FIRE INSURANCE AS IT AFFECTS CREDITS

The attention of Bankers is directed to the address given by Mr. J. F. Van Riper, branch secretary of the Norwich Union Fire Insurance Society at the Annual Meeting of the New York State Bankers Association, held at Ashway Park, N.J., last week. The subject discussed "Insurance and Credits" was a most important one to loaners of money, and emphasizes the necessity of Companies furnishing indemnity that is fortified with unquestionable solvency. Otherwise how can they meet the shock of conflagrations involving millions of dollars. Fortunately for Canada there are an ample number of such Companies licensed to do business in the Dominion, and those banks who make loans to clients insured in unlicensed Companies do little to encourage Companies who as tax payers, give employment in Canada. It is not a necessity for unlicensed Companies wishing to operate in Canada to have unquestionable solvency, and they certainly are not known to contribute much to employment by the maintenance of a staff in Canada.

In opening Mr. Van Riper said:—

"When we consider that practically no forms of industry or commerce could be carried on without credit, that there is not sufficient capital in the world in liquid form to meet their needs, a discussion of the relation of fire insurance to credits should prove of interest if it be pursued in a way calculated to measure the elements that establish that relation.

The first question in the matter of credits, said the speaker, is the relative safety of the undertaking, based upon the outlook of success, the character and standing of the one seeking the accommodation and the security underlying the adventure as a safeguard against possible misfortune or accident. The question of character is a fundamental one, both to bankers and fire underwriters.

"Under a system of commercial trading based on borrowed capital, the man who has overstocked his warerooms and who, through mistaken judgment on the one hand or rapid and disastrous turns in commercial tides on the other, finds himself unable to dispose of his wares, either at all or at a profit, if he be a man with little or no conscience, occasionally finds his most convenient escape through a fire, * * * It is self-evident that the man who would burn his premises with intent to defraud is equally dangerous as a prospective borrower, to say nothing of the effect on the credit of an innocent neighbor whose property may be destroyed with little or no insurance, and thus leave him hopelessly bankrupt. That this is true can be no more strongly attested than by the fact that the destruction of property, which is wealth, reduce in exact ratio to the amount of the destruction the foundation and security upon which credit is based."

Fire insurance merely effects a distribution of loss; it does not replace destroyed wealth. The fire insurance companies fix and collect rates sufficient to create a fund from which contributors may be indemnified for their losses, the cost of administration be paid and a return made upon the capital put up to guarantee that the fund will be adequate.

"How thoroughly the principle has been worked out," the speaker said, "and how widely it has been accepted will be readily attested by you bankers, who acknowledge it as the basis of all credits, for you will lend money on neither realty nor merchandise without the underlying insurance policies as collateral. Herein lies a responsibility upon the banks quite equal to that upon the insurance companies to watch and safeguard the moral hazard of commercial dealings."

Insurance as a Conserver

Mr. Van Riper called attention to the fact that the fire insurance policy is solely a contract of indemnity and does not contemplate inclusion of prospective profits. As values are changing and cannot economically be determined in advance, property is likely to be overinsured or underinsured. Overinsurance tends to produce moral hazard. To avoid underinsurance the principle of co-insurance is introduced. The only remedies against overinsurance are the honesty of the assured and the wisdom and caution of the agent.