

APPENDIX A.

STENOGRAPHIC REPORT

OF THE

Evidence and other proceedings had before the Committee on Insurance, appointed by the Speaker of the House of Representatives of the Third Called Session of the Thirty-first Legislature of the State of Texas, said Committee commencing the taking of testimony at 10 o'clock a. m., July 29, 1910.

Morning Session, July 29th.

W. H. Stacy being called to the stand, testified as follows:

Direct Examination by Mr. Cureton:

Question. What are your initials,

Mr. Stacy?

Answer. W. H. Stacy.

Q. Where do you live?

A. City of Austin.

Q. How long have you been living here?

A. Thirty-six years.

Q. What is your business?

A. I am in the insurance and land business.

Q. How long have you been in the insurance business?

A. Twenty years.

Q. Do you occupy or hold any official position with reference to the insurance agents of this State?

A. I am Secretary and Treasurer of the Texas Association of Local Fire Insurance Agents.

Mr. Brown F. Lee—May I ask a question? Didn't the resolution adopted by the House require that in taking the testimony of the witnesses that the witnesses be sworn?

Chairman Vaughan—I don't remember, sir. I haven't a copy of it before me.

Mr. Stacy—I have no objection to swearing to my testimony.

Mr. Lee—The House adopted a resolution to that effect, is my recollection.

Whereupon the Chairman administered an oath to the witness.

Question (By Mr. Cureton). The evidence you have just stated, was that true?

Answer. Yes, sir.

Q. Mr. Stacy, are you or not familiar with the insurance business as conducted in this State prior to the taking effect of what is known as the State Fire Rating Board law?

A. Yes, sir.

Q. We will say during the year 1909, and prior to that time?

A. Yes, sir.

Q. I will ask you how it was determined—at what rate any particular risk should be written in this State, prior to the taking effect of this law?

A. Well, for a good many years prior to the first of January, 1910, risks were written at such rates as might be secured by the importunity of the assured in dealing with the company or its agents.

Q. Then, if I understand you, Mr. Stacy, the basis of the rate was what the company could get for the insurance that was sold?

A. Yes, sir. There was no uniformity of rates; at least, in this section of the State; I can't state in all sections.

Q. That is to say, that a local agent in the city of Austin might write my property at, we will say, one dollar, and he might write some other man's property of exactly the same fire hazard for seventy-five cents, because he could not get the dollar out of him?

A. Yes, sir; that was frequently done. I want to qualify my statement to this effect: That there was a generally understood basis rate on different classes, but it was not adhered to.

Q. But the general rule and custom was to get from the individual insurer whatever rate he would pay on his risk?

A. Yes, sir.

Q. As a matter of fact the rates prevailing at that time were not basis, or rather the rates which were actually used, were not based on the actual fire hazard, but were based upon whatever price the insurance could be sold for?

A. Yes, sir.

Q. Now, you stated a moment ago, that there was a kind of—in a general way—a kind of schedule, but that it was not adhered to. Now, it was adhered to only in those instances where a man did not know enough to get a lower rate, or else where there was no competition and he could not get a lower rate?

A. Yes, sir.

Q. There was, then, if I understand you, Mr. Stacy, in this part of the State what is known as discrimination between buyers of insurance?

A. Yes, sir; very generally.

Q. The insurance rates at that time were not based upon statistical collections of burns and data and information at all, except in a very general way, and that the actual sale of the insurance was to charge all the purchaser would bear under the circumstances and to make any cut necessary to get the business, provided the party could live and stand for it?

A. That was the general rule. Of course we did not charge more than the basis rate that had been previously promulgated for such risks.

Q. In other words, there was no attempt to hold a man up?

A. No, sir.

Q. But as far as cutting the basis was concerned, you cut it anywhere to get the business if you thought that the party could live under it?

A. Yes, sir. It was the general way to get business at the best rate you could and we frequently had risks on our books side by side one dwelling rated at \$1.75 and the other at \$1.50, of the same class, and one business house rated at \$1.25 and another \$1.50.

Q. Well, isn't it true, Mr. Stacy, that at some times there were different companies insuring on the same risks—same property—and they would write the same property at different rates; one lower than the other?

A. I don't think that happened often. It was usually the same on the same property.

Q. But occasionally that did happen?

A. Yes, sir; sometimes. That resulted from the fact that no company likes to write a risk—a certain risk—at a lower rate than another, or a con-

sideration that is below another unless he cuts the rate to get the entire line.

Q. Now, under the old insurance rates, as they prevailed, isn't it true that large business concerns having large amounts of insurance to place universally got a lower rate of insurance than a small business concern having a smaller amount of insurance to place, and where the hazard was practically the same?

A. I think that is an uncontroverted fact.

Q. Isn't it true that concerns like the Retail Hardware Dealers' Association which have a kind of mutual insurance of theirs—isn't it true that in buying insurance from the old line companies that they were able to purchase cheaper than the little fellow who did not belong to the Association?

A. I don't know, sir.

Q. Taking into consideration their relative hazards?

A. I don't know, sir, about that.

Q. Isn't it true, Mr. Stacy, that those large concerns oftentimes bought their insurance below the actual cost of insurance to the company?

A. Unquestionably.

Q. Yes, sir. Now, if that is true, that they bought insurance below actual cost, how was it that the insurance companies finally made money out of the proposition?

A. They had to get their profit from other folks.

Q. In other words, if they put the rate down to large business concerns, why they had to raise it on somebody else to make up the loss if there was a loss?

A. Yes, sir; if they got enough to pay the loss; sometimes they did not get enough.

Q. If they did get it, they had to get it from somebody else?

A. Yes, sir.

Q. What, in your judgment, is the effect of this class of discrimination in the fire insurance business?

A. Well, the effect was to demoralize it, and it made one class of citizens pay more than their proportion of the fire losses of the State and rendered the business of fire insurance very unsatisfactory to the local agents, not being able to deal with all of his customers in exactly the same way.

Q. Well, it did a substantial injustice to the individual purchaser of fire insurance?

A. The majority of them; yes, sir.

Q. Well, isn't it true that the discrimination in insurance in this manner

I have just named to you is calculated to increase the fire losses?

A. Yes, sir; by the loose manner in which it is conducted and the fact that no regular inspection of risks is made of the assured to bear upon his rate.

Q. In other words, under the old system, there was no premium based upon the careful, prudent and cautious man, who constructed his building according to particular circumstances and looked after the fire hazard?

A. No. Of course, in a general way, the man with the best building would get a lower rate, but there was no fixed premium to apply to that.

Q. And there was no incentive to the insuring public to care for their buildings other than the ordinary man to look after his property; the fire losses of the State are contributed to by a discrimination in the insurance rates?

A. I think so, unquestionably.

Q. Well, now, Mr. Stacy, when a building burns in any community that is a distinctive loss of wealth to the community?

A. Yes, sir.

Q. Then the loose manner of insuring property that you have just discussed and named, in itself, contributed to the loss of the general wealth of the community?

A. I think so.

Q. Well, the proposition that I have just enunciated, and with which you stated you agreed, is the one that is universally recognized by men who write on economics as applied to insurance?

A. I have never heard it controverted at all.

Q. Do you know, Mr. Stacy, what the average annual fire losses of this State have been for the last several years?

A. No, sir; I can not give you the figures.

Q. Could you give an estimate?

A. I don't believe I can. I don't believe I can give—the figures are accessible and can be given from the State Department without any trouble.

Q. Mr. Reedy suggested asking this question: That if there are certain classes of risks from which insurance companies netted a deficit or made nothing, from what other classes of risks would that loss be made up?

A. I think from other classes of risks of the same things, smaller mercantile risks; in some sections dwellings have been written at a profit and some have not.

Q. In selling insurance now, the plan that you have stated had taken effect

prior to the rating bill law, it was, of course, easier to get an excessive rate on dwellings than it was on the business houses?

A. Yes, sir.

Q. A man who owned the dwelling ordinarily did not have to pay much any way, the amount of insurance carried on each individual risk was comparatively small and about as far as he ever went about kicking about his rate was telling his neighbor about it or going to some other agent when he wanted to buy again—that was about the limit of his kicking?

A. Largely, of course, with some exceptions.

Q. And the man that bought lots of it, if you did not give him a rate he simply went to some other agent and bought it from somebody else?

A. Yes, sir.

Q. Well, was there anything to prevent the small man who wanted to insure his residence from going to another agent and getting a lower rate or not?

A. Nothing to prevent it—if he could get it.

Q. If he could get it. That was the main difficulty?

A. He frequently got it.

Q. As a matter of fact the residence rates of the State were higher in comparison with the hazard than the business rates?

A. Yes, sir; I think so. The majority of them took what was offered them. A great many owners of residences and household furniture just have the policies renewed every year and pay without paying any attention to it at all.

Q. Sometimes they would not see the policy at all?

A. Yes, sir.

Q. Well, now, insurance companies, as you stated, simply sold their insurance on the market; there was but little attention paid to the average fire hazard; there might be some paid to a specific fire hazard, but to the individual risk there was little attention paid to the fire hazard; there were no rates based on that, but they were based upon what the company could get for its insurance?

A. Largely so.

Q. But it wasn't of sufficient interest to the companies to cause them to take any steps towards improving the fire hazard conditions of the State?

A. I think the fire companies have always wanted to improve it.

Q. They all wanted to improve it, but they haven't been able to do much?

A. They haven't been able to do much; they haven't been able to get certain laws they wanted passed and have not been able to use any concerted action whereby they might improve it.

Q. The local agent gets his commission on the gross amount received by him for premiums?

A. Yes, sir.

Q. That is the way the local agents are usually paid. Now, if the general fire hazard of the State was lessened and building conditions made more safe, or, in other words, if the general rules for safety and fire risks were enforced, the gross amount of premiums received by local agents on any particular piece of property would decrease, be reduced and lessened with the reduction of the rate?

A. That would depend on the volume of business, of course.

Q. Not talking about the total, but the gross amount received on a particular risk would be reduced?

A. I think so, yes.

Q. Therefore, from a monetary or financial standpoint, so far as the individual risks were concerned, there was no reason why an agent, when he looked at the risk, should say to the man, "You make certain repairs and improve your hazard and I will give you a lower rate of insurance?" There was no reason for him to do that, as far as money was concerned?

A. No, sir; only from a professional standpoint.

Q. Only from a professional standpoint and from the standpoint of a citizen?

A. Yes, sir.

Q. Prior to the announcement of the fire rating law there was no financial reason of any moment which would cause the insurance companies or the local agents to strenuously insist on the improvement of fire hazards of this State, was there, Mr. Stacy?

A. I think it would have been better for the companies.

Q. We all think so. But as a matter of fact, there was no concerted action taken to increase the safety of fire hazards in the State?

A. No, sir.

Q. And there was no direct financial reason why it should be done?

A. I don't know about—

Q. I know there is an economic reason and we all generally think it would be best.

A. I would have to answer that that way; I believe it would have been to the

financial benefit of the companies to have been able to have taken concerted action to decrease the fire waste.

Q. Now, then, if we pass a law by which the fire waste of the State will be lessened and by which the fire hazard will be decreased, if we pass that sort of law that will not be injurious to insurance companies?

A. I think not.

Q. And it will certainly be a benefit to the public?

A. I think so—will be a benefit to everybody.

(Mr. Looney suggested the following questions to Mr. Cureton.)

Q. As to the amount of losses in the State which, in your judgment, were due to over-insurance?

A. I don't know that I can state any percentage, but certainly a considerable per cent, and it is largely resulting from the policy law in Texas which would probably cause more fires than any other, any other causes, outside natural causes.

Q. Representative Smith desires to ask the question whether or not it is a fact that the greater part of the criticism of the fire rating law has come from people who prior to the enactment of the law have enjoyed discrimination in the insurance rate?

A. The first trouble with the law was the fact that the rate went into effect before the specific rate could be applied and no one knew what the rate would be. Those rates were in effect several months before the individual insurer knew what he was expected to pay, and when they were promulgated and found to be very much in excess of the old promulgated rate there was no remedy found in a case where an addition of a dollar was made for a few cans of gasoline if found on the premises, there was no way of curing that until the first of January; and then, answering the question specifically, the greatest complaint against the law was by those who enjoyed the greatest privilege before the law for the writing of fire rates on mercantile hazards in this part of the State; or in this State, eighty per cent wrote lower than they were before. Naturally, that twenty per cent are complaining.

Q. Is that the new law or old law?

A. The law of 1910.

Q. Isn't it a fact that the effect of this law has done more from the standpoint of a fair profit than any law that has been passed in the last ten years?

A. I think that is true.

Mr. Crawford—I think we would make better progress and get a clearer under-

standing of what we are driving at if we would permit Mr. Cureton to conduct his examination of the witness, and then if any other member of the committee desires to ask any questions they be permitted to do so.

Q. In order to reach the question at issue, I will read you a few lines written by Mr. Zartman, applied to fire insurance. He says, page 213: "Some very good fire insurance men state that they are not interested in reducing the fire loss, that that is only the function of the fire insurance companies to take losses as they find them and to assess them on the community." Is that true?

A. I don't think so.

Q. He says some very good fire insurance men take that position.

A. I wouldn't consider them very good fire insurance men; I don't know of any that take that position.

Q. He says further that is precisely their function—in other words, the function is to take the hazards as they are and insure them.

A. It is not the principal function of course.

Q. Their principal function is to take the fire risks of the State as they are?

A. Of course, so far as I understand it, it has always been held desirable to reduce the fire risks, and so far as my experience shows, insurance writers in this State have endeavored to do so so far as they are able.

Q. Is not the fire insurance business one that where a maximum reduction of the fire risks would put the insurance companies out of business?

A. I can't conceive of it going that far.

Q. If that is true, then, of course you can't expect the insurance companies of this State, without regulation by the State government, to attempt a reduction of the fire rates?

A. I don't think it is possible for that alone.

Q. Well, would it be possible to fix a system of fire rates which will practically measure the risk of fire?

A. I think so; it is certainly possible.

Q. Well, is it practicable to do it?

A. I think so.

Q. Well, what is your judgment as an insurance man, what information would be required to do that?

A. It would be necessary to have the experience of the companies operating in this State for a term of years on the different classes of risks. You couldn't compare this State with any other State.

Q. You say experience; what do you mean by that?

A. I mean the premium received and losses paid on different classes of risks, particularly the amount insured on each class of risks and the loss on each risk.

Q. The class of the risk?

A. The class of the risk; yes, sir.

Q. Special risks would be classed as special hazards?

A. Yes, sir; come under the head of special hazards, both the mercantile class and special hazards.

Q. Don't you think if a special system was devised and the rates so made that where the man who constructs his business properly might get the reduced rate, the relative fire loss of the State would be less and at the same time the insurance company would make a reasonable profit?

A. If they are given a reasonable rate.

Q. It is possible to reduce these rates and the insurance companies still make just as good profit as they ever have?

A. Yes, sir; if the fire loss is reduced.

Q. Don't you think that an equitable and just system of rates, based upon the relative cost for each hazard will reduce the fire hazard of the State?

A. I think so.

Q. There has been a good deal of discussion in this State about schedules and basis rates and a good large number of other technical terms that I do not know anything about; I would like for you to explain to me what they mean. Explain to the committee what is meant by the expression, "Key Rate."

A. The key rate, as established under the recent law is a rate—you might say is the basis rate for each city or town in this State governing the charges for that particular locality. It enters into the making of the final rate on any class of risk. You understand, under the basis schedules to be filed, they must be uniform for every city in the State; a uniform system of charges. Then the key rate to these schedules for each particular community is in accordance with its fire protection and its different conditions.

Q. How do you arrive at the key rate for each individual city or town?

A. I am not posted as an expert on that question, but I can give it to you in a general way. First, the fire protection is considered, the fire protection that the town has; its water supply and fire fighting apparatus and the water

mains and the fire department and its equipment and numbers. Also its police force and police protection. Then the conflagration hazard, such as overhead wires and tracks and things of that sort.

Q. How about the population?

A. I don't remember about the bearing of the population on the key rate.

Q. General Stacy, in figuring the key rate between two towns you would give the presence or absence of any of these elements you have named, such as fire pressure and police protection, etc., either the same value—in other words, where you find two towns of the same character as to waterworks systems, etc., in figuring the key rate for both, you would give them both the same credit?

A. I understand that was done; yes, sir.

Q. In other words, the key rate is made up of the presence and absence of certain elements and you give the presence or absence of these various elements an equal value?

A. Yes, sir; it represents a relative desirability, that is from a fire hazard standpoint.

Q. That has no reference to the specific rate on each individual risk?

A. It enters into it.

Q. The key rate applies to the whole town in making up the rate, and for the individual risk, you start in with the key rate. That is, as to the fire hazard of the city or the village?

A. Yes, sir.

Q. And to that key rate, you add the hazards or dangers of the particular risk, to get the individual rate?

A. Yes, sir.

Q. In making up this specific rate, what is it you add to the key rate? What elements go into and make up the specific rate?

A. First, the character of the building insured, next the character of the occupancy, and then the third element is the character of the exposure of that particular building.

Q. Relative to the values, in making up this final rate, you go to the exposure, to the occupancy and character of the building, and you give certain values to these three particular hazards?

A. Those values are fixed in the basis schedules.

Q. And in these particular instances were fixed by the insurance companies?

A. Yes, sir.

Q. Under the rating board of this State?

A. Yes, sir.

Q. Were those fixed prior to the taking effect of the rating board law?

A. No, sir; there was no such schedule in effect prior to January 1, 1910.

Q. Were schedules known as to the relative hazard; we will say the occupancy—

A. Now, I'll say this, they were prepared prior to January 1, 1910.

Q. Before the rating board law went into effect was there any rule, or sheet or a book or anything which fixed the relative charge for the three classes of hazards you have named?

A. We had some old tariff books that gave general information, but they were not as a rule complied with—nothing of a late issue.

Q. The relative charges that the rating board put on these several elements that enter into the specific rate, was it greater or less than that had been used in the old schedules?

A. As well as I can judge, practically about the same. They were not applied before.

Q. Then how is that under the rating board law that many rates of insurance have been increased?

A. Because, through a long series of years, with no attention to the risk, they had grown careless in the physical condition of the occupancy and the exposure and under the application of even the old schedules the rates would have been increased probably as they have been increased.

Q. Then the fault arises or lies in the risk and not in the application of the rates?

A. I think so; I think the application is absolutely fair, as a general rule.

Q. They may make mistakes?

A. Yes, sir; they are discovered all the time and corrected.

Mr. Lee—May I ask a question?

Mr. Cureton—Yes, sir.

Mr. Lee to the witness—Q. What was the per cent of the earnings of companies in Texas before this law went into effect?

A. I can not give that; I am not familiar with those statistics.

Q. The presumption is that they were writing insurance under such conditions that they were making at least a competent earning on their capital invested?

A. No, sir; they haven't done so for a number of years; that is, taken altogether, I think they have lost money.

Of course, all of the companies have not lost money.

Q. What per cent since the increase, what per cent have they earned on their capital stock?

A. I don't know; I am not close enough to the companies to find that out. I can't give you those figures.

Mr. Cureton—Mr. Gilmore suggests this question: You stated that prior to the taking effect of the Rating Board Law there was really no basis or plan upon which insurance rates were fixed or made, he then asks the question why it was that in many communities, Colonel Stacy, the rates of the various companies were practically the same on the same classes of risks?

A. I don't know that that is a fact. The same under the same class of risk? I don't know that to be the fact; I know it is not so in Austin now, and was not so.

Mr. Cureton—I am through with the witness, if any one else wants to ask him any questions.

Mr. Moller to the witness—Q. Mr. Stacy, you testified as to the consequence where competition existed. You stated that under the old style of insurance that the amount where there was a small risk, or rather where there were small property owners, that the small properties generally paid for the larger properties. I think that was the sum and substance of your testimony?

A. Yes, sir. I think so, as a general rule.

Q. That was caused by competition?

A. No, sir; not from competition purely, but because owners of larger interests knew better how to protect or care for their interests and to get the lower rate by playing one company against another.

Q. If there had been no competition that could not have been done?

A. No, sir.

Q. You have heard these insurance bills explained here?

A. Yes, sir.

Q. If the minimum and maximum rates named in one of these bills are retained in the bill and go into a law, what would, in your opinion as an experienced underwriter, be the effect of such competition between the man with the greater property and the man with the small property?

A. I do not apprehend any trouble with that, because there are large properties, such as wholesale stocks of goods; they are pretty hazardous risks,

and I don't apprehend any trouble along that line; I don't think there will be any difficulty about the companies reducing below the maximum on those risks.

Q. The discrimination would still exist?

A. Yes, sir; the rate could exist as between classes, but not between individuals.

Q. Persons making up a class; residence property, for instance, would pay a greater income to the company than the other classes?

A. Yes, sir; it would be possible.

Q. That is because of the competitive feature?

A. Yes, sir; largely.

Q. Can the State make you, as an underwriter, insure or not?

A. No, sir.

Q. If you have two risks submitted to you at the same time, identically the same property, and you have got the maximum rate which you would be allowed under this law, because one is a large property, say \$50,000 or \$60,000, and the other fellow with only \$10,000 insurance with no more risk and in the same building, but it don't suit you, could you or not then refuse it on the ground of moral hazard?

A. You can refuse any risk you want to without giving any reason for it.

Q. Notwithstanding this law says you shall take insurance from Tom, Dick and Harry of the same class at the same price—would there be any law on the face of the earth that could make you write both?

A. I think the law would govern the hazard but would not have anything to do with the values.

Q. I am speaking of moral hazard.

A. No reputable agent would insure a moral hazard that is bad.

Q. Can the State regulate your ideas of moral hazard?

A. No, sir.

Q. The competitive feature of this bill can be manipulated in such a manner that small man would continue to pay more than his pro rata of the insurance?

A. Yes, sir; it would be possible.

Mr. Smith to the witness—Q. As I understand this basis schedule, there is what you call a key rate given, and then the rate on every other hazard is worked out from that?

A. Yes, sir.

Q. If a man paid a rate of 50 cents, we'll say on a given piece of property

where the party had, we'll say paid 60 cents, thereby reducing the premium one-sixth, would not that company be obliged to reduce its other hazards in the same town and to the same extent?

A. Yes, sir; in the same class.

Q. In all classes?

A. No, sir; not under this bill.

Q. Wouldn't he have to work out his charge on all other hazards according to the rate he had fixed on the key hazard?

A. Yes, sir; if it was on the key he would. The key applies to everything in the town, except where the minimum is claimed, as in the case of dwellings. This competitive feature don't apply to the key. It is applied to specific classes, and would not in any instance hardly apply to the key rate, but applies to specific classes. For instance, one company may see fit to insure a wholesale grocery at a lower rate than the maximum rate, then it would have to insure all wholesale groceries at that same rate for the same class of buildings, etc., but would not have to reduce the rate on the hazard of dry goods houses or on dwellings, because they would not make the reduction in the key rate but would be making a reduction in the class.

Q. Are not all of these classes rated at so much?

A. You start with the key rate and add so much for hazard, so much for wholesale dry goods and so much for retail dry goods or groceries, and then there would be question of occupancy.

Q. Under this law the increase and reductions are fixed by the board—

A. The maximum under this bill to be fixed by the board.

Q. The difference between the various hazards, are not they also fixed?

A. Not by any percentage ratio. They are fixed as a certain rate on each class.

Q. That's given schedule classes?

A. Yes, sir.

Q. When you reduce one class you reduce the other correspondingly?

A. No, sir; not unless you reduce the key rate.

Mr. Looney to the witness:

Q. A large per cent of the losses come from spontaneous combustion growing out of over-insurance. I want to ask you, if in your judgment, as an insurance expert, there is any practical way to control the local man, to prevent him from writing too much insurance, on a particular risk, and if you think

that is a matter that ought to be attempted by the Legislature?

A. I think they could aid very materially in repealing or by repealing the valued policy law. We have a law that compels insurance companies to pay whatever amount of insurance there is on a dwelling or a building that is totally destroyed by fire, whether it is worth as much as it is insured for or not, and that has caused probably more building losses than any one thing in Texas.

Mr. Cureton—Permit me to read the valued policy clause to which you refer.

The Witness—That is different that you have there to our valued policy law.

Mr. Cureton—It makes a policy of insurance a liquidated demand.

Mr. Looney—That only applies to buildings?

The Witness—Yes, sir.

Q. What I want to get at, every loss of course, from whatever cause, is charged against the insuring public?

A. Yes, sir.

Q. If a large per cent of our losses grow out of incendiarism, the temptation for which is over-insurance, I want to know if you, as an expert, have ever thought along that line as to how to frame a law to control the amount of insurance—I know you do in your policy, but you leave the discretion to your local agent; now, I want to know how to control the local agent or to prevent him from writing more than he ought to.

A. I haven't given that particular point any consideration. He has his instructions from the company to only write three-fourths of the value; in most cases a great many of the agents do not obey instructions in that regard, and companies are willing sometimes for their agents to depart from these instructions, in a case of a particularly desirable risk. I don't know that I could suggest to you any law that would help on that subject. I think it would be extremely hazardous not to aid in the particular fire waste; that is, not to do away with it. I think it would not help the matter to do away with the iron safe clause, that we hear so much talk about usually. That clause is the only controlling feature we have in settling losses. It simply requires some method of showing what the volume of the property was that was destroyed.

Mr. Looney—Q. If there is any way to regulate the amount of insurance, we want to correct that. I understand that this board is going to correct the other insurance, they are going to bring the rate to the minimum by making a man

clean his premises up and to a point where he can get the minimum rate by the manner in which he conducts his business.

A. The only thing I could suggest would be to make it a misdemeanor or a penal offense for a man to insure his property for more than its reasonable value. That misdemeanor might also apply to the local agent.

Mr. Reedy to the Witness—Q. Right along that line, the only suggestion that I ever heard is that insurance policies be not valid for more than the property is rendered for taxation.

A. I am afraid that would not work.

Q. What is this with reference to what is called co-insurance clause in our policies?

Mr. Cureton—I am going to develop that very point this afternoon.

Mr. Smith—Mr. Looney was discussing this combustion proposition, is there any risk called a friction risk, say, for instance, rubbing a six thousand dollar policy up against a five thousand dollar building?

Mr. Canales—Under this bill it is possible for companies to discriminate in favor of one business and get their money and returns from other classes of business—now, you understand the Terrell bill—a feature of it, making the board fix absolutely the rate, under these two features, which do you think will be the best, that is of the best interest to the insuring public?

A. I believe an absolute rate will be the best and the safest. I don't think the competitive feature will amount to anything.

Mr. Terrell to the Witness—Q. You say you don't think it will amount to anything. Don't you believe that it is not only possible, but probable, that the big insurers, knowing this law, will go to the companies and say we want a rate lower than the maximum, and that the companies will give it to them, but never give to the man who insures a small house and who has been paying for the insurance of the larger people of this State for ten years; don't you believe that they will keep the maximum under these policies and reduce it on the other policies and get the same rate of income in proportion to the hazard?

A. I don't think it is probable; it is possible.

Q. You believe the companies will continue to keep the maximum on everything?

A. I don't mean that necessarily. I believe they will on the lower class risks, I mean on the larger class risks; they

are more liable to do that than they are on the smaller ones. They are more hazardous as a rule.

Q. You believe that the men who are wise to this law and know that you can give a lower rate are not going to insist on getting it; you think the company will volunteer to give it to the smaller men, give them a rate lower than the maximum?

A. I say this, those large risks being usually extra hazardous, I don't think the companies will probably give them anything below the maximum.

Q. Is it not a fact that these large risks which you say are extra hazardous have time and again and generally are placed below cost by the companies?

A. Yes, sir; and that's the cause of this row.

Q. Didn't they do it because they knew the law and knew they could do it?

A. There wasn't any law, but that was the practice.

Q. Don't you think that the large men will again take advantage of the practice? Don't you think—

A. But they have no way, then, compelling it.

Q. Don't you think that some of the companies would yield to it without much compelling?

A. I don't know. I don't believe they would, but I prefer your bill on that feature.

Q. It leaves them open for them to do it?

A. Yes, sir; it is possible.

Night Session, July 29th.

General Stacy (the witness)—I desire to correct a statement that I made in my testimony today, slightly, in answer to one of the questions this morning. The question was asked me this morning as to whether the insurance companies heretofore had made any organized effort to prevent fire waste in Texas, and I answered that they had not. I had momentarily forgotten the existence of the Texas Fire Prevention Association, that has for its object and purpose the correction of defects in insurable risks and the prevention of fire waste. I am not very familiar with the workings of the association, but I know they send out bulletins calling attention to defects in certain risks, usually of the larger class. That is about all the information I can give about it.

Mr. Cureton to the witness—Q. General Stacy, in fire insurance parlance

or terms, a risk means anything that is insured?

A. Yes, sir.

Q. Now a hazard is what?

A. Well, I would define it as—I don't know hardly the technical definition of it; of course, it is the liability assumed by the company for loss of that particular risk, as far as the company is concerned.

Q. A hazard is the element of danger to destruction or injury by fire which characterizes a risk?

A. Yes, sir; I would think is a correct definition of the inherent hazard.

Q. There are two classes of hazards that go to compose a hazard?

A. Yes, sir.

Q. The inherent or physical hazard and the moral hazard?

A. Yes, sir.

Q. If you undertake to design a rating system which takes into consideration only the inherent or physical part of a hazard, you will be unable to establish a correct system of rating, wouldn't you?

A. I don't know. I don't see how you can into consideration the moral hazard at all in making a rate. I don't understand that it is an insurable hazard with a moral feature to it; that is, where the moral feature of it is bad.

Q. I understand that, so I say, if you simply take into consideration, just simply the physical part of the hazard, that is to say the external part of the hazard, you could not design a system or rates if you left out everything else?

A. No, sir; you have got to take into consideration the general average of the moral hazard?

Q. You have got to take into consideration what the insurance actually cost the company?

A. Yes, sir.

Q. And the moral hazard does enter into that?

A. Yes, sir.

Q. So when you undertake to state just the correct system of rates, you must not alone take into consideration the physical or inherent hazard of the risk, but you must in some way or another take into consideration the moral hazard, or do what is the only thing that you can do, figure the actual cost of the insurance?

A. Yes, sir; I think so.

Q. Whatever rating the board might do, they can not figure the insurance and make a just and equitable rate by just taking the inherent value into con-

sideration, but they must take the actual cost of the insurance before they can fix a correct rate?

A. Yes, sir.

Q. Do you know about what per cent of the fire losses are caused by what are termed inherent or physical hazards?

A. I can not give you the percentage, no, sir.

Q. About, Colonel Stacy?

A. Caused from the physical hazard?

Q. Yes, sir; that is, people who keep up with that matter; have been able to trace to physical or inherent hazard or risk?

A. Well, it would be rather guess-work I should think; I would say about 75 per cent.

Q. And about 25 per cent of the losses by fire would be due to an unknown hazard or to a moral hazard?

A. Yes, sir.

Q. Now, then, anything that this committee or the Rating Board might do to reduce the moral hazard or to increase it, it would affect the rate of insurance?

A. Yes, sir.

Q. Anything that this board or the Legislature does, though, must take into consideration the moral hazard as well as the physical hazard?

A. Yes, sir; it is very necessary.

Q. Leading up to the question which I am going to discuss with you directly, I'll ask you if under the laws of this State or any other State, so far as you know, I could insure your property, not having any interest in it—I'll ask you if I could insure your property; go to one of your companies and have a policy written out on your property and then in case of fire collect the policy?

A. No, sir.

Q. Why not?

A. Because that increases the moral hazard and increases the hazard of the risk and the general hazard.

Q. In other words, if I do that and the house burns, I am getting something for nothing?

A. You must have an insurable interest.

Q. If I haven't an insurable interest in it, I am getting something for nothing; then in your opinion whenever a man who gets that insurance for nothing the moral hazard is increased?

A. Yes, sir.

Q. I'll ask you if that is the accepted opinion of insurance men generally?

A. Yes, sir; I think so, decidedly.

Q. Colonel Stacy, I was leading in this discussion up to what I believe you call the full value clause?

A. No, the valued policy law.

Q. That we have here in Texas; what is the meaning of that?

A. The meaning of that law is that the face of the policy, for whatever a man may be written, that is, whatever amount it may be written on a building, must be paid in case of a total loss by fire, whether or not it exceeds the value of the property; it causes a liquidated demand for the amount of the policy, though the policy itself may provide that it is to only cover the actual loss.

Q. In other words, under the valid policy clause as imposed by the Texas statutes, a man may insure a house for \$1000, when the house burns, though worth only \$500, he collects nis \$1000?

A. Yes, sir.

Q. I'll ask you whether or not since the enactment of this valid policy clause it has increased the fire loss or the fire hazard?

A. My information is that it has largely increased the fire loss in this State, and has been an element to determine. It has entered largely into the fire loss. I have known of a number of instances where parties collected considerable in excess of the value of their property. Several instances where clearly it was burned up but it could not be proven sufficiently to condemn. I don't know of anything that contributes more to losses on dwellings than that does.

Q. Now, can that class of losses, under the statute—can that be lessened by greater diligence on the part of local agents, the maximum rate on the prices of "valued buildings" at the time they are insured?

A. Yes, sir; it can be to some extent, but not entirely lessened. For instance, you have policies written for three and five years and sometimes renewed without further inspection and the value of the building deteriorates rapidly and may not be worth anything like as much at the time of the fire as it was at the time the policy was written.

Q. Now, you state that with the ratio of the fire loss the amount of the premium collected has increased in this State since the enactment of the "valued policy clause"?

A. That is my information; yes, sir.

Q. Do you know whether it is the result in other States or not?

A. I can no say; no, sir. I do not

know whether any other State has that "valued policy law."

Q. Well, there are about ten or twelve that have the "valued policy" law?

A. I can not say, sir. I can not see how it can fail to have the same effect everywhere.

Q. The book I have in my hand, and to which I am referring, on page 221, shows that the ratio of loss and the premium collected was 17 per cent increase in the State of Ohio after the enactment of the "valued policy clause" in their State.

A. I can readily understand it.

Q. The volume is here subject to your inspection, or anyone else that might desire to inspect it. I am giving you and the committee the benefit of what it shows.

A. I am sure it must have the same effect everywhere.

By Mr. Cochran—You use the term, "valued policy clause"—

Mr. Cureton—It is the valued "policy statute."

Mr. Cochran—I was going to say, the valued policy law, as it is commonly known, for this reason, there is a certain clause which has been in use in this State for many years which is known as the "value clause" or "three-fourths value clause," and I make the suggestion that the two may not become confused.

Mr. Cureton—I accept your suggestion. I refer to the valued policy law in this section (State).

Interrogatories propounded by Mr. Cureton:

Q. In the State of Wisconsin the statutes of that State which I have before me show that the rate of increase was about the same as it was in Ohio at the same time. (Referring to Zartman's work on Insurance with reference to the increased cost of insurance shown by this work.)

Q. I will ask you why insurance in Texas has been on the increase or decrease in cost during the last three or four years, four or five years?

A. Why insurance has been on the increase—you mean—?

Q. What I mean is this: Whether insurance has actually cost more during the last three or four years than it did prior to that time.

A. No, sir—cost less.

Q. Well, I will ask you whether it has actually cost the companies more?

A. It has cost the companies more in the last two or three years, I think.

Q. Well, do you know why? Can you describe the cause or the reason?

A. On account of the excessive loss, loss ratio; last year, I believe, the companies paid out about \$1.17 for every dollar they took in—is my understanding.

Q. General Stacy, what is meant by "co-insurance?"

A. That is a term that is used where the assured becomes a co-insurer with the company in carrying the risk.

Q. Well, there has been some "talk" in the newspapers—some criticism about co-insurance—I mean the co-insurance acquired or permitted?

A. Yes, sir, the basis schedules filed last January the entire scheme was based upon the 80 per cent co-insurance clause of rates—

Q. Can you explain to us what you mean by the 80 per cent co-insurance clause?

A. I think so. The clause simply provides that if the insured fails to carry the insurance on his risk of the amount of 80 per cent of the value that he becomes a co-insurer with the companies for the amount of the difference on the amount of the insured and the amount of 80 per cent of the value.

Q. Why do the companies require that?

A. It is an element in fixing the rate, a proper rate on the policy, a very correct element in this way. I can explain it to you in a few words. For instance, if a company insures a risk worth ten thousand dollars and carries only, say two thousand dollars at the rate of one per cent, they would get a premium of only twenty dollars, whereas, if we assumed the risk carried, say, as much as 80 per cent insurance, eight thousand dollars, they would get a premium of eighty dollars, and therefore, in a smaller amount of insurance they assume really three or four times the amount of risk because, against losses or partial losses; of course, what I mean, in case of a total loss, of course, they would have to pay a greater amount of insurance, but by far, the greater amount of losses are partial losses and the company may be called upon to pay the whole or a greater part of its policy. If the risk was eight thousand dollars insurance that same company would collect up one-fourth of that two thousand dollars, which would be five hundred; therefore it could still afford to take that insurance at a lower rate with the 80 per cent clause than it would with a clause assuming a larger: whereas, without the clause—

Q. In other words, if I understand

correctly, they have that ten thousand dollar hazard to that extent, out of which they may be liable to pay ten thousand dollars any time, yet they are only paying for a two thousand dollar hazard?

A. Yes, sir.

Q. So, this clause to which you refer means that unless they take 80 per cent insurance they are charged a higher rate, and a rate sufficient to make them carry a part of the—

A. Additional risk—

Q. Insurance. Yes.

A. If a man had a two thousand dollar policy on a ten thousand dollar risk and with the 80 per cent co-insurance clause on it he would be an insurer to the extent of between two thousand and 80 per cent and he would get only one-fourth of his loss, if a partial loss—if a total loss he would get it all.

Q. In other words—

A. An 80 per cent insurance clause is in effect, if there is 80 per cent insurance carried, or if the loss is total, or if the loss amounts to 80 per cent or more.

Mr. Baker of Hood: Q. You do not issue this policy for \$2,000 at the same rate you do the \$8,000 policy?

A. Yes, sir. With the same clause.

Q. What do the additions amount to, what additional rate?

A. What additional rate is there to issue a two thousand dollar policy without the 80 per cent clause?

Q. Yes, sir.

A. It is just twice the amount.

Q. It would be paying two dollars then to the one—double the rate?

A. Yes, sir. Under this schedule.

Q. That is what I wanted to get at.

A. This schedule provides for a graded co-insurance clause; under the co-insurance clause you can pay a higher rate and get policies without any clause.

Q. If \$2,000 was only a partial loss, then how does it figure out, without the co-insurance clause?

A. If you had a co-insurance clause you would only get one-fourth of your loss, if you had a partial loss, less than 80 per cent—

Q. Suppose the loss was one thousand dollars, then what would you get?

A. With an 80 per cent clause of a thousand dollar loss you would get one-fourth of two thousand dollars; without the 80 per cent clause you would get it all.

Q. What would the rate be with the

80 per cent clause if the insured loses \$250?

A. Well, the rate would be double without the co-insurance clause.

Q. With the co-insurance clause?

A. With the co-insurance clause he would pay one per cent. I am taking that as a basis; it would depend on the risk.

Q. But he only gets \$250 partial loss with the co-insurance clause?

A. Yes, with the co-insurance clause.

Mr. Cureton—I thought that the co-insurance you charged a higher rate of premium?

A. Not with the co-insurance clause. Without the co-insurance clause. The schedule provides that all rates are based upon the 80 per cent co-insurance clause.

Q. Now, Mr. Stacy, by keeping a record for a length of time and long enough to get an average, that is to say, a record of all the receipts from insurance and all the disbursements including expenses and the amount paid out on losses, you could, of course, obtain the amount that was necessary to charge in order to make a profit on the investment?

A. You would have also to keep a classification of risks in connection with it, yet, sir.

Q. But whether there was any classification of risks or not, if you got any more money than you paid out you would make a profit?

A. Yes, but would not know how to make a rate on any particular class.

Q. By keeping the record on any particular class of risks you can tell pretty well what rates to put on any class of risks?

A. Yes, sir.

Q. And if this committee can design a bill which will enable the Rating Board to obtain the amounts collected for insurance premiums, the amounts of losses, expenses and causes of fires, they can determine pretty well the cost of insurance, just as well as the insurance company, if they can get the information?

A. If they can get the information I should think they could.

Q. Is there any reason why they should not be able to get the information? Dont the companies have it?

A. Well, I don't know. There are some companies which will object very strenuously to giving up their classification.

Q. Why should they object?

A. It is their private stock in trade.

There are some companies that have experience in various classes and lines and they do not care to give up their experience.

Q. Suppose we make them?

A. Well, I don't know. You might try it.

(Laughter generally.)

Q. If we could get this information there is no reason why we should not be able to approximately form a correct rate?

A. I don't see any reason why, if you can get the information.

Q. If this Board under the conditions of this bill fixes a general basis rate, maximum rate as the bill provides, fixes a classification proper of the risks, there is no reason in the world why a local insurance man could not be able to figure up a specific rate on a piece of property, is there?

A. It seems to me that a schedule could be devised that would be comprehensive to the average man.

Q. In other words—

A. I don't mean to say it is a light matter to provide a schedule for this State, but it seems to me it is a matter which may be got at.

Q. General, here is a book marked on the back "universal schedule" which I wish you would look at and tell the Committee what it is.

A. Standard universal schedule for arriving at the different risks.

Q. The various classes of risks are classified?

A. Seems to be.

Q. That is used by an insurance company?

A. I have no doubt it is and they have a number of works that are used by them.

Q. What is that book?

A. That book is what it purports to be, a general basis for risks in the State of Texas.

Q. The relative charges and credits in this book for risks are right as near as they can be?

A. They seem to be.

Q. Are these charges and credits here too high or too low, so far as you know?

A. Yes, sir; they probably carry it too far.

Q. In other words, they couldn't get it much worse than it is?

A. Yes, sir, I think so.

Q. Have you read the bill, Mr. Stacy?

A. I read it over once, yes, sir.

Q. No. 7 and No. 8—No. 7 is the one

I hold in my hand. What is your opinion as to the propriety of using a uniform policy of insurance in this State?

A. Why, I don't know of any, the policies are uniform now so far as I know. I have not found any trouble with them at all.

Q. Are you acquainted with a company called the Ginners Mutual of San Angelo, who reside in the Wilson Building at Dallas?

A. No, sir, I don't know anything about that company.

Q. The document I am going to read to you appears to be a typewritten letter and it is signed by the Ginners Mutual Underwriters, L. A. Murff, Manager, addressed apparently to gin men. He says, among other things, "We reinsure our business with the largest and oldest companies in the world; and before we place our business with any company we get a report on their standing and investigate their management, and we have a Dun or Bradstreet report on the gin man, value of his plant, etc." The point I make is, the Ginners Mutual Company wouldn't come under this law, I want to know whether or not these old line companies are insuring the risks of this mutual company if we exempt the mutual companies from this law?

A. I don't think that statement is correct.

Q. So far as you know, the old line companies have never reinsured any Ginners Mutual Insurance in this State?

A. I think it very improbable.

Q. I think, Mr. Chairman, we ought to send for Mr. Murff. Mr. Stacy, do you know what proportion of the funds collected in this State come from dwelling risks?

A. My information is between 25 and 30 per cent.

Q. Mr. Stacy, have you ever known of the result of a house applying for insurance at a low rate and at the same time agreeing to place with others insurance in the same company?

A. Every inducement for getting their business, to enable them to get low rates. I don't believe I know of a specific instance.

Q. Don't you know, as a matter of fact, they did do it before the last law was passed?

A. I say they may do it, but I don't know of a specific instance; they use all sorts of arguments to get low rates.

Q. Mr. Stacy, in both these policies I believe a reasonable income is to be allowed the company—of course they are

entitled to that—if you have maximum schedules on different classes how would you regulate those classes?

A. You would have to have a maximum rate on each class.

Q. What would be the class, you wouldn't insure all hardware men in the same class?

A. You would have to make out your classification first and then fix your rate on each classification.

Q. But under this classification you wouldn't insure all hardware men, it would depend on the building and town?

A. The town and the fire protection and all the hazards entering into that particular risk.

Q. Bearing in mind that the companies are entitled to a reasonable income, wouldn't the income be derived from the residences?

A. Yes, sir.

Q. If the company would reduce the insurance on the commercial risks and that constituted 70 or 75 per cent of the premiums, wouldn't that be more benefit to the people to reduce that risk than to reduce the other 25 per cent?

A. It would not be more benefit to the greatest number of people, it would be more benefit to the State at large. It would not be more benefit to the largest number.

Q. (By Mr. Smith.) Isn't a fact that under the present schedule in Texas business is being done at a loss?

A. It has been so asserted.

Q. Would you make a rate for a specific class or would you make a maximum or minimum rate?

A. I very much favor a special rate, a fixed rate.

Q. Now, referring to the matter of Mr. Terrell's inquiry, suppose that the maximum rate fixed by the Board is the lowest rate at which the companies may operate and make a reasonable profit—and the Board that would make any higher rate would certainly be in dereliction of its duty—to the people; suppose the Board, following out its duty, makes a maximum rate at which a class of insurance may be written as low as can be made and yet the companies make a reasonable profit; now, after that rate is fixed, if any company happens to cut that rate and go below it on a competitive basis and sacrifices its profits, the people of the State who have gotten it are the gainers and nobody is the loser; isn't that true—except the companies?

A. Well, the company can't keep that up very long.

Q. No, sir, I realize that; but what I am wanting to ask is, so far as the people are concerned, that it is better for the Board to fix a maximum rate—fix it at the lowest rate that the company can make a reasonable profit on and then let them cut it if they wanted to?

A. They can't cut their throats without cutting the throats of the people, because after they get down to a point where they injure their stability, they injure the safety of the people of the association.

Q. When they write the business where it would be unstable on insurance, they can't cut any lower than that. But then the people will let them destroy their profits if they want to; now that could not hurt the people, could it?

A. Not if they have a profit to destroy. There is one thing I would like to illustrate; for instance, I don't understand that that bill, Mr. Cureton, that reductions below the maximum rate as may be fixed by the Insurance Board, shall be done uniformly; that is for the benefit of all customers of that class. It seems if anything of that kind were allowed, there ought to be a provision there that any company which reduces its rates on any particular class shall give that to all of its customers.

Q. That is the meaning of the bill.

A. I don't think it so expresses it. It seems to me that in all fairness it ought to be that way. As long as the company has a profit to sacrifice, they ought to sacrifice it that way, but when it cuts the profits, the people pay for it.

Q. So far as the people are concerned, there is no reason why the company should not sacrifice its profit.

A. Unless they take it from another risk to enable them to pay the loss on that class.

Q. But under the provisions of this bill they could not do that if the provisions are carried out?

A. I don't know about that.

Q. Mr. Vaughan has suggested this: Isn't it true that some companies write at a less expense than other companies?

A. Yes, sir. I think there is some difference in their expense ratio, but not any very great difference.

Q. Not a very great difference?

A. I don't think there is any very great difference.

Q. (By Mr. Smith.) With the conditions that Mr. Cureton speaks of—fixing the rate on insurance—the possibility of cutting it down, would it not then be, on the part of the insurance

companies to their interest to bring about a condition that will reduce the fire waste or fire loss?

A. I think that it would.

Q. Wouldn't it be directly in line with our interest?

A. I think it has always been beneficial to the companies to reduce the fire waste under all circumstances.

Q. Cut their profit off?

A. There would be more interest in it.

Q. (By Mr. Terrell.) Mr. Stacy, Mr. Cureton suggested that if you have a maximum rate, which will be a rate only large enough to allow a reasonable income to the company, if the companies reduce it, won't it tend to make the smaller companies dangerous and won't it make their policies of less value and make people more liable to lose in case of fire?

A. I think so, if they meet a rate that is below the reasonable rate.

Q. Below the reasonable rate; don't you mean by reasonable rate a rate that will leave them a reasonable profit?

A. Yes, sir.

Q. I don't believe the State is interested in having the insurance companies run for their health, do you?

A. No, sir.

Q. And you believe that they ought to have a reasonable profit?

A. I think they ought to have a reasonable profit.

Q. But don't you believe that on each classification they ought to have a reasonable profit on that classification, so that one shall not pay for the other?

A. I think so.

Q. And don't you believe that in case the companies are allowed only to make a reasonable income on each classification, but owing to competition they reduce on one classification that they will go before the Board and if the Board don't grant them relief, they can go before the court and make proof that they are losing money and raise some other classification?

A. Well, if they go before the Board on the basis of the different classifications, I guess they would have to complain of the classification that it is too high or too low.

Q. But wouldn't it be rather a hard matter for the Board to get the proof on that matter?

A. It might be, and the companies might demand that all of the classifications be raised in order to give them a sufficient income.

Q. Now, if the rate is fixed abso-

lutely so as to allow the companies only a reasonable income, from each classification, wouldn't that be the most equitable manner of assessing it both to the companies and to the people generally?

A. I think so.

Questions by Mr. Moller:

Q. Mr. Tracy, what do you understand by a reasonable rate that is here discussed under this bill in this way? Say that you are the agent of the Liverpool, London and Globe and you can afford to insure class A for \$1.50, but it throws all other companies to the wall, does the reasonable rate of this bill apply to your company only or to the average companies of the State?

A. I should think the average.

Q. That being the case, and in my opinion the only science that can be made in any State arrangement, like the Railroad Commission, how can you have a maximum or minimum rate if it is not made on the average of companies doing business in the State?

A. Well, you would have to have an arbitrary rate.

Q. How can you have a maximum and minimum rate?

A. You can not have a maximum and a minimum rate. You can have a maximum or a minimum.

Q. Well, I believe that is getting a little fine.

A. I don't mean to criticise your question; I don't understand exactly what you are getting at.

Q. If the Liverpool, London and Globe can take a risk at \$1.50, but the Seaboard, for instance, at Galveston, in which I was, unfortunately, a stockholder in same—if they cannot take it for less than \$1.75, and still is a well-managed, good, honest company, what would be the duty of the Board under a circumstance of that kind?

A. I think it would be the duty of the Board to consider the experience of a number of companies together and take their average.

Q. But this bill, as I understand, reads that if any company in the State—well managed, sound company—any company must be able to make a living.

A. I should answer that this way: That this average ratio being taken as the maximum rate—that is, the average maximum for the average number of companies in the State—would be fixed as a maximum rate, and then any company which can not write business at that rate ought not to write that class of risk.

Q. That is the average companies. There is no question between you and I on that. The bill is not so drawn that I have seen, and I want the information. We can not take any notice of any particularly weak company in the State, even if it is well managed.

A. No, sir.

Q. If it can not do business on the average basis of the others, then it must go to the wall like a railroad, but if you should establish a rate for all the companies and take them all on an average and any particular one can not do business it will have to go by the board, but if they keep to these maximum rates as we are talking about of the Liverpool, London and Globe, and the Liverpool, London and Globe can afford to cut that maximum rate, if the weakest ones can't do the same way, won't they be driven to the wall?

A. Well, I don't understand that any company can write all risks cheaper than other companies, but it is only certain classifications they are able to write cheaper than the others, by reason of some particular volume of business that they enjoy in that line, and if the Liverpool, London and Globe and the majority of the companies in the State can write certain classifications at the average rate, maybe fixed as the maximum rate, and the Seaboard and some other company cannot write that classification at that rate, these particular companies can refuse to write that particular classification and confine their business to particular classifications that are profitable to them.

