rised statements. It is a different matter when the fraudulent representations are made by the directors or by the documents issued by or under the sanction of the general body of the shareholders. In such case, the parties becoming shareholders have no valid ground as against creditors for resisting the liability attached to ownership of shares. Parties having taken shares cannot repudiate them as against creditors. But they may successfully resist contribution to the company's debts by shewing that they have been misled by statements made by the authority and issued under the sanction of the company.

INSURANCE COMPANIES' RESERVES.

A good story is told of a prominent lawyer who attended a meeting of the shareholders of a local Insurance Company, at which the propriety of having a reinsurance fund was suggested, and succeeded in defeating a proposition to establish such a fund by asserting, with all the effrontery of ignorance, that the idea of such a thing was wholly without precedent. Of course insurance business was not very well understood here at the time, or the intense absurdity of the assertion would have brought down on the facile advocate an avalanche of ridicule. But it seems that ignorance on the subject still holds sway, and we ask the pardon of the better informed in now venturing to refer to some of the elementary principles which the veriest tyro in insurance should have at his finger-ends. In a prior issue, we gave the substance of an article that appeared in the Chicago *Spectator*, an excellent insurance journal, reviewing the Fire Insurance business of the State of New York. It appeared from the statistics there collected, that the Directors of many companies have borrowed from the funds which legitimately belonged to the reserved surplus, to pay dividends. We are prepared to go a little farther than our contemporary, and adduce instances in which a company has gone on paying dividends without having a reserved surplus at all. The earnings that should have gone to form a reserve were divided amongst the delighted shareholders, and luck being in the ascendant, the whole affair was considered very jolly. Of course a day of reckoning came, when fourteen per cent. dividends were exchanged for five and ten per cent. calls, and stock at a premium wilted into an unsaleable liability. So long as the amount of premiums received exceeded the amount of losses, affairs were considered satisfactory, but a time arrived when losses increased in magnitude, and there being no adequate provision for such an emergency, the result was as we have stated.

The insurance laws of Massachusetts are explicit in prescribing a basis of dividends. One section reads as follows :—

"At each annual meeting, the directors shall cause to be furnished to the stockholders a statement of the condition of the company, and in making dividends, shall not consider any part of the premium moneys divisible until the risks for which the same was paid have absolutely been terminated. But in making up their annual statement, they shall be required to charge the company only such portions of the cash or notes received on policies which are unexpired, as would be requisite to reinsure all outstanding risks."

The first point for consideration is the restraint upon the division of premiums until the risk for which such premiums were paid have been absolutely terminated. In other words, the premiums must be first earned before they can be divided. The next point is, the company must be charged such portion of the premiums on unexpired policies as would be required to reinsure all outstanding risks. That is, the amount requisite to reinsure outstanding risks is to be considered just as much a liability as the unpaid losses. We desire to make these two positions clearly understood, for we are prepared to give instances where, in the management of some of our local Fire Insurance Companies, they have been overlooked. Suppose a company insures a certain number of individuals for one year against loss or damage by fire; that in the middle of the year an account is taken of the gross premiums received; and that the amount is divided by way of dividend among the stockholders in that company. How do matters stand? The half year yet to run may be fruitful in losses, and if the premiums have been paid away, where is the money to come from to meet the company's engagements. It must come out of other premiums or out of the reserve. In either event, it is manifest that the shareholders have received what they were not entitled to. If the reserve is not adequate, a great injustice is done to the policy holders. Why do banks go on accumulating heavy reserves? as a matter of precaution, against a possible time of disaster. With Insurance Companies, a reserve is a strict matter of justice to those whom it undertakes to insure.

The journal to which we have already referred, puts the matter in a clear light. "What the insured pays when he purchases a policy of insurance is recovery from loss, and his policy to be worth anything must carry with it the assured and absolute certainty of indemnity in case of damage." When we consider that "164 principal American Insurance Companies doing a fire and fire-marine business, paid out during the years 1865, 1866 and 1867, twelve and a half millions of dollars more than their current premium receipts," we can appreciate the necessity of a reserve.

But a reserve is technically distinct from a reinsurance fund. Mr. Superintendent Barnes in his last report says: "except in cases of companies holding a very large line of premium, a reserve is needed also in addition to an ordinary capital and reinsurance fund." A reinsurance fund is a liability, while a reserve is rather a wise provision against uncertainties. In the Annual Statements of New York Joint Stock Fire Insurance Companies, an abstract of which Mr. Barnes published with his report, we find in the list of liabilities, immediately following the amount of losses, this item, "Amount required to reinsure all outstanding fire risks at an average of 50 per cent. of unexpired premiums." If this requirement is of so much importance in the United States, surely it is of equal importance here. In fact, the true state of a company cannot be ascertained without information as to the amount necessary to reinsure its outstanding risks, and no statement is correct that does not include among the liabilities of a company such an item. One might as well accept as a proper balance sheet a statement of the assets without any reference at all to liabilities.

In Barnes' Report for 1865, we find the following :—

"The repeated efforts of the Superintendent for several years to compel an adequate fire reserve for reinsurance and contingencies have been partially effective, but the repeal at the session of 1865, of the Act of 1864, requiring a reserve of the full amount of premiums received on unexpired risks, has resulted disastrously both to the companies and the public, by its tendency to reduce premiums below the standard of safety, and also by diverting funds to the payment of dividends which in several cases at least were needed for the payment of losses. It is, however, quite probable that the only practical method of teaching these truths was by the crucial test of actual experience, which has now been severely applied to so many companies."

On the subject of a reinsurance on Marine business, it is remarked :

"The question of what amount should be charged as a liability to a Marine Company as a reinsurance fund for outstanding risks, it is very important in stating the condition of such a company. In accordance with the recommendation of the Board of Underwriters, and the opinions of the soundest and most experienced marine underwriters, the reinsurance reserve has been fixed at 100 per cent. of the full amount of premiums received on unexpired risks or policies not marked off as terminated. All the Marine Companies are now charged with this amount, and also the Fire Companies engaged in Marine Insurance, on their marine and inland risks."

As we are now writing more particularly for those who do not make insurance matters the subject of special attention, we may pos-