1913.

NEW ZEALAND.

STATE FIRE INSURANCE OFFICE:

ANNUAL REPORT OF THE GENERAL MANAGER FOR THE YEAR ENDING 31ST DECEMBER, 1912.

Presented to both Houses of the General Assembly pursuant to the Provisions of the State Fire Insurance Act, 1908.

State Fire Insurance Office, Wellington, 10th May, 1913.

I HAVE the honour to present the eighth annual report on, and revenue and balance-sheet of, the State Fire Insurance Office.

It is gratifying to be able to state that the year 1912 has proved a record one in two important respects—the profits were greatly in excess of those of any year since the inception of the office, and the working-expenses are the lowest recorded.

The profits for 1912, after appropriating a further sum of £2,654 4s. 7d. to reserve for unearned premiums, amounted to £14,023 12s. 9d., as compared with £5,391 9s. 11d. for 1911. The largest profit made in any previous year was £8,487 13s. for 1910.

The net income, including commissions and interest on investments, amounted to £56,314 19s. 5d., showing an increase for the year of £7,383 14s. 7d. The net premium income for 1912 was £54,380 2s. 7d., as against £47,744 11s. for 1911, an increase of £6,635 11s. 7d.

The net losses were £25,111 9s. 5d. for 1912, and £27,536 11s. 7d. for 1911, the ratio to premium income being 46·17 and 57·67 per cent. respectively.

The ratio of working-expenses to premium income was 26·7 for 1912, as against 27·5 for 1911, and 30·5 for 1909. Included in the working-expenses is a sum of £918 3s. contributed to Fire Boards under the Fire Brigades Act, 1908.

The office investments at the close of the year stood at £37,000, as against £25,000 for the previous year. The reserve funds increased from £31,535 9s. 10d. to £48,213 7s. 2d.

During the year the Office purchased the whole of the debentures, amounting to £2,000, issued in 1904 to provide funds for the initiation of the business. Interest on these debentures has been paid by the Office since they were issued. The purchase of these debentures places the Office in the somewhat unique position of having no liability on Capital Account. It is supported now entirely upon capital accumulated by itself, and in addition to having saved the insuring public an exceedingly large sum (approximately £1,500,000) in reduced premiums, it has built up reserve funds from profits and unearned premium reserves totalling £48,213 7s. 2d.

The position of the Office to-day, which must be regarded as entirely satisfactory, has been attained without the cost of a single penny-piece to the taxpayers of the Dominion.

GENERAL REMARKS.

Progress of the Business.—The progress of the income since the commencement of business has been very encouraging, and the progress has been particularly marked during the past three years. The following is a comparative statement of the average income and average annual increases for the three years 1910 to 1912, and for a prior triennial period—1907 to 1909:—

		£
1910 to 1912.	Average annual net income...	49,011
	" increase	7,426
1907 to 1909.	" income...	28,083
	" increase	4,349

As the business grows the field for expansion gradually becomes less, and it is not contemplated that it will be possible to continue the same rate of progress. There are thirty-one competitors in the field, and much of the business is controlled by large financial firms and institutions having a direct interest in the business of our competitors. The tightness of the money-market at present is greatly restricting building operations throughout the Dominion, thereby limiting the opportunity for expansion of fire insurance.

Reserve Funds and Loss Ratio.—The substantial increases in the reserve funds of the Office have been a pleasing feature of the last three annual balance-sheets. The total of these funds now stands at £48,213 7s. 2d., and I consider no efforts should be spared to further increase this sum, in order that it may become ample to meet all claims which may arise in future. This office has been particularly fortunate in its average loss ratio; for the past three years the average has been only 50·16 per cent. of the annual premium income, which is a considerably lower average than has been experienced in the fire-insurance business of the Dominion on the whole. A continuance of the most watchful care in underwriting, however, cannot ensure that this low ratio of loss, with a correspondingly enhanced profit, can be maintained over a number of years. Periods in which there will be heavier loss ratios are to be expected: such periods inevitably occur in the history of all fire-underwriting institutions.

Dominion Fire Waste.—This Dominion is in the unenviable position of having to shoulder *per capita* probably the largest consumption of wealth by fire of any civilized country to-day. The United States of America is, however, a close competitor. A loss of over half a million sterling is a serious matter for so young a country with so small a population. Wealth consumed by fire is a national loss. Although calls may be readily met by insurance offices, it must not be overlooked that in turn the insuring public are taxed by way of insurance premiums in ratio to the losses incurred. Whilst losses remain high the premiums paid must be relatively high. The total fire losses over a period of ten years probably exceed £6,000,000. The question which naturally arises is, "How can this huge loss be minimized?" Generally speaking, the reply is, in my opinion, as under:—

(*a.*) By preventing numbers of attached wooden buildings being erected without efficient breaks or brick dividing-walls sufficient to check a fire.

