MODERN FIRE INSURANCE

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Fire insurance as it is known to-day originated after the Great Fire of London in 1666, some clubs and societies being organized in the next few years. In 1687 an individual underwriter commenced business and in the succeeding thirty years several stock companies were formed which are still in existence, or have only recently amalgamated. From this small beginning the present system of fire insurance has been developed throughout the world, until there are now about seventeen hundred companies in existence with total assets of $2,000,000,000.

At first insurances were only taken on buildings, then on movable property, and the same rate was charged for all classes of property whether of brick or wooden construction or exposed or detached, but very soon there were differences made in rates according to the construction and exposure and protection and occupation of the individual building, followed by rates classed according to the manufacturing carried on or the kind of stock which was insured. The present system of rating has been a gradual evolution from the first crude system until to-day nearly all fire insurance rates are fixed by the application of schedules which take into consideration a great many of the conditions which affect the risk. The operation of these schedules has worked a very great improvement in the construction of buildings, and many architects to-day submit their plans to the board of underwriters for criticism as regards the fire prevention features before proceeding with their work, and often receive suggestions which are of considerable value to their client. The great difference in rates charged in a modern building and one of the older type makes it almost imperative for a business having a considerable value in stock or machinery to be in a modern building, while landlords find it to their advantage to be able to advertise a low rate of insurance.

FIRE RATINGS.

The criticism is often made that fire insurance ratings are not scientific and a comparison is made with rates charged for life insurance. The difference, however, arises partly from the fact that while the average duration of life changes very slowly, the conditions which cause fires are constantly changing, and, because of this, the experience of losses incurred in the past is only a partial guide.

Insurance companies frequently pay for the loss of a factory which was insured at 5 per cent. and agree to insure the new factory on the old site at 1 per cent. The rate charged represents the anticipated loss during the term for which the policy is written, and is not a charge for the losses of the past.

Improved methods of construction, new processes of manufacture and new methods of protection against fire are being introduced every day, and the problem of the fire underwriter is to estimate the cost to be charged for these new processes, or the amount to allow for the new methods of construction and protection. Then also in rating a town or city, the problem arises how they are to regard new methods of power for waterworks. Recently at Hamilton where they now rely entirely on electrical power for pumping water, the power was cut off for nearly a day, and the city was without protection. What could be charged for that? At Montreal they depend on one aqueduct to bring water from the river to the pumps. It collapsed and the city was without protection for days. What extra should be charged cities dependent upon one source of water? Then there is the problem of pumping by engines propelled by gas or oil. Fire insurance rates will probably always be changing because the conditions are always changing.

DIVISION OF RISK.

The principle of insurance being division of risk, it is the practice of insurance companies to carry only an average line upon any single property and so when insurance is desired upon a large property it is necessary to divide the insurance between a number of companies, or if one company issue their own policy for the whole amount, to arrange with other companies to reinsure them, the original company paying to the others exactly the same premium which they have received, the operation being merely for the convenience of the public and not for the benefit of the insurance company.

The modern insurance company, if prudent, limits its liability in districts of a city, and over the whole of a city, as well as upon an individual property, and in that way many companies are necessary to cover the insurance required in a large city. There being many companies doing business and each writing a share of the insurance upon any large property, it is desirable that they join with one another for the inspection by one person of each risk and the rating of it, instead of employing say fifty men to do what one can do as well. Boards of underwriters have been found to be necessary in all countries and in their operations the rates fixed are the average opinion of the underwriters, the rates being lowered if experience will justify, or raised if not found sufficient.

BOARDS OF UNDERWRITERS.

Wherever fire insurance is practised, boards of underwriters have been found to be necessary and to be as much in the interest of the public as of the companies, as only in that way can business be handled so as to charge equitable rates and deal fairly with all classes of the community.

In Canada the average rate on all properties has decreased from 1.50 in 1908 to 1.29 in 1912, with anticipated further reduction in 1913.

At head offices a very careful examination is made of all insurances offered, and if a business firm be insured their mercantile standing is considered, also whether they have had previous fires, also the fire record of the town in which the building is situated, the fire record of the class of risk, and whether the rate offered seems to be adequate, also to consider the reports of inspectors who may have gone over the property.

The bookkeeping of an insurance office apart from the keeping of accounts, is largely a bookkeeping of liability, so that at any moment a company can tell what they are carrying at risk on any property throughout the country and the aggregate they are carrying in various towns or cities, or portions of cities. When policies are endorsed or cancelled it is necessary that the records be altered through all the ramifications of the office, and what seems a very simple matter to the insured may cause a great many