

THE INSURANCE CONTRACT AND THE PREMIUM PAYER.

(Alexander C. King, of Atlanta, before the National Association of Fire Insurance Agents.)

While the San Francisco conflagration consumed the premiums of years derived from California and made the loss ratio of the United States for 1906 over 96 p.c. of the gross premium receipts of the Union, I doubt not, if the fire losses of the entire world for a series of years before and after 1906 were accessible, such total fire loss would vary but little from year to year. Certain it is that a series of years would show a singular uniformity, and that excesses of single years are equalized by decreased loss ratios in others. Fire insurance is, therefore, in one view a great co-operation whereby the personal vicissitude is neutralized by distributing the individual losses among the many thousands, who through their premiums furnish the fund which replenishes the individual loser, including at times the losers of a community visited with disaster.

In its practical working this fund must also pay the expenses of conducting this most important branch of human affairs, and afford to those who, as stockholders of the companies, through whose efforts this business co-operation is organized, a recompense for the capital they have devoted as a guarantee fund to enable unusual demands, in times of emergency, to be met with promptness, and of which they take the risk of loss.

In this work of securing the contributions of those who, by effecting insurance against fire on their property, seek on the one hand protection against the unknown and unforeseeable individual risks of loss, and on the other contribute to the equalization of losses and the payment of expenses of the business through the payment of premiums, the local underwriter is the direct, efficient agency. Other officials direct company policies and investments, or organize or supervise the methods of transacting its business, but it is you and you alone (with but few exceptions) who bring the public, the insured, into relation to the actual protection of fire insurance and who make them contributors to the common insurance fund which meets the fire waste. You, therefore, of all men are the most effective agency through which correct ideas of the relation the insured bears to this fund and to the contract of insurance can be taught to the insuring public.

ATTITUDE OF THE PUBLIC.

The attitude which the great mass of the insuring public takes toward the contract of fire insurance, which finds its expression in legislative acts that break down its covenants, and in the verdicts of juries, and sometimes in the rulings of courts, which destroy the efficiency of contractual reductions, is clearly one which disregards the interest of every person concerned in the fire waste of the country, or the premium fund which must respond to insurance losses, except the individual who asserts a disputed claim of loss by fire. The effect of such laws, verdict or decisions on the fire waste itself, or on the price of insurance is wholly lost sight of.

The infinitely small percentage of those insured who ever appeal to the law for collection of their claims is possibly not realized. But it is assumed that the insuring public need to be protected by such

methods against a capriciously stringent contract, and against defences that are indiscriminately denounced as technical. While the vast majority of insurers continue paying premiums year by year without suffering losses, because of the basis of credit insurance affords and the confidence and sense of protection it brings, the loss that such measures and doings bring to them in the increased cost of insurance is never considered.

It is my purpose to ask your attention to this view of the question, and to endeavor to present to your consideration the interest which the great majority of your patrons have in the maintenance of the integrity of the several covenants and conditions of the insurance contract.

That the premium paid by the insuring public must defray the fire loss and the expenses of conducting the business is axiomatic. That the premiums charged do pay but a small percentage above what is necessary for this purpose from which extraordinary demands and sums carried for safety to surplus, as well as dividends, must be provided for, while not so generally known to the public, is also true.

HIGH RATIO OF LOSSES.

From statistics recently published by the National Board of Fire Underwriters, it appears that the combined experience of United States and foreign companies shows an annual loss ratio from 1860 to 1911, both inclusive, of 57.85 per cent. of the gross premiums. The average annual expenses of these companies for the same period was 36.42 per cent. This expense, however, for the last six years had been over 38 per cent. in each year, 1911 showing an expense ratio of 39.75 p.c.

This increase to more than 38 p.c. is accounted for by the increased ratio of commissions and taxes in these latter years, and may be considered permanent. The report made in February, 1911, by the Joint Committee of the New York Legislature, which investigated the affairs of fire insurance companies, placed the expense ratio at 38½ p.c.

Taking the average loss and expense ratio for this era of fifty-one years, it would leave 5.73 p.c. of the premiums for the preservation of assets, surplus and payment of dividends. If 38½ p.c. was deducted for expenses instead of 36.42 p.c. this residue would be reduced to less than 4 p.c.

It is a significant fact that the report of the joint committee above mentioned shows that out of 213 fire insurance companies doing business in the State of New York in 1875 only sixty-nine of these companies were still doing business then, and in nearly every case the remaining 144 companies had gone out of business.

The average ratio of the amount of losses paid to the amount of the risks written, taking the experience from 1860 to 1911, both inclusive, is not quite one-half of one p.c. (.00495). Yet this consumed 57.85 p.c. of the gross premiums collected during the entire period.

It is safe to say that all claims of loss, both meritorious and unfounded, do not equal 1 p.c. The number of persons suffering losses, taking as wide an average, will probably bear about the like ratio to the number insured. The remaining 99 p.c. pay their premiums for the ability it gives them to carry on business, and for the sake of security. It is manifest that these ratios must be correct, as the average rate of premiums in the United States during the period 1860-1911, inclusive, was only 1.0635 p.c., that for 1911 being 1.0594 p.c.