

Monetary Times

Trade Review and Insurance Chronicle
of Canada

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THE COST OF FIRE INSURANCE

LAST year the fire insurance companies paid to policyholders in Canada slightly over 41 per cent. of the total premiums collected. Since 1869 the ratio paid back has averaged a little over 58 per cent. These figures lead from time to time to an inquiry as to where the remainder of the premiums go. Only a few days ago the *Regina Post*, which is always a ready champion of the cause of the west against the corporations of the east, published figures showing that the loss ratio in the west has been lower than in the east during the past four years. In a contribution to this week's issue of *The Monetary Times*, "Layman," writing from many years of experience in fire insurance in the maritime provinces, takes the view that the margin between premiums and loss payments is too large.

There are unquestionably many ways in which fire insurance business does not operate in the public interest. What business is there, in fact, however useful it may be, which does not clash in some instances with the public welfare? It is freely admitted that the payment of agents by means of a commission on premiums encourages over-insurance, and the writing of risks which are not good risks. Public investigations into the causes of fires reveal only too often the complicity of an agent, innocent as such complicity may be, in a conspiracy to defraud the fire insurance companies. Our correspondent does not suggest a remedy, however. In his general purview of the fire insurance business, moreover, he overlooks the fact that any kind of insurance, supposing all dishonesty removed, is one in which the careful and the fortunate, by prolonging their life and by guarding their health and property, pay for the mistakes and the misfortunes of the rest. This is a part of the contract which is fundamental.

The case is not one against the fire insurance companies, but rather against the circumstances under which

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fire insurance is transacted. If there is any "profiteering" in the fire insurance business, certainly the shareholders have not seen the result. Canadian companies operating under Dominion license paid their shareholders in 1919 only \$723,886 upon a paid up capital of \$12,937,307, or considerably less than 6 per cent. This is a return below the current rate of interest in the money market to-day, but is partly compensated for by the fact that as a result of an especially favorable year substantial additions to surplus were made. 1919 was, in fact, one of the best in the history of Canadian fire insurance, the loss ratio of 41.67 per cent. being the lowest in fifty years, with the single exception of 1902, when it was 39.26. A ratio exceeding 60 per cent. and even 70 per cent. was common until about 1908, and the average of 58.19 for the whole fifty-one years since 1869 has been the result of lower figures since 1908. It is to the wide margin between, comprising the expenses of doing business, that attention must be directed. A considerable part of this goes to the agents, the rest to office expenses, cost of inspections, taxes, etc.

It is the duty of fire insurance companies, working in co-operation with the governments, to endeavor to narrow this margin, and pass the benefit on to the public by lowering rates. Some effective work is already being done by the governments in reducing the fire losses themselves, and it is important to remember that the cost of this work is born by the companies, and that they have taken an active part in it. A reduction in overhead expenses may be brought about by amalgamations, but the amount to be saved in this way cannot be large. The work of inspection and classification of risks is essential, and it must be born in mind that this work also helps to remove fire hazards. Serious attention should be given to the method of securing business through agents, with a view to eliminating over-insurance. These and other aspects of the business should have the careful attention of the conference of provincial superintendents, at which the fire insurance companies will be represented, which is to be held in Winnipeg next week.