FIRE INSURANCE STANDARDS OF RATING

Relations with the Public—San Francisco Conflagration Showed Ability of Underwriters to Fulfil Promises

In the relations with the public the following have been accomplished in the interest and for the protection of the public, intimated Mr. H. W. Eaton, manager of the Liverpool, London and Globe Insurance Company, in a recent address at New York.

The maintenance of just standards of rating.

The granting of bounties in the shape of rate reduction for improvement in hazards.

The reduction of fire waste and especially the conflagration hazard in various ways.

The accumulation of resources to strengthen the indemnity offered.

"As to whether just standards of rating have been adopted and maintained, we allege that, to the best of our ability, this has been done. If in this judgment we are wrong, then the public is at fault in not apprising us of their views, which the underwriters are ever ready to receive and welcome. In looking, however, for public evidences of fault, we would naturally turn to the reports of the recent investigation by the Legislative Commission of the State of New York, during which complaints of aggrieved policyholders were invited. The result did not justify any conclusion under this head unfavorable to insurance companies, both as to the number and importance of complaints presented.

Rates Affecting Similar Establishments.

"For many years past no complaints have come to notice in the case of the rather large operations conducted under my general supervision, save in instances involving differences in rates affecting complainants and competitors maintaining like trading establishments. These were immediately withdrawn on my being able to point out the particulars of the rating of the two establishments, by which it appeared that, if such complainant would conduct improvements of a kind made by their competitors, they could obtain equal or even lower rates. It is to be remarked, in this connection, that only by co-operation can systems of rating be devised and maintained whereby unjust discriminations can be avoided.

"Looking to the results attending the operations of the fire insurance companies over a period of years for evidence that in the fixing of rates injustice to the insured has been perpetrated, will result in failure to find anything to warrant in any degree such a condition, for in the ten years ending December 31st last, the fire insurance companies lost in the aggregate a sum far in excess of that furnished by the premiums collected from the assured. During the past year the underwriting profits to fire insurance companies in the aggregate amounted to 66-100 of 1 per cent. on the premiums.

Need of Substantial Accumulations.

"When the need is considered of substantial accumulations to provide for the possibilities of serious loss attaching to this hazardous business, this result is not only extremely poor, but highly insufficient.

"As to the granting of bounties in the shape of rate reductions for improvements in hazard, the following facts are presented for the justification of the fire underwriter.

"Whilst it would be difficult to ascertain the exact extent to which, in the aggregate, voluntary abatements in premium throughout the United States have been made for improvements in hazards conducted under advice, an impression is formed of its great extent, due to continued observation of the vast number of individual applications submitted for our consideration. In some cities—as in New York—useful information, and in some detail, bearing on this point, is at hand and in a statement issued by the New York Exchange towards the close of 1910, it was announced that not less than 16,000 improvements on an average had been influenced yearly by abatements in premium made therefor. In regard to concession in rates often affecting a wide number of hazards, involved in a general reduction of rates in a given area for improved fire extinguishing facilities of cities, action in New York may be again referred to, for in the same line reductions of rates were made in January, 1912, in addition to action taken in 1908, in the three districts in which the high pressure service had been installed. In the case of the first of these general reductions the concessions averaged about 10 per cent. of the annual premium of the highest rated section of the city, representing the relinquishment in premiums of an immense sum in the aggregate, and it is to be remembered that the installation of this high pressure system was largely influenced by the persistent recommendation of the fire insurance companies to the municipality.

Voluntary Rate Reduction Afforded by Co-operation.

As an impressive reference in this connection, dealing with general results, it seems desirable to point out the changes in which voluntary rate reduction afforded by co-operation has played a large part during the last few years:

In 1906 the average rate on sums assured was	1.1469%
In 1911 this had been reduced to	1.0594%
Leaving a difference of	1.0594%

"This reduction as a percentage gradually applied over the period amounts to about 7½ per cent. If the rate applying to the year 1906 were applied to the sums assured for the year 1911, the companies would, in the aggregate, have received not less than $35,000,000 more in premiums last year. A large portion of this represents what the companies have voluntarily relinquished in a desire to assist in relieving the burdens of the insuring public.

"As to the reduction of the fire waste, and especially as to the conflagration hazard your attention is drawn to the very valuable address delivered at the last annual meeting of the National Board of Fire Underwriters by its president, Mr. Babb.

Reduction of Fire Waste.

"The reduction of the fire waste has in part been encouraged by our system of rewards to policyholders by premium abatement for improvement of individual hazards, but the lessened tendency to conflagration has come not alone from this, but from a direct expenditure on the part of the insurance companies by the employment of a large force of men in inspection work in the many ways already described to you. The insurance companies therefore have surrendered some of the premium to the public as the price of certain improvements, and of the the premium which has remained they have devoted a certain portion to particular purposes of protection against fire of a kind which the individual policyholder could not well influence.

"Thus throughout the country fire departments have been methodically and periodically inspected with exhaustive tests of apparatus and water supplies upon which they were dependent with their distribution. Such inspections are conducted by persons carefully selected and competent to advise as to needed changes. The reports when made are printed, with particulars in much detail and recommendations for change. These are sent to the municipal authorities interested and independent efforts made by the insurance companies through the public press and otherwise to influence the improvements desired. For this service alone the insurance companies spend, through the National Board of Fire Underwriters, about $68,000 per annum.

Building up of Large Resources.

"As to the accumulation of resources to strengthen the indemnity offered:—

"At the beginning of the year 1871, and, therefore, a few months prior to the happening of the great Chicago fire, the combined resources (capital and surplus) of the six fire insurance companies then doing business in the United States and having the largest incomes were $12,532,217, or an average of $2,088,703. The experience of this large loss, and especially that in the conflagration at Boston in the following year, showed conservatively managed companies the need of larger resources and the desirability of restricting dividends during the process of upbuilding. The apparent necessity for the change had, moreover, support in the report of the Insurance Superintendent of New York State for the year 1872, in which he said: 'This sweeping conflagration (Chicago) should, and it is hoped will, act as a powerful instrument toward inducing the managers of companies to provide for the accumulation of large surpluses of available assets beyond capital.' And the aims of the conservative companies were never apparently afterward ill-directed, for a steady increase in the amounts withheld from dividends for reserve purposes to the end that they might be found ready for emergencies of the same kind in future times.

Baltimore and San Francisco Conflagrations.

"The conflagrations of Baltimore and San Francisco accordingly found companies generally well prepared, and the distressed insurers at those points were left in no doubt that, notwithstanding the immense loss with which the companies were faced, and especially at the city last named, no loss in recovery was to be expected save in cases where the policies of insurance held had not been selected with reasonable care. It is interesting to repeat that the aggregate capital and surplus of six companies having the largest resources in the United States at the time of the Chicago fire was $12,532,217, while at the close of last year the aggregate on a like basis was over $71,000,000!

(Continued on Page 154).