

## THE MORAL HAZARD IN FIRE INSURANCE.

In the course of a very interesting lecture given under the auspices of the Insurance Society of New York a few weeks ago, Mr. Robert P. Barbour had the following to say about the moral hazard in fire insurance:

Much is said of moral hazard in fire insurance and perhaps it will profit us to consider this somewhat more fully. By moral hazard is meant personal character, integrity, solvency and general habits of life, and it may be divided into two groups, one expressed by the word "honesty" and the other by the word "carelessness." Honesty is something that cannot be proven by line and measure, for none of us know how honest we are except by the degree of temptation which we have resisted. Underwriters must judge of this feature by the record of a man, by such of his characteristics as can be learned, and by the apparent temptations there may be for dishonesty. Information regarding the insured is obtained from a variety of sources. First of all, companies depend on their local agents not to insure any parties that are unknown or who bear a poor reputation in business life. Considerable dependence is placed also on ratings and reports made by commercial agencies and by a man's past record as to fires.

A commercial rating is of value as indicating whether one has sufficient means to conduct his business or to maintain his property. Men who are doing well are not subject to the same temptations as those who are in difficulties, although not all financially successful men are good moral hazards, nor all unsuccessful ones bad moral hazards. Yet one who sees his property slipping away from him may be tempted to recoup by a dishonest fire, or one dishonest in business might use a fire to destroy the evidence of wrong-doing, and care must be used where circumstances point to such conditions. Commercial ratings must be considered in relation to the character and size of the business operated. A rating of from \$3,000 to \$5,000, with fair credit, is considered a normal rating for the average retail grocer, but such a rating for one operating a large wholesale grocery would be unusually low and call for some investigation. As a rule, where the rating is not normal, whether in amount of resources or degree of credit assigned, it is customary to obtain a special report, which goes into considerable detail regarding assets, liabilities, business history, reputation, etc., thus furnishing to the underwriter information upon which to form some judgment of the moral hazard.

Then there is the question of fire record. If a man has had a fire the underwriter wishes to know whether the adjustment developed any circumstances or facts that were not satisfactory from the standpoint of honesty or carelessness. If

there is no criticism, the fact that he has had a fire does not militate against him. If, however, a man has had two or more fires it is a more serious matter, and some companies make it a rule to decline insurance in such cases on the ground that the man may be dishonest or be tempted to be, and anyway he is too unfortunate to be a good insurance risk. Of course, it is a different matter where the man owns a number of scattered properties occupied by tenants, although in such cases if fires are too frequent they need careful investigation.

Perhaps in nothing more than fire insurance does the "appearance of evil" count for so much and departures from the normal are quite as likely to be from the moral hazard standpoint as the physical.

By way of illustrating the abnormal risk that is likely to induce moral hazard, let me quote the following examples of the kinds of risks that underwriters scrutinize with great care when offered:

Saloons, distilleries or breweries in a locality that has gone "no license"; stores with an undue quantity of shopworn, old fashioned or otherwise unsalable goods; factories poorly located as to transportation facilities or not adapted to the kind of manufacturing done, or where labour is difficult to procure, or where labour troubles are frequent and bitter; industries that depend for profit on patents in litigation or expiring; old fashioned buildings that find it hard to compete with modern ones; houses in changing or deteriorating locations likely to become unsuitable; a business operated by a man in the name of his wife; industries of all kinds that are unwelcome, perhaps nuisance in the neighborhood, and in general any business that is "going to seed."

In all these cases conditions are abnormal and because they vary from the normal should be carefully investigated. A motive may exist for having a fire wherever it would profit the ones interested, either in disposing of something not wanted, or of something unsalable at anything like the original cost. Over-insurance, that is, insurance in excess of a fair value, is considered one of the great causes of so-called moral hazard fires, and this is likely to be in truth a burning question in the near future.

The other phase of moral hazard that is summed up under the word "carelessness" refers more especially to housekeeping conditions. Care and cleanliness are "first aids" to fire prevention for carelessness is the cause of more fires than poor construction, or hazardous processes. The best protective equipment or device is likely to fail unless maintained in good workable condition and a poor building, kept scrupulously clean and in order, is often a better risk than a good building that has poor care. Carelessness is a

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