

THE SECOND PROCESS.

Assume now the second process to be stopped by strike. A fire affecting the first process would cause a consequential loss, but only in respect of the partially finished material which might have been produced and sold. A settlement could not be made on the basis of a comparison with the turnover or output of the business for the previous year, because such figures refer to the finished article. It would be useful to ascertain or estimate the value of the first process output and the profit thereon for the previous year, thus arriving at the reduction connected with the fire effected process. It is important to note, however, that the standing charges insured apply to the whole of the business, and, as the loss of them is partly due to the strike, due account must be taken of the fact. In any of these cases, when it is admitted that the employees would return to work, except for the fire damage, it is unlikely that the employers would be able to earn the normal rate of profit immediately after a dislocation of business by strike, in which case the policy could only be held to cover such reduced profits, though it would be very difficult to allocate the separate losses due to fire and strike, and it is impossible to examine them in abstract. It will readily be seen how further complications would arise when more than two processes were interrupted by partial fire and partial strike, but to discuss them in detail would become tedious. Industrial disputes affecting fuel, power, light and transport disturb the producing powers of most manufacturers in varying degrees and provide further examples of the utility and importance of the clause which arms the Accountant with discretionary power.

In the case of a works manufacturing a patented article, the principle of basing a loss settlement on decreased turnover is likely to be misleading. If the same article or a reliable substitute is not obtainable elsewhere, it is exceedingly probable that the greater part of the temporarily reduced turnover will not be lost, but merely postponed. Thus there would be an increased volume of business as soon as work was resumed which would compensate partially or totally for the temporary loss. Such increase being due to the fire, allowance should be made therefor by the Accountant in the settlement, otherwise the insured would be in the position of having made a profit by the accident, which is distinctly undesirable in principle.

MORAL HAZARD.

The instance inevitably reminds one of the existence of moral hazard. It has been argued in print that profits insurance does not increase the moral hazard, but with that I cannot agree. Facts regarding probable future turnover or profits are more elusive than those regarding goods actually on the premises or claimed to be there. Under an ordinary fire policy, unless the insured intends to give up business after a fire, there is a margin of consequential loss to overcome before he can turn the material loss settlement to his advantage. It will, of course, be contended that he was probably making no profit and that was why he had a fire, but there are still the standing charges to be paid, which make a persistent inroad into any gains he may have succeeded in obtaining. It is admitted there is moral hazard even with this deterrent, therefore with the deterrent

removed by a consequential loss policy the risk of fraudulent claims is necessarily increased. My contention makes the fire policy the medium of gain and the consequential loss policy the accessory, but there is also direct moral hazard on the profits policy. Almost every large firm will be in the position that carelessness would pay during the period of slump which inevitably follows a boom in trade. The insured will know that there is no chance of approaching the previous year's figures, but after a fire it would be impossible to prove that sufficient orders would not have been obtained when there is no opportunity to make a test. Another factor which contributes to increased moral hazard is that an unscrupulous policyholder would run less risk of detection under the latter policy, except in respect of the possibility of the premises, and consequently the scheme, misfiring. That danger is the same in either case, but assuming the blaze successfully negotiated the position is different. In dealing with claims for material damage many investigations can be made to test the accuracy of statements submitted. Although the insured's books would probably be burnt along with the rest, some evidence could be obtained from the persons from whom the goods or raw material for same were bought. Employees would know whether or not the alleged stock actually had existed.

RELIABLE INFORMATION OBTAINABLE.

The market value at the time would be a guide as to its worth. As to buildings and machinery reliable information is obtainable from various sources. All these are difficulties to be surmounted by the would-be fraudulent. Undoubtedly many have cleared all the hurdles successfully, but the danger of a misjudged jump is always present, as those who have fallen know to their cost. It is chiefly through the latter, of whom we hear occasionally, that we are reminded of the existence of moral hazard, though there is probably a far larger number who have stumbled, but of whom the world hears nothing. I refer to the doubtful and suspicious cases where the claimant has found he has overlooked something and has had to modify his intentions when faced by the Assessor; or he has been detected and shown that his claim could not be correct, when he has retreated under cover of the excuse that he had made an unfortunate mistake; or even he has been caught red handed, but has arranged a compromise avoiding prosecution, which insurance companies generally dislike. Compare now the position of the similar class of claimant possessing a consequential loss policy in the circumstances of a slump in trade to which I referred previously. His claim would be on the basis of the reduced turnover compared with the previous year, although he knew from his experience of the business that it would have been greatly reduced in any case. Most probably the Company would settle without demur; but even if it were suspicious, and considered the claimant would thereby make a profit on the settlement, it is very improbable that there would be a remedy. I do not consider the matter could be brought under the "extraordinary circumstances" clause, as it could not be proved that the insured would not have been able to effect as large a turnover as previously. In any case, however, one of the points I would emphasise is that the claimant would be able, if necessary, to take the case to arbitration or to the Law Courts without any danger of being legally accused of attempted fraud.