

deal unaided with the problem of fire insurance rate-making and hope to solve it completely. It depends, in the first place, upon many things which are entirely beyond State control—upon the fundamental morality of people, for instance, and upon special conditions which exist here and there and which no legislation, however well intended, can affect. But beyond all this, rates in any given State are necessarily affected, in large measure, by the laws which are passed in the other States. As the result of its entire underwriting each company tries to make money for its stockholders. If through restrictive legislation it loses money in Kansas, Kentucky or Missouri, for instance, it naturally seeks to recoup itself somewhere else. Thus, as I say, the question is a national one and, in the very nature of things, cannot be dealt with satisfactorily by any single State. But that we in New York are meeting the difficulties of the situation in as satisfactory a manner as they can be met under the circumstances, I think I am perfectly safe in stating.

#### NEED OF RATE-MAKING ASSOCIATIONS.

What we have done in New York is simply this: We have recognized the need for rate-making associations, and have explicitly legalized these organisms so that they may transact their business in the open and not, in fear and trembling, behind closed doors. We have placed them, together with all their ramifications and feeders, under the supervisory jurisdiction of the Insurance Department. We have, in addition, passed laws forbidding the making of discriminatory rates between risks of the same class. We have given authority to the head of the Insurance Department to pass upon questions of alleged discrimination of this character, and, if he finds such discrimination to exist, to forthwith order it removed. That has been the New York way of dealing with the situation which has resulted, in the fire insurance world, from the dying-out of the old thorough-going competition between the companies which once existed in the matter of rates. And, as I have said, it has proved to be a very good way so far as it goes. It has enabled us on several occasions to bring about—with the approval, virtually, of the companies themselves—large reductions in rates which were being charged in sections of New York and other cities where conditions had entirely changed since these rates were first put into effect. But for the power which any citizen has, under the New York law, to lodge a complaint of discrimination in such cases with the Superintendent of Insurance, these antiquated rating schedules would so far as one can see, have remained in operation indefinitely—largely because with the best will in the world it is humanly impossible for the rate-making organism, unless prodded along from the outside, to keep abreast of the changes which are occurring constantly in the territories they are supposed to cover. Thus it came about, in one case I have in mind, that the department's order removing an obvious discrimination in rates against an extensive outlying section of one of our greatest cities, was hailed by the companies themselves with almost as much enthusiasm as it was by the inhabitants of the region benefited by the order—because the justice of the finding was beyond any question and the insurance companies realized that in calling it to their attention, and insisting upon prompt action, the department was really doing a service to them as well as to the people.

#### SOLVING A DIFFICULT QUESTION.

Am I not justified, then, in contending that excellent progress has been made in New York toward solving the difficult question of what should be the proper relationship, in the future, between government and the business of fire insurance? Infinitely better progress, at all events, has been made, I am certain, than would have been possible had we gone into the matter from a different angle, and sought to annihilate the rate-making bodies, as has been attempted in some of the States. Nevertheless, when all is said and done, it must be admitted that in New York, as elsewhere, a feeling of suspicion exists in the minds of people generally that fire insurance rates are higher than they ought to be. Hand in hand with this suspicion goes the demand that the people shall be afforded an opportunity—by studying the figures showing past experience upon which present rates are predicated—to sit in judgment, as it were, from time to time, through their proper representatives, upon the question whether the price they are paying for fire insurance protection, now that competition has been eliminated, is a fair price or not. And he would be a venturesome prophet indeed who was willing to record himself as thinking that this demand will speedily die out.

This brings me to the point where, if I have any further solution of the problem than the one now on trial in New York, it is proper that I should divulge it. I have already said that I think that the New York method of handling the situation has been a good one, so far as it goes. I am not yet prepared to say that it does not go as far as need ever be gone in the direction of governmental supervision over the question of fire insurance rates. The results accomplished so far have been satisfactory enough to encourage the hope at least that, with further trial, the present New York method will show that it is capable of meeting all the requirements of the case. But, if this should turn out not to be so—if there should be a necessity for further State activity in this field—a suggestion has recently been made to me as to the direction which this activity should take, and without in any sense adopting it as my own I am going to tell you what it is, for whatever it may be worth. I hope my action in mentioning it at this time will be accepted by these in the fire insurance business in the spirit in which it is intended—that is, as an honest and sincere attempt to contribute something helpful to the public discussion of an exceedingly intricate and troublesome question.

#### INSURANCE DEPARTMENTS' DUTIES.

Insurance departments exist primarily in order to insure the solvency of insurance companies operating within the jurisdiction of these departments. Anything which it may be necessary to do in the direction of State activity in the rate-making field, beyond what has already been done in New York, should, in my judgment, be done in connection with the performance of this admitted and well-recognized duty of insurance departments—namely, the maintenance of solvency among the insurance companies. The question of solvency can best be dealt with by requiring the maintenance of adequate reserves by the companies. In order to know whether a reserve is adequate or not, it is necessary to know what the hazard is, or in other words, the anticipated loss. The net premium rate is the measure of the hazard, and reserves should be based upon true net premiums.

(To be continued).