Q. Generally speaking, at the end of the year it don't make any difference how many classes they have got, the question is, have they got anything in the treasury?

A. Yes, sir, that is the vital question.

Q. If they have nothing, they have been driven out by some cause or other, and if they are not able to do business on the average basis they would have to be driven out. I don't see any remedy for them. But what it particularly states, as I understand the bill, that if any company, well managed, makes a complaint that the other companies, or a company makes a rate under the maximum by which it can not live, then the Board must raise the rate of the others up to a living basis.

A. I don't understand the bill quite in that sense. It don't seem to me that that provision ought to be there to that particular extent. The rate ought not

to be applied to suit the requirements of one company, but it ought to be the average company.

Questions by Mr. Reedy:

Q. What would be the effect of striking out the co-insurance clause of policies; what would be its practical effect, both to the companies and on the insuring public?

A. Well, the effect—

Q. On the annual fire losses?

A. What effect would it have on the annual fire losses?

Q. Yes, sir.

A. Well, I don't know that it would have any particular effect on the fire loss. It would rather, in my opinion, benefit the fire loss a little; the effect of the co-insurance clause is to cause more insurance, and the effect of more insurance is generally more fires.

Q. To strike out the co-insurance clause, would it not have the effect of increasing risks?

A. No, sir, I think it would have a beneficial effect on the risks.

Q. Why?

A. Because there would be less insurance carried and people would exercise greater care.

Q. Now, passing from that proposition to another; you are acquainted with the new commercial risk proposed or promulgated in Texas, I take it?

A. Commercial rates?

Q. Yes, sir. Rates—the premium charged on commercial business in Texas?

A. Yes, sir.

Q. Well, now, some of these are complained of as being very high. I will ask you what your opinion is of those rates or a greater per cent if they are in any way excessive?

A. Not since the Fire Rating Board reduced them 25 per cent.

Q. Well, but on the basis as originally written?

A. I think the rates before the reduction made by the Board were too high as a rule. Although I think the general scheme of the schedules is equitable and correct as applied, it seems to me to run the rates a little too high.

Q. How long have you been in the insurance business?

A. A little over twenty years.

Q. A little over twenty years?

A. Yes, sir.

Q. Now, I believe you have said you have only read the bill once that is under consideration?

A. The Cureton bill?

Q. Yes, sir.

A. Yes, sir.

Q. Now, I am just asking this question in substance as I have got it here: Regarding the Fire Marshal feature of the bill, do you think that is adequate for the purposes of minimizing the losses, or rather reducing the fire losses generally, of the State?

A. I don't know that I can express an opinion as to the provision for a Fire Marshal in this bill. I am sure that if the Fire Marshal feature is properly carried out it would reduce the fire waste of this State.

Q. Now, this bill, if I recollect it right, does not make any provision by which the Fire Marshal can cause the removal of combustible material or things of that kind which cause fire.

Mr. Cureton—Yes, it does.

Q. Well, I didn't know that. I just thought that he had the power to suggest but not the power to compel.

A. I am not familiar enough with the bill to express an opinion on that point.

Q. Is there more competition now in the insurance business than there was before the Fire Rating Board was created?

A. Competition?

Q. Yes, sir.

A. In a certain sense there is no competition at all now.

Q. Was there any in fact before, except this occasional cut-throat business that was practiced?

A. It was not real competition. It was just see-sawing and cut-throat practices.

Q. The competition now; is it your opinion that the competition now—you say there is none at all—is it more or less than it was before the Fire Rating Board was created?

A. Well, there is no competition at all now, having a fixed rate; of course, everybody writes at the same rates.

Q. Didn't they do that practice before?

A. They did wherever they had a chance.

Q. Don't you believe that our Board, if they have the scientific method, can do that as much so as the insurance companies and give satisfactory results?

A. If they employ the proper talent they can.

Q. Taking it for granted that Texas will get the best talent; we pay "liberally" and ought to.

A. (No answer to last question.)

Mr. Vaughan—Let me make a suggestion. We have been here something more than an hour, and I will suggest

that such questions as are hereafter asked be such that they have not already been asked; any new matter that any one wishes to bring out is all right.

Questions by Mr. Baker:

Q. Mr. Stacy, I would like to have you state what relation the volume of business bears to the expense of management of the insurance companies; does it bear the same relation that it does to the ordinary mercantile business?

A. I don't know about the ordinary mercantile business. It takes about 35 per cent to do the business.

Q. The larger the volume of business the smaller the ratio of expense?

A. You mean can a large company do business on a smaller ratio than a smaller one?

Q. Yes, sir. That rule holds good in most large concerns.

A. It would seem so, although with most of the insurance companies I don't think in the same extent, for the reason they fix the same commission to all agents.

Q. They fix a basis charge?

A. There would be some considerable difference in office charges, but that is rather small in per cent to the other expenses, but this office expense is a small item compared with the other expenses, like commissions, traveling expenses of special agents and things like that.

Q. A company with a very large volume of business could actually do an insurance business at a less rate than a smaller company?

A. It could as to these office expenses only. I think that would be the only item less. It takes a certain number of men to cover a certain amount of territory in the way of special agents and inspectors, because each business has some men and some expense; a large business has more men and more expense, but of course the office business would be lessened to some extent.

Q. The idea is that the small company would be unfortunate, like any other small business in a small company?

A. My opinion is that a good many small companies have as low an expense ratio as the larger ones; probably not any of the larger ones, but the average larger ones.

Questions by Mr. Hill:

Q. Are you in favor of or opposed to the repeal of the present law?

A. I am opposed to the repeal of the law unless something is left in the place of it.

Q. What would you suggest as a proper amendment to the present law?

A. I don't have any objection to the present law from my observation and experience, except the one feature of rates, which ought to be submitted to the Board and approved by the Board, before they become effective.

Q. We agree with you on that.

Examined by Mr. Tarver:

Q. I would like to hear you state briefly your reasons for preferring absolute to maximum schedules.

A. Well, because it would be somewhat simpler in Texas and it would prevent the possibility of discrimination. I stated this morning that I didn't think there would be any probability of discrimination; I don't think if a maximum rate is fixed there is no probability of companies being forced from competition or undue influence or any effort to reduce their rates on any given class of risks like large jobbing interests or anything like that. I think maximum rates are fixed at a rate as low as they can, they will stick to the maximum rate on the large risks as well as the small. It would be best for them to reduce the maximum rate on a certain class of risks; I would favor, as a preventative of discrimination, the maximum rate or a fixed rate.

Questioned by Mr. Loony:

Q. What per cent of the people have scanned or ever scanned a policy or questioned any of the terms of the policy or any of the clauses that are attached to the policy?

A. Why, I don't know that I can answer that very specifically. Very few people, as a rule, read their policies or pay any attention to its clauses.

Q. Isn't it a fact that the insuring public simply accepts the contract that the companies tender them at the rates fixed by the local agent?

A. Very largely so. It depends upon the local agent.

Q. That grows out of the particular use and customs of the business and the only knowledge they have to deal with?

A. Yes, sir, I think so.

Q. And it is practically an ex parte contract, is it not?

A. Well, it works very much that way.

Q. Yes, sir.

A. Of course, among the mercantile hazards, or risks, the larger ones, a great many of them, have clerical force

that look after the insurance they do. They look after the policies.

Q. That is the class that have been kicking about this law?

A. Yes, sir, that is the very class.

Examined by Mr. Terrell:

Q. Isn't that the same class, if any rates are reduced, under maximum schedule, that get the benefit of the reduction?

A. I think so.

Examined by Mr. Cureton:

Q. Suppose that we repeal the present law and go home and dwell in legislative peace and political rest—what will happen to us in an insurance way?

A. I think you would wish you were never born.

Mr. Terrell—You mean we would wish we had never been elected to this Legislature?

Mr. Cureton—You mean by that, Mr. Stacy, that in view of the insurance companies having spent a quarter of a million dollars in this State in promulgating a rate and having done this outside of the pale of the anti-trust law, that these gentlemen would have intelligence enough to follow the rate that would cost them so much, and if that rate was an unjust rate we would simply have to put up with the unjustness that the Retail Hardware Dealers' Association complains of?

A. I think it is human nature for them to make the objection.

Mr. Vaughan—Is there any citizen here other than a representative of an insurance company that desires to ask a question?

Questions by Mr. Brown F. Lee:

Q. General, to what extent has the trouble since the first of January been caused by the little red riders?

A. That has been nearly all the trouble. Of course, the people generally understand that when the policy is presented to them exactly what it meant; they did not pay much attention to them in fact. They understood in a general way that they would be expected to re-adjust their premiums under the new basis, but that has caused all of the dissatisfaction, you might say, with the present law.

Q. It is all right when coming back to the insured?

A. Yes, sir, they are satisfied if they get the return premium and generally kick if they don't. But the objection to that in its operation seems as to the operation or application of the rates, when nothing is said for a couple of

months and most of them for four or five months, and therefore no insurer understood exactly how it would affect him, and when he found that he had to pay a considerable increase in rate by reason of certain defects in his particular risk, why, he get very wrathful, and more wrathful when he learned that there was no appeal from the fact that he had to pay the rate from the first of January on. There is no way of correcting it.

Q. Now, then, if the present law could be so amended as to have the rates placed—and the rates fixed definitely at a given period before the law became effective, do you not think that would be satisfactory?

A. I think so to a very large extent. I think if that could have been done in the first place there would not have been any objections to this law.

Questioned by Mr. Terrell:

Q. Don't you think a little better name for the little red rider would have been "little red devil?"

A. Well, there was no other way to carry business forward at that time except by the little red rider. Probably it would have been better to have had some other color, but it was the only way in which business could be transacted, because no one could apply the general basis schedules and the policies had to be written at a temporary rate until specific rates could be announced.

Examined by Mr. Nichols:

Q. I would like to ask if that part of the present law and also the provision of the proposed bill which requires the companies to reimburse the State for the expenses of the making of the new rates is satisfactory to the company?

A. I can not speak for the company. I don't think it is.

Q. So far as your opinion?

A. I think the companies are opposed to paying the expense, or any expense that they can avoid.

Examined by Mr. Terrell:

Q. That is rather natural, isn't it, Mr. Stacy?

A. (No answer to this question.)

Q. (By Mr. Nichols.) Have they made any protest?

A. I think they—

Q. Have they made any protest of any sort?

A. I have not heard of any.

Questioned by Mr. Hill:

Q. If the amendment suggested by you a while ago that no rate shall be effective until approved by the Board,

don't you think the law would be adequate in every other respect?

A. Yes, sir, I think so.

Mr. Vaughan—The gentlemen representing the insurance companies desire to ask some questions, probably.

Examined by Mr. Scruggs:

Q. They asked you just now if they repealed the law and went home and turned the companies loose, what your opinion was; you replied that they would wish they had never been born. I would like to ask you whether or not there was any complaint by the public at the treatment they received at the hands of the insurance companies before this law went into effect?

A. Yes, sir.

Q. The public? The people, now?

A. Individuals.

Q. Was there any complaint at the treatment they received?

A. Individuals.

Q. What was the nature of their complaint?

A. Well, one fellow complained at another fellow getting the best of him.

Q. If he did, didn't he get a lower rate?

A. Sometimes he did and sometimes he did not.

Q. Isn't it a fact that the majority of the complaints against the conditions that prevailed prior to the passage of this law, the local agents, weren't they the ones that did the most of the kicking?

A. Yes, sir. The local agents were the ones particularly who favored the passage of the recent law.

Q. What percentage do you think of the public citizens, who had policies, ever complained against the treatment they received?

A. I don't think I can name them.

Q. Don't you know that the majority got what they wanted, or were satisfied with what they got?

A. I think so, yes, sir. Those who were sharp enough to keep down the rates got what they wanted, but the large number of—but the largest number of insurers did not get their rates brought down, and probably did not know that they were paying too much, or didn't pay any attention to it.

Q. But did they make any complaint?

A. Not as an entire class; only as individuals.

Q. Now, they asked you a question just now whether or not the Rating Board couldn't employ the same experts to apply the schedules that the insurance companies could and you answered

yes. Don't you think that the Rating Board would not have the same interest in employing as high class talent to produce the rates as the insurance companies themselves would have?

A. They ought to have.

Q. I asked you if you thought they have?

A. If they have the money to do it, they have.

Q. Do you think that the Commissioners on a salary of \$2500.00 a year would have the same interest as the expert who is getting \$5000.00 a year in applying the rates to the schedules?

A. I think they would do it.

Q. Do you think they would be satisfied to have those kind of men working with them?

A. I don't know how satisfied they would be, but I don't think they would be affected.

Q. Do you think they would do it?

A. I think so.

Q. You think if they were employing the same talent that the companies were that they would have the same interest in the results?

A. Not necessarily the same amount of talent called for. I think if the money was available, they would employ the best talent they could get. That is my impression of the personnel of the present Board at least.

Q. How long, in your estimation, do you think it would take the Rating Board to rate the State of Texas, even if they were to employ the same experts used by the companies?

A. It is already rated.

Q. No, it ain't.

A. I don't know that I could name any length of time.

Q. You could not tell?

A. No, sir.

Q. Suppose they were to change the schedule and make a new one, how long do you think it would take to rate the State of Texas?

A. I don't know.

Q. When they asked you the question here about the co-insurance clause you replied by stating that in a damage loss the policy holder would have to pay one-fourth of the damage loss?

A. Company?

Q. No, policy holder.

A. Yes, sir, the company.

Q. Yes, the company would have to pay one-fourth. Now, I want you to make it perfectly clear to these gentlemen; that was a hypothetical case based upon the fact that he was carry-

ing only one-fourth as much insurance as he ought to carry.

A. Yes, sir.

Q. And the per cent was larger in proportion to the—as he carried more insurance?

A. Yes, sir.

Q. Some may get the idea that in case of a loss on the policy he would get only one-fourth?

A. The question asked me was where he carried \$2000.00 on an eight thousand dollar loss.

Q. I understood your answer perfectly, but I was afraid some of these gentlemen would not get it clearly what this co-insurance clause means.

A. I think they understood it.

Q. And your example was that if they were carrying one-fourth—they were carrying one-fourth of 80 per cent; now if they were carrying one-half, they would only collect one-half and if they carried three-fourths, they would collect three-fourths?

A. Yes, sir.

Q. I just wanted to make that plain in the record.

A. Yes, sir.

Q. Now, Mr. Looney asked you this morning some questions about the over-insurance proposition and if you could suggest any way by which over insurance could be prevented, and I believe you stated you could not?

A. I stated afterwards that you could make it a misdemeanor for over insurance.

Q. Don't you think if they would incorporate in this bill a provision that no policy holder would be permitted to collect more from an insurance company than the value of his property that that would correct it?

A. I think that would.

Q. And then in the event the insurance company collected premiums on more than he could recover, or rather if the policy was written for more than the value of the insurance, that the insurance company should be required to refund to him the excess premium collected?

A. I think that would be an excellent provision.

Q. Wouldn't that prevent over insurance?

A. I think so. It is a good suggestion.

Q. Now, you started out this morning by stating that before this law was passed that discrimination was rampant?

A. Yes, sir.

Q. Why was it rampant?

A. Because there were no fixed rates, and because the companies allowed their agents to take insurance on various risks at any rate they could get.

Q. Why did the companies permit the agent to do that?

A. Because—to increase their volume of premiums.

Q. Wasn't it because of the anti-trust law and they could not help themselves?

A. Yes, sir.

Q. Wasn't it because they could not make any rates and give to the agents?

A. Certainly. That is, the premium cost, but the companies did not have to take a risk if they didn't want to.

Q. You have been in business twenty years?

A. Yes, sir.

Q. That was before the passage of the anti-trust law?

A. Yes, sir.

Q. Didn't they furnish you schedules to collect before the passage of that law?

A. Yes, sir.

Q. Didn't they prepare these schedules in a similar manner to what they prepare them now?

A. Yes, sir.

Q. Haven't they always used every effort in their power to produce a fair and equitable schedule of rates and to reduce the fire waste if possible so far as the law has permitted them to do so?

A. I think so.

Q. You changed your testimony in regard to the Fire Prevention Association; can you explain to this bunch of gentlemen what the object of that association is?

A. I think the object is just what its name implies.

Q. Wasn't that the only association which the law of the State of Texas permitted insurance companies to form?

A. I don't know about the law permitting that. I am more familiar with the workings of that association.

Q. You don't know anything about that?

A. Further than once in a while we get a bulletin from them.

Q. They do not make any rates?

A. I don't think they do.

Q. Don't you know that that association furnishes the various insurance men; that the association performs inspections for all the companies, by which the risks are judged?

A. All the larger risks?

Q. Yes, sir, any risk they go to; haven't you seen bulletins sent out?

A. I just judge by the fact we only receive an occasional bulletin that only explains about the larger risks.

Q. Isn't it a fact that all of the companies act under the law?

A. I think so.

Q. Don't you know that if the business is taken out from under the anti-trust law and no other law passed at all they would again make rates on an equitable basis?

A. I think so, probably.

Q. Why, then, would it not produce all the necessary results to repeal this law and take them out from under the anti-trust law and go home?

A. Because I don't think it is possible for you to get from under the anti-trust law.

Q. When they pass this bill, they take us—why can't they take us out from under the anti-trust law if it will produce greater results?

A. They are not willing to do it without tying a string to it. It would not necessarily produce the same result.

Q. Don't you think it would change their experience before it went into effect?

A. Well, I am not prepared to say. I think it very much out of the question. I don't think the companies would take advantage of the people. If it was back like it was before the anti-trust law was passed, I think they would deal equitably by the people, but if they did not do it, there would be no way of compelling them to do so.

Q. Don't you think that competition would do it just the same as—

A. No, sir.

Q. You don't think so?

A. No, sir.

Q. On this question of classification, Mr. Cureton asked you several questions as to the necessary information by which to compute it. I believe that your testimony showed that you thought that if they would get hold of the necessary information that the Rating Board could apply the rate as well as the insurance company could?

A. If they could get the necessary information and employ the proper help.

Q. What is the necessary information, in your opinion?

A. The experience of the companies and their classifications.

Q. Experience and classification?

A. Yes, sir.

Q. Would you base a rate upon the loss ratio after you received that?

A. You understand I am not posing here as a rate expert.

Q. I am trying to ask you, to get the information before these gentlemen.

A. I think you would have to use the experience of the companies and the loss ratio.

Q. I am only trying to get the information for these men.

A. I am willing to give all I can truthfully.

Q. I will try to help you a little bit. I want to know all the information you think would be necessary.

A. As I understand, they would have to have a classification experience and the loss ratio.

Q. You mean by that the experience on the class and the loss on that class?

A. Yes, sir.

Q. When they get the income on that class and the loss on that class, would you base your rates on that class from the loss ratio thereby shown; do you think that would be a fair basis upon which to predicate the rate on that risk; for instance, say that the income on a dwelling house is 50 cents, do you think the loss ratio would be a fair basis upon which to predicate the ratio?

A. If it is based on sufficient premium.

Q. Suppose that a dwelling burns from a cause that is not attributable to that building, would you be able to charge it up to buildings, dwellings when they didn't cause the fire?

A. No, sir. If it is subject to similar conditions and are usual to similar classes and the experience.

Q. Experience of what?

A. On the different classes.

Q. Now, what per cent of the losses could enter where the record of the cause is unknown?

A. I don't know. I guessed at it while ago.

Q. Don't you know that in a great majority of them the causes are unknown; you can't arrive at the cause of the fire?

A. I don't know whether it is the majority, but certainly a great part.

Q. Now, then, in a great number of fires the causes can not be obtained. How are you going to classify these losses to find out what class of business should pay the rate, or how to make the rate on it, when you don't know the cause of the loss?

A. You would have to base it largely

on the actual experience of that classification.

Q. You don't know the experience, because you don't know the cause of the fire?

A. You would have to get it as near as you can.

Q. Don't you think a fair basis upon which to predicate a rate would be upon the fire cost of the risk rather than upon the loss ratio obtained here on the premiums; I mean if a brick building is susceptible to a 50 per cent damage and a frame building \$1.00, the frame you rate twice as high as the brick?

A. I don't know as I can tell you. I would base it on the actual experience for a term of years.

Q. If you can get the actual experience. We would be in the shape of lots of insurance companies, but the trouble is neither the companies nor the Board, nor anybody else on the face of the earth can ever get the actual experience.

A. It would average up pretty well, I should say, through a period of ten years.

Q. I was going to ask you that. Then you think when you begin this classification and get this information, they do not have a proper information upon which to make a rate until they do get it up for at least five years?

A. No, sir. I think they would have to collect this information for a period of at least five years.

Q. They can't get that?

A. That is news to me.

Q. I couldn't give it to you, for I have not been in business long enough and have not kept that record long enough; maybe Mr. Cochran's office has it.

A. They will have to get it from him.

Q. I have not been in business that long.

A. Mr. Cochran have, some one have it—

Q. You won't get an impartial classification?

A. Well, you would have to take the best you could.

Q. The point I want to show the gentlemen by these questions that it is an impossibility to get a proper classification unless you get sufficient information to show what the rate is and you can't get it then unless you can get the causes of the fire.

A. All I meant in answer to the question was that the Board would do

as well as the insurance companies if they had the same information.

Mr. Smith—Can I butt in on that just a minute? Isn't there another hazard there; that is, a holocaust that happens at various times?

Q. Now, the classification of the companies show all losses, as Mr. Smith has suggested, including conflagrations; do you think it would be fair to count in the conflagration of the dwelling houses in Fort Worth last year?

A. I suppose there is some way of arriving at the conflagration hazard by taking the record for a certain period of time. I don't know what it is, but I know that there is a conflagration hazard, figured in this basis schedule for Texas.

Q. That is put into this—

A. Yes, sir; that is the first estimate.

Q. But what about immense disasters like San Francisco?

A. That would have to be included in some way.

Q. Can you tell these gentlemen whether or not the insurance companies throughout the United States raised the rates any at all to take care of the San Francisco conflagration?

A. I don't think they did.

Q. If you are going to base your rates upon the loss ratio, it is necessary to take a thing of that kind into consideration?

A. Take into consideration—

Q. They could not take it?

A. Take it—a great many companies have set aside a conflagration reserve to meet such as that.

Q. Only a very few.

Mr. Scruggs—In the discussion with General Stacy of the valued policy law he stated that other States had a valued policy law and wanted the experience of these States. I have here the twenty-first annual report of the State of Texas for the year 1895. I can not give you this book, but it is found on page 12; it is a record of the valued policy law in every State in the United States which had it in effect at the time that the book was printed, and you will find all the information tabulated there that you want.

Mr. Cureton—Can we keep that here and have the stenographers copy it?

Mr. Scruggs—No, sir, because I left my receipt for it and I must return it, but you can get it down in the insurance department.

(The stenographer not having this book at hand when this was transcribed,

and unable to get it, is unable to put this information on record.)

Questions by Mr. Jalonick:

Q. I want to ask Mr. Stacy just a few questions. One of them is with relation to the co-insurance law. We will assume that there are two men own two houses adjoining down here for instance on Congress Avenue. You insure one of these houses for two thousand dollars at a rate of one per cent; you insure the adjoining house at the same rate, one per cent, for eight thousand dollars; you will have collected from one man on eight thousand dollars and from the other on two thousand dollars, or \$80.00 and \$20.00. That is the equal value of ten thousand dollars. Now, a fire happens to those two houses we will say simultaneously and they are damaged each two thousand dollars; isn't the man who has eight thousand dollars on his house discriminated against because he gets only two thousand dollars on the eight thousand dollars paid for and on an eighty dollar premium and the man who carried two thousand dollars collects two thousand dollars and only pays twenty dollars; isn't that a discrimination against the man who carried the eight thousand dollar insurance?

A. Well, in that way it might be so, and in another way he got what he paid for.

Q. Well, isn't it the purpose of this 80 per cent co-insurance clause to equalize these discriminations?

A. Yes, sir, I think so.

Q. Now, Mr. Stacy, Mr. Cureton's bill provides that there shall be a maximum rate and that the rate—and that no risk can be written for a less rate on a certain class: but if the company writes one risk of that class at a lower rate, he must write every risk of that class at a proportionately low rate. Now, I want to ask you how the Board can determine what other people for instance can be benefited by that reduction. Who else in that class will get the lower rate? We will assume now to make a concrete illustration that you have reduced the rate on Mr. Tips; that Mr. Tips has a rate as I understand it down on Congress avenue of one per cent; he operates a large store selling wholesale and retail hardware; his rate is one per cent. We will assume that Mr. Stacy is willing to write Mr. Tips' store for 90 cents. Now, I want you, Mr. Stacy—Mr. Stacy is the witness—to tell me who will be benefited by that reduction of ten cents.

A. Well, under a proper application of that bill, as I understand it, it will work in this way: That under the basic schedules there would be a second charge for occupancy, for brick building of wholesale and retail hardware stock and there would be what is called an occupancy charge of say twenty-five cents or ten cents.

Q. It is ten cents for a wholesale hardware store.

A. Suppose some company is willing to write that particular risk for five cents, they would then have to list every wholesale and retail hardware stock in Texas for five cents instead of ten cents.

Q. You know, and I presume everyone here does, that there are hardware stores that are detached; that there are hardware stores that are in frame buildings. Do you think that there should be that same proportionate cut of five cents through the wholesale hardware store?

A. It would only apply to the occupancy side.

Q. It would apply to a class identical with Mr. Tips' store?

A. It would not.

Q. I am talking of the same size building; same area; same number of floors; well, now, where would be your class; how many hardware stores of the same area; of the same number of stories with the same protection, are there in Texas like Mr. Tips'?

A. I don't think it could be particularized that way.

Q. I want to understand from you what is a proper application. It seems absolutely impracticable because of this particular custom, but so far as my knowledge has been there is not perhaps another store identical with Mr. Tips' in the State of Texas; therefore, there would be no class under that reduction.

A. I don't think you have stated the case correctly. It could not apply that way as an identical class. It would have to apply for the occupancy or the area, or something of that sort, as a general rule. It could not apply to Mr. Tips' store directly.

Q. Now, take that as a wholesale hardware—and I mention Mr. Tips specifically so that we could get something here everybody understands; now, you have written that rate, we will assume for the sake of argument; that is, the rate under Mr. Cureton's law, is one per cent. You have a company in

your office who is willing to write that risk at ninety cents.

A. Not that particular risk; but that class of risks.

Q. It may not be that particular risk. I selected a particular risk to try to get a practical illustration of the application of that class—reduction of that class.

A. But I think you are complicating the application.

Q. I am not complicating it—

A. You mean my idea is not plain enough on that point?

Q. I think absolutely it is impractical in its application because it says that the companies must reduce the rate on that class to the same rate that they have to Mr. Tips, for instance, a wholesale hardware store on Congress Avenue; now, what constitutes that class?

A. I would call it the hardware class; the retail hardware class, which would only be a reduction in the occupancy charge?

Q. Now, here is some one in Ennis that has got a retail hardware store and who has a frame building next to it and there is another hardware store in El Paso, for instance, that is in a frame building; now, do you think that reduction—do you understand the law that that reduction of ten cents applies to all the retail hardware stores without reference to their construction, from location of other construction?

A. That would depend largely upon the applying of the schedule.

Q. That is what I would like to know from Mr. Cureton. Now, Mr. Cureton, how would you classify that? What would be the class?

Mr. Cureton—Of course, I am not a rate-making man, but I assume that a man who knows anything about rates could fix a class applicable to Mr. Tips' store. Of course, if the insurance companies desire to reduce the rates on that class, and they want to reduce it, I don't see any reason why they could not do it.

Mr. Jalonick—But here is the trouble I can see in applying it, is, that he is, you might say, in a class by himself; that while you may reduce his rate ten cents, there is no other hardware store identical with his that would have the benefit of the reduction because it is not identically located and protected and constructed like Mr. Tips'.

Mr. Cureton—Of course, Mr. Tips got his insurance by being classed in a certain class. That is the way the rate was fixed with him originally. Now, if

you undertake to reduce the class in which he was originally classed, why you can't do it.

Mr. Jalonick—I understand. What I don't understand, how you can make a class and put buildings of different construction and in different locations with different protection, and make a class of them. I can understand that if there are one hundred buildings identical with Mr. Tips' that you have a class, but I don't see how you can make a class when he is in a class by himself.

Mr. Stacy—I don't think there would be any difficulty except as between frame and brick buildings.

Mr. Jalonick—There you are fogging again. This is the rate that is reduced ten cents. This company, under the law, must reduce the rate on every risk of that class ten cents.

Mr. Stacy—It reduces ten cents on the retail hardware stock in a "B" building in a block, and it would reduce five cents on a hardware stock in a frame building. The exposure charges take care of this.

Mr. Jalonick—There is no class because there is no other class identical.

Mr. Stacy—They don't have to be identical.

Mr. Jalonick—It should be for the application of the law.

Mr. Stacy—I don't think so—within the classification of the schedule. For instance, we don't make an extra charge for a building under four stories high.

Mr. Jalonick—If that law can be made applicable enough to apply to all hardware stores or in some way, that, as I can see it, is a defect which makes it impracticable in its application. I think that sort of a law might go, but it occurs that the more reasonable way to determine rates is by making a specific rate on every risk dependent on its construction and its location.

Mr. Tarver—Your position is that you can not classify rates at all?

Mr. Jalonick—Under the application of this law, if I am representing a company, to illustrate the point. Mr. Stacy here represents a company in Austin, and I am operating under this law. He writes the risk below what I am willing to take it for, to illustrate the point further, for ninety cents, and the rate is one per cent. The board says: Mr. Jalonick, you must reduce the rate on all risks of that class ten cents. Now, I must get the board to show me the class: what risks are in that class; Mr. Tips is in a town that has a basis rate of forty cents; he is on a street eighty feet wide, four stories high—his building

is four stories high and he has a floor area of five thousand feet, and if you will show me a risk of the same class I will reduce the rate, and for that reason it does not occur to me that the provisions exactly suit.

Mr. Tarver—You mean to say that the companies in basing their classification as to this don't pay any attention to the class which is given it?

Mr. Jalonick—Every case stands on its own bottom absolutely; every risk under this new law that is built; he goes and measures the dimensions of the first story, the dimensions of the second story, and of the third story, and of the parapet, and how far above the roof, and how far above the ground it is, and whether there are any skylights the thickness of the floors, whether there are floor openings, whether there are rafters, if there be rafters, now he could have a dwelling, and when they have finished the man who owns the building, he is charged with the defects and he is charged with the improvements of that particular risk and that is his rate, and I venture the assertion that there are not six risks of the same identical character in the State of Texas.

Mr. Stacy—The point I want to make is that they do not have to be an identical risk to get the benefit of this reduction. You are stating the question backwards. The procedure would be this way: The insurance company would notify the board that they are willing to write retail hardware stocks at five or ten cents less for occupancy.

Mr. Jalonick—I will ask Mr. Cureton if I understand the law right. That if a company is willing to make this reduction, or if they go out and declare themselves that they are going to reduce the rates on retail hardware stores—

Mr. Cureton—As the law is printed you are correct, but under amendments as discussed you are incorrect. Under the proposed amendment the company which undertakes to cut any part of a rate, or schedule rate, on any class of building, or any part or any time which goes to make up the substance of the rate, will be compelled to file its schedule with the board showing the reduction. For instance, we will say that Mr. Davis pays well; we are willing to cut down the penalty charge for an opening in the building five cents. They file with the board, and then it makes up a part of their schedule rate in which the particular charge would enter.

Mr. Jalonick—Well, that would over-

come that on the class. You can see the—

Mr. Cureton—I am glad you make those objections because that is the way I learn.

Mr. Jalonick—Well, you have developed the matter so thoroughly that I have no further questions to ask Mr. Stacy except these few.

Mr. Cureton—I just want to ask one question:

Mr. Scruggs asked you about this element of conflagration hazard a few minutes ago. Now, in the formation of insurance rates, under all these books we have had here and under this schedule here, that have been prepared, they start out with a basis for their key rate and they put an arbitrary charge of twenty-five cents to begin with as being a part of the element that goes to make up the insurance rate. Now, in that original twenty-five cents is embraced a conflagration hazard—

A. Possibly so, and then they have an additional conflagration hazard in every town.

Q. That is embraced in the rate for a general conflagration; but say the San Francisco conflagration, there it is embraced in the original twenty-five cents put down there arbitrarily by the man who makes the rate book?

A. It ought to be, and I say the specific conflagration shows in the key rate; there is an additional item; there is an additional conflagration hazard. This original twenty-five cents by which we are going to help out San Francisco is embraced in the B class and there is nothing absolute to the conflagration hazard of the insurance business.

Questions by Mr. Scruggs:

Q. How do you know what the twenty-five cents refers to?

A. I don't know. I say the majority of it.

Q. Is there anything in the schedule that shows where they charge anything for lightning hazard?

A. Nothing to show it in the schedule that I know of.

Q. Is there anything in the schedule to show the charge for the hazard of the elements?

A. Not specifically.

Q. Is there anything in the schedule to show what is charged for the moral hazard we have to get even with?

A. Not specifically.

Mr. Cureton—All these things that are due to the acts of God, like earthquakes or the San Francisco conflagration and other great hazards that come up through natural causes, are embraced in

the twenty-five cents arbitrary charge they put into the key rate.

A. I suppose so.

Examined by Mr. Looney:

Q. According to Mr. Jalonick's illustration of two men down the street here with two houses identical; one two thousand dollars and the other eight thousand dollars; one a premium of twenty dollars and the other a premium of eighty dollars; there was a loss sustained on these two buildings of exactly two thousand dollars each and it was paid. Now, he predicated upon that illustration a question, whether or not the man who had paid eighty dollars premium had not been discriminated against and you answered yes, as I understood you?

A. I said in a certain way. I don't mean that he was actually discriminated against because he went into a contract with the assured. The result was a discrimination to a certain extent, because the man adjoining him: got more for his money than he did.

Q. Now, didn't they both get the same; didn't they get what they bought and paid for?

A. They both got the same amount of loss, but one paid less.

Q. Suppose there had been no loss at all; who is discriminated against?

A. They both had insurance for a certain amount and paid a different price for it.

Q. Didn't they each get what they paid for; protection to the extent for which they paid?

A. One got more protection than the other.

Q. He paid over—

A. One paid less; the lower premium got more protection in proportion to the amount he paid, to the other—than the other. He got more insurance; he got the same amount of insurance as the man who paid more, but for partial insurance or partial loss; he got the same insurance that would cover his probably partial loss for less money than his neighbor who paid for a large amount of insurance and would have been likely to have lost as much as the amount of his insurance on the theory that most losses are partial losses.

Q. One man pays twenty dollars for two thousand dollars and the other man pays eighty dollars for eight thousand dollars?

A. The one that had the two thousand dollar policy had the advantage of the situation.

Q. Didn't he get his protection? Didn't the other man have six thousand dollars the biggest—

A. Yes, sir.

Q. And only sustained a two thousand dollar loss?

A. Yes, sir.

Q. The point is, can that be any discrimination there?

A. It is only a theoretical discrimination because they have got to base it on the possibility of partial loss.

Q. The suggestion is made, suppose he had lost two thousand dollars on a four thousand dollar risk?

A. The party with two thousand dollars only gets fifty per cent of his loss.

Q. There is a theoretical discrimination?

A. No, sir. He did not pay for it; the other fellow paid for more than he got.

Mr. Jalonick—One question: And that is, this co-insurance clause only applies to property in protected towns; is that your understanding?

A. I think so.

Q. I just wanted to make that clear, that the eighty per cent co-insurance clause only applies to towns that have water works; the man who is not acquainted with the idea—the proposition of the large losses; the probability is that he has got a ten thousand dollar house, and where they have a well equipped fire department they will put the fire out before he suffers more than two thousand dollars; he gets the best of it. That does not apply in unprotected towns. In unprotected towns the risk is written with a three-fourths value clause and in case of damage they only collect up to seventy-five per cent of the value of the property.

Mr. Smith—I don't understand that we are attempting, in any way, to repeal the valued policy law. Mr. Hudspeth over on the other side of the house represents, and some of these smiling men who represent the fire insurance companies, he is talking about the effect of the law and the repeal of the law, and making a three-fourths law. I suggest when they don't pay but three-fourths of the insurance, that they return one-fourth of the premium. It reminds me of the man who takes one of these gold bricks or gold bond policies in a life insurance company; if he dies early, he gets the benefit of the whole thing, and if he lives it out, he gets stuck. It looks like at the same time our fire companies, if he burns he gets back one-fourth, and if he does not burn, he gets stuck. Is that the case, Mr. Stacy?

A. He ought not to take out more than he is entitled to.

Questioned by Mr. Baker:

Q. Now, to illustrate this competition out there that is carried in this House bill No. 7, you remember the fire insurance companies had a rating board of their own before the anti-trust law went into effect; you were in business at that time?

A. Yes, sir.

Q. Were the rates, after the Board got to work—the rates were a good deal higher, weren't they, than they were before and until the anti-trust law put that board out of business? My recollection is very distinct that the rates got so high in my country after the board got in good working order that the rates got so high that the people quit buying insurance?

A. No, sir, I don't remember it was so. Of course, the rates have been gradually going down for some years.

Q. Yes, sir, ever since the anti-trust law put the Jalonick Board out of business; then competition got in its work.

A. No, sir, not necessarily.

Q. What got the rates so much lower up to the time this present law went into effect?

A. Some rates were lower—

Q. Take the general average.

A. They did not all get lower.

Mr. Jalonick—I will ask you if the rates—

Mr. Baker—I would like to have you answer my question directly.

A. My recollection is that there was no very great difference. It took some time for the business to get so demoralized that there was any material difference.

Q. But it did it all right?

A. It never did level them. Some of them were lower.

Q. It did lower them on the average, didn't it?

A. Rates were lower last year than they were ten or fifteen years ago.

Q. I am talking about the time between the anti-trust law was passed and put the Jalonick Board out of business, and the time the present law was passed.

A. There was no important lowering. It has just been gradually lowering. It is due somewhat to competition and somewhat to improved conditions.

Mr. Smith—Hasn't that been brought about by the improvement of fire systems and also the workings of the Fire Prevention Association?

A. I think so.

Questioned by Mr. Scruggs:

Q. Mr. Cureton's bill as I have read it has one clause in it that states that the State does not, in any way, cover or govern the payment of fire insurance premiums; and that the companies shall be at liberty to extend credit wherever they see fit. I would like to get your opinion on that.

A. I am glad you asked that. I believe that is about a prolific a source of discrimination as any other.

Q. Wait a minute. I want Mr. Cureton to hear that.

Q. I asked him what his objection was to the clause in your (Mr. Cureton's) bill which is aimed to knock out the present clause making the premiums payable on the fifteenth of the month, establishing a collection agency; I called his attention to the fact that you objected to that, and I asked him what his opinion of that feature of the bill was.

A. I made the statement that I was glad that he brought up that subject. I had intended to mention that myself. I believe that the premium payment clause is a very fruitful source of discrimination; always has been and always will be unless regulated, and if you are going to permit that class of discrimination in your bill you are leaving a very grave defect in your bill, in my humble opinion. There is no good reason that I know of why fire insurance should not be sold for cash. Life insurance is sold for cash and nobody complains largely of paying premiums when they become due, and the policies are not in force unless they are paid, but anyhow, there can be very great discrimination in the matter of the payment of premiums on fire policies. Large lines of insurance can be very materially reduced in rates you might say by an agent agreeing to carry the premium for six months or twelve months or longer. That is a character of discrimination that has been right for years gone by, and has been needed, and I think it ought to be left like it is now. The small man, of course, can not get his bill carried and the big man can get the interest on his money, because he can get the money, and therefore, is a very great discrimination.

Q. What advantage would it give you from your competition in the insurance business to be able to say to a man: I will do your insurance and carry it for you for six months; I mean now as an illustration, you do it without the knowledge of your com-

petitor, and your competitor has not been doing it, what opportunity does it give you to make a contract and to lift the business out of your competitor's office?

A. I would soon clean him up, I expect.

Questioned by Mr. Cureton:

Q. In the first place, permit me to call your attention to the fact that in my judgment that if that is the law that the State made policies forfeitable, I don't think it is a good law; I don't believe that is the law.

A. It is not in the law.

Mr. Cureton—But I will tell you further, I believe that is a bad law because I think the discrimination which arises between men and individuals and possibly due to superior credit is a just and righteous discrimination. I think a man's credit is money, and I think if he can do this that he has got a right to do it, and if the State should ever pass a law that would not permit a man to use his credit, I think it would be an absolute inconsistency.

Mr. Stacy—Well, I don't think it would be fair to every one to require him to pay interest—

Q. No, sir, I don't think so. We can't make contracts for men; the law can only construe the contracts.

A. You mean prevent them from discriminating to that extent.

Q. We can't prevent the people from making contracts, but we can prevent them from combining—

Mr. Cureton—Your application to the matter is the same as any other line of business. I practice law, or am supposed to. Now, if my competitor in this profession is able to extend to a man a credit of six to twelve months and I can not do it, that is a right that he has got a right to have. So it is in the grocery and every other business. I believe that, as our friend Roosevelt says, that is a righteous discrimination.

Mr. Stacy—You don't prevent them from collecting the cash if they want to.

Mr. Cureton—This bill as I understand it is designed to—it does not prevent the company from collecting cash if they want to; they can collect it if they want to.

Questioned by Mr. Looney:

Q. In regard to the collection of insurance, what is your objection to writing into the law a provision that if the insurance company don't settle within the time stipulated in the policy

that it shall be penalized to the extent of paying a reasonable attorney's fee provided that the company—no more is recovered or a greater amount is recovered than the companies offer in their settlement?

A. That is the law now.

Q. Now? Not with reference to fire. Would you think that would be a reasonable provision?

A. Well, I don't know. There are so many elements entering into a settlement of a fire loss and the juries are so liberal in regard to the assured. I don't believe the companies ought to be put to the—ought to be hampered in making their investigation, to the extent of getting into court where they deem it practicable. They ought not to be allowed to quibble over a settlement, but if they have a just cause—if they believe they have a just cause for resisting a claim, I think they ought to be allowed to do it.

Q. Don't you think it ought to be changed from warranties to representations in the policy; what would be the objection of abolishing the warranties in a policy and place the insurance upon a basis of representation?

A. I don't believe warranties ought to be abolished. I think the assured ought to be required to make some warranties.

Q. Suppose it does not affect the loss? Suppose the warranty is wholly immaterial?

A. I don't believe in sticking on immaterial warranties at all.

A. The best answer that I could give to that is that I have been in the business twenty years and I have never known a company to resist an honest claim that they thought was honest or had cause to believe was honest.

Q. That is the trouble. They think so many are dishonest.

A. I have known them to pay a man and a many a claim to keep from litigation.

Q. (By Mr. Jalonick.) How many lawsuits have the companies in your office had from your business for the period you have been representing fire insurance companies? How many claims have they taken to the court house and contested?

A. I have never had a policy sued on in my agency in twenty years.

Q. (By Mr. Scruggs)—Mr. Looney asked you what you thought of a proposition when an insurance company declines payment and carries the claim into court of penalizing that company

for attorney's fees, provided the award is more than the company has offered to settle for before they go into court.

A. Yes, sir.

Q. What would you think if you added to his statement the fact that the complainant in that lawsuit should be required to pay the attorney's fees of the insurance company provided he did not recover more than the company had offered him?

A. It would be fair play.

Q. That would work both ways, Mr. Looney.

Afternoon Session, July 30, 1910.

R. W. Hamby, being duly sworn as a witness and examined by Mr. Cureton, testified as follows:

Question. Where do you reside, Mr. Hamby?

Answer. Austin, Texas.

Q. How long have you been living in Austin?

A. Twenty-six years.

Q. What official position, if any, do you hold under the laws of this State?

A. I am Secretary of the Fire Rating Board.

Q. You are a member of the Board?

A. Yes, sir.

Q. Prior to accepting this official position what was your occupation or business?

A. Immediately prior I was a real estate agent in Austin. I was local fire insurance agent and real estate agent.

Q. Had you ever had any experience in the fire insurance business prior to being local agent here?

A. I was in the home office of the Austin Fire Insurance Company for about five years.

Q. What position did you occupy in the home office of that company?

A. Assistant secretary.

Q. Are you familiar with the duties of that office and with insurance business generally?

A. Yes, sir.

Q. Are you acquainted with the conditions of the insurance business in the State of Texas prior to the taking effect of the Fire Rating Board law of this State?

A. Fairly well.

Q. What was the condition of the insurance business before the taking effect of that law?

A. As to rates?

Q. Yes, as to general conditions and as to rates.

A. It was considered chaotic.

Q. Mr. Hamby, you say it was in a chaotic condition. What do you mean by that?

A. The fire insurance, to a great extent, had been written without any serious regard to proper rates being provided for it, and written very generally without a proper inspection of the risk.

Q. Well, was there prior to that time any system of uniform rates used; that is, rates that were uniform over the State with the hazards, that they undertook to be applied to?

A. There had been prior to that time.

Q. But at that time, prior to the taking effect of this law, at the time of the taking effect of this law?

A. There was none that I knew of.

Q. How did the companies write insurance; what governed them in the writing of fire insurance?

A. It was the usual case that the local agent solicited the policy from the assured, and the assured got the best rate he could and the agent got the best rate he could and sent it in to the company with the recommendation that the risk be accepted. The insurance, if they considered the rate adequate, or if they would conclude that they would take it for any reason they did so, or if it was not acceptable for any reason, then they would reject it.

Q. Was the same rate applied to different individuals under the same hazards?

A. No, sir, I know it was not in many instances.

Q. Was there what is commonly known as discrimination in insurance rates?

A. Yes, sir.

Q. To what extent was the discrimination practiced?

A. You mean as to the number of people that got the benefit of the discrimination?

Q. Was the discrimination general over the country or was it confined to a few localities?

A. It was very general over the State more or less, so I am informed.

Q. What class of risks or individuals received the lowest rate in proportion to the hazard prior to the taking effect of the Board law?

A. Generally speaking, the larger insurer.

Q. How was it he got the discriminatory or cut rate?

A. He had more insurance to place

and used that as a means to play one agent against another agent in offering business to the agent and the agent would reduce the rate.

Q. Do you know whether or not insurance was sometimes written at an actual loss to the company because of the fact that the rate was so low?

A. Some rates I have heard of and know of would, in my judgment, result in a loss to the company.

Q. How did the companies make up this loss; for instance, the loss on the larger class of risks, say a mercantile risk, how would they make up that loss?

A. If they made it up at all, it would be from collecting a higher rate from another class of individuals, sufficiently high to offset the loss that was to the favored few.

Q. Take a class of insurers, say retail merchants, large retail merchants over the State, did they get a lower or a higher rate in proportion to their hazard than other business institutions of this State?

A. If the retail merchant had a pretty large stock and had a large amount of insurance to place, he, as a rule, could get a very much lower rate than another retail merchant that had only a small stock and a small amount of insurance.

Q. You say this condition of affairs prevailed generally so far as your knowledge goes?

A. Yes, sir, it extended pretty well all over the State; worse in some places than at others.

Q. Well, is there, or was there, any other classes or any other class of insurers or purchasers of insurance that received cut rates or rates out of proportion to the hazard besides the retail merchants?

A. Yes, sir.

Q. What others?

A. All others—that is, many other classes. It was not confined exclusively to retail merchants. So far as my information goes, it was more generally among wholesale merchants than it was among retail merchants; in fact, all classes that had a large amount of insurance to place which would include also special hazards.

Q. Your opinion is that those who had a large line of insurance to place, even those having special hazards prior to the rate, that is prior to the Rating Board law, receiving insurance at a rate which was less in proportion to the hazard than that en-

joyed by the smaller purchasers of insurance in this State?

A. Yes, sir.

Q. Well, now, outside of the fact that this character of discrimination was a substantial injustice to the individuals over the State, what other effect, in your judgment, did this discrimination in insurance rates have on the insurance business of this State?

A. I think the fact that the companies could not, under the anti-trust law, join in the inspection and scientific rating of risks generally, because to do it individually, it would cost them too much money, that a great many hazards were undertaken where they were not informed as to it, and insurance would be granted where if they had had proper inspection it would not have been granted, and people were allowed to go along in an unsafe condition and in many cases resulting in losses.

Q. Don't you think that this discrimination in rates brought about the increased fire losses in this State?

A. Yes, sir.

Q. I understood you to say that in these discriminations the companies oftentimes took business without inspection and took risks that were more dangerous than the rate justified; in other words, the rate was not sufficient to cover the risk, and that increased the fire loss on account of this struggle to get business.

A. Yes, sir.

Q. Mr. Ray suggests that if the companies would take immoral or hazardous risks, that is a risk made hazardous by the moral equation, that they would take them more frequently than they would under a proper rating or a proper system of insurance?

A. I don't think that was the case.

Q. You stated that prior to the taking effect of the Fire Rating Board law that all of the companies really had no basis of rates; was there at that time any kind of a basis rate which might be employed at that time?

A. Yes, sir, there was what was known as the Hartford tariff. That was in Texas at that time.

Q. Was that used or adhered to during this condition of affairs that you have been talking about?

A. No, sir; not hardly ever.

Q. During this disorganized period that you have been talking about?

A. No, sir.

Q. Why was it not adhered to and

used by the companies of this State during that time?

A. The companies generally allowed their local agents to size up the risks, and charge about all they thought the insurer could stand.

Q. During this condition of affairs, the company sold insurance for the highest price that it could get?

A. Yes, sir.

Q. And if they couldn't get enough off of you they would stick a little more on me on my policy or somebody else?

A. Yes, sir; took the chance of making up the rate.

Q. The insurance companies in fact in sizing up the amount or estimating the amount of money required or that they had to have to cover the losses, would take this estimate of the amount of money and make the rates sufficient to get that amount of money and they paid no special attention to the rating of the individual risk or classes of risk that they collected the insurance off of?

A. Yes, sir; that's it.

Q. Just so they got sufficient amount of money was satisfactory to them, and if not satisfactory it was at least their practice.

A. Yes, sir.

Mr. Gilmore to the witness:

Q. Mr. Hamby, this rate of which you speak, was it in the form of a map of the city; the Hartford rate sheet?

A. It was in the form of a general basis schedule.

Q. I believe you said you were engaged in the local fire insurance business before you became a member of the board?

A. Yes, sir.

Q. How many companies did you have?

A. About twelve.

Q. Did you apply this rate to all of those companies?

A. No, sir. I frequently referred to it in getting out the rate, or when I was trying to sell insurance to a man. I would frequently refer to that book as a basis from which to quote him the rate, but in rare instances did I obtain the rates exactly as provided in that tariff book.

Q. How did you manage in dividing this business among your companies to keep from discriminating between the companies as to the character of the risk and the profit which they would probably get out of the business, if you did not adhere to this tariff?

A. I did not try in any way to avoid

discrimination as between the companies.

Mr. Cureton to the witness:

Q. Under that whole system can you give any concrete example of discrimination so it may be thoroughly understood, showing how it worked in Texas, a practical application to a risk in a town or city?

A. I remember one that I remember that I considered a very flagrant case of discrimination. Where the occupant of a store building was running a ready-made tailoring place; a ladies' ready-made stock. His rate as I remember it properly figured, according to the generally accepted rates, about \$1.75. He had been playing one agent against another and for some reason or another had gotten his rate reduced to \$1.25. Shortly after that he took into the building a couple of young ladies who were conducting a similar character of business. He may have had some arrangement probably between them as to why they should have a similar business; the stock were in the same building and same store, and the insurance, according to the policy I saw, was written in favor of the young women at \$1.70, when he was paying \$1.25.

