

THE SOURCES AND USES OF INSURANCE COMPANY RESERVES.

There is no little misunderstanding in regard to the source from whence insurance companies obtain their reserves and as to the uses they have for such funds. The financial transactions of an insurance company of any ordinary class, say life, fire or marine, are of a totally different character to those of other mercantile enterprises in conducting which there are two parties, the one who buys and he who sells. As a broad generalization it may be affirmed that all commerce, all financial business, implies these two classes, as all what is termed "business" is a form of exchange very varied in character no doubt, and the exchange nature of transactions being at times quite obscure, but close scrutiny or analysis would reveal *exchange of values* to be the foundation and motive of all business. The exchanges effected may be either of material objects, as goods for money or other goods, or of money for some contingent obligation.

The latter represents the relation between an insurance company and its policyholders. In the latter form of exchange the policyholder pays a sum of money to an insurance company in consideration of which the company undertakes to pay to the policyholder, or his representatives, another sum of money under certain defined circumstances, the amount of such payment being conditioned by the sum paid to secure it when such circumstances arise. In the case of a life insurance company the policyholder's payment assures a payment of a certain amount in case of his death to his heirs, or, prior to his decease, a sum of money at a specified period. In the case of a fire company the premium paid by the policyholder secures him the company's formal undertaking to grant him a certain amount of indemnity in case the property insured is injured or destroyed by fire. The exchanges, therefore, effected in the transactions of insurance companies are fixed periodic payments of money given in exchange for a contract of indemnity or payment of a specified amount when certain circumstances arise from death or loss by a fire. Accident and marine insurance involve the same conditions.

Now, it is obvious that, as the indemnity or death claim payments may be deferred many years, the several classes of companies who enter into such contracts must provide themselves with funds to meet such contingent obligations; in other words, they require to have reserves fully adequate for fulfilling their contracts. From what source or sources can they secure such reserve of funds? Manifestly their course must be to lay aside a certain portion of their receipts systematically, so that a fund may be gra-

dually built up out of which payments of indemnity or death claims or other contingent obligations may be paid. A joint stock insurance company with a portion of its capital unpaid has to the extent of such unpaid-up capital a resource in case of need, but to pay indemnity or other claims out of a fund raised by calling up capital would soon come to an end were no other reserve available. The capital of insurance, as of all joint stock companies, is not subscribed, and paid up in order to pay losses, by which it would be dissipated and wasted, but to earn dividends by securing which its investment would be justified. In the case of life insurance companies the data for ascertaining what proportion of the premium receipts should be utilized for reserve purposes have become so accurately known by scientific observations as to be formulated with variations within a narrow range. The life companies are consequently required by law to maintain reserves proportional to their risks, according to a fixed, legal standard. The fire insurance companies have not obtained to such precision in determining the extent of the anticipated losses in any year; their business is exposed to far greater fluctuations than that of the life companies. Against these, at times, violent fluctuations, they must provide or fail to meet their obligations. Hence it is desirable for a fire company to be more strongly buttressed against the blows of adverse fate than a life company, for, were it only prepared for average or ordinary losses, a conflagration or two might exhaust its reserves and leave it exposed to claims beyond its power to meet.

In such strong reserves every holder of a fire policy has a direct interest for he never knows, from hour to hour, but that the strength of some company's reserve may protect him from absolute ruin, from which fate such reserves have saved thousands of policyholders. By every payment of a premium each policyholder contributes towards the building up and maintenance of a reserve fund in which he has a proprietary interest as it is held in trust for him by the company to the extent of his specific or contingent claim.

ATLAS ASSURANCE COMPANY.

This old, substantial and in all respects highly reputable Company has just issued its 95th annual report. In the Fire Department the net premiums were \$2,580,000, and the losses, \$1,357,000, being 52.6 per cent. of the premiums. This favourable result of last year's operations enabled the directors to add \$125,000 to the Fire Fund. The Fire and Reserve Funds stand at \$2,702,800 and the total assets, \$12,717,900, an amount of resources that puts the Atlas in the front rank for stability. Mr. M. C. Hinshaw, of this city, is the Chief Agent in Canada.