DEVELOPMENT OF CREDIT INSURANCE.

(By E. M. Treat, President of the American Credit Indemnity Company.)

The magnitude of the daily trade transactions, the growing extension of sales on credit by wholesalers direct and through traveling salesmen to scattered and distant customers, the enormous losses sustained by wholesalers through insolvency of their debtors (the totals each year reaching huge proportions, frequently exceeding in amount the losses by fire), demanded that in some way the wholesaler who parted with his goods on the faith of the financial and paying ability of his customers, be protected against a curtailment of profits and a possible depletion of capital through bad debts, where reasonable prudence had been used in extending credits. Credit insurance supplies this protection.

Credit insurance is a contract for one year, issued solely to manufacturers and jobbers, guaranteeing to reimburse the insured for covered losses sustained through the insolvency of debtors, occurring during the term of the bond, in excess of an agreed-upon initial loss to be borne by the insured, on sales of merchandise shipped and delivered thereunder.

Up to 1898 credit insurance was in practically a formative and experimental stage, the insurance being of a restricted nature. Upon the passage of the national bankruptcy law in 1898, the policies were greatly broadened, covering all forms of insolvency, and have from time to time been further liberalized.

The present form of credit insurance policy, or bond, covers the insured on excessive losses (over and above an initial loss to be borne by the policyholder) through insolvency of debtors, no matter what may be the nature of the insolvency. It goes still further and covers cases of compromise with a debtor by a majority of creditors in order to prevent insolvency proceedings.

I now direct attention to the losses by failures, the exposure of the credit grantor, the scarcity of knowledge obtainable as to the real condition of credit seekers, the adjustment of the policy to the business insured; the efforts made to save policyholders from losses by keeping them informed on trade and financial conditions, and by rendering them assistance in the collection of delinquent accounts; also the general benefits of credit insurance.

LOSSES BY FAILURES.

The Mercantile Agency statistics show that during almost every decade the losses by unanticipated failures have generally equalled one-half of the capital employed in manufacturing and mercantile pursuits. These figures are not fanciful: they represent facts. They show that almost numberless miscalculations in the extension of credits are daily made in the commercial world, and by men who zealously strive to prevent losses, but who err in the accuracy of their forecasts as to what the future may have in store. The figures show failure liabilities and exposure to dangers that are very great. They proclaim in no uncertain way the hazardous phase which credit-granting assumes. Merchants are exposed to credit risks even more uncertain than by fire. The constant possibility of sudden and unexpected failures, and of the abnormal run of failures, is a risk which the credit grantor cannot or should not ignore. The losses by bad debts come at one time or another to all who sell on credit. This is axiomatic. Figures showing failure losses are representative of pitfalls and entanglements, the constant recurrence of which can be counted upon with certainty, with the possibility of increased losses in keeping with the growth of the commerce of the country and the growing per? plexities in its economic and industrial affairs.

DIFFICULTIES IN ASCERTAINING CREDIT.

The Mercantile Agencies are engaged in a splendid work. They are indispensable. They are daily gathering and collating information relating to those engaged in mercantile pursuits to be furnished to their subscribers. But no matter how well directed their efforts may be, there is chronicled each year, a history of failures and disasters, and we must admit, from examination, that we have very little to encourage the belief that commercial failures will ever be very greatly checked. It is beyond human power for any organization of men to so completely master the inside facts relative to the actual status of buyers whom they send out to investigate, as to result in their rating with unerring certainty such a vast commercial body as is contained in the country..

In the labor of attempting this, the Mercantile Agencies encounter great obstacles. There are persons without number who are reluctant to speak; those who are indifferent and refuse to make statements, and those upon whose own estimate of themselves the report must be drawn. There are others to whom the references of interested bankers and interested friends must be taken into account, and still again there are others who wilfully falsify the facts in order to obtain a line of credit.

No matter how statistics may explain the reason for this or that or the other fifteen thousand failures in the year 1912, or the increasing number during the present year of 1913, the cold, unvarnished truth remains that they took place. The Agencies cannot control failures. Their function is to procure information, and to make known so far as possible the estimated finanical and credit standing of all prospective buyers; and this they do most creditably.

CREDIT INSURANCE THE ONLY PROTECTION.

The very fact of such a condition existing in the commercial world emphasizes all the more strongly the absolute necessity that the wholesaler, who parts with his merchandise on the mere promise of his customers to make payment, should be protected against those losses which are above the normal expectancy of his house. Credit insurance is the only means of securing reimbursement for such losses.

POLICY LOANS.

The credit insurance company furnishes a comprehensive, clearly worded and understandable form of contract, framed for the proper protection of the insured as well as of itself; a contract which not only affords protection to the insured against unusually heavy losses, but furnishes a system or plan that has a wholesome effect upon credit-rating by guiding such transactions in the right channel.

Under the policy the Mercantile Agency ratings, on which the insurance is based, are classified and coverage graded accordingly. It affords full protection on preferred customers with good ratings, and for an extra premium gives additional protection to