KNOWLEDGE OF BUSINESS ESSENTIAL IN INSURANCE.

R. H. Towner Points Out Fallacies of Federal Operation of Business.

R. H. Towner, of the Towner Rating Bureau, New York, discussing the question of the possibility of further expansion of Governmental activity in the insurance business, says to The Journal of Commerce, New York:

"In commerce and industry insurance is a tradition, a fixed principle and a necessity. The National Government which inherited from the British Crown its sovereignty over the American colonies inherited with it no tradition of insurance any more than it inherited a tradition of Government engaging in commerce and industry. All the people were taxed to erect a Government building. If the building burned down, then all the people were taxed again to erect its successor. So that taxation performed, after a fashion, the function of insurance, by distributing the fire loss on Government buildings over the whole body of taxpayers. The Government's money, unlike its buildings, was always insured. It was an inherited principle of the English Common Law that every crown officer was an insurer of the safety of all Government funds charged to him. Bonds were required guaranteeing that he would account for and pay over the Government's money, and the loss of this money, through fire or other casualty, was a breach of the bond. Likewise, if the money were stolen by third parties, or lost in the failure of a bank, the officer and his sureties were as much liable as though it had been stolen by the officer himself. The tradition requiring these bonds was inherited by the United States, and for the National Government now to abandon the bonding of Federal officers would be as great an innovation as for it to begin the insurance of Federal buildings. The Government practice toward its buildings and its money is explainable only by tradition. There is no apparent reason why a customs officer who is held blameless if the Custom House is destroyed should be made responsible for Government money burned in the same fire.

"With local governments of States, counties, cities, school districts, etc., the case has been somewhat different. If the State Capitol burned without insurance, the loss was borne by the people of that State alone. If it was insured, the loss was distributed over forty-eight States, or as many of them as paid fire insurance premiums. The necessity for insurance increased as the governmental unit diminished. A county could not afford to build a costly court house without insurance; so that if the court house burned, the loss, instead of falling upon the county alone, would be distributed over a thousand or two thousand other counties. A school district likewise, which issued its bonds for a new school house, found insurance necessary. Without it the district might wake up any morning to find itself still owing the principal and interest of these bonds, but with nothing but a heap of smoking ruins to show for them. Fire insurance, therefore, became as common as it was necessary on all Government units below the Federal Government. It was only through insurance that their fire loss could be distributed.

"So long as Government activities were limited to the business of governing, its attitude toward insurance was not of much moment. Its few buildings were widely scattered, without concentrated risks, and it could accomplish a lateral distribution of fire loss by taxation. When the Government enters upon the pursuits of commerce and industry, insurance becomes as necessary to it as to others. The rise and growth of insurance organizations and the continuous increase of insurance capital furnish ample testimony to the multitude of reasons which make insurance indispensable to commerce and industry. Out of such a multitude it is difficult to specify which are most important to Government. But I should select the following:

"1. Insurance companies distribute the fire loss over time as well as area. During years of ordinary losses, surplus and reserve are accumulated to be paid in years of extraordinary losses. This was well illustrated by Charles L. Case, United States manager of the London Assurance Corporation in the testimony which he gave after the San Francisco fire. His company, he said, had remitted to its home office an average profit of $100,000 a year for forty years before the San Francisco conflagration. But all this and more was paid out in that disaster, which cost his company $5,000,000. So that the underwriting profits of fifty years were swallowed up in one great conflagration in a single city. The power of taxation affords Government a means for the lateral distribution of losses, but not for their distribution through time.

"2. Government engaged only in the business of governing receives money only from taxation. Government engaged in commerce and industry makes investments and receives their returns. As an investor, the Government, like all other investors, must provide for the investment's safety and

(*Continued on page 993*).

THE MUTUAL OBLIGATIONS OF INSURER AND INSURED IN LIFE INSURANCE CONTRACTS.

(*Continued from page 989*).

any person opens his mind to him freely, no honorable life insurance agent would willingly mislead, and it would certainly be a good idea to take advantage of any of the suggestions or advice that any experienced Life Agent can give, because they are eminently practical men, fully alive to the practical side of life insurance, and generally devoted in a praiseworthy degree to its best interests.

There is no doubt that many lapses, when the second annual premium becomes due, can be attributed to agents inducing applicants to take out more insurance than their circumstances enabled them to keep up.