OBJECT OF FIRE INSURANCE INVESTIGATION

By Hon. H. J. MORTENSEN, Vice Chairman of the Wisconsin Legislative Fire Insurance Investigating Committee.

Fire insurance, in all its phases, is one of the present day economic problems to be solved by the American people. It is a vital public question that concerns everybody. No one can escape it. It involves more than property. It involves the conservation of human life. It involves the nation’s credit and the world’s progress. It is the balance wheel of financial and industrial growth and stability. Yet the general public has thus far given it little thought.

A person having property, either carries his own risk or he goes to some insurance company, or more likely to a local agent or broker representing a fire insurance company, and buys protection from fire loss by paying a certain amount, called the premium, for which amount the insurance company agrees to carry the risk and indemnify the insured in a certain amount against loss by fire during the life of the contract. When the contract expires the agent renews it. The insured pays the renewal premium, and that is the extent to which most people give thought to fire insurance.

The premium paid by the insured is determined by multiplying the amount of insurance carried by the rate for the stipulated term of the contract. Given the rate, to find the premium is but a simple matter of calculation. But who fixes the rate? What determines it? Why is the rate $1 for every hundred dollars insurance on one risk and only 90 cents on another? What should be the rates for a dwelling and for a fireproof skyscraper? Should the rates on a powder mill and a flour mill be the same? And if not, what should determine the difference?

In the beginning of fire insurance, Dean, an eminent insurance writer, which was about 1667, history tells us that a risk was a risk and its rate was universally $1 per hundred. This was the equivalent of saying that the relative hazard of each risk was the same. Experience soon proved this theory to be illogical and false. Insurers began to figure on a rate that would fit the hazard of each risk assumed. In this, as in all other things, a starting point was necessary. A nucleus or cornerstone about and upon which every rate could be built with some degree of fairness was determined the “basis rate,” which today is the ratio by which all insurance risks are measured.

This “basis rate” is an arbitrary irreducible quantity of hazard incapable of being further reduced or measured with any degree of scientific certainty. From this “basis rate” each risk is, or should be, measured as nearly as experience and science will permit, by its relative hazard or expectancy of burning, and the schedule rate fixed accordingly. This leads to classification of risks, which in turn is based upon schedule rating.

Schedule rating proceeds upon the theory that the hazard of a risk may be analyzed into its component parts. It assumes a basis rate for a certain standard building. The standard involves conditions regarding location, fire protection and construction, and to these are added charges for differences with regard to various elements of construction, equipment, occupancy and exposure, and from the result are taken whatever allowances are to be made for conditions that are more favorable than the standard upon which the basis rate is predicated. A. F.
says: "Every fire insurance rating schedule must recognize that the total hazard in every risk is built up by the contributory hazard of its parts, and it is the business of the schedule to analyze hazard into its parts, establish a standard for each part and a scale of charges or credits for the deviation of each from the standard. This is true classification."

When one considers the almost unlimited complexity of hazards, the infinite forms of constructions that are incident to buildings and other insurable property, not to mention the moral hazard which attends each risk and must be measured; when we consider that in stock companies, which do about 90 per cent of the insurance business, the premium is collected in advance, and the anomalous condition arises where a price must be fixed to pay for something that has not happened and may never happen; that under the law of this state fire insurance companies are prohibited from entering into an agreement or combination with any other company for the purpose of establishing or maintaining a schedule of rates—commonly referred to as the anti-compact law—that the law permits local boards and agents to fix rates, and often such boards or individual agents fix arbitrary and anomalous rates by mere guess; that a schedule rate fixed today may not justly apply in the near future on account of change in material used in construction, manner of construction, exposure, fire protection and other elements entering in too numerous to mention, then one can faintly begin to comprehend the enormousness of fire rating.

This problem of rate making and rate application to risks constitutes in itself a technical, continuous vacillating, progressive science which is continually in need of readjustment in order to equitably distribute the insurance tax upon the general public.