Q. These two people in identically the same building, identically the same character of goods, with identically the same exposure, and the only difference between the two respective parties who bought the insurance was sex, and they charged one fifty cents more than they did the other?

A. Yes, sir; forty-five cents more.

Q. Did the question of sex have anything to do with the rating of these two stocks there?

A. I think it was nationality more than anything else. The gentleman happened to be—

Q. The fact of the business was that a man could just drive a harder bargain than the woman and got the cut on the insurance?

A. Yes, sir.

Q. That was the truth of the matter, that the man could drive a harder bargain, and the man that could drive the best bargain got the best insurance rate and the fellow who was not as good a business man and not cold-blooded enough had to pay the high rate?

A. Yes, sir.

Q. Was there anything outside of just straight discrimination, was there any system of rebates between the agents and the customers and between the companies and their customers—do

you know whether or not this man in this building got a rebate or any part of this premium that the ladies paid? Do you know whether he got a rebate or not?

A. No, sir; I don't know.

Q. Well, Mr. Hamby, is it possible to make just rates between different risks and the same insurance between people on an equitable basis?

A. I think so.

Q. What information ought a man to have who is undertaking to make fire rates?

A. I think the principle of fire insurance is the same as it would be in purchasing any commodity, the cost of production and the amount it produces.

Q. Then in making fire insurance rates you would have to know first the probable cost of insurance?

A. Yes, sir.

Q. Including the expense of obtaining the business and the fire losses, in other words the gross cost of insurance, and when you have that then you can make the rate—what information would you have to have?

A. After you have established the general rate, the basis rate so to speak, it would be necessary to take the earnings from their primary rate and apply it to the individual risks, many risks are less hazardous and many are more hazardous.

Q. Then when you undertake to make a rate to apply the various risks you would have to have the amount of money that applies on various risks—for instance, you take property of a certain class, you classify a store and know the amount of money it takes to carry that class of merchandise?

A. If you know the value of the property to be insured under that class and to that would have to be added the exchange business, the cost of inspection from time to time and various other things in carrying on the insurance business.

Q. In Section 10 of House bill No. 7 it is provided that any insurance company authorized to transact fire insurance business in this State and any of its officers, directors, representatives and general State special and local agents shall make sworn monthly statements and reports of all insurance written in this State during any or all calendar months of each year it is so authorized to transact business, showing all premiums received during such month or months, the different classes of risks written and the rates of pre-

miums at which such risks are written, is it necessary to have that information I have detailed here in order to fix the rates in this State?

A. The rates should be fixed by that information, some companies will not have kept a record and some companies keep a record.

Q. Is this class of information desirable in making risks?

A. It is the amount of insurance carried or the estimated value of the property that is insured.

Q. Now in making rates, what element do you take into consideration, for instance you were to make a specific rate on a hazard what elements enter into the making of this rate? I understand you must get so much money to pay the loss, what elements enter into that loss?

A. Do you presume that we have a general basis schedule from which we make that rate?

Q. How do you make it; what would that mean?

A. You mean if I was in a position to inaugurate a system of rates that would apply to that class of risks?

Q. Yes.

A. We would consider first the probable amount of loss that would happen to that particular or class of building and the amount of salary and the cost of obtaining the business and keeping the business and a profit to the company.

Q. Well, having obtained all this, would you put the same rate on that character of building as you would on some other character of building—do local conditions enter into the rate?

A. They do.

Q. Do you take into consideration the immoral character of the man?

A. No, sir.

Q. Mr. Hamby, as I understand if there is a moral hazard as to his particular individual the company wouldn't write it, but would cancel the policy, and in making rates you simply take into consideration the average moral hazard incident to this insurance business?

A. Yes, sir.

Q. There is no way of determining how many men are going to burn their houses up?

A. I think so.

Q. You can't accurately determine this?

A. A great many of them can be ascertained.

Q. A great many of them are ascertained?

A. Yes, sir.

Q. Those that can be ascertained you can classify them the same as the classification between individuals?

A. You can see many of them.

Q. The moral hazard is what you can not ascertain and can not use that in making specific rates?

A. Yes, sir.

Q. I will ask you to take this risk now, Mr. Hamby, and which I will have incorporated in the stenographic proceedings showing the number of fires and their causes in connection with claims paid by the companies during 1908 and 1909. During 1908 how many fires of every character have they listed there?

A. Ten thousand nine hundred and thirty-six (10,936).

Q. What are some of the causes that are specified for the year 1908?

A. The unknown causes three and a fraction per cent, from outside causes 15.46, from lightning it is 5 per cent, carelessness from adults, children, drunkenness, 22 per cent, from lighting candles, gas, gasoline, it shows a total of 13.39, making a total of 19.30 per cent; then spontaneous combustion, natural causes, etc., a total of 9.42 per cent.

Q. Mr. Hamby, after the fire rating law went into effect by whom have these rates been prepared?

A. By the expert of the insurance companies, so I understand.

Q. Under this law the insurance companies have capable experts to write the rates?

A. Yes, sir.

Q. And the rates which have been promulgated in various towns in the State have been prepared by these experts of the insurance company?

A. Yes, sir.

Q. How many towns of the State have been rated?

A. I really could not tell you, I would suppose something over one hundred.

Q. Now, what has been the difference in the rate as made by the companies' experts?

A. So far as my information goes the rates on dwellings show a reduction of 20 per cent.

Q. The dwellings of the State, what part of the insurance is collected from dwelling in the State?

A. I understand the dwelling risks approach about one-fourth of the general premiums.

Q. Now, you say that there has been a reduction in the dwellings risk of about 20 per cent. Was that reduction

before the board ordered a general reduction of 25 per cent?

A. That was before the board made any orders affecting the dwelling class.

Q. Then what is about the general reduction on dwellings class in the State since the order of the board?

A. The board made no order—that is the order reducing 25 per cent did not apply to the dwellings class. They did make an order without reducing the rates on dwellings in what is known as unprotected towns—I should say on an average of 20 cents a hundred.

Q. Now, is that 20 per cent, does that include the reduction that has been made by Roulette's rating, or is it in addition to that?

A. The rates applied by insurance companies, of course apply all over the State, and it showed a general reduction so far as my investigation went of 20 per cent all over the State. The board simply passed an order that would affect only such risks as were outside the fire protection, just how many and what volume of the premiums come from all such risks I could not hazard a guess.

Q. Mr. Maddox requested me to ask you what class of risks, whether the dwellings class or whether the mercantile or other classes sustained a greater proportion of loss heretofore in this State by fires?

A. I have understood that the mercantile portion was the least profitable to the companies.

Q. That there were more losses in mercantile insurance than in residence and other classes?

A. Compared with the premium received.

By Mr. Smith—Q. Isn't it a generally asserted and accepted fact that the insurance business on dwellings has been unprofitable in Texas in the last several years, less profitable than mercantile risks?

A. Not that I know of.

Mr. Tarver—Q. Mr. Hamby, you said the rates made by the companies shows so far as your investigation went a general reduction of about twenty per cent on residence risks?

A. Yes, sir.

Q. And that the board made no general order with reference to residence rates, but that you did make an order with reference to residence rates in unprotected towns; now, did the schedules as filed by the companies show a reduction for residence risks in any protected towns or not?

A. It showed in some cases and others it did not.

Q. Then the proportion of the reduction in the unprotected towns made by the companies was not in keeping with the general reduction?

A. No, sir.

Q. And for that reason the board ordered a further reduction in unprotected towns?

A. Yes, sir.

Mr. Cureton—Q. Now, Mr. Hamby, with reference to mercantile risks, what effect has the rating of Mr. Roulette had on the price of insurance and mercantile risks and other risks and risks other than dwelling risks? Has it raised or lowered the rate or what has been the effect generally?

A. The investigation made by the board shows that it has been increased over the rates formerly paid by this class.

Q. Well, now, what per cent would you say, Mr. Hamby?

A. As near as I can estimate it 53 per cent.

Q. Fifty-three per cent generally?

A. Yes, sir.

Q. Were there any individual instances where it was in excess of that?

A. Yes, sir. And there were individual instances where the new rates were less than the old rates.

Q. Now, you are familiar with Mr. Roulette's principle of rating are you, in a general way?

A. Yes, sir.

Q. Now, has he applied the same principle in rating mercantile risks that he applied in rating residence risks?

A. Yes, sir.

Q. And you say that upon the application of this principle the rates on dwellings property have been reduced and the rates on mercantile property have been increased 53 per cent?

A. Yes, sir.

Q. Why has that condition come about, why was that the result?

A. I don't know; I can only surmise that the insurance companies assumed, if they did not know, that dwelling rates as a whole were too high and that mercantile rates as a whole were too low.

Q. Then, as I understand you, under Mr. Roulette's rating the residence risk of the State from which the insurance companies get one-fourth of their premiums have been decreased 20 per cent?

A. Yes, sir.

Q. And that the mercantile or business risks and other risks from which they get three-fourths of their income has been increased 53 per cent?

A. Yes, sir.

Q. Are insurance companies getting more money or less money than they did before Mr. Roulette's rating?

A. For the same amount of insurance they would get more money in total premiums.

Q. And insurance, as a matter of fact, in the State is today higher than it was before Mr. Roulette's rating?

A. Yes, sir.

Q. Is that true after the reduction made by your board?

A. Slightly; there would be a slight increase presuming that no one would take advantage of the reductions that will follow the cleaning up of their risks.

Mr. Jalonick—Q. Did you say, "assuming that no one would take advantage of cleaning up of their risks?"

A. Yes, sir; that no one would take advantage of cleaning up their risks.

Mr. Smith—Q. You spoke of the effect it would have in case they did not take advantage and clean up their risks; what would be the effect if they did clean up their risks?

A. The effect on what?

Q. On the risk?

Q. By Mr. Jalonick—On the average rate, the average amount of money paid by the insurers to the company?

A. I think it probable that with the reduction as ordered by the board that in the course of time enough premises would be cleaned up and enough improvements would be made to the water works and fire fighting facilities of cities to bring down on the same amount of insurance, to bring down the total amount of premiums.

Mr. Smith—Q. We would also naturally expect it to reduce the fire loss at the same time?

A. That would be a natural conclusion.

Mr. Cureton—There has been considerable discussion in the public press of this State and considerable criticism of the present insurance law. What is it that this Legislature can do to assist in doing justice to these people, if justice has not been done them? What further authority do you need?

A. Justice to the people?

Q. Yes, if injustice has been done, what further authority does this board need? What changes in the law do you suggest?

A. I think the principal injustice that has been done the public is the taking effect of rates without notice to the people. The schedules as promulgated by the companies were filed with the board on the first of January; it

was a physical impossibility to apply these schedules to individual risks and to write insurance according to these schedules, so the method was adopted whereby the companies could grant insurance to the public and still come within the terms of the law. The law specifically stated that no insurance should be written except at the rates upon the terms, propositions and conditions specified in the schedule of the company writing the business, so the insurance companies adopted what is called and is generally known now as the "red rider," which provided that the premium used in the policy was a temporary one, and when the risk was rated under the general basis schedule the premium would be adjusted to conform and the rate obtained from the general basis schedule, these schedules contained charges, what is known commonly as acceptance charges, if there were empty boxes, trash, gasoline, rubbish, and conditions of that kind, and when the risk was rated these conditions were found in many of these risks and the rate was figured accordingly, and if they should—if known that these things were to be charged for in many instances they would have been removed. It frequently happens that he don't know that that rate was applicable to him for months after his policy was written, and he would, probably in some instances six months, and he would be charged possibly a dollar and a half or two dollars extra rate for these conditions which he could have removed if he had had notice about that trouble. That injustice to the public is now very largely overcome, because, as I understand, something like 80 to 85 per cent of the premium payers have now received their specific rates, and all insurance written hereafter will be at these specific rates and the assured has notice what his rate is going to be if he don't clean up. So the principal defect in the present law was that the rates were mandatory upon the companies from the first of January, when they nor the public nor the board knew what the rates were going finally to amount to.

Q. Well, now, did the insurance companies send any notice to the policy holders as to what the policy holders ought to or could do in order to reduce their premium rates?

A. Not that I know of.

Q. Could that have been done?

A. I will qualify that statement by saying that I understood that while the risks were being inspected by Mr. Rou-

lette's experts they had not been instructed to inform the insurers that certain unsafe conditions would be charged for. They had not been instructed to give the insurers that information. I do not say that they had been instructed not to give it.

Q. Yes; and so far as you know they had not been instructed to give that information. Could not the information have been easily conveyed to the policy holders of the State by the insurance companies that they should do certain things in order to get a low rate of insurance through the public press or by letters or circulars?

A. Certain notices were in the public press that these things were contemplated in the schedules of the companies. That, of course, was just a general notice and the average insurer did not take it to himself or think anything about it. It would have been possible when the individual risk was inspected and the deficiencies and the exceptional charges noticed on the inspection reports by the experts to have told the assured or the occupant of the building just what he could expect.

Q. What was there to prevent an insurance company from writing a letter to a business man, say, and say to him, "Your business at a certain place has been inspected by our experts and after the rate was promulgated your rate will be so much. The following composes the items of deficiencies in your risk and unless they are removed these charges will be used in making your rate?" Why could not that have been done?

A. The work was so far behind that the insurance companies could not and did not get at the figures themselves until it was in printed form. A great many of the inspections, the majority of them, in fact, were made after the first of January, when thousands of policies had been written since the first of January and prior to the inspection.

Q. Well, Mr. Hamby, what is a key rate?

A. A key rate is what you might understand as being the town rate, the measure of deviation from a standard system.

Q. Here is a specific schedule of fire insurance rates for El Paso, El Paso county, Texas; on the second page I find an analysis of the key rate of El Paso; I wish you would take this analysis and look it over and tell the committee what the key rate of El Paso is as fixed here by Mr. Roulette and tell the committee what the city of El Paso could have

done or could do in order to reduce the key rate.

(Mr. Hamby is handed the document.)

A. The key rate for the city of El Paso as figured here amounts to 50 cents; if El Paso had been according to the standard city provided herein the key rate would be nothing. It is possible for a city to be so constructed and so protected that it would have no key rate.

Mr. Smith—Would give them free insurance, would they?

A. No.

Mr. Cureton—Look over the list and see what the city of El Paso could do to reduce any of its charges on the key rate.

A. There is a charge of 5 cents for the pump being inadequate to the item of 50 per cent, a 50 per cent deficiency in its pumps, which if corrected would eliminate 5 cents.

Q. Is that the pumps at the water works?

A. Yes, sir.

Q. In other words, the pumping facilities that they have there are only half as good as they should be?

A. Yes, sir.

Q. That means, in the formation of key rates, that they only have one set of pumps, they are not in duplicate, that is what it means?

A. No; the pumps seem to be in duplicate, but they possibly are not of sufficient size or sufficient to pump the amount of water estimated for a city of that size.

Q. What is the population of El Paso?

A. \$43,300.

Q. Then the city of El Paso has not the pumping facilities of a standard size and which are sufficient for a city of 43,000 population?

A. No, sir.

Q. Estimating or rating it for fire purposes?

A. Yes, sir.

Q. What else could they do? How much would that reduce on the key rate?

A. Five cents.

Q. What else could they do?

A. That pumping station seems to be an iron-clad, whereas the standard calls for a brick, metal roof pumping station.

Q. Where do they get these standards that you refer to?

A. From the general basis schedules of the companies.

Q. Has each company a different

general basis schedule or are they all the same?

A. A majority of the companies use schedule.

Q. The pumping station at El Paso is an iron-clad house when you say it should be brick or rock? Is that it?

A. A brick or rock with a metal roof.

Q. Now, how can the fact that the house that a pump works in is an iron-clad effect the rating of insurance there? What has that got to do with it?

A. A brick or rock metal roof pumping station is more indestructible than an iron-clad or a frame pumping station, which, if it should burn, if the pumping station should burn, would necessarily disable the pumping facilities of the town and leave the town without water in case of fire.

Q. In other words, there is not so much danger to the pumping station when it is in a good brick house as there is in an iron-clad house?

A. That is the idea exactly.

Q. And the city is penalized how much for that?

A. Ten cents.

Q. Does that class of penalization apply uniformly over the State?

A. Yes, sir. A great many towns, a number of towns, are removing their frame and iron clad pumping stations and replacing them with brick.

Q. What other thing might the city of El Paso do to reduce its key rate?

A. The water mains in the mercantile section seem to be, 40 per cent of them seem to be less than 8 inch, for which a charge of 4 cents is made.

Q. Then to reduce that particular part of the key rate it would be necessary to lay new water mains?

A. Additional water mains, where they are less than 8 inches, and it seems that part of the water mains are not of standard cast iron, for which a charge of 5 cents is made. The companies claim that wrought iron pipes or wooden pipes are not as safe as standard cast iron and under pressure they burst.

Q. What has that got to do with fire, under pressure?

A. In case of fire an excess pressure is put on the main, of course, to deliver the greatest amount of water at the shortest time.

Q. What else might they do to reduce their key rate?

A. It seems that 25 per cent of the fire hydrants of the mercantile sec-

tion are over 300 feet apart and in the dwelling section they are over 600 feet apart, and they seem to need more fire hydrants to protect the city, from which a charge of 3 cents is made. The fire department has less than five paid men to each 5000 population or fraction; a charge of 3 cents is made there; if they put on a sufficient number of firemen, 3 cents comes off. The hose wagons and carriages are deficient one; there is a standard for so many hose wagons for each 35,000 population, I believe, require one. I presume they have one but not two, for which a charge of 2 cents is made. The hook and ladder trucks are deficient one; which is charged 2 cents. The fire alarm seems to be deficient one, for which a charge of 2 cents is made. They have no fire marshal there, for which a charge of 3 cents is made. Overhead wires, trolley, light and power; it is charged 2 cents, three cents and one cent respectively, for obstructions, such as railroads going through the town, a charge of 2 cents is made, on shingled roofs, and a charge of 2 cents is made, which makes a total charge of 52 cents and there are credits as follows: Chemical engines on wheels, four combination hose trucks, for which a credit of one-half of one per cent each is allowed, making a total credit of 2 per cent. They have two steamers in service, fire engine steamers, for which a credit of 2 per cent is allowed, making a total credit of 4 per cent of 50 cents, which makes a net reduction of 2 cents in the final key rate of 50 cents.

Q. These charges and credits, how are they arrived at; are these purely arbitrary?

A. You mean such as 5 cents for the pump inadequacy?

Q. The pump and the 10 cents for something else.

A. They are purely arbitrary charges, as I understand; insurance companies have taken unprotected towns and figured the deficiencies that would enter into an unprotected town at a dollar and they analyzed these deficiencies and put a price on deficiencies so that as often as an unprotected town eliminated one of these deficiencies a certain amount would come off of their key rate.

Mr. Reedy—Q. Is there any provision in this contemplated law anywhere, is there any power vested anywhere for any provision in this bill that we are considering, Mr. Hamby, which would give to the board the privilege or op-

portunity of determining whether this penalization such as you have just been reading are just or unjust in any particular city and the amounts or eliminating or striking them out as charges against that city?

A. The House bill, No. 7, which I have read—not as carefully as I intend to, as I understand, gives the board—makes it a duty of the board to prescribe these charges itself.

Q. Yes.

A. Also gives it the power to amend, alter or revise or change the rates or raise any and all of such charges that have been fixed by themselves.

Q. Will that apply also to the penalization—you catch the idea, that is a penalization for special risks in any city; now has the board got that power or is it intended to be given that power in the bill that would enable it to determine special penalization in special risks?

A. I should think so.

Q. That is necessary, isn't it? Don't you think?

A. Yes, sir; I should think that it would be incumbent upon the board to establish a standard and to provide for all possible deviation from that standard and these deviations would be considered as penalties, any charge for deviation would be considered a penalty. There may be some penalties that would apply to only one risk in a city or to a very few risks in a city.

Q. The board would have a right to determine that, or should have?

A. Yes, sir.

By Mr. Cureton—Q. These penalties and charges here, as I understand, so far as your testimony goes, have no scientific basis, but they are purely arbitrary?

A. Arbitrary, I assume, yet they are partly scientific from the fact that they are gathered, as I understand, from the experience of a large number of experts in the insurance business.

Q. Well, now, they penalize El Paso 10 cents for having an iron clad pump station, yet they penalize her only 4 cents on her pumping equipment. Do you think that just, looking at it from a common, every day common sense standpoint, that a penalization of 10 cents for an iron clad pumping station is just and a charge of only 4 cents for one-half of the pumping facilities—in other words, do you think a house is more important than a pump in the fire insurance business?

A. If the pumping station was de-

stroyed it would naturally destroy the pump.

Q. That is true.

A. And render it entirely valueless, as a pump seems to be—

Q. It has some utility?

A. It has some efficiency and could possibly put out a small fire.

Q. Now, under the present law that is on the books the board has no authority to regulate or change this key rate; in other words, you can't change the key rate as it stands now on the books; all you can do is to reduce a rate that has been made that is a specific rate or to put a rate on classes; you can't reduce the rate, but you can readjust the credits and charges as specified in the key rates?

A. I think that the law, as it stands now, would authorize the board to change any particular item in the general basis schedule.

Q. How is that?

A. I think the law as it now stands would authorize the board to change any particular item in the schedule.

Q. If the law as it now stands does not give you that authority then you ought to have the authority to change any charge or credit in the key rate?

A. Yes, sir.

Q. If you are going to undertake to regulate the rates?

A. Yes, sir.

Q. Mr. Maddox desires to know where the word "key rate" came from, or the origin of it.

A. I don't know where it originated; it has been used in the insurance business for quite a number of years. The first that I happened to have any knowledge of it, was used, when the universal mercantile schedule which was gotten up many years ago by Mr. F. C. Moore, who is now in New York.

Q. Now, in making the key rates and in other cities of the State the charges and credits as they have been used, there has been no discrimination between the cities of the State by Mr. Roulette in making the key rate of the several cities of the State?

A. No, sir.

Q. Since we have been referring to the city of El Paso prior to the taking effect of this rating law, state how the rates of El Paso have been on insurance, whether high or low, on an average, if you know.

A. So far as I have heard they were lower than the average.

Q. Well, now the city of Fort Worth,

how were the rates there before the taking effect of the present rating law?

A. They were considered lower than the average for the risk.

Q. They had a good, lively aggressive population there and they got about all that was coming to them in low insurance rates?

A. Yes, sir.

Q. Was that the proposition? About the lowest of the State, wasn't it—among the lowest?

A. Well—among the lowest.

Mr. Baker of Hood—Q. Wasn't the low rates of El Paso due partly to the fact that El Paso is built almost entirely of brick? I know of personal knowledge there are very few wooden buildings there, you can hardly find them, I have been over the city lots of times and know that it is very rare thing to see a wooden building.

A. Probably that had something to do with it; yes, sir.

By Mr. Cureton—Q. Now, Mr. Hamby, you have a number of these key rate books showing the key rates of various cities and as you stated, they are all based upon some general principle, the key rates?

A. Yes, sir.

Q. What do you think about the key rate, whether or not it is a just and scientific system?

A. I think it is just and equitable as between town and town, city and city. I will explain further why.

Q. Go ahead.

A. Before the inauguration of the key rate system towns in Texas had been known as either first class, second class or third class or fourth class towns; the first class town was considered the standard or very nearly standard, and the second class was, it had several deficiencies below that; the third class had several more and the fourth class had all the deficiencies. For a city to get from one class to another it was necessary for them to do several things, maybe as much as four things; they could sometimes maybe reasonably do three of those things but could not do the fourth one and for the very reason that they could not do the fourth one they still stayed in that class, whereas under the key rate system for every particular thing they do they get credit for it. If they do only one thing they get credit for it; if they do another thing they get additional credit and for that reason I think the system which will differentiate between town and town and put a price on the difference of each deficiency is an

equitable one and will in time be very satisfactory to the public. A number of cities and towns are now improving themselves and reducing the key rates, coming right along.

Q. Mr. Hamby, I hand you this. I wish you would take some specific risk and explain to the committee now the owner of this risk could reduce his rate of insurance, if he could do it, under the key rate system and the rating system that is now in vogue.

A. This is the analysis of the rate on a building at No. 705 and 707 Houston Street, in the city of Fort Worth. It seems to be a brick building and is occupied on the first floor as a shoe store and also as a book and stationery store; in the second floor it is occupied as a rooming house, second and third floor.

Q. What is the rate on that building?

A. \$1.99 final rate.

Q. \$1.99?

A. Yes, sir.

Q. How could the owner of that building reduce that rate under the prevailing system that is now in operation?

A. I had better read out the individual items that go into the rate.

Q. All right. Read out to the Committee the individual items which go to make up that rate.

Mr. Tarver—I would like to know what the key rate for Fort Worth is.

A. Thirty-one cents. The first charge in this rate is what is called the basis rate, it being a brick building with a metal roof, the Texas basis rate is 25 cents.

Mr. Cureton—Q. While we are on that basis rate, what is that basis rate and where does it come from?

A. Every building has what is called a basis rate; that is, every class of building has what is called a basis rate. The basis for a brick building with a metal roof as provided in the schedule is 25 cents.

Q. Is that an arbitrary rate, or how is it arrived at?

A. It is an arbitrary rate, as far as I know.

Q. In other words, that is your hazard for a brick building with a metal roof?

A. That is what might be termed the analyzed portion of the hazard.

Q. That portion of the hazard has nothing to do with the key rate of it, it gets that hazard no matter where it is?

A. Yes, sir.

Q. No addition to the key rate?

A. No addition.

Q. The next item of this charge is the key rate which being in Fort Worth is 31 cents. If that was located in an unprotected town it would be something like a dollar; the next item is for two ground floor occupants, one of which is charged at 15 cents; one ground floor occupant is always allowed. If there are two stores in the building it is considered more hazardous than one.

Q. Is that charge for 15 cents for the additional ground floor occupant, is that purely arbitrary charge or has it been arrived at in a scientific way?

A. It is, I understand, an arbitrary charge.

Mr. Stratton—Q. Suppose it is in a block that goes all the way down and all connected, is it 15 cents for each one?

A. If the building is down all the way, if there are no fire walls, 12 inch fire walls, all the way through the block, every ground floor occupant would be considered and charged for as an additional occupant; if not properly cut off with fire walls.

Mr. Vaughan—Who fixes the thickness of that fire wall?

A. Who estimates how thick it should be?

Q. Yes.

A. The companies put that in their schedules—

Q. Isn't it a fact that almost all fire walls are nine inches and that they fixed it enough above that to catch most of them.

A. I think not. I think 12 inches is the average fire wall.

Mr. Cureton—Go ahead with the next item.

A. The building being in a block of other buildings and not set off by itself has a charge of 10 cents.

Q. You charge it that 10 cents for being in a block and charge it 15 cents for an additional occupant?

A. Yes, sir.

Q. Isn't it a double charge there?

A. No, sir. It is a different hazard; if that same building was occupied by only one person the 15 cents would be out and the 10 cents, the fact of having another occupant, that is two stores, one on each side, there is a chance of a fire coming from either one of these adjoining buildings, one of which walls is eight inches, for which a charge of one cent is made; the other two walls are 12 inches.

Q. I didn't catch that.

A. The rear wall of this building is eight inches and the two side walls are 12 inches. The fact that the rear wall is only eight inches, there is a charge of one cent; if the other two side walls had been deficient walls, less than 12 inches, one cent would have been charged for each of them.

Q. That is a purely arbitrary charge?

A. All of these charges are purely arbitrary, so far as I know. The parapet seems to be deficient, and there is a charge of 6 cents for that; there is a cock-loft in the roof, a concealed space, that a charge of one cent is made for. The metal awning in front, with a charge of 5 cents. That could be removed, and I understand that there has been an ordinance passed in the city of Fort Worth removing awnings, which will give a reduction to a great many buildings. The area of that building is over the standard and a charge of 4 cents; that could not be very well removed.

Q. What is the standard area? 1500 square feet?

A. It is, I think, more than that in a brick building. What is the standard?

Mr. Jalonick—I think 2500 (square feet).

A Committeeman—3500 square feet.

A. I think it is 3500, a frame building has 1500. It seems that the sky lights are not standard.

Q. What do you mean by standard sky lights?

A. The schedule provides that they shall be metal and "wired" (or Wyatt) glass, thick glass with wire inside, fire proof glass, you might say.

Mr. Ashton—Is there any additional charge made there for transoms?

A. No, sir. It has 2 cents for that glass. That could be removed and the charge eliminated.

Q. Is that an extra hazard? Has that got anything to do with the fire risk there, that glass and the kind of glass it is?

A. Yes, sir; a flame coming from the next building leaping over the roof and touching the wood work in that sky light would communicate the fire very rapidly or a fire in that building and going up through the sky light would burn through very rapidly, form a suction and make it very hard for the firemen to extinguish it.

Q. That wire covering you spoke of, would have to go on the outside of the

sky light, that screen protection, I mean, in order to get credit for it?

A. No, sir; it has wire inside the glass itself.

Q. There is not much of that wire glass used, is there?

A. Oh, yes. You see lots of it in Houston. In fire proof buildings the buildings have wired glass. The First National Bank has them.

Q. You think that is a protection?

A. Yes, sir. The floor is less than one inch in thickness. I believe the standard is two inches. This seems to be 7-8 inch flooring, and a charge of 2 cents is made. The theory of the extra heavy floor is that it will hold a fire a longer time that a thin floor and the firemen can get there, if they are not delayed.

Q. I should think it would make a hotter fire.

A. It holds it. The ceilings being of wood instead of metal, they charge 2 cents. That could be remedied. There is a stairway going upstairs with a charge of 5 cents, and that charge could be eliminated by enclosing that stairway just fixing it around and putting a door there.

Mr. Tarver—What was that stairway charge?

A. Five cents. The heating being not standard, a charge of 2 cents was made.

Q. What is standard heating?

A. Steam heating, or hot air heating, something of that kind; heating by stoves is not considered standard. That makes a total of \$1.62, and to that is added 10 cents for shoes, the exposure charges are 4 cents.

Q. What is the 10 cents added for?

A. Shoes. Occupants.

Q. Is shoes counted an extra hazard?

A. The fact of having a stock of any kind is an additional hazard to a building.

Q. Doesn't that embrace the occupancy charge?

A. Yes, sir, that is only a mercantile occupancy charge—

Mr. Moller—Could not an occupant have his own shoes?

A. This is a stock of shoes.

Chairman Vaughan—If it was vacant it would have a charge more than if there is an occupant?

A. No, sir; if it was vacant that 10 cents would not be in there.

Q. Wouldn't they put a vacancy clause on there, a vacancy permit on there, and take off one-third of the insurance?

A. Yes, sir; they would charge that for the hazard of being vacant.

Q. They charge 10 cents for the hazard of being occupied?

A. Yes, sir.

Q. Yes.

Mr. Cureton—It really looks as though it didn't matter much whatever you do, there is a charge there just the same.

Q. The 4 cent charge is for what?

A. That was for the exposures to that building.

Q. Now, the exposures to the building, isn't that a double charge? I thought they already had a charge for the block.

A. That is the exposure. I haven't a diagram of what it does expose, but it is an exposure in the rear or if it is near enough, across the street, say 35 feet, an exposure across the street would be a charge; I presume this is not the case here; there is an exposure in the rear of that particular building, which would make a total of \$1.99.

Q. Examining that, is it practicable for that man to reduce his insurance charges?

A. Yes, sir.

Q. What could he do to reduce, any material reduction?

A. He could remove his awning, he could make his sky lights standard, and he could inclose his stairway.

Mr. Aston—What is a standard shutter?

A. A metal cover, shutter?

Q. Isn't there a standard, certain standard of make of those?

A. Wire shutters?

Q. The standard shutters for doors and windows, iron shutters?

A. Oh, yes; there are what is called standard.

Q. Suppose a party had a shutter just as good as some standard brand, would he not get credit for them?

A. He ought to.

Q. I don't think they allowed it though in our town.

A. The great contention about that is that they have no way of determining whether that would stand the fire that others have been subjected to, no method of testing it, laboratory or apparatus by which you could put that door, you buy from the manufacturer to a test to see whether it would stand a certain number of degrees of heat.

Mr. Cureton, to the witness:

Q. That analysis of the various risks that you have just gone over, you find in most of them the same thing, that is,

that it is practical for a man to reduce his own rate?

A. Yes, sir, I should say 99 per cent of the mercantile buildings could be reduced and the hazard improved.

Q. This party whose risk you have just described, how much could he reduce his risk in a practical way by changing these items as you suggest; how much would that reduce his risk; how much could he reduce it?

A. He could, by making reasonable changes in his risk, reduce his rate 97 per cent.

Q. How much?

A. Ninety-seven per cent.

Q. What items go to make up that?

A. He could make his parapet standard.

Q. What is a parapet?

A. That is the wall extending above the roof around the building; it should be eighteen inches high above the roof and twelve inches thick in all places.

Q. Could you give any idea at all about what that would cost to do that?

A. I don't know the extent that it is deficient; I should not think it would cost over \$8 or \$10.

Mr. Vaughan—Isn't practically all parapet just one brick or at most nine inches?

A. No, sir.

Mr. Scruggs—He is not charged for the thickness of the parapet, but for the height of it; it is not for the thickness, but for the height.

Mr. Cureton, to the witness:

Q. Now, then, what is the next item of reduction?

A. His awning. He could remove the metal awning and get a credit for 5 cents.

Q. What would he put instead of the metal awning?

A. He could put a cloth awning if he wanted something to keep the sun out.

Q. Would there be anything taxed against him for that sort of an awning?

A. No, sir, the idea of an awning is, and the experienced firemen have told me that its effect is that if the fire starts in the lower portion of the building and breaks out at the front door and meets the awning above that door, that it will spread on both sides to the adjoining buildings. If it starts in the upper floor and they attempt to get to the upper floor and the awning is there, then it is in their way to place their ladders so they could get to the windows; they have got to get up and

make holes in the awning to make the ladder stand.

Q. What is the next item?

A. The sky light could be made standard.

Q. Is that an expensive process?

A. I think not. I have no idea of the cost, but I should not think it would cost over \$25 to make an ordinary skylight, that is to make it standard. He would get a credit of 2 cents. Sometimes the rear of the second story is iron clad; it seems that this is the case in this instance, and there is a charge of 50 cents there. If he made that brick it would reduce it.

Q. He could take that iron clad off and make it brick and reduce it 50 cents?

A. Yes, sir.

Q. He could reduce it 50 cents in that way?

A. Yes, sir; if he would put up a middle ceiling that would reduce it 2 cents more, and if he would enclose the stairway or elevator as the case may be, it would reduce him 5 cents.

Mr. Vaughan, to the witness:

Q. If he were to put the elevator in there, would there be some charge for the elevator?

A. Yes, sir, if it wasn't fixed so when the elevator was up or down—you know, there is a hole in the floor that creates a suction in case of a fire, but if there is a door fixed there when the elevator goes up there is door that comes down and closes there and closes this hole up; if it don't close the hole up there is a charge of 5 cents there; that is very easy to fix; that is the elevator can be very easily trapped. Also he seems to have ashes on his premises that are not moved away every day but are moved once a week; there is a charge of 5 cents for that. I assume these exposures in the rear could be eliminated. If he would put up the standard shutters covering his rear openings that would reduce it more, and the total reduction would be 97 cents.

Q. The principal part of that is 50 cents for an iron wall in the upper story instead of brick?

A. Yes, sir.

Q. That would be 97 cents on what?

A. Ninety-seven cents per one hundred dollars insurance.

Q. How much insurance did he carry on it?

A. There is no reference here to the amount of insurance; this is simply measuring the hazard of the risk.

Q. About how much insurance do you suppose he carried, Mr. Scruggs?

Mr. Scruggs—I don't know; the rate is shown as \$1.99, and from that take 97 cents would leave \$1.02.

The Witness—The key rate of the city of Fort Worth is 31 cents.

Mr. Cureton, to the witness:

Q. Have you got that key rate here so you can examine it?

A. We understand that Fort Worth has in contemplation additional apparatus and fire fighting apparatus and changes in the waterworks system that will reduce the rate some; that will reduce her key rate to about 18 cents.

Q. Instead of 31 cents?

A. Yes, sir.

Q. So that if the city makes these additional improvements it will be possible for this man to reduce his insurance 18 cents more?

A. No, say 13 cents.

Q. Bringing his insurance down to 90 cents?

A. Yes, sir, to 89 cents.

Mr. Tarver, to the witness:

Q. The rough estimate you have made there, what would it cost him to reduce these things that you have mentioned so as to bring his rate down 97 cents?

A. I have no idea as to what it would cost him to fix that or to replace his iron clad wall with a brick wall.

Mr. Scruggs—What is the size of the building; how many feet of wall would he have? There are plenty of gentlemen here who can tell what it would cost if they knew the size of the wall.

Mr. Cureton, to the witness:

Q. What is your idea about the amount of insurance carried?

Scruggs—A. I don't know; it might be, it might be a thousand dollars and it might be a hundred thousand. If it is a retail establishment, it would be from a thousand up to each one of the stores; if it was wholesale, it might be twenty thousand. We have got stocks in 25 feet stores in Dallas that run a forty thousand stock; you can't tell.

The Witness—This seems to be a two-story building, and the floor area 4200 feet.

Mr. Scruggs—It is 50 feet across the end and 12 feet high, you understand that is 50x12 feet. The question is, how much would a brick wall of that size cost? Are there any contractors in the room that can tell me what a

13 inch wall 12 feet high and 50 feet long would cost?

Mr. Jalonick (of Dallas)—Thirteen thousand five hundred brick, I think, would cost to lay them and all \$162.00.

Mr. Vaughan—That brick wall wouldn't cost less than a thousand dollars?

Mr. Scruggs—You can build the whole brick store for that; the whole brick work.

Mr. Vaughan—I have had some experience lately on that.

Mr. Moller—I would like to ask the witness some questions. I am told that the fire risk written in this State last year amounted to, roughly, \$6,000,000. That the losses paid out was \$6,600,000.

Mr. Scruggs—In reference to the other matter here of the cost of the building; the cost of the improvements would be about \$500; that would be the total cost of the improvements mentioned.

Mr. Moller, to the witness:

Q. Now, this is only in the aggregate, and if I am not correct, all right; that the losses paid by insurance companies was \$6,600,000.00; that the expenses of running the business was \$3,022,000.00. If added together would be \$9,626,000.00, premiums collected, which I understand, includes everything, stocks of shoes or empty houses or whatever it may be, and was \$8,639,000.00; that is, if the statement of the companies are based upon anything, that they lost \$987,000.00 last year. I want to know if these facts are approximately correct. And considering that the premium collected on that risk amounts to 1.4 per cent, by what process of reasoning do you make your new figures in your tabulations for the companies to charge after the Fire Rating Board was established so that the companies might make a living?

A. Your figures, while partially correct, are not the figures that I made mine from; reports of the insurance companies from the Fire Insurance Department.

Q. This is an average premium of 1.4 per cent?

A. I think possibly more than that. The reports on file in the Insurance Department as originally filed, in many cases, included tornado premiums and tornado losses with fire premiums and fire losses, and a correspondent of one of the insurance journals copied them from there, copied them down just as they were and sent them in, presuming them to be all fire losses, and I found

that those errors had crept in and we were several months by correspondence getting them to eliminate the tornado losses. These are my figures.

Q. How much do they differ?

A. You put the total premiums at \$8,639,000 and I made it \$8,493,000. Your total loss seems to be \$6,604,000 and I made this \$6,398,000. Expenses were all estimated at 35 per cent and premiums collected.

Q. Supposing they lost \$987,000.00, as they allege, have you any account of the interest that the companies made on their funds during that period?

A. I have no account, but it is my judgment that the amount of the income that the companies derive from the premiums that they hold in reserve for policy holders would be around about 4 per cent; then there is a certain amount that is in the hands of the agents; some agents take sixty days and some a little longer to remit the funds to the company, so the company has no use of it for that time.

Q. What would that sum aggregate at 4 per cent?

A. I would have to know the amount of the reserve on strictly Texas premiums, and nobody knows that; it is not obtainable.

Mr. Scruggs, to the witness:

Q. Don't the law place it at 50 per cent of the annual premium, the State law of Texas; it says that they must maintain 50 per cent of the annual premiums?

The Witness—But there is a certain amount of reserve return premiums at 90 per cent.

Q. But it is all 50 per cent. It wouldn't be less than that.

Mr. Jalonick—It would be on an average of about 65 per cent, I think.

Mr. Moller—I want to know what income you have gotten from your funds; if you know, what income you have from the funds?

Mr. Scruggs—Four per cent on five millions of dollars, yes, about nine millions premiums. Four per cent on five millions of dollars.

Mr. Vaughan—Put it six millions of dollars.

Mr. Moller—That's \$300,000.00.

Mr. Scruggs—No, sir, \$240,000.00; 4 per cent on \$6,000,000.00.

Mr. Moller, to the witness:

Q. That would still show that the companies lost over a half a million dollars. When you are making premiums for the coming year, do you take into consideration what the companies

tell you; do you believe it; in other words, do you base the premiums on these alleged facts?

A. Of course, I believe anything they put down and swear to.

Q. Do you then base your premiums for the coming year upon these alleged facts?

A. You mean base the rates?

Q. You must have an average on which to base your premiums?

A. I wouldn't want one year as an average.

Q. Take a series of years.

A. I would take not less than five years, preferably ten.

Q. If it took 1.4 per cent for a series of years to make the companies whole, not speaking of profits, would you make that as a basis for the coming year? In other words, how do you get at the premium that you establish for the companies for the coming year; I want to know the scientific way in which you get at it?

A. I have not studied out what ought to be the rate, the average rate of premiums for the coming year. I can tell you what I did and that probably would give you the information that you want. We estimated, after having the recent hearing, we estimated from the reports that we had gotten, covering 1600 buildings and nearly 1900 contents rates in various towns and portions of the State, that the old rate had been increased on mercantile and other special hazards about 53 per cent. We assumed that one-fourth of the total premium of \$8,493,000.00 was derived from dwelling classes, and that the companies had reduced of their own accord these premiums about 20 per cent, and that on the other six million and odd dollars they had increased that proportion 53 per cent. We reduced that an average of 22 1-2 per cent, 25 per cent on mercantile and 15 per cent on special hazard, which we estimated to make a flat rate of 22 12 per cent. After those three-fourths had been increased by the companies and decreased 22 1-2 per cent by the board and the net amount remaining added to the reduced dwelling premiums, would give the companies \$750,000,000 more premiums than they collected last year.

Q. That makes up for the loss?

A. It would give them more premiums.

Q. That is additional premium they would get and the improved conditions resulting from inspections and regulation ought to produce a profit for them?

A. Yes, sir; that was the basis of our work. That was the basis of our action in ordering the reduction; we felt like that under the condition of rates as they stood would produce a lower amount of premium than were necessary to compensate the company.

Q. At the present time do you think that you have such information within your power or within your possession that you could make a rate by which you will know whether the companies will lose a half a million dollars or make a half a million dollars; that is, whether the companies will make money next year or not?

A. As to whether the companies will make or lose money next year would be purely guess work. At the present rate they may make handsome money, at lower rates than this they may lose heavily or at even larger rates than these they may lose heavily on account of big fires that might occur.

Q. If the loss for the company is a half a million dollars, for the sake of argument, you as an official of the State, do you think it is your duty to increase the rate so that they may make it up next year the heavy losses that they have this year?

A. That would depend upon the circumstances. In good faith they are always entitled to a profit. I believe in a fair profit for every hazard undertaken.

Q. For the sake of illustration, the Railroad Commission can ascertain the gross receipts received by the railroad companies annually because they keep books as perfect as they can be kept. They find by experience they must let them have one cent and two mills in order to make a reasonable profit on the investment. Would an insurance company, having no capital invested, so to speak, at any rate a kind of business that the earnings must be based on the amount of business written, when you find the amount written in a given year would you not regulate the premiums on exactly the same basis?

A. Yes, sir; it ought to be done.

Q. Isn't that what we are all trying to get at?

A. Yes, sir.

Q. Do you think one or two years will give you that experience?

A. It ought to show or begin to show at the end of the third year. The first one or two years are of very little value and would be purely experimental. The advantages to be derived under the regulations and the cleaning up processes which have been started are very many and great and would not be fairly re-

flected I should not think for about five years.

Q. The reason why I ask these questions, the public ought to be advised that none of us are in position to make anything like a scientific rate at this time, so they would not be deceived, and they ought to be advised that it will take some little time and figures.

A. Certainly.

Q. Do you or not think, however, even if the public pays a little higher for one or two or three years, in order to ascertain these facts, pay a little higher perhaps than they scientifically ought to pay, yet under the system of penalization as now established by the companies, don't you think it will more than compensate the public in the long run?

A. Undoubtedly.

Q. Isn't that the gist of the whole thing?

A. Yes, sir; I don't see why it ought to cost them any more than they are now paying; I don't see any reason why it should cost them any more.

Q. I'll ask one more question and then I am through: As an official in your position, if it is left with three hands to make the rates, I'll ask you whether you would have a stable rate, or a maximum and minimum rate, if it was left with you what would you do?

A. I would name a fixed rate, and if it could be shown by the companies or the public or by investigation of my own that a rate on a certain class could be reasonably reduced, and as reduced provide a profit for the companies, I would reduce the rate.

Q. You think that would be the most scientific and come nearer being justice to the public alike?

A. Yes, sir.

Mr. Jalonick—Ask him if they haven't that rate under the present law?

Mr. Moller—Yes, but we are talking about the new law.

Afternoon Session, August 1, 1910.

Examined by Mr. Cureton:

Q. Now, Mr. Hamby, here is a book on the distribution by the State of fire insurance of 1909; I wish you would take the book and look on page 109 and tell the Committee the ratio of losses and premiums on fire insurance in Texas, the average for each of the years shown from 1904 on up to and including 1908. I mean for the average for the companies that operated in Texas.

A. (The witness takes the book.) The

average for the stock fire insurance companies is as follows: Loss ratio for 1904, 42.3 per cent.

Q. Now, Mr. Hamby, the loss ratio for 1904 was 42.3 per cent, that amount took 42.3 per cent of the premium; that is I mean by that that it took 42.3 per cent of the premium to pay the losses by fire for the year 1904?

A. Yes, sir; that much for every dollar of premiums received, that means for every dollar of premiums received the company had to pay out an average of 42.3 per cent.

Q. Now, for the year 1905?

A. For the year 1905 it was 48.3 cents, for 1906 it was 50.3 cents, for 1907 it was 53.2 cents, for 1908 it was 62.6 cents.

Q. Now, let me have that book for a moment. Now, to make it perfectly clear, out of every dollar's premiums collected for each of these years the companies pay out losses, say for the year 1908, an amount of 62.6 per cent for each dollar?

A. Yes, sir.

Q. I notice it gives the names of various fire insurance companies and gives it by companies; that is, the loss ratio. For instance, for 1908 I notice the Connecticut Hartford Fire Insurance Company loss ratio 60.9 per cent, while that of the Delaware and Philadelphia Company is 75.1 per cent, making a difference of about 15 per cent.

A. Yes, sir.

Q. Now, why is it that the difference is shown in the companies. I notice it obtains among the great many of the companies a difference in amount or loss of per cent for loss ratio; explain that to the Committee. Why is there such a difference in the loss ratio between the several companies?

A. There may be many things that would make a difference in the loss ratio of the different companies. Their method of handling business, the classes of business that they handle, that is the class of insurance each company should write, and you might say the luck of the company would have something to do with it, that is the writing of the same class of insurance.

Q. What do you mean by luck?

A. A company might write a certain class at the same rate for several years and make a profit on it, and say three or four years afterwards have enough losses out of this same class that they would wipe out all of their profit that they had made and more too.

Q. I notice for the year 1908 the

Lumber Insurance Company of New York had a loss ratio of 132 per cent; what does that mean?

A. That means that of every dollar received as premium of that company, that is for every dollar received for premiums by that company, the company incurred a loss of 132 cents.

Q. I notice some of these companies had a loss ratio as low as 33 cents. I notice the Jaco or Moscow Company had a loss of .7 per cent, that is .7 of 1 per cent, and there are some companies running as high as 132 per cent, but the general average being 62.6 per cent. Will you please explain this; I believe you have explained that somewhat on the class of risk and on the management of the company?

A. Yes, sir, largely.

Q. You have looked over these lists, I suppose, yourself?

A. Yes, sir.

Q. And you have noticed that the loss ratio ranges from .7 of 1 per cent to 178.4 per cent? And you say the difference in the management of the company is sometimes a controlling factor in this loss ratio?

A. That is the principal difference.

Q. Well, now in what way is the mismanagement of its business, in what way does that effect the loss ratio; here is one company showing the loss of 178 per cent while the average is only 62 per cent of all the companies?

A. The loss ratio of 178 per cent would not necessarily mean that the company had been mismanaged. Two good severe fires or at least one serious fire might wipe out all of the premiums and show a loss ratio far in excess of the average.

Q. For the five years I have named, beginning with 1904 and including 1908, it shows a gradual increase in the loss ratio of from 42 per cent to 62 per cent; now, do you think that gradual increase of the loss ratio was due to the mismanagement of the company or what was it due to, I mean the companies operating in this State?

A. I think it was due to probably their eagerness to accept business, and their recklessness in accepting business, which means that they probably accepted it at rates in many cases that were inadequate, and also accepted risks without proper inspection and would thereby suffer losses.

Q. Judge Lee suggests that I show by you where you are on the stand on this loss ratio business that the companies which incurred the largest loss ratio of those ordinarily having the smallest amount of business during the year; for instance, take the Toledo F. and M. Sandusky, that company received \$3,337.00 and incurred losses to the extent of \$5,953.00, and had a loss ratio of 178 per cent. The actual risks written by it was \$112,000.00, and it showed that the loss ratio stated above. I am making this statement in order that the record may show the facts as shown here and show the high per cent accompanying the small amount of insurance.