(*b.*) By insisting that brick, stone, or concrete buildings shall be provided with non-combustible floors and structural interiors, and that exposed openings shall be protected where such buildings are erected in closely built areas.

(*c.*) By preventing the erection of faulty brick fire-stacks.

(*d.*) By taking steps to eliminate as far as possible overinsurances.

To meet (*a*) and (*b*), building regulations having the force of law should be provided, and (*c*) and (*d*) by efficient systems of inspection.

Overinsurance is, in my opinion, one of the chief factors in causing the present loss ratio. It could be largely prevented if joint action were taken by all the insurance offices. The office which now declines to insure up to the full value, or to overinsure, loses the business to some other office with more elastic regulations. I can unhesitatingly state that at the present moment there are many hundreds of policies current in the Dominion which cover property for more than the value, and which afford a strong incentive to incendiarism. Overinsurance is, of course, not confined to New Zealand: it is now attracting some attention in the United States, which country is running New Zealand closely for the doubtful honour of having the highest loss ratio in the world; and until the insurance offices associate to fight the evil wholeheartedly and honestly, many thousands of pounds will continue to be sacrificed yearly.

In concluding this report, I would like to say that the excellent results of the past three years are very largely due to the efficiency and enthusiasm of the staff. The work throughout the Dominion has been carried on in a most commendable manner.

C. R. C. Robieson,
General Manager.

Revenue Account of the State Fire Insurance Office for the Year ended 31st December, 1912.

	£	s.	d.
Amount of fire-insurance funds at the beginning of the year	12,437	13	5
Premiums after deduction of reinsurances	54,380	2	7
Other receipts—Interest and commission	1,934	16	10
	£68,752	12	10

	£	s.	d.	£	s.	d.
Losses by fire (after deduction of reinsurances)				25,111	9	5
Appropriated to reserve for unearned premiums (in addition to £19,097 16s. 5d. already reserved)				2,654	4	7
Interest on capital raised, guaranteed by Government				68	6	8
Commission				4,333	15	0
Salaries				6,137	17	0
Contributions to Fire Boards under the Fire Brigades Act, 1908				918	3	0
Expenses of management—						
Travelling-expenses ..	333	8	7			
Printing, stationery, and advertising	708	17	10			
Rent	746	7	3			
Exchange	14	17	9			
Postages, telegrams, cablegrams, and sundry charges	1,097	3	11			
Office equipment written off	166	15	8			
				3,067	11	0
Profits appropriated to Reserve Fund, this sum being the amount of fire-insurance funds at 31st December, 1912 ..				26,461	6	2
				£68,752	12	10

14th February, 1913.

C. R. C. Robieson,
General Manager.

Examined and found correct.—Robert J. Collins, Controller and Auditor-General.

BALANCE-SHEET OF THE STATE FIRE INSURANCE OFFICE ON THE 31ST DECEMBER, 1912.

Liabilities.

	£	s.	d.	£	s.	d.
Capital authorized by the State Fire Insurance Act, 1908	100,000	0	0			
Less not raised	98,000	0	0			
				2,000	0	0
Reserve Fund				26,461	6	2
Reserve for unearned premiums ..				21,752	1	0
Premiums and other deposits				220	7	8
Outstanding fire losses				1,471	0	0
Other amounts owing by the Office—						
Interest on capital ..	46	13	4			
Reinsurance premiums due	1,499	6	9			
Commission	774	9	11			
Rent	178	14	7			
Printing, stationery, and advertising	1	7	3			
Postages and sundry charges	54	18	8			
				2,555	10	6
				£54,460	5	4

Assets.

	£	s.	d.	£	s.	d.	£	s.	d.
Investments—									
Government debentures and Consols ..				35,000	0	0			
State Fire capital debentures purchased ..				2,000	0	0			
							37,000	0	0
Outstanding premiums							3,640	19	2
Interest accrued but not due							570	3	4
Cash in Bank of New Zealand at Wellington, or in transit to Wellington ..				12,162	17	0			
Imprest Account balances—									
Head Office ..	141	3	8						
Auckland ..	54	17	2						
Christchurch	137	14	1						
Dunedin ..	44	0	7						
Palmerston North ..	32	18	3						
New Plymouth	0	1	7						
				410	15	4			
							12,573	12	4
Office equipment							675	10	6
							£54,460	5	4

14th February, 1913.

C. R. C. ROBIESON,
General Manager.

Examined and found correct.—ROBERT J. COLLINS, Controller and Auditor-General.

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