

INDEMNITY IN FIRE INSURANCE.

There is a natural human tendency on the part of the insured to over-estimate and a like tendency on the part of the insurer to under-estimate both the original value of the property and the damage incurred, remarked Mr. F. T. Bryers, of the British America Assurance Company, before the Institute of Chartered Accountants of Manitoba at Winnipeg when giving a paper on "The effect in the adjustment of losses through writing down fixed assets to provide for depreciation."

You can readily understand that the property of others has deteriorated by use, wear and tear, the decline of the market, or from a dozen other causes, but it is much more difficult for you to believe that your own property has in like manner decreased in value. Nevertheless, it has, even if it has only been allowed to stand idle.

In buildings, unless trade move away from the locality, or raw material for manufacturing becomes scarce, the problem of depreciation is not usually one of great difficulty. The material used in construction, the purpose for which a building has been erected and occupied, and the care which it has received, will greatly measure its depreciation.

The basis of settlement, unless the building is dilapidated, is usually taken as the cost of restoration to the condition it was in just before the fire, and this is the amount generally paid, though frequently the companies really pay more than absolute indemnity, the structure having been improved by restoration.

It is probable that a dwelling, the most ordinary erection to be met with, deteriorates less than any other class of risk. Yet there are various considerations to be taken into account, even with this most necessary class. Is it brick, stone or frame? Is it roofed with slate, tile, metal or shingles? Is it detached or in a row? If frame, has it a good stone foundation, or are the sills laid on posts? Has it been regularly painted? Is it occupied by the owner, or by a tenant with a family of boys, whose every effort is to prevent the landlord from becoming a plutocrat?

RANGE OF DEPRECIATION.

In any event, there is a depreciation ranging from about 1 per cent. per annum for the first-class dwelling occupied by a careful owner to 5 per cent. per annum for the frame tenement row.

In stores of similar construction the depreciation will likely be somewhat greater, especially where the stocks carried are heavy or rough, or if there are several tenants in the building, the depreciation ranging from 1½ per cent. to 8 per cent. per annum.

Manufacturing establishments naturally tend to depreciate more rapidly than other classes of buildings, on account of rough usage, heavy machinery, constant vibration and lack of care. Generally, the more hazardous the nature of the work carried on the greater the annual depreciation. Wood workers deteriorate faster than iron workers, the range of depreciation in factories being from 2 per cent. in breweries to 8 per cent. or 10 per cent. per annum in sawmills.

It has been argued that if building losses are settled by paying the amount necessary for replacement, machinery losses should be settled upon the same basis; but a little consideration will enable us to see this in a different light. Buildings do not as a rule deteriorate so rapidly as machinery, nor can a second-

hand building be purchased and transported in bulk to the site.

MARKET VALUE PRIOR TO FIRE.

All that the assured is entitled to receive is the market value just previous to the fire, or the cost of repairs to the machine, whichever is less.

The market value of machinery is its fair going concern value, at the date of the fire, taking into consideration the price of a new machine, its depreciation after use, the amount of work the machine was capable of, in the case of its total destruction, or the cost of repairs, where it has been only partially destroyed. If the machine is improved beyond what it was before the fire, then it is only fair that a reasonable deduction be made for wear and tear.

A machine once set up and in operation may be said to almost immediately commence to depreciate in value. Parts are broken and must be replaced, bearings wear and must be adjusted, and in a comparatively short time it is of much less value than a new machine.

Moreover, the constant change in style or improvement in methods tend to reduce values. The new machine of to-day may be scrap to-morrow, having been replaced by an invention which will do double the work at a much less cost.

LESSONS FROM WESTERN EXAMPLES.

A recent case which came up for adjustment may be of interest.

The assured were industrious and careful, looked after business well, kept separate accounts for buildings, plant and stock, and allowed a percentage each year for depreciation.

In their machinery account they credited the sales of all old machines, but never revalued that on hand. As a result their plant account gave no indication of the real condition of affairs.

If a machine became obsolete and were laid aside (but not sold), no deduction was made from the machinery account; that old machine was still an asset, so far as their books showed; belting, which depreciates from 20 per cent. to 30 per cent. per annum, was still included, although it had not been in use for five or six years.

One can readily understand the trouble and friction that would occur between an adjuster and the insured when a total loss came to be settled. Fortunately, the one under consideration was slight and no difficulty arose.

In the adjustment of one of the largest losses that has occurred in the West, it was found that, although the firm in question had employed an appraisal company to value their buildings and plant, some time before, there had been so many changes made in the property, without having been noted in the books, that the appraisal was of little value in determining the real loss; in fact, was rather a detriment than advantage to the assured—but solely because the changes had not been taken care of as they should have been.

As stated, the fundamental principle of insurance is indemnity. The assured is entitled to the full, sound value of his property just prior to the loss, but to no more.

The Imperial Guarantee & Accident Insurance Company has been licensed to transact automobile insurance.