

To place this more clearly before our friends, the merchants, we will suppose the following hypothetical, but perfectly probable, illustration. In a certain city with first-class fire protection there is property belonging to careful insurers who, while perhaps grumbling at the rates, desire and pay for perfect security, and there is also similar property in the hands of such as insure only up to what they deem they are ever likely to lose: and taking an average rate of 1 per cent., we find under existing rules, without co-insurance, the following result (in two examples):

Ex.	Value of Property.	Insurance.	Prem.	Average An. Loss.
1.	\$1,000,000	\$1,000,000	\$10,000	\$4,000
2.	1,000,000	500,000	5,000	4,000
	<u>\$2,000,000</u>	<u>\$1,500,000</u>	<u>\$15,000</u>	<u>\$8,000</u>

Now is it not palpable that if this result is satisfactory to the companies the rate is not equitably adjusted, the loss ratio being in the one example 40 per cent. of the premium income and in the other exactly double, or 80 per cent.? Apply the co-insurance clause, and it will be found in example No. 2, whatever proportion the insurance bears to the value, the loss ratio will be 40 per cent., so that the companies upon the stated rate of 1 per cent. would only pay on above average annual loss that percentage of their income, and it would then become a question what reduction in rate could be made, because each insurer would in that event pay in proportion to the liability incurred, instead of, as at present, some paying double what others do. Which, in the name of common sense as well as good underwriting, is the best method—may we go to the extent of saying the only method—for arriving at rates which shall be fair and just for both the insured and the companies? If a trader is willing to run a certain amount of risk in a business transaction, does he not run it on the part equally with the whole, and why should fire insurance be treated on a less equitable basis?

We do not think we have advanced any arguments in favor of the co-insurance clause which will not bear the strictest investigation, or fail to commend themselves from their simple justice to the mercantile community, quite as readily as to fire underwriters, for the interests of both are identical, namely, the exchange of a good article at a fair price.

PREMIUM RESERVES.

PART II.

In continuation of the subject of "Premium Reserves," as given on page 27 of the February ult. issue, we do not now propose to further discuss what we call "re-insurance" reserves, that is, funds held only for the repayment of unearned premiums on any special occasion, nor speak of the rank injustice of a system by which competition is encouraged—by requiring from those disloyal companies which cut rates the most a less amount of reserves than from the loyal element by which full rates are honestly maintained, as is the inevitable result of the present system of calling for 50 per cent. reserves from all companies, indiscriminately—but we shall proceed to discuss the necessity of, and the various methods suggested for setting aside strong financial reserves by which all prudent companies can provide, not

only for ordinary current claims, but hold themselves in constant readiness for extensive conflagrations, by which their ability to meet their obligations may be sooner or later brought to the test.

"Surplus" is another name for insurance reserves, being simply an accumulation of tangible assets over and above all liabilities, including paid-up capital and the cost of re-insuring all outstanding policies. It is an indication of solvency and financial soundness, and furnishes a fund with which not only to meet current losses and expenses, but to provide more or less amply, in addition, for oft-recurring fire epidemics, without trenching upon capital, and thus weakening financial ability to withstand any of the sudden and unexpected calls that are constantly occurring, and for the payment of which insurance companies are organized. It is in view of these and similar calamities to which the business of underwriting is constantly subject, that the question of adequate reserves assumes a magnitude and importance that cannot be overlooked by the careful underwriter. It is the increase of surplus reserves that strengthens the company; an increase of capital simply enables the company to increase business, with its corresponding increase of liability, for if new capital be used for its legitimate purpose only it brings no additional strength in loss-paying ability unless the office decreases business by the amount paid for each and every loss, thus keeping tally with successive reductions of capital. Thus it follows naturally also, that an increase of capital from capitalization of accrued surplus, while it increases the dividend-paying capabilities of the capital to the individual profit of the stockholders only, it can bring only corresponding weakness, instead of adding strength to the loss-paying ability of the company, and effectually, to that extent at least, deprives the office of the support upon which its safety so intimately depends in times of trouble.

The necessity for adequate reserves to meet the contingencies to which the business is constantly subject being acknowledged by all sound underwriters, the question arises how to reconcile a legitimate accumulation of reserve, or surplus, with the rights of insurers and insureds; to effect which desideratum numerous plans and methods have been heretofore suggested, but as yet none of them seems to have met with general acceptance as being at once feasible and practical.

Insurance, for a consideration, *promises* indemnity for numerous individual contingencies. How that promise is, with any certainty, to be redeemed, under circumstances where the amount at risk under the policies of the ordinary company is so largely in excess of the sum of its assets—the ratio not unfrequently being as millions to hundreds—is the problem that has staggered the best among our fire underwriters in their efforts to solve it.

While the heavy sums outstanding at the risk of the companies represent *actual* liability, at any given date, it is scarcely within the range of possibility, and much less within the range of probability, as past experience, fortunately for the business, has amply demonstrated, that the Company could, under any circumstances, be called upon to discharge this load of liability at any one time. But that it will be called upon from time to time to redeem its promise in