"What is the first, and very first, thought in the bargain? Unquestionably this—If I sell what can I replace for? I wish to continue trade; I have an opportunity to sell my stock.—To continue trade I must replace it; if I make a good profit by sale I will sell. What can I replace for? And what answers him? Why, instantly, the *cost mark*—the *private cypher* that indicates the cost of replacement, to him, with as much exactness as the index of the clock points the time; tells him how he can replace, and he acts upon it. This is done hourly, daily, constantly. Is it changed because he has agreed with an Insurance Company that, in the event of the most dreadful calamity, fire, and the destruction of his property thereby, the Company will pay him what it would cost to replace his goods? Can't he replace them just as well by selling to one customer as another? Mercantile intelligence is not inadequate to the compassing of this point."

Mr. Scudder's head is eminently level; no underwriter could have illustrated the doctrine of the measure of damage under the policy clause, or the operation of reinstatement, more clearly or more succinctly. From what has been said it is evident that an article being patented does not, in the hands of the patentee, increase the cost of manufacture, nor, hence, the indemnity value, in the event of loss under insurance. In the hands of a manufacturer of articles upon which a royalty is paid to the patentee for the right of production, as is customary with many patents, such royalty becomes a factor in the cost of manufacture, like any other direct charge. Hence, the indemnity value of the sewing machines to the manufacturer is the $20, cost of production; to the dealer it will be just what the insurers, or himself could have replaced the machines at the time of the fire; while to the lady owner the retail price paid by her, or reinstatement at the option of the Company. This reinstatement clause of the fire policy is the great saving principle for the underwriter; it regulates values, and prevents extortion.

We have not said anything about shop-worn, out of fashion, or other unsaleable goods, or injured and dilapidated buildings: the policy provides in such cases for a requisite deduction to reduce the insured subject to a cash value. In cases of disputed values the question is usually one of reference or appraisal.

This question of the covering of profits under a policy upon goods was not long since decided by four courts in the United States, two U. S. Circuit, and two State, where the claim for commissions by agents on burned goods was held to be "without the color of merit." (case of American Watch Co., *v.* Ins. Cos.)

The insurance contract is recognized by all courts as a bond of indemnity or a guaranty of debt should loss occur to the *property* or *interest* covered by the policy. Such contracts do not contemplate restoring the sufferers to exactly the same condition as before the loss, but simply to pay for all of the *property* destroyed within the insurance, at its actual *cash value* to the insured at the time of the loss, not to exceed the cost of reinstatement. They do not contemplate indemnity for *constructive* damages resulting from the fire, as, loss of time, derangement of business, etc., but simply the *immediate* loss of the property consequent upon the fire.

Mr. Manly Hopkins, in his very lucid work upon Marine Insurance, p. 59, thus treats this subject; he says: "The expression that a policy of insurance is a "writing of indemnity," though embodying a general truth, has often led to misconception and much disappointment. It is, in fact, *partial* indemnity to the policy-holder; but certainly not the plenary one which many persons suppose they have obtained when an insurance has been effected, and which makes them say when any loss, detriment, or delay occurs in relation to their insured interest, that it is immaterial to themselves, as "the underwriter stands in their shoes!" He does not stand in all respects in the same position as the assured, as provided for by the terms of the policy. A policy of insurance is an excellent, useful aid, but more must not be expected from it than it professes or was intended to give."

The companies *do not* agree to pay for anything but the lost property itself, on which they have been paid a premium, and that at reinstatement value at the time of loss; such "reinstatement value" being the lowest figure at which the lost property can be restored for *cash*, subject, as a matter of course, to reduction for depreciation, deterioration, etc., as provided for by the terms of the policy.

LUMBER LOSS ADJUSTMENTS.

REPLY TO MR. H. LYE'S SECOND COMMUNICATION.

On page 72 of this issue will be found another very interesting communication from Henry Lye, Esq., the well-known and very competent fire-loss adjuster, and as the tenor of the article—as a reply to our response to his first communication found in the last issue of INSURANCE SOCIETY—*seems* to be to the effect that he has either been misunderstood or not fairly represented in the discussion of the question of lumber loss adjustments, so far as it has proceeded. If our *inference* be correct—as seems evident from his present willingness "to continue to exercise that patience which is so necessary to an adjuster," under such unfortunate circumstances—we think his grievance more imaginary than real. We discussed *his* theories in a fair and open manner, we called his *pet idea* of "allowing a fair margin for profit of manufacture to produce a fair measure of indemnity to the manufacturer," "rank insurance heresy," and this we now repeat and indorse, as will any fire underwriter of experience who has not a hobby to ride.

The intent of our February reply to Mr. Lye, as was stated at the outset, was to discuss the manner of adjusting a lumber loss, *at the mill*, and to this, aside from some special references called for by Mr. Lye's peculiar theories and assertions, which *we* did not think correct in their conclusions," we confined our remarks. We did not follow him either to Albany or Chicago, a journey to those cities being totally unnecessary as well as expensive; we confined ourselves to the woods and wilds of Ontario, and to the modus operandi of getting at the *cash cost*, exclusive of profit, of replacing lumber *burned at the mill* on any given day; and as yet, we feel satisfied that our ideas, as then given upon the subject, were not only in exact accord with the fundamental principles of fire underwriting, but also in full harmony with the strictest equity between the co-contract-