

METHODS OF FIRE INSURANCE

(Frank Lock, U.S. Manager of Atlas, at Chicago.)

Seeking to draw deductions of value from the facts and considerations which have been presented, a brief summary is attempted. It has been shown that stock fire insurance companies stand for the great bulk of the business transacted, that is to say, they have in force about \$51,000,000,000 in the United States, or approximately 85 per cent. of all the insurance carried, and over 90 per cent. of the premiums. The vast and intricate machinery maintained by the stock companies furnishes the basis not only for their operations, but also that upon which the practice of all other methods is mainly established. In other words, if the stock companies did not maintain such machinery, most of the mutuals, reciprocals and Lloyds would have themselves to furnish some substitute or do their business blindly at a heavily increased cost.

STRENGTH OF STOCK COMPANIES.

The stock companies alone, through their accumulated capital and reserves, furnish the substantial basis for the great emergencies which are always possible. In addition to this, it is the stock companies only which have, in their thousands of agencies and their associations, plants so valuable that should their reserves be in large measure wiped out, capitalists are prepared to renew capital based upon such a substantial asset. As illustrating the force of the point made, it may be stated that the paid-in capital of the stock companies has been replaced *in toto* three times since 1871. This would have been a sheer impossibility had there not existed the intangible asset of the plant which has been before referred to.

UNDERMINING AN ESSENTIAL FACTOR.

While the State or individuals are working to deprive stock insurance of all attractiveness for capital, they are working most surely to undermine one of the essential factors which maintains the fabric of the business world. It is obvious that the State in depriving the companies of the power to make rates and in indicating upon what terms they shall do business, while it may leave to existing companies a struggling existence, utterly puts it out of their power to recuperate from a sudden disaster. This point as to conflagration hazard is an important one. In fact, it is recognized to be so important that reciprocals, mutuals and co-operatives generally lay the heaviest stress in their advertisements on the fact that they are free or safeguarded from such a hazard. As before stated, some one must carry this burden, and if it is the stock insurance companies which throw the big battalions on the firing line of the battle and hold the heavy reserve forces, it is but common justice that those prepared to hazard hard cash should not be discriminated against by the business interests of the country or in the laws and taxes.

UNFAIR METHODS OF FIGHTING.

Furthermore, the comparatively favorable methods shown by those who only skirmish and who fight always with the idea of self-protection in view should not be constantly held up to legislators and to the insuring public as though results thus secured could be made of universal application when we all know very well that they cannot. The insurance business is one of assuming hazards and responsibilities.

Stock insurance companies are not afraid to take hazards which involve them individually for millions of dollars of loss. There is an element of unfairness that those who skim off business from the surface and where most of the elements of hazard have been eliminated should be held up to favor, when as a matter of fact if there be anything but a cold business problem involved the sense of favor should be to those who stand under the weighty hazard of the country.

STRONG POINTS OF FIRE COMPANIES.

The strong point with the stock companies as against all other methods is that the latter are handicapped in the main by dependence on collections to be made after fires instead of accumulations prior to the calamity, and that is an immense point; and further, they cannot cope with the conflagration hazard. From all these considerations it must be deemed proved that the stock system stands for reliability and universal application. But when all has been thus said, it still remains true that the stock fire insurance companies may have to radically change their methods to adapt themselves to modern conditions. There is no reasonable defense of a 40 per cent. expense ratio until it can be shown absolutely that it is inevitable, and this has not been shown. The two great questions confronting the stock insurance companies at the present time are:

- (a) A revolutionizing and standardizing of its rate-making methods to place the same upon a consistent basis, and
- (b) A revision of its cost.

REVISION IN RATE-MAKING NECESSARY.

Rate making should revert, all over the country, directly into the hands of and under the control of the managing underwriters. In its foundation principles of system, schedules and charges it should come away from local agents, from field men, from rating experts or bureaus who have no touch with, or responsibility for, underwriting results. The probability is that rate making would not be in its present chaotic condition had the companies realized, say twenty years ago, the drift of things, and it may not yet be too late for recovery in this respect. It should be evident that this prime question which lies at the root of the whole business should be in the hands of those who are responsible for results, and who have in their possession accumulated material, as well as the judgment and knowledge upon which to make rates equitable and according to standard.

METHODS WILL HAVE TO CHANGE.

The swelling tide of competition from the various methods discussed indicate the possibility that the companies may have to change their ways in many respects, they will have to contend to hold a material volume of business which is drifting from them, for it becomes evident that if everything that is worth while in the business is picked over and sorted out by mutuals, reciprocals or Lloyds, if the "pay dirt" is to have a preliminary sifting for the nuggets before the mass reaches the stamping mills, the business will not be worth doing and capital will go out of it. The time has come when methods will have to change. It is for the stock companies to work out that method which shall not only hold the ground already possessed, but which may recover in some measure ground which originally was lost when the stock com-