RE-INSURANCE IN FIRE UNDERWRITING.

Among the unsettled problems of fire underwriting on this Continent especially, is the question of the legitimacy of re-insurance of fire risks as a practice. That is; Is it right and proper for an insurance office to habitually accept heavier lines of business than it alone can safely carry, under the expectation of re-insuring any overplus beyond an ordinary line in some other company?

The affirmative and negative of this proposition have their advocates, who argue their respective views with more or less pertinency; but, as yet, neither side seems to have the best of the argument in proving their premises. In the meanwhile, however, re-insurances are being constantly effected among the offices themselves, and offices for transacting re-insurance business alone are being formed, because those already in operation, where properly conducted, have always been successful. The objections made, however, are mostly based upon the questionable practices heretofore in vogue in England and upon the European Continent, several articles concerning which have appeared in our columns; such practices, however, are not common here.

Under a system of "mutual guaranty" between fire offices, there can be no valid objection to the practice of re-insurance. On the other hand it has many, and decided advantages, and satisfactory results are usually obtainable without friction; the assured has no difficulty in placing his insurance, or when losses supervene in obtaining his money without vexatious or unnecessary delay; he knows only the office with which he deals, and looks only to that company for his indemnity. There need be no cutting of rates, for competition is avoided among co-insuring offices, which by combined efforts can usually control outsiders to a measurable extent, and thus secure their business. Over-insurance, under that ominous phrase, "Other insurance permitted without notice," is by this plan effectually checkmated. All disputes in the adjustment of loss claims are precluded, and through this mutuality of interest in the same risks, thus engendered and fostered, not only is the solvency of each guaranteed by the others, but the business itself is necessarily, from the absence of competition, made remunerative for all concerned.

In this method only, or something similar, can re-insurance be made thoroughly profitable and free from the objections always more or less connected with its indiscriminate use. But to be profitable, or even ordinarily practical, it must be systematically reciprocal between co-insuring offices; returning, in all cases, a tangible *quid pro quo*, not only in amount, but in class and quantity of business. Under a system of re-insuring, where all surpluses are placed in regularly organized re-insurance offices, and where, as in this country, the rates of commission paid upon the risks are made adequate, the transaction is as legitimate as if the risks were placed directly, and is free from one marked objection to the interchange of business among direct offices, which is the chances for re-insuring companies to endeavor to get the renewal of risks direct on expiration of the re-insurance.

Inasmuch as the system of re-insurance has now become permanently established throughout the insurance world, we propose to present to our readers some of the adjudications that have been made by the courts of the mother country, the United States and our own Dominion, as well as the general principles and practice connected with re-insurance, much of which we borrow from that valuable work the "Fire Underwriters' Text Book," where the subject is tersely and clearly treated.

GENERAL PRINCIPLES.

Re-insurance is an apt illustration of the difference between a simple insurable interest and ownership. A party by becoming an insurer of property acquires thereby an insurable interest in its safety, though he has no ownership. He may protect himself against any accruing liability thereunder by re-insurance. The value of his interest is the amount he may have at risk upon the property covered by him originally; and inasmuch as "the greater contains the lesser—the whole, the part" he has an insurable interest in every portion of his risk which, by re-insurance he may throw upon another. In the early days of marine insurance it was customary also to add to the policy the amount of re-insurance premium paid.

THE CONTRACT.

Re-insurance is simply a modification of the insurance contract, and while the subject matter of the insurance is the same in the policy of re-insurance, the interest of the re-insured and the liability of the re-insurer are quite different.

The policy of insurance is one strictly of indemnity "that which is given to a person to prevent his suffering damage." The policy of re-insurance is something more; it is in the nature of a guaranty; an undertaking to answer for another's liability, and collateral thereto. It is so considered in England and is there designated "Guaranty Insurance."

If this contract were one of indemnity solely, it might be contended that in the event of loss the repayments of the amounts paid by the re-assured upon the original policy would be the measure of liability. In that case proof of such payments only would be necessary; no proofs of loss would be required.

THE ORIGINAL INSURED.

The originally insured party has no interest in the policy of re-insurance, even though the re-insured company become bankrupt during the currency of the original policy. Chief Justice PARK, says: "It was a distinguishing characteristic of this species of contract, that, notwithstanding a re-insurance, the first contract subsists as at first, without change or amendment," and Pothier, in his able work upon Insurance, says:—"The risks of the insurers form the subject of the re-insurance, which is a new and independent contract not at all concerning the insured, who consequently can exercise no power or authority with regard to it."

Re-insurers stand in the same position to the risk assumed as the re-insured stood at the time of the re-insurance, subject to all the specifications, terms and conditions of the policy of the re-insured; thus abrogating the conditions of their own policies, and becoming bound in all matters by the terms of the original policy, as between the re-assured and the original assured, thus virtually incorporating into their policy stipulations and exceptions which may be more or less antagonistic thereto.