

Fire Insurance from a Bankers' Standpoint

Synopsis of a paper read by Mr. Hugh Baillie, of the Bank of Commerce, before the Insurance Institute of British Columbia at Vancouver on March 25th.

Mr. Hugh Baillie, Assistant Inspector of The Canadian Bank of Commerce, addressed the Insurance Institute of British Columbia in the board room of the Mainland Fire Underwriters' Association on Tuesday, March 25th, on the subject of "Fire Insurance from a Banker's Standpoint," which was one of the most interesting and valuable addresses that had been given at the Insurance Institute.

In his opening remarks, Mr. Baillie reviewed the development of insurance, together with banking and credit, and showed how the two had grown up to occupy such prominent places in the business affairs of the world. In this connection stating that while other forms of insurance and beneficent functions perform and yield such a tremendous influence in our social organization, they are overshadowed by fire and marine insurance, which are so interwoven and form so indispensable a part in the forces which govern the development and advancement of industry that it is impossible to conceive of any measure of industrial progress without these safeguards.

The speaker pointed out that if we consider for a moment the increase which has taken place, through the discovery and application of steam and electricity, in the world's ability to distribute information and to make and distribute goods and merchandise, we can scarcely contemplate a situation lacking the facilities of modern invention, nor can our minds fully grasp the figures of the vast wealth which has been created through the employment of these important powers in the production and distribution of goods.

If we think of the sale and purchase of merchandise we realize that there is another great element of modern business without which industrial progress would be impossible, namely, the power of banking and credit, which constitutes in a sense the foundation stone of the modern commercial structure. When trading was in an elementary stage the only mediums of exchange were gold and silver, which were used for the payment of labour, for the purchase of merchandise, etc., but these precious metals are not only limited in quantity but are subject to limitation in transfer; it would be impracticable, for instance, to pay for goods bought in a foreign country if one had to carry or send the gold.

A very small, in fact a trifling percentage of business is done with actual cash. One of the functions of banking is to collect the innumerable small sums which, in scattered form, would be ineffective in handling commercial transactions, but which, when mobilized, are made available for financing the largest undertakings. The merchant who now desires to pay for a cargo of goods can pledge these with a bank, which, through its credit arrangements, will provide funds available in any part of the world. Hundreds of thousands of dollars can be provided in London by, say a Vancouver merchant, in a few hours, if necessary, through the banks' telegraphic facilities. In collecting, however, the surplus monies of parties in the community, from whom they may be said to have borrowed the funds, or who may be regarded as having loaned their money to the banks, it was soon found that, to provide till money and to facilitate the loaning of funds, it was necessary to have some convenient method of handling large payments and this led to the issue of the banks' own notes of hand, which their credit was sufficiently strong to make acceptable to their customers and the public, and these soon passed from hand to hand as currency. A natural development from the banks' practice of taking their own customers' notes as evidence of their indebtedness was that traders commenced to take one another's paper at suitable terms, which could

be discounted at the banks, and from this sprung all kinds of commercial paper, including cheques, bills of exchange, etc., representing goods in terms of gold, and in the aggregate amounting to vast sums in comparison with which all the gold which has ever been brought to light would appear as trifling.

This tremendous paper structure is based on credit; the depositor gives credit to the banker who in turn gives credit to the farmer and manufacturer or other producer or trader, each of whom gives credit in various relations to his own customers. Credits accorded are largely represented by commercial paper or some other form of recorded indebtedness, which may be said to eventually find its way to the banking houses which are the great dispensers of credit as well as the clearing houses where all business transactions are eventually settled. The whole system is a borrowing relationship and all business may be said to be carried on with borrowed money. Without, therefore, a banking system we could not utilize the powers of steam and electricity, which have made modern commerce possible, and if banking and credit were discontinued the wheels of our modern commercial organization would clog and stop.

But if it is recognized that banking is an essential factor in the application of steam and electricity in order that man may take advantage of the great forces, enquiry naturally arises as to the basis of banking credit; what gives the feeling of security which warrants the bank in according credit to its customers, or the merchant in giving credit to the dealer who buys from him? The answer is fire and marine insurance, which creates confidence; sound credit is mainly based on the pledge or existence of property, and insurance is the protection behind practically all credit, which enables the world's merchandise to be moved and developed. It ensures the continuance of private and corporate businesses, eliminating risk which otherwise would render a large proportion of business transactions more or less hazardous.

In reference to the development of commerce during the past two centuries commerce was made upon the fact that the first joint stock banks and corporate insurance companies had their origin about the commencement of this period. The Banks of Scotland and England, and the Hand-in-Hand Fire Insurance Company were founded about 1695 and 1696, from which time the most important period of commercial growth in the history of the world may be traced, the outstanding features being summarized as follows:

(1) The development and application of the powers of steam and electricity, through which transfers of goods and merchandise, and the disseminations of news and information have been facilitated;

(2) The growth of credit in business transactions, and the organization of banking which provides the machinery for credit;

(3) The development of fire and marine insurance, which distributes loss so that it is borne in easy proportions among a great number of people, thus affording the security essential in all individual credit relations.

Turning to the practical use of fire insurance in banking transactions, Mr. Baillie placed his remarks under two headings, namely: First—The Banker is the insurance man's close ally; and Second—Any business which cannot afford to pay the fire insurance involved in its proper protection is not on a satisfactory basis.

It is, of course, clear from the general survey of their respective relationships to trade that the insurance interests are the banker's foremost allies, but in practice, from day to day, the bank exerts a great influence in making people insure, and this must help to solve the problem of creating new business for the insurance companies. To il-