INSURANCE SOCIETY

"Still achieving, still pursuing,
Learn to labour and to wait."

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Some years ago it was established by law in New York that no company should write on any one risk to an amount exceeding ten per cent. of its assets in the United States; this was intended as a "conflagration rule," so that no company might be seriously embarrassed by any one fire, it being understood that "one risk" meant the risk by one fire. This was, of course, an experimental or cautionary rule rather than a settled one, and was treated with very little care by any of the companies.

It is natural to suppose that there are fixed principles by means of which companies in general arrive at the rules by which they limit the amount they wish to carry on any one risk or class, or in any one locality, but as they seldom if ever make any explanation as to why the amounts stated are the maximum of the liability they will assume, it may be of some interest that these principles should be discovered.

As a foundation, we will suppose that thirty per cent. of the earned premiums is required for the expenses of the company, then it is seen that not more than sixty-five per cent. thereof should be the extent of the losses, if five per cent. is to be profit; so far as it is possible, then, this principle should be established in every locality or class of risks, otherwise one locality or class has to pay for the losses of others.

Opposed to this principle is the fundamental idea of insurance, viz., that which does not burn should pay for that which does.

We have therefore what we may call two principles at work, one of which is the business or equitable one, and the other the theoretical or scientific one, and the conflicting instructions of the different companies arise from their application of these principles in the establishment of their rules.

The presence of these two principles accounts for the discussions as to whether Fire Insurance is a business or a profession, the solution in each individual case depending on the training of the underwriter and the extent of his field, as, if he has been educated in fire insurance as a science, he will be content if the gross result of his business leaves a fair margin of profit, and will only seek an increase of that profit by the general increase of rates; but if his training has been on ordinary business principles, he will naturally look to every individual risk for its fair share of the necessary provision for losses, expenses and contingencies, on the principle of "so much risk = so much money."

The more extended the field of operations, the more likely is the manager of a company to follow the scientific principle, just as a general storekeeper may look for a profitable result at the end of every year although his sugars and cottons have been sold at less than cost, and, to prevent general competition, he has from time to time undersold his neighbors on other classes of goods.

It is obvious that in a contracted field of operation the fire underwriter must adopt more rigid business principles because he has not so large a proportion of sources of profit to fall back on. He is in the position of the dealer in simple goods alone, and must make a profit on them or fail in his business.

It will, of course, be objected that what is here styled the science in contradistinction to the business of fire underwriting is really main force, and not at all scientific. This we leave to the individual opinions of our readers.

It will naturally result from the adoption of either of the principles laid down, whether a company limits its lines on any class or in any locality by their general experience, or with reference to the income from the locality or the class of risk.

The business principle will limit the lines in every locality by the local circumstances, whilst the scientific one will limit in accordance with its general ones.

The true principle is that every increase of risk shall produce increase of rate, and at the same time decrease of amount at risk, or that rates being established upon proper business principles, then the amount at risk in any one locality would be found by establishing the maximum of income to be received from that locality.