It has been charged that rates are discriminative and out of harmony with present conditions in this state. If so, then some are paying more and others less than their just share of the insurance tax. So it may be said that to investigate rates and rate making, to gather together the best thought and opinions upon the subject to the end that improved methods in rate adjustment and a more equitable distribution of the insurance tax may grow therefrom, is one of the objects of fire insurance investigation.

Another object of investigation is to ascertain the cost, and the reason for the ever increasing cost of conducting fire insurance business. Statistics show that out of every dollar paid into fire insurance companies 38½ cents is paid out for expenses. The largest expense item is money paid in commissions. This item alone has nearly doubled in the last thirty years and constitutes more than 50 per cent of the expense.

Local agents representing companies are paid a commission on all premiums collected for their services. The percentage of the premium received as commission varies in many ways, although there has been a tendency of late to make commissions more uniform. Some of the elements entering into the fixing of commissions are competition, union, non-union or mixed agencies, character of risk, whether preferred or of the more hazardous class, excepted cities and the attitude of the agent himself. In this state there are about 170 companies doing a fire insurance business. Competition is keen. In many cities of 1,000 inhabitants or less there are from five to ten local agents, each representing from one to ten companies. Not infrequently thirty to forty companies will be dividing the business in a small town where less than half that number would be a surplus. May this not be an economic waste? The Illinois Fire Insurance Commission in making its report to the legislature of that state said: "The Commission is very strongly of the opinion that present expense of doing the business of fire insurance is too great and that it ought to be reduced especially by the item of commission and brokerage, constituting more than one-half of the entire expense of the business. That this view is practically shared by all of the experienced underwriters, but
most of them admit their inability or 
that of the insurance companies to reg-
ulate commissions without the aid of 
the state.” The Commission further 
says: “The story of commissions 
plainly shows the economic necessity 
of imposing upon the business some 
reasonable and uniform commission 
scale, for open competition in commis-
sions is a serious public evil, for which 
the patrons of fire insurance must foot 
the bill. It is really a case of the pub-
ic’s paying the freight.”

Thus it will be seen that in the ex-
 pense phase of insurance will be found 
a fertile field for Investigation, to the 
end that some way may be devised 
whereby the cost can be lessened and 
insurance made correspondingly cheap-
er to the insured and public in gen-
eral.

Another phase not to be overlooked 
in this investigation—and should be 
carefully studied by all—is the enor-
mos loss by fire, much of it being 
wholly fire waste due to carelessness 
and wanton acts on the part of individu-
als. The fire waste in this country 
exceeds $250,000,000 annually—$30,-
000 each hour—$500 each minute. 
Losses paid in Wisconsin in 1910 
amounted to $5,529,142.37, and not 
much of this property burned was in-
sured for full value, and some not in-
sured at all; so it may be assumed that 
the above figures fairly represent little 
more than one-half of the actual prop-
erty waste by fire during the last year 
in this state alone. This fire waste is 
on the increase. Is it necessary? What 
can we do to stop it? The annual per 
capita fire waste in the United States 
is about $2.60, in Europe 33 cents. The 
average rate for insurance in European 
countries is correspondingly low. The 
anual fire loss in Chicago approxi-
mates $5,000,000, in Berlin with 
1,000,000 more population, it rarely 
exceeds $150,000. In Vienna, a city of 
800,000 inhabitants, no case appears 
where a fire escaped beyond the floor 
where it started. More property goes 
up in smoke each year in the United 
States than it costs to maintain the 
array and navy and more than the an-
nual expenditures for pensions. It 
would pay the cost of the Panama 
canal and fortify it in two years, build 
four transcontinental railroads annu-
ally, and pay the entire national debt 
in four years. The buildings, if placed 
together, would line both sides of a 
street from Chicago to New York or 
from Chicago to Denver.