With the permission of the Chairman. I will incorporate this table in the record so as to show to the members of the House and to the Committee just exactly the full ratio in connection with the amount of business. This is for Texas. The table in question is as follows:

Name and Location of Company	Premiums Received	Losses Incurred	Risks Written and Renewed	Ratio of Losses to Premiums — per cent.
Aachen & Munich, Aix-la-Chappel.....	\$ 34,865	\$ 21,549	\$ 21,831,907	61.7
Aetna, Hartford.....	263,895	155,683	17,229,169	58.9
Adirondack, New York.....	3,088	2,376	120,275	76.9
Agricultural, Watertown.....	35,970	22,660	2,305,100	63.0
Allemania, Pittsburg.....	34,113	22,654	1,775,647	66.4
Alliance, Philadelphia.....	23,899	9,447	1,060,692	39.5
American, Newark.....	24,554	15,350	1,607,272	62.5
American Central, St. Louis.....	119,008	77,809	9,123,507	65.3
American Druggist, Cincinnati.....	991		64,450	
Atlas, London.....	30,380	18,332	1,907,370	60.3
Austin Fire, Dallas.....	102,782	67,412	6,948,679	55.6
Boston, Boston, Mass.....	7,143	2,749	528,667	38.4
British America, Toronto.....	18,949	12,898	1,167,298	68.0
Caledonian, Edinburgh.....	29,983	16,963	1,832,620	56.5
Camden Fire, Camden.....	45,024	26,909	2,425,704	59.7
Citizens, St. Louis.....	43,843	26,035	2,938,329	59.3
City of New York, New York.....	16,710	3,914	1,051,860	23.4
Cologne, Reinsurance, Cologne.....	17,298	13,303	1,052,791	76.9
Commercial Union, London.....	166,635	125,325	13,673,163	75.2
Commercial Union, New York.....	7,159	1,475	482,170	20.6
Commonwealth, Dallas.....	110,394	65,693	4,177,300	59.5
Commonwealth Fire, Ottumwa.....	2,010	12	* 200,000	.6
Commonwealth, New York.....	11,433	104	944,794	.9
Concordia, Milwaukee.....	17,704	9,923	1,144,397	56.0
Connecticut, Hartford.....	67,324	41,024	3,901,106	60.9
Continental, New York.....	151,311	82,172	16,270,331	54.3
Delaware, Philadelphia.....	23,062	17,348	1,273,057	75.1
Detroit F. & M., Detroit.....	40,858	29,698	2,717,146	72.6
Dutchess, Fire, Poughkeepsie.....	19,133	15,570	1,016,677	81.4
Equitable, F. & M., Providence.....	32,052	13,028	2,043,111	40.6
Equitable, Charleston.....	10,581	3,397	620,385	32.1
Farmers & Merchants, Lincoln.....	31,547	27,628	826,567	87.5
Fidelity Fire, New York.....	23,492	8,839	2,071,053	37.6
Fire Association, Philadelphia.....	197,291	132,098	10,365,142	66.9
Firemans Fund, San Francisco.....	113,393	76,364	7,331,427	67.3
Firemens, Newark.....	35,338	16,335	2,522,493	46.2
First Russian, St. Petersburg.....	11,245	2,649	652,782	23.5
Freeholders, Topeka.....	12,070	4,074	1,117,803	33.7
Georgia Home, Columbus.....	76,355	46,278	5,547,549	60.6
German, Peoria.....	31,574	8,641	1,816,850	27.3
German Alliance, New York.....	10,302	7,441	613,793	72.2
German-American, New York.....	200,027	121,010	13,561,453	60.5
German-American, Pittsburg.....	3,599	709	379,149	19.7
Germania, New York.....	49,195	26,668	2,925,809	54.2
Girard F. & M., Philadelphia.....	28,069	20,745	1,475,127	73.9
Glens Falls, Glens Falls.....	31,033	28,628	3,542,853	92.3
Globe and Rutgers, New York.....	16,916	9,154	956,993	54.1
Hamburg Bremen, Hamburg.....	76,924	49,237	4,119,024	63.9
Hanover, New York.....	44,402	34,737	2,487,356	78.1
Hartford Fire, Hartford.....	528,389	302,417	41,469,414	57.2
Home, Fordyce.....	39,673	15,133	2,539,085	38.1
Home, New York.....	294,783	211,363	32,283,594	71.7
Ins. Co. of North America, Philadelphia.....	164,042	77,329	7,184,697	47.1
Ins. Co. of St. of Pa., Philadelphia.....	24,588	21,141	1,192,831	86.0
Jacor, Moscow.....	2,857	2	212,461	.7
Jefferson, Philadelphia.....	44,677	29,404	2,740,106	65.8
Liv. & Lon. Globe, Liverpool.....	355,788	177,148	21,718,408	49.7
Liv. & Lon. Globe, New York.....	25,042	19,896	1,468,639	79.4
London Assurance, London.....	43,617	24,355	2,534,606	55.8
London and Lancashire, Liverpool.....	59,402	33,986	3,977,793	57.2
Lumber, New York.....	3,342	4,412	124,025	13.2
Mechs. & Traders, New Orleans.....	38,414	32,388	2,274,223	84.3
Merchantile F. and M., Boston.....	17,279	14,119	971,971	81.7
Michigan Commercial, Lansing.....	37,266	25,801	2,432,558	69.2
Michigan F. and M., Detroit.....	27,706	19,050	1,351,108	68.7
Milwaukee Fire, Milwaukee.....	6,186	4,383	448,767	70.8
Milwaukee Mechs., Milwaukee.....	69,202	50,417	4,004,011	72.8
Monongahela, Pittsburg.....	4,556	1,235	280,826	27.1
Moscow Fire, Moscow.....	22,050	4,739	1,446,943	21.4
Munich Reinsurance, Munich.....	87,552	56,717	5,642,516	64.7
National, Hartford.....	123,318	102,922	7,394,913	83.4
National Lumber, Buffalo.....	7,065	4,438	222,760	62.8
National Union, Pittsburg.....	64,579	54,163	4,218,041	83.8
New Brunswick, New Brunswick.....	12,084	3,054	668,714	25.2
Norfolk, Norfolk.....	3,622	1,416	232,570	39.0

Name and Location of Company.	Premiums Received	Losses Incurred	Risks Written and Renewed	Ratio of losses to Premiums, per cent.
New Hampshire, Manchester	\$ 110,855	\$ 73,634	\$ 5,466,647	66.4
Niagara, New York	92,987	56,166	5,642,516	60.4
North Brit. & Mercantile, London	109,491	69,897	7,163,960	63.8
North Brit. & Mercantile, New York	6,764	3,388	730,451	50.0
North River, New York	31,320	25,471	1,750,033	81.3
Northern, London	79,293	51,120	4,633,776	64.4
Northwestern Nat'l, Milwaukee	33,630	8,507	2,294,248	25.2
Norwich Union, Norwich	45,459	22,294	2,545,727	49.0
Old Colony, Boston	30,360	14,454	2,031,027	47.5
Orient, Hartford	95,465	64,161	6,782,125	67.2
Palatine, London	42,302	20,499	2,961,713	48.4
Pelican, New York	6,152	6,067	385,304	98.6
Pennsylvania, Philadelphia	126,348	91,848	7,933,304	72.7
Phenix, Brooklyn	158,692	104,188	11,546,796	65.6
Phoenix, Hartford	171,834	78,344	11,223,520	45.6
Phoenix, London	71,876	59,919	3,965,709	83.3
Prov. Washington, Providence	64,085	48,115	3,740,887	75.0
Prussian National, Steptin	72,345	56,622	5,802,031	78.2
Queen of America, New York	111,869	67,487	6,277,378	60.3
Reliance, Philadelphia	23,097	8,043	1,150,766	34.8
Rochester German, Rochester	73,041	51,022	8,112,770	69.8
Rossia, St. Petersburg	105,279	74,315	7,881,257	70.6
Royal, Liverpool	200,294	94,204	11,740,118	47.0
Royal Exchange, London	95,189	70,111	5,740,005	73.6
Russian Reins, St. Petersburg	11,245	2,649	755,629	23.5
Salamandra, St. Petersburg	43,342	19,033	3,134,698	43.9
Scottish Union & National, Edinburgh	137,117	96,635	7,010,067	70.4
Seaboard F. and M., Galveston	52,200	25,378	3,151,269	48.6
Security, Davenport	2,528	1,169	161,925	46.2
Security, New Haven	60,170	32,257	3,531,886	53.6
Shawnee, Topeka	54,024	32,282	2,853,169	59.7
Skandia, Stockholm	24,006	10,064	1,354,739	41.9
Southern, Lynchburg	27,440	14,090	1,362,772	51.3
Southern National, Austin	52,068	16,499	2,908,282	31.6
Springfield F. and M., Springfield	131,423	78,788	11,808,759	59.9
Spring Garden, Philadelphia	88,946	32,790	8,522,779	36.8
State Fire, Liverpool	2,798	2,587	205,433	92.4
St. Paul F. and M., St. Paul	245,335	62,342	10,232,952	42.9
Sun, London	56,578	39,869	3,371,203	70.4
Sun, New Orleans	38,541	17,759	2,040,625	46.0
Texas National, Fort Worth	32,465	18,165	4,259,630	55.9
Teutonia, New Orleans	36,173	33,634	1,572,013	92.9
Toledo F. and M., Sandusky	3,337	5,953	112,322	178.4
Union, Buffalo	12,963	5,488	1,063,056	42.3
Union, Philadelphia	20,093	12,659	1,968,251	63.9
Virginia F. and M., Richmond	38,192	34,359	2,611,610	89.9
Virginia State, Richmond	28,992	24,992	1,713,983	85.9
Washington, Seattle	7,069	4,175	430,924	59.0
Westchester, New York	85,863	55,454	5,457,876	64.5
Western, Toronto	41,413	26,753	5,832,300	64.5
Western, Pittsburg	17,726	26	1,273,810	.1
Western Reserve, Cleveland	851	675	60,700	79.3
Williamsburg City, Brooklyn	53,740	45,089	2,258,785	83.8
Winona, Minneapolis	9,879	8,818	806,764	89.2
Totals	\$7,628,851	\$4,781,703	\$533,818,240	62.6
Totals, 1907	7,771,368	4,140,598	498,898,542	53.2
Totals, 1906	6,767,113	3,404,345	423,842,536	50.3
Totals, 1905	6,229,678	3,009,063	409,195,303	48.3
Totals, 1904	6,111,191	2,585,237	381,208,742	42.3
Mutual Companies.				
Farmers, McKinney	\$ 615	\$ 11,731	\$ 75,000	1907.5
Hochheim Prairie, Yoakum	1,697	1,835	169,750	108.1
Mecca, Waco	17,822	10,534	985,185	59.0
Millers, Fort Worth	72,418	43,517	4,655,125	60.0
Totals	\$ 92,752	\$ 58,617	\$ 5,885,060	63.1
Totals, 1907	176,099	151,042	19,434,179	85.8
Totals, 1906	146,056	99,728	16,835,260	68.3
Totals, 1905	113,244	84,171	13,225,676	74.3
Totals, 1904	87,129	64,398	9,380,290	73.9

Mr. Cureton to the witness:

Q. Now, Mr. Hamby, taking the companies that did the large amounts of business for the year 1908 in this State, was their loss ratio large or small?

A. Generally speaking, as I remember it, they were large. I do not remember particularly.

Q. Mr. Hamby, I will hand you a document prepared by you or by your office showing first fire rates per capita for Texas for each year for from 1906 on down and also the fire loss per capita, and ask you to take it and read it to the committee and explain it and then you can give the document to the stenographer so it can be incorporated in the record.

Mr. Terrell—I suggest that the document itself go into the record without any explanation. I suggest that it explains itself.

Mr. Cureton—The document will go into the record all right, but there are some things in the document that ought to be explained to the committee. We will put the whole document in the record.

The Witness—The fire waste per capita for Texas for the year 1906 showed \$1.36.

Q. That per capita in this State. How did you ascertain the population?

A. The population was estimated. I took the school census as shown in the Department of Education and allowed either five or six head to each child, I forget now the exact number, whichever it was, but whatever they estimated at, as the population. I took that estimate and it showed the total population of 1906 of 4,349,300. The fire waste for that year is \$5,894,980, which made a per capita loss of \$1.36. The population was estimated for 1907 as being 4,467,200. The fire waste was \$6,952,900, which had a per capita of \$1.56. For 1908 the population was 4,573,100. The fire waste for 1908 was \$7,253,850, making the per capita loss \$1.59. For the year 1909 the estimated population was 4,745,000; the fire waste was \$10,476,500.

Q. Now, that seems to show steadily an increase of fire loss to the State or in the State on the amount as shown there per capita. That is, I mean the increase shows to be steady. How do you account for that? There seems to be a steady increase of the fire loss for the last four or five years, whatever you have shown there.

A. It would be only a theory.

Q. What is your theory about it?

A. Climatic conditions, financial conditions and the general demoralization

in the fire insurance business. I think all of these had an influence upon it.

Q. Take the climatic condition, for instance; take the climatic condition of last year, do you mean the drouth all over the State had something to do with the fire losses in the State?

A. Yes, sir; that is my opinion.

Q. Financial conditions; you mean by that the crop failure of last year and the money panic of 1907 running on into 1908 had something to do with the fire losses of the State?

A. Yes, sir; I feel sure that it did.

Q. Do you mean that the condition of business affects the moral hazard to such an extent that there were incendiary fires?

A. Yes, sir; probably a greater amount of carelessness in the protection of property and the maintenance of the property and poor repairs and poor management and all such things as that finally drift into a bad condition and create fires.

Q. And then you say the demoralized condition of the fire insurance business?

A. Yes, sir; less scrutiny of the risks and more hazard undertaken than there should have been undertaken.

Q. During the close financial times it becomes a struggle with the insurance companies, does it, like it does with individuals, to get ready money to conduct their business and they take hazards that they might not otherwise take; is that what you refer to?

A. I do not much think that that is the case. They are so anxious for business in times of financial stringency that they take risks that they would not ordinarily take, but generally scrutinize their business more closely.

Q. I am speaking of the local agents who were out for money, too, during financial stress in their efforts to get business.

A. Yes, sir.

Q. The financial stringency affects them and makes them more careless?

A. Yes, sir; of course they are more eager to get business.

Q. In your judgment the climatic condition and the condition of the crop and the general financial condition enter into the problem of making fire rates so as to clear a sufficient amount on premiums to make up the fire losses?

A. Yes, sir.

Q. What else do your tables show?

A. The next illustration is the amount of loss per \$1000 insurance carried.

Q. What was that?

A. For 1904 for every \$1000 insurance

carried \$6.70 burned; for 1905 \$7.30 burned.

Q. When you say burned you mean the amount the companies paid?

A. Burned. That was the amount of insurance.

Q. The amount they actually paid?

A. Yes, sir; I have not got the uninsured loss for these two years. For 1906 I have both the insured and the uninsured loss.

Q. What I mean is this, the statistics from which you compile that statement, do these statistics show that the company actually paid and is that what you base the statistics on or are you simply basing on the amount of insurance actually carried on the property?

A. For every \$1000 carried these figures of losses is the amount of loss they paid. For instance, in 1906 for every \$1000 of insurance granted they paid \$8.00 losses. That was \$5.90 losses that were not insured, making a total of \$13.90 losses insured and uninsured.

Q. That is simply on the question of fire waste?

A. Yes, sir.

Q. The total fire waste?

A. Yes, sir. For 1907 the insured losses were \$8.30 and the uninsured losses \$5.70, making a total of \$14.00.

Q. This \$14.00 on each \$1000 worth of property within the State; this is where it was insured or uninsured?

A. Fourteen dollars. The loss on property in the State as compared with \$1000 insurance in the State for 1908 it was \$8.90 insured and \$4.70 uninsured, making a total of \$13.60. For 1909 it was \$12.30 insured and \$6.90 uninsured, making a total of \$19.20 insured and uninsured.

Q. But the \$12.30 is what the company had to pay per thousand?

A. Yes, sir.

Q. What else does your table show?

A. They show the average rate as I have here, these rates that I have read out from the book.

Q. What was the average rate?

A. The average rate for 1904 was \$1.60. The average rate for 1905 was \$1.50. The average rate for 1906 was \$1.59. The average rate for 1907 was \$1.55. The average rate for 1908 was \$1.43. The average rate for 1909 was \$1.56.

Q. It would appear that in the amount there has been a gradual reduction of insurance premiums down to and including last year, which you read and which was for the year 1909?

A. Yes, sir; in the main.

Q. In the main it is a gradual reduction?

A. Yes, sir.

Q. How do you account for the gradual reduction of insurance premiums when you say during these years or parts of these years that the hazard had become greater?

A. The company had not regulated the rates to take care of the hazard. Through discrimination the good risks were bearing more and more the burden of the bad risks. The next statement is the statement of premiums fire waste in Texas for the years 1906, 1907, 1908, and 1909.

Q. Give us that statement.

A. For the year 1909 the premiums \$6,910,728.00 and the insurance loss or fire loss was \$3,404,345.00; the uninsured loss \$2,490,635.00, making a total fire waste of \$5,894,980.00. Possibly, Mr. Cureton, it would be better if I would read the premiums straight down.

Q. Yes, and then you can copy the fire loss.

A. For 1906 the premiums were \$6,910,728.00, for 1907 the premiums were \$7,062,310.00, for 1908 the premiums were \$7,756,609.00, for 1909 the premiums were \$8,493,085.00. The insurance losses were \$3,404,345.00 for 1906, for 1907 the insurance losses were \$4,140,598.00, for 1908 the fire losses were \$4,781,703.00, for 1909 the fire losses were \$6,698,832.00; the uninsured losses estimated for 1906 were \$2,490,635.00; for 1907, \$2,812,302.00; for 1908, \$2,472,147.00; for 1909, \$3,777,658.00, making a total fire waste as follows: For 1906, \$5,894,980.00; for 1907, \$6,952,900.00, which was an increase of \$1,057,920.00; 1908, \$7,253,850.00, being an increase of \$300,950.00 over the previous year; for 1909 it was \$10,476,300.00, being an increase over the previous year of \$3,222,650.00.

By order of the Committee, the following statement (which is the statement from which Mr. Hamby testified in reference to fire waste, etc., per capita) is copied in this record:

The fire waste per capita for Texas is as follows:

Year 1906—Population, 4,349,300; fire waste, \$5,894,980; per capita, \$1.36; increase,

Year 1907—Population, 4,467,200; fire waste, \$6,952,900; per capita, \$1.56; increase, 20c.

Year 1908—Population, 4,573,100; fire waste, \$7,253,850; per capita, \$1.59; increase, 3c.

Year 1909—Population, 4,745,000; fire

waste, \$10,476,500; per capita, \$2.10; increase, 62c.

This shows a steadily increasing fire waste per capita, when it should show a decrease.

The population is as estimated by the Department of Education.

The fire loss per \$1000 of insurance carried was as follows:

Year 1904—Insured, \$6.70; not insured, . . . ; total, . . . ; increase, . . . ; average rate collected, \$1.60.

Year 1905—Insured \$7.30; not insured, . . . ; total, . . . ; increase, . . . ; average rate collected, \$1.52.

Year 1906—Insured, \$8.00; not insured, \$5.90; total \$13.90; increase, . . . ; average rate, \$1.59.

Year 1907—Insured, \$8.30; not insured, \$5.70; total, \$14; increase, . . . ; average rate collected, \$1.55.

Year 1908—Insured, \$9.80; not insured, \$4.70; total, \$13.60; increase, . . . ; average rate, \$1.43.

Year 1909—Insured, \$12.30; not insured, \$6.90; total, \$19.20; increase, . . . ; average rate, \$1.56.

This shows that the burning ratio per one thousand dollars, that risk is increasing, while the rate has been declining.

Statement of premiums and fire waste in Texas for the years 1906, 1907, 1908, and 1909:

Year 1906—Premiums, \$6,910,728; insurance loss, \$3,404,345; uninsured estimate, \$2,490,635; total fire waste, \$5,894,980; increase of total fire waste over previous year,

Year 1907—Premiums, \$7,062,310; insurance loss, \$4,140,598; uninsured estimate, \$2,812,302; total fire waste, \$6,952,900; increase of total fire waste over previous year, \$1,057,920.

Year 1908—Premiums, \$7,756,609; insurance loss, \$4,789,703; uninsured estimate, \$2,472,147; total fire waste, \$7,253,850; increase of total fire waste over previous year, \$300,950.

Year 1909—Premiums, \$8,493,085; insurance loss, \$6,698,832; uninsured estimate, \$3,777,668; total fire waste, \$10,476,500; increase total fire waste over previous year, \$3,222,650.

This shows that the losses to companies has increased year by year, also that the total fire waste is rapidly increasing annually.

Q. (By Mr. Cureton.) Mr. Hamby, this record shows that from 1907 down to 1909, or rather from 1906 down to 1909, it shows a gradual increase in the total fire waste over the previous years; 1907 shows an increase of over one mil-

lion dollars, 1908 shows an increase of over three hundred thousand dollars over 1907, and in 1909 it shows an increase of more than three million dollars over 1908. Now, how do you explain this increase in the fire waste of the State over that of previous years; as I stated, there is a three million dollar increase in 1909 over the year 1908?

A. In that particular year the increase was partly due to the conflagrations in Fort Worth and at Dallas.

Q. Fort Worth and Dallas conflagrations?

A. I understand that there was something like a million dollars and possibly a little more than could be accounted for in these two particular places.

Q. That still would mean an increase in the fire waste of over two million dollars for 1909?

A. Yes, sir.

Q. How do you explain that?

A. It is only in a general way that you all remember that last summer was a particularly warm summer and the year generally was very dry and that coupled with the—probably the results of the panic of 1907 and the reckless way in which the fire insurance business was conducted, all combined to make the excessive loss ratio.

Q. Well, now, Mr. Hamby, as an insurance man, what in your judgment is it that this committee of this Legislature can do to decrease the percentage of this fire waste to the State?

A. I think that the fact of having a uniform system of rates that are demandatory from the companies that will necessitate a very close inspection of risks in order to correctly apply the rates, would have a good—a great effect upon eliminating hazards that finally produce fires. The State, I think, should also abolish the valued policy law and also put such restrictions against over-insurance as is possible, and probably the appointing or providing for a fire marshal and making it necessary for every fire to be strictly investigated that is of an unknown or supposed origin that can not be readily accounted for.

Q. Now, the full-valued policy law of this State is a law that applies only to houses or real property as we call it, excluding the lot; that simply means that the face of the policy must be paid regardless of the value of the property?

A. If it is destroyed.

Q. If it is destroyed? Now, you say the abolition of the full valued policy,

in your judgment, would tend to decrease the amount of fire waste in the State; now, how would it do so?

A. I would think that the fact that the risk or valued policy law has some tendency toward people insuring their property for more than it is worth; principally buildings more than it is worth. It is not always with design at first. A building may be insured for 80 per cent of its value and the policy renewed from time to time without close inspection or revaluation, and the building could depreciate owing to various circumstances and conditions and it would eventually be worth less than the face of the policy. Probably the assured would get in a bad financial condition and want to realize on his policy, and knowing that his policy is a liquidated demand, in the event the building is totally destroyed, he might have no hesitancy in destroying it.

Q. The fact that the value of the building could not be disputed in court, you think, would contribute to the moral hazard of the business?

A. Yes, sir.

Q. Now, Mr. Hamby, would a provision of the law requiring that property should be valued—a value placed upon it by a disinterested person at the time the policy is issued and that thereafter, each time it is reissued, it should be revalued; would that give any help in reducing the fire hazard and keeping values within proper bounds?

A. That would help. I don't think it would be very practicable.

Q. You don't think it would be very practicable?

A. I don't think it would. There are so many buildings to be written every day that it would keep the appraisers pretty busy and it would necessarily increase the cost of insurance.

Q. You think it would be impracticable, then, to have disinterested parties to appraise the property, or public appraisers to appraise it; it would be impracticable because of—

A. If you have public appraisers appointed for that particular purpose it would be practical.

Q. Public appraisers, say for the city of Austin or Dallas, paid for the appraisal?

A. Yes, sir; it would be just as practicable as to appraise for taxing purposes.

Q. Why would it not be practicable in towns and villages for property to be appraised?

A. It would be practicable, and I suppose only to the State it would—in a

small village it would be easier to do that.

Q. Wouldn't it in small towns and villages for their property for a man to have his property appraised for insurance?

A. Yes, sir.

Q. And let the one appraisal stand for the year?

A. Yes, sir.

Q. Judge Lee suggests that I ask you what per cent of the insurance carried on property outside of the cities?

A. I have no idea.

Q. Do you know, Mr. Hamby, what per cent of property is destroyed by incendiary fires?

A. No, sir.

Q. Have the insurance companies any record of that class of fires?

A. Not that I know of. They may have; individual companies may have records of their own fires that they consider of incendiary origin, but whether they have combined their statistics to ascertain that is a matter I do not know.

Q. Mr. Maddox suggests this question: In your opinion, what character of risks are more frequently destroyed by incendiary fires; what character of risks?

A. I have no idea.

Q. You don't know whether it is mercantile or residence or what class of risks?

A. No, sir. I could only say that it is my—I should guess it would be mercantile. There is more of a moral hazard entering into mercantile risks than a dwelling risk. There is more sentiment attached to a home of a man and its contents than there is business property. He always needs a home whether he needs his business house or not.

Q. Well, Mr. Hamby, I wish you would explain to the Committee what is meant by the 80 per cent co-insurance clause, which, as I understand, has been used in preparing the rates and schedules promulgated by Mr. Roulette.

A. The 80 per cent co-insurance clause is attached to a policy and makes it a condition that the company imposes upon the insurer to carry 80 per cent of his value in insurance, and in the event he fails to do so the assured has to become a co-insurer with the company.

Q. To the extent of 80 per cent?

A. To the extent of 80 per cent, or suffer a loss, a fair loss in proportion to his deficit.

Q. If I took a piece of property worth ten thousand dollars, if I took out 80 per cent of its value, that is to

say, eight thousand dollars on the business, and it burns, with a partial loss, how much do I get?

A. You get the amount of your loss not in excess of the policy.

Q. Not in excess of the eight thousand dollars? All right, but suppose that I take out on a building worth eight thousand dollars only two thousand insurance and it burns, how much do I get?

A. If it totally burns, you get two thousand dollars insurance.

Q. And if it partially burns, what do I get?

A. If it burns less than 80 per cent you stand three-fourths of the loss and the company pays one-fourth of the loss.

Q. Now, Mr. Hamby, why have the insurance companies placed that 80 per cent insurance clause in these rates, and why is the reason for the condition, such as prevails?

A. The reason is to maintain the parity of rates as between the insurers.

Q. Mr. Gilmore says that before these rates were promulgated they would not let us insure but three-fourths of the value and now they want us to take 80 per cent, and he don't understand it, and I don't understand it.

A. In some localities they would not insure for more than three-fourths, and in others they would insure for more than three-fourths, and in some localities they require 100 per cent insurance.

Answering your first question on the proposition of requiring 80 per cent co-insurance clause is that they base their rates, especially mercantile rates, upon the supposition that all would insure for 80 per cent of the value and they knew that many would not do it, and in order to keep the rates on a parity as between the insurer and the insured they had to adopt some rule or method which would equalize that where the insurer did not take 80 per cent; it is simply a matter, you might say a parallel with taxation and rendition of property.

Q. You had prepared and explained the other day to me a table in connection with that; have you got that with you? Mr. Lee suggests this question, if the 80 per cent co-insurance clause is not just simply a method of having the insurer to take out 80 per cent insurance whether he wants it or not or force him to carry—to take out insurance on 80 per cent of his property rather than carry his own risk?

A. No, sir.

Q. It is not?

A. I don't think so, as I shall show you by this illustration.

Q. All right; go ahead and explain to the Committee the table.

A. Presuming that insurance is a tax and that it is paid by the people into the insurance treasury as we pay our taxes into our county, State and city treasuries, it would show better by comparison as follows: supposing we have ten million dollars worth of property for rendition and upon which we are going to render taxes and that the amount of our budget is one hundred thousand dollars. We have got to raise that amount of money from the people on ten million dollars worth of property and that ten million dollars worth of property is owned by five classes of men, or people, each one having two million dollars worth of property, A, B, C, D, and E, have to render their property at full value in order to derive one hundred thousand dollars in taxes we could tax each and every person one per cent, and presuming that they all do not do that, class A rendering their property at one hundred per cent would be two million dollars rendition; class B rendering their property at 80 per cent would be one million six hundred thousand; class C rendering their property at 60 per cent would only render one million two hundred thousand; class D rendering at 40 per cent would be eight hundred thousand dollars; class E rendering at 20 per cent would be four hundred thousand, so that the total property rendered would only be six million dollars instead of ten million; then in order to produce one hundred thousand in taxes we have got to estimate the value of a tax rate of \$1.66 instead of \$1; now, if we adopted the first method of taxing ourselves on the basis of everybody putting their property in at a hundred per cent we get a tax rate of a dollar, but when it comes to paying the taxes the other parties, classes B, C, D, and E, do not render their taxes in at full value. They would not pay the amounts that they would pay under their full rendition, so if we tax them on their smaller amount at one per cent instead of getting one hundred thousand dollars taxation we only get sixty thousand dollars, and assuming that we allow everybody to assess their property at the amount that they desire we have got to get a rate of \$1.66 from all of them so all of those who do assess their property at full value pay \$1.66 and those who assess their property at 20 per cent pay \$1.66. Now, insurance companies went

on the proposition. I understand, that they base their rates on the supposition that all insurers would carry 80 per cent insurance and they based their rate on the 80 per cent insurance—

Q. Could they base it on 60 per cent or 50 per cent, or any other per cent?

A. They first based their rates on the supposition that all would carry 80 per cent. We have data of a certain number of millions of dollars of property and a certain amount of it is going to burn on an average and assuming that out of that total property they have 80 per cent of that to compare it with the amount of the total that burns and then you might say it is an average rate fixed, then it is very plain that if they base their rates on the supposition that all will insure for 80 per cent and some do not insure for 80 per cent, they have on those who do pay 80 per cent a higher rate than those who do not insure for 80 per cent. Now, if they have fixed 80 per cent as a basis for their rate and they can control the amount of insurance that any one will take they have to put in their policies a clause that will control that difference or they will make their rates that much more in the best of lines than 80 per cent insurance, so if they first wanted 70 per cent insurance they added some, if they wanted 60 per cent insurance they added more; if they wanted 50 per cent they added more. The co-insurance clause is simply to maintain the parity of rates and rate as between insurers.

By Mr. Brown F. Lee—Your reason is based altogether upon—from the standpoint of the company, isn't it?

A. Yes, sir.

Q. Why do you enforce the 80 per cent clause?

A. Well, I simply stated that the companies used that 80 per cent co-insurance clause as a basis of maintaining the parity of rates as between the insurers.

Q. That is from the standpoint of the company. I understand your reason on that and it is a very good one, too, so far as the company is concerned, but taking it from the standpoint of the insurers, why not do that?

A. For the same reason you would not want to discriminate between one insurer and another, if you are fixing their rate.

Q. Say I own \$10,000 worth of property and want to take out a \$2000 policy one it, in order to protect my credit, just enough insurance to protect my

credit; you compel me to take out an \$8000 policy when I only want to carry enough insurance to protect my credit.

A. Instead of asking you to carry more than \$2000 insurance I would simply say that I will give you \$2000 insurance at a higher rate.

Q. Then it might be cheaper for me, at a higher rate, to carry the full \$10,000 than to carry \$2000?

A. Yes, sir.

Q. Then I could carry the whole \$10,000 when I wanted to carry \$2000?

A. Certainly, that is why the insurance companies have filed their rate that way.

Q. Sure; it is all right for insurance companies.

A. If you insure for \$2000 at the same rate on \$10,000 worth of value at the same rate that your neighbor insures \$8000 on a \$10,000 value he is carrying your risk partly in the rate if the rates are based on 80 per cent, you are not paying your fair proportion of the total rates.

Q. No; that is from the standard solely of the companies?

A. No, sir; that is from the standard of equity as between you and your neighbor.

Q. Now, then, you are undertaking to do that by making an 80 per cent co-insurance clause by reason of the law fixing the rate, aren't you?

A. By reason of the law fixing the rate?

Q. Yes, by reason of the law fixing the rate?

A. By reason of the basis for fixing the rate.

Q. All right, that is the same, the board is acting under the law. Why don't they do this? The board is supposed to have fixed the rate at a reasonable rate under the law, why didn't they have an 80 per cent co-insurance clause before this Fire Rating Board was created?

A. They had many co-insurance clauses before the rating board law was passed and used them.

Q. They were using them?

A. Yes, sir; in many instances.

Q. They didn't enforce it, did they?

A. Yes, sir; on many classes they used the co-insurance clause on 80 per cent, 85 per cent and in some cases 100 per cent on grain, wool, cotton.

Examined by Mr. Reedy:

Q. Mr. Hamby, I would like to know whether the 80 per cent co-insurance clause makes the cost of this insurance heavier on the insurer than it would be without that clause?

A. It would make it heavier on some and not so heavy on others. It is intended to equalize it over them all.

Q. Now, one other question. Doesn't it, if that is a fact, tend to make the burden heavier on the small insurer and lighter on the large insurer?

A. No, sir.

Q. Now, why.

A. I think the small insurer carries nearer his 80 per cent than the large insurer as a rule; that is my judgment in the matter.

Q. Isn't one of the reasons for this co-insurance clause that the companies can't afford to write small policies without heavier remuneration?

A. The amount of the policy is not considered.

Q. How about agents' premiums?

A. The agent gets his commission on the premiums. A policy for \$5000 may have a very low premium and a policy for \$1000 might have a very high premium.

Q. By Mr. Cureton.—Under the 80 per cent insurance clause a man who took out a large insurance policy on a particular piece of property, I will ask if he didn't get a smaller rate than the man who took out small insurance on the same piece of property?

A. Yes, sir; under the rates as laid down in the schedule.

Q. And if he only takes out \$2000 on a \$10,000 piece of property, the rates would be higher than if he had taken out an \$8000 policy?

A. Yes, sir.

Q. You assume an amount of \$10,000,000 of property?

A. Yes, sir.

Q. That on this it has already been ascertained there will be a fire loss of \$100,000?

A. Yes, sir.

Q. And then the policy holders, under the \$10,000,000 of property, must raise \$100,000?

A. Yes, sir.

Q. You say, if each man who owns a part of that \$10,000,000 was to take out a policy for the full amount the rate would be a dollar?

A. Yes, sir.

Q. But if some take for the full amount and some for a smaller amount, in order to raise the \$100,000, you must make a higher rate than a dollar?

A. Yes, sir.

Q. Your position is, that the man who takes out the smaller amount, as a matter of equity, should pay a higher rate?

A. Yes, sir; that is the theory.

Q. That is the argument in favor of the co-insurance clause?

A. Yes, sir; it is strictly a matter of equity in establishing the rate.

Q. Mr. Maddox suggests that the man who takes out the smaller amount is more apt to burn than the man who takes out a larger amount of insurance.

A. No, sir; I should think that would work the other way.

Q. Mr. Tarver desires you to explain why, as a matter of equity, the man who takes out the smaller amount of insurance under the conditions named, should pay a higher rate than the man who takes out the larger amount of insurance?

A. That the rate as stated in the schedule is based upon the fact that all insurance would be figured on 80 per cent of the value. If all would insure up to the extent of 80 per cent it is very clear that the amount of premium to be derived would be so large, but if a certain number insured for less, the total premiums derived would be less at the end of the year, and so on from year to year. It would be necessary to increase the rate upon all. If some were going to insure for the full value and others for a proportion, it would be necessary to either reduce the rates on all or raise the rate in proportion to the difference.

Examined by Mr. Reedy:

Q. As I understand it, Mr. Hamby, there was a rating recently promulgated by the insurance companies and the rating board have ordered a reduction of that rate; is that correct?

A. Ordered a reduction on the mercantile and special hazards generally.

Q. Now, how did you reach the conclusion that the reduction that you ordered was the correct reduction to make?

A. The figures that we had from all over the State generally showed that the mercantile rates had been increased as compared with the former rates an average of 53 per cent, mercantile and special hazards. Our information was that dwellings had been reduced by the companies about 20 per cent. We figured that the dwellings reduced by the companies and the mercantile and special hazards as increased by the companies would make the general rates and general premiums in excess of the average amount needed to compensate the companies and by making a reduction of 25 per cent on mercantile and 15 per cent on special hazards, that was as close as we could approximate it with the limited time and information that we had—we feel and realize that the question of rates will never be fully settled; it is

something that is changing all the time as sand goes through the hour glass, every grain of sand that goes through changes the position of the others in the same glass—our having a higher rate than necessary in some classes and on others we were not obtaining as good as necessary, we felt that the people needed the relief we allowed and it was as good a relief as we could give them.

Q. Your committee came to the conclusion that the rate on commercial risks was excessive?

A. Yes, sir.

Q. Now, this bill makes the rate of 1909 the legal rate until a new rating can be had by the board, is that correct?

A. I understand that it is.

Q. Has that been because the board has reached the conclusion that those rates were fair and reasonable and not excessive?

A. I don't know why.

Q. Are these really fair and reasonable rates or not?

A. My idea is it would be best specified in House bill No. 7 that pending the promulgation of new schedules by the Insurance Rating Board that companies be allowed to write insurance in excess of the rates now obtaining as promulgated recently by the companies and reduced by the Insurance Rating Board.

Q. These rates recently promulgated by the companies and reduced by the board, are they higher than the rates of 1909?

A. They may be, as a whole, a little bit higher, but the fact that there was no case that could be very readily taken up by each individual insured, by reducing and eliminating certain hazards from these risks, such as removing trash, gasoline, empty boxes, repairing window panes and generally improving the risk. The increase of 53 per cent as mentioned for mercantile risks was largely made up of these deficiency charges.

Q. Suppose, Mr. Hamby, that a special rating used in a State was considered excessive by reason of penalizing the insurer on some particular element of risk?

A. You mean his individual risk?

Q. Yes, sir; his individual risk?

A. It wouldn't be possible for each person in a State to bring his grievance before a board.

Q. Would it, under the plan contemplated by the fire marshal feature of this bill?

A. I don't think after a little while there would be very much trouble on penalization. I think those cases would be comparatively few, on the penaliza-

tion phase. Reports should be given by the insurance companies and all their agents and by city officials and firemen, fire marshals in each individual town. I think after a little while that practically every business man will be familiar with the make-up of his rates, get an itemized bill of it, just as you would get an itemized bill of your groceries.

Q. And he would remove them of his own—

A. I think in nearly every case that these things would be removed. My experience is where insurers have been shown the deficiencies in their risks they were unconsciously after years and years, they were very thankful for having their attention called to it and would very readily make the corrections, realizing not only that they are getting a lower rate but that they are lessening their chances of fire in their own risk and in case of an outside protection they lessen the chance of damage from fire originating next door to them or across the street.

By Mr. Terrell of Bexar—Q. Mr. Hamby, don't you believe it would be well if we are going to retain the rates in force at the present time as reduced by the board to place in the law a provision that all risks written hereafter before action is taken by the board that the insurer should have the right within sixty days to remove any defect and that the company should give him credit for all defects removed in that time; in other words, I need a policy today—

A. Yes, sir, I catch it—

Q. And there is some defect, slight defect, which may increase the rate of insurance to me but which I will remove within sixty days, or as soon as possible, don't you believe that I ought to have credit on that policy?

A. That would not strictly be consistent.

Q. Why not, Mr. Hamby?

A. It would be on—probably a good idea. You certainly ought to have notice and know that your rate is so and so and is made up.

Q. Well, but if I need an insurance policy today, I could not afford to leave my house uninsured until I could fix up some defect, would not the only proper way be to give me thirty to sixty days in order to remedy that defect so as to give me an opportunity to give me the proper rate?

A. In the meantime your risk is more hazardous than your rate you are getting would justify.

Q. Oh, I would pay the fixed rate

when I got the policy, but after I reduced it they could refund me the difference?

A. Well, that has always been done regardless of the policy, wherever you eliminate a hazard you get a return premium for the unexpired portion of your policy in accordance with the reduced rate—

Q. Under the present law?

A. Yes, sir. The great trouble with the present law is that you went along with the hazardous conditions months before you knew what that rate was going to be and you probably could have eliminated that hazard earlier in the life of the policy if you had known.

Q. But didn't the companies collecting the amount in premiums on the risk, after the rate was fixed, for instance, in San Antonio, where we have been insured for several months with the "red rider," didn't they collect the full amount regardless of whether or not the man made improvements after he had found out what his rate was and made such improvements as would justify a reduction?

A. They collected it with the provision and understanding that when those improvements were completed his rate for the unexpired time would be reduced correspondingly.

Q. Did you ever know of any of them being given any of it back?

A. I paid thousands of them back.

Q. I mean under this new law.

A. I haven't inspected any agents' books; I have heard of it.

Q. If we have a maximum and a minimum rate, would not it be possible for the companies to reduce on the business risks below the maximum and rate the residence risks at a maximum?

A. Under this House bill No. 7, I understand that would be possible.

Q. Don't you believe that owing to the competition for large insurance risks that they would—especially the larger companies—would do it?

A. It is possible. I don't know what they would do.

Q. What is your opinion?

A. There would be a greater tendency towards reduction on the mercantile risks, yes, sir, because there would be pressure brought to bear.

Q. Because there would be pressure brought to bear all over the State, such as Hardware Dealers' Association and the Merchants' Association, Wholesale Merchants, etcetera?

A. Yes, sir.

Q. Now, if the rate is fixed properly

in the first place, would not the companies be deriving the same reasonable income out of the business risks in proportion to the amounts written, as they would out of the residence risks, if properly fixed?

A. In proportion to the hazard, yes, sir.

Q. In proportion to the hazard, certainly. Then, if they should reduce the maximum on business risks, bearing in mind the fact that they are entitled to a reasonable income, would not the majority of the people who own homes be paying a greater proportion of the income of the companies?

A. If the board had a classification furnished it by all the companies that dwellings were insured for such and such amount and the losses were such and such amount and premiums were such and such amount and that the classes ought to be rated at and the insurance companies voluntarily wrote the other classes below a profit, it would be their own risk, and the board would not in justice to the other classes allow them an excess rate for the next year or the next period of years in making it up.

Q. But suppose they write it at a very low profit, a profit so low as not to be a reasonable one on the business class of risks and they write the residence class at a maximum rate so as to make them a reasonable income, then would not those owning residences be really paying a majority of the income of the companies?

A. Yes.

Q. Now, if after the reduction of the maximum risks they reached a point where it still endangered the safety of the company under House bill No. 7, it is the duty of the board to stop them, isn't it?

A. I understand it that way, yes, sir.

Q. And to fix the rate so that their income will be reasonable and that they can operate safely, isn't that it?

A. I don't remember the terms of that maximum rate clause.

Q. But would not that be the effect of it regardless of the terms, if you have got a maximum rate and can put a minimum rate on when it endangers the soundness of the company?

A. A maximum rate would take care of a fair profit and the minimum rate would probably take care of no profit at all. It would be just at the danger point, and according to the idea of some members may go below the danger

point. It may be the danger point for one company and may not for another company, owing to its size, character of building—

Q. On that very proposition that it may not be a danger point for a large company but may be for a small company, don't you believe the larger companies can drive the small companies out of business; and don't you believe under the maximum rate a large company can destroy every insurance company in Texas if they see fit?

A. By writing below it?

Q. By writing below it.

A. It is very possible by making it very hard for them to live, but Texas companies don't always depend on Texas premiums for their living, but could write in other fields.

Q. I understand, but so far as Texas business is concerned, wouldn't it practically eliminate the Texas business of the small companies?

A. It is possible unless the board passed an order protecting them.

Q. Wouldn't it fix the income of small companies?

A. Fixing it at the danger point, eliminating the question of profit.

Q. I understand it is the policy of the State as well as the policy of the board to allow companies a reasonable income?

A. Yes, sir.

Q. (By Mr. Terrell.) Then, when you reached that point, haven't you got an absolute rate?

A. Yes, sir.

Q. Then, Mr. Hamby, I want you to tell us what is the purpose of a maximum rate in preference over an absolute rate.

A. You will have to ask the authors of the bill what their purpose was.

Q. I will ask you, in your opinion, which is the best?

A. I prefer the fixed rate.

Q. I will ask you, Mr. Hamby, if you do not believe the board can operate the business better at a fixed rate than with a maximum and minimum rate?

A. Yes, sir.

Q. I will ask you, Mr. Hamby, whether you believe the companies should file schedules, not to take effect until approved by the board, or that the burden of making these schedules should fall on the Fire Rating Board?

A. Each plan has its advantages and disadvantages.

Q. Right here, if the purpose is only to allow them a reasonable income, and I believe we are all agreed that that

is what they are entitled to, does it make any difference in the rate as to who files it?

A. Not necessarily, no, sir.

Q. Then, if the company files a rate, to be approved by the board, subject to any reduction, they may see fit to make, would the insuring public of the State be as well protected as if the board made the rate and a great deal less of expense and less trouble to its officers?

A. Yes, sir, the advantage of having a schedule prepared and promulgated by the board would be that schedules for all companies would be identical and the interpretation of these companies would rest with the board and not with each individual company, as I have been informed—

Q. Would not that be the effect of a uniform rate—how would that be, the effect of the uniform rate, and would not be the effect of the maximum rate after the first company made the first reduction?

A. All of the companies do not file identical schedules.

Q. You have the power to make them file identical schedules?

A. The present law does not say so.

Q. If you have the power to approve them before they can collect, then you have the power to make them file schedules identical?

A. Yes, sir, I should think so.

Q. But if the board should fix the rate, Mr. Hamby, if the board should fix its own schedule of rates—suppose when the first company reduces the maximum rate on the business hazard, wouldn't you have different rates for different companies?

A. Yes, sir, probably so, if the proper companies did not conclude to reduce their rates.

Q. Unless all other companies reduce their rates to similar amounts?

A. Yes, sir.

Q. If the other companies did not reduce rates to similar amounts wouldn't the board have an immense amount of work to do keeping up with each separate company and each separate rate?

A. Yes, sir.

Q. I will ask you, Mr. Hamby, if you believe that the board, under the present law, or the one which I have introduced here, or the same principle of the question, at a uniform rate, and companies fixing the schedule to be approved by the board, do you believe that the board would have enough to do to

keep them in Austin here practically all the time?

A. Under your bill?

Q. Under either the present law or my bill. Do you believe that the supervising of rates and the checking of accounts and policies, etc., and seeing that there is no discrimination, would be occupation enough for that board?

A. There would be plenty of work to do.

Q. Isn't that all the board can do?

A. You mean just two members of the board?

Q. And what time the Commissioner of Insurance and Banking could give to it; I know he is pretty busy?

A. If you devolve all of that work on two members of the board, there would probably be more than they could do, but with a corps of assistants it would depend on how much time the individual members of the board would have to be in their office.

Q. I will ask you, Mr. Hamby, do you believe any member of that board, while they were trying to regulate insurance companies in this State, to see that there was no discrimination, would have time to go out and investigate fires?

A. Possibly so.

Q. Possibly; do you think they probably would and do the other work properly, at the same time?

A. Under Mr. Cureton's bill, if it was passed, which would devolve upon one member of the board to act as a Fire Marshal and the other member of the board to act as Secretary, they would have a corps of assistants for each branch of the work, and when it became necessary to act as a board, they could be in Austin at the same time, of course.

Q. But don't you believe this board ought to stay in Austin practically all of the time to hear matters that may come up at any time and for the purpose of supervising and regulating these companies?

A. I don't consider that of any great necessity.

Q. Don't you believe, Mr. Hamby, that it would be much better if you were going to have a State Fire Marshal to give him a department and assistants, and don't you think it is all one man can do to attend and investigate fires and supervise that matter—of course, he would have his clerks sometimes to go and investigate these matters, but to supervise the matter, don't

you think that it would be about all one man could do, and then some?

A. I can't say. I am rather inclined to think it would be a big job.

Q. Do you believe that the board ought to be paid by the insurance companies or by the State?

A. By the State.

Q. (By Mr. Tarver, to the witness.) Mr. Hamby, I understood you to say in answer to a question asked you as to when the co-insurance clause was applicable, I understood you to state that it was applicable only when the property was insured for less than 80 per cent and when the loss sustained was less than 80 per cent.

A. It operated only in these cases.

Q. It don't operate when the loss is less than the total, provided it is equal to 80 per cent of the loss? Is it not, as a matter of fact, applicable always when the loss is less than the total loss?

A. Less than the total, provided it is less than 80 per cent.

Q. If it is less than 80 per cent, that is, if the loss is 80 per cent or over, it is inoperative?

Mr. Terrell, to the witness:

Q. I don't understand the meaning exactly of Mr. Cureton's bill; does that mean that you file schedules of rates on each individual risk in the State?

A. I understand it to mean that we prepare on a general basis a schedule from which the insurance companies get the rate on the individual risk; that it would not impose upon the board the duty of inspecting and measuring the hazard of each individual risk and figuring the total rate.

Q. Mr. Hamby, under that system, wouldn't the agents going out to look at the property—suppose two agents go to look at the same piece of property, wouldn't there be a great deal of play for them to make mistakes?

A. My experience is that any schedule should be handled only by experienced men or experts in that particular line of business, if the local agent is not an expert in the inspection of risks and the making of schedules.

Q. I understand these companies have spent about \$250,000 and many months of time inspecting the risks of Texas, and that your board has reduced the rate to what is a reasonable rate today, haven't you?

A. Yes, sir, what we consider a reasonable rate.

Q. Do you believe it would be proper to place upon them again the burden of inspecting the individual risks of Texas?

A. The insurance companies? They have always done it, not each individual risk, but it has always been the burden of the insurance companies to do whatever inspecting and rating that was necessary.

Q. Yes, if it was necessary, I would agree with you; but inasmuch as they have done it once and that the rates are now reasonable and practically as low as they have ever been in Texas, don't you believe it would be asking a good deal for them to go over it again?

A. And apply entirely a new schedule and make entirely new specific rates in every case, I think it would be unnecessary; however, the insurance companies are constantly reinspecting all the time and correcting their specific rates to conform to changed conditions.

Q. I understand that, and that they are inspecting new risks, of course?

A. And old risks.

Q. They inspect new risks also?

A. Yes, sir.

Q. To make a rate for them?

A. Yes, sir.

Mr. Reedy to the witness:

Q. Mr. Hamby, can all the companies, large and small, do business on the same rates?

A. Yes, sir.

Mr. Lee to the witness:

Q. We will say there is a city of 3500 people, the key rate established, when a fire breaks out and two-thirds of the town is destroyed, now, what is the key rate?

A. That depends on what is destroyed. It depends on how much of the water works and fire department are destroyed.

Mr. Tarver to the witness:

Q. Mr. Hamby, I understood you to say in answer to Mr. Reedy's question that it was possible for all companies, both large and small, to do business under the same rate at the same time—did you answer that it was?

A. Yes, sir; depending on a reasonable rate.

Q. I was going to ask if that is true, how it would be possible for the larger companies to drive the smaller companies out of business?

A. They could adopt lower rates than would be a reasonable rate.

Q. Do you mean to qualify your former answer?

A. He asked the straight question, could all companies do business on the same rates, and I answered him that they could.

Q. Then if they could, no one com-

pany could have the advantage of another?

A. If that rate was a reasonable rate.

Q. What now, then, you mean, allowing them all reasonable rates, they can do business on the same rate?

A. Yes, sir.

Afternoon Session, August 2, 1910.

R. M. Hamby still on the stand. Cross-examined by Mr. Scruggs:

Question. Mr. Hamby, in the beginning of your examination by Mr. Cureton you stated that the increase in the less in the State last year was due to discrimination exercised by the insurance company.

Answer. I do not remember making that statement.

Q. Now I would like for you to explain how you arrived at that.

A. I do not remember making that statement.

Q. There was a direct question asked you by Mr. Cureton, in which you said it was due to that?

A. As I remember the question he asked, what in my opinion was the cause of the large increase and losses over the previous year and I gave him three reasons, which I thought was the cause. One of the reasons was the climatic condition, another was financial condition and the third reason was the recklessness in which companies transacted their business.

Q. How could the recklessness of the companies cause more fires, that is what I want to get at?

A. They accepted business without proper investigation and without proper inspection, which if they had exercised it would have no doubt called attention to the assured to the houses in his building and more of them would have been removed if he had not been able to get insurance without it and be able to reduce the losses.

Mr. Lee—I want to ask a question.

