted a survey of their members and were absolutely amazed at the number of responses and (very often) the vehemence of the comments. These results are not quantified yet (it is uncertain whether it would be useful to "quantify" them) but it is clear that the legal profession feels aggrieved by the insurance industry. The State Corporation Commission held hearings on this matter, sent interrogatories to law firms. The discoveries (i.e., answers) are being gathered now. A hearing will be held on October 1 on the matter of regulation of this line by the Bureau of Insurance (i.e., requiring prior approval).

The Bureau of Insurance in hearings held March 24, 1987 argued that "there is sufficient competition in Virginia to allow competitive rating of lawyers professional liability insurance based on the fact that there are seven companies actively seeking to write the business..." (p. 14 of the hearings). In an analysis of this question by Dr. John W. Wilson, economic consultant retained by the Trial Lawyers, dated June 26, 1987 argued that the insurance companies are "over-reserving" and that lawyers liability insurance is unduly

profitable to the insurance companies; therefore, regulation by the state is needed.

VI. Direction of Future Research

What my review has shown, I believe, thus far is that competitive forces are still good regulators of the insurance for much of the insurance business written in Virginia - e.g., private passenger automobile insurance, fire and allied lines. However, for a good portion of the industry, as indicated in the preceding two paragraphs, there is much more to be done.

The more interesting, and currently important, questions are those pertaining to general liability insurance for business and some special lines, especially lawyers professional liability insurance. To a considerable degree the data are just now coming in on this for the Commonwealth of Virginia. That is, the survey conducted by the Bureau pursuant to the General Assembly legislation of 1987, and the hearings and procedures on lawyers insurance.

As these materials come in, my aim will be to try to find quantitative measures of availability, price profitability (and to some degree, solvency) for these areas. Also, to try to devise some single-equation models for these lines like those devised for automobile insurance. Possibly, also it will be useful to study the whole field of the role of tort law, numbers of cases filed, amounts of awards and so on. Possibly, also to devise a simultaneity model for the automobile field.

EXHIBITS: 1, 3, 4

Exhibit 1

AMERICAN INSURANCE ASSOCIATION
CLASSIFICATION OF STATE RATE REGULATORY LAWS

RECEIVED S. C. C. VA.
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PRIOR APPROVAL

Rates must be filed with the state regulatory authority and are subject to a specified waiting period or prior approval before they can be used. Laws which permit rate changes to be implemented without prior approval so long as the expense component of the rate is not changed are included in this category.

STATE MADE RATES

Rates are fixed by the state regulatory authority.

MANDATORY BUREAU RATES

Insurers are required to become members of a designated rating bureau which determines rates for all its members, subject to regulatory approval. Deviations from bureau-made rates may be allowed by the state if certain conditions exist.

COMPETITIVE RATING

Rates may be put into effect without being subject to prior approval or a waiting period. Agreements among companies to adhere to common rates are prohibited. Rating organizations may function in an advisory capacity.

NOTE: The attached chart applies to property and casualty insurance other than workers' compensation, except for Kentucky and Vermont where that line is included in the competitive rating law. "P&C" refers to property and casualty insurance generally, "A" to automobile insurance, "CL" to commercial lines of insurance, "H" to homeowners insurance and "MM" to medical malpractice insurance. The footnotes are an integral part of the chart.

<u>STATE</u>	<u>PRIOR APPROVAL</u>	<u>STATE MADE RATES</u>	<u>MANDATORY BUREAU RATES</u>	<u>COMPETITIVE RATING</u>
ALABAMA	P & C ¹			
ALASKA	P & C			
ARIZONA				P & C
ARKANSAS				P & C
CALIFORNIA				P & C
COLORADO				P & C
CONNECTICUT				P & C
DELAWARE	P & C			
D. C.	C		P	
FLORIDA				P & C
GEORGIA				P & C
HAWAII	P & C			A ²
IDAHO				P & C
ILLINOIS ³				
INDIANA	P & C ¹			
IOWA	P & C			
KANSAS	P & C			
KENTUCKY				P & C ⁴
LOUISIANA	C ¹		P ⁵	
MAINE	P & C			
MARYLAND				P & C ⁶
MASSACHUSETTS	P & C	A; MM ⁷		
MICHIGAN	P & C			A & H ⁸

<u>STATE</u>	<u>PRIOR APPROVAL</u>	<u>STATE MADE RATES</u>	<u>MANDATORY BUREAU RATES</u>	<u>COMPETITIVE RATING</u>
MINNESOTA				P & C
MISSISSIPPI	C		P	
MISSOURI				P & C
MONTANA				P & C
NEBRASKA	P & C			
NEVADA				P & C
NEW HAMPSHIRE	P & C			
NEW JERSEY	P & C			CL ⁹
NEW MEXICO				P & C
NEW YORK	A ¹⁰			P & C
NORTH CAROLINA			A & P ¹¹	P 7 c
NORTH DAKOTA	P & C			
OHIO	P			C
OKLAHOMA	P & C			H ¹²
OREGON				P & C
PENNSYLVANIA	P & C			
RHODE ISLAND	P & C			
SOUTH CAROLINA	P & C			
SOUTH DAKOTA				P & C
TENNESSEE	P & C			CL ¹³
TEXAS	C	P & A ¹⁴		

