PHASES OF MORAL HAZARD.

The precise difference between a moral hazard and a physical hazard as regards an insurance risk is not easy to define. There may be moral conditions existing that ordinarily involve serious physical hazard without such risks attending the moral hazard. There may also be conditions existing that ordinarily imply moral hazard without such moral hazard existing. A storekeeper, for instance, may be as utterly unscrupulous as a tiger, he may be ever on the watch to defraud every one with whom he has dealings of a business nature, yet the property of such a person may be an exceptionally good risk owing to the certainty that, were a fire to occur on his premises he would be sure to lose so heavily in excess of the insurance, that he is compelled by self interest to be exceedingly careful in guarding his property from risk of fire.

In this case the intense selfishness of the man, which makes him almost a criminal in his ordinary dealings, makes him practically a faithful guardian of the interests of the insurance company that has underwritten his property. On the other hand, a property owner may be carrying insurance so greatly in excess of any loss he can suffer by fire, and his financial prospects may be so satisfactory that there is, ordinarily, the moral hazard of the temptation to start fire in order to secure the insurance money. But, these dangerous, these hazardous conditions do not, in this instance, create any moral hazard, because the person insured prizes his honor above any financial considerations, and would almost as soon expose his own body to the flames as set his property afire to defraud an insurance company. The moral hazard that imperils a building is at times wholly disassociated with the insured owner. In 1880 the Scott Act was passed in a certain county. An innkeeper who was living on the border, thereupon had his house carried a few feet across the line into the next county, which was an "open" one. He was a man well-to-do and upright. Soon after the removal the house was burned to the ground. Had it been kept in its original location there would have been the moral hazard caused by its value as a hotel being destroyed, but, in its new location, it was making more money than before, so, apparently, the risk was improved by the removal.

The insurance company suspected the owner of having fired the building, the removal of which had been formerly sanctioned, indeed a new policy had been issued to replace the old one. But the owner was exonerated, and the evidence collected was quite sufficient to satisfy him and the company that the house was set afire by a jealous neighbour, whose trade had been drawn away to the new comer. The company therefore had to pay $1,500 as the result of their never suspecting that the removal of the hotel created a new moral hazard which was wholly disassociated with the character of the owner. Take another case. Two young men pooled their capital and took over a flour mill in England. It was impossible to imagine a risk more free from moral or physical hazard, as they were each of the highest character, were making money, and the mill being operated by water, there was not even a stove or a fire grate on the premises. Yet it was burnt to the ground as the effect of a moral hazard. The millers had been compelled to drive a man from the premises several times who was caught stealing fodder from the stable. This man came one night, crept into the mill over the water wheel and set the place afire for revenge. How it is possible for an insurance company to guard against moral hazards of the class indicated in the above case of the hotel and the flour mill? Against a moral hazard that is known, or suspected they can take precautions, but there are moral hazards so remote from observation, so entirely disconnected with the character, or the business, or the habits, or the physical conditions of the property insured that to guard against them would require an underwriter to be gifted with omniscience. A contemporary points out the difficulty of defining a moral hazard.

"The moral hazard is often alluded to in connection with a fire insurance risk, but what is the moral hazard? As usually interpreted, it is the possibility that the insured will burn his property for the sake of the insurance, but there is really much more to it than that. It is not necessary that the owner of a piece of property should be an unscrupulous immoral man, one who would not hesitate to resort to incendiarism in order to realize on his insurance, that there should be the element of moral hazard involved. Here is a building, for example, which for some time has not been occupied for the purpose for which it was built, and so has come to be a poor investment. Very naturally there is not the same care used in its protection that there would be were it paying a good rate of interest, and so it degenerates into a bad risk. The owner would never think of applying the match as a means to an end, but he would nevertheless consider it a fortunate circumstance should the property burn as it is well insured. The underwriter, then, who places a policy upon such a piece of property, takes the added risk involved in the absence of those precautionary measures which are characteristic of good risks. The risk, therefore, is a moral hazard, and the fact that the owner is a man of good standing in the community does not alter the condition of things. As a matter of fact, we believe that there are comparatively few risks of any kind which are entirely free from the element of moral hazard in some degree, and this must be taken into the account."

Our contemporary is right, though the latter instance seems rather a case of physical than moral hazard, for every fire results from some form of human conduct that has a moral basis, or inspiration, except the very rare ones caused by natural phenomena outside man's sphere.

FRATERNAL VS. OLD LINE INSURANCE.

The late Mr. H. C. Brittain, of Moose Jaw, Sask., who died in June last, was for 20 years before his death a member of the Home Circle and held its certificate for $3,000; but having failed to pay his dues in time for the month of June, his widow is minus that sum. Had he insured his life in a regular Insurance Company, how different would have been the result to his family. No object lesson could be more valuable than the above to illustrate the difference between the two systems.