Q. Is it not caused by the recklessness of taking irresponsible risks?

A. Yes, sir; it has a tendency to grant insurance to people that probably are not entitled to it.

Mr. Scruggs to the witness: Q. Is that discrimination? Admitting that everything you say is true, Mr. Hamby, that the insurance companies do all that you say they did, where does the discrimination come in?

A. The discrimination was in the amount charged.

Q. The amount of the rate charged?

A. Yes, sir.

Q. Did the amount affect the fire?

A. No, I don't think that affected the fires.

Q. Then the increased loss was not due to discrimination, but was due to the recklessness of the underwriters or the insurance company?

A. That was coupled with discrimination. If you wrote a man that had a good risk at a certain rate and wrote another man who had a poor risk at the same rate, an inadequate rate, that was discrimination.

Q. But did that cause the fire?

A. The mere fact of granting a man a low rate or a poor risk is discrimination and is frequently the occasion of getting insurance where otherwise he would not have gotten it, he would not have had a fire; if he had not been able to have gotten the insurance at a low rate he would have taken it at a higher rate, he would have then improved his risks.

Q. But when you state that the discrimination of the insurance company increase the fires in the State—is that what you say?

A. I do not remember that I made that statement exactly.

Q. Do you think it did? We are granting that there was discrimination, but I hold and claim that discrimination can not and would not cause a fire, and it is unfair to the companies to say that they had anything to do with causing fires through discrimination.

A. That was linked with the proposition; the other proposition was linked with that I think.

Q. You gave your testimony in a general way and answered general questions applicable to the entire State of Texas, I would like for you to tell us if you have had any personal knowledge of conditions in any of the towns outside of Austin?

A. What do you mean by personal knowledge?

Q. Do you know that these things occurred of your own knowledge; do you know about these discriminations and everything; do you know it of your own knowledge, or is it hearsay?

A. Not everything; I don't know everything of my own knowledge, that is, I do not know what took place anywhere else of my own knowledge, but it is from hearsay and information I have had from various local agents.

Q. That portion of your testimony in this record relative to discrimination outside of your experience in Austin is hearsay evidence gotten from the other people?

A. Yes, sir; and from their records.

Q. That hearsay evidence is gotten from the other people?

A. Yes, sir; and from their records.

Q. There was one question that Mr. Cureton asked you that determines that it be cut out of the record relative to the God Almighty's truth of the business and I don't want it put in there either; he asked you whether or not the companies are in a habit of writing one man for less money and making it up by collecting a higher rate from some one else.

A. In the habit of doing it?

Q. Yes, did not they make the practice—wasn't that his question that the idea was that large merchants and large property owners could get cut rates and the small property owners had to pay high enough rates to offer them the cut rates?

A. Yes, sir; that is my opinion.

Q. (Referring to a book.) This is your book, Mr. Cureton has here, you showed it to me once before and I want it to go into the record. You got some pencil figures there that I want to go into the record; you got some pencil figures there in the left, what do these pencil figures represent?

A. Those were the average rates.

Q. Will you give the year and the average rate of each year that you have got down there?

A. The average rate for 1904 was—

Q. It was \$1.60, was it not?

A. These figures are so irregularly put down.

Q. I want to know the average rate of each year for the last five years as shown by that book.

A. The average rate for 1904 was \$1.60. The average rate for 1905 was \$1.52. The average rate for 1906 was \$1.59. The average rate for 1907 was \$1.55. The average rate for 1908 was \$1.43.

Q. Have you got it for 1909?

A. I have not got it here with me.

Q. I have got it here; figure it out and tell me what the rate is. This is the next book after that one. Can you figure the average rate for last year for me?

A. As stated here is \$8,854,193, and that will have to be divided.

Q. Divide it and see what it was last year.

A. I figure that \$1.47.

Q. Mr. Wright figured it at \$1.26; but even at \$1.47 let it go. But now, we have got enough to illustrate what I want to draw out by it. These premiums and risks run down here and are written so don't you suppose to include some tornado insurance?

Q. Yes, sir; none of those figures are absolutely correct, but they come near enough to give us a good idea. I know for a certainty that sworn statements of some of the companies carry errors unless they are picked out. For instance, I have one company that always reports its net premium deducting the insurance and reports its gross losses, but the reinsurance is in the statement and can be taken out and I have to always write the Insurance Commissioner and call his attention to that, but I can not get the company to correct it at the home office. I only know of that one case of that kind. That is the Williamsburg City. Now do not these figures show a reduction of the average rate for each year?

A. Yes, sir; that is a general reduction. This is \$1.47 while the lowest seems to have been before that \$1.43 or this one is 4 cents higher than the previous year.

Q. Does the question of the three year business or five year business or what we call term business enter into that average rate?

A. Yes, sir.

Q. The more term business the higher the average rate would be?

A. The larger amount of business; yes, sir.

Q. Is it not a fact that last year the companies turned loose as you stated and put a lot of term business on their books?

A. They did here in Austin.

Q. The average rate has been reduced each year?

A. Yes, sir.

Q. If the companies every time they cut a rate on a risk—if the companies every time they cut a rate—if they had to increase it on some other risk, would not that hold up their average rate?

A. It would depend on how much they cut and how much they increase.

Q. If the theory that they are collecting from the small men enough to equalize the rate is true, would not the average rate remain stationary?

A. If they cut enough or if they raise it enough it would.

Q. Would not that indicate the fact that if it was done at all that they have

not raised the little fellow, but simply have not cut the little fellow and that the little fellow was left stationary?

A. Yes, sir.

Q. Therefore, your testimony would indicate that the companies have been unfair to the little fellow by raising the rate?

A. I didn't say that I—I did not say that. I said they reduced the rate on the larger risks so that more and more the little insurers, the small insurers, were bearing the burden of the larger ones.

Q. Mr. Cureton, I think it was, brought out the fact that we were collecting enough to offset the big fellows' cut?

A. Not that you collected enough, but that from the fact that they were giving a cut a large man could get his insurance cheaper and a small man suffered from discrimination.

Q. Is not there another thing that enters into the placing of business and the cutting of rates, namely, the amount of commissions that the companies pay the local agents?

A. I do not know that that enters into the cutting of rates. I don't know that it does.

Q. Would not you work harder as a local agent and offer more inducements to get business if the company that you represented paid you a higher commission; would not you work harder for that company than you would for one that paid you a lower commission?

A. I do not know; it would depend upon the class of business that the company would accept.

Q. Is it not a fact that in your own local business that you did give to the companies that you represented who paid a higher commission, more business proportionately?

A. No, sir.

Q. How much did you give to Williamsburg City Company out of your local office here in Austin?

A. I do not remember. I know of several companies in the office that got more premiums than they did.

Q. In proportion to their size and lines of business that they wrote?

A. Yes, sir.

Q. How much more commission did they pay?

A. They didn't pay any.

Q. How do you explain that. The Williamsburg City was a good company, was it not?

A. Yes, sir; and the others were good companies too, but we thought it was

fair to give them all the same as near as possible; to give them as near as possible an equal amount.

Q. Why should you give to one—

A. I did not consider discrimination question at all. I think that that office has been noted for years and years for square dealings. Of course, I did consider the commission in the case, but I did not make it a general practice.

Q. Is it not a fact that the merchants in Austin would get some mutual, or as we call them a wildcat, company to issue a policy of insurance at a good rate and then use that policy on the local agent to get the local agent to reduce the other rate?

A. I know of one certain instance.

Q. They would not tell you what company they had their policy in, but they would say that they had an insurance policy at a lower rate than you have been writing me and unless you beat the rate—

A. That company that I have reference to was a San Antonio Mutual Policy.

Q. And they would say to you unless you meet their rate you could not have their business; was not that used sometimes as much as anything else?

A. I do not think so.

Q. Don't you think that the mutual competition had much to do with it?

A. It had something to do with it.

Q. Don't you think that the mutual company should be brought under the law as same as the other company?

A. Emphatically so.

Q. Mr. Cureton, in discussing with you the question of how to make a rate has laid great stress upon classification. I can not understand exactly what your idea is of classification or information needed or necessary to enable you to have information upon which you base a rate; tell me just what you want to get in order to know how to make a rate.

A. I think I stated that the board should have information as to the value of property to be insured. The loss on those classes of property and the causes of the losses and the character of the building as far as possible, and that coupled together with judgment and experience would be needed.

Q. What do you mean by experience?

A. Experienced underwriters. That would be the basis for establishing particular rates. Of course that information for one year would not be final; it would take a series of years, three to five years at least, for a starter and a long period would be better.

Q. (By Mr. Scruggs)—Don't you believe that the companies, in the schedules that they have prepared throughout the United States, have prepared them in as near a scientific manner as it is possible for them to be prepared, or do you?

A. I rather think so; that they have endeavored to the best of their ability to build scientific schedules, and I am informed that for years and years that the companies, a part of them, have wanted uniform classifications of all the companies so that all through their experience, State by State and section by section and the country at large, and that, in connection with their experience, would be very valuable information, but that they could never get a sufficient number of companies in any particular section to divulge their experience or keep uniform classifications, such as I think are kept by the Western Union and the Middle West.

Q. Now, if these schedules, as you have said were made by the companies entirely, and with the time and opportunity to make them fairly, don't you think the companies, with over one hundred years' experience, have got more information upon which to build these schedules than any board of commissioners in Texas could get together in ten years' time?

A. I doubt it.

Q. You believe the board of commissioners could do better in ten years?

A. The board of commissioners, with the authority of the law behind them, can get information that the companies have wanted themselves and have been unable to get.

Q. Don't you know that these various classifications were tried by the insurance companies as a basis for making rates and was found to be unfair and cast it aside some thirty or forty years ago?

A. No, but even if it had been, I should not think that it would be proof positive that it would not be a good thing to use now after thirty or forty years.

Q. You have got your own ideas about it?

A. Yes, sir; I certainly have.

Q. Now, then, you also stated that the charges that the companies have in these schedules were arbitrary charges?

A. That is my information from the companies' experts themselves.

Q. You introduced in evidence here the universal mercantile schedule, which I might say is the dictionary or Bible of schedules for the insurance compa-

nies; do you know how that was compiled and made?

A. My information is that it was compiled upon the judgment of the foremost underwriters at that time. I think there is a chapter on that. I think the book itself contains a chapter on that.

Q. They were all of the leading underwriters of New York and the East, were drawn together and they spent probably three years in compiling that book?

A. And that book also shows that the same question asked underwriters at one time, and the same question asked them two weeks later, and then a week or two after that, they would give a different answer to the same question.

Q. I am glad you brought that out. That the changed conditions—that insurance conditions were so varied and so rapidly changing—

A. It did not change that materially. It just went to show that it was purely arbitrary.

Q. Now, you say these charges that they put in that book are arbitrary charges?

A. Yes, sir; in my opinion.

Q. Do you know how they arrived at them?

A. No.

Q. Isn't it a fact—well, I will ask you first, what is the burning ratio; you know what the burning ratio is instead of the loss ratio?

A. That is the amount of the loss as compared with the value of the building.

Q. In other words, the proportion of values that are destroyed by fire irrespective of the insurance premium that is paid on it—that is the burning ratio?

A. Yes, sir.

Q. That is the ratio of the destruction of property?

A. Yes, sir.

Q. Don't you know they have taken the average in the United States as a basis to start on and then that they subdivided that in accordance with the cause and susceptibility for fire to arise and to spread and in that way arrived at these charges?

A. The charges, as a whole throughout—probably was based on that, but the individual charges, for instance 25 cents for an opening in a building, was an arbitrary analysis.

Q. Let's see whether that was or not; you introduced a list of causes of fires from the Continental, showing the percentage of each fire?

A. Yes, sir.

Q. Now, if 20 per cent of the fires were caused by these openings and under 20 per cent of that burning rate was charged for opening—

A. I don't know that they were. There is nothing in that to indicate that there was a certain percentage caused by any opening or any kind of construction in the building.

Q. Didn't this schedule you brought in from the Continental show the number of fires and the percentage of causes?

A. Yes, sir.

Q. Now, if they tabulated the fires—these underwriters, and showed the causes of the various fires, wouldn't it appear to divide up this burning ratio and charge in proportion to the causes that caused these fires on a percentage basis; wouldn't that be proper? If 10 per cent were caused by openings and under 10 per cent of the charge was covered in the openings, wouldn't that be a scientific way to get at it?

A. That would be a natural conclusion.

Q. If they had all the causes before them and subdivided these causes and fixed a specific charge for each cause, and the specific charges indicated the burning ratio, wouldn't that be a scientific schedule to write by?

A. It would be a matter to be considered in making the schedule.

Q. Isn't a fact that is the way we file that schedule?

A. Not that I know of.

Q. Now, upon what theory did the charge of five cents for an opening?

A. Based upon the percentage of fires that were caused by openings.

Q. Have you any figures or statistics on this information?

A. No. After this schedule was made we accepted this schedule like we accept Webster's dictionary.

Q. Do you know where those statistics are?

A. I don't know where they are. Mr. Moore, the writer of the book, could probably give it to you.

Q. You really believe that they are in existence?

A. I do. And that is not all. These statistics would probably not be correct today, because of the changes that are occurring all the time—twenty-five or thirty years ago, therefore, for instance, it would not be right for the State of Texas to try to follow that schedule to make it apply to the conditions as they are now.

Q. Upon what theory do you make the changes? Upon the 5 cents—

A. Based upon the tariff.

Q. Are their tariffs based on statistics?

A. None of them are based upon classification like you are talking about.

(Arguments of committeemen as to whether this class of examination shall continue here or not omitted from this record.)

Q. You stated also yesterday, Mr. Hamby, if I am correct, that the moral hazard should enter into the charge, or did enter into the charge, didn't you?

A. No, sir, I stated to the contrary.

Q. You stated to the contrary?

A. Yes, sir.

Q. Then I have got that down wrong. How many towns are there still in the State of Texas that have to be rated?

A. I don't know.

Q. You don't know. Do you know how many have been rated?

A. I think something like 125. I am not certain about it; I have not counted the schedules.

Q. Have you been over the rates that have been filed?

A. Some of them.

Q. Isn't it your experience that towns outside of the big towns have the rates reduced rather than increased?

A. No, sir.

Q. It is not?

A. No, sir.

Q. They are higher?

A. Yes, sir.

Q. This year they are a little higher?

A. Yes, sir. That is my observation.

Mr. Terrell—Do you mean with the reduction or without?

A. Either way, that the increases are pretty much along the same ratio; they all show an increase in the rates.

Q. I always understood that government meant the greatest good to the greatest number; now, in fixing the rates for the State of Texas, do you think the rates ought to be fixed so as to produce the greatest good to the largest number of people or the greatest good to the largest property value in the State?

A. The greatest good to the greatest number of people.

Q. Yes. You stated yesterday that rates on dwellings had all been reduced about 20 per cent?

A. Generally speaking.

Q. You say that about one-fourth of the premium was from dwellings?

A. I said that was the companies' claim.

Q. About correct. Have you any idea

numerically how many people were benefited by the reduction for dwellings?

A. No, sir.

Q. You have not?

A. I should judge that at least three-fourths of the population.

Q. At least three-fourths of the population?

A. I should think so.

Q. Then, if that reduced—

Mr. Cureton—Three-fourths of the population who insure, or do you mean three-fourths of the population of the State?

Mr. Scruggs—Ask him that: Do you mean three-fourths of the people who insure or three-fourths of the population of the State?

A. Well, I should say it would run in the same proportion.

Q. Therefore, if one-fourth of the premiums are reduced 20 per cent, you are giving a 25 per cent reduction to three-fourths of the people in this State?

A. Some reduction, yes, sir.

Q. You said that 20 per cent was the average reduction that had been given in dwellings—do you know what your order on dwellings further reduced them, what it amounted to?

A. No, sir.

Q. Well, I want to tell you: The Hartford Fire Insurance Company gets the biggest business in the State of Texas; after they received your order they tabulated dwellings that they had on the books in the towns that would be affected by your order; they took the reductions there and comparing them with the whole State they showed that your order on dwellings amounts to a reduction of the Hartford Insurance Company on their insurance rates an additional 14 per cent. We have already reduced them 20 per cent and your order amounts to 14 per cent more on the total value of dwelling house premiums, making a total reduction of 34 per cent on dwellings; and it is an established statement—I won't say fact—that companies claim to have lost money on dwellings?

A. Some do and some don't.

Q. The average, I mean, shows a loss.

A. I don't know that.

Q. You don't know?

A. No, sir.

Q. Now, if the companies compiled a schedule under this law that gave a 20 per cent reduction to three-fourths of the people of the State, haven't they complied with the spirit of the law in doing the greatest good to the greatest number?

A. Yes, sir.

Q. After they reduced their rates and the law and your idea is correct and you are holding them up to cover these cuts, ain't they doing good to the greatest number?

A. Somewhat; it is providing for new rates, fair rates.

Q. Providing for fair rates, providing they were low enough, is that what you mean by fair rates?

A. Well, low enough, and not too high.

Q. You introduced here yesterday and showed it to me up in the room a statement showing how you got your information upon which you made your reduction; have you got that? Is it in the record?

A. I don't believe it is in the record.

Q. Upon which you reduced your rates upon each town.

A. I haven't it here; I have one up-stairs.

Q. It is all right if you will just consider it in the record.

Mr. Cureton—All right.

(Noted that the data spoken of is considered introduced in the record.)

Mr. Scruggs—Mr. Moller asked you the question or I believe you said, if we had three years of successive losses by the insurance companies and you were the Commissioner, you would authorize an increase in rates?

A. No, sir, I didn't make that.

Q. What did you say?

A. I said one year would not be sufficient to govern rates by; one or two or three years would be the shortest times upon which to make a radical change. I do not mean to convey the idea that that would be long enough.

Q. Are there any conditions under which you think, as Insurance Commissioner, you would be willing to order an increase in rate for the insurance companies?

A. Yes, sir.

Q. What are they?

A. When the companies show that as a whole a certain class needed a higher rate.

Q. By how long a period of losses?

A. That would depend on the class and how much the class had been rated at and how long.

Q. There ought to be some limit; have they got to write a class for 20 years before you would be willing to order an increase?

A. I should think from three to five years.

Q. If the companies would show you

that they had lost money on certain class from three to five years, you as Commissioner would order them to make an increase?

A. I would consider it; I don't say what I would do.

Q. Are there any conditions under which you would order an increase?

A. Certainly.

Q. What are they?

A. If I was convinced that the rate was inadequate.

Q. What would it take to convince you that the rate was inadequate?

A. That there was no chance under certain conditions for the companies to make money at the rate that they were then writing it.

Q. When the experience of the companies for three to five years showed a loss you would then consider whether or not you thought that they would make up for it in the future?

A. Yes.

Q. Then the experience that they had would only have a small amount of weight with you?

A. It would be considered, sure.

Q. And yet you are going to base your rates upon the experience and yet when the experience shows a loss—

A. No, sir. I would consider the experience.

Q. You would consider the experience?

A. I did not say I would make that the sole basis of the rate.

Q. If the experience showed a loss, would you order an increase?

A. It would depend on the conditions.

Q. What conditions?

A. Conditions of business and climate and the conditions or the manner in which the insurance business was conducted, various things.

Q. Isn't it a fact that no Insurance Commissioner could order an increase without being ousted from his job by the clamor that would come up from the public?

A. I don't think that the public is so unreasonable as that. They put a man in office to exercise his judgment. They would expect him to use it. He may make himself unpopular.

Q. Don't you think the object of this law is to reduce rates and not to increase them?

A. I think the purpose of the law is to equalize the rate and to better conditions that would justify lower rates.

Q. But you are not prepared to say

just what exact conditions would be necessary to cause you to increase rates on a class?

A. No, sir.

Q. You are not prepared to say that at all. Isn't it a fact that under no conditions would you order an increase?

A. What was that?

Q. Isn't it a fact that under no conditions would you order an increase of rates?

A. It is not a fact.

Q. Why can't you tell us what conditions arise when you would do it?

A. When I was satisfied that the companies needed a higher rate to write that class profitably I would—

Q. Order an increase?—

A. Yes.

Q. What would it take to satisfy you?

A. They would have to, as I said before, have to satisfy me, would have to produce evidence that the business could not be written at the present rate in the future and be profitable.

Q. Is there anything that would satisfy you? What are you going to base that on, experience?

A. I would base it on the experience that they had in the past under certain conditions, and if those conditions prevailed in the future I would take that as a basis, that is, the condition that prevails now and that we would anticipate would prevail in the future, that would be a guide as to what the rate should be.

Q. That would be a guide, but there would be no infallible rule. Let's take it the other way. Suppose we had a class that showed an extra profit on it for three or five years, what would that be, how would you treat that?

A. If it was considered an abnormal profit, I would order a reduction.

Q. Then if the experience showed that it was a loss, you would order a raise.

By Mr. Crawford:

Q. What per cent of profit can they do business on and make a respectable net income?

Mr. Scruggs—Mr. Hamby, I think, will tell you that the companies will be more than satisfied with a 10 per cent profit, and when you come to consider the hazardous class of business that they are engaged in, it is less than any other class of citizens would be willing to accept. Am I right, Mr. Hamby?

A. I think you are right, Mr. Scruggs. I have asked several companies' officials about what they consid-

ered a fair profit on underwriting alone, and one of them went over 15 per cent, but the general expression was 10 per cent.

Q. They would be satisfied with 10 per cent. Now, Mr. Hamby, if you could be shown that the experience of the companies justified an increase on this rate that you had ordered, you being Insurance Commissioner, or was lower than to give them justice, or that you had made an error in getting at your figures, upon which you ordered this reduction, or upon which you had based this rate, would you correct what you had done?

A. I certainly would.

Mr. Terrell of Bexar—I don't believe as to what the board might do hereafter has got anything to do with what bill we should pass now, further than I believe that the bill should state that the companies are entitled to a reasonable income, and if the board did not come across they could make them do it.

Mr. Scruggs—How?

Mr. Terrell—By going into court.

Mr. Scruggs—And if we went into court they would take away our certificates to do business in the State.

Q. You stated yesterday, from the best information you could gain, that the rates of this schedule we had filed increased the rate on mercantile businesses about 53 per cent. How did you get that information?

A. I sent out circulars to some three or four hundred local agents asking them to give me the rate that prevailed last year on a number of their mercantile buildings, and the contents thereof. They sent in that information in a number of cases and together with the location, street number and building, and then we got the basis, took the new rates as filed with us by the actuary of the company and entered the new rate on the same line and opposite the old rate and made an average of the old rate and the new rates.

Q. How did you get that average?

A. By simply taking a number of the rates and adding up all the old rates and adding up all the new rates and then dividing that total by the number of rates.

Q. That gave you the average rate?

A. That is not strictly a fair comparison and would not bear an average rate of the State, only as to an indication as to the number and amount of individual rates and proportion of the rest.

Q. What information would you have

to consider in order to get a correct rate then, you say that is an unfair method?

A. On any particular class?

Q. Anything. You took these rates, added them together and divided by the number of rates?

A. I would want the amount of insurance carried on any particular class and the amount of premiums annually on that particular class.

Q. Have you any idea what difference that might make in getting at the average rate?

A. I have no idea, but it would make some difference.

Q. Take a little example, for instance, one right down the street and make an example out of it, one at \$1, one at \$1.50, one at \$2, what would be the average according to your method?

A. \$1.50.

Q. That is the average according to your method. Isn't it a fact that the lowest rate is usually on the largest values?

A. It is frequently that way.

Q. Let's suppose that the low rate applied to Mr. Tips and he carried one hundred thousand dollars of insurance at a dollar rate; let's suppose the \$1.50 rate applied to Harold, and he carried twenty thousand dollars of insurance—put it down. Let's suppose the \$2 rate applied to one of those drug stores and he carried ten thousand dollars of insurance; please tell us what the actual average rate there is.

A. \$1.15.

Q. Now, then, your method would make that average rate \$1.50; a correct method would make it \$1.15?

A. That is on a very small number.

Q. That is a difference of 30 per cent?

A. On only three risks.

Q. I want to illustrate that the methods by which you arrived at those figures are incorrect; you say it is unfair yourself.

A. I said it would not be a fair comparison as to the average of what the State would be, but it would be a close way of comparison as to individual increases.

Q. Didn't you get a statement from the insurance companies figuring the average rates for all the State of Texas on a correct basis when you had that hearing, didn't the companies furnish you with a statement figured correctly on this basis that I have given you?

A. They furnished statements of the average rate for a part of the compa-

nies for part of a year, last year and this year.

Q. If they figured what they did give you on a correct basis—

A. Last year, the last six months they figured at \$2.27, which I know is not correct on the entire State.

Q. How do you know?

A. Because the entire State is about what we figure here, \$1.47 for last year, which is nearly a dollar less than their \$2.27 for the first six months, which I understand is when nearly all the gins and high-rated risks are written, in the latter part of the year.

Q. Then you threw aside the companies' statements and did not consider it?

A. I considered part of their statement.

Q. You considered your method which you said was unfair better than their scientific way?

A. I do not consider it scientific.

Q. You said it under oath.

A. I don't consider it scientific, they are totally inadequate; they were given, probably in good faith, but were totally inadequate to prove anything.

Q. Isn't it a fact that towns where this 53 per cent prevailed were the towns where the cut rates existed last year?

A. I don't know it to be a fact.

Q. El Paso, Austin, San Antonio, Fort Worth?

A. Had very few rates from San Antonio. Not over 20, I don't think; had very few rates from Fort Worth, if any; very few from Dallas, if any; we had a large number, comparatively large number of rates, from El Paso.

Q. And Austin?

A. And Austin and Port Arthur and some from Galveston and a large number from Houston; Houston, Galveston and Beaumont were considered the towns that were paying more nearly an adequate rate than the rest of them.

Q. Isn't it a fact that nearly all the towns that were paying cut rates were considered?

A. No, sir.

Q. That had the worst cut rates, the big cut rates; did you consider San Antonio?

A. Had a few rates from San Antonio.

Q. Did you consider them?

A. Yes, sir.

Q. El Paso?

A. Yes, sir.

Q. You had some on Fort Worth;

did you consider the towns which had not been rated—the small towns?

A. We had a number of small towns.

Q. That had not been rated?

A. I had some of the old rates from these towns, but did not have the new rates.

Q. Didn't the figures furnished by the insurance companies consider the entire State?

A. No, sir; possibly they couldn't because if they had, the new rates had not been applied throughout the entire State and the increase in the mercantile risks in the unrated towns would have a very great effect upon the average rate.

Q. How do you know they would be increased?

A. I have not seen but very few towns, probably two or three, that didn't show a marked increase.

Q. Isn't it a fact that you have admitted that the method under which you say there was a 53 per cent increase was unfair?

A. I don't admit it is strictly unfair. It would not be a fair indication of what the general final average rate for the State would be, but I think it would be a fair comparison as to individual rates.

Q. Isn't it a fact, everything considered, that you don't know whether this will increase the rate 53 per cent or 5 per cent or 100 per cent?

A. I think I have information that would convince any reasonable man that the mercantile rates are very largely increased.

Q. You have stated that we gave a 20 per cent decrease to three-fourths of the people of the State and one-fourth of the premium income of the State. Is 11 per cent increase more than they ought to have had considering the reduction given on the other class?

A. I don't know, I have not figured that out.

Q. It looks like before you order a 25 per cent reduction throughout the whole State, you ought to have figured this out, to be fair.

A. I don't consider the information given by the companies—

Q. Didn't consider it worth anything at all?

A. Worth something.

Q. Had you not made up your mind from information you had gathered that these rates had been increased too much?

A. I don't know as that is a fair

question. I reserve my judgment, but all the evidence is in.

Q. You have stated that there was a 53 per cent increase when there wasn't, and that your method as admitted by yourself was not correct; you have stated that if you could be shown that, you would correct it. It is absolutely not so that there was any 53 per cent increase—I mean the method by which you arrived at that conclusion is not correct. I want to keep that out of the record; there was not a 53 per cent increase.

Mr. Reedy—I don't understand one statement that was made a while ago about the greatest good to the greatest number. Do I understand that one man ought to be compelled to pay an immense insurance to carry his risk in order that the general public might get the benefit of it?

Mr. Scruggs—No, sir. The State was in a chaotic condition and the theory under which this law was passed was to equalize the insurance tax in this State. We held that we applied one that will equalize these rates and hold that we have reduced those that would give the greatest benefit to the public and we have raised those that were too low up to a similar equitable, even point. They didn't wait long enough, didn't even wait until the State was rated, to find out whether we had increased the rates in Texas or not and you can't do that under a year, either.

Q. You say that the mercantile rates, or did you say that last year, in some cases they were too low, the rates we gave to mercantile risks were too low?

A. I don't remember making that statement.

Q. Don't you think they were too low; don't you think they ought to be increased?

A. Some.

Q. How much?

A. I don't know.

Q. You think 53 per cent increase is too much for some of them?

A. Probably so.

Q. You think 100 per cent is too much for some of them?

A. It may be. I have had no information from the companies or anyone else just what the premium receipts or losses were on any class.

Q. You have not had enough information to determine how much we ought to have?

A. We figured that the order as we left it, due to improved conditions, gave you a fair rate and a fair profit.

Q. How much increase did you give us on percentages?

A. I don't remember the percentage now. Now you raised the mercantile and special hazards 53 per cent and we reduced the mercantile 25 per cent and the special hazards 15 per cent, or an average reduction on the two classes of 22 1-2 per cent. That would leave a raise on the mercantile and the special hazards of 19 per cent.

Q. You think that is enough increase on the mercantile? Tell me what the loss ratio was for the last five years--let us take it for the last two years, if it is shorter; the loss ratio for 1908 and 1909?

A. The loss for 1909 shows 79 per cent; for 1908 was 60.9.

Q. In 1909 how much money did the companies lose, 17 per cent actual loss, wasn't it?

A. Yes, sir.

Q. If that loss last year, 17 per cent, according to your figures, was 19 per cent, the board fixes enough increase to reimburse them?

A. Do you want to consider only one year and take the worst year, possibly, in the history of the State? You ought to consider three, four or five years, and consider the improved conditions that has been the result of the new regulations.

Q. Do you think if you had got an accurate statement of the increase and figured them out accurately as they ought to be, it would show a 53 per cent increase?

A. Yes, sir.

Q. Mr. Hamby, if this schedule should be applied through the State and if the State was cleaned out throughout, everywhere, and corrections made, that this schedule would strike an average which would be any higher than last year's rate?

A. It might not be. I don't know just to what extent the people will reduce their rates.

Q. Don't you know there are a lot of charges in that schedule which we call exceptional charges which the companies don't expect to collect, don't want to collect, and never intended to collect, but put there for the purpose of making the risks better and to force merchants and people to clean up their premises?

A. That is their contention.

Q. You have taken corrections where these corrections have not been made and as soon as you have ordered the 20 per cent reduction the corrections

have been made and the rates have come down where is would not show an increase and still they have come down. Do you think that is right?

A. I think that is right because they have not got the improved conditions throughout the State and they are charging for hazards that are not in existence.

Q. If we get these improved conditions and the rate is thereby lowered, to what would probably be an increase, do you propose to restore the rates or leave that 20 per cent on?

A. I am not saying what I would do.

Q. Whose fault was it that the "red rider" was attached?

A. That was the fault of the law.

Mr. Scruggs to the witness:

Q. The iniquity of the red rider has not applied to but a small portion of the business so far, has it?

A. It has applied to quite a large portion of it.

Q. But the smaller portion of the insurance is written the first six months in the year, is it not?

A. Now, I don't know about that.

Q. If the smaller portion is written say the first six months?

A. It may be that there are more premiums yet to be written than has already been written.

Q. It was stated in hearing here, brought out by Mr. Cureton, that the companies did not notify the property owners of this prospective increase and give them a chance to clean up?

A. I stated that I didn't know that they had been.

Q. Well, we'll admit that they had not been; don't every local agent have a copy of the schedule with these charges that we term exceptional charges in them?

A. Yes, sir.

Q. Couldn't the local agent have told the assured of these things if he had wanted to have done so?

A. Yes, sir.

Q. Don't the law force us to give information to every policy holder if he asks for it?

A. Yes, sir.

Q. Are the companies greatly to blame because they did not have this information and didn't give it to each man and ought they to be penalized for it?

A. I don't think the companies could have very well done that, because, as I said before, they did not know themselves what the individual rate was going to be. The local agent of course is the company so far as the assured is concerned.

Q. I want to bring this point out so that it can go in the record, so as to show that it is improper to try to create prejudice against the insurance companies for a condition that they are not responsible for and a condition that they could not help themselves and could not have prevented.

Q. You say that the key rate charges are arbitrary?

A. That is my information.

Q. Is it possible to build a scientific key rate such as I have outlined by a scientific method?

A. Yes, sir.

Q. Based upon the efficiency of the fire apparatus and the efficiency or rather the number of men, etc.; do you think this key rate was built that way?

A. I don't know how it was built, my information was that the individual charges were arbitrary. That they figured the key rate at about \$1.00 for an unprotected town, and had analysed the particular items that went into it to make up the individual charges that way.

Q. Do you know where they got that dollar?

A. No, sir.

Q. Don't you know that that is the average rate of the cost of insurance throughout the United States?

A. No, sir; I didn't know it.

Q. Yes, it is approximately \$1.00; that being the average rate of towns and conditions, they took that as a starting point. They credit against that \$1.00 the amount of apparatus, the efficiency and the number of men and the laws of the town and the susceptibility of the town to fire, like shingle roofs and things of that kind—isn't that a scientific basis?

A. How do they arrive at the susceptibility of the town to fire?

Q. It is divisible; what proportion of it is shingle roofs and what proportion of it is metal roofs, etc.

A. What statistics did you have on that?

Q. I didn't have any; I went by the schedule that had been worked out before.

A. The items are not the same.

Q. No; the varying changes and conditions have been such that the book could not be applied; it can only be used as a guide. There are lots of obsolete words in the dictionary, are there not? So there is in our insurance dictionary.

Do you think if you had enough of the necessary information that you could build a rate; do you think you could get the necessary information to build a key rate?

A. Probably I could get the same information the companies have.

Q. Do you know what it would cost you?

A. No, sir.

Q. Do you know that this committee that compiled that had in their employ some of the finest civil engineers and water improvement experts and experts on fire apparatus at an immense cost?

A. I presume they had experts.

Q. Yes, more than the income for the companies from the State of Texas.

A. I don't know. What did it cost?

Q. I don't know. I know this, however, that the State of Texas would never give you enough money for you to get the information that they had.

A. What did it cost the insurance companies when they prepared the Texas schedules?

Q. I think the gentlemen who did the work worked on the basis of \$10 a day for ninety days. My part of it was \$450; I wasn't there all the time, but I was like this committee, I couldn't be present all the time.

A. Do you think \$5000 would cover it?

Q. Oh, yes, and more, too; but we accepted things as scientific and correct that you say are arbitrary.

A. I said my information was that they were arbitrary.

Q. If you are going to accept our bible and build from that, you can get the information at a nominal cost, but if you say all of these charges are arbitrary and that you will not accept the data, the necessary data, in order to figure out what it ought to be, then you won't get it for twenty-five years and won't get it at a cost of less than \$10,000,000; some of it you can not get at all. You accept some things as correct, you accept the statements of the Bible as correct—if you will accept the statements of our bible as correct then—

Mr. Wortham—Address your remarks to the committee and let's get along.

Q. Do you think under the application of this schedule Mr. Roulet has anywhere shown discrimination?

A. Not intentional.

Q. Do you think he would have done so at all?

A. I think it would be impossible to keep out a clerical error.

Q. To do so by—I mean to do so except by clerical error would be impossible?

A. It would be impossible to avoid clerical errors.

Q. One of the things that entered

into your order was the ground floor occupancy. You say that is arbitrary, that that is an arbitrary charge; don't you know that the 15 cents that you reduced in this State is the same occupancy charge everywhere in the United States?

A. No, sir; the universal mercantile schedule makes a charge for that hazard; a charge of 2 cents.

Q. Show it to me please, sir. I never heard of it before, I never heard of it being anything anywhere except 15 cents.

Mr. Jalonick suggests that that 2 cents you are talking about is 2 per cent instead of 2 cents. Pass it on and we will go on to something else.

Mr. Jalonick: You have misunderstood the question altogether; I said the Universal Mercantile Schedule, that in that there are more percentage charges than there is in our schedules. Ours are reduced to flat credits and makes it easier to figure. That's all right.

Mr. Scruggs to the witness:

Q. Let's admit that it is that way. They just analyze that dollar and make it up into about three times as many different parts; they reduce it to about three times as many divisions as we do. We lump a good many things together and make it shorter. That particular schedule may show 2 cents, but in the Southeastern territory and the Eastern territory and up in the North and every place where they have tried to mash the universal schedule together, they have made the charge of 15 cents. When you get out further you can make those that are left a little bit larger to get the result. There are a number of other charges that enter into that 2 cents in this book. It is subdivided to a greater extent than the one that we have. I didn't know it had the 2 cents. This book is only used in getting this statement, but still my statement is correct. Fifteen cents charges apply everywhere in the United States. This tariff is only used as a guide and they have spinned it out to a point where it is only 1 and 2 cents on everything.

Q. Did you know that Fort Worth had passed an ordinance prohibiting awnings?

A. I have heard it.

Q. Isn't that arbitrary?

A. I presume so.

Q. Why is it done? To remove the awnings would remove the fire hazard?

A. I presume so, and probably it may be done to improve the looks of the streets.

Q. If a city can pass an arbitrary

ordinance wouldn't we—ought not we be allowed to make an arbitrary charge to help us prevent fire?

A. I don't say an arbitrary charge is wrong. You have got to get a certain thing to reduce the business—if the analysis for that rate is arbitrary—

Q. Don't you think that the fire insurance companies have done everything that they could at all times under the law to help the public reduce the fire waste?

A. They have endeavored to educate the people; that is, they have done some of this work through the Fire Prevention Association; some of the companies did not enter into that association and did not insist that you eliminate the hazard as recommended by the Texas Fire Prevention Association.

Q. Is it not a fact that the companies, in order to be able to give to the people the best material and education of fire resistance of the various materials used in the construction of buildings, and that they have maintained a scientific station in Chicago known as the laboratories where they test these things out and notify the people?

A. Yes, sir.

Q. When we test out a thing and find it is a hazard, is it an arbitrary charge for us to say that we want five cents or ten cents for that; is that an arbitrary charge, or do you think that is a scientific charge?

A. It might be arbitrary as to amount. There should be some charge.

Q. How would you get at the scientific charge for installing an electric motor, for instance, in a building; there is some additional hazard there; how would you get at the charge? Where are you going to apply the tariff? If you were Commissioner, how would you get at what is a fair charge for an electric motor, or a gasoline engine?

A. I would try to get at the relative hazard of that and the motor.

Q. Would you be willing to assume that this laboratory that we are keeping up at an enormous expense is in a better position and has a better capacity to judge of these things than you are?

A. Yes, sir; I think that the laboratory or laboratories are conducting it very scientifically.

Q. And it is capable of indicating to you the fire hazard?

A. Yes, sir; they seem to be totally impartial.

Q. The companies do not arbitrarily

fix these charges, but they to go every expense and in every way possible to get at what the charge ought to be?

A. That is true in part. In Texas the companies, through lax methods, have not insisted on the information that they really had at their hands.

Q. Whose fault is that?

A. The individual company's fault.

Q. No, it is not.

A. There is nothing to prevent you from refusing a risk where you know from an inspection of the Texas Fire Prevention Association that there are certain hazards that were you to call the attention of the assured to, and he refused to correct those hazards and remove them; there is nothing to compel you to accept that risk; by accepting that risk at a cut rate you might say you are putting aside your experienced judgment.

Q. Did you as a local agent ever think that the local agent brings any pressure to bear upon the company to take a risk that they ought not to?

A. Yes, sir; frequently.

Q. If you are giving me a five thousand-dollar policy and you want me to take a hazardous risk; for instance, like with a coffee roaster in a building, and I would tell you the rate was too low on it and that I did not want to carry it, you would say to me, "Well, I haven't got any use for your company unless you can carry this risk; I have got plenty of companies in my office to write my other business," what effect would that have on me?

A. I have had that told me and many risks refused, and yet the company would get a good business.

Q. You know the agents do sometimes say that; they will say they have twenty companies and don't need any more companies; say they don't need but five except for a certain risk, and if you don't write that certain risk I have got no use for your company.

A. If all the other companies would refuse that risk, then they would have nothing else to do.

Q. That's it—but why is it the companies don't agree on that proposition?

A. They could agree.

Q. How long would it take the Insurance Commissioner to throw the agreement out; to throw the company out of the State if it were to do it under the Anti-Trust Law?

A. There is nothing to prevent them from refusing to write any risk considered unprofitable and undesirable.

Q. (By Mr. Scruggs.) Can you tell

me why it is that there are so many small charges put into the Union Mercantile schedule and so many put into our own schedule and why the companies subdivide it so minutely?

A. I presume that they did it to differentiate between one risk and another as finely as possible.

Q. That is correct. And to offer the insured an opportunity to lower his rate for corrections?

A. Yes, sir.

Q. Now, they discussed here the other day the awning record; did you make plain in the record what the hazard of the awning was?

A. I think I stated that some of the fire chiefs (interrupted by a party who was a prospective witness.)—

Q. Now, we are talking about the hazard of the awning; a great many people think there is no—

A. I think I stated that several fire chiefs had agreed that the awning was a hazard in this way: that if a fire starts in the lower floor say of a store and it breaks out the front door and there is an awning there, the flame reaches the awning and spreads right and left into the adjoining buildings and that the awning is also in the way when they arrive at a fire and go to get into the second story and they can't put their ladders up into it.

Q. A great many people say I have got an iron awning; that won't burn; which is better for the fire insurance company, for them to have an iron awning or a wooden awning?

A. I should say that the wooden awning is better because it is easier torn down.

Q. It will burn through it?

A. Yes, sir, and the firemen can get their ladders through the wooden awnings.

Q. Now, then, all these charges that enter into these schedules in regard to what you call deficient material that enters into the construction, what is the theory that you have in charging for this and in making a smaller charge where the material resists the fire better?

A. That there would be less damage.

Q. Isn't it also a theory that if you can hold a fire long enough that the firemen can get out there and can put it out?

A. Yes, sir.

Q. If the floor is one instead of two inches thick it will burn through in half the time?

A. Yes, sir.

Q. That is the theory of these charges?

A. Yes, sir.

Q. And that is how that arises, do they?

A. Yes, sir.

Q. Now, they have asked you a great many questions about the co-insurance clause; do you believe in the equity of the co-insurance clause?

A. Yes, sir.

Q. Do you think it ought to be retained?

A. Yes, sir.

Q. Do you think it is a good thing?

A. I think it is necessary in keeping a parity of rates.

Q. What is the object of the co-insurance clause?

A. The co-insurance clause, the primary objection, it is to retain the parity of rates as first established if the rates are built on a supposition of a certain proportion of a building burning as compared with the 80 per cent of that building, and the others who insure at a smaller rate have the advantage over those who insure for 80 per cent or over.

Q. Doesn't it act as an equalization board on the insurance rate, throughout the State?

A. Yes, sir.

Q. Now, then, there is one other question I want to ask. It was drawn out in this hearing that over insurance was responsible for considerable fires; don't you think that if we would pass a law, if we are going to pass a law, that it would be proper for them to put a clause in the law prohibiting any policy holder from collecting from an insurance company more than the value of his stuff, and that it would stop a great deal of over insurance and a great deal of fraud insurance?

A. Yes, sir.

Q. Don't you think that to put in there another clause that in the event, by error or intentionally on the part of the agent or of the property owner, that over insurance was granted, that the company be required to refund the premium on the excess insurance written; wouldn't that be fair to them?

A. Yes, sir.

Q. Don't you think that if the property owner knew that he could not collect more than the value of his property that he would be less apt to insure it for more than the value of the property?

A. Yes, sir.

Q. Don't you think if it had that pro-

vision that the local agent would be less apt to urge the property owner to carry a larger amount of insurance than he now does, when he knows he can't collect it?

A. I don't think the local agents, as a rule, urge a man to take over insurance.

Q. I understand that, but they do urge a man to take more insurance, very often. How many customers have you got that you have told on their household furniture, for instance, that you are not carrying enough insurance?

A. I don't know. I have told them quite a number of times; not so much on their household goods as on their buildings.

Q. If you had a law that would prohibit them from collecting over insurance, wouldn't the agent be less apt to make that plea?

A. Yes, sir, I think so.

Witness excused.

W. B. Walker, a witness, appearing before the Committee, and being first duly sworn by Mr. Crawford, one of the Committeemen, testified as follows:

Direct examination by Mr. Cureton:

Question. What are your initials?

Answer. Sir?

Q. What are your initials?

A. My name is W. B. Walker, of Austin, Texas.

Q. How long have you lived in Austin?

A. Thirty-eight years.

Q. What is your business?

A. I am a wholesale grocery merchant.

Q. How long have you been engaged in that business?

A. I have been engaged in the wholesale grocery business ten years. I have been in the retail business here about twenty-seven years.

Q. Well, have you been a patron of the insurance companies of the State?

A. Yes, sir, about forty years I have been insured.

Q. I have not had the opportunity to talk with you and therefore don't know the line of your testimony, and I will request you to state to the Committee such facts as you deem pertinent to the inquiry, without questioning you, until I understand the line of your testimony.

A. Well, I want—what line of questions—

Q. We are seeking, in the first place, Mr. Walker, to show the condition of the insurance business prior to the taking effect of the Rating Board law, and

also to show the condition of the insurance business now; that is to say, to show whether or not the rates as fixed by Mr. Roulette and put into effect by the companies are just and equitable rates or otherwise.

A. I want to say I regard them as most unjust, most outrageous. I have never had any trouble with the insurance companies until this new law came into effect.

Q. Where are your buildings located?

A. They are located down on the railroad track in the tenderloin part of town—right down near the depot.

Q. Now, prior to the taking effect of the Rating Board law, what rate of insurance did you pay on buildings?

A. I paid 95 cents.

Q. Now, since the taking effect of the Rating Board law and the rating of the City of Austin by Mr. Roulette, what are your rates?

A. They raised me from 95 cents to \$1.96 on the stock and from 60 cents on the buildings to \$1.69, nearly 200 per cent; lacking only 11 points of being 200 per cent.

Q. (By Mr. Jalonick.) What are those figures?

A. The rate on the building was 60 cents.

Q. What was that raised to?

A. That was raised to \$1.69 under Mr. Roulette's rates.

Q. What was the difference on the stock?

A. The stock was 95 cents.

Q. And it is now how much?

A. Raised to \$1.96; that is, before the Rating Board cut it down one-quarter.

Q. (By Mr. Cureton.) Now, Mr. Walker, did Mr. Roulette's rating raise property similarly situated to yours in the same proportion that he did to yours?

A. I don't know. I only know my own affairs.

Q. Have you talked to Mr. Roulette as to these rates?

A. No; I met him once. I have talked to Mr. Remmer, who has charge of the headquarters of the rating board of the insurance companies—not the Rating Board of the State—and I want to say—; I just wanted to state the condition of the fire insurance company, the insurance rate now from what it was when they first established this rate of \$1.96.

Q. How many buildings do you occupy there?

A. I occupy one building, in the

center of ninety-two—the lot is 92x128; and on the east I occupy two buildings, that is on lots 46x128; and on the west one lot 46x28; in other words, there are four buildings.

Q. Now, what are the buildings built of?

A. Built of stone. They are built—when I built them I sent for the agent of the insurance companies and told them to come down that I wanted cheap insurance, and when I built the 92x128 building I got a very cheap rate of insurance; I got insurance at the rate of 60 cents on that building, and 70 cents on the stock.

Q. When was that?

A. That was in—I think it was in 1905; I am not certain now. I could not tell you, and I will tell you further that in that building on the west side, 46x128, we installed a coffee roaster and they then advanced the rate to 95 cents, and some of the Dallas companies cut out all of my insurance and would not take it at all, but all the other companies took it at 95 cents.

Q. Now, this 60 cents rate, to which you referred, on the building, was that the result of competition between companies—

A. No, they all agreed to it. I insure in thirty or forty companies. You see, we carry large blocks of insurance. We carry on stock \$150,000; we carry on the buildings about \$16,000; I don't know; \$15,000 or \$16,000, and we insure in a great many companies.

Q. What I mean is, did you, in order to get the 60 cents rate, were you compelled to go from one agent to another—

A. No, sir, it was voluntarily on the part of each. Any of them would take it.

Q. They regarded your risk as a good risk?

A. Yes, sir, they regarded my risk as a good risk.

Q. Have you installed a coffee roaster in your building?

A. Yes, sir. I had a fight with Trezevant & Cochran. They had about ten or fifteen thousand, and they came down and cut out all their insurance, but I had no trouble.

Q. They put up your rate thirty-five cents?

A. Yes, sir. But they didn't do it—all of them—that was a general advance on the account of the coffee roaster.

Q. Now was that advance only on one building?

A. No, no it was on all of them.

You see we have iron doors between them. We have only one opening between all the buildings and they are all covered with sheet iron; they are all parallel with each other and at night we close these doors; that is the contract we have with the insurance companies, to close these doors at night and we have a man to see that they are closed at night. I am a crank on the subject of a fire. There is nothing more disastrous to a merchant as a fire. I don't allow any smoking in the house at all. I don't allow any employe of the—none of us, me or my sons, smoke; we don't allow any smoking, in our house, and we don't allow any clerk or porter to smoke in the house we know of, and I am very particular in that regard and I want to say that on the east we have no exposure and on the north no exposure and there are only two exposures on the south; one that is on the southwest corner and the other I think is about sixty or seventy feet from the east side; there is a furniture house that is twenty feet—

Q. I understood you to say sixty or seventy feet?

A. No, no; from the east side. I am not positive, sixty or seventy feet from the east side. That is on the south side it is near twenty feet; it is just across the alley.

Q. Were these exposures there when you had the sixty cent rate?

A. No, sir; it was built recently.

Q. Didn't they first rate your building at \$2.09?

A. Sir?

Q. Didn't they first rate your building at \$2.09?

A. No, I think the first rating was \$2.34.

Q. Stock \$2.36 and building \$2.09?

A. Yes, sir; but that didn't affect it only in—for a day or two; they took off thirty or forty cents.

Q. Shortly afterwards, they re-rated the building?

A. The first key rate was \$1.96 and then they cut it down to \$1.68.

Q. On the stock?

A. Yes, sir.

Q. And the building to \$1.41?

A. Yes, sir.

A. I want to say further, they came down and told me—we have a cellar, concrete cellar, fire-proof, water-proof and rat-proof, the floors are all concreted, we have elevators that go up and down these cellars, they told me—I have charge of the insurance business—he told me if I would enclose these enclosures with wood and put a door

through, they would reduce me five points, and I had a stove—if I would take that stove down and put an opening in there, they would give me five points, too. So I went and enclosed these enclosures with plank. Mr. Remmer says you have got to enclose these enclosures with the same size lumber as the floor is, which was one and three-fourths, so I got a carpenter to put another layer of lumber on them and doubled the width of the doors and then after that I went and got 2x6 in there and enclosed it even thicker than the floor, and then they took off thirty points after that, so they got my insurance down now to a \$1.25.

Q. You mean 30 cents or thirty points?

A. Yes, sir. I established the rate different from what this insurance company did, but I thought I was getting it down to \$1.15. I saw Mr. Hamby this morning and he told me the company was rating my building according to the ruling of the board.

