

CO-OPERATION AMONG FIRE COMPANIES.

If fire insurance companies were permitted to co-operate sufficiently closely they could do away with preferred classes, and they could increase rates on special hazards. They dare not increase rates on the latter as matters now stand, remarks the *Insurance Age*, because they feel sure that if they made the attempt the men who own these risks would induce their legislatures to enact laws forbidding all co-operation among the companies. Large cities get relatively low fire insurance rates because of the competitive conditions. If many evils in rating are the result of free competition between companies, then the way to abolish these particular evils is to allow the companies to co-operate in making compact rates.

COMMISSIONS.

Another object which fire insurance companies could attain through co-operation is the regulation of commissions paid to agents for securing new business. There is almost as much necessity for tariff commissions as there is for tariff rates. There are two ways of increasing the business of a company; one way is to cut rates; the other is to increase commissions. In some cases the latter method is more successful than the former. Let us recall the peculiar organization of fire insurance agencies. In place of a company having in a city an agent who represents it exclusively, it has one who may represent a dozen of its most powerful competitors. This is a condition—a number of rivals having a common representative—found in few other businesses, and the result is competition for business within the agency. If this is unchecked, it takes the form of giving larger commissions for business. A local agent controls a certain number of risks; a special agent may stir him up to solicit more risks and thus increase his company's business, or the special may offer more commission to increase his company's business at the expense of the competing companies in the same agency. The competing companies retaliate by likewise increasing commissions, and the war is liable to continue until all profits go to agents in the form of commissions. A union among companies to regulate commissions is a necessity, or most companies would fail to earn any dividends for their stockholders. From the point of view of the public, commission demoralization is even more serious than rate demoralization. If rates are cut the public gets the benefit, but in a commission fight expenses may be so increased as to make a rise in rates necessary. With no commission tariff, an improvement in the hazard means only an increased commission paid by some company to secure the business from another company; while losses are reduced, expenses are increased and the net result is the same to the public. Even from this very brief discussion of the commission problem it is safe to conclude that co-operation in the matter of commissions is almost as essential as co-operation in rating.

INSPECTION.

By co-operation fire insurance companies can obtain effective and economical inspection. If rates are ever to be adjusted to hazards it will come through better inspection of risks. One of the most serious objections which has been raised to prevent fire-rating is that good and bad risks are lumped together in one class and given too nearly the same rate. Clearly the

only way in which the companies can safely discriminate between good and bad risks is by making a careful inspection of all the risks insured. There is nothing to prevent all the companies from making such an inspection, each for itself, except the cost of doing it. But this is an insuperable difficulty, for if each company were forced to inspect carefully each risk that it insured, the expense of such inspection would probably be much greater than the saving in losses which would result from having rates closely adjusted to hazards. And there is a still more serious objection to inspection of risks by individual companies; no matter how thoroughly a representative of a single company may go about the inspection of risks he is not going to accomplish much in the improvement of hazards. Consider the situation as it existed before the companies began to co-operate in inspection. A company's special agent would visit a risk; and although he might see conditions which seriously increased the hazards of fire, yet the knowledge that other companies were anxious to write the risk as it was, and that even a reasonable request on his part would cause ill-will toward his company, would deter him from requiring the removal of defects which he knew to be serious, but which other companies had passed unchallenged. This is the old condition of competition. How different is the situation now that the leading companies have co-operated and have established inspection bureaus. No matter how many companies are now on a risk, only the authorized representatives of the inspection bureau visit the risk; and as a few men are performing the function which was formerly performed by many experts can be—and are—employed, and more efficient inspection is secured. Not only is the inspection more efficient, but the recommendations made carry with them weight far greater than those made by the representative of a single company.

FIRE PREVENTION.

Closely connected with the plan of providing for thorough and economical inspection is the scientific study of fire hazards and fire prevention. Although it may be true that many of the stock fire insurance companies are not primarily interested in reducing the fire loss, competition of the mill mutuals and of the preferred companies for certain classes of risks has forced the companies writing all classes to give attention to the study of hazards. Companies have found that with many classes of risks rates must be closely adjusted to hazards. If they are not, the good mills and factories will go to the factory mutuals, and the better risks in other classes to the non-union, preferred-risk companies which are always looking for profitable business. Therefore, in order to forestall competition, actual or latent, the associated companies have found it not only desirable but necessary to establish a laboratory for the study of the hazard of new processes, the value of new methods of fire prevention, and kindred topics. Here again, it might be possible for one company to make these experiments; but we may be sure that one company acting alone would not attempt it. It is to the interest of all the companies doing a general agency business to have such studies made of hazards; therefore the companies not only ought to be allowed to co-operate for this purpose, but they ought to be encouraged to do so.