

"OVER-INSURANCE."

(Communicated by an Insider.)

In the May issue of your valuable Journal there is a communication under the heading of "over-insurance," by one who signs himself very appropriately an "outsider," for the import of the article is ample evidence that he is a great ways "outside," not only of facts, but of the entire theory of fire underwriting, for he not only makes many assertions which he calls "facts," that cannot be verified by real "facts" but he, unintentionally, it is to be presumed, attacks the business character of Montreal insurers, merchants and property-holders, and charges them in fact, if not in direct words, with downright dishonesty, when he says:

"I believe that one-quarter of the fire insurance in force in Montreal is on buildings which are insured for fully as much or more than they are worth. What wonder is it that they burn? Would it not be a wonder if they did not burn? * * * Even in cases where no actual fraud is perpetrated, there is no doubt that less care is taken by the proprietor when he knows that a fire would benefit him financially rather than injure him, and this is the most serious part of the matter."

It would perhaps be well to ask "outsider" where he gets the "facts" of which he says "there is no doubt?" Does he judge—righteous judgment others by himself?—for if such be the character of the insuring community of one of its chief cities what may be said of the dwellers in other portions of the Dominion? The assertion is preposterous, and, like an over-dose of poison, works out its own refutation.

And then again, as to what "Outsider" calls a "remedy" for this, to him, great evil, which, to his mind, is simple enough, while fire underwriters simple enough to believe in such an impossible thing as "over-insurance"—underwriting and over-insuring being incompatible terms,—have for years past been vainly endeavoring to capture this *ignis fatuus* with the hope of extinguishing it forever. The result has been what is known across the line as the "Valued Policy Law," inaugurated in Wisconsin, a realization of the old saw "*parturient montes, nascitur mus*," and a muss it has proved to all concerned, the remedy being worse than the disease, though it will be but fair to say that this law did not originate with the underwriters.

The remedy suggested by "Outsider," that is, to do away with all over-insurance in future, is to limit the amount of insurance to 75 or 80 per cent. of the value of the property at risk, after which, according to his idea, "There would soon be a large reduction in the number of fires." This is nothing new. Among the oldest insurance ordinances of which we have any knowledge, as far back as A. D. 1500, insured were not allowed to cover the value of their risks beyond seven-eighths and many times less; and in more modern days the three-quarter value clause, the two-third's clause, and the average clause all tend to compel the insured to bear a portion of his own risk and loss in the event of burning, either as self-insurer or co-insurer under the terms of his policy; but all such efforts have heretofore been in vain, and why? Because underwriting, to be profitable, requires that all insurances shall be as nearly to the full value of the property at risk as is possible to be obtained, either by actual insurance or by its equivalent the co-insurance clause. Experience has demonstrated that the bulk of fire losses are but partial as to the value at risk. Hence it follows that an insurance of say \$25,000 only, upon property valued at \$100,000, would ordinarily, in the event of loss by fire, entail a total loss under the policy, and at the same time be but partial as to the value at risk, whereas had the entire \$100,000 been covered, either by direct insurance or by its equivalent, the co insurance clause, the insur-

ers would be liable for loss only in the ratio that the \$25,000 bore to the \$100,000, or just one-fourth of what the liability would have been, had but \$25,000 been covered by the insurance, without the average clause. And it frequently occurs, especially with large commission houses, which may be receiving constant accessions to their stocks, that they must have large lines of insurance at all times to cover all contingencies, and these are granted under the formula "other insurance permitted without notice till required." Hence underwriters will always carry as large lines as possible upon fully insured risks, even at the risk of holding lines in excess of the actual value at the time of the loss, which, however, at the time of the insurance might have been below the value. Underwriters reap more benefit from full insurance, or what "Outsider" calls over-insurance, than from partial insurance. Any surplus of loss above the insurance can be readily adjusted after the fire, precisely as if there had been a partial insurance only. The only question would be as to the honesty of the insured and the ability of the adjuster to handle the claim properly. Indeed it is scarcely a question whether underwriters are not more injured by the deficiency of premiums, losses upon salvage in cases of total losses, etc., by under insurance than by what is called over insurance in fraudulent cases, for in honest over insurances the underwriters always get more premium, make larger salvage, and come out of the settlement in better condition than had the insurance been but partial and the loss total as to the policy.

The whole cry of *over insurance* and its dangers is but humbug; the entire loss of underwriters' from fraudulent valuation of property under insurance does not exceed, and it is very doubtful if it even reaches—for it is entirely a matter of guess and opinion, unsupported by recorded facts—the percentage of the amounts of loss sustained by merchants or other men of business, from the dishonesty of their customers or correspondents, to an equal extent of moneyed interest. Over-insurance, so termed, relates to incendiarism only so far as there can be profit realized from burning, the moral and personal element operates according to opportunity in all financial transactions, and the same care exercised in the selection of customers in the one case and the examination of risks and applicants in the other will produce the same results. Claimants under insurance may, and frequently do, honestly, that is without intentional fraud, exaggerate their losses, and there are quite as many occasions where under insurances are taken for fraudulent purposes of gain by fires as in over-insurance, either case furnishing an opportunity for testing the skill of adjusters who, as a body, are, unless badly belied, usually equal to the occasion.

INSIDER.

LIFE INSURANCE AS AN INVESTMENT.

As an example of life insurance simply as an investment, the \$5,000 policy of the late Dr. Cuyler, of New Jersey will serve to point a moral. This policy was issued by the Mutual Life Insurance Company in 1848, when Dr. Cuyler was 40 years old. By allowing the annual dividends to accumulate in the form of additions, instead of using them to help to pay premiums from year to year, the value of the policy was increased, until, at the time of Dr. Cuyler's death these additions swelled the amount to \$12,344, which sum will be duly paid to his heirs. So that an investment of a little over \$5,000 has practically produced a result of over \$7,000 as interest.—*Insurance Journal*.

According to the *Spectator*, N.Y., the life companies doing business in New York State have, during the last twenty-five years, paid to policy-holders \$928,467,862, a sum nearly twice as much as their present immense assets, which amount to \$471,805,920.