Q. One dollar and ninety-six cents is the rate on the stock and \$1.69 the rate on the building?

A. Yes, sir.

Q. Under the order of the board they reduced the rates to \$1.41 on the building and \$1.68 on the stock, and since that time thirty points have been taken off the building and thirty points off the stock?

A. Yes, sir.

Q. Now, \$1.41, thirty points, that makes your rate \$1.05?

A. The key rate is 38 cents, and I think they took off three points on that, that made it \$1.03.

Q. That would make your rate \$1.03½ on the building as it now stands?

A. Yes, sir; that is right.

Q. Have the companies refunded to you, from time to time, the excess premium as you have reduced the hazard?

A. No, sir. I have got into a controversy with the company and I won't give up my policy. I rebelled against the red rider business and wouldn't accept it.

Q. The adjustment of the premium to be returned to you under the improvements made, that is still pending?

A. Yes, sir. The whole business is a steal. I won't give up my policy. One firm came and wrote about \$6000 or \$7000. They came and asked me if I was going to pay that red rider from 95 cents to \$1.96. I told him no. He said hand your policy back and I handed it to

him. There was other policies that I had paid on; they said, well, I want you to give them up, too. I said no, I won't give them up at all, I paid for them, they are mine, I paid once and I am not going to pay any more.

Q. Mr. Walker, what in your judgment, should this committee or this Legislature do to remedy the evils of the insurance business as you see them?

A. Ought to repeal that old law entirely and knock out this co-insurance; that is a regular steal from beginning to end.

Q. Your suggestion is to repeal the old law?

A. Repeal the old law. I have no trouble with insurance companies when left to themselves.

Q. (By Mr. Crawford.) Under the old law, isn't a man in your position, with large mercantile risk, in a much better shape to get a better rate than a smaller man?

A. No, I don't know that he is.

Q. Is it a fact or not that a man with your risk, with your character of risk, where the business is desirable, do they not play one agent against another to get him to cut the rate?

A. I make the best rate I can.

Q. I will ask you if it is not a fact that you personally came and offered Mr. Hamby \$50,000 worth of insurance business if he would cut the rates for it?

A. Yes, sir.

Q. If it is not so that the companies were cutting rates in favor of the larger insurers, why did you make him that offer?

A. Because I wanted to get it cheaper.

Q. Then they were cutting it, or you thought at least there was a chance to get it cut?

A. Of course I did. In my career as a merchant I had \$30,000 insurance and paying \$1.35 and a gentleman came and told me, Mr. Walker, I would like to have your insurance. I said all right. He says I'll tell you what I will do, if you will give me all your insurance I will give you \$1.25 rate. I says you are my huckleberry, I will give it all to you.

Q. Would he give a smaller insurer the same rate?

A. I don't know about that, I attend to my own affairs and let them attend to theirs.

I want to controvert General Stacy's remarks on one question. He told me,

I heard him say it before the board, that the fire insurance companies had lost, for every dollar they paid in, they had paid out \$1.17.

General Stacy—Q. What was that statement?

A. That you said that in the State of Texas about \$1.17 cents was paid out for every dollar taken in. Didn't you say that?

General Stacy.—Last year, yes, sir.

A. I want to say this, that man over there can substantiate what I say.

Mr. Cureton.—Referring to Mr. Jalonick?

A. Colonel Jalonick, yes. Some years ago the city of Austin organized a company called the Austin Fire Insurance Company; they made money so fast that they had the "big head" and they went to spreading all over the United States, and the first thing they knew they lost some of their tail feathers at Baltimore and they went to San Francisco and I believe they lost all of their feather there, and they came back, and they came back in a bad fix and they cut it down to 40 cents on the dollar. I always try to help the town, they asked me to take stock in it and I took stock in it. I took \$100 stock, that was one share. In Baltimore they lost 20 cents, and when they got out of the fire in San Francisco they had lost 40 cents. George Jalonick came here with a gang of fellows from Dallas and bought up that remnant and carried it to Dallas. I have known George a long time, knew him thirty or thirty-five years ago; he used to be my commission merchant, so I gave him a power of attorney to vote or do as he pleased with that little remnant. Last year he sent me \$4.00, I think, that 10 per cent on the stock of the company, I know. I think along in February or January he sent me \$4.00 again, that is 10 per cent again, and I don't think that George Jalonick if he didn't owe me 10 per cent would have given it to me, so I want to say that to rebut General Stacy's statement.

General Stacy—I didn't say the Austin Fire Insurance Company, I said the commissioner's insurance report showed that companies as a whole paid out \$1.17 for every dollar they took in last year.

A. Is that little company better than any other?

General Stacy—Some companies made money and some did not. I will show you as a stockholder and for your inter-

est how the Austin Fire Insurance Company makes its money, that they don't make it on what is known as insurance underwriting. I want to explain to you where they get that money to pay you the dividends of 10 per cent. They never made any money on underwriting, that is, for selling fire insurance policies and paying losses and expenses out of that premium income; they made their money from their investments; they have \$400,000 loaned out in first mortgages, and—small first mortgages and real estate in Texas.

Witness—How did that make that \$400,000?

General Stacy—A good part of that was paid in, Mr. Walker, part of your \$100 which you paid in originally makes up that \$400,000. You must remember that when the company was started they paid in money—

Witness—I know they paid in about \$480,000, somebody told me.

General Stacy—A great part of that money paid in is loaned out immediately before premiums that are paid by the insurers, part of these premiums that are not used on particular losses and expenses is treated the same as a deposit in a bank, that money together with what was paid in by the stockholders of the company and what little accumulated profits they made is all loaned out; that is known as the investment account, or banking end of the fire insurance business; that is one of the sources of revenue, and the premiums less expense and losses is supposed to be the other source of revenue, and for your information I will say that last year the Austin Fire Insurance Company made no money on their underwriting account. They paid you that 10 per cent dividend from the interest they received on their loans.

Witness—I didn't know how they done it. I just knew the facts of the case.

Mr. Jalonick—I wanted to explain it to you as a stockholder in the company.

Mr. Gilmore—Q. Are there any other companies doing business in Texas that do a similar business to your company?

Mr. Jalonick—All fire insurance companies are operated along the same principle. They have two sources of revenue, the only difference between the Texas companies, for instance, is that our investments are on real estate and

mortgages and Eastern companies' investments are in bonds and stocks; the principle of operation is practically the same. They depend on their banking and insurance, as we call it the "underwriting department," the two together, to make a profit.

Q. This \$1.17 which is supposed to have been paid out by the insurance people for every dollar of premiums received, is applied where?

A. To the underwriting account.

Q. And does not take into account any investments?

A. It does not; that is what is known as the "underwriting account."

Q. Then other insurance companies of the State, do you know anything of what they have earned on their investment account?

A. They would earn various amounts.

Q. Have they made a profit generally and as to their profit on their investment accounts, have they made a sufficient profit to make up for deficits on their underwriting accounts?

Mr. Jalonick—Some years it is and some years it is not. The supposition and expectation is that each account will take care of itself, that the underwriting account will show a profit, and as an indication of the companies' position in this matter, I will say that they are willing to operate their underwriting account on a profit of 10 per cent and 5 per cent of that sum they will put in a special fund for unusual losses or conflagrations, and they feel that they are entitled to a trade profit of 5 per cent for the hazards of their business; in other words, they are hazarding their whole investment, their accumulations for ten, fifteen and twenty years, and sometimes a hundred years, every day, and they feel that in return for that hazard they are undertaking, which is greater than any other class of business, they are entitled to at least 5 per cent trade profit.

Q. They are able to conduct this investment part of the business by virtue of their receipts from their underwriting business?

A. Yes, in part. It is just a question of gradual accumulation; to illustrate, a company that is in business, we will assume that there is \$400,000 paid in and the accumulation of the company, the first year they write, say \$100,000 worth of business; if they pay out any losses and expenses, \$85,000 or \$90,000, they will have \$10,000 accumu-

lated, say, to go forward in the next year; in the course of time the money that they have paid in originally and what is known as the unearned premium fund, that is on deposit, that is held by the companies for the benefit of unburned policy holders; the company that writes a premium income of \$2,000,000 is required by law to put up 50 per cent on every policy they write for twelve months; if they write a policy for three years they are required to put up 83½ per cent of that premium. If they write a policy for five years they are required to put up 90 per cent; that is known as the unearned premium fund and the purpose is for the benefit of you gentlemen here who are policy holders. If they have expenses the net assets, that is the amount paid in by the company to its accumulated profits, are wiped out by a succession of fires or in a conflagration the company will have this fund on hand—

Q. Reserve fund?

A. Reserve fund, to pay back every one of you your unearned premiums, which is a protection made for you by Texas and every other State in the Union. It is that reserve fund that they handle just like a bank does deposits, and it is accumulated, as the business grows the reserve fund increases because they are doing more business and have a larger reserve and then the accumulated profits there on the initial investment is handed to the best ability of the management and everything has a bigger income as they gain for the benefit of the stockholders; the surplus is the stockholders' and the reserve fund belongs to the policy holders and is held in trust for them.

Q. The surplus of your company has been gradually increasing every year, you have something like \$86,000?

A. \$86,000.

Q. Does that include both investments and underwriting profits?

A. Yes, all the profits from whatever source they come, go into what is known as the annual surplus fund.

By Mr. Wortham—Q. Don't insurance companies' profits accruing on their investments constitute their greatest source of revenue?

A. Yes, sir, it is.

Q. Most dependent source of revenue?

A. Yes, sir, it is.

Q. Isn't it a fact that that character of investments in the Southwest on real estate, mortgages as contradistinguished from stocks and bonds in which that

fund is invested in the East earns greater dividends?

A. Yes, sir.

Q. So companies operating in Texas and on the Pacific slope investing in real estate and mortgages earn a larger return on their investments than the same company investing in the East in stocks and bonds?

A. Yes, sir; that is true. We get a higher rate of interest.

Mr. Lee—Q. What was the per cent of your losses on that real estate account?

A. Very little; practically nothing. We have one—we have two in contest, in the course of six or seven years' business, and I think that we can count that off as a very little, very small loss.

Mr. Cureton, to the Witness Walker:

Q. Mr. Walker, you speak of having installed a coffee roaster in your building?

A. Yes, sir.

Q. What is a coffee roaster?

A. It is an iron cylinder; you put coffee in there and there is gas in there. The coffee is roasted by gas. The cylinder is about six feet long and about four or five feet in diameter.

Q. The cylinder revolves?

A. Yes, sir; there is no danger in it; you can turn it on and turn it off by a wrench.

Q. What power is used in revolving the cylinder?

A. We run the machine by steam.

Q. You have a steam engine in the building?

A. Yes, sir; the fire is away off. We get the steam from a manufacturing company; there is no fire about our building at all.

Q. How do you convey the power to the roaster?

A. By pipes under ground; we have an engine in the room, but there is no fire about it; the fire is three hundred feet from the building.

Q. But you have the ordinary engine in the room there?

A. Yes, sir; it is built on a rock foundation from the cellar up. I don't regard it as any more exposure or danger than electric lights.

I want to show you another thing while I am here. (Producing an insurance policy.) Here is a thing that is pasted on this policy. That is one of General Stacy's policies.

Q. Do you refer to the pasting here in red?

A. Yes, sir.

Q. It reads as follows: "Under the

ruling of the State Fire Rating Board, the premium on this policy must be paid by the 15th of next month, otherwise same will be cancelled."

A. Yes; and I want to say that that is a fraud from start to finish. I asked Bob Hamby about that this morning; did he authorize that, and he said he did not.

General Stacy—I don't like the gentleman's comments, and I would like to ask Mr. Hamby to state whether or not the Fire Rating Board did not rule that the company could put that in there, that the company could put that on the policy. I would like to ask if the Fire Rating Board did not rule that the company could put into that schedule requiring premiums to be paid on the 15th of the following month?

Mr. Hamby—the Attorney General held that it was necessary for each company to state in their schedule just what credit it would allow or would give to its patrons.

General Stacy—And all of the companies put in their statement that it would be the 15th of the next month, that is that the premiums would be due then?

Mr. Hamby—Yes, sir. What Mr. Walker and myself were talking about this morning. That was the sticker put on the policy, that is as to whether or not that was ordered by the Fire Rating Board; he wanted to know if that was ordered put on there, that particular sticker.

Mr. Walker—Yes, and Judge Hawkins told me that he did not authorize it done; didn't authorize that at all.

General Stacy—This don't say that the sticker is authorized or directed rather by the board; we put this on here to notify you, Mr. Walker, of the contents of the policy, so you would not carry the policy beyond the 15th of the month. The policy bears a clause that if not paid by the 15th of the month, and I thought maybe you might carry it beyond that date and then you wouldn't have any insurance, and I put that sticker on there to notify you of the contents of the policy, that provision.

Mr. Walker—I don't believe any judge on earth would hold it that way.

General Stacy—I am not responsible for that.

Mr. Hamby—I don't think that sticker is correctly worded.

General Stacy—And I think I am prepared to demonstrate that the sticker is correctly worded.

Mr. Walker—I want you to look inside of that.

Mr. Wortham (Chairman)—Let's get along with this examination. Mr. Cureton, are you through with the witness?

Mr. Cureton, to the witness (Walker):

Q. As a matter of fact I understand it was held by the Attorney General's Department that the policy would be cancelled if it was not paid off by the 15th of the next month, and it don't make any difference how this information was conveyed to you—I think it is a bad law, and I doubt if it every was the law.

Mr. Wortham (the Chairman, jokingly): One of the most important members of this Committee is attacking the Attorney General's Department, and I'll have to stand up for that department.

The Witness—Inside there is a co-insurance clause. I want you to look at that. That is a regular fraud, that is worse than any of them.

Mr. Lee—Do you think the co-insurance clause could be defended at all?

The Witness—No, sir, by nobody on earth.

Mr. Cureton, to the witness:

Q. You are a wholesale grocer?

A. Yes, sir.

Q. You stated a while ago that you had practically retired from business personally?

A. Yes, sir; I attend to the insurance.

Q. About all you do is to attend to the insurance?

A. Yes, sir, and sign checks.

Q. One of your duties is to attend to the insurance?

A. Yes, sir.

Q. Your business is of such magnitude and size that as a matter of economy to your firm you have one man whose duty it is to look specially after the insurance business?

A. Yes, sir.

Q. Taking that into consideration and your knowledge of the business, you were able prior to the Rating Board law to get your insurance at 60 cents?

A. Yes, sir.

Q. You don't believe for one moment that a small business man in the town who has nobody specially to look after the insurance rates and devoting his time to the business all the time, you don't think he could get a 60 cent rate of the same building?

A. I honestly believe he could.

Q. Your business was of such a size

that you had a man specially to look after the insurance business?

A. Yes, sir.

Q. Of course, you were able then, under those conditions, to get a low rate of insurance?

A. Yes, sir.

Q. Do you think it is fair and just that you should be able to get a less or a lower rate of insurance than your neighbor across the street?

A. Let me tell you what I think about it. You might as well have a rating board to rate the price of coffee and sugar as insurance.

Q. You say that selling insurance is like selling coffee and sugar?

A. Yes, sir.

Q. When you go down town into a retail store to sell sugar, we'll say at 5 cents a pound, on the very day that you begin to sell sugar at that price it gets all over the neighborhood and everybody comes and buys?

A. Yes, sir.

Q. But when you reduce your policy of insurance to 50 cents on the dollar; that is, I mean to 50 cents on the hundred, only those who want to come and buy insurance at that time can come and buy it at that time? Now, is there a difference between selling coffee and sugar and insurance?

A. No, sir, there is not; and if you commence this thing, there is no end to it. I don't think you have any more right to regulate the insurance business only to stop combinations among insurance people, that in my opinion would be effective.

Mr. Jalonick, to the witness:

Q. You stated that through the combination of the companies you got a 60 cent rate, didn't you, while ago?

A. No, they all come and wrote the same thing at the same price; they all came and said I would give one man \$5000 and then I would give another man \$5000 at the same rate.

Q. I understood you to state that there was a combination of the companies; that there was a combination of companies offered you a 60 cent rate several years ago, and that was the way you got the low rate, through the combination of the companies.

A. No, sir, no combination.

Q. How did you get that 60 cent rate?

A. They came down there and one company said they would take it at 60 cents; one company couldn't take more than \$5000 and I would give one company about \$5000 and another company

\$5000. One company would insure me for 60 cents and I would get the rest for 60 cents. I would say, for instance, I have got \$3000 on this and I want \$3000 more, and he would say, "I'll write it at the same rate."

Q. How long a building did you have there; there where this 60 cent rate was?

A. The cellar is 24 feet; it is a rock building—

Q. What was the size of the building?

A. The lot was 92x128.

Q. I mean, what was the size of the building?

A. It was on two lots 92x128; that was the size of the lots; then the building walls were 20 inches thick.

Q. How wide was the building and how deep?

A. If you would just take and deduct 40 feet from 128 you will have the length of it.

Q. You mean 92x128?

A. Yes, sir.

Q. (By Mr. Jalonick.) You then got a 60 cent rate?

A. Yes, sir.

Q. What year was that?

A. I think it was '95 or '96; I don't know.

Q. 1895 or 1905?

A. 1905; I think it was 1905. I don't know.

Q. Well, at that time were there any buildings within 30 or 40 feet of you?

A. No, sir.

Q. You were detached?

A. Yes, sir.

Q. There was nothing say within 80 feet of you?

A. No, sir; at least 80 feet. Now, that stable is right on the—46—that coffee roaster is 46—that is right opposite the stable, and that is 46.

Q. Now, here is a diagram of your building as it stands today; this (indicating) was the original building, was it?

A. Yes, sir.

Q. Right in here; this shows a building?

A. Right here.

Q. 92x128?

A. Yes, sir; that is right.

Q. In 1905 there was nothing else about here within 80 feet except that one building that was set out by itself?

A. Yes, sir. Now, where is that stable?

Q. Here is the stable here.

A. Yes, sir.

Q. Was that there in 1905?
 A. Yes, sir, I think it was; I would not swear that it was there in 1905.
 Q. You are almost sure it was not there?
 A. I know the stable was there.
 Q. You know the stable was there?
 A. Yes, sir.
 Q. Was this furniture house here?
 A. No, sir; that was put up there about two years ago.
 Q. Well, since 1905 you added how many?
 A. One building here and two buildings over there.
 Q. You more than doubled the size of your floor space?
 A. Yes, sir.
 Q. And in addition to that there was—
 A. A corrugated iron furniture ware house—yes, sir.
 Q. About 30x130, 20 feet across the alley?
 A. Yes, sir.
 Q. From the new building?
 A. All the lots here are 128 feet there.
 Q. By adding the 25 feet on the west it brought your building within 20 feet—
 A. Twenty-three feet—
 Q. Of the livery stable?
 A. Yes, sir.
 Q. And wagon yard?
 A. Yes, sir.
 Q. Now, in all fairness, Mr. Walker, wasn't the hazard of your property increased when you doubled your floor area and there was two framed—one frame building within 30 feet; wasn't there a greater hazard from chance of fire than there was when you were in this one building, detached and nothing near you at all?
 A. Yes, sir.
 Q. You admit that, will you?
 A. Yes, sir. That only raised me 12 points there.
 Q. It increased your hazard that much?
 A. Yes, sir, 12 points.
 Q. That is what we are trying to get at. Now, in addition to the increase of fire hazard on account of these frame structures, you also put a coffee roaster in there?
 A. Yes, sir. Now, I want to say this: I never regarded that as a hazard at all—that there stable there—from the simple fact that the door is about 20 feet from the corner, and I think that building would burn down and it would not affect my building at all.

Q. Mr. Walker, you won't agree to accept a policy from the insurance company who will reduce your rate to—what is that charge?
 A. Twelve cents.
 Q. Twelve cents. If you will agree not to make any claim against them from a fire that will originate or communicate to your building from that building—that livery stable—
 A. Yes, I would.
 Q. Well, every company on your risk will amend their policy and give you the reduced rate if you will agree not to make a charge by reason of fire—
 A. I will do that.
 Q. Communicating to your building and stock from that—
 A. Yes, sir.
 Q. Also from the others—
 A. No, I would not do that; that is dangerous. But I do not regard this as dangerous at all, because you docked me 12 points on that.
 Q. Now, your present rate, Mr. Walker, is \$1.41 on the building?
 A. I don't know where you got the \$1.68.
 Q. And \$1.68 on the stock?
 A. I don't know where you got that.
 Q. Well, I got it from Mr. Roulette's rate book there.
 A. Yes, sir.
 Q. That is your present rate?
 A. Yes, sir, but I don't know where you got it.
 Q. How do you mean?
 A. You took the rate you say at \$1.96?
 Q. I mean to say, sir, that you can buy insurance from the companies that are now writing at a basis of \$1.68 less 25 per cent; then less 1 1-2 per cent for the reduction of the key rate of Austin.
 A. No, sir, you get that wrong.
 Q. I have got the figures before me.
 A. It don't make any difference; figures—I just want to give you some figures; I know what it is.
 Mr. Remmert, at this juncture, was duly sworn by one of the Committeemen.
 Q. (By Mr. Jalonick.) Mr. Remmert, please tell these gentlemen of this Committee if the rate of \$1.68 is the one, that is, what is known as the Roulette rate on Mr. Walker's stock.
 Mr. Walker—I acknowledge that is the rate; but I say I don't think it is right.
 Q. (By Mr. Jalonick to the Witness Walker.) The controversy was, you wanted to know where I got it.

Mr. Remmert—This \$1.68 I told you was the rate—

A. But here, I want to put down some figures here; you put it down as I say; the rate is \$1.96.

Q. (By Mr. Jalonick.) The rate is \$1.68?

A. That is the old one.

Q. That is the rate of which you are complaining before this board today.

Mr. J. H. Cranes—Mr. Walker is of the opinion that he should take the 25 per cent reduction from your rate of \$1.96; take the 25 per cent reduction from the rate of \$1.96, which applied before he made the correction, and then deduct the amount of the correction which is 30 cents from the result after you have obtained the 25 per cent off on the \$1.96; that makes a difference of about 10 cents against you.

A. Now, you won't let me talk; let me say one word. If you take \$1.96 and take thirty points off, it would be \$1.66 instead of \$1.68.

Mr. Remmert—I will explain that in this way: You take 30 cents; what is 5 per cent of 30 cents; what does that amount to?

A. Yes, sir; that would be \$1.66.

Mr. Remmert—Five per cent of 30 cents would be 1½ cents, wouldn't it?

A. Yes, sir. You ought to have 30 cents off; you ought to have 31½ cents off.

Mr. Remmert—You have got it.

Q. (By Mr. Jalonick.) Now, Mr. Walker, your rate is \$1.68 today?

A. Yes, sir; that is what it is today.

Q. The 25 per cent reduction would bring your rate to \$1.26. Now, Mr. Walker, we will take this and tie a building which writes at \$1.68 and deduct the 50 cents which is charged for a coffee roaster; we want to compare your rate today under this system of schedules to what it was in 1905?

A. Uh huh.

Q. That would—if the coffee roaster were taken out and put that building with its area; take it in the same condition it was in 1905 your rate would be \$1.18, wouldn't it, on stock?

A. Yes, sir.

Q. Now—

A. I don't know what you charge for that.

Q. Fifty cents is the charge. We think that the coffee roaster is a hazard that is worth one-half of 1 per cent; now, the board rate is one-half cent off

that, which would be 29 cents; if you would remove the coffee roaster, which would leave the building like it was five years ago, you would get a rate of 89 cents.

A. Yes, sir.

Q. That is 25 per cent off. If these same hazards—this furniture house, which you say is very dangerous, and this stable is removed, you would have a credit of 32 cents, which would make your rate under the present system or rating 57 cents.

A. I think you charge too much for these exposures.

Q. Now, whether they charge too much or too little the fact remains that you put your buildings in the same condition that it was in in 1905, when you got a 60 cent rate, that you can get a 57 cent rate under this very same schedule of which you are complaining.

A. How is it—

Q. Now, that being a fact, I want you to show me why it is—why this system of rating is unreasonable or why it is not a good law?

A. Because, By George, you carried it for five years for 75 cents; that is why it is. Your rate is too high; you charge too much for these exposures.

Q. I will show you, if these exposures were not there, that we consider the exposures very hazardous, and if you will take a policy agreeing not to make a claim against the insurance by reason of a fire that will communicate to your building from these exposures, we will not charge you for them.

A. No, I know, but I can't do that.

Q. You say they are not dangerous, and if you believe what you say, why don't you accept the companies' proposition?

A. Because I paid for the insurance and I want the insurance. I want to say this to the committee, I think they ought to wipe this whole law out and especially this co-insurance.

Q. (By Mr. Cureton.) I want the record to show; Mr. Walker has just stated, gentlemen of the committee, that he believes under the facts and circumstances before us, that we should repeal the law.

A. Yes, sir.

Q. And let the matter stand at that?

A. Yes, sir.

Q. Now, the evidence in this case shows, Mr. Walker, that the insurance companies have acted under the old law and that acting under it they have formed a combination or a legal trust?

- A. Yes, sir.
- Q. For the purpose of writing the business of this State?
- A. Yes, sir.
- Q. That in doing so they have spent a quarter of a million dollars?
- A. Yes, sir.
- Q. They have formed an absolute trust and made one rate to which they have all agreed and they all have the same rate on all buildings in Texas that have now already been rated?
- A. Yes, sir.
- Q. Now, if this law is repealed, do you believe that these companies will maintain the rates that they have formed under this trust and that they will follow these rates?
- A. No, sir. I will tell you there are so many insurance—there are these mutual companies all over the State, and I had a letter from New York offering to take this insurance at 90 cents.
- Q. Now you say they are mutual?
- A. Yes, sir.
- Q. Why didn't you insure with the mutual companies?
- A. There ain't enough of them.
- Q. The mutuals can't do the business?
- A. No, sir.
- Q. The mutuals can not by their competition, can not bring the old line companies out of business—
- A. No, sir.
- Q. You say you can insure in New York?
- A. Yes, sir; I was offered a rate there of 90 cents, but I would have to sue them in New York to get my money.
- Q. And then again, if you go to New York to buy your insurance of course your friends and neighbors will go to Sears, Roebuck & Co. and Montgomery Ward to buy their goods if they are good people?
- A. Yes, sir.
- Q. Buying insurance from some New York company is just the same as buying groceries and other products from Sears, Roebuck & Co. or goods from Montgomery Ward?
- A. Yes, sir; but I don't want to do it.
- Q. (By Mr. Wortham, Chairman.) Do you consider these mutual companies as solvent as old line companies?
- A. No, sir; I do not.
- Q. (By Mr. Lee.) Are not a great many of these mutual companies absolutely insolvent?
- A. No, sir; I don't think so. I don't think there are but very few. There was one up at Waco that busted, I know.
- Q. (By Mr. Cureton.) Representative Maddox requests me to ask you if you are carrying any insurance in any mutual company?
- A. Yes, sir; \$8000 in Fort Worth.
- Q. What company?
- A. Reciprocal, I think, \$7500.
- Q. What is the name of the company?
- A. I don't know what it is.
- Q. Isn't it the Texas National?
- A. Yes, sir; that is one, but there is another one.
- Q. There are a number of mutual companies in the State known as old line companies that have a clause in the by-laws permitting profit sharing? You were not operating under this law?
- A. No, sir.
- Q. What rate does Mr. Walker charge you?
- A. He told me he would charge me 56 cents, I believe.
- Q. Was that a dividend returned to you to get you down to that?
- A. Yes, sir.
- Q. Don't you pay a rate of 95 cents?
- A. No, sir; I took that out a long time ago—70 cents and then they cut me down to 56 cents. If I had my policy I could show you.
- Q. (By Mr. Wortham, Chairman) A dry goods merchant wouldn't participate in the same dividends that you would?
- A. I don't know.
- Q. How long have you carried that insurance?
- A. I don't know, I couldn't tell you.
- Q. You mean you renew them each year?
- A. No, sir; they just go right along.
- Q. Send you a renewal receipt?
- A. Yes, sir; they are continuous.
- Q. Have they inspected the risks since these frame structures were put up there and since you put in the coffee roaster?
- A. Yes, sir.
- The Witness—The difficulty with these fellows, I wrote up there to Mr. Walker and asked him if he could give me any more and he said no, that was all he could carry.
-
- Morning Session—August 3, 1910.
- T. J. Bowles, being duly sworn as a witness by Mr. Cureton, testified as follows:
- Question. Where do you reside?

Answer. In Collin county, at Nevada.

Q. I understand you are a member of the Legislature?

A. Yes, sir; I am a member of this one, but not a member of the next one.

Q. You say you live at Nevada, Collin county, Texas?

A. Yes, sir.

Q. What is your occupation or business?

A. I am farming and writing some fire insurance.

Q. How long have you been in the fire insurance business?

A. Some six years, I suppose.

Q. Prior to the taking effect of the board law, what was the condition of the fire insurance business in your section of the State, as to whether or not there was discrimination between risks of the same hazard or between towns of the same town hazard?

A. I do not know that the discrimination was so bad in my town, but there was a discrimination between my town and the town of Wylie, a town about ten miles from there.

Q. As stated just now?

A. Wait a minute till I explain it—I want to explain it fully. If the agents at Wylie reports the matter correctly; that is, if they reported their rates correctly to me, the rates under which they were writing insurance there was quite a discrimination.

Mr. Scruggs—We will admit on the part of the insurance companies that there was a discrimination all over the State of Texas.

Mr. Cureton—I want to show the character of the discrimination.

Mr. Scruggs—We admit that there was a discrimination.

Mr. Cureton—All right; it is admitted on the part of the insurance companies that prior to the taking effect of the board law that there was discrimination generally all over the State.

Mr. Scruggs—I want to get that correct; there was a discrimination on the basis that there can be no competition without discrimination.

Mr. Cureton to the witness—Q. You say that there was discrimination between your town and the town of Wylie, if the reports to you were correct. In what way this discrimination?

A. It was on dwelling houses. The dwellings in my town; that is, the companies that I represented, would not let me write dwellings for less than \$1.25 with non-warranted brick flues and \$1.50 where metal flues were used. The

agents at Wylie said that their companies were allowing them a rate on residences of \$1.00, regardless of the flues, whether brick or metal.

Q. What were the respective sizes of the towns of Nevada and Wylie and the respective fire-fighting facilities?

A. There were no fire-fighting facilities in either of these places, so far as I am informed. Nevada has something like 700 inhabitants and Wylie is a little bit larger.

Q. After the taking effect of the schedule of rates promulgated by the insurance companies; that is, after the board law went into effect, what did it do to the insurance rates in your town of Nevada?

A. I lowered the residence property; that is, it lowered the rates on residences and raised it on business property some.

Q. To what extent did it raise the rates on business property?

A. I am not able to say exactly just to what extent the rates were raised.

Q. But there was a general raise of the rates on business property?

A. There was a raise and a complaint made among the insurance agents there with reference to the rate. I had a stock of groceries insured on the west side of the public square in a brick building, and I was insuring it at the rate of \$1.95; the same firm moved over on a new block on the east side of the square, and I had to raise their insurance rate.

Q. The insurance that was in the same building after schedule rates went into effect; what was the rate then as compared with your rate of \$1.95?

A. I don't just recollect, I don't call it to mind just how much I raised it; my book is not with me.

Mr. Gilmore to the witness—Q. Mr. Bowles, about how many companies do you represent?

A. Only three for a while but only two now. I represent the Home Company and the Commercial Union.

Q. Prior to the taking effect of the board law, what did the companies give you as a basis for your rate charges; that is to say, how did they inform you what rate to charge on the various risks in your town?

A. By a schedule of rates; there is the book over there.

Mr. Cureton—By the revised book of the minimum rates for the State of Texas issued by the Commercial Insurance Company?

A. Yes, sir.

Mr. Gilmore—Q. Did each of the insurance companies advise you to adhere to these rates?

A. Not strictly; no, sir; sometimes in order to get a rate through, in order to get a risk, I would go below the rates, and I would take it up with the company and they would allow me to keep the risks.

Q. That was the basis for the rates for all the companies you represent?

A. Yes, sir.

Mr. Canales to the witness—Q. Did you also take into consideration, in arriving at the rate, did you take into consideration surrounding risks; for instance, the proximity of a furniture store or a frame house?

A. Yes, sir.

Q. Take into consideration also the awnings?

A. Yes, sir.

Q. And the combustible material?

A. Yes, sir.

Q. Was that classified?

A. Now, I don't know about the combustible material; I do not know whether that was considered or not, but the other buildings; that is, the proximity of the other buildings was considered.

Q. Were they classified at so much per cent?

A. No, sir; it would be so much for an exposure, say of a frame building within a certain distance, or a brick building within a certain distance.

Q. You would add that to the basis of the rate?

A. Yes, sir.

Q. That is it?

A. Yes, sir.

Mr. Cureton to the witness—Q. The exposure charges prior to the taking effect of this rating law took into consideration what distance—in other words, it took into consideration certain distances, say 60 feet, 20 feet, 80 feet, or what?

A. I am not sure about the basis rates, but 60 feet was what my companies always allowed me in making a rating of insurance there. In other words, if I wrote a stock of goods and a frame exposure was 60 feet away, they would not make any charge for that.

Q. Under the present schedule, what is it?

A. It is 80 feet, I think.

Q. As applied to the same location?

A. Yes, sir.

Q. It has to be 80 feet away or an exposure charge will be made?

A. Yes, sir.

Q. What is the width of the streets in your town?

A. Sixty feet.

Q. Under the present schedule in your town the streets are 20 feet too narrow and are consequently under the basis of rates subject to a charge for exposure?

A. Yes, sir; it becomes a charge for exposure because of the distance.

Mr. Scruggs—I want to say that there was an error and that we discovered and which we had up for correction; that is, we had up for correction the error made with reference to explosive characters and were correcting that or trying to correct but the board ordering a 25 per cent reduction put us in case that we could not do it.

Mr. Cureton—It is admitted that the exposure charge in the new tariff is incorrect and that at the time the board reduced the rate 25 per cent the insurance company had this matter up for amendment and correction.

Mr. Scruggs—They based that exposure charge upon the streets of the town, and of course with this exposure it made the buildings across the street subject to an explosive side, and we didn't find that out until we began to apply the tariff.

Mr. Cureton—I assume that if the rate should be modified and the companies go back into business in this State that this exposure proposition would be corrected.

Mr. Scruggs—Yes, sir; it should not extend across the street; of course, if you have a street 30 feet wide, then it would and ought to go across the street, but the distance should not be any greater than it was before.

Mr. Cureton—That is the distance required.

Mr. Scruggs—It was not intended that it should be, but on the basis of the rate and not working it out it did do it and it only comes out in unprotected towns.

Mr. Bowles (the witness)—There is something else I would like to say about that, and that is this, across the street as we were talking about just now these frame exposures, they first calculated the unoccupied rate and then as to what the occupied building rate would be and they would take a certain per cent of that. That was not the case before the new law went into effect. These frame buildings in this case that I speak of were very small buildings. Something like, I do not know just exactly the size of them but will

say 14x20; one of them was a small meat market and the other was used for a barber shop I believe, I believe it is a restaurant now. It seems that the charges on these buildings were just as great as if the buildings had been 25x100 feet.

Mr. Scruggs—That is correct. The whole table needs revision; that is, the whole exposure table.

Mr. Cureton—It assume it would be revised if the company would again write the business.

Mr. Scruggs—We were working on it at the time the law forced down the rate.

Mr. Lee—Are you going to give that revision if they keep the rate down?

Mr. Scruggs—Most assuredly we will not.

A. J. Eilers, being duly sworn as a witness and examined by Mr. Cureton, testified as follows:

Question. Where do you live?

Answer. In Austin, Texas.

Q. In what business are you engaged?

A. The wholesale dry goods, notion and furnishing goods business.

Q. How long have you been engaged in this business?

A. Since 1887.

Q. Mr. Eilers, have you been a purchaser of insurance here during the years of your business and residence here?

A. Yes, sir. Our premiums run from three to four thousand dollars a year in fire and marine and other kinds of insurance.

Q. I have not had an opportunity to talk with you and do not know the line of your testimony, but I would be pleased if you would make a statement, and if there is anything that occurs to me I will call your attention to it and ask you questions.

A. I want to state in the first place that I am not only the representative of my firm of McKean, Eilers & Company, but I also represent the city of Austin; that is, I represent the Business League of the city of Austin as one of the committee. There are some fifteen of the gentlemen on the committee appointed, but they have not been here, so far as I know. In the first place, I want to call the attention of the committee of this fact that I am not in favor of this law. We believe that it ought to be repealed. I think I express the sentiments of at least ninety or ninety-five per cent of the merchants of the State of Texas when I say that.

We do a business all over the South-western and Central Texas, and I am the credit man of my concern, and I want to say that I am a great believer in fire insurance, and if a man shows us his assets and has only a few thousand dollars and has no insurance, then we try to prevail upon him to take out insurance, and, if he don't, very often we refuse to give him a twenty-five per cent line of credit on his net assets. What I want to call your special attention to is the 80 per cent co-insurance clause. Here is a policy of insurance any insurance man can call your attention to the liability or the reliability of it; it is a policy written by the Continental Insurance Company of New York City, which is a very large company. This 80 per cent co-insurance clause I would like to read to you today. We believe that that is unjust, unfair and not equitable. The co-insurance clause reads as follows: "It is a part of the consideration of this policy and the basis upon which the rate of premium is fixed that the assured shall maintain insurance on each amount of property insured by this property at a rate of not less than 80 per cent of the actual cash value thereof, and failing so to do the assured shall be an insurer to the extent of the deficit and bear the proportionate share of loss on each item." If a person has a ten-thousand-dollar stock and insures it for \$5000 and has a total loss he gets the insurance, but if he has a fifty per cent loss he only gets \$2500—no he only gets five-eighths of the amount of the loss. Say his loss is \$5000 and he is insured for \$5000, he only gets five-eighths of that sum.

Mr. Scruggs—Suppose your loss is \$10,000.

The Witness—If you carried the 80 per cent clause, you would get the full amount.

Q. But you haven't got the full loss?

A. If your stock is only \$10,000 you do.

Q. Suppose you are damaged \$8000 and you were protected by \$5000 insurance, wouldn't you collect for the face of your policy?

A. I know that, but how often do you have the 80 per cent loss?

Mr. Baker—I would like to ask the witness a question.

Q. As a matter of fact, the whole sum and substance of this co-insurance proposition is a raise on the rate when you do not take the 80 per cent insurance?

A. Yes, sir. If you only take 50 per cent of the stock on hand, your rate is whatever the initial rate is, plus 33 $\frac{1}{3}$ per cent; is that not correct? We believe that if a man pays for anything, he has got a right to do it and ought to have it.

Mr. Stratton to the witness—Q. As I understand, if you have got a \$5000 policy, your loss exceeds 80 per cent of the property, you get your policy, you collect your whole policy; that I believe is the legal construction?

A. I believe that is right.

Q. If you have got a \$10,000 stock and have a partial loss and say you have a loss of \$8100 have you got \$6000 policy you collect the whole face of the policy then.

Mr. Scruggs—Yes, sir; that is correct.

The Witness—Yes, but how many merchants will carry 80 per cent of their merchandise on hand? They can not afford to do it. I do not think that the majority of merchants do that, do they?

Mr. Scruggs—I think they do. I think they carry all they can get.

The Witness—I don't find it so out of about one thousand customers that I have.

Mr. Scruggs to the witness—Q. How much do you require your people to carry before you will sell them goods?

A. Fifty per cent.

Q. A great many houses require them to carry 75 per cent, do they not?

A. I am a great believer in insurance. We have paid out in the course of twenty-five years for insured premiums of various in our business \$125,000 in premiums. We have collected in that length of time about \$18,000. We carry fire insurance, marine insurance, plate glass insurance, and credit indemnity insurance and employes' insurance. We don't want you gentlemen to think for a minute that we are not in favor of insurance, and we do not want you to pass a law that will prohibit the insurance people from doing business in this State. We believe simply in the repeal of the present law and believe that there should be no 80 per cent clause. Different cities throughout the State of Texas appointed committees and we all met in Dallas some eight or ten years ago and complained so vigorously about this proposition that the insurance companies quietly withdrew this co-insurance clause.

Q. (By Mr. Cureton)—Now it would take the joint effort of the companies alike to force the insurance companies

to discontinue this 80 per cent co-insurance clause?

A. Yes, sir. At that time, I don't believe they had a clause of that kind.

Mr. Scruggs—That is what they called an equitable co-insurance and value clause, and the clause provided that if you carried 75 per cent insurance that you could not collect more than 75 per cent of your values. And the operation of the clause was that whenever you had a fire the companies cut you at both ends. When that matter came before the companies and they saw the error, they immediately withdrew it. In other words, you were forced to carry 75 per cent, and at the same time you were limited in the collection to 75 per cent. And when that was called to the attention of the companies they withdrew it. That is not the present co-insurance law.

Q. (By Mr. Cureton)—Now, Mr. Eilers, the clause to which you refer is the 80 per cent co-insurance clause?

A. Yes, sir.

Q. Now, so far as the present law is concerned, you want to get the insurance companies to abrogate as to you?

A. Yes, sir.

Q. Now at the time you all—were able to do this—the insurance companies all, as a matter of fact, continued to put this clause into the policies and the small insurance, the merchants over the State—

A. No, they put the three-quarter clause in them; not the co-insurance clause by the three-quarter clause. Except the lumbermen and they belong to the lumbermen—

Q. If it don't apply to all classes alike, then it was a discrimination, wasn't it?

A. At that time; yes, sir.

Q. Well, the people of the State seem to have the view that discrimination should be eliminated as far as possible in the insurance business?

A. Yes, sir.

Q. Now, if we were to repeal the law as suggested, and do nothing further, that class of discrimination will continue; would that be proper for us to do?

A. We don't want any discrimination; you can pass a law to that effect; what we want is just and fair play; equitable, both to the insurance company and the insured.

Q. But Mr. Scruggs, representatives of the insurance companies tell us that this 80 per cent co-insurance clause is

necessary to an equitable adjustment of the rates?

A. (To Mr. Scruggs)—Can I tell what you told me yesterday?

Mr. Scruggs—I will tell it. I stated to Mr. Eilers yesterday that, personally, I did not believe in the co-insurance clause, but I stated that it was an equalizer of rates, like the board of equalization for taxation; personally, I am not in favor of the law at all.

Mr. Eilers—And didn't you also state you could take my business with your companies and write every bit of my insurance at the same basis you did before?

(No answer by Mr. Scruggs.)

Q. (By Mr. Cureton)—Was there anything on the statute books?

A. That is not a part of the law; that is a part of the contract. They put it in here.

Q. Then the only way to prevent them from putting it in there would be to pass a law preventing them from doing it?

A. Yes, sir. We have Mr. Scruggs' word on that proposition, but he don't represent all the companies.

Q. We can repeal the law.

A. That is exactly what I want to call your attention to; there is another matter here and that is, for the premiums to be paid on the 15th of the month. Suppose your house is insured for one or two thousand dollars, and the agent fails to call on you on the 15th of the month, or you are out of town and you possibly could not pay it and your house burns down on the 15th of the month; doesn't that invalidate your policy?

Mr. Scruggs—If you had twelve jurors like yourself, wouldn't you give it to the insured?

A. You bet I would. We are not here to have lawsuits about insurance. Suppose my business was to burn, and I did not have a quarter of a million dollars of insurance, what position would I be in? My creditors would take charge of my business; if I have got to go and fight in the courthouse for six or twelve months, I would be in a bad shape.

Mr. Baker—Just a minute. The verdict of the jury would not be conclusive if you got it to the higher courts.

Q. (By Mr. Cureton)—Mr. Eilers, I want to call your attention to the question of the voidability of a policy; under that clause, it would not be a question for the jury; it would be decided by the court?

A. Yes, sir.

Q. And, like you, I think it ought to be abrogated by such law.

A. Why certainly.

Q. I don't think you need to have any fears about it; I think this committee is going to recommend the abrogation of that clause?

A. Well, I think that co-insurance clause is bad; because if I have got a bad rate, why should I be penalized because my neighbor has got a better rate? If I pay five or ten dollars a month for a night watchman to pass my store every hour during the night, and my neighbor across the street don't do that, why should I pay for the neglect of my neighbor across the street; is that a fair proposition? I allow no smoking of cigarettes nor cigars and I have fire extinguishers in my store in all parts of my store, and I use all the apparatus that I can to minimize the physical condition of my business, and if I am that careful and cautious, why should I be penalized by them putting that clause in the policy. Now, I want to state that this policy is dated July, 1910, and expires in July, 1911. It is a new policy just written here under the new law, and I will state that our insurance was 80 cents, and they increased it to \$2.21.

Q. Is that all?

A. That is all. And it has cost me a little over eight hundred dollars in premiums, and five hundred more to make these corrections; that is, to build up the nine well holes in the first, second and third floors, and putting a door in our stairway and fixing our elevator, so that no draft, in case of a fire on the lower floor, could be caught up and carried up to the second and third floors.

Q. Has that reduced your rate?

A. Yes, sir; our rate now, with the 25 per cent reduction is lower; I got them to reduce the rate 8 cents for the Fire Marshal and the fire code law, I believe that is it and that reduced us eight points. Our key rate was 38 points, and owing to the fact that the city passed an ordinance, that cut the rate 8 cents, so that my rate is now 90 or 92 cents, by spending five hundred dollars on these other openings.

Q. Well, now—

A. But excuse me; if this law were enforced, we would not carry 80 per cent of our stock on hand, so we would be penalized if we only carried 50 per cent, 33½ per cent more; now add one-

third to that sum, and that makes our rate now about \$1.22.

Q. (By Mr. Terrell)—Do you think \$1.22 is too high for your risk?

A. I think so. They have been writing it at 80 cents in all classes of companies.

Mr. Terrell of Bexar—Q. I will ask you whether you have ever handled any insurance for your customers?

A. No, sir. But I prevail upon him to have it, every letter that we have we ask him has he got insurance and our statement has written at the bottom of it and we have a blank for order, and in letters we say, "are you insured and for how much?"

Q. Do you recommend any company?

A. No, sir; any company they want.

Q. Don't you think 80 cents is too low for your previous policy?

A. I don't think so. I don't see why it should be.

Mr. Scruggs—What rate did you pay, say three years ago?

A. It was, I think, 95 cents, and then we got it down to 90 about two years ago, and then 80.

Q. What did you pay five years ago?

A. Five years ago we paid about \$1.25.

Q. You used to pay a rate of \$1.25?

A. Yes.

Q. That is what I wanted to get in the record. They commenced by playing one agent against another, or rather the agents in competition in their business worked it down to 80 cents?

A. Yes, sir.

Q. The companies were not anxious to reduce their rates?

A. Why did you want to reduce the rates?

Q. They didn't want to. The local agents wanted to do it.

A. Why?

Q. Because the conditions of the town were such that we could afford to cut rates in Austin but we couldn't do it in Denison.

A. Didn't you send special inspectors to look at my business?

Q. Yes.

A. What was their report on it?

Q. I am satisfied with the 80-cent rate. I want to show these gentlemen that any schedule as they apply by law is bound to raise the rate in towns that do not have fires. They ought to be equalized in towns that do have them.

A. If 80 cents is too low for me, I am willing to pay. I don't want the insurance companies to take my business without a profit. If I know it,

I won't let an insurance agent give me his premium. I don't love money that well.

Q. I know that. But don't you think every man ought to be made to carry a part of his own risk?

A. Why should he? Certainly I am doing it anyhow. If I only take 50 per cent, ain't I?

Q. Don't you think every man ought to be made to do it anyhow?

A. Certainly; ain't I carrying it anyhow? If he wants to pay you that premium and you are willing to accept it, why shouldn't he? If he wants to carry only 25 per cent and the bankers only insist on him taking enough to cover his indebtedness, which I generally do, you must take enough insurance in case of fire, so you can pay all of your indebtedness; that is only just.

Q. Don't you think over-insurance causes a great many fires?

A. Certainly they cause a great many fires.

Q. Don't you think the 80 per cent co-insurance clause, if eliminated, and ought to be—

A. Yes, sir.

Q. And we put in the place of it—

A. Don't you have concurrent insurance in place of that?

Q. If it is eliminated, don't you think that we ought to put a law on the statute books to the effect that no man shall be permitted to collect more insurance than the value of his property?

A. That is fair enough, fair enough for any honest man. But you have concurrent insurance which is right and just because you ought to know—

Q. Do you know that we have a law on the statute books of Texas today which says a man can collect for any amount of insurance the companies may write him, whether it is over insurance or not?

A. I did not.

Q. It is a fact.

A. You are speaking of isolated cases, I have been adjuster for a great many merchants, and I have as a rule found the companies fair and equitable in their dealings, and I have no complaint to make. I am not here to fight the companies.

Q. You stated while ago that most of your customers operated under the three-fourths clause?

A. Yes, sir.

Q. Do you think it would be wrong to equalize the three-fourths clause?

A. That would be fair.

Q. Don't you think that would stop a great many fires?

A. That is what we want to do exactly, and when you stop the fires, the insurance companies can reduce the rates. That is what we want to do; that redounds to the benefit of the insured when you can reduce the fire losses.

Mr. Reedy—Mr. Scruggs has suggested that a law ought to prohibit a man from recovering more than the value of his insured property.

A. Yes, sir.

Q. Of the destroyed property. Notwithstanding he may carry more insurance than the property is really worth?

A. Yes, sir.

Q. Would not the effect of that be to multiply litigation and contests over payments of policies when losses occurred?

A. It might be, yes.

Q. Don't you think it would greatly increase?

A. It might, yes. It might be; a man, for instance, who carries a \$10,000 stock and he gets in his fall bill of \$3000 he adds that and that is \$13,000; he wants to add 60 per cent; that would be \$7200. In 30 days he has sold as much as he has taken in, and when a fire occurs he shows that he has got insurance for more than his stock is.

Mr. Scruggs—Q. Ought he be permitted to collect for more than his stock is?

A. I don't think he ought.

Mr. Scruggs—If he has got enough insurance he can generally work out on the books and show what he has there?

Mr. Cureton—The valued policy law applies only to buildings and does not apply to personal property.

Mr. Scruggs—Does not apply to stocks.

Mr. Cureton—Your rate under the laws now in operation has been raised?

A. From 80 to \$2.21.

Q. I understand, but you have reduced it?

A. We have reduced it by spending \$500. But take a man, for instance, Mr. Richardson, that had a rented store; they wanted him to spend a few hundred dollars and he could not afford to do it and would not do it, and I didn't blame him for not doing it, because he could not make these corrections of a few hundred dollars and let his landlord get the benefit of it.

Q. What rate do you pay now?

A. 92 cents.

Q. It has been raised 12 cents?

A. Yes, sir.

Mr. Lee—You think that we ought to repeal this law and not have any other?

A. I think so, and include in that that their premiums shall be optional with the local agents.

Q. Don't you think with the information we have now for getting this key rate over the State that it would be better to enact such a law as we have under consideration?

