

FIRE REINSURANCE.

Much has been written on the above subject from parties holding exactly opposite views, and also from those who take a middle course, and, while deprecating fire reinsurance as a whole, yet think that under some circumstances it may be advantageous even to a company transacting only that kind of business. We have been somewhat amused of late in observing the "change of front"—if we may use the expression—adopted by the United States Insurance Journals since the advent of one or two reinsuring companies to this side of the Atlantic. Formerly no denunciation could be more scathing or complete than that issued by those very Journals of the folly in companies, either from Europe or America, entering into the business of fire reinsurance, but "*tempora mutantur et nos illis mutamur*," and no sooner does a reinsuring company make the deposit in Albany than it is hailed with acclamation as supplying a much-needed want! Of the two we believe the company reinsuring in the States will have a harder road to travel than would be experienced by a similar company in Great Britain, for the reason that the average lines on select business are smaller in the former than in the latter, consequently not requiring so much reinsurance and, therefore, a greater proportion of the risks ceded will be specially hazardous.

The business of fire reinsurance may be divided into three classes, viz. :

1. Reciprocal Reinsurance ;
2. "Pro rata" Reinsurance ;
3. Surplus Reinsurance ;

which we will proceed to consider in the order named.

1. *Reciprocal Reinsurance*.—Strictly speaking this can scarcely be classed as part of the business of fire reinsurance, as it simply consists of ceding portions of risks which the company thinks too heavy to retain the whole of, or because it is what is termed too crowded in a particular neighborhood. It is quite optional with the company to which the risks are offered to accept or reject the same as though the business came direct—and reciprocity follows, nay is even expected, for if Company A finds Company B ceding a fair share of its excess lines it will naturally be more inclined to give business in return, rather than to a company from which it receives nothing. We look upon this interchange as not only perfectly legitimate, but, as fire insurance is now conducted, as absolutely necessary and we repeat it is not what is meant by reinsurance in its strict sense.

2. "*Prorata*" Reinsurance.—We next come to reinsurance pure and simple : one company entering into a contract to reinsure a certain proportion of every risk accepted by another company in a certain country or countries, the liability commencing simultaneously, and in fact it is a regular partnership transaction ; and a profit or loss to the direct company must of necessity result in either the one or the other to the reinsuring company. We see no valid objec-

tion to this class of reinsurance being an arrangement made between the two contracting parties, fair and equitable for both, without in the least interfering with the interests of the insured. We of course are presuming that the commission paid for the business by the reinsuring company is just and reasonable.

3. *Surplus Reinsurance*. Lastly, we arrive at that reinsurance which is most common and on which companies confining their business entirely to reinsurance depend almost exclusively for support. Sometimes this business is conducted through the form of a treaty—the one company agreeing to give and the other to accept the surplus lines of the office, doing the direct business up to a fixed amount ; and if it is the *first* surplus the reinsuring company's liability will commence immediately the direct company's limit is reached ; but if it should be the second surplus then the reinsuring company will receive no share of a risk until the first surplus is filled up, and so on. But these treaties are generally for the business of countries or places at a distance from the offices of the reinsuring companies or where they have no agencies, and there is a great deal of surplus business which is handed to said companies as it comes in very often upon those risks on which all the direct offices are full, and generally, we may add, upon property on which few care to carry heavy lines !

We have thus reached what is called the "hard pan" respecting reinsurance, which mainly consists of relieving direct companies of their surplus business. First surpluses, it will be easily understood, are preferable to second or third, since a larger proportion of the direct company's entire business is received, but even first surpluses by no means represent a "pro rata" share of that business, being still only surpluses, and though a large company may reinsure a very fair proportion of its specially hazardous risks, yet it merely cedes a trifling amount of its select business, for the simple reason that it can almost always carry the whole of such itself. What a small proportion, for instance, of dwellings or other first class non-hazardous risks will the reinsuring company receive compared to manufacturing or other specials, so small indeed, that they will be "like two grains of wheat hid in two bushels of chaff ; you shall seek all day ere you find them ; and when you have them they are not worth the search !"

Surely when we see what fire reinsurance (as a distinct business, not as a help) really is we need not be surprised at its want of success. One company after another has tried it in Great Britain and retired in course of time "sadder but wiser" for their experience ; and we cannot comprehend why the same principle should be more successful in the States, but on the contrary, as already explained, every reason why it should be even a greater pitfall for those who attempt it. We cannot hope that our words will have much effect, experience on this side, as in the Old Country, must be the same teacher to prove that the laws governing fire insurance are like those of the Medes and Persians, fixed and unchangeable. Nevertheless it shall not be said that we uttered no note of warning to those rushing into danger.