

# The Chronicle

**Banking Insurance and Finance**

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## MUNICIPAL SELF-INSURANCE.

An alderman of the city of Hamilton asks us for information on the subject of municipal self-insurance, stating that his own impression is that the city could save money by taking its own risk. Perhaps it could—a very big perhaps. A merchant carrying a huge stock of merchandise could perhaps save money by taking his own risk. But how would his bank and his creditors view his money-saving scheme? The bank would decline him any credit and his creditors would begin dunning for cash settlements. The only difference between the municipality and the merchant is that the latter takes a risk with his own property; in the former case, city fathers who are in the position of being trustees of the ratepayers, take risks, gamble in fact, with property which is not their own but for the safety of which they are responsible to the real owners. The gamble might—a very big might—come out all right at the end of say twenty years. Does our Hamilton friend feel like risking heavy losses to the ratepayers—for whom he is in the position of a trustee—during that period, and possible damage to the city's financial position.

### THE WEAK POINT.

We do not know of any scheme of this kind which can be definitely pronounced a success. A scheme might be apparently successful for five years, and then a big fire bring sudden realization of the real state of affairs. The city of Bradford, England, tried the idea, but after a heavy loss in the second year's operations went back to the fire companies—wiser but somewhat out of pocket. The State of Wisconsin has had a similar experience with a scheme for the self-insurance of its public buildings. It was started only two or three years ago; the latest information is that the fund is bankrupt owing to a heavy normal school loss. The weak point of these and the similar schemes in Canada which have been mooted from time to time, is that they ignore altogether the essential characteristics of the fire hazard,

and the primary purpose of fire insurance premiums. The essence of the fire hazard is its uncertainty. Nobody knows when there is going to be a huge conflagration in Hamilton. The Hamilton city hall may be burned down to-morrow, next week or any time, say, within the next ten years. The fire premiums which the City Council is paying at present relieve it from any uncertainty or worry as to financial losses should such an event take place at any time. Supposing those policies were discontinued and the city fathers took their own risk. How long do they think they would be accumulating a fund which would be sufficient to replace the City Hall, should that be burnt down. Ten years? Twenty? Thirty? Forty? Until that fund was accumulated the City Council would be in the position of gambling with the ratepayers' property in a manner which in our judgment is not justified. All those years they would be in the unfortunate position of being insufficiently insured. Beyond that, it would be the merest gambling chance as to whether the fund was ever accumulated at all. Supposing Hamilton had the same experience as Bradford—a by no means impossible contingency—with a heavy loss in the second year of operations. How would the account stand then?

### A FAVORITE FALLACY.

Our Hamilton friend's reference to "saving money," suggests that he is not entirely free from a favorite fallacy—the idea that an insurer does not get his money's worth from his fire insurance premiums unless he gets back something substantial in the way of loss payments. As a matter of fact, the man who pays his fire insurance premiums for twenty years and has not a single fire during that period, gets his money's worth exactly as does the man who has half a dozen fires and is recouped his losses accordingly. He gets what he pays for—protection against an uncertainty. Hence also the further fallacy of arguing from the past experience of a particular insurer. A man may say that because he has not had a fire in forty years, he would have saved money by not carrying fire insurance during that period. But the facts prove nothing in regard to the future. How is he to know that the next day his premises may not be entirely destroyed? He doesn't know, and if he is wise, he doesn't talk about "saving money" where fire insurance is concerned. To the business man and any owners or trustees of property, fire insurance premiums are as necessary expenditures as those on purchases of food by the individual.

### THE CONFLAGRATION HAZARD.

The vital point to keep in mind is that fire insurance rates have not merely to provide for ordinary small losses which occur day by day; they must provide for the conflagration hazard. No insurance rates or funds can be said to be on a sound basis