

## REPORT ON INSURANCE BUSINESS.

The report of the Massachusetts legislative committee on insurance published in the *N. E. Insurance Gazette* reviews the history of insurance since the late war; speaks of the reckless competition as seen in the numerous fires which especially obtained from 1862 to 1867, and instances the great Portland fire of July 4, 1866. During this period many companies succumbed. Hazards are now increasing from the greater use of petroleum products, phosphorus, nitro-glycerine, and other chemicals. The increase of the crime of arson; the practice of over-insurance; the depression of trade and diminution of profits; are dwelt upon, as well as the bad system of brokerage in use. The fire losses from 1st January, 1859, to 31st December, 1868, amount to 59.26 of the premiums; the average running expenses being 30 per cent., leaving only a margin of 10 per cent. for profit, deducting the earning of vested capital, which is stated at 9 per cent.; the report concludes that only 1.23 per cent. is the real profit of insurance business.

Equally unfavorable, says the report, are the results of the insurance business in New York State, in which during the last three years, the 164 fire and fire-marine insurance companies, which do business in that State, received \$110,720,700.28 in premium receipts on fire and marine risks; and disbursed \$111,519,470.20, or \$799,769.93 excess of disbursements over current receipts in a three years' business.

It is true that these companies during that period paid out \$11,760,184 in the shape of dividends, or an annual average sum of \$3,829,061. Their total assets for the three years exhibit an average of \$72,902,576. Hence their net earnings, from all sources, were only 5.33 per cent., or but little more than one-half the general average. But even these small dividends were not derived from the profits of current business—which as we have seen was really a losing one—but were borrowed from the interest accruing on their surplus funds.

The following calculation of percentages will be interesting:

Percentages of total losses to total premium receipts .....	60.93
Percentage of total commissions to total premium receipts .....	11.81
Percentage of total management expenses, exclusive of commissions and taxes to total premium receipts .....	14.14
Percentage of total taxes to total premium receipts .....	5.14
Total .....	101.29
	100.00

Percentage of excess of current expenses to current receipts .....

1.29

The facts disclosed in the above tabular statement are both significant and suggestive. They show that 164 leading American insurance companies doing a fire and fire-marine business paid out, during the years 1865, 1866 and 1867, \$12,500,000 more than their premium receipts; that of \$125,000,000 of total income for three years, less than \$2,000,000 were reserved for additions to surplus, that the proportion of premium receipts saved for dividends is less than the amount thereof paid for taxes.

## THE PRUDENTIAL AND INTERNATIONAL.

The whole of the revelations about the *Hercules* are of the most extraordinary nature. They disclose a course of business which might be deemed incredible. The company undertakes the liabilities of the *International*—a concern which for years was understood to be in a bankrupt state—

relying apparently solely on the judgment of Mr. Shrubbs, general manager and secretary of the *Hercules*, but who is known to have had no actuarial knowledge whatever; and this they do on terms so monstrous that actuaries would have been aghast at the bare suggestion. True, the affairs of the *International* were valued by Mr. Woolhouse, the eminent mathematician, before the transfer took place; but he seems not to have acted on his own independent judgment, for he assumed a basis of five per cent. instead of the usual three or three and a half, and of course his valuation was in consequence utterly unsound. But nobody seems to have suspected this. Mr. Shrubbs was not likely to find it out, and can hardly be suspected of having done so, especially if his assertion that he never received a penny over the transaction is correct; the board relied on their secretary, and so the whole mischief was done.

Yet it is marvellous that it could have been so. What were the directors about? Was it so small a matter, this buying up the business of another company, that it was not considered worth their attention, or was it so complicated that they could not fathom the mysteries of it? Mr. White, the official liquidator in the winding up of the *Hercules*, very properly points out, that had the effect of purchasing on a valuation, not of pure net premiums, but of gross premiums, at five per cent., been seen and considered by the board, they never could have been parties to such a transaction. "Yet," he adds, "it must be apparent to any shareholder (let alone a director) who has the least knowledge of insurance business, or of finance, in any form, that as it is nearly impossible to invest considerable sums of money so as to obtain more than 45 per cent.—and it is indeed very hard to invest large sums to obtain uniformly even that amount—that the *Hercules* must have realized a heavy loss year by year upon the business it had taken.