This property fire waste is an abso-
lute total loss to the community, to 
the state and to the nation. It is gone 
forever. It is not converted into an-
other usable form, neither can it be re-
placed. The fact that part of this loss 
is paid by the insurance companies can 
not alter the situation, for that is but 
a transfer from the companies’ assets 
to the insured, which in no way 
amends the material loss. It is one of 
the many appalling economic wastes 
that characterize the American people 
and which we are slowly beginning to 
realize must cease.

But property is not the only loss at-
tendant upon a fire. In its wake are 
strewn the maimed and charred re-
mains of human life. I but direct your 
attention to these human holocausts 
—the General Slocum, the Cherry mine 
—that are needlessly offered up annu-
ally at the expense of American citi-
zenship.

It has not been the purpose of this 
article to go into a detailed discussion 
of fire insurance or any phase of it, but 
only to relate in a general way a few 
of the most important elements which 
enter into it and which invite inves-
tigation; to give some idea of its na-
ture and scope: to direct attention to 
the fact that it is a question that con-
cerns the entire public—the state—and 
involves more than at first occurs to 
the busy public. That the Wisconsin 
Legislative Committee appointed to in-
vestigate this subject will be called 
upon to delve into many things not 
mentioned in this article, and that the 
testimony and material gathered upon 
these points, as the investigation pro-
gresses, will open up a lead into other 
departments of the fire insurance field. 
is conceded, but in the main they will 
all be corollary of the principal ele-
ments. If the committee can get the 
facts, and they can with the aid of the 
insurance companies and others who 
have a special knowledge of insurance,
Wisconsin may hope to accomplish along this line what it already has done in life insurance, railway regulation and the like, and be the first to blaze the way for a national solution of this problem. If by this investigation we can in some small measure aid in the decrease of the great fire waste; if we can suggest a more equitable distribution of the fire insurance tax; if we can lessen the tragedies of the Iroquois theater, the Collingwood school and the Asch factory, then the insurance companies, the state, the legislature and its committee will not have labored in vain.

FARM MANAGEMENT PROBLEMS

By J. C. McDOWELL, Agriculturist, U. S. Department of Agriculture.

Wisconsin, Michigan and Minnesota contain large areas of very sandy soils. Much of this land was originally covered with scrub oak and jack pine. Such land is easily cleared and can be brought under cultivation quickly and at little expense. Most experienced farmers, however, prefer to settle on the heavier types of soil, because the heavier soils are naturally much more productive.

Large sections of the sandiest land in Michigan and Wisconsin are now being advertised by real estate firms and seem to be meeting with a ready sale to city people. The prices for such land appear to range all the way from $1 to $20 per acre, regardless of the quality of the soil or its location. Inexperienced purchasers frequently pay as high as $20 per acre for the wild jack pine and scrub oak sandy soils, when adjoining pieces of the same kind of soil and as well situated can be purchased for $1 per acre. They seem to have the idea that any land located in Michigan or Wisconsin must certainly be cheap at $20 per acre. They forget that there is a possibility that some soils even in these favored states may be dear at any price.

The true value of farm land depends upon its ability to produce, and the market value of these products. Land that will not produce enough to pay for the labor has no agricultural value. Lands that produce much in excess of the cost of labor have an exceedingly high value. In order that the purchase of land may be a good investment it is necessary that such land produce enough to pay good wages and at least a fair interest on the investment. Land that costs $125 per acre must earn at least $5 more each year than land purchased at $25 per acre, in order to net the owner 5 per cent on the additional investment. No one should lose sight of this important fact when purchasing lands of any kind and in any location.

It is not the purpose of this article to discourage the purchase and development of our sandy lands, but rather to encourage their purchase at a reasonable price and their development along right lines. The sandy lands are low in plant food, their water holding capacity is not high, they are frequently acid, and they require much more skillful handling than do the medium loam and heavier soils. During the past four years our department has made a careful study of the systems of farming as practiced by the best farmers now living on the sandy soils of our northern states. We do not claim to have solved these problems in full, but their solution does not seem to be impossible.

One thing is certain: The systems