

MAKING THEORY AND PRACTICE CONFORM

In a recent address before the Casualty Actuarial and Statistical Society, G. F. Michelbacher, actuary of the National Workmen's Compensation Service Bureau, said: "The theoretically perfect method of procedure is often impossible of application because practical underwriting demands a scheme of rates that can easily be applied, and that limits the possibility of fraudulent manipulation to a minimum." A conflict between theory and practice appears inevitable in rate making. To make rates either from combined experience or by analysis of hazards is the work of actuaries and scientists, to whom the first essential is accuracy. To the practical insurance man ease in application of rates and avoidance of annoyance to the assured are more important than accuracy. To keep a reasonable balance between these two factors is essential to the best interests of the business. The actuary must have his way in securing rates which are adequate, reasonably non-discriminatory and sufficiently accurate to encourage reduction in hazard. The practical insurance man must not have his time wasted by frequent changes in the rating system, made with a view to greater accuracy. Neither must he have his assured disturbed by constant reratings, nor can he afford to have the rates loaded for the expense of too minute measurement of hazards. To keep this balance is part of the duty of those who control the business in a broad sense, and they should keep a lookout that neither the actuaries nor the field forces are permitted to run away with the situation.

The following, quoted from an engineering paper, is commended to the attention of practical workmen's compensation underwriters as a perfectly good exposition of the theory of the application of engineering principles to reduction in accident frequency.

"In trying to insure the use of safeguards the personal element and mechanical side of the question should co-ordinate, the one forming the abscissa and the other the ordinate of the perfect efficiency curve. The personal issue is most important, as the individuals involved present a different set of variables in each problem. Therefore, the question must be treated on the ground of averages."

Quotation of the foregoing might be useful in quieting brokers when they get too insistent; it would either turn their thoughts to higher things or throw them into utter collapse.

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