MUTUAL UNDERWRITING

An esteemed correspondent writes suggesting that a paragraph of the quotation given in our issue of January 7th from a pamphlet recently issued in the United States by the Ocean Accident and Guarantee Corporation, in reference to the drawbacks of the mutual system when applied to employers' liability or compensation insurance, is capable of use by the agent of a stock life insurance company as an argument against a legal reserve old-line mutual life insurance company to the detriment of the latter.

Unscrupulous misquotation is one of the things which it is impossible for any writer to guard against, write he never so carefully. But it may be useful to point out the essential differences between the mutual system in compensation insurance and in old line legal reserve life insurance.

The reasons why the mutual system of insurance is not suitable for dealing with the employers' liability or compensation risk whereas it is suitable for life insurance on the legal reserve old line system are simple enough. In the case of the former, there are no standards in existence by which the financial responsibilities to be incurred can be measured. Accidents, like fires, have no schedule of occurence—if they had, they would cease to be accidents, and are as likely as not to occur, not merely in the best regulated factories, but to the extent to which they may be classified as disasters at the very time that such a happening is most inconvenient from the financial point of view.

RESPONSIBILITIES UNDER ESTIMATED

As financial responsibilities cannot be accurately measured beforehand, so is it a very general experience that in compensation insurance, they are under-estimated. Not only have mutual ventures done this, but the stock companies also. As the Ocean Accident pointed out in the pamphlet from which the quotation was made, in recent years, 71 companies transacting in the United States casualty and miscellaneous insurance showed a heavy underwriting loss, amounting to nearly three millions of dollars. To the policyholders of those companies, that loss was in a sense immaterial. The policyholders were secured by the capital paid up by the stockholders and by previously-accumulated funds, and effective supervision ensured that if, by reason of continued losses, these funds ran down to a point of minimum safety to the policyholders, the stockholders had either to put up fresh capital to safeguard the policyholders or the latter have to be re-insured.

In mutual compensation insurance, however, losses present a more serious aspect. The whole idea of these undertakings is that current premiums pay for current losses; if current losses exceed current premiums, there are no accumulated funds to fall back upon. Thus a member of a mutual compensation scheme has no certainty (1) whether there will be available funds to pay his losses; (2) what his assessments in any given period will be. A scheme giving no certainty on these points can hardly be dignified by the name of insurance. Not only is the position as described, but owing to the peculiar uncertainty of the amount of compensation claims, and the long-continuance of payments, often extending over a period of many years following accidents, a permanency of funds and organisation, such as the mutual compensation schemes do not possess, is essential to compensation insurance.

A CONTRAST.

The position of legal reserve old-line mutual life companies has nothing in common with this. Life insurance deals with certainties; compensation insurance with uncertainties. Mutual life companies call for regular premiums scientifically computed; mutual compensation schemes for irregular assessments which are either mere guess-work or dictated by the necessities of the hour. A mutual life company's liabilities are fixed and readily ascertainable; a mutual compensation scheme's liabilities are neither fixed nor ascertainable with certainty. Mutual life companies on the old-line legal reserve system are compelled to provide adequately for their liabilities and generally provide for them much more than adequately. When long-established and important organisations, from the point of view of the security of policyholders, they are practically in the same position as stock life companies, since stockholders' capital, however useful it may be in the early years of a company's career, subsequently when the company has attained size and importance, plays a relatively unimportant part in regard to the policyholders' security.

In brief mutual life insurance on the legal reserve old-line system and mutual compensation insurance are as different as chalk and cheese. The only thing they have in common is the word mutual.