

Class B.—Mercantile risks—wholesale, no manufacturing; mercantile risks—wholesale, omnibus manufacturing; mercantile risks—retail; piers; wharves and bulkheads; storage; department stores. Totals reported for class B.

Class C.—Manufacturing risks or special hazards; wood and metal workers; printing establishments; book binderies; breweries and malt houses; distilleries; paper box factories; wall paper factories; theatres, moving picture shows and opera houses; saw and planing mills and lumber yards; garages; sweat shops; ice houses; elevators; electric light and power plants; stock yards and packing houses; bakeries; candy factories; builders' risks; cotton mills; woolen mills; flour mills; gas works; shoe factories; jute mills; livery stables; laundries; all other manufacturing risks not otherwise classified. Totals reported for class C.

Class D.—Floaters of all kinds.

Class E.—Railroad and traction properties.

Class F.—Vessels of all kinds.

Class G.—Sprinklered risks of every description and equipment.

NOTES.

Classification as to congested sections in any city is a matter of individual judgment, experience and application. Therefore the above suggestions may not appeal to all underwriters.

Yet there are congested districts, by reason of excellent moral hazard and superior construction and equipment, less dangerous to fire insurance interests than other localities not so well favored.

The aggregation of results for each of the seven classes as above outlined, could be reported in bulk, thus not involving much additional labor upon companies and, at the same time, not disturbing their private or individual systems.

Although the scheme may not be perfect it may, however, offer a means to an end.

Two general divisions may be added as to "protected" and "unprotected" risks.

LIFE INSURANCE DIVIDENDS.

Many policyholders have but a vague idea of the source and real meaning of so-called "dividends" in life insurance. Too generally they regard them as profits similar to the dividends on bank stock or to interest on money loaned. For example: a policyholder pays a premium of \$28.11 on a policy of \$1,000 and at the end of the year receives a dividend of, say, \$5.57. That is nearly 20 per cent. of the premium paid, and he is pleased, perhaps amazed; for his investment of \$28.11 seems to have earned a great return. If he remains under the delusion that the dividend is interest upon the amount of his "investment," he will naturally expect a dividend twice as large at the end of the second year when he has a total of \$56.22 "invested." Instead he receives a dividend of, probably \$5.75.

The notion that a so-called dividend in life insurance is a return on an investment is wholly a misconception. The policyholder loses sight entirely of the purpose of life insurance, which is not investment but protection or indemnity. The insured takes a policy to the end that his family or dependents may be provided for in the event of his own untimely death. The company must necessarily collect a premium which will certainly be sufficient to cover the present and future cost of the insurance.

When the policyholder pays the premium, therefore, he is not investing \$28.11 at interest, but is paying for the indemnity furnished against his death, just as when he takes a fire insurance policy he is paying for indemnity against fire. The difference is that the life insurance policy usually covers the whole period of life without an increase of premium, or at least a long period. The fire insurance policy is written for but brief period and may be cancelled at any time if the character of the risk changes. It is necessary, therefore, for the life insurance company to collect a premium large enough in the first place to cover the increased risk that comes with the advancing age of the insured.

Theoretically, the life insurance premium is just large enough to meet the present and ultimate cost of the insurance. In computing the premium, however, the actuary assumes that a certain proportion of policyholders will die in each year, that the funds in the hands of the company will earn a certain rate of interest annually, and that expenses and other contingencies will call for a certain amount yearly. If these assumptions should prove to be correct—if the number of deaths and the rate of interest earned and the amount required for expenses should correspond exactly with what was assumed in computing the premium, then the latter would furnish exactly money enough to pay for the insurance, and there could be no dividend at all.

In any well-managed company, however, it usually turns out that there are fewer deaths than were counted upon, that expenses are less than were anticipated, and that more interest is earned than was assumed. The result is that the income of the company from year to year is larger than is needed to cover the cost of the insurance; it is impossible to know certainly what the exact future cost will be, but when this is ascertained at the end of each year, the excess is returned to the policyholder in the form of a so-called dividend. A much better term than "dividend" would be "refund," since that is just what takes place. At the end of each calendar year it is ascertained how much has been saved in the way of mortality or expense and how much has been gained from excess interest, and this is equitably apportioned among the various policyholders, to be refunded to them in the form of dividends in the succeeding twelve months, on the anniversaries of their several policies. In the case of "deferred distribution" policies, the amount thus apportioned each year is accumulated at the net rate of interest employed by the company in the computation of all dividends, and is ultimately paid, with gains accruing from terminations of similar policies, to such deferred distribution policies as complete their dividend periods.

Thus it will be seen that the life insurance dividend is not a profit on investment, but simply the return of a necessary over-charge in the premium. It represents just so much saved or gained by reason of an economical and efficient management, whereby the anticipated cost of life insurance as represented in the annual premium is reduced to a basis of actual cost. It will be seen, then, that the dividend from year to year will not increase in proportion to the accumulated amount of premiums paid, for in each instance it is merely the return at the end of the year of the amount that has been saved by the company out of the premium paid at the beginning of the year.—*Mutual Interests.*