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"MORAL HAZARD" IN INSURANCE,

With Special Reference to the Accident Business—
Interesting Paper Read Before Toronto
Insurance Institute.

Below is printed the address of Dr. J. E. Elliott, read before the Insurance Institute of Toronto on Tuesday. This has been widely discussed, and now appears in extenso for the first time. It has such an especial interest for insurance men generally that we hold over the usual insurance features this week in order to make room for a lengthy though most instructive paper.

Dr. John Ephraim Elliott, Chief Advisory Surgeon of the Ocean Accident and Guarantee Company, and the London Guarantee and Accident Company, read an interesting paper before a meeting of the Toronto Insurance Institute, held at St. George's Hall, on Tuesday, on the subject of "The Moral Hazard in Accident Insurance." The paper introduces a phase of the insurance business which has not hitherto received the amount of consideration it has deserved. Dr. Elliott's address was as follows:

Mr. President and Gentlemen,—I must ask your kind consideration of my remarks this evening, as the subject I have chosen is one that, so far as I can learn, has not been heretofore discussed by your Institute.

When your president asked me to address you, I consented before I considered the question properly. After having given my promise, I was at a loss to know what subject to choose that would be of interest to such an intelligent body of expert insurance men, all deeply interested in the various systems of life, fire, marine, accident and other kinds of insurance.

My many years experience in the various kinds of insurance has been much with the Claims Department. In this department, one has a good opportunity of judging human nature; and a feature which not infrequently shows itself prominently is a lack of the moral sense of fair dealing on the part of claimants. I have heard the term "moral hazard" used in connection with life and fire insurance, and my idea of the meaning of the term has been that it referred to the honesty or dishonesty in insurance. I, therefore, thought that "The Moral Hazard in Accident Insurance" would be a good subject for an address to the members of the Insurance Institute of Toronto.

Definition of the Term.

In order to better understand and to better appreciate the term "moral hazard" as we hear it applied to life and fire insurance, I have made some considerable search for some literature on the subject, but so far have not been successful in finding anything in the libraries of the insurance offices, or in the Toronto Public Reference Library referring to the term.

I find in looking up the meaning of the words "moral" and "hazard," that Worcester gives several definitions for both. His definitions of "moral" are:

- (1) Relating to or according to the received and customary rule of right and duty between man and man; relating to or in accordance with morality or morals; ethical.
- (2) Relating to the private and social duties of men, as distinct from civil responsibilities; relating to the law of right and wrong, conceived of as obligatory in its own nature, and not depending on human laws, opposed to positive.
- (3) Subject to principle of duty; bound to do what is right; capable of discriminating between right and wrong; accountable.
- (4) Voluntary; implying conscience and free will, that admits of a choice between doing or not doing in view of the supposed right or wrong quality of the deed.
- (5) Good, as estimated by a standard of right and wrong; virtuous; just; honest; the opposite of immoral.
- (6) Supported by the customary course of things; probable.
- (7) Relating to mind and not to matter; not physical.

"Honest Risk or Accident."

These definitions, I think, cover all the various applications of the word; each and all refer to honest, fair dealing between man and man in every sense; playing fair. Worcester gives the following definitions of the word "hazard":

- (1) A game of dice.
- (2) Chance; accident; fortuitous event.
- (3) Danger; risk; peril; jeopardy.

Thus, the most limited meaning of the words "moral hazard" is honest risk or honest accident.

It is not the honest risk or the honest accident that requires consideration in insurance, but it is the dishonest risk or dishonest accident which has to be considered and guarded against.

If this limited meaning of the words "moral" and "hazard" was the intention of the inventor of the term, I think a better term would be "immoral hazard"; but I do not think this limited meaning could have been the inventor's intention of limiting the term to the insured only, but rather to the broader application of the dishonesty of unfair dealing in insurance in its widest sense. If this was not his meaning, it is the meaning which prevails at the present time, I am led to believe, from discussing the subject with many of our most experienced men in the various kinds of insurance.

Dishonest and Unfair Dealing.

I shall, therefore, use the term "moral hazard" in its broadest sense to mean:

- (1) The opposite of honesty or fair dealing on the part of the insured when making application for insurance and when making claims.
- (2) The opposite of honesty or fair dealing on the part of the agent to the companies and his clients.
- (3) The opposite of honesty or fair dealing on the part of the medical man in his relations between his patient and the insurance company.
- (4) The opposite of honesty or fair dealing on the part of the lawyer in his relations with the injured workman and his employer.
- (5) The opposite of honesty or fair dealing on the part of the insurance company in its dealing with its clients, with its agents, with its competitors and with itself.

Or, to put it in as concise a form as possible, I would say that the "moral hazard" in insurance means the risk a company takes against unfair dealing in all its relations with the client, the agent, the doctor, the lawyer, competing companies and itself.

Modern Companies of Recent Birth.

The history of Accident Insurance dates back to a early period, but the modern accident insurance company, with its broad policy, is an institution which has had its birth almost within the last ten or fifteen years.

The accident insurance policy of to-day is very different from what it was a quarter of a century ago. Then it was a plain, simple policy, guaranteeing indemnity for death, and a weekly indemnity for total disability.

Competition between the companies became so keen that in order to attract clients, new features have been gradually added to the policy, until now, almost all accident policies give not only indemnity for death, and total disability for a much longer time than formerly, but also indemnity for partial disability; and also treble indemnity for death or disability for injuries sustained while riding on public conveyances and elevators, and for injuries received in burning buildings, besides indemnity for disability against innumerable diseases.

The policies are now so broad and so open that it is causing much anxiety to some of the companies to know what new feature can be added to its present policy that may entice away the client from its competitors.

Every new feature added to a policy adds an increased "moral hazard." Every new feature offers a greater opportunity for the dishonest claimant to get the better of the company.

Unsound Precedents Established.

Too great a desire on the part of the companies to get business by trying to outdo the other has led to looseness on

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