

THE ABNORMAL STATE OF FIRE INSURANCE.

NEITHER in the United States nor Canada is the business of fire insurance in a healthy state. The statement, startling as it is, is made on respectable authority that, "from the organization of the first fire insurance company on this continent to the present time, more money has been paid out for losses and management, by American fire insurance companies, than they have received from fire premiums." Besides the hundred companies that were ruined by the Chicago and Boston fires, three hundred others have, within fourteen years, retired from business, with a capital of over \$100,000,000. Whatever relief these withdrawals might have been expected to give, the pressure of competition has kept down premiums below a paying point. The premiums would be high enough if the expenses of management, including commissions, were less. Enormous rates are often paid for commissions. Insurers not unfrequently allow themselves to be bribed by their own money, thinking it a superlative stroke of policy to share the commission with the agent. If insurers once came to realize that these commissions are pure waste, the penalty of that inertness which awaits the solicitation of the agent instead of personally making the application, as a matter of course, whenever an insurance requires to be effected, it is very probable that they would apply the remedy. But the one great fact to be kept in view is that insurance is sold for less than it costs. The companies have no one to blame but themselves. It is useless to dwell upon the carelessness of persons whose property is insured. The moral hazard is or ought to be a known quantity; and full allowance for the whole cost to the companies should be made in striking the rate of insurance. The ratio of losses to premiums is not likely to decrease; under the same conditions it may be expected to remain the same. But fluctuations take place, from time to time, in the relative amounts, and even the moral hazard will be found to have its sliding scale. When trade is slack, an increase of fires is morally certain to take place. To the middle of August this year, the losses from fire in the United States were \$62,500,000, or about \$10,000,000 more than for the corresponding period of last year. Extensive conflagrations, which sweep away millions of dollars worth of property at a stroke, too often render of no avail the ordinary calculation on which the profits of insurance for any given year are based: they imply a risk which no single year's insurance is likely to cover, but they present no difficulty when a series of years sufficient to form a grand average is brought under view.

During the last fifteen years, the fire premiums received in Canada amounted to the sum of \$48,967,296, and the losses to \$38,031,307, or 77·67 of the premiums. The difference does not leave enough to pay expenses. Last year the average expenses of the British companies were \$23·48, and the average amount left to pay expenses with for the fifteen years was only \$22·23. The ratio of losses to premiums fell with greatest weight on the British companies, being 79·14 per cent. The Canadian companies were the next greatest sufferers, the ratio paid by them being 75·82; the American companies getting off with a percentage of 74·96. A single fire, that of St. John, 1877, had very marked effect on the aggregate loss-rate during these years. If the result of that disastrous fire were eliminated, the average loss-rate would be brought down to 65·35. Last year it was less than this, 63·14, and the year before 63·01. Without the fire of St. John, the business would have been profitable; with it there has, on the whole fifteen years' business, been a loss. The British companies have not hesitated largely to extend a business which, during the last fifteen years, must on the whole have been unprofitable. Last year, their risks reached \$380,613,572, being an increase of \$41,093,518; the Americans increased theirs by \$6,947,951, making the total \$41,720,296; in the Canadian there was a decrease of \$2,633,906, bringing the aggregate down to \$149,930,173. Of the total amount of risks, \$572,264,041, the British companies are carrying some two-thirds. Upon the whole business of Canadian insurance last year there was a net profit of \$439,799, equal to \$13·83 on every \$100 of premiums received. But not all the companies were equally fortunate; four of them lost money. The expenses varied from \$19·83 per \$100 premiums to \$46·32; and the company whose ratio of expenses was lowest was one of the four that had a balance on the wrong side.