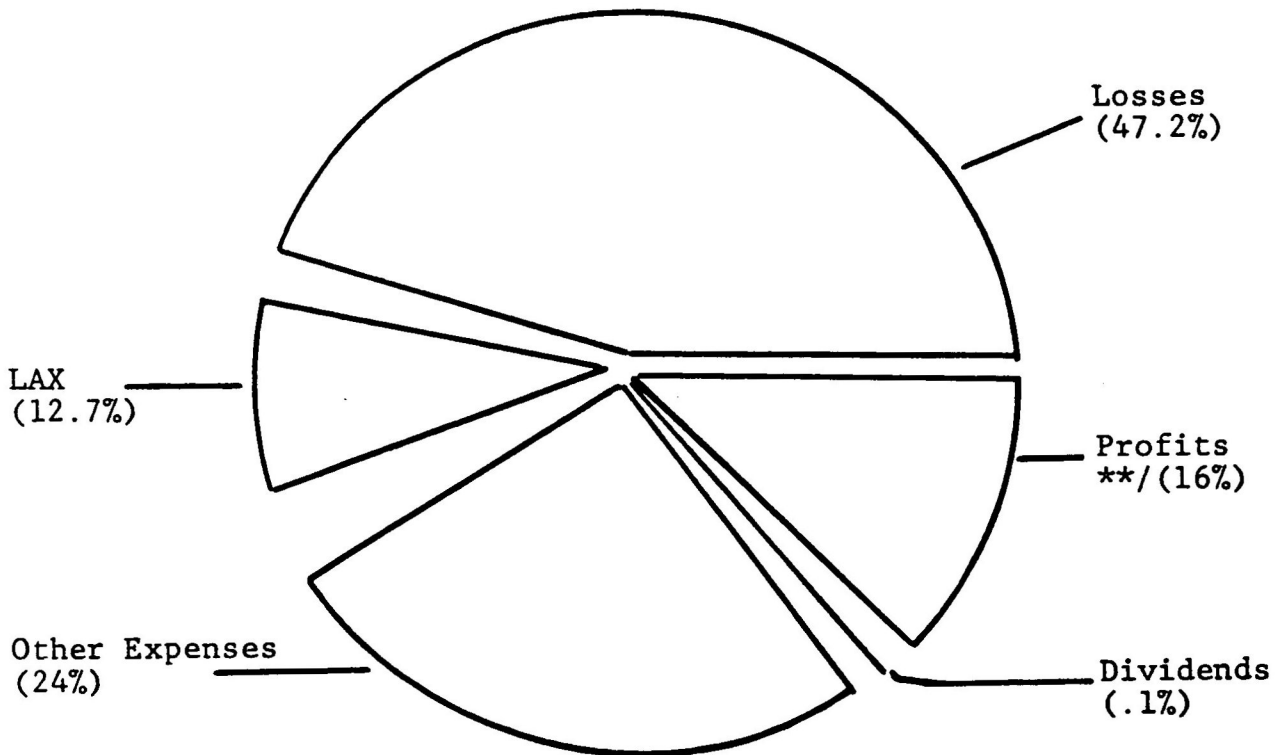
<u>STATE</u>	<u>PRIOR APPROVAL</u>	<u>STATE MADE RATES</u>	<u>MANDATORY BUREAU RATES</u>	<u>COMPETITIVE RATING</u>
UTAH				P & C
VERMONT				P & C ¹⁵
VIRGINIA				P & C ¹⁶
WASHINGTON	P & C			CL ¹⁷
WEST VIRGINIA	P & C			
WISCONSIN				P & C
WYOMING				P & C

FOOTNOTES

1. Approval is not required if the rate filing involves no change in the expense provisions. This type of rate law is commonly referred to as "modified prior approval". Administration of the law may be uneven.
2. Hawaii's competitive rating law applies only to compulsory auto liability and no-fault insurance. Originally scheduled to terminate on August 1, 1983, the law was made permanent during the 1982 legislative session.
3. Illinois has no general rating law for property and casualty insurance. Separate regulatory provisions apply to workers' compensation and involuntary market rates.
4. Kentucky's competitive rating law applies to workers' compensation insurance as well as to property and casualty lines generally. The law took effect July 15, 1982.
5. Deviations from bureau-made rates must be approved.
6. Maryland's competitive rating law became effective on July 1, 1984. It will expire on July 1, 1986 unless extended.
7. Rates for medical malpractice insurance are annually fixed and established by the commissioner. (C. 175A, §5A). Rates for automobile insurance are subject to prior approval rating laws (Chapter 175E); however, the commissioner has fixed and established rates for private passenger automobile insurance since January 1, 1978.
8. Michigan's competitive rating law for private passenger automobile and homeowners insurance establishes specific requirements for classifications and territorial base rates. It also forbids insurers from making rates or rating classifications for automobile insurance based upon sex or marital status. However, rates may be put into effect without being subject to a waiting period or prior approval.
9. Rates for commercial lines of insurance, other than for "special risks" as defined by statute, must be filed within 30 days of the effective date. No filing requirements apply to "special risks".

