

A CHARGE AGAINST INSURANCE COMPANIES.

A PLEA OF REBUTTAL.

Of the taxing of insurance companies by provincial as well as municipal authorities we have heard much in recent years, but now we have the insurance companies charged with levying taxes on the public. At a meeting held in this city last month to promote a new fire insurance enterprise, the principal speaker waxed quite eloquent with indignation at what he styled, "the exorbitant taxes imposed by the insurance companies." The utterer of this indictment is a respectable merchant who, doubtless, sells his goods at whatever prices can be obtained for them from the purchasers. He does not run his store for philanthropy but for profit. The margin between what his goods cost, and what they will sell for must be sufficient to pay the expenses of the establishment, to cover the risk of bad debts, to provide a return on his capital and meet the needs of his household. If his profits do not meet these requirements, his business is a failure; he is heading towards insolvency. What would he say to a customer who charged him with "levying exorbitant taxes on the public," because he so conducted his business as to safeguard his own credit and protect the interests of his creditors? Any merchant would regard such a charge as most unjust, as being founded upon a gross misconception of the objects and an ignoring of the conditions of trade. But, equally unjust, equally founded on misconception, equally an ignoring of imperative conditions, is the charge made against insurance companies that "they levy exorbitant taxes on the public." In the first place the companies have no power to levy any tax; whoever pays them money does so voluntarily. The insurance company's saleable commodity, so to speak, is insuring against loss. An insurance company offers a certain amount of indemnity to the insurer in case of his suffering from a fire, which indemnity is proportionate to the premium paid to purchase such indemnity. It is for the seller to say what he will take for it, not for the buyer to fix the price at which it must be sold. Identically the same fundamental economic laws and conditions underlie the business of fire insurance as all other enterprises, and all other callings, and all transactions based upon exchange, with this difference, the ordinary vendor knows precisely what his goods cost, what the expenses are of maintaining his establishment, and what the contingencies of his calling are. But the insurance underwriter has no such precise information, and this uncertainty is accompanied by risk, so that, in fixing the price of what he has to exchange, which is insurance against loss, he must make provision to meet the chances of such risk, or, some day, he will be suddenly called on to deliver, as it were, what he has sold very much below cost. That is, if his premiums have been too low, he will have to pay claims

for an excess of what his premiums have provided for. Between the sum, indeed, of the total premiums paid by an insurer, and the indemnity paid to him under his policy, there is not, infrequently, so wide a difference as to leave the underwriting company a very heavy loser by the individual transaction. When this occurs in regard to any serious extent of an insurance company's total business, it is liable to collapse, as many engaged in underwriting have found to their cost, as many, too, who had paid them premiums also found to their cost. The safety of every insurer is, therefore, contingent upon the company in which he is insured having a financial reserve and an income adequate to meet such contingencies as occasionally occur. To fix rates of premium which will infallibly be sufficient to meet all claims for losses, expenses and dividends on the capital of shareholders in an insurance company, so as, through a long term of years, to be adequate to fulfil these ordinary business necessities, is a task requiring long experience, the study of elaborate data, and generally an expert knowledge of all the conditions of underwriting. Such attainments and such opportunities and such skill are akin to those possessed by an experienced lawyer, physician or banker, in whom trust is reposed because of their eminent qualifications. For a mere outsider, an onlooker, to pronounce that certain rates of insurance premiums are excessive is as unreasonable as for a mere layman to dogmatize as to the law on a particular case; or, as to the proper modus operandi to be observed in a surgical operation; or, as to the management of the complicated operations of a bank. As to the laws which govern the prices of whatever is marketable, of whatever is a matter of exchange between men, there is a very wide field for a most exacting but deeply interesting study in the works of Thornton, Longe, Rogers, Mill, Bastiat, Cairnes, and other economists of more or less note. Before their compilations of data and their arguments have been mastered, the reader will have, at least, learnt to approach the question as to what the prices of anything ought to be, or what conditions regulate them, with modesty. He will certainly not denounce the seller of any service or any commodity as one who imposes "an exorbitant tax on the public." The underwriters are learning continuously as new experiences bring new light. They are recognizing more and more the equities involved in fire insurance, hence the tendency towards more scientific ratings which will involve a closer study of individual risks, and a more extended degree of discrimination between particular conditions. The element of grave contingencies cannot now, nor is it probable, will ever be eliminated. Consequently, while insurers expect to have the advantage of such contingencies in securing a contract for indemnity which may give them a claim for a loss enormously in excess of what premiums they may have paid. consequently, we say, it follows that they must, in rea-