

THE DEVELOPMENT OF CONSEQUENTIAL LOSS INSURANCE.

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Since the general adoption of the business four or five years ago the tendency has been towards reduction in rating, but regardless of argument the final arbiter is the statistical experience of premiums and losses over a period of years; and, whatever else the results may shew, one amendment which seems almost certain to take place when a sufficient volume of business has been accumulated is the introduction of differential rating. By this I mean the charging of a different proportion of the basis rate in a class of trade which has been proved to incur heavy consequential loss or is more difficult to reinstate, from the proportion charged for a business less easily interfered with or less difficult to restore to its normal condition. Imagine two classes of risk with identical fire rates, the one using delicate and complicated machinery and the other machinery common to the trade, for which spare parts or whole machines could readily be obtained. The material fire risk may be the same, but a comparatively small fire damaging machinery and causing delay and consequent heavy loss in the first case might be repaired in a week in the second. Examples in practical experiences are usually more satisfactory than hypothetical cases, so perhaps I may be permitted to cite an instance with which I came in contact a short time ago. A manufacturer and merchant buys yarns which he weaves into cloth in his sheds forming part of a rather heavily rated risk. The cloth is immediately removed to his warehouse about half a mile away and which is purely a warehouse risk. Some of his manufacturing work is done by outworkers or commission weavers, and in the event of fire he could without difficulty have the whole similarly treated. On raising the question of increased cost I am told that he is able to get his work done in that way as cheaply as on his own premises, taking running expenses into account, and the only advantages he gets from retaining his own works consist in having control and supervision, to produce exactly what he likes and in the manner he wishes, with less danger of his patterns being copied. Looms or spare parts can readily be replaced. The engine is in a building in separate tenure, but if that were destroyed an electro motor would be installed on the floor of his shed, as has been done within three days on two previous occasions when the engine has broken down. The risk of consequential loss is small compared with that at the warehouse, where the destruction of his stock would seriously cripple him, as he would be quite unable to fulfil his contracts for some time ahead. Treating these as separate businesses with different ownership, the basis rate for the manufacturer would be six times that for the merchant. Admittedly this is an extreme instance, but it gives an indication that probably the consequential loss risk of warehouses does not bear the same proportion to that of mills as the fire rate of the one bears to that of the other. Similarly experience will no doubt reveal differences in the potentiality of trade disturbance in woollen mills, worsted mills, cotton mills, tanneries, boot factories, dyers, theatres, corn mills and other risks, and varied percentages of the fire rates may be charged to meet them.

EFFECT OF LABOUR DISPUTES.

A very important instance of exceptional circumstances within the meaning of the clause I referred to previously which calls for the exercise of the Accountant's discretion is the intervention of a strike or lockout. Unfortunately, at the present time we can refer to such industrial disturbances as incidents of common occurrence, and their probable interference with a consequential loss assessment requires special attention. In the event of a fire occurring during the strike or lock out, or subsequent to it, or even prior to it, provided the period of indemnity has not expired, the effect on the settlement is so great that the basis on which the policy is formulated is disturbed and the adjustment is mainly dependent on the interpretation of the condition providing for extraordinary circumstances. Probably the least difficult case is where the strike has been settled before the fire. The turnover for the twelve months immediately preceding the fire, having been reduced below normal, would obviously not be an equitable basis of comparison, and the accountant must therefore form an estimate of the probable turnover if such exceptional circumstances had not arisen. If the business have an even turnover all the year round, it would probably suffice to take the actual turnover for the months during which the works were running normally, and add a proportionate amount for the strike affected period. Otherwise, in a fluctuating or seasonal business the experience of previous years would have to be requisitioned.

A MORE DIFFICULT SOLUTION.

In the event of a fire occurring whilst a strike is in progress the solution may be much more difficult. Of course, if the whole of the hands are affected there is no consequential loss by fire so long as the strike lasts. If the disturbance were a general one, affecting the whole of a certain trade or a district, it might be taken that the consequential loss would commence from the date on which the men's representatives agreed work should be resumed. If, however, the dispute be confined to the one mill, the question arises as to what date work would have been resumed had no fire occurred, and that can only be discussed in the light of the circumstances of a given case. So far I have assumed all employees to be on strike. It often happens, however, that part only of the hands or those engaged in one process are affected. In the former case the loss would be governed by the producing power of the hands unaffected. If there were only sufficient to have produced half of the normal output or turnover the loss would be reduced in a similar ratio, but if it were shown that by speeding up or night work they had been and would have been able to maintain the normal rate of production, the loss by fire would be at the full rate except for the deduction of such details as extra cost for night work which was occasioned by strike.

(To be continued.)

"Be Careful With Fire," "If You See a Fire Put It Out," "Put Your Camp Fire Out." Such admonitions as these in flaming red posters are dotting the railway and construction camps of Northern Ontario. Over 20,000 of them have been sent out this year. Next year the quantity will be doubled.