There was no margin out of which one penny of direct profit could be made by the investment of the *International* funds, nor indeed, was there any possibility of getting a single penny of margin to cover the whole expense of working that *International* business with its costly agencies in several parts of England, in Paris, Brussels, New York, Montreal, Halifax, Nova Scotia, and other places. Assuming (which is impossible in fact) that every shilling received from premiums, or otherwise, under the *International* transfer could have been invested at interest at 45 per cent., the moment it was received, so that not a fraction of interest was lost, the *Hercules* would then have had to bear, out of its own proper and independent resources, all the expenses incidental to the conduct of the *International* business.

Even this was not the worst of the case, for an attempt was made to show that the *Hercules* would, by profits on *International* policies bought on advantageous terms, be able wholly to turn the scale, which is mere moonshine. Looking at it altogether, it must be admitted that the *Hercules* has landed itself in a hole through one of the most amazing transactions in insurance history. The only parties who seem to have been benefited by the transfer are Mr. John Sheridan, the negotiator of the business, who netted £8,000 for his trouble, and Mr. Richardson, the Secretary of the *International*, who seems to have received £15,000. This sum of £23,000 was paid away out of the assets of the *International*, reducing the funds by that amount, though its position was at the moment utterly hopeless. We question whether if the Court of Chancery were appealed to the whole of this money would not have to be refunded. If it be not, the unfortunate shareholder will have to make it good, besides a deficiency of some hundred thousands which they will have to subscribe to enable the *Prudential*, which has taken over the *Hercules* business, subject to certain conditions, to carry out this portion of the contract.

So far as the *Prudential* is concerned, it seems to have acted up to its name in the way in which it has set about acquiring the business of the two unfortunate companies. It has had their affairs valued by two competent actuaries, and has agreed to indemnify the policy holders of both companies in case the deficiency in the assets is subscribed. It could hardly have set to work in a more straightforward way. Meanwhile the whole affair in regard to the absorbed offices, now that it has been fully exposed by Mr. White, cannot be too closely scrutinised or strongly condemned. It reads more like a page in a novel than an incident in real business life. The *Hercules* directors appear to plunge into a difficult and delicate negotiation, wholly in the dark; they voluntarily "shoot Niagara," and elect to do so with their eyes shut. The thing affords a striking lesson to shareholders when called on to suffer their interests to be transferred from one company, to glide from comparative prosperity to ruin, from success to catastrophe at a single step, and especially in transactions of this sort. "But," it will be said, "the safety valve is the actuary's knowledge and experience. If he is not to be relied on, what security have we? How are simple shareholders to satisfy themselves and to secure their own interests unless by this means?" The question is far more easily asked than answered. The whole position of shareholders in public companies is, in truth, most unsatisfactory. They cannot all be suffered to take an active part in the transactions of business. That would never do. And even were it practicable in other respects, incompetency would furnish an effectual bar in nine cases out of ten. What are they to do then? Why, they must place reliance on those who are elected to sit at the board-table. The directors must have extensive powers and exercise a large discretion, under the advice of accredited and competent officers.

This state of affairs cannot be altered by any legislative or other device. Given complicated and extensive business arrangements on the one side, and a large body of interested but ignorant men on the other, and the present system is the only system which will work. There may, of course, be checks and counter-checks; Government actuaries may revise the calculations of private actuaries; accounts may be submitted to Government inspection or published for general information. Fifty different expedients may be resorted to; but the difficulties lying in the way will never be got over, and the more complicated the machinery, especially if there is to be a government spoke in the wheel, the more likely is the whole thing to get out of gear. All that the shareholders can do is to regard with suspicion and scrutinise as cautiously as possible all the propositions of an extraordinary nature submitted to them, demanding the fullest information, and insisting on the most stringent precautions their sagacity or experience may suggest. Let them not rely too surely on representations made to them, even when backed up by the advice of an actuary, who may not be a free agent, as we are willing to believe was the case in this instance.

The secret of the whole thing seems to be that the *International* was absolutely rotten—that it could not stand much longer; and that, therefore, at all hazards it must get rid of its liabilities to some unwary concern. For some years it had been in the market without finding a flat to purchase until the *Hercules*, utterly ignorant of actuarial science, and probably fearing the result of an investigation, entered into negotiations, on its own behalf, and bad as it was itself, actually consented to take over that which could only make it worse. The negotiator of this scandalous piece of business pocketed £8,000, and the officials of the *Intercolonial* netted an amount which seems almost fabulous. As these parties, excepting perhaps the lawyers, were the only ones that would be benefited by the transaction, their desire to carry out the transfer *per fas et nefas* is easily understood.—*Insurance Record*.