

WEAKNESS OF MUTUAL COMPENSATION INSURANCE.

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One of the main objections to mutual workmen's compensation "insurance" is that it is not insurance. It is merely a pool of funds contributed by employers who agree among themselves to contribute pro rata to the cost of making payments and furnishing statutory medical aid under a workmen's compensation law, binding themselves to pay the entire cost, no matter how high that cost may be ultimately. A compensation mutual has no funds beyond its premium income and interest earnings thereon, and there is no guarantee that it will fulfil its assumed obligations.

Operations of a compensation mutual are generally confined to the state in which it is organized. Therefore, it is not possible to secure a sufficient volume of premiums to build up a financially strong institution, while the restricted field in which a mutual operates precludes possibility of obtaining proper distribution of risk and application of the law of average, two fundamental principles of sound insurance. Even though a mutual wrote every risk in a single class of business in the state in which it is operating it would still have a most limited area of risk distribution. Its eggs would be all in one basket—and in a very small, frail basket.

A single catastrophe or an unfortunate year of heavy losses could have but one of two results. If the contingent or assessment liability of each member has been fixed by the mutual's by-laws, the mutual will be unable to pay its losses in full. On the other hand, if the by-laws permit assessment in excess of the amount of advance premium, then the increased cost of the insurance resulting from such assessment liability will prove financially embarrassing to many members. And under many workmen's compensation laws the claim of an injured workman is a first lien on the individual assets of an employer; hence solvent members of a mutual must pay both their own losses and the losses of their insolvent associates.

NO CERTAINTY OF COST OR PROTECTION.

Such "insurance,"—mutual insurance—affords no certainty whatever of cost or protection. After the premiums have been exhausted, recourse is had to the assessment liability. After that, what? The individual assets of the members—the solvent members. Does any wise employer wish to expose his business, his personal assets and his financial reputation to the chance of being forced to assume the obligation for payments to workmen who have been injured in the plant of another who is financially unable to meet his obligation? No, most emphatically, no. The solvent employer exercises no supervision over the machinery, tools, equipment or employes of that other who shifts his burden to his creditors. And fellow members in a mutual are creditors of the insolvent in the matter of insurance.

Insurance at an unknown cost or insurance which affords uncertain protection is insurance in name only. Owing to the peculiar nature of the risk created by a workmen's compensation law, insurance thereunder on the mutual plan is fundamentally unsound because both cost and protection are uncertain. Workmen's compensation laws provide no limit for the aggregate amount payable in event

of a disaster causing death or injury of a number of workmen. Most such laws provide an individual, but not a collective limit of payment. Such catastrophes occur, as perusal of daily newspaper records will show. What mutual, operating on the volume of premiums obtainable in but one state, could have met the losses resulting from the two recent coal mine disasters in West Virginia, or the Triangle Waist fire, or the Emerson shoe factory boiler explosion in Massachusetts, or the Binghamton, N. Y., fire? If it could meet such losses, could it continue in business, meeting in full its other obligations? The reply is obvious.

LITTLE MUTUAL EXPERIENCE.

Less than one per cent. of the employers of the United States carry compensation "insurance" in mutuals; none of the compensation mutuals has yet met with a catastrophe loss; in fact no compensation mutual has attained sufficient size to enable it to determine whether its premium rates are adequate for more than current losses; the deferred liabilities, attaching for a period of six or more years after the accident, afford no basis for an inexperienced mutual to base calculation of rate adequacy or to establish a true loss ratio. Workmen's compensation laws are still in the experimental stage. Mutual compensation insurance is an experiment. How many conservative employers care to experiment in the casualty insurance business? It is a speculation to which they should not commit themselves.

Mutual compensation insurance should not be compared with mutual fire insurance. The entire liability of a fire insurer is determinable immediately after the fire has been extinguished. In workmen's compensation insurance loss payments are distributed over a period of years, according to the extent of the disability, the earning power of incapacitated workmen or the number and financial condition of dependents. The deferred liabilities are indefinite—contingent. It is absolutely impossible to calculate with reasonable certainty the amount which must be paid six years hence for losses incurred now. This indeterminate amount of future payments requires ample capital and strong surplus to insure that the obligations will be met in full.

DIVIDENDS AND ASSESSMENTS.

A mutual may expend—actually pay—this year less than it receives in premium income, but the excess of premiums over paid losses cannot be called a profit. The entire amount or more may be needed next year or the second year following to meet payments on losses incurred during the year in which there was an unexpended balance. Until true loss ratios have been established and until it can be estimated with greater certainty that current premium rates are approximately adequate for the carrying of all obligations to maturity it is not safe to say that any compensation is successful or to hope for a "dividend." This year's "dividend" may be next year's assessment.

It is an apparently established principle of business that a manufacturer must have fixed costs. How can any business man establish fixed costs if he carries compensation insurance in a mutual to which he is liable at any time for larger payments than those to which he originally subscribed? And those assessment payments may be for losses of another member of the mutual. It is the old story—