Involved in the project are underwriters, claim executives, actuaries, lawyers, systems analysts, researchers knowledgeable in sampling techniques and data processing programmers. When completed we will be able to present realistic cost estimates on the Keeton-O'Connell plan. We also expect that we will be able to provide cost figures on a variety of plans, including those which would go beyond the Keeton-O'Connell plan and other plans of a more limited nature. In addition, by modifying or adjusting specific aspects of a given plan, we will be able to measure the cost impact of such changes.

INDUSTRY RESPONSIBILITY

The insurance industry in large measure is the administrator of the current compensation system, such as it is, and in this role must adhere to the legal requirements of the law of torts. Many of the criticisms of the industry are traceable to this law and not insurance procedures. Further, as a responsible member of the nation's economic structure we recognize a duty to provide a broad insurance market in a manner that will sustain our ability to continue this function in an expanding economy. Responding to this duty has become increasingly difficult during the past decade for the factors most directly affecting insurance rates, such as hospital and medical care and automobile damage repair costs, have increased at a rate greater than most other elements in the consumer price index, while at the same time the industry has had serious difficulty in securing adequate rate levels.

We are confident that a fair and objective study of the current system and the attendant administration of the system by the insurance industry will place in proper perspective the many aspects of this matter. In addition, we sincerely hope this study will emphasize the urgency of action programs to manage effectively the broader problem of the safe transportation of our citizens with dramatic reduction in accidents and injuries.

The Department of Transportation should be able to coordinate these approaches to a sound and efficient system of compensating victims of automobile accidents.

STATEMENT OF FRED H. MERRILL, CHAIRMAN OF THE BOARD, FIREMAN'S FUND INSURANCE CO., SAN FRANCISCO, CALIF.

My name is Fred H. Merrill. I am Chairman of the Board of Directors and Chief Executive Officer of the Fireman's Fund Insurance Company and its subsidiaries. During 1967, our companies wrote nearly $600 million of premiums, of which approximately $205 million was in automobile insurance. This is our largest classification of business, accounting for 35 per cent of our annual premium income.

Let's begin our discussion of automobile insurance costs with a simple definition of the "product" itself. Automobile insurance provides the means by which the risk of financial loss arising out of the use of a car is transferred from an individual to a company. For this service, the company charges a premium. In the performance of this function, the automobile insurance company can be likened to a conduit. In one end goes the premium dollars of policyholders, and out the other comes some portion of these same dollars to pay claims. It would be reasonable to hope, of course, that sufficient money would remain in the conduit to reward the company for the vital services it is providing. Unfortunately, such has not been the case.

The driving record of the motoring public has required that more and more money be put into the conduit to pay for the claim costs that flow from its end. In the process, the capital stock companies have sustained losses and expenses that exceeded premiums by the staggering amount of $1.1 billion during the past ten years. Exhibit "A" shows the record of this $1.1 billion underwriting loss, and while 1967 figures are not yet available, I strongly doubt that they will do very much to change the picture.

My point is a simple one. The cost of having the insurance company assume our liabilities is directly related to the cost of the automobile accidents we cause, or are involved in, and because this is so, we—the nation's automobile drivers—largely determine our own rates.

Now let's go directly to this matter of rates or auto insurance costs. At one outset, it is important that we all have an appreciation for the tremendous growth and size of the automobile insurance market and the highly competitive atmosphere that exists.