

FIRE INSURANCE AS AN INVESTMENT

Some illuminating figures regarding fire insurance as an investment were given by Mr. Richard M. Bissell, president of the Hartford Fire, in a paper recently read before the Insurance Society of New York. Mr. Bissell pointed out that the large dividends paid by some of the old-established fire companies, and which are usually quoted in prospectuses of new companies, are for the most part paid out of investment earnings and are not derived from underwriting earnings. He had found that during the last 25 years 165 fire insurance companies had been organised in the United States with a total original capital of \$32,931,760. During this same period about 140 other companies organized in earlier years failed, retired or were absorbed. The great majority of the 165 new companies have now ceased to do business. Eighty reinsured, six retired without re-insuring, nineteen failed and eighteen were either absorbed or merged. To-day only thirty-nine remain, some representing reorganization of older companies, others being subsidiaries or allied companies, and others again transacting only local business. Only twenty do a general business.

These twenty companies, have had a total premium income of \$106,760,804; their combined loss ratio is 55 per cent. and their expense ratio, 40 per cent., leaving an apparent trade profit of 5 per cent., which fails to provide for the necessary increase in the legal reserve. This would seem to indicate very clearly that the underwriting portion of these companies had been conducted at a loss. As dividend payers the showing is not encouraging. The average life of the companies has been fourteen years, and distributing the \$4,050,643 they have paid in dividends over that period, a return of but $2\frac{1}{4}$ per cent. on the amount actually invested by stockholders and about 4 per cent. on the original investment of the shareholders before additional capital and surplus contributions were made, is arrived at.

REASONS FOR LACK OF SUCCESS.

Reasons for this want of financial success on the part of recently established companies are stated by Mr. Bissell as follows:—(1) the failure to recognise the inadequacy of original surplus funds; (2) the increased stringency of Government supervision; (3) the prevalent low rates which have declined coincidentally with a large increase in the percentage of taxation imposed; (4) the tremendous increase in the expense ratio; (5) the difficulty in securing a proper underwriting staff; (6) conflagration losses, owing to the companies not having had time to develop a well organised body of agents to support them in times of stress and to their not having accumulated funds to tide them over difficult situations; (7) the strong competition for the business of the highest grades; (8) because it is extremely doubtful, in Mr. Bissell's opinion, if any company, new or old, profits during the first two or three years that its new business is being carried. A risk that has been on the books for say three terms, he says, is seasoned. It has been inspected probably three times and its inherent physical hazards have been found and corrected. So that business written in 1914 will probably not begin to show a profit for the company until 1917 and the older companies, having on their books a large volume of seasoned business, are better able to accept and assimilate a volume of new business and carry it until it begins to show profits.

Mr. Bissell thinks that ideas of what constitutes the necessary equipment for a new fire insurance company must be developed considerably. Should not he suggests, the original surplus be at least twice as large as the capital instead of being only equal? Should not business be developed more slowly? Must not stockholders be content to wait five years at least before dividends are paid?

APARTMENT HOUSE RISKS.

One feature of the record of fires within the last year which requires attention is the large increase in the number of apartment house fires. Probably part of this increase may be attributed to the proportionate growth in the number of apartment blocks erected in the various cities of the Dominion. But there would seem to be otherwise an increase in serious dangers, particularly as a result of the number of old residences or other buildings which are now being converted into apartment blocks, without a corresponding increase in the protection from fire or of the lives of the inmates from the fire danger. It has become a necessity that municipal building codes should provide stringent regulations for this process of transformation and that thorough inspection should be made by the city building department's staff, not only during the progress of re-construction, but also subsequently at regular intervals.

It is pretty obvious from the large number of these apartment house fires which take place as a result of defective heating apparatus or defective wiring that inspection by the building departments of various centres leaves a good deal to be desired, and might be improved considerably with distinct advantages in the lowering of the fire loss rate.

LIEUTENANT F. W. MACDONALD.

The Canadian casualty lists contain the name of Lieut. F. W. Macdonald, a son of Col. W. C. Macdonald, managing director and actuary of the Confederation Life Association. Lieut. Macdonald was formerly in the service of the Standard Bank of Canada and had been an officer in the 48th Highlanders (Toronto), for about three years prior to his joining the Canadian Expeditionary Force. Insurance men throughout Canada will desire to tender to Col. Macdonald, as well known throughout the Canadian insurance world for his high character as for his professional attainments, a tribute of respect and sympathy at this time.

The Employers' Liability Assurance Corporation has been authorised by the Dominion Insurance Department to transact automobile insurance.

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The British America Assurance Company, of Toronto, has recently opened an Office in London at 14, Cornhill, E.C., for the transaction of Marine business, with Mr. R. H. R. Burder as underwriter.

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A correspondent of the London Post Magazine states that fires on premises where war material is being produced in Great Britain are on the increase, and suggests that an investigation should be made into every important fire in order to arrive at its origin.