

CITY AND VILLAGE MUTUAL FIRE INSURANCE COMPANIES.

Dr. Fricke, insurance commissioner of Wisconsin, has just published his views in regard to City and Village Mutual Fire Insurance Companies to whose affairs he paid special attention in his last official Report. He therein pointed out the need of greater care in the organization and management of such companies. Such enterprises he declares :

Are by law made mutual assessment companies in which the members organized simply to indemnify each other and in which every person who holds a policy is a member with equal rights and equally liable for his proportionate share of all losses. A city and village mutual cannot promise to its members insurance for a fixed premium, and it must be misleading when insurance is solicited upon a premium rate, the same or nearly so as is fixed upon by other companies. This would naturally lead a person to believe that the policy presented carries with it no assessment liability. The rates or tariff of old-line companies continually fluctuate and change, based upon their continued inspections and interchange of experience, and it was never contemplated that city and village mutual companies should be organized for any other purpose or conduct their business in any other manner than that, when losses occur, each policy-holder, in accordance with his classification, should pay his proportionate amount of the loss due some other policy-holder. The correct procedure of the officers of these companies would be to form an association for mutual benefit and the interchange of experience, and by this means determine upon a classification of risks and amounts of the assessments rather than to blindly follow in the footsteps of companies of another class in whose rates they have neither assisted nor are able to explain, and which may be either too high or too low, and in any event carry with it a large expense ratio and margin for profit, which in calculating the assessments of a city and village mutual company are factors which must be eliminated.

Although the law under which Canadian companies of this class are organized and operated differs from the law of the States they are near enough in their principles and objects to make the Commissioners' remarks on the City and Village Mutual Fire Insurance Companies in the States of interest to the conductors of them in Canada. The synopsis given in *The Standard* of Mr. Fricke's pamphlet states that:

Under the head of "re-insurance," the Commissioner affirms that in a number of these companies the examiners report large amounts re-insured both in stock and mutual companies, and in one case even in an unauthorized company. There is no provision, nor was any intended, he says, in the law governing such companies authorizing re-insurance in any class of companies, and to effect re-insurance in a stock company must be clearly a violation of the law. The accumulation of funds, while a necessity therefor may exist, he believes to be contrary to every interpretation that can be placed upon the law."

Here is what he says of agents' commissions :

"I do not believe that the law under which these companies are organized ever contemplated the employment of agents or solicitors of insurance, nor does this law make provisions for any such agents ;

the officers and members of the company undoubtedly have the right to solicit others to join with them as members of the company in indemnifying each other, but to pay for such solicitation is repugnant to the very idea upon which the company is founded, i. e., that in the protection offered, all but the absolute cost of losses and necessary expenses in transacting the business is eliminated. It must come as a surprise to most of the officers of these companies that there are several companies paying commissions far in excess of those paid by stock companies. When we consider that the city and village law was enacted solely for the purpose of enabling the residents of cities and villages to indemnify each other against loss by fire or lightning, and that it never was contemplated that such a company should be conducted as a business and for profit other than as might result to all policy-holders alike, it is difficult to understand by what process of reasoning the officers of a company feel justified in paying commissions ranging from 25 per cent. to 35 per cent. to secure new policy-holders, and this, too, in face of the fact that the great problem with which the stock fire company is now wrestling is to limit commissions to 15 per cent. in order that a saving in the expense ratio may result in a decrease in the premium rate. When a city and village mutual fixes its expense ratio at 45 per cent. of the gross premiums received, it is depriving of their last argument those who are continually condemning the excessive cost in stock fire insurance companies."

THE VITAL DIFFERENCE BETWEEN ASSESSMENT AND THE REGULAR LIFE INSURANCE COMPANIES.

The vital distinction between the practical working of the system on which the regular life insurance companies transact their business and the working of the assessment plan is very clearly stated by the Insurance Commissioner for the State of Kentucky. The regular life assurance companies have outstanding contracts requiring payment, should they continue to maturity, of over eight billions of dollars. These companies are under the strictest requirements to charge a premium for the purpose of accumulating a reserve amply sufficient to enable them at any time to cease issuing policies, and yet pay every claim in full as it matures. New members are not a necessity to them for continued life. They are subject to instant examination by the officers of every one of the States in which they do business, and may be debarred from continuing to do business therein, or may be placed in the hands of a receiver if the required reserve is not at all times maintained. Assessment companies and fraternal orders of this country have a like amount of outstanding contracts to meet requiring payment, if their policies or "certificates" are continued to maturity, of the like sum of over eight billions of dollars. These companies and orders are under no requirements to maintain a reserve that is worthy of consideration, and no one will claim that they could meet their contracts if they should cease issuing policies or "certificates." They can only live by receiving new members. As a rule they are subject to no supervision, and rarely does a State