A. You cut them off, you knock out this co-insurance clause and we will take our chances on this proposition.

Q. A large insurer may do that, but how about the small one?

A. I want to impress upon you I am not here for the larger insurer. I want something that is just and equitable for a man that has got a hundred dollars as well as for one that has one hundred thousand dollars. I don't want any discrimination; I want fair play and nothing else, both for us, the insured and the insurer; we don't want any discrimination; it is not right and not honest. I have never had a fire in my store, and don't want one, and don't expect to have one. You can see the amount that I am out at a loss today on premiums I have paid insurance companies, and I do not expect to get back any of it. I take insurance for the satisfaction I have when the fire bell rings in the Tenth Ward, and I don't want to go down there, I know that I am insured and am at rest, am at ease and with peace of mind.

Mr. Scruggs—About what insurance do you carry on your stock?

A. About 60 per cent.

Q. You don't want to carry more than 60 per cent?

A. No, because I don't think it is necessary. It ought to be optional with a man; if he wants to carry 25 per cent, let him carry him. I don't see why the great State of Texas would want to equalize insurance companies' business by fixing their rates.

Mr. Cureton—The Legislature has not done that. What you want us to do is to take a club and keep them from doing it?

A. Yes, sir.

Q. It won't do that, the operation of the law; with all of your organization they have saddled that on you with all your protests.

A. Yes, but if you have a law prohibiting them to do these things, could they do that?

Q. That is what I want to show by

your example. They want us to turn them loose in Mr. Scruggs' manner—if we turned them loose, in the language of General Stacy, you would probably "wish you had never been born."

A. Yes, and some agents come here and say we want a law on this order and yet say that they had nothing to do with having this law passed. I don't want to impugn the motives of any man, but it looks like there is a bug under the chip—something wrong. Is their position well taken by their own statement? It is as plain as the nose on my face.

Q. General Stacy says that this law is a good law.

A. I know he does. What I want to say is in reference to the premium on the 15th of the month. Possibly you don't know that if the local agent takes your insurance he notifies the insurance company, and the local agent has got to remit that premium in 30 days thereafter. If the local agent wants to give me one month or my neighbor six months, that is entirely his business. The company has got nothing to do with that. He has got to remit that, as I understand. Isn't that a fact, Mr. Hamby?

Mr. Hamby—I understand so.

Mr. Cureton—Of course, the Legislature never intended to pass that kind of a law. You say you think there is a bug under the chip? What do you mean by that?

A. They say that they had nothing to do with the law.

Q. Who says that?

A. The insurance companies, the local agents tell me that. But I believe that these agents here stated to you, haven't they? I think they have; I don't want to misrepresent anything; if I do, please call me down, and I will apologize.

Q. Local agents say they personally did want the law?

A. I never put that direct question to them. I think General Stacy has the minority on that.

Q. They say the insurance companies don't want the law?

A. Didn't want the law, yes.

General Stacy—I did state that the local agents asked for this law, but I was not the only one that did it; the agents over the whole State of Texas asked for it for the reason that it would benefit the insurers; local agents are in favor of benefiting their insurers, friends and customers. They are agents for the company, but when it

comes down to a point they are in favor of their friends and customers.

Mr. Cureton—Insurance companies are here and have been here nearly a week and all tell us we want you to repeal this law and go home, and we stand with Mr. Colquitt on his platform. In the evidence before this Committee it shows beyond contradiction that residence rates in this State have been reduced some 20 to 25 per cent and shows beyond contradiction that three-fourths of the people of this State have been benefited by the law.

A. Yes, sir.

Q. Now, as a member of the Legislature, with this condition confronting you, what would you do?

A. I would say how much in proportion is the dwelling rate as to the aggregate amount of insurance to the dwelling as to the commercial part of it, what does that bear?

Q. The dwelling part is only 25 per cent and the commercial part is 75 per cent. I will give you another question. We have presented that question to our friends, who are statesmen and economists, and they have said that the greatest good to the greatest number is the way legislators should be governed; what are they to do?

A. Act for the majority.

Q. For the majority of the people or the majority of the wealth?

A. Majority of the people.

Q. The evidence shows that the majority of the people have been benefited by this law, it is without contradiction.

A. You have the dollars and cents?

Q. Yes.

A. Oh, no.

(Several members)—No, no.

Q. I say a majority of individuals?

A. That may be true, because you have in a city perhaps only a few merchants in a town.

Q. Certainly, a majority of the individuals have been benefited by the law?

A. How much does that amount to?

Q. I don't know. A million dollars, perhaps. This situation that confronts us members of the Legislature as to whether we will follow the Jeffersonian doctrine of the greatest good to the greatest number or the greatest good to the greatest wealth—now, which are we to follow?

A. Amount of wealth of the majority in reference to the amount involved, I think. It is not a fair comparison, because you take a town, you find fewer

in proportion; I don't know what the statistics will show, but you will find less merchants in town in proportion a great deal, I should not think 10 per cent.

Q. Well, thus far, Mr. Eilers, the evidence is beyond contradiction that the mercantile risks of the State have not been paying their portion of the amount of insurance according to the hazards.

A. Well, give them an advance if that is a fact. If the insurance companies say they can't make a living at it, give them a rate. If I had to do business without insurance, I would simply have to liquidate my business or give them a living.

Mr. Cureton—The testimony shows that the mercantile hazards have not, prior to the taking effect of this law, paid their proportion of the amount. We don't know whether that is true or not, but if not true, we would be very glad for the Merchants' Association of this city to come before us and show that the low rates were not discrimination in their favor and we will pass such legislation as necessary. We don't know, all we have to go by is the testimony.

A. That is their business and they have statistics at hand.

Q. We have not called on them for that information.

A. If a man has a thousand dollar fire, he ought to get his money; he is paying for it. If the premium is not such as to justify the company paying it, he should pay enough. They generally take care of themselves, the adjusters.

Q. (Mr. Scruggs)—If they go before a jury of twelve men in your town, do they always get it?

A. Does the insurance company always carry out what promises they make?

Q. (Mr. Scruggs)—Do the merchants always abide by their promises?

A. Yes, sir; in the majority of cases they do; I don't mean always. I am very much obliged to you gentlemen, and that is all I had to protest.

Afternoon Session, August 3, 1910.

Mr. Reedy—I will ask you this question: In coming before the committee, you come merely in behalf of the commercial interests and insist on the unqualified repeal of the law in their behalf without reference to its effect on the general insuring public?

A. Yes, sir; and in reference to those two classes.

Q. You have not considered the operation or effect of this law on the general insuring public at all?

A. I have no statistics on that at all; I know what they have done.

Q. I believe, Mr. Eilers, that you share the general misunderstanding of the effect and intended effect of the law in creating the board. This board really as created or contemplated was to act as a sort of umpire between the insuring public and the companies and ascertain what was right and enforce it.

A. But, my dear sir, take the amount of money invested in the cotton manufacturing business of Texas, at Dallas, at Corsicana, at Sherman, at Brenham and Cuero and you say to these gentlemen you can not put a fixed price on duck and if we do agree on a fixed price we stand liable to be prosecuted, you say to these people you can't do that, but you can put \$5000 into the insurance company at a fixed rate. Is that fair and just to the people of Texas?

Q. You seem to interpret wrongly the desire of this Legislature and this legislative committee. We don't intend to invest these insurance companies with any such power, but we intend to invest this board with power to ascertain and determine what is fair and right for each risk.

A. That is fair enough if the time is fixed. I don't suppose there is a mill in the country that is making duck today—the Dallas mill is selling it for 12 cents and that is 25 cents a pound for raw cotton; you figure it down and see where the money is. Don't we do a loss business at certain times of the year? We certainly do, and every character of commercial business at times, but why should you legalize these companies to put a fixed rate and give them a reasonable profit and say to them you can make a profit from January to January?

Q. I am not here to state to you why the Legislature in its wisdom or otherwise came to that conclusion.

A. Another thing, gentlemen, talking about the greatest good to the greatest number, who was the instigator of reducing the rate on dwellings? I don't know; can you tell me, Mr. Scruggs?

Mr. Scruggs—Thomas B. Love.

Mr. Eilers—Say that the greater number of people have been benefited, but how much?

Q. In other words, you think it was reduced for political purposes?

A. That is my inference; yes, sir.

Q. You think the insurance companies ought to be taken out of politics altogether?

A. Why shouldn't they be, why should they be legalized?

Q. And made to do business in the open market the same as you do?

A. Why, certainly.

Q. Is the witness prepared to show that the present insurance rate as paid is too high?

A. I have no statistics on that; I only know what the rates have been, of course.

Q. (By Mr. Moller.)—If the regulation of the Legislature renders these insurance companies a profit with the fire losses in the State of Texas, would it not be fair and reasonable for the State to take charge of the insurance companies and not the cotton mills?

A. I don't think so. They have men that study these things and they can reduce or increase the rates as they see proper.

Q. If they are regulated so as to reduce the risk say a million dollars in consequence of the State of Texas reducing the fire waste, they will reduce the rate proportionately.

A. They ought to be able to bring about these conditions without being regulated.

Q. They can not, in competition with each other, regulate these things.

A. Why can't they?

Q. It is proven that they can not. The railroad companies, before the Commission, cut each other's throats from one end to the other. Since then they have not done it.

A. They probably have a fair, just and equitable rate.

Q. (Mr. Cureton)—You seem to think that the reason for the reduction of rates on residences in this State was for political effect?

A. That is only my private opinion, I am not casting any reflections.

Q. Of course, you understand it is our duty to seek information from every available source?

A. Certainly.

Q. I want to read you a paragraph here on page 207 of a book written by Lester W. Zartman, called Yale Readings on Insurance: "Taking up in order these varieties of rate discrimination, we first ask why there are preferred classes of risks. These classes exist because of the desire on the part of the

companies to assess rates in such a way as to arouse the least opposition. There are many analogies between fire premiums and taxes; as with governments—which have always found it necessary to levy taxes not so much with regard to the question of their being ideally just, as to the question of whether they can be imposed without raising a storm of opposition—so it is with the fire insurance companies. They have found that they can levy high rates on dwellings, on contents of dwellings, on churches, schoolhouses, public buildings and kindred risks without causing much opposition. The reason is not far to seek. The rates on dwellings as a class are low, absolutely speaking; few people have large values, so that the premium on each risk is moderate and usually causes little objection to be made. Suppose there is some opposition to the dwelling rates; it may result in a man complaining to his neighbor that the rates on dwellings are too high, and the neighbor may agree with him; but this is about as far as the opposition ever gets. In the same way high rates on churches, schools and similar property cause little opposition, but how different is the situation if the companies make an increase in rates on mercantile or factory risks. Practically every city has its trade organization, a chamber of commerce, or a board of trade, composed of the leading business men of the city. Even a small increase in rates on risks owned by these men makes a great deal of difference to them, for here values are large. An increase in rates on risks owned by these men means opposition—and opposition which counts, for the organization already exists by which it can be concentrated. The influence which these boards of trades and similar organizations can have upon legislation is so powerful that any rating organization thinks twice before it raises rates upon mercantile and manufacturing risks." Then, you see, low rates regardless of companies may not have been political, because here is a man that lives thousands of miles from Texas that tells us the general rule in the United States is that insurance companies have made rates on dwellings high, if left to their own sweet wills, but now when this law is applied a system of rating is promulgated and rates cut down on dwellings and put on that class of risks, don't you suppose that is about the situation in this State at this time?

A. Are you gentlemen in favor of

co-insurance or the premium to be paid on the 15th of the month?

Q. I am certainly not in favor of the 15th of the month.

A. Take 1907, when you gentlemen know you couldn't sell the greatest commodity that was ever produced in the world unless you sold to a shark, cotton, unless you sold for 7 cents when it was worth 11 or 12.

Mr. Smith—I want to ask this question:

Q. Say the insurance company requires you to carry 80 per cent insurance, they only have one-fourth of that insurance, in case you have a one-half loss they only have to pay one-eighth of the amount of insurance, don't you think that is an item for reducing your insurance, that reducing your premium in one instance, before they pay another loss, don't you think that is the reason for raising the rate?

A. If you don't carry but 50 per cent you will be penalized by the fact that you have got to pay 33½ per cent over the existing grades, in addition to that, you don't get what you were insured for, which has the effect of increasing your rate two or three hundred per cent.

Q. They take the additional risk?

A. Yes, sir, and you have got to pay the additional premium.

Mr. Cureton to the witness—Q. I am handing you here a sheet of paper on which I have drawn a square, representing a yard, a cotton yard, in each corner of that square I have marked five bales of cotton; in this corner here for instance I have designated it "A." I am simply trying to show you here one of the things that the Insurance Committee is confronted with. We will assume that this is a cotton yard, and in each corner you have five bales of cotton. You go to the local insurance man and say, I want an insurance policy covering five bales of cotton in the cotton yard. He says, how many bales have you got there and you tell him twenty but that you only want insurance to cover five bales and he says which five, and you say, I don't want it on any particular five.

Mr. Moller—On the five that burns.

Mr. Cureton—All right, on the five that burns. He writes you on five bales of cotton and the five bales in the corner marked "A" burns, you then collect the two hundred and fifty dollars insurance, or the value of the five bales. But suppose instead of it being the corner marked "A" that burns it is the

opposite corner that burns, then you collect two hundred and fifty dollars on that; suppose one of the other burn and you still collect two hundred and fifty dollars on that; but suppose it is the fourth corner that burns and you still collect the two hundred and fifty dollars insurance on that; in other words, out of that five bales that burn you get two hundred and fifty dollars, yet you have paid insurance on but five and the company has carried it on twenty. These insurance men have put it up to us and Mr. Keeble asked me the question; that is the question put here, how are you going to solve the co-insurance clause? Will you assist me how to solve it?

A. In the first place the insurance clause provides for a lot of cotton here. I make up the insurance. I don't know where the cotton is. If I had got ten bales of cotton and I insure on six or over, I take chances on the other after the six burns. I don't insure the full amount.

Q. What chances have you taken?

A. Why don't I take a chance on it? If the whole bunch burns and I have only six insured and I have only got ten bales then I get the insurance on the six bales and I lose the four bales.

Q. But which ones are going to burn, the company insures the whole ten?

A. You might come to my store and I'll say I have twenty thousand dollars worth of calico; I'll simply insure on this calico; or I might take insurance on my third story, where I carry nothing but shirts, and specifically so state that I only wanted insurance on that.

Q. As a matter of fact, under the proposition that I have just made the insurance company has a risk on the cotton, twenty bales long; that measures the risk of the company. It has got a risk of twenty bales long. It is true that you only have to pay for but five, but as a matter of fact they are carrying a policy on a risk of twenty bales, their risk is twenty bales long, on the whole twenty bales, and yet you are only paying for a risk five bales long.

A. But it may be stacked all together or it may be stacked in different parts of the yard.

Q. That is immaterial; the policy covers twenty bales and you are only paying on five.

A. Yes, sir.

Q. Unless you have the co-insurance clause?

A. But, as stated before, a man don't take less insurance—

Q. But, now you can appreciate from the illustration there the difficulties which confront this Legislature on the co-insurance proposition. There is a situation which you can not explain and nobody has been able to explain it to me.

A. I think I did explain the proposition, if a man takes a part insurance, but not taking full value or more insurance he runs the risk. Besides he then pays in addition to that by paying additional premiums. You give the companies a double proposition on us.

Mr. Moller, to the witness:

Q. If the underwriters on that cotton insist upon having it stipulated the situation of their five bales in the yard, the owner of the cotton would insure fifteen bales more and pay more premium?

A. Gentlemen, all I want, and I know I express the sentiment of at least 90 or 95 per cent of the merchants and other people, at least of the merchants of this country, all we want is a fair deal, and give us what we pay for, and we want the insurance companies to have a reasonable rate, and we want it to be just, both to the company and to the assured.

Q. But when you and so many other gentlemen tell us that we should simply repeal the old law and then go home, I want to illustrate to you the great difficulties that are confronting this Committee; in other words, the problem is not a simple one.

A. I don't see that the insurance companies ought to ask the Legislature to legalize them by putting a fixed and a stipulated rate.

Mr. Scruggs—And I want to say that the insurance companies are not asking them to do it.

The Witness—But my friend Stacy is.

Mr. Scruggs—He is not the insurance companies. He is a local agent, and when we try to control the local agents on rates it is sorter like you people trying to control the members of your Legislature—they differ with you sometimes. (Laughter.)

Mr. Jalonick, to the witness:

Q. You are satisfied with the rate, I understand. Are you?

A. Mr. Jalonick, as I said while ago, it cost me from \$500 to—

Q. I understand that; what rate are you paying now?

A. Our rate was raised from 80 cents to \$2.21 and reduced to \$1.56 by these changes, and now the rate is 98, I mean

to 98 by these changes, and I think it will still be six or eight points off when we are notified by the city.

Q. You are paying a slightly higher rate than you did before the law went into effect?

A. Yes, sir, by making these corrections.

Q. But haven't you improved your property and made it safer at the suggestion of the company?

A. Yes, sir, and I am always willing to do these things; I have put it up to the special agents and asked them if there is any improvement of physical condition necessary.

Q. Every improvement that you made to protect yourself and improve your property, then the companies reduced you in proportion and thereby put up a reward for improvements of the physical condition?

Q. Your only objection to this law is merely to the co-insurance clause?

A. Yes, sir, and the fact that they require the premiums paid before the 15th of the month.

Q. If this law is repealed and the companies turned loose with the improvements that you have made in your property, don't you think that you could take—how much value have you got there?

A. About \$350,000 worth.

Q. Don't you think and wouldn't you go to some one agent here and tell him that if he will write all of your insurance and give you a very low cheap rate that you would give him all of your business?

A. I don't believe there is an agent in town that would take it; might take part of it.

Q. Don't you think there are some agents that would take a block of as much as \$100,000 worth of it?

A. Possibly so.

Q. You could by giving them as much as \$100,000 at one time get a concession?

A. Possibly so.

Q. That is a plan you enjoyed by turning them loose that you don't enjoy now?

A. Yes, sir, that's a fact.

Q. Now, you object to the co-insurance clause because it requires you to carry more insurance?

A. Yes, sir.

Q. If you have a stock of \$250,000 worth of goods scattered over two buildings—I believe in your case they are cut off entirely—

A. There is an opening there.

Q. You have got two buildings, one of them three stories high and the other one two stories high?

A. Yes, sir.

Q. The probabilities are that if a fire should occur in the two-story building on the first floor, the fire would be confined to that floor; you have a good department here, a fire department, and the probabilities are that they would hold it on the first floor?

A. I hope they could.

Q. And the probabilities are that they would?

A. I hope so.

Q. You want to get your insurance so that you would carry—say you have forty thousand insurance in that room, or in all five of these compartments—

A. But it is not specified that way.

Q. But you want a policy of say, fifty thousand, assuming there are five parts of the two stores, you would like to get a policy for fifty thousand dollars that would cover a loss on the first floor of the two-story building, if a fire should occur there, and then if a fire occurred on the third floor that the fifty thousand dollar policy would leave this one-story building and float on up to the other?

A. I want it to cover the whole store.

Q. You want the companies to insure two hundred and fifty thousand dollars worth of stuff for the premium on fifty thousand dollars worth?

A. I am paying you for it; don't I pay you an additional premium of 33 1-3 per cent, and ought not you to be made to pay it by law? Of course, you ought to, and that is what I am here contending for, not only for my business, for any man. I am not here asking for an unjust, unreasonable or unfair rate that the insurance companies could not make a profit out of; there is not an agent in this town that can say that we ever asked them for that; we won't take it that way; we don't want the companies to lose any on our business; if the rate is too low, give us a just and reasonable and equitable rate, and we will pay it. We have been here for twenty-eight years, and we have never had a loss; but whenever we have had a thousand dollar loss and we have paid our premiums, we want them to pay for it; that is all we ask.

Q. But for this 80 per cent co-insurance clause that you complain of, if that was knocked out, you could take fifty thousand dollars insurance and insure

two hundred and fifty thousand dollars worth of value with it?

A. Yes, sir. Now, why didn't you do this before. Why come here at this late day and say that you want an 80 per cent co-insurance clause and that you want to make us pay on the 15th of the month? Your agent might be out of the city when we want to pay him, and then because we happened to have a fire and had not paid the premium you wouldn't pay the policy, just because the agent happened to be out.

Q. So far as the premium payment is concerned, I think Mr. Hamby will tell you that the companies did not put that in their schedule making that provision, but that they were required to do that by the board, I think, or an opinion of the Attorney General. I think if you have any complaint to make about that you ought to make it to the Attorney General.

Mr. Scruggs, to the witness:

Q. Mr. Moller asked you if the effect of regulation was to reduce fire losses; you wouldn't think that would justify the regulation?

A. Why should you be regulated when you know that two million—haven't you got a man to ascertain these facts?

Q. But he asked you that question. I want to ask you this question: Did the regulation bring this schedule into effect or did the schedule itself operate to reduce these losses and create this improvement; was it not the schedule rating that did it, rather than the regulation?

A. Yes, sir, I suppose so.

Q. If you would take the companies out from under the anti-trust law and turn them loose, wouldn't they fix that all right?

A. I think so. Everybody would be satisfied, I think, with the old law.

Q. The companies will penalize the risks just the same if they allow them to apply the schedule rating without any regulation; isn't that a fact?

A. Possibly so.

General Stacy—I want to make a statement. Mr. Eilers and some of these large insurers have appeared before you and have seen fit to take it for granted that I am here in opposition to them. In the first place, I was called as a witness and did not volunteer my services. In the second place, I would like to have it distinctly understood that I am strictly for my home people. I want to see that every merchant and everybody else in this town

gets the best rate possible, commensurate with his risk. I am not here to give any testimony or to make any statements that would tend to raise their rates, further than the absolute truth that may be drawn out by these questions asked. I want to make this statement, that I am not here in opposition to anybody; I am not here in opposition to these people complaining of their rates. I think some of them admit that they are now getting a very slightly increased rate over what they got before and have not been harmed much by it. I would like to make it plain that I am not here fighting Mr. Eilers and the other home people.

Mr. Eilers—There are very few getting the benefit of this lower rate.

General Stacy—I am not entering into the rate question. I want to offer a suggestion, however, about the 80 per cent co-insurance clause; it seems to me that that has caused a great deal of dissatisfaction. I think it ought to be put in as a credit instead of as a debit. That all of these rates ought to have been based on the policy without any co-insurance clause, and the schedules provided if a man accepts 80 per cent co-insurance clause that he shall have a reduced rate. If the merchants take it they will get a lower rate. I think that is the remedy for the situation, and I think everybody would be satisfied. If Mr. Eilers wants to carry 80 per cent on his stock, then he ought to have a little reduction of rate for that reason. If he is not willing to do so, the rate ought to be based without any classes.

Mr. Reedy—I would like to ask General Stacy a question.

Q. Wasn't this 80 per cent clause put in there as a mystifying element in the contract?

A. I don't think so, sir. I think it was put in there with the intention of putting the rates on an equality, based on a certain amount of insurance being carried; but I think it was not diplomatically used; that is all.

Q. Isn't that the effect of it; isn't it put in there in such a way that really nobody except those who put it in there understands its effect?

A. I am sure that a large majority of the insurers don't understand its effect. I think it is by far preferable to put it in as a credit instead of as a charge.

George Mendell, Jr., appeared before the committee and requested to make the following statement, but was not sworn:

Mr. Mendell—I am attorney for the Retail Merchants' Association of Texas, and in their State convention they passed a resolution overwhelmingly—there was four votes against it—of commending the Governor for his action in calling the Legislature together and to repeal the present law; that is, the law under which we are now operating; I just wanted to get that statement in; that the Retail Merchants' Association of Texas are in favor of repealing the present insurance law.

Mr. Cureton—I did not hear the statement of Mr. Mendell.

Mr. Mendell—I just wanted to make the statement showing what the action of the Retail Merchants' Association was in reference to the insurance law.

Q. (By Mr. Jalonick)—I would like to ask you if the retail merchants are composed of the retail merchants of the large cities; that is, the association largely?

A. All over the State.

Q. Aren't they—most of the organizations—the strongest, is in the largest cities?

A. Well, I would say yes.

The Chairman—You have not been sworn; are you testifying?

Witness—No, sir. I am making a statement, but if it is necessary to be sworn I would not hesitate to be sworn. I think that in the larger cities, that of course, there are more perhaps than there would be in smaller places?

Q. Is there a Retail Merchants' Association at Hutto?

A. No, sir.

Q. Is there a Retail Merchants' Association in any town in Travis county except Austin?

A. No, sir.

Q. Then, as a matter of fact, Mr. Mendell, the Retail Merchants' Association that you represent are the retail merchants of the larger cities of Texas?

A. Well now you take Temple, Corsicana, Waxahachie, Teague—there is one at Teague—and one at Hubbard City; they are not metropolitan cities.

Q. How many towns are there that have Retail Merchants' Associations?

A. One hundred and five.

Q. And there are about six hundred towns in the State?

A. Yes, sir. I expect there are more than that.

Q. Sixteen hundred towns in the State I am informed; and how many do you say there were?

A. One hundred and five.

Q. And that is practically the largest cities in Texas?

A. Well, I don't know whether you say that or not.

Q. But it is a fact, whether I say it or not?

A. No, sir; it is not a fact.

Q. That the association—in all the large cities there are Retail Merchants' Associations?

A. Yes, sir; in all the large cities.

Q. And that in fifteen hundred of the smaller cities, there are no Retail Merchants' Associations?

A. No, but I think there will be in the course of a year.

Q. How old is this association?

A. About four years old.

Q. And perhaps—in four years there are one hundred, and in sixty years, they will all come in?

A. Well, the committee is able to calculate that.

Q. Isn't it a matter of fact that these retail merchants are in a sort of a friendly combine to give each other the benefit of the information of whatever character, whereas, if they were to get a lower rate from an insurance agent, that they would go tell the other members of the association?

A. They might be on the same friendly basis that the insurance companies are.

T. J. Holbrook, appearing before the committee and being first duly sworn, testified as follows:

Mr. Holbrook—Mr. Chairman and gentlemen of the committee, we, of Galveston, are probably in the same condition as many other citizens of this State; some of the leading business interests there, reading of the proceedings of this committee concluded on yesterday that it would not be out of place to send some one to appear before this committee to make their respective complaints in regard to the working of the new law in their locality. And I am here to represent, specifically, Mistrot Brothers & Co., Robert I. Cohen, E. S. Levy & Co., Galveston Hardware Company and the Galveston Brewery. These are the firms from whom I obtained analysis of the rates—the new rates, and they are the ones for whom I am to enter the complaint against the workings of the law. Aside from this, I canvassed our town and visited some thirty or forty of the principal business houses and I found, without variance, that the rates have been changed materially from the old rates that we found used to be paid; most of them

from one hundred per cent upwards. Before going into the matter further, I will take up the analysis for the various firms. Take Robert I. Cohen who has a large furniture stock; he carries \$75,000 insurance on his stock. His old rate was \$1.25; his new rate, \$2.33.

Mr. Cureton—Pardon me, Mr. Holbrook; take the Cohen rate there; can you give us the analysis?

A. Yes, sir; I have it here.

Q. (By Mr. Cureton)—Well, give it here?

A. Read it off?

Q. Yes, sir.

A. Well, it has unoccupied rates here; I don't know just what you want; you want read off; \$1.68 under that heading. Classification of building, B, 25 cents; key rate, 40 cents, within 500 feet of public fire hydrant; in block, 10 cents.

Q. That means 500 feet between the fire hydrants?

A. Yes, sir. Number of occupants, 2, 15; area, 10,098 square feet, 7 cents; deficient thickness of walls, 7 cents; grade floor partitions, 2 cents; plate glass front, ornamental front, 1 cent; deficient parapets, 3 cents; cockloft or concealed space, 1 cent; metal cornice, 3 cents; one awning, 5 cents; wood floors less than two inches thick, two of them, 1 cent each, 2 cents; ceilings, not standard, two, at 1 cent each, 2 cents; four floor openings, 20 cents; skylights, not standard, five, 13 cents; heating, other than steam or hot water, 2 cents; motor, 10 cents; that makes a total of \$1.68; then the occupancy, that is 30 cents; that makes \$1.98, and then the exposure charges 15 cents; and then the exceptional charges for rubbish and untidiness, 5 cents.

Q. That rubbish and untidiness can be rubbed out?

A. It is the cleanest store in the city; there are a good many of these things I will come to later; they are false; they do not exist.

Q. If these do not exist, then in any law that we might pass—

A. I understand—that is not material I don't think.

Q. In any of these that where the insurer differs with the insurance companies' representatives as to existence of grounds charges, in any law which we might pass, there ought to be a provision made, according to the provision in the interstate commerce law, so that the insured may file his petition and affidavit with the board here and have

that adjusted between the insured and the insurance company?

A. Yes, sir.

Q. As to the existence of these grounds for these charges?

A. Yes, sir; that is correct.

Q. That ought to be done?

A. Floors treated with oil, 5 cents; heating devices, unsafe, stovepipe too close to the wood, 5 cents; volatiles, gasoline, 1 gallon, 5 cents; that is in an adjoining drug store; total 20 cents; which, added to the other charges, makes a total of \$2.33. Do you want me to go through each one of these analyses?

Q. What are the credit charges there; any credit charges?

A. No, sir; not set down here; well there is 20 cents, is the total credit.

Q. What are the items of credit?

A. I just read them. One is untidiness and the other is floors treated with oil and stovepipe too close to the wood; and another one is—rear, frame building in block, 19 cents; now that is another item that is false; 15 cents frame building in the block; there is none in the block. Now, with reference to our own insurance; Mistrot Brothers & Co., I represent them particularly. Our old rate was \$1.08; our new rate is \$3.06; that is on \$761,900.

Q. What are the items which go to make up that new rate?

A. Must I read them exactly as I did the other? Our rates are, classification of building, 25 cents; key rate, 40 cents; hydrant in block, 10 cents; number of occupants, two, 15 cents; they have us charged with another building; floor space, 25,448 square feet, 10 cents; deficient parapets, 1 cent; concealed space, 1 cent; metal cornice, 3 cents; awning, 10 cents; wood floors less than two inches, three, 3 cents; ceilings, not standard, 3 cents; floor openings, twelve, 25 cents; skylight, not standard, 5 cents.

Q. What are the openings?

A. Floor openings; spaces, that is, elevator openings to the store. Heating, other than steam or hot water, 2 cents; motor power, 10 cents; that is a total of \$1.55; and the exceptional charges are as given, broken plaster, 5 cents; ash and waste and oil waste receptacles, 5 cents; heating devices unsafe, 5 cents; accumulation of empty barrels and boxes, 25 cents.

Q. That accumulation of empty barrels and boxes, that is a charge which could be removed?

A. It has been removed since; gasoline, 25 cents; that is in a store next

to ours; they have got that 25 cents; total, 65 cents.

Q. That could be removed?

A. It has been removed. Exposure charges, there is 47 cents; total, \$3.06. Now, in addition to that \$761,900 we carry \$340,000 on branch stores, for which we have not received any specific schedules, located in small interior towns. I have been informed by managers of these concerns that there had been a substantial raise. I haven't that at hand; practically two hundred per cent raise on our stock there. The old rate is—we have \$310,750 on that red rider proposition; that is, policies written since January 1, 1910. The cost of that was \$3378.80 under the old rate; under the new rate they want \$9,477.89; that is the red rider bugaboo proposition. I don't know when they are going to get that.

Q. Mr. Smith suggests the question as to whether all that insurance has been written by one office, in Galveston, or written by the various local agents?

A. We carry all our insurance with the local firms there in Galveston.

Q. Or wherever the property may be located, it is written by the local firms in Galveston?

A. Yes, sir; we don't carry any outside of the State. I will take that back, we have one policy in some mutual Kansas City firm, I think, for \$5000. That has been taken lately, but we have not heretofore.

Q. Now, the E. S. Levy & Co.; they have \$80,000 on their stock. They are gents' furnishing goods people; their old rate was \$1.07 7-8; new rate, \$2.71. The Galveston Hardware Company, of which I am secretary and treasurer, carry \$50,000 insurance; their old rate was \$1; new rate, \$1.71. That is the lowest I have found on any building of any importance or any stock, I mean of any importance, raised from \$1 to \$1.71. Now here is a statement from Clarke & Courts, a firm of stationers and bookbinders there. We had thought we would get just a few of the representative firms to show this committee just how it was working among the interests uniformly and I went over and had a talk with Mr. Courts, president of the firm, and he said to me, I am through with this proposition; I don't care to talk about it any more. He says—to use his expression—they can go to hell so far as I am concerned. I asked him what he was doing or what he had done, and he said he was carrying his insurance with Wildon & Han-

cock of New York, and I asked him for a statement of his insurance, and he said he had carried \$200,000 insurance: they have a sprinkler, and their old rate was 70 cents and their new rate is \$3.63, with the sprinkler system.

Q. They are the stationers and book-binders?

A. Yes, sir.

Q. There is always a great amount of waste—

A. Their building is as absolutely fireproof as it is possible for any building to be.

Q. The waste is there?

A. I don't know; it is a mighty clean establishment.

Q. As a matter of fact, you know—

A. Oh yes, sir; there is some waste paper.

Q. You know that a stationery establishment is a very dangerous proposition?

A. Yes, sir.

Q. Don't you think that 70 cents is too low?

A. I will answer that question by saying that they are getting their insurance for 50 cents; and will get it at 30 cents; that is lower than 70 cents.

Q. That is like the party who will order paper from Sears, Roebuck & Co.

A. Those people are just as good for one million dollars as they are for one hundred—Wildon & Hancock.

Q. Of course, I understand they are all right, but I am just speaking of the business principle of the firm.

A. You must remember that firms don't do business on sentiment nowadays; there may have been a time when they did that, but they have quit that.

Q. The doctrine of the people where I live is preached that we should not buy goods from Sears, Roebuck & Company.

A. We don't care. They can buy from Sears-Roebuck if they want to. That is largely a business principle nowadays, too. As I stated, Mr. Courts is letting his insurance expire as it comes along, and is taking out new insurance with these New York firms. He has been dealing with them some for several years; he has got his rate at 50 cents, and will get it at 30. I saw the statement, and had the statement from Wildon and Hancock to that effect. Now, then, for the Galveston Brewery, I will read you this statement, which states their condition very clearly.

Q. With reference to Hancock &

Company, who are carrying this insurance for these people, of course, you understand that their business is in New York, and that they don't have to give the Texas representatives 35 per cent of the money—

A. We understand that.

Q. And don't have to pay any taxes?

A. I understand, but looking at it from a cold-blooded business proposition, it is money to Clarke & Courts to take insurance from them.

Q. According to the risk, that seems to throw no light to us, because they are not having any expense bill on this business here, while we have to take into consideration the expense bill of the companies that do business with us.

(The witness read a statement to the Committee, the tenor of which was as follows: That Mr. Jalonick's statement before the Senate Committee that with the 15 per cent reduction about the same rate would be collected as last year was far from true, and if the statement was made as applying to special hazard risks could have been made for no other purpose than to mislead, showing an increase in the special rates of the particular company to be \$1.53 or 163 per cent more than the rate of 1909; that it was true that a reduced rate could be obtained by making certain changes which would necessitate the expenditure of sums of money in so changing; that companies outside of Texas were more than willing to write Texas business at the same rates as they had been writing it for many years. The buildings referred to in the statement are protected by four open streets, 70 feet wide on one side and 80 on the other, with a 16 foot sidewalk on each side.)

(Mr. Cureton—If they are over 60 feet wide it has been admitted that the rate for the exposure charges is incorrect, and the insurance companies when they go back in business will correct that.)

(Witness resumed reading the statement: The company offered to write policies at the rate of 80 cents, when under the new rate a rate of \$2.42 is asked; that it was wonderfully strange that fire insurance companies that have been doing business in Texas for many years suddenly discover that they are doing business at a loss and that the rates were entirely too low; that insurance companies probably had not paid \$30,000 fire losses on breweries in Texas in the last 30 years, and that

the rates under the new law are unreasonable and almost confiscatory, with the expression that it was wished that the Legislature would repeal the law, etc.)

The witness stated, after reading the statement:

That shows their regard to it, and that about expresses the idea of that house and of these other houses that I represent, and all other interests there.

In regard to the proposition as to what would be the best course to take and the improvements as to bettering the present law, I am wholly at a loss to suggest anything at this time which would be beneficial because the further we go into this the bigger mess we get into, because it is a science that it takes years to solve, and no one but the insurance companies know about these things. We simply know we are being charged too much for insurance, just like you know that, if this Legislature should raise your taxes 200 per cent in one year, you would be paying too much for your taxes, and I know that for the 20 years that I have been in business they have been running over themselves to get our business at a uniform rate of about one and one-half per cent and that ought to be primary evidence that 3 per cent or \$3 on a hundred is entirely too much and unwarranted. We think the law ought to be repealed, and if this Committee can not arrive at any way which would give the insurer and the insurance companies justice to leave it alone until the next Legislature convenes or at some other time when they would have time to study out a law that would be just.

Q. The companies under the law that is put on the statute books, and I am not saying that it was a wise thing to put it there at all, but it was put there, under that law the companies were permitted to go and form a kind of combination or trust—

A. Trust, that's what it is.

Q. Or otherwise, in violation of the law, and they were permitted to legally form after they had done this the companies themselves issued what they call the "general basis schedules?"

A. Yes, sir.

Q. Now, after they had gone together and made that schedule they then employed Mr. Roulet as actuary to apply the general basis schedule to the specific risks of the State. Now, that has been done. Do you think that if we were to repeal the present law and turn the companies loose after they had

formed this legal combination, a legal trust, that they would voluntarily abandon the rates which had cost them so much to make and which they had been permitted to make under a legal combination?

A. They seem to advance the idea that they would knife us, but it seems to me like we have anti-trust laws in this State and other laws sufficient to compel them to be reasonable in their rates without this insurance law.

Q. They are not common carriers—

A. I know that they have no uniform rate outside of the law.

Q. You understand, of course, if we abandon the law, we lose all control of the rate; we have authority to leave the law as it is, to make a new one and to control the rate; the question is, do you think the insurance companies would get up voluntarily, destroy a combination which they have been permitted to form legally—you understand that they can not be prosecuted for forming a combination that they formed legally?

A. Then you assume that they formed this law and made it?

Q. No, I assume that they formed the combination under the law made; as to whether they made it or not, I don't know. They say they did not; some say they did; I don't know.

A. I notice you read an excerpt on insurance by some student in Yale University which expresses the situation in this State today with regard to residences and business risks, but I sometimes doubt that they do not have any ulterior motives in view when they did that, because the residence risks, the consequent lower rates that they made has no comportability to the business risks in this State. I have shown you two or three million dollars worth of insurance in a small space, on insurance risks that have been raised two or three hundred per cent. I dare say that increases which have been mentioned here besides all on these business risks in that city will more than offset the reduced rates in dollars and cents. You see when insurance companies make these rates and lower them on residences, it has benefited a greater number of people in this State, but the great wealth of this State is taken away without any cause whatever, as far as I can see and without any help; we seem to be perfectly helpless, particularly with reference to the law as it stands.

Q. Your idea is that in all probability, the general basis schedules are

too high and ought to be reduced in order to cut down its insurance?

A. Yes, sir.

Q. I understand that the general basis schedules have not been correctly applied, assuming that the schedules were correct and proper.

A. Yes, sir.

Q. That the general basis schedules were too high to begin with.

A. Entirely too high.

Q. Entirely incorrect in some respects?

A. Yes, sir.

Q. Mr. Stacy suggests that you did not think that arbitrary charges which consist of elements of your specified rate there are too high; he suggests that, analysis of the rate item by item, rather too high.

A. In all probability they are, a great many of them. Now, it is true that they suggested to us that if we do this, that and the other, we might reduce our rates, which we are doing.

Q. This firm in New York, that you have just testified about, "Wildon and—

A. Wildon and Hancock. Austin F. Hancock is an Austin man.

Q. Do you know whether or not that firm, after taking your insurance, turns it in to an old line company?

A. I am not certain that they do. I am not sure that they do. They may be brokers, you understand.

Q. Is there any way to find out this, whether that is a fact or not?

A. Yes, sir, I could. I can't answer the question now.

Q. Could you find it out for us today?

A. Yes, sir; I will try to.

Q. And find out the names of the companies that are insuring up there and do business in Texas?

A. Yes, sir. I have a letter here—

Q. Mr. Stepter desires me to ask you if the special charges made there in that analysis of the rate have ever been returned to you after the premises were cleaned up and the gasoline removed and things of that sort?

A. We have not had any money refunded to us except on one little residence property, I think \$2.40.

Q. (By Mr. Terrell.) What was the premium on that residence?

A. I don't know; that is something that is out of my jurisdiction. I have nothing to do with it.

Q. Do you know what the full value of the residence is?

A. About \$10,000. Here is a letter from Samuels, Cornwall & Stevens, fire

insurance brokers, 84 Williams street, New York: "We are in receipt of your kind favor of the 31st ult., and in accordance therewith are enclosing you letter from Messrs. Samuels, Cornwall & Stevens, fire insurance brokers, of 84 William Street, New York City, in which you will note that they offer to write our insurance at 80c in such companies as the Globe & Rutgers, Stuyvesant, Nassau, Pacific, Peter Cooper, all of New York, the American of Pennsylvania, and in fact all companies of unquestioned standing, legally admitted to do business in the State of New York, as well as the majority of States in the Union. You will note that Messrs. Samuels, Cornwall & Stevens also state that they have been making a specialty of oil mill and other classes of insurance in Texas for many years, and have paid out hundreds of thousands of dollars for these companies, without the least friction, and with the utmost promptness, and you will also note the references they give, among which are two well known concerns doing business in Houston—the Industrial Cotton Oil Company and Hubbel, Slack & Co.—and it should be an easy matter to verify their statements. The only insurance we now carry outside the State is a policy for \$10,000 in the National Brewers' Association of Chicago, Ill., whose rate is 93 56-100 cents, and they have repeatedly solicited us to allow them to write a \$50,000 policy on our plant. The same is true of the Brewers' Exchange of Kansas City, and we have no hesitancy in saying that each of these companies will write \$50,000 on our plant, which is their maximum on any one plant. We are enclosing you also letter from M. F. Yelton of Fort Worth, Texas, dated April 25, 1910, which is self-explanatory, and which may be of some use to you. If there is any further information that we are able to give you, kindly command us. Please return the two enclosed letters after they have served your purpose."

Q. (By Mr. Scruggs.) You state some of the gentlemen were getting their business at very much less than they were getting it from State companies?

A. They are getting it.

Q. What is their grievance?

A. None at all. I am just showing you men where they are going; they are leaving the State, and we will have to do the same thing. They are willing to give the home man the preference. Galveston has probably insured

every nickel of theirs I know, heretofore, with the home companies.

Q. If they get as much lower rate as you said, they can then give the home men the preference of the business and still save money?

A. They have not accepted this \$50,000 insurance; they want this law repealed and get back to open business where they can.

Q. They want to make the companies in the State make the same rate as those who don't pay any taxes, is that right?

A. Well, these firms are specific instances; there are hundreds of firms that are not here to make their complaints, and thousands of them in this State in the same condition. I was here at this meeting in June, and I was asked the question if we didn't enjoy the privileges of some rebates from some companies, and I want to say we never have; we have taken the large end just like the little five hundred dollar merchants and thousand dollar merchants. I know these facts because I made the investigation to find out what the rates were there. In some instances we are paying more than the small merchant; the average rate in that town has been \$1.

Q. (By Mr. Jalonick.) Now, you say this red rider increased your premiums very materially—six thousand dollars, wasn't it?

A. Something like that.

Q. Did you state you were going to pay it or were not going to pay it?

A. I said we would pay it, if we were made to.

Q. Are you not going to contest that?

A. Yes, sir, contest it in the courts.

Q. Our companies may not collect that six thousand dollars, but collect whatever rate you made on your property when you, if inclined to do it, made improvements.

A. Probably I can't tell what the courts will do about it.

Q. I will ask you about the Mistrot property; it faces on Twenty-third street, half a block, does it not?

A. Yes, sir.

Q. And on Mechanic street, very near another half block?

A. Yes, sir; about three-quarters of a block on Mechanic.

Q. Now, what was your rate formerly?

A. \$1.08; that is, on the building you describe in here.

Mr. Jalonick:

Q. What was the rate on the one and what was the rate on the other?

A. About the same.

Q. About \$1.08 on one and about the same on the other?

A. Yes, sir.

Q. How long have you been paying that rate of \$1.08?

A. For several years.

Q. At one time didn't you pay \$1.40 and put in a sprinkler equipment?

A. I haven't been there with the company but two or three years.

Q. This printing press—there is a printing press back there on Mechanic street front?

A. That is the one I have reference to.

Q. When was that put in there?

A. That was in there when I went to Galveston, two years ago.

Q. Is it not a fact or do you know that since the rate of \$1.08 is made that the printing press was put in there?

A. That thing was in there when that rate was in existence.

Q. Wasn't the rate in existence before the printing press was put in there?

A. I am not certain about that.

Q. For your information I will say that it was. I am pretty sure that it was. Am I not right? (Some one answered, yes, sir.) That risk was increased; the hazard of that property was increased by reason of that printing press being put in there since the rate of \$1.08 was made. As a reasonable proposition, do you think or do you not think that the companies are entitled to a higher rate than \$1.08; do you think or do you not think that the companies were entitled to a higher rate after that printing press was installed?

A. I don't think they ought to collect a higher rate.

Q. You do not think that would increase the hazard?

A. It probably did, I am not conversant with that.

Q. Mr. Holbrook, when the inspectors were in Galveston, either recently or since this rate of 3 per cent was made, did not they tell you that if you would brick up the four windows—we did do that; they did tell us and we did that?

Q. And if you would put a door—a fire door separating the several doors; separating Mechanic street front and the front end of Twenty-third street, that you could get a rate of \$1.40 on

Twenty-third street and \$1.55 on Mechanic street?

A. Approximately, I think so. That is not all they wanted us to do. They wanted us to fix up the stairways and the openings and said that all of those conveniences combined would bring it down about that way.

Q. These improvements would make that?

A. Yes, sir.

Q. These improvements, you agreed, would improve your risks?

A. We made these improvements.

Q. Your risk is safer than it was before?

A. I suppose our rates are the same; I have not heard anybody say anything about them.

Q. If they would give you a rate of \$1.40 and \$1.55 with a reduction of 25 per cent—we will first put it on an average; we will say with the average of \$1.47; now with the board's reduction of 25 per cent you would enjoy a rate of \$1.13?

A. With these improvements we made it ought to be lower than \$1.08.

Q. You admit that by reason of the printing press being in there that the hazard had been increased?

A. No, sir; I said probably.

Q. That it was more hazardous; your information is that on account of this printing outfit being in there that it was more hazardous?

A. You might raise it one or two cents.

Q. I asked you if it increased the hazard?

A. It might nominally.

Q. The hazard was increased some.

A. Not worth while to mention it.

Q. The companies consider that printing press increase the rate of your property about 50 per cent?

A. Why didn't they put it down there and charge us with it?

Q. Because before January 1, 1910, there was no device whereby they could make any rates at all. They didn't know for instance, some of them didn't know that there was a printing press in the rear end of your building. They did not know that there was a printing press in the rear end of your building and communicating with it. I operate two or three companies and for your information I will say that I did not know it and had I known it I would not have written you at a dollar rate. That's how I regard the printing press hazard as against your judgment.

A. But all this talk about reduction does not reduce our rates. We are paying just the same. You might sit up here and talk for weeks and it would not change matters.

Q. But your rate is \$1.13 and you told the board that your rate was only \$1.08, and it is now three per cent; and I want to show by your own evidence—

A. You are not showing anything by my evidence, you are simply showing by this schedule and by what you state yourself. I don't know whether it would be that or not. We haven't had any suggestion along that line. I haven't had anything to show that yet. We made the improvements and they haven't said anything about it to us. It has not been done, that is a fact.

Q. The fact remains, however, that instead of your rate being three per cent, as against \$1.08 your rate will approximately be \$1.13?

A. I do not know.

Q. For your information, I will say that it will. I want to develop the fact that instead of a comparison of \$1.08 and three per cent, that comparison is \$1.08 and approximately \$1.13. You read the letter from Cornwall & Stephens and saw that what their recommendation was in reference to the oil company of Houston. Do you know that Mr. Cornwall was the president of the Industrial Oil Company?

A. No, sir. I might say for your information that the president of our company is also a president of an insurance company. All big business men are connected with different things. That has no bearing on this question, though. For your information, I will say that we are stockholders in insurance companies.

Q. At the same time, if I had known of the printing press being connected with your building there I would not have written it at \$1.08, because I don't think the rate covers the hazard?

A. I see.

Mr. Cureton—I have here some communication in the shape of telegrams and letters that I wish to read for the information of the committee:

(Telegram.)

Comanche, Texas, August 3, 1910.

Hon. J. S. Baker, House of Representatives, Austin, Texas:

We urge the immediate repeal of the present fire insurance law and that the Legislature take no further action in reference to fire insurance rate. Prac-

tically every mercantile risk in Comanche has been largely increased.

Signed—J. R. Evans & Company, Higginbotham Bros. & Co., Bonner Land & Abstract Co., Neely, Harris, Cunningham & Co., Martin Company, The Burks-Simmons Comanche Mercantile Company.

(Letter.)

Houston, Texas, August 2, 1910.

Gentlemen:

Permit us to protest against the present State fire and insurance laws, and request full and immediate repeal of same, letting the companies take business at their old rates. They have advanced our rates from \$1.25 to \$3.58, and one risk of the writers from 5 per cent to 12 per cent. The raise in rate hurts small merchants fearfully. Give us release.

Yours truly,
E. T. BAIDEN,
Manager.

To the House Committee on Fire Insurance Laws.

(Letter.)

San Marcos, Texas, August 2, 1910.

Mr. Daniel Watson, Austin, Texas.

Dear Sir: In reply to yours of 1st inst., I will state that I have tried to secure the information asked for, and I hope that it will be of some service to you. You will notice that I have taken buildings on each side of the public square, as you asked me for business risks.

Johnson Building—Old rate, \$1.00. Contents, \$1.00

Johnson Building—New rate, \$5.04. Contents, \$4.17.

J. R. Porter Building—Old rate, \$1.00. Contents, \$1.00.

J. R. Porter Building—New rate, \$3.90. Contents, \$3.16.

Keeton's Building—Old rate, \$1.25. Contents, \$1.25.

Keeton's Building—New rate, \$5.50. Contents, \$4.49.

Green's Corner—Old rate, \$1.00. Contents, \$1.25.

Green's Corner—New rate, \$5.13. Contents, \$4.23.

Shultz Building—Old rate, \$1.00. Contents, \$1.25.

Shultz Building—New rate, \$4.11. Contents, \$5.28.

Bass Building—Old rate, \$1.25. Contents, \$1.25.

Bass Building—New rate, \$7.48. Contents, \$6.69.

Glover Building—Old rate, \$1.25. Contents, \$1.25.

Glover Building—New rate, \$5.31. Contents, \$4.55.

State Bank—Old rate, 90 cents. Contents, \$1.00.

State Bank—New rate, \$2.60. Contents, \$2.08.

The increase on residence property is from 20 per cent to 50 per cent. From the best information I can get the insurance companies have been collecting in premiums under the old rates from thirty to thirty-five thousand dollars annually in our city and the fire loss has been less than one-half of that amount. Fire loss last year was about \$15,000, which includes the cold storage loss, which is the largest fire we ever had except the courthouse.

