McClenahan

Discussion on measurement of profitability in the rate regulatory environment

A priori expected NPV of UW CF, opportunity cost expected to be suffered with risk-free discounting rates; but insurer should earn more than that

Rate on Equity Flaws:

1. Highly leveraged companies with high P/S ratio will seem to have excessive return (because of small surplus)
2. Allocation of surplus--By requiring the allocation of surplus to line and jurisdiction, the return-on-equity basis ignores the value inherent in unallocated surplus.

Return on Sales: present true rate regulation, which ignores the premium/surplus relationship

Benchmark for excessiveness depend on the market condition, which consists of various aspects like: residual market size, number of insurers in voluntary market, degree of product diversity and innovation