

insurance of loss consequent on the breakdown of engines and machinery, but the departure has not been generally adopted.

DEPRECIATION OF STOCK.

A notable item which does not come within the scope of a consequential loss policy is loss or damages on account of depreciation of stock. Of course, depreciation directly attributable to fire, such as smoke or water damage, is covered by the ordinary fire policy, as also is usually depreciation of property in cold stores resulting from change of temperature through dislocation of the refrigerating plant. There are many trades, however, in which perishable goods are manipulated, where stocks would be rapidly ruined unless they were carried through their processes without delay. A simple instance is a jam factory. If the boiling pans were destroyed, although the fruit were untouched, it would rapidly depreciate if allowed to remain in its raw state. Such a loss is not covered by either a fire or a consequential loss policy. Similarly, in a tannery, hides in the pits untouched by fire would depreciate if not removed from the liquids and passed through their subsequent processes. I refer to the more speedy methods of mixed tannage and chrome tannage, commonly in use, rather than to the oak bark method under which an additional period of submersion in the liquid would probably have no detrimental effect. Even in a retail business large tradesmen dealing in poultry, game, fruit and fish may at the time of a fire gutting their shop have stocks in warehouse, in transit or on contract in such a way that they must accept delivery at once, and unless they can find an immediate market the result is obvious. To give protection against such losses does not seem so great a departure from the old idea of indemnity against fire as the present policy covering loss of profits. Probably, as the class of business develops further, a demand for the inclusion of depreciation of stock will spring up and be met.

METHOD OF RATING.

The method of rating is such that it is controlled by the average rate for the material fire insurance, varying percentages being charged according to the period of indemnity. The question has been raised as to whether this is adequate, because a large consequential loss may accrue even though the material loss is small, and that therefore the rate should be higher or at least as high as the fire rate. It must not be lost sight of, however, that there are several contra arguments. It is quite possible for considerable material damage to be done without the progress of business and the consequent profits being interfered with. For instance, in some trades large warehouse damage to stock may be done without preventing the execution of orders, if sufficient stock is left in hand in that or other warehouses to supply immediate demands whilst the factory is working at increased pressure to replace the depletion. Similarly, the manufacturing portion of a risk may be completely disorganised by a fire doing great material damage, but if it happens at a time when large stocks are on hand in a separate warehouse the damage may be repaired and the works be producing again before the warehouse is cleared by sale. I have a case in mind which conveniently gives instances of both contingencies. A firm manufacturing agricultural machinery and implements has its business roughly divided into two parts, chiefly manufacturing for the warehouse in the autumn and winter, and selling

from the warehouse in the spring and the summer. The works and warehouse are quite separate. It will be readily seen that a fire in the works in spring would have very little effect on the turnover, because most of the stock would be intact and ready for sale. All they would lose would be the orders for the small percentage of specially made machines and repairing work, provided the works damage could be reinstated by autumn. Similarly, if the warehouse were destroyed in autumn, when the stock was low and the orders very few, the works would not be prevented from manufacturing to prepare for the spring demand.

SIGNIFICANCE OF SUMS INSURED.

Perhaps the most important point to consider in comparing the fire and consequential loss rates is the relative significance of the sums insured. In fire insurance the total destruction of the material insured means a loss of the whole sum insured. Under the consequential loss policy on the same mill it is not so unless the period of indemnity is at least twelve months, and even then it is extremely unlikely that the stoppage will be total over the whole period. As mentioned previously, the sum insured must represent the net profits and standing charges for twelve months, irrespective of the period of indemnity, and, as the policy limits the total liability of the company to the amount which would have become payable if the business had been entirely stopped, no addition to this figure can be made in respect of increased cost. Therefore, the total liability under a six months' indemnity policy is approximately half of the sum insured; also there is likelihood of a further reduction of the loss by the business being wholly or partially restored before the expiry of the indemnity period. It will be noticed, I said, that the total liability was *approximately* half the sum insured. In the ideal case where the turnover is the same each month it is exactly so, but in practice it is more or less according to whether the interruption occurs in the busy or the slack season. In the extreme case of the hotel at the seaside resort which closes in the winter months, the twelve months profit is probably also the six months profit, and the liability may therefore be total or *nil*, according to whether the fire occurs in the summer or the winter. The fact remains that the company is only liable for six, three or one month's net profits and standing charges, and, leaving out the question of moral hazard, a fire is no respecter of the state of trade and may occur at any part of the year, so that the average total liability is half, a quarter or one-twelfth of the sum insured only in respect of any one fire, according to the period of indemnity. Two or more fires within the year of insurance may, however, involve a larger loss without additional premiums being chargeable for reinstatement of the amounts of losses paid.

(To be continued.)

According to a statement issued by Fire Commissioner Lindback, up to July 1, the fire losses for Manitoba reached \$874,567, of which Winnipeg's share is \$229,104, while the rest of the province foots up the balance, \$645,463. In comparison with the corresponding period of 1912, there is a decrease of \$92,273.