

Necessity for Fire Insurance Reserves

The sale of fire insurance unlike that of commercial commodities, is for an uncertain period, and an unknown quantity. A fire insurance policy is a contract (under certain conditions) to pay the purchaser any amount—not exceeding, of course, the total sum insured—at any rate during the currency of the policy, so that the company may become liable to make good the entire amount of the insurance, immediately after the risk has been accepted, or it may never be called upon at all, or again, for only a trifling percentage of the policy. A policy therefore for \$5,000, issued for a year from any date, does not represent a closed transaction at the termination of the company's fiscal year, because at that date the liability to pay the \$5,000 still existed, a reserve for which contingency has to be set aside, just as a life assurance company puts apart a reserve for unexpired lines. So that the actual premiums collected annually, less the amount paid out by the company, for losses and expenses, by no means represent the profit on the year's business, though there are people ignorant enough to assert this absurdity, and to argue that the reserves of a fire insurance company are so much money mulcted from the public. Yet, where would the policyholders of companies be after a succession of serious fires, but for the reserves created by cautious management.

As to the minor matter of interest earned on reserves, it is held that such ought not to be considered in the calculation of underwriting profit and loss, but should be included among investment items as helping to constitute a sort of fluctuating

reserve to take care of possible losses in the handling of securities. Any calculation should likewise make due provision for conflagrations which are certain sooner or later to eventuate, although the time and place of their occurrence cannot be in any manner foretold. It is in the interests of policyholders as well as of the stockholders of the insurance companies that such provision should be made and the companies strengthened from year to year so as to be able to withstand any shock, whether due to conflagration or to financial crisis, and still pay all losses in full.

Canadian Luxury Tax Produces Big Revenue

Canadian excise figures for the month of July, which have just been made public, show that the luxury taxes introduced at the last session of Parliament are bringing in millions of dollars to the Government Treasury. The excise increase for the past month was more than 100 per cent. over the month of July last year. Collections from all sources of the internal revenue branch last month totaled \$9,982,051, as compared with \$4,356,452 for the corresponding month in 1919. For excise taxes the total for last month amounted to \$6,944,457, whereas a year ago the amount was only \$969,299.

Now that the new taxes have been in effect for a few months officials of the department estimate on the basis of the returns for this period that there will be an increase of approximately \$70,000,000 within the present year.

"The future is purchased by the present"—JOHNSON

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W. E. BALDWIN, Manager