

a large reserve that may safely be drawn upon; in the case of stock insurance the contract for the year is lived up to, but if there is a net loss the rates levied in after years are advanced in an effort to make the loss good.

"For these reasons your committee contend that in essence all insurance is mutual. The relation of the insurance company to the insured is simply that of a medium through which individuals co-operate to give each other protection. Some prefer to employ such a medium on a salary and take the chances themselves; others prefer to run no chances themselves but to let the medium make a profit if he can. In either case there is the element of gambling, and the man who gambles ought always to be prepared to take a gambler's chance. The mutual insurer takes such chance, knowingly and willingly, when he buys insurance; sometimes he wins, sometimes he loses, but he always tries to protect himself as much as possible by carefully selecting the partners with whom he associates himself. The stock company also takes its chance, not in buying but in selling insurance; sometimes it wins and sometimes it loses; but its ordinary method of trying to protect itself is to enter into an agreement with other companies to charge rates that will presumably be high enough to enable them all to make a profit. In other words, they want to gamble without gambling; or to use a colloquial expression, they want to bet on a sure thing.

#### Market for Insurance.

"Reverting to the necessity of insurance to everyone engaged in a manufacturing business, we think it will be obvious that it would be very unwise, very unfair, to deny the manufacturer the advantage of competition in buying what he needs must buy. The markets to which he can now go to purchase insurance fall into two main classes—first, licensed companies, and second, unlicensed companies. The first class lends itself to subdivision, according as those companies operate under the rate agreement, through the Canadian Fire Underwriters' Association, or independently, like the non-tariff companies. The second class would comprise the factory mutuals of the United States, the reciprocal underwriters, Lloyds, and all those unlicensed companies to which access can be had through insurance brokers.

"No records are available showing the amount of unlicensed insurance written in Canada, but of the licensed insurance, 85 per cent. is written with board or tariff companies, and 15 per cent. with non-tariff companies.

#### Preference for Licensed Companies.

"The preference shown by so many manufacturers for licensed companies is due to various factors. In the first place, they are the only companies who can legally solicit business here, in consequence of which they have by far the best chance to secure the business, other things being equal. The fact of their being licensed is an indication that the government looks upon them as financially reliable. Being domiciled in Canada, they can and do appeal for business on the ground that Canadians should support home institutions. Furthermore, in the event of trouble or litigation under any contract of insurance, they can be proceeded against more easily and with less expense than an unlicensed company. It is for this reason that banks, when demanding insurance policies as collateral, frequently stipulate that they shall be taken out with licensed companies.

#### Does not Buy Often.

"In this connection it is pertinent to remark that insurance is something which the average manufacturer does not have to buy very often, and in the purchase of which he is unable to display the same acumen and judgment that he brings to bear on the purchase of the materials he is handling every day. He knows very little about the technicalities of insurance. His main anxiety is to be protected, and he usually relies on the insurance agent to secure him that protection at a reasonable price. In the majority of cases he probably does not know how his rate is made up, and if he did he could not intelligently criticize it, or compare it with the schedules of other manufacturers in the same line of business. If he should think the rate asked is high, he may invite competitive bids from other agents; if they represent board companies, their quotation will be the same, if they represent non-tariff companies they may cut the rate slightly. Unless his line is so large as to have made it worth his while to study insurance, he knows nothing about the facilities of the broker for giving him the benefit of wider and more open competition. This lack of knowledge, therefore, is another important factor operating in favor of the licensed companies.

"But the manufacturer having insurance of say \$100,000 a year or more to place can ill afford to leave himself entirely in the hands of the insurance agent. Even at the rate of \$1, his insurance would be adding \$1,000 per year to his overhead, and this is too large an item to be allowed to pass without satisfying himself that he cannot do better. On casting about he may find that through a broker he can place his insurance in New York or London at a rate of 80 cents. Why should he not be at liberty to effect the saving of \$200 per year thereby available, particularly if he offers the business to licensed companies at that rate and they refuse?

"Or let us take the case of another manufacturer, who is compelled to cover himself to the extent of \$1,000,000, and who finds that all the licensed companies put together will not write more than \$500,000 on his risk. To him unlicensed insurance is an absolute necessity, for his surplus line at least. Suppose, for the purpose of argument, he were content to give the licensed companies all they would handle, would it be fair under the circumstances, would it serve any useful purpose other than that of providing the government with a revenue, to subject him to a tax on such business as he had to send out of the country? If the licensed rate were higher than the unlicensed rate, would not that difference in itself on \$500,000 of insurance be a sufficient tax for the manufacturer to have to pay?

#### Will not Insure at all.

"To carry the illustration still further, what about the manufacturer whose risk the licensed companies do not care to insure at all? Insurance is just as necessary, for instance, to an oil refiner, as it is to a tanner or a woodworker, yet if the oil refiner desires to place his insurance in Canada, the probability is that either he will be told the companies do not desire his class of business, or else they will quote him a prohibitive rate which they both wish and expect him to refuse. His only source of supply is unlicensed insurance, and it is neither right nor fair that restriction should be placed in his way of getting it. Nor is it right or fair, in our opinion, that restriction should apply either in the case of the man who sends only his surplus line out of the country, or the man who places any or all of his insurance with unlicensed companies in order to effect a material saving. And our reasons for so contending are—first, because it is absolutely necessary at times to utilize the market, owing to the inability or the unwillingness of licensed companies to handle the business, and second, because unlicensed insurance is the only effective protection the purchaser of insurance enjoys against high rates and unfair treatment.

"Briefly expressed, the attitude taken by your committee is that troubles of this kind cannot be successfully remedied by legislation. Both parties, insurers and insured, should be left to work out their own salvation. Whatever is wrong will right itself in time under a system of reasonable competition. There is no ill that the Canadian Fire Underwriters' Association is suffering, which a tax or unlicensed insurance would remove, except by working serious injustice upon the insured; there is no ill that the insured is suffering that cannot be remedied by an intelligent use of the unlicensed market.

#### Say There is no Inconsistency.

"In arguing this, the association will probably be criticized for what it will be alleged is its inconsistency. It will be said that we fight free trade in manufactured goods, and demand free trade in insurance. The insurance companies will claim that when they locate in Canada, and comply with Canadian laws, they are just as much entitled to protection against outside competition as the manufacturer is, and that if we champion the cause of tariff protection and appeal to the consumer to patronize home industries, we ought to practise what we preach by patronizing home insurance.

"In answer to that the association can say in all frankness that its members do desire to patronize Canadian insurance companies, or companies licensed in Canada. No better evidence of their desire is to be had than the fact that so many manufacturers continue to patronize them, even when they know they could effect a saving by going outside. Scores of instances can be adduced where manufacturers, after failing in repeated efforts to secure satisfactory rates from the Canadian Fire Underwriters' Association, and after receiving treatment at the hands of that organization that would almost have justified them in refusing to treat with it further, at any price, have come back with the lower competitive bid of the unlicensed companies, and finally accepted licensed in preference to unlicensed policies when the Canadian Fire Underwriters' Association showed a disposition to approach the unlicensed rate, even though it would not meet it."