The Chronicle

Banking, Insurance and Finance

ESTABLISHED JANUARY, 1881

PUBLISHED EVERY FRIDAY

Vol. XXXV. No. 17 MONTREAL, APRIL 23, 1915. Single Copy 10c
Annual Subscription, $5.00

SPECIAL HAZARDS.

Special hazards are said to be the ban of fire insurance. Their usually high rates of premium bring to the agent a liberal commission, and companies are found to which this temptation of large premiums not unfrequently becomes too strong for resistance, to the subsequent undoing of the company.

But it does not follow of necessity that, because inexperienced and "ambitious" companies have had their fingers burned by meddling with what they did not understand, that special hazards are not, when handled with judgment, good insurance risks. But, as in other things connected with fire insurance, there is a very great diversity of opinion as to the selection of business. Many offices, the country mutuals especially, confine their efforts to isolated farm risks, or dwellings in villages usually more or less detached. Others, usually the stock companies, restrict their writings, in addition to ordinary hazardous and non-hazardous classes, to the better classes of extra hazardous risks in cities, declining all specially hazardous, as undesirable; while others again, particularly the larger agency companies, write freely upon all classes of mercantile and manufacturing risks, and find it profitable to do so.

* * * *

Opinions differ also as to the profitable results arising from writing those classes of hazards which command high rates of premium, as compared with those which pay uniformly low rates as being less hazardous. Some underwriters hold as an axiom that good risks always pay low rates, while the poorer classes command high figures in the ratios of their several increasing hazards. As an axiom, this seems faulty, and smacks of over-caution and lack of insurance wisdom. The mere fact that, from their classification, non-hazardous risks are held as good insurance investments, is no argument that all manufacturing establishments are undesirable as insurance risks merely because they command a higher premium rate than such non-hazardous property. On the contrary, well-developed experience has demonstrated that a well selected average line of the higher grade of premium hazards, properly adjusted as to the rate, will bear a much heavier percentage of loss and leave better results than an equally desirable line of risks of a lower premium value. Low rate premiums entail a large average line of insurance, and hence of liability, to realise a given amount of business; while, on the other hand, high-priced premiums always accompany reduced lines of writing, usually graded to the rate of premium, with a corresponding reduction in the extent of liability.

* * * *

The result is that while special hazard lines are comparatively small and proportionately scattered, in the event of loss, even if total, the company loses but a minimum amount upon any single risk; while low rate lines are always large in proportion, so that, when a fire occurs, the loss is always heavy, and, relatively to the premium received, larger to the insurer, even when partial as to the amount of the insurance. But if a company proposes to enter into the special hazard business, it cannot expect to reap success unless it makes a business of it. A single risk or two of any given class, laid away upon the shelf to await the turn of the die, will not suffice for safety. To make any class of specials profitable, as a class, and at any rate that the insured can afford to pay, there must be a number written large and broad enough to afford a fair breadth of average. One company with one hundred tanneries upon its records, lost money; with the number increased to four hundred, it made money. That company's experience solves the problem. Writing specials, however, without experience, is like handling edged tools without knowledge; the expert handles them with impunity; the ignorant man only maims himself.