A single year in which insurance leaves a profit cannot safely be taken as a basis on which to found a new company. If the British companies doing business in Canada made a profit last year, they lost in the nine years ending with 1883 no less than \$1,373,424. The St. John fire, which cost these companies a loss of nearly five millions of dollars, is responsible for several times the amount of this nine years' loss. The American companies, during the same period, made a small profit of \$115,027. The

Canadian business of the Canadian companies does not admit of a similar comparison being made; since, in their expenses, they include outside and marine, as well the home fire operations. Taking the whole business of the mixed Canadian companies, and including one purely marine company, Mr. Cherriman reports that, "for every \$100 of income there has been spent \$105·03;" divided between losses (\$72·32), for general expenses (\$29·22), and dividends (\$3·49). But when the comparison is made between premiums received and payments under the heads mentioned, the case is still worse. For every \$100 of premiums received, there was paid for losses, \$76·23; for expenses, \$30·80; and in dividends, \$3·67. The superintendent of insurance expresses a vague hope that the unfavourable record of the last three years may soon be reversed, but he does not give any reason for expecting such a change. An individual company may have made a profit; but the aggregate experience of the Canadian companies was disastrous. And as there were no great fires to account for the untoward result, there must be something wrong in the organization or management, or both. At the end of the year 1882, there was, in the Canadian fire companies, an impairment of capital to the amount of \$385,397; in 1883, when the name of one company had disappeared from the list, the loss of the active companies was \$201,700, of which \$110,400 went in dividends declared on the previous year's business. The nearest approximation that the superintendent can make to the ratio of loss to premiums suffered respectively by companies of different nationalities is: Canadian, \$71·17; British, \$65·94; American, \$52·05. The Canadian companies, which fared worst, obtained on the whole the highest rates of premiums, which means that they assumed the heaviest risks; and this unpleasant fact stands prominently out in the official return, that while the whole business of fire insurance in Canada was fairly profitable last year, the Canadian companies, as a whole, were losers. And the same ill luck, if ill luck it be, has attended them for three successive years. But the result is too uniform to be set down to ill luck, and it is clear, as already stated, that the blame must be laid on defects in organization or management, or both.

The first thing for the shareholders to do is to find out the causes of the ill success of Canadian fire insurance companies. One fact which may help to explain the untoward result is patent: fire insurance is not a business which can be successfully handled by amateurs without a regular training for their work: a fact, the disregard of which is probably responsible for much of the losses that have been suffered. Taking aggregate results into account, there can be no such thing as luck in insurance; if there is not certainty, there is nothing. A great fire, like that of Chicago or Boston, affects the average results of many years; but, being liable to happen, it must be assumed to come within the estimate of aggregate losses. It is an extraordinary incident, and its occurrence acts as a great classifier of insurance companies: by destroying the weak companies, it gives fatal proof that the security they offered was illusive and unreal. But the evidence comes too late to be of use to insurers. It is probable, however, that the great body of insurers stumble on the truth in one way or another. If this be so, the best companies will get the cream of the business, and others must take what is left. It is equally important to the buyers as to the sellers of insurance that the companies should be organized on a sound basis, and that their management should be in accord with methods that bring success. If we have anything to reform in these particulars, the sooner the work is set about the better.

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POPULAR ERRORS ABOUT OUR CLIMATE.

THE visit of the British Association will no doubt do much to weaken the impression general in Britain, that the whole of "Old" Canada has an exceptionally rigorous climate, though that impression will probably continue to exist until Canadian wines and Canadian canned peaches become familiar British imports, and take the hold which Canadian furs now have on the popular imagination. That, in the early years of the settlement of the country, the contrast between the winters of Canada and those of Britain should impress the settlers, and through them the people of Britain, and lead to the opinion that Canada is an exceptionally cold country, was only natural. The Western States with their severer climate were then almost unknown, and the age had scarcely begun of the special correspondent and of the wide diffusion of geographical knowledge which would have shown that, compared with the central and eastern parts of the old world, the winters of Canada are not abnormally cold. The opinion was, however, so universally and strongly impressed on the minds of the public, and has since maintained itself with such persistency, that it is still entertained, not only by the vast majority of intelligent and even highly educated Englishmen and Americans, but by many Canadians. The evil effects of this misconception of the relative coldness of Canada are not, by any means,