10. Rates for private passenger automobiles and vehicles for hire (including buses and school buses) are subject to prior approval. The competitive rating law applies to rates for all other automobile insurance lines. It will expire on May 15, 1986 unless extended by the legislature.
11. Rates for private passenger automobile insurance and residential real property (defined by statute) are made by a statutory rating bureau.
12. Oklahoma's competitive rating law applies only to homeowners and dwelling fire insurance, including farm coverage. Originally scheduled to terminate on January 1, 1984, the law was made permanent during the 1983 legislative session.
13. Tennessee's competitive rating law for commercial lines of insurance took effect on October 1, 1983. Rates for personal risk insurance continue to be subject to prior approval.
14. The approval of the Texas State Board is required for deviations from state-made rates.
15. Vermont's competitive rating law became effective on July 1, 1984. The law contains special provisions for workers' compensation insurance, including a prohibition of schedule rating.
16. Rates for uninsured motorist coverage must be approved before use.
17. Since March 1, 1982, rate filing procedures for commercial insurance lines have been modified by administrative order to remove prior approval requirements. (Administrative Code, §284-24-060).

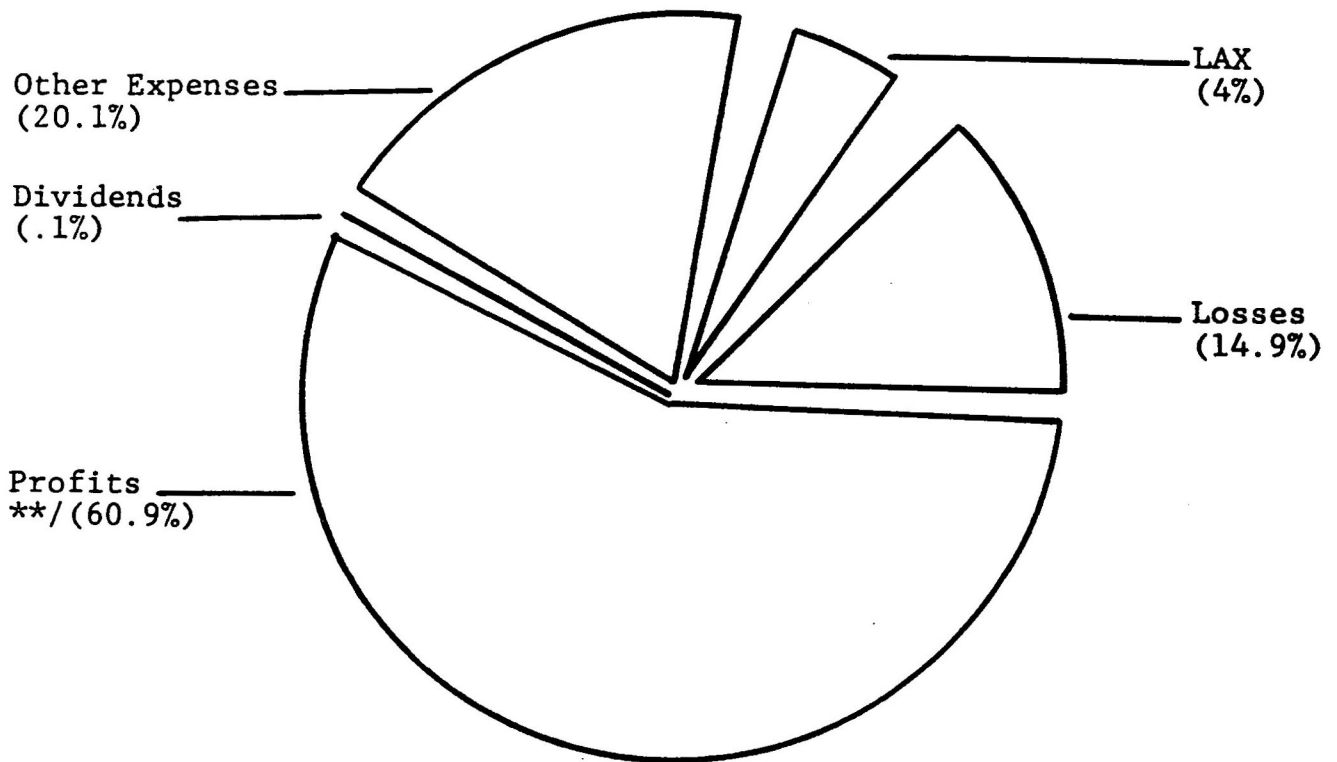
General Liability Insurance - Virginia
Summary of 1985 Reported Operating Results*/



***-/ Losses and Loss Adjustment Expense include estimated future payments.**

****/ Profits do not include the increased market value of retained investments.**

General Liability Insurance - Virginia
Actual Distribution of 1985 Proceeds * /



*** / Proceeds include premiums written plus realized investment income.**

**** / Profits do not include the increased market value of retained investments.**