

THE STATE AND FIRE INSURANCE.

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New York.)

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Theoretically, therefore, insurance departments, in order to carry out their primary purpose of safeguarding the solvency of companies, should not only know what the true net premiums are upon which the companies base their reserves, but should have the equipment for determining what rates may be justly charged by the companies in order to maintain solvency and insure a fair return upon the capital invested.

A REAL DISTINCTION

This, very roughly stated, is the position which the leading men in the fire insurance world have been taking lately in reference to the proposal which the New York Department advanced about a year ago to the effect that the "experience" of the companies should hereafter be filed with the Department as a guide in determining whether in any given case the rates charged were fair. Let me say at once that, personally, I sympathize with their attitude to a very considerable extent, because I have every reason to believe that the distinction which they draw between their business, as a highly hazardous calling, and the business of life insurance for instance—from which the element of chance has largely been eliminated—is a very real distinction, and not in the least an imaginary one. But admitting this to be true, we are still confronted with the question, what the proper limits of governmental activity are in connection with this business. First let me point out why I think that increased governmental activity in connection with fire insurance rate-making is more or less inevitable. Having done that, we will take up the further question what line of governmental activity should be followed by self-respecting commonwealths, in reference to this matter, during the coming years.

In my judgment, increased governmental activity in connection with the fire insurance business is inevitable, for some time to come, in New York and elsewhere—if for no other reason because in respect to fire insurance, as in respect to most other kinds of business activity, the world in its progress has left the age of competition behind, and has passed into an era when co-operation, not competition, shall be the controlling watchword. This, of course, is not literally and completely the situation—I am endeavoring merely to describe the tendency and the drift of things. The drift in the fire insurance world has been the same as elsewhere. It has been in the direction of doing away with the sharp competition which once existed in the business. Now, if there is one thing that can be taken as absolutely settled in connection with the trend of popular thought in this country, it is that the moment competition dies out or languishes in any industry, at that same moment a demand arises that the government shall become active, either in supervising or conducting the business which has ceased to be affected by competition.

CO-OPERATION IN RATE-MAKING DESIRABLE.

In fire insurance, the companies commenced some years ago to co-operate in the matter of rate-making. They did this by means of variously devised methods of organization suited to the purpose. In some cases,

they subscribed to tables of rates made up by individual experts upon supposedly scientific principles, and agreed to be bound by these rates. In other cases, they organized rate-making bodies of their own. The effect in either case was the same, in that the throat-cutting competition which once existed virtually came to an end.

It was inevitable, as I have said, that this tendency should have been met by a stirring up of popular interest in the question what effect the new order of things was going to have on fire insurance rates. The different positions which people in different parts of the country, acting through their legislatures and insurance departments, have been taking on this matter shows—if it shows nothing else—how crude and unsettled popular thought still is on the subject. Certainly no adjustment of the situation that can be regarded as in any sense final has been reached anywhere. In some places, the popular view seems to be that this tendency toward co-operative effort upon the part of those engaged in the business of fire insurance should be combated by every means possible. All combinations having for their purpose the achievement of uniformity in rates between the companies should, in the opinion of some, be legislated against and broken up. Those who do not desire to compete should be made to compete, whether they wish to or not. If they refuse to compete and try to co-operate, they should be sent to jail and their business should be taken away from them. That, I say, has been the point of view of some. It is not my point of view. It is not the policy which has found favor in the State of New York.

In New York we have concluded, on the whole, that the tendency toward co-operative effort between the companies in the matter of rate-making is, besides being inevitable, a tendency wholly in the right direction. The evils of the old unrestrained competition were many, and the wastefulness of it was great. The effect of it on the solvency of the companies which sold the indispensable commodity of insurance to the public could not help being, in many cases, disastrous. Rate wars led to company failures, and company failures led to unsafe insurance. Under the old conditions this was inevitable, and I, for one, hope never to see those so-called "good old days" return.

I believe that the scope of State authority in the matter of making rates should, under any and all circumstances that I can conceive of, be limited to the field outlined above, namely, the safeguarding of solvency. I do not believe that under any conceivable circumstances the State should undertake to do anything in the direction of making rates which it shall be obligatory upon insurance companies to charge their customers. But I know that a good many thoughtful people see a certain virtue in the idea that it may prove desirable some day for States to have something to say about the making of the rates upon which the companies' reserves are calculated—leaving the companies then to actually charge such rates as they see fit, so long as they reserve upon the rates which have received departmental approval. If State rate-making confines itself to the single purpose above outlined, it would be stripped, they say, of all the terrors which it now has for the men who are leaders in the fire insurance business of the country. No strong fire insurance concern has any objection whatever, so far as I know, to the maintenance of any reserves which in the interest of safety