The Southern Underwriters, San Antonio, offer to write high class business risks for 30 per cent less than the new rates and except to refund from 20 to 30 per cent of the premium paid and they claim that they have never refunded less than 20 per cent of the premiums paid on old rates and they wrote business at the old rates or at the same rates that the old line companies did before the new rates went into effect. If there is any other information I can give you, please advise me.

Yours truly,
J. R. PORTER.

C. B. Roulette, being duly sworn as a witness and examined by Mr. Cureton, testified as follows:

Question. Where do you reside?

Answer. At Dallas, Texas.

Q. What is your business or occupation?

A. Fire Insurance Actuary.

Q. How long have you been engaged in the insurance business?

A. Ten years; about ten.

Q. What particular line of business have you been conducting in Texas for the last several months?

A. Actuary.

Q. For whom?

A. For various fire insurance companies, with whom I have a contract for service.

Q. How many companies have you been serving?

A. About 108 companies.

Mr. Lee, to the witness:

Q. Is that the list of companies there that you represent? I think it would be well, possibly, to put that into the record. And may I ask another question in this connection? Are you

the duly authorized agent in Texas of these various companies?

A. No, sir; not at all. I have an individual contract.

Q. You have an individual contract with each of these companies?

A. For certain services.

Q. In other words, you represent these companies in Texas in the particular business you are engaged in?

A. I am not authorized to represent them all. My contract simply includes the application of the general basis schedule to the individual fire risk.

Q. What you mean is, these particular companies that are named here, you are authorized to represent them in Texas in certain capacities, you have a contract with each individual company?

A. Yes, sir.

Q. To represent them in Texas on this particular kind of business?

A. No representation in the contract at all, Mr. Lee.

Q. You would have to have if you are authorized to do anything for them—well, that's all right.

Mr. Cureton—I will develop the nature of his contract with them as the examination proceeds.

The Committee ordered copied in the record the following named insurance companies which the witness said he had a contract with as Actuary:

Aachen & Munich Fire Insurance Company.

Aetna Fire Insurance Company.

Agricultural Insurance Company.

Alliance Insurance Company.

American Central Insurance Company.

American Insurance Company.

American Underwriters' Agency.

Atlas Assurance Company, Limited.

Austin Fire Insurance Company.

Boston Insurance Company.

British America Assurance Company.

Caledonian Insurance Company.

Camden Fire Insurance Association.

Citizens' Insurance Company.

City of New York Insurance Company.

Concordia Fire Insurance Company.

Continental Insurance Company.

Connecticut Fire Insurance Company.

Commercial Union Assurance Company, Limited.

Commercial Union Fire Insurance Company.

Commonwealth Fire Insurance Company of Texas.

Commonwealth Insurance Company (New York).

Delaware Insurance Company.

Detroit Fire and Marine Insurance Company.

Dutchess Fire Insurance Company.

Equitable Fire and Marine Insurance Company.

Farmers and Merchants Insurance Company.

Freeholders Insurance Company.

Fidelity Fire Insurance Company.

Fire Association of Philadelphia.

Fireman's Fund Insurance Company.

Firemen's Insurance Company.

Georgia Home Insurance Company.

German Alliance Insurance Company.

German American Insurance Company (New York).

German American Insurance Company (Pittsburg).

Germania Fire Insurance Company.

Girard Fire and Marine Insurance Company.

Glens Falls Insurance Company.

Globe and Rutgers Fire Insurance Company.

Hamberg-Bremen Fire Insurance Company.

Hanover Fire Insurance Company.

Hartford Fire Insurance Company.

Home Insurance Company.

Insurance Company of North America.

International Fire Insurance Company.

Insurance Company of the State of Pennsylvania.

Liverpool and London and Globe Insurance Company (New York).

Liverpool and London and Globe Insurance Company (England).

London Assurance Corporation.

London and Lancashire Fire Insurance Company.

Mechanics and Traders Insurance Company.

Mercantile Fire and Marine Insurance Company.

Merchants and Planters Insurance Company.

Michigan Commercial Insurance Company.

Michigan Fire and Marine Insurance Company.

Milwaukee Mechanics Insurance Company.

Monongahela Fire Insurance Company.

National Fire Insurance Company.

National Lumber Insurance Company.

National Union Fire Insurance Company.

New Brunswick Fire Insurance Company.

New Hampshire Fire Insurance Company.

New York Underwriters' Agency.
 Niagara Fire Insurance Company.
 North British and Mercantile Insurance Company of New York.
 North British and Mercantile Insurance Company of England.
 North River Insurance Company.
 Northwestern National Insurance Company.
 Northern Assurance Company, Limited, of London.
 Norwich Union Fire Insurance Society.
 Old Colony Insurance Company.
 Orient Insurance Company.
 Palestine Insurance Company, Limited.
 Pennsylvania Fire Insurance Company.
 Phenix Insurance Company of Brooklyn.
 Phoenix Insurance Company.
 Phoenix Assurance Company, Limited.
 Provident-Washington Insurance Company.
 Prussian National Insurance Company.
 People's National Fire Insurance Company.
 Queen Insurance Company.
 Reliance Insurance Company.
 Rochester German Insurance Company.
 Royal Exchange Assurance.
 Royal Insurance Company, Limited.
 St. Louis Fire Insurance Company.
 Scottish Union and National Insurance Company.
 Seaboard Fire and Marine Insurance Company.
 Security Fire Insurance Company.
 Security Insurance Company.
 Shawnee Fire Insurance Company.
 Southern National Insurance Company.
 Springfield Fire and Marine Insurance Company.
 Spring Garden Insurance Company.
 State Fire Insurance Company, Limited.
 St. Paul Fire and Marine Insurance Company.
 Sun Insurance Office.
 The Sun Insurance Company.
 Texas National Fire Insurance Company.
 Teutonia Insurance Company.
 Union Insurance Company of Philadelphia.
 Virginia Fire and Marine Insurance Company.
 Washington Fire Insurance Company.
 Westchester Fire Insurance Company.
 Western Assurance Company.

Western Insurance Company.
 Williamsburg City Fire Insurance Company.

The Witness—There are two of the above named companies whom I do not represent now—the Fidelity Fire Insurance Company and the Phenix Insurance Company of Brooklyn. They are both merged now and called the Fidelity Phoenix. I did represent them at the time the Houston book was printed.

Mr. Cureton to the witness—Q. What sort of a contract have you with these companies; was it a joint contract or a several contract?

A. A several contract.

Q. What did you contract to do?

A. To apply such general basis schedule as they file with me to the individual fire risks in the State, and to promulgate their application in the shape of specific schedules. The contract did not include the inspection of rating of dwellings where not exposed or mercantile or special hazards.

Q. Under your contract you have not inspected or rated any dwellings in the State unless they were exposed to special hazards?

A. Yes, sir; or mercantile exposures.

Q. Your work has principally been confined to the rating of mercantile establishments?

A. Special hazards; yes, sir.

Q. The particular thing you do or had done was to take the general basis schedules and apply it to the specific risks?

A. Yes, sir.

Q. Did you have any rules for applying it to the specific risks, the general basis schedule or any rules furnished you?

A. No, sir.

Q. Who furnished or made the general basis schedules?

A. I can't say.

Q. Who furnished them to you?

A. The individual fire insurance companies.

Q. Were the general basis schedules furnished you by the individual fire insurance companies all the same or were they different?

A. They were uniform as a whole, in general.

Q. In what respects were they uniform?

A. I can't say that, without having the schedule before me. There were some differences, I believe, in the automobile insurance schedule and also in the tornado and hail damage.

Q. I have here a book marked Gen-

eral Basis Schedule for Texas, which appears to have been issued on January 1st this year by Trezevant & Cochran, and has endorsed on the back of it some eight or ten companies; was that the general basis schedule furnished you by Trezevant & Cochran for their companies?

A. Yes, sir.

Q. The other companies furnished you with a book of schedules, also?

A. Yes, sir.

Q. You would then take and apply this book of schedules for each company to the specific hazards of each town in the State of Texas?

A. Yes, sir.

Q. Is that correct?

A. Yes, sir.

Q. Does that make a uniform price for the insurance?

A. In general, yes.

Q. Could you give us an idea, Mr. Roulette, as to what the cost of applying these general basis schedules to the risks of the State has been or will be upon its completion, if it should be completed?

A. It has cost in the neighborhood, in round numbers, \$225,000 to date. It will probably cost \$400,000 to complete the rating of the State under the same system being used today.

Q. What men do you employ and what do they do in making this application? How is it done, in other words?

A. I have three different classes of employes so far as the rating is concerned, outside of the regular office routine. Hydraulic engineers for making key rates; inspectors for inspecting the mercantile and special hazards and the rating department. The hydraulic engineers visit the protected towns where there are fire departments and waterworks and fill out an inspection blank, and from that the chief engineer makes up the key rate.

Q. What rules does he follow in making the key rate?

A. The rules shown on pages 11 and 12 and 13, 14 and 15 of the general basis schedule.

Q. He follows the rule as laid down by the respective companies in their general basis schedules?

A. Yes, sir.

Q. Now he makes that for each town?

A. Each protected town; that is, the hydraulic engineering department.

Q. What do your inspectors do?

A. I have perfected a system of in-

spection blanks—about forty inspection blanks, covering the various classes of risks.

The inspectors visit each town and map the town; diagram the town, in other words; showing all the features in the general basis schedule; at the same time they fill out report blanks, inspection blanks, showing the conditions as to the buildings and construction, occupancy, exposures and exceptional fire hazards. They are forwarded to the home office and the rates are then made from those blanks. They are then tabulated in the form of specific schedules. No inspector in the field has any idea what the rate and risk will be until it is figured out in the rating department, in the office. Each inspector is supposed to report the conditions absolutely as he finds them at the time of the inspection, without fear or favor.

Q. Well, now you make the key rates, I believe, the key rates are made in your office?

A. Yes, sir.

Q. Mr. Maddox requests the question to be asked as to where you get the rules for making these inspection charges shown in the key rates and in the specific schedule?

A. The charges are already made for them and given to me in the general basis schedule. I am not the author of the general basis schedule, you understand.

Q. All that you do, then, is to take the rules laid down in the general basis schedule and apply them to the particular town in developing the key rate?

A. Yes, sir.

Q. And after you have developed the key rate according to those rules you just apply that to the further rules laid down in the specific schedule and develop the further rate on each specific risk?

A. Correct.

Q. And that rate as developed by you is then promulgated in the form of a book and circulated around—

A. Specific schedules.

Q. These specific schedule books are sent by the various companies to their agents and given them to govern them in writing the risks?

A. Yes, sir.

Mr. Cureton—Mr. Hamby, have you an analysis of any rates on risks?

Mr. Hamby—Yes, sir.

Mr. Cureton—Hand Mr. Roulette an analysis.

(Witness is handed documents.)

Q. Now, you have already made the

class of the specific rate for property of the town. What town?

A. Taylor.

Q. What is the key rate for the town of Taylor?

A. Seventy-one cents.

Q. Have you the book of specific rates for the town of Taylor, Mr. Hamby?

Mr. Hamby—Upstairs.

(Mr. Hamby was directed to produce the book.)

Q. I will get you to explain the key rate of the town of Taylor as soon as Mr. Hamby gets it. In the meantime we will go ahead with the explanation as to how you arrive at rates on that particular risk; what is the risk there?

A. Dry goods and millinery—Store owned by T. B. Marsh & Company, located on Third Street, sheet 6, block 16 of a map.

Q. That is dry goods and millinery?

A. Yes, sir.

Q. What is the rate on that particular risk?

A. The rate on that building is \$2.36.

Q. The rate on the building, \$2.36. Now take your analysis of the rate and tell the committee how you arrived at the rate of \$2.36 on the building?

A. Classification of a brick building, basis 25 cents.

Q. Well, now, where did you get that?

A. On page 21.

Q. As furnished you by the insurance companies?

A. Yes, sir.

Q. That is the basis rate of a detached building?

A. Yes.

Q. That is when not within ten feet of a building of similar class?

A. Yes, sir.

Q. Do you know why the insurance companies placed this basis rate of 25 cents on that class of building?

A. I do not.

Q. Do you know how they arrived at that?

A. I do not.

Q. Now, what is the next charge that is supposed to make up this rate?

A. The full key rate. That reference is made under the second basis rate, add the key rate of the city or town is the rule for applying it; it is found on the same page, 21, on the fifth line.

Q. Add the key rate of the city or town?

A. Yes, sir.

Q. All right. Next?

A. Charge of 10 cents for being in block.

Q. Does it make any difference in what part of the block it is in?

A. No, sir.

Q. Just being in block?

A. Just being in block with other buildings.

Q. Do you know whether it is a are arrived at?

A. I do not.

Q. Do you know what it is for?

A. I do not.

Q. Do you know whether it is a purely arbitrary charge or whether or not the companies use a system in arriving at it?

A. I do not.

Q. All right; the next?

A. Number of occupants; one additional occupant, 15 cents.

Q. Now, for one additional occupant—you allow one to begin with, I believe was in testimony shown yesterday—is that correct?

A. Correct.

Q. And then you simply make a charge of 15 cents for each additional one after the one you start in with?

A. Yes, sir.

Q. Do you know anything about how that 15 cents is arrived at?

A. I do not.

Q. All right.

A. The next is excess area charge; the area being 17,375 feet a charge of 15 cents is made.

Q. What is the maximum charge for floor space and an excess space?

A. In a retail occupancy, what is what? Pardon me.

Q. What do you mean by excess floor space?

A. In the general basis schedule the area, for each 1000 square feet of ground floor, the area of excess there is 1000 feet, and additional charge of 2 cents is made. There is 17,000 square feet.

Q. An additional charge there is, you say?

A. Fifteen cents.

Q. Do you know anything about how that is arrived at?

A. I do not.

Q. Whether purely arbitrary or otherwise?

A. I do not.

Q. What is the next item?

A. Plate glass front, 1 cent.

Q. Now, does it not show the amount of the plate glass?

A. Does not.

Q. You don't know whether it is a whole front of the building or two windows or what?

A. It would make no difference, I believe, on the schedule. It says for plate—

Q. So far as the schedule is concerned, then, it is immaterial in the charges as to whether it is one window or half a dozen windows or what shape the plate glass front is in?

A. That is my understanding.

Q. The charge is just the same?

A. The same.

Q. As an insurance man, Mr. Roulette, does there exist any reason for making an additional charge of that character on account of plate glass front?

A. I couldn't say, sir.

Q. Does a plate glass front make an extra hazard?

A. I prefer questions of that nature. Mr. Cureton, be referred to my chief rater at the proper time.

Q. What is the next item?

A. Deficient parapet, 1 cent.

Q. What is meant by deficient parapet?

A. I couldn't tell without having the inspection blank before me.

Q. Or at least six inches less than standard height, each wall, 1 cent, what is the deficiency charge there?

A. One cent.

Q. What does that mean?

A. I couldn't tell you what that means because there are two charges under this head for each parapet each wall 1 cent, deficiency in thickness on each side, 1 cent.

Q. It is liable to be either one?

A. Yes, sir; I could tell if I had the sheet before me.

Q. That is fixed in the book of schedules?

A. Yes, sir.

Q. What is the next charge?

A. Cock roof or concealed space, 1 cent, that is a roof charge.

Q. What is the next charge?

A. Metal cornice, 3 cents.

Q. It is simply following a moving schedule?

A. Absolutely.

Q. The next charge?

A. Frame awning, 5 cents.

Q. If you will look under "awnings" there, you will find that this awning charge of 5 cents is not applicable for detached buildings?

A. Probably detached buildings; yes, sir.

Q. Then the charge of 5 cents for awnings ought not to be in the official schedule, ought it?

A. I believe it should. The basis here is simply you start out writing for

a basis for detached buildings and add to it the deficiencies. If it is not a detached building you would not have the 10 cent charge for being in block, for the hazard of being in block.

Q. What is the next charge?

A. Floors. Wood floors less than two inches thick, 1 cent each floor.

Q. Now, that simply means floors inside a brick building?

A. No doubt.

Q. The next charge?

A. Ceilings not standard at 1 cent, 1 cent.

Q. Now, what is the standard floor?

A. The standard floor or ceiling, Mr. Cureton.

Q. The standard floor?

A. The standard floor is one not less than two inches in thickness.

Q. Do you know who set that standard?

A. I do not.

Q. All right, the next charge?

A. Floor openings, one, 5 cents.

Q. Now, that charge here, stairways, well holes, etc., I notice under that it says maximum charge 25 cents; what does that mean?

A. If there were ten openings, each without that maximum stop would be 50 cents, but with the maximum charge it stops with 25 cents.

Q. Don't you think that when these basis schedules were promulgated it would have been blind on the part of the insurance companies to have fixed any maximum charge in this case?

A. I don't know anything about the fire insurance business, but know when the rates would be in the companies' mentioned excessive.

Q. You know that any rate becomes excessive when it reaches a point so that the public can't or will not pay the rate. You can put a price on the best building in the world so you can't sell it, and destroy your business?

A. Yes, sir.

Q. And that was probably in the mind of the adjusters who made the book of schedules when they put in a maximum charge of 25 cents on floor openings. They didn't think you could stand for more than a quarter on four holes in the floor; that is the inference?

A. It is natural, at least.

Q. Well, the next charge?

A. Skylights not standard, fourteen, 16 cents.

Q. Skylights not standard, fourteen, 16 cents, what does that mean about fourteen?

A. Fourteen non-standard skylights.

Q. What is a skylight; you say there are fourteen?

A. Skylights, Texas elevator heads or other roof structures.

Q. That skylight up on the Capitol there, I always called that one skylight?

A. I think that is true, one skylight.

Q. In this particular building there were fourteen skylights?

A. Yes, sir.

Q. Is there any difference in the size of it?

A. Page 22 under skylight charge, the first charge is, not standard, for the first 3 cents, second item for each additional not standard, 1 cent; over 100 square feet in area, double the above charges.

Q. (By Mr. Cureton)—Now, it says here if over 100 feet in area double the above charges?

A. Yes, sir.

Q. Does that mean that if each skylight is over 100 feet to double the charges?

A. The total would be 32 instead of 16 cents.

Q. All right, what next? In the first place what is a standard skylight?

A. Page 17, General Basis Schedules: Iron or steel frame with wired glass or quarter-inch thick glass to be protected by wire netting.

Q. Now, these standards were all placed here, these schedules, by the insurance companies and not individuals?

A. Correct.

Q. What is the next?

A. Heating, other than steam or hot water, 2 cents; on the bottom of page 22 you will notice heating, not approved system, 2 cents; referring to page 17 again of the General Basis Schedules under skylights, you will find heating, approved system of steam or hot water.

Q. How did the system of steam and hot water—what is the improved system of steam and hot water?

A. It would be one with the flues and the steam pipes properly protected from the wood work.

Q. That don't mean any particular system?

A. No, sir; but one that is properly installed—safely installed.

Q. Next?

A. Next is for electric motor, 10 cents.

Q. Now, the electric motor is an exceptional charge as shown by the book of schedules issued by the insurance companies?

A. Yes, sir; under the sub-head gas

engines, kerosene oil engines and electric power schedule.

Q. Electric motor 10 cents?

A. Ten cents, applying to all risks unless otherwise specified.

Q. All right.

A. That makes a total of—of the unoccupied building, rate of \$1.82.

Q. What?

A. Unoccupied building rate of \$1.82.

Q. Naked building?

A. Naked building.

Q. Now, then, are there any credits on this building?

A. There are no credits. This is a naked rate of \$1.82.

Q. Now, then, the rate, occupied as it is?

A. For general merchandise, with coffee roaster and millinery, 15 cents added to the building, producing an occupied building rate of \$1.97.

Q. General merchandise with a coffee roaster; general merchandise; what is the rate additional?

A. No, that is for the millinery charge, I believe.

Q. Yes, that is the charge; retail grocery, with coffee roaster; that is how much?

A. Fifteen cents for the building.

Q. Fifteen cents?

A. Yes, sir.

Q. I notice in the book of schedules a provision of 15 cents and the other 40 cents; what does that mean?

A. That is 15 cents. What page is that?

Q. Page 38.

A. Fifteen cents building and 40 cents stock.

Q. Fifteen cents is occupancy?

A. Occupancy charge of the building. That is simply making the building rate only now, and not the contents rate. That produces an occupied rate of \$1.97, to which is added exposure charges from two buildings in the rear of 39 cents, making a final rate of \$2.36.

Q. Exposure charges for two exposures in the rear?

A. Yes, sir.

Q. How much is the charge for that?

A. One is 6 cents and the other is 33 cents, making a total of 39 cents exposure charge.

Q. What is the rate given there for the exposure of a building?

A. One is 20 feet O. B. R., \$1.63, 4 per cent of it.

Q. What is the rate O. B. R.?

A. \$1.63.

Q. Percentage?

A. Four per cent.

Q. For a building O. B. R.?
 A. Yes, sir, \$2.36.
 Q. O. B. R.; what is that?
 A. Occupied building rate, \$2.26, 15 per cent, 33 cents; total of 39 cents, which, added to the occupied building rate, produces a final rate of \$2.36.
 Q. Now, I don't believe I understand that; \$1.63 is for what distance?
 A. Twenty feet; I think that is a brick building.
 Q. Now, that means that there is a building within 20 feet of this one, which has a building rate of \$1.63 on it?
 A. Correct.
 Q. Now, the occupied building rate of \$1.63 has therefore another exposure charge against the building whose rate we are now making?
 A. I could not tell without an analysis of that specific building.
 Q. We will assume that that is correct.
 A. That would be hard to tell until I see the analysis. It is impossible to tell.
 Q. All right. Now, then, you add 6 cents for that exposure?
 A. How do you get that?
 A. By the application of the exposure tables shown on pages 51-2-3-4 of the general basis schedules.
 Mr. J. H. Crane, being first duly sworn, at this juncture made the following statement:
 Mr. Crane—The building in which he is analyzing has a brick wall without any openings; that building which exposes it is a brick building, but has openings; the percentage from a brick building to a brick building at 20 feet, both buildings having openings facing each other, is 10 per cent of the occupied building rate. In other words, if this brick building that we are talking about had openings in that side wall we are talking about instead of being an exposure charge of 6 cents it would be 10 per cent of \$1.63, or 16 cents; but on account of this building having no openings in the side wall there is a reduction made of 60 per cent in the exposure charge of 10 per cent, which leaves 4 per cent exposure charge of \$1.63 rate, or 6 cents.
 Q. Now, this 15 cents exposure, you arrive at that in the same way?
 A. Same method. The 33 cent exposure charge comes from a frame building; in other words, this brick building is exposed by a frame building at a distance of 20 feet; the expos-

ure table shows that from frame to brick, 20 to 35 feet, the exposure charge is 15 per cent of the occupied building rate of the exposed building; \$2.26 is the occupied building rate of the exposed building; 15 per cent of that is 33 cents.

Q. So that is the way the exposure charges are arrived at?

A. That is the way the exposure charge is arrived at in all instances.

Mr. Roulette—I suggest that Mr. Crane is more familiar with the details of rating than I am. And it might be better to have us both together at the same time.

W. F. Beers, being duly sworn and examined by Mr. Cureton, testified as follows:

Question. Where do you reside?

Answer. At Galveston, Texas.

Q. How long have you been living in Galveston?

A. Fifty-three years.

Q. What business are you in?

A. I am in the insurance business.

Q. Fire insurance?

A. Fire and marine.

Q. How long have you been in the fire insurance business?

A. Forty years.

Q. What training have you had in that business?

A. I succeeded my father as secretary of the first local fire insurance company that was chartered in Texas, the Union Fire and Marine Insurance Company, started in 1854. He died in 1871, and I took his office then.

Q. You heard the testimony of the gentleman from Galveston who was representing Mistrot Brothers and Company?

A. Yes, sir.

Q. Do you know anything about that risk and what it had been written at prior to the Rating Board law?

A. Yes, sir; that was originally the Leon and Eighth Blum, the Leon and Eighth Blum risk. I can not see much change in the risk except the addition of that printing press. In olden days that risk went begging for \$1.60 and \$1.75.

Q. You can state to the Committee the matter with reference to boxes and trash piles about there with reference to that risk.

A. It is a notorious fact in Galveston that Mr. Mistrot and the city of Galveston have been locking horns on that proposition and it took eighteen months' of argument on the removal of those boxes. The city of Galveston has not

been able to get Mistrot to remove them.

Q. What was the effect of this?

A. Mr. Mistrot rented a vacant lot elsewhere and took the boxes off and put the boxes there.

Q. Mr. Beers, there are some other matters that you stated to me that have escaped my mind; I wish you would go ahead with your testimony.

A. I recollect when Mr. Crane was on the stand or Mr. Roulette or somebody was stating about that exposure and about open doors for which credits were made or something like that. Or about—following up the analysis of the rate it starts off at 320. It was brought down by a series of credits all of which were proper, for instance, the closing up of the well-holes between the stairway and the closing of the stairway fire doors, etc. I would like to ask Mr. Crane if he didn't say something about their printing press being separated?

Mr. Crane—No, the openings were just bricked up.

The Witness—The rate was brought down to \$1.13 by eliminating these things. All these things Mr. Mistrot is doing or intends to do.

Mr. Cureton, to the witness:

Q. Prior to the time of the taking effect of this Rating Board law, I'll ask you if Mr. Mistrot ever played one agent against another in order to reduce his rates?

A. Well, I do not want to go into the official record in that sort of a sense. But Mr. Mistrot has been very successful in persuading the local agent at various times and various places that his risk was a little better than it used to be.

Q. I believe the entire Committee understands your answer.

A. As time passed by, it got riper and better. I want to say parenthetically that Mr. Mistrot is a very fine man (laughter).

Q. I'll get you to state, Mr. Beers, what has been the general operation of the Rating Board law since it has gone into effect in the city of Galveston as to equalizing rates or otherwise; what is your opinion?

A. I can say it has raised the rate very considerably. A great disparity of rates there, but the general operation of the law has been to raise them. But it is my impression that the 25 per cent production has nearly equalized that. We are not very proud of the material used in rating the city. There has been some monstrosities in the rate. There is the

risk of Noby & Company, jewelers, on the corner of Tremont and Market streets, that we wrote freely at \$1.70 a year ago; it is now \$4.70.

Q. Why did they raise it to \$4.70?

A. As I understand it, because the upper story being used as a boarding house there being an exposure of that kind and there are also being moving picture show business there.

Q. Moving picture shows used motive power?

A. It is a very dangerous proposition: they use guncotton in their films. It is an explosive proposition.

Q. What in your judgment, understanding the facts as you do and having been in the insurance business for forty years in the city of Galveston, what in your judgment could this Legislature do, if anything, with the insurance legislation?

A. I am here to say that we are in favor of regulation in order to prevent discrimination. And that if the Legislature will find means of taking off these rough edges of the present law, the present law is good enough. But when you take the proposition and ask that any machinery be worth six months you are not going to get practical results out of it. Out at Big Springs there is a frame hotel that we are writing in our office at \$5.30; we were writing at \$5.30. The parish rate on that one went up to \$23.20. Now, there is no more reason for that than there is for my jumping out of the window there.

Q. Don't you think companies in adopting a general basis schedule have made a mistake in not putting a maximum amount for a maximum rate for prices of risks? In other words, they sometimes make a rate so high as to practically forbid insurance on that class of risks?

A. Yes, sir, something of that kind would be, I believe, a practical thing.

Q. Don't you think that they should have to put a stop rate on all classes of risks?

A. Yes, sir.

Q. Nothing should have gone behind the stop rate?

A. You would have to have several stop rates for different classes. Mr. Cureton, if you could suspend the record for a few minutes, I could tell you something that the committee might see the qualities of this rating. I think the whole trouble is in the application of the schedule or in the adoption. I want to give you some instances of this; there

is a frame block across the corner from the Tremont Hotel, where the frame range exists at 4 1-2 per cent; it ought to be about 6 per cent; that is, it used to be about 4 1-2 per cent, and ought to be about 6 per cent; the present tariff runs that up to \$10.30. There is sandwiched in there a store house rated at \$1.62, the theory being that the building in front of it is a dwelling, and the rate as a dwelling and this other take the same rate as the dwelling. Directly across the corner from our office there is a frame building and right across from there there is a little dwelling that rates at \$1.32. I suggested to Mr. Wright that there ought to be a separation of the exposure and occupancy charges. You could not say that to take a dwelling house at \$1.32 and ten feet from there you would raise another at a different rate. I believe that given time with the Fire Rating Board as an umpire, these roughnesses will come out.

Q. You think that the Fire Rating Board, if given an opportunity, at least temporarily, they will fix some on certain of those risks?

A. There is as much difference between some of the rates I have heard talked about here in Dallas and Austin of 85 cents and the old normal rates which were probably one and one-half as there was in the old Fire Rating Board in their general rating schedules; in other words, when you find a difference of 65 cents between their cut rate and the normal rate, and they put that on top of the normal rate, you are getting to the extra high rate of the present tariff.

Q. Did you participate in making the general basis schedules?

A. I did not. I want to explain I am not in touch with the fire end of the office as much as I have been five years ago. I am devoting myself to the marine. Our junior partner was a party to that.

Q. Are you general agent of the companies or local agents?

A. We are general agents for six or seven large companies for the State of Texas.

Mr. Scruggs—Q. You are also local agents for some companies?

A. Yes, sir.

Q. In addition to the ones you are general agents for?

A. Yes, sir.

Q. You stated in a case where a dwelling at \$1.32 or \$1.35 exposed by

fire range; will you tell these gentlemen how that happened?

A. Yes, I will, if you ask me. I was asked the question, and was told that under the ruling of the Fire Rating Board placed a boarding house at, that is, it had to take a certain rate without reference to the exposure.

Q. In other words, that was brought about by the order of the Fire Rating Board upsetting our schedule.

By Brown Lee—Q. There is a matter I want to ask you about; there is, say, a merchant at Austin, Texas, that has 600 bales of cotton which is stored here in the cotton yard; he has been paying a rate of 89 cents, that is just a matter of assumption, you understand; now, he sells today 300 bales of that cotton to a foreign merchant; it remains in the same cotton yard; I understand that that rate is cut half in two the day he sells the cotton.

A. I can hardly believe that, for the reason that I happen to know all about these marine rates; if this foreign shipper should resell that cotton so as to put it entirely on fire insurance basis, he would have got a cut rate for comparison, which would be for that rate three-sixteenths.

Q. Don't he make a difference between export cotton although it may remain in the cotton yard than if it were a cotton merchant's?

A. The exporter pays his rate in his through rate. I don't think that there is much difference now. There was a difference in favor of the marine cover when rates were lower. Now they are higher.

Q. Does not that practically prevail to a great extent in Texas?

A. Certainly.

Q. When did it cease?

A. In a year; we will say within a year ago. I can not recognize the rate of 89 cents, you mean, per annum?

Q. That is just an arbitrary figure?

A. As a matter of fact, I should think he got that rate in the cotton to be under 2 per cent.

Q. Whatever rate it may have been, the local merchant was charged that per cent; the moment he sold that cotton or any part of that cotton the price was cut about half, although it may have remained in the cotton yard from one to three months?

A. You mean that the exporter in getting it under his cover did it at one-half the expense of the other?

Q. Yes.

A. I expect he did, because they were

giving him the benefit of another rate he got, car load rate.

Q. That rate prevailed, although the cotton remained in the yard indefinitely?

A. Oh, no; not indefinitely; but they would give them time to load it there, three or four weeks.

Q. Sometimes didn't it remain there for three or four months?

A. Sometimes we have been the victim of that sort of thing.

Q. Under a low rate?

A. Yes, sir.

Q. Why did they do that?

A. Well, they did it because all of those other risks have always been written by marine companies cheaper than the ordinary fire companies will write it for. I do not justify the rate. I think it is too low. It has been done. It goes back to the time when the English companies would take the wool from the wool exporter for practically nothing, back to a quarter; we call that an interior risk. We have got back to a quarter from Austin and Galveston, including the fire risk here.

Q. Is that reduction on cotton made solely by marine insurance companies or by fire insurance companies?

A. I should say by marine alone. In fact, they are the only companies doing this low rate, it appearing that the shipper has received these things at the shipping point, and is entitled to protection from the time he took it under cover.

Mr. Gilmore—Q. That marine rate that they have been writing so long, if it had not been profitable do you think they would have continued writing it?

A. They did not continue it; they raised it last year.

Q. In comparison with the rate that the local cotton buyer pays, about what is the rate?

A. I should say that our shortest charge per month would not be over one-half or 60 per cent of the other charge.

Q. It is still quite a reduction from the local rate, and they find it profitable or they would not insure at that, of course.

A. I think it is due to say that the marine did not seek that class of business; they had it as an accommodation. Now I think they insure solely with fire companies; the trade is charged; instead of going to ports for their cotton they go to the interior and they have simply extended their cover from the port which began at the "press" to the interior yards.

Q. This matter which I will ask you

about may help us some in the consideration of this bill that we have had here from time to time, the question of cut rates made by the local agents. I would like to ask you if it is not necessary for local agents to have the consent of the general agent before they can cut the rate?

A. Yes.

Q. I think it would hardly be impertinent to ask you why you permitted these cut rates if they were below a profit.

A. We do not. I want to say right now that we have a dead line in our office. When it gets below that, we don't take the business.

Q. Many of our local agents stated here that they had to take risks at cut rates.

A. I feel sorry for a local agent that had to take risks that come in between two fires.

Q. We heard some of the local agents and special agents state where a man wanted to buy a big lot of insurance he could get a lower rate than his neighbor.

A. No doubt about it. He is more successful in things like that than the other.

Q. The question is why these insurance companies would permit these cut rates if there was no profit?

A. No company can go into Texas for five years without accumulating an expensive and valuable plant, and will go as far as they can to meet the situation rather than lose that; a local agent writes to Mr. Bierce, I have got a risk offered for which it should pay 5 1-4; some agent will take it at a reduction of one per cent. We will hesitate before we lose that. He says he only wants a reduction of a quarter. We will make up our minds here whether we will carry that risk for him. He says I haven't been able to get that risk; I will ask you if you can confirm one per cent. We can not confirm it. We have lost a great deal of business that way. While insurance companies do not like at all giving up rates, they do it to save business. You heard enough this morning of this testimony to show what Mr. Eilers thinks about the rates. Mr. Eilers was the most intelligent merchant I have heard discuss it, yet he was completely warped about these things. He thinks that the rates ought to be a side of bacon on the market.

Q. Now, if you should get the amount of business upon which you had permitted your local agent to make a

rate for the risk which was really below the cost of carrying that risk, will it not follow that you must raise the rate on some other risk in order to cover this loss?

A. We try to get all the rates we can; the risks that would make us a profit we seek those, but we would have to make it up somewhere.

Q. (By Mr. Scruggs)—Did your office make a profit in the State of Texas last year?

A. We did not.

Q. You said you had a dead-line, that you didn't permit your agents to write below that dead-line. If that is the case and you wouldn't take anything below a profit, how is it you lost money last year?

A. Because we didn't find it out soon enough. We went along, hoping for better results, and this thing has been going down on the toboggan slide.

Q. (By Mr. Gilmore)—You say your office lost money last year?

A. And made very little the year before.

Q. You deal only with the underwriting part of it?

A. Yes, sir.

Q. (By Mr. Reedy)—You say your office lost money last year and some in the preceding year; these losses are not attributable, either directly or indirectly, to any action of the Rating Board, are they?

A. No, last year's results were established before the Rating Board took hold.

Q. The Rating Board law has had nothing to do with your losses?

A. No, sir.

Q. (By Mr. Jalonick)—You said that this marine company wrote the cotton liability in the same yard at a less rate; I will ask you if the men who secure the low insurance were not large insurers, large exporters and large buyers and big concerns who did an immense amount of business?

A. Yes, sir; the ordinary street buyers couldn't get that kind of a contract.

Q. In other words, a merchant in Hutto would insure cotton that he owns for 2½ per cent, he would sell that cotton to Inman & Company and as soon as Inman & Company took possession of that cotton, it became their cotton and they would insure it under their marine policy and get the benefit of a lower rate by being large insurers and placing a lot of cotton with these companies?

A. No question about that.

Q. Isn't it a fact that the liability of the marine companies from Hutto to the shipping port is not reinsured in fire insurance companies writing fire insurance in Texas, perhaps the same fire companies that had been carrying the cotton at 2½ per cent?

A. I am not prepared to answer that question, because that goes back to New York and London.

Q. That part from Hutto in the yard to shipping port was reinsured in the companies, that some of them perhaps were insuring that same cotton back in Hutto at 2½ per cent?

A. Yes, sir.

Q. These companies were discriminating against the small merchant in Hutto in favor of Inman & Company, or large buyers of cotton?

A. That is the effect of the action.

Q. (By Mr. Lee)—William Cameron & Company have recently established a large lumber yard in San Angelo. Assuming that no local agent in San Angelo has obtained one particle of their insurance business, how would you account for that?

A. I have always understood that Cameron & Company had a blanket arrangement with a syndicate of larger companies and did business entirely with them.

Q. Don't you think it is because they are getting a special rate?

A. They must be.

Q. Here are two lumber merchants in the same town, each having fire walls around their place of business. One of them maintains a planing mill in the center like that, which I understand is a very hazardous risk, this other one doesn't. Now, which ought to pay the greater premium?

A. The planing mill man.

Q. If he gets the same premium there as the man with the fire wall without any planing mill, he is getting the better of it?

A. Why, certainly; it is outrageous discrimination, and those are the very things the law is trying to correct. I don't know whether this planing mill has been thrown in to sweeten something else.

Q. Because this man belongs to a large concern that has many plants over the State?

A. Yes, just like some of the merchants are doing, probably.

Q. (By Mr. Hamby)—Do you think it is reasonable or necessary for the Rating Board to have jurisdiction over marine rates?

A. No, I don't think so except as to their end of it because their's is entirely water, the entire side of the proposition.

Q. You believe it should have jurisdiction over their end of the rate?

A. They might have that.

Q. Should they fix the rate not only of the fire hazard but all the other hazards—the marine companies?

A. No, sir, because there is only practically the fire hazard in the other rate.

Q. It sometimes might be on the water within the State of Texas?

A. Yes, sir, but very seldom; 99.9 of the cotton moves on rails.

Q. Don't regularly licensed fire insurance companies frequently insure marine points?

A. They do always.

Q. Does that reinsurance extend beyond the borders of the State of Texas?

A. Not beyond the foreign steamer.

Q. When the risk is water bound the liability of the marine insurance company ceases?

A. Yes, sir.

J. H. Crane, having been previously sworn, examined by Mr. Cureton, testified as follows:

Question. I hand you, Mr. Crane, a key-rate analysis of key rate, a specific analysis for the city of Taylor. I wish you would please take the analysis of the key rate as contained in the book just handed you and analyze the key rate and explain it to the committee.

Answer. Well, now regarding the key rate, I will say this: I will do the best I can. The key rate proposition does not come directly under my supervision. I have never applied a key rate to any town in the State of Texas, so all I can do is do the best I can by following the general basis schedule according to the charges.

Q. What business are you in?

A. I look after the specific rating in the various towns after the key rate has been established.

Q. By whom are you employed?

A. Mr. C. B. Roulette.

Q. How long have you been in the insurance business?

A. About fifteen years.

Q. How long in this particular line of work?

A. About eight years.

Q. What is the technical name and term for your class of work?

A. Why, it goes under various names; it depends upon the locality, possibly some have underwriters' asso-

ciations, others inspection bureaus, others rating bureaus; it is all the same proposition.

Q. Take the key rate and explain it.

A. Waterworks, direct pressure; standpipe used as cushions pump, single boiler. In the town of Taylor they have a waterworks with a single boiler; they have a standpipe for containing the water, the standpipe not being large enough it acts only as a cushion against the pump. The deficiency there would be fifty cents.

Q. (By Mr. Cureton)—They have?

A. But they have a waterworks; the waterworks applies with the item under the letter J; direct pressure; no standpipe, single pump, steam power, twelve cents.

Q. They have a standpipe?

A. They have a standpipe, but the standpipe not being large enough to supply the town with water it acts only as a cushion, as the pumps have to work constantly or practically so.

Q. That provision is given you under the note to subparagraph C on page 12, which says: "Note—Does not apply where standpipe used as pumping cushion." Subparagraph C, page 12, near the top?

A. Well, that would make it practically my way of looking at it. That twelve cents is made up of several different charges.

Q. That note is what you base your statement upon?

A. Yes, sir.

Q. What could those people do now with reference to changing the charge on this deficiency; what would they have to do to their standpipe, for instance?

A. Well, they would have to make the standpipe large enough to give them a sufficient amount of water to last.

Mr. Roulette—May I answer that?

Q. Yes, sir.

Mr. Roulette—If they will put in a standpipe large enough, with ample capacity of the town; make the pumps duplicate; that charge would apply to Section E and reduce it four cents.

Q. An adequate supply of water for the town?

Mr. Roulette—It means 110 gallons of water per day per capita.

Mr. Crane—Right down at the bottom of page 12 is the note.

Q. (By Mr. Cureton)—Well, go ahead.

A. (By Mr. Crane)—If less than seventy-five per cent of service to consumers metered, one cent; that means

if the individual consumer does not take his water through a meter; the object of that is where people do not have to pay for the actual water they use but have free access to it with no way of measuring it, that they waste the water, while if it is metered and they have to pay for every gallon that they use they are careful with it and it reserves the supply.

Q. (By Mr. Lee)—May I ask a question: Suppose the water company, of its own accord, keeps the standpipe full, what difference would it be with the insurance company whether they had a meter or not?

A. Well, practical experience shows, on this information, that they do not keep it full.

Q. You are assuming that they do not; but suppose they do?

A. Well, I don't know as it would make any great difference; their pumping capacity would have to be larger to keep the pump full.

Q. (By Mr. Jalonick)—If a community would agree to keep their standpipe full continuously, wouldn't the insurance companies give them a credit in their key rate for whatever the charge was for that deficiency that we have found occasioned by—well from their experience that they done it?

A. Yes, sir.

Q. They could get the credit if they would give us that warrant.

A. It is put in there—that charge is put in there for the purpose of getting the people or a waterworks company to put in meters to keep up the supply of water and not waste it.

Q. For fire protection?

A. For fire protection. It is put in there to get them to put these meters in use so as to get credit for it.

Q. (By Mr. Cureton)—As I understand from the bottom of page 12, you assume a community will use for household purposes fifty gallons of water per day per capita, and then you put an additional amount of sixty gallons more for the purpose of—in case of fire, making a total of 110 gallons?

A. Yes, sir.

Q. Now is that 110 gallons estimate made on the metered or unmetered town, if you know?

A. I could not really answer. I really do not know.

Q. Go ahead.

A. The next charge is ten cents for the pumping station if framed?

Q. Framed pumping station?

A. Framed pumping station.

Q. Now, why is that charge put there?

A. That charge is put there because a frame building is more liable to burn, and if it does burn it cripples the pumps, while, if a brick building, the brick walls would not burn and if they follow the standard specifications the roof will be all metal and there will be nothing to the building to burn, therefore the pumps are never liable to be crippled by fire.

Q. Now, what is the next charge in the Taylor key rate?

A. Other occupant in the pumping station, ten cents.

Q. Do you know what that occupant is or what that means in that particular instance?

A. I guess I can tell you by referring to the book here; that is an ice plant. That is on account of having an ice plant in the same building with the pumping station.

Q. (By Mr. Lee)—Suppose it was a light plant in place of an ice plant and the engines were constructed so they could alternate; if one got out of order they could use the other?

A. They do not use electric light engines for pumping water and they could not alternate.

Q. They do not use the electric light engines?

A. No, sir.

Q. But suppose they do it, where they could use the power of the electric light engines and could transmit that to the water engine?

A. Well, the water engine is separate and distinct by itself; it is a small pump and an engine in itself; the only way they could transmit it would be to have to gear the pump to the electric light engine and drive the pump; they could not take the electric light engine and make it pump water, because the construction of the machinery would prevent that.

Q. If they could generate the power they could do it; it is merely a matter of mechanical devices?

A. Yes, sir; sure.

Q. (By Mr. Cureton.) Here is the point of Mr. Lee's inquiry: Suppose that the electric light engine or power plant and the pumping plant were in the same building?

A. Yes, sir.

Q. And it is so arranged that in case of necessity that you could attach the power plant with the electric light plant to the pumping plant too; then you would get a duplicate system of

power for the pumps of the town; now, say in the event of a duplication of the power, which in certain parts of the schedule you request, would they be entitled to the reduction due to the duplication of the power?

A. No, sir; it is on the account of the additional hazard of the additional occupant in that building which does not exist in a pumping station which ought to be inside of a building by itself.

Q. Suppose they put a brick wall between them and simply conveyed the power by shaft or some other way through the wall? Would the credit be allowed?

A. Do you mean by power, the steam from the boiler—

Q. What I had in my mind really was the shaft.

A. Well, if it was in a separate building, I would say yes.

Q. They would then be allowed?

A. Yes, sir; separated one from the other.

Q. The purpose in bringing out this testimony is that we do not know what conditions prevail and this record is to go to the people.

A. I will try to answer it.

Q. All right; the next item?

A. Supply mains from reservoir and pumping station to service distribution, if not in duplicate and no intermediate storage reservoir, 2 cents.

Q. What is meant by that?

A. That is on account of the water main that comes direct from the pumps to the town being a single main; if a fire should occur and that main should break close to the pumping station between the fire and the pumping station, your service is absolutely—would be crippled as far as the fire protection is to the town, while if they were duplicated and one main, the one that they were using, should break, all they would have to do is to close that one and let the water from the pumps into the other main and the service would still continue.

Q. Well, now, Mr. Crane as a practical proposition, there are very few towns of moderate size—we will say of the size of Taylor—which have or in the nature of things would have duplicate supply mains leading from the pumping station to the distribution point in the town.

(No answer.)

Mr. Lee—As I understand, that is from the point of getting water to the standpipe?

A. No, sir; from the pumps to the distribution where it distributes to the mains.

Q. Don't you think it impracticable for a small town to have that sort of connection?

A. No, sir; not if they prepare for it in the first place. It don't cost but very little more to put in the other main when they are putting in the system if they prepare for it.

Q. Well, are there many towns or cities putting in duplicate supply mains?

A. Well, I think there are. I know of one or two that at a very small expense can put them in; they already have one in, and the new one would be a much shorter route if they did put it in. I can't say just how many are putting them in, because I don't know. It is a practical proposition, though, if they want to.

Q. All right; what is the next charge?

A. Water mains if not wholly of standard cast iron, 5 cents. That is evidently on account of the fact that they use some ordinary or wrought iron pipe for water mains instead of standard cast iron water pipe, that is generally used in towns.

Q. All mains must be of cast iron, standard quality and weight, tar coated, and laid below frost line; to be provided with proper gate, check, waste and relief valves; now, that is a standard water main, as described in this book of schedules; now, would you tax this charge against a town if the key rate simply gives the water mains—happens not to be tar coated?

A. I don't believe they would go that far.

Q. That part of the description of the standard water mains is purely suggestive?

A. Yes, sir; that is a practical pipe.

Q. Suppose they should not be left below the frost line? But in some of our winters it might be within the frost line; would they be taxed that much?

A. I don't believe they would. I think they ought to follow the recommendation that would pay them in the end. In the city of Chicago I have seen them have to take up ten or fifteen blocks where it had frozen up in the winter, and that is very expensive.

Q. (By Mr. Lee.) You accept the statement of the water companies as to whether they comply with the standard or not?

A. As a usual thing; yes, sir.

Q. (By Mr. Cureton.) All right; next charge?

A. Fire hydrants; if 50 per cent is over 300 feet apart in mercantile sections and over 600 feet apart in dwelling sections, 4 cents.

Q. Now, that, I understand, means insufficient supply of fire hydrants?

A. Yes, sir; that instead of being 300 feet apart in the business section, they might be 400 or 500 feet.

Q. Suppose instead of being 300 feet they should be 305, 310, 315 or 320 feet apart?

A. They do not draw the line; it is not the intention of the schedule to be that technical.

Q. In applying this schedule, you have construed the schedule liberally?

A. Within reason; yes, sir; not going so far that we might discriminate and have to pay for it in some other way.

Q. Well, what is next?

A. Fire department. If less than five paid men to each 5000 population or fraction thereof, 3 cents.

Q. What is the population of Taylor?

A. Six thousand.

Q. It has less than five paid men for each 5000?

A. Yes, sir.

Q. Now, doesn't that mean that they would have to have ten paid men in Taylor—fire department?

A. Yes, sir.

Mr. Lee—Let me ask a question right there. Which would be cheaper, for the citizens to bear the tax—extra expense of the insurance—or pay the extra tax of ten additional men?

A. It would be possibly five additional men; that would depend upon how much they would save by the 5 cents, how much insurance they carry and how much they pay their firemen. I suppose if they paid their firemen \$100 per month, it would be best to pay the 5 cents, but if they only paid \$30 or \$40 a month, it would be best to have the firemen.

Q. You have always got to consider an average of it?

A. That is just a matter of the citizens figuring that out for themselves which would be the cheapest; that is just the standards used and which we follow.

Q. All right; what is the next charge?

A. Hook and ladder truck, none, 2 cents. Now, if they had a hook and

ladder truck in the town of Taylor that would be cut out.

Q. What would a hook and ladder cost?

A. I should think the one they would want in Taylor would not cost over \$2500 or \$3000.

Q. That would mean that it would cut the rate 2 cents on every \$100 worth of insurance carried there?

A. Yes, sir; I really don't know about that truck.

Q. About \$1500 or \$1600?

A. About fifteen or sixteen hundred. Firm alarm system, none, 5 cents.

Q. Fire alarm system; what do you mean by that?

A. Well, that means an electric fire alarm system, where they have a box on the corner that you go up and open the door and pull a lever and it turns the alarm in to the central fire station.

Q. Why shouldn't that charge be cut half in two in a town that has a day and a night telephone system?

A. Telephones are unreliable.

Q. But, as a matter of fact, in a town the size of Taylor, suppose 90 per cent of the residences and business houses have telephones?

A. Yes, sir.

Q. Why wouldn't they at least serve for the purpose of a fire alarm system?

A. Well, they might.

Q. I said a day and night phone; of course, if a man is awake enough to touch off one of these fire alarm systems he is awake enough to ring a telephone?

A. No. Take the telephone inside of a building; he could not turn the alarm in, and that is the difference we consider over the telephone; the telephone might be locked up, while with the alarm box he can walk up and pull it.

Q. Of course, that is correct in the larger cities, but in a town the size of Taylor, they necessarily would not have but one sleepy city marshal, and he could not be all over the town and, with all due respect to the philosophy of the gentleman who fixed this key rate, there is something in the telephone proposition and these gentlemen should revise the rate and cut this half in two on account of the telephone system.

A. Well, that might be.

Q. That ought to have some credit; I am not criticising you because you seemed to apply the rate as it was; but I simply suggest that the fire alarm system and the telephone system serve exactly the same purpose, and it appears to me that one is just about as convenient as the other in a town the size

of Taylor. Now, in a city like Austin, where there are policemen drawn to the assistance of the wayfarer, may so pull the alarm very easily?

A. Don't you think they ought to be given credit for—the telephone?

Q. I think they still ought to be given credit for the telephone, because I am sure that in four fires out of five the alarm is turned in by some citizen instead of a policeman; I suppose you could find out at the fire station if they have a record kept of the exact value of the telephone system in turning in fire alarms as compared with the fire alarm system?

A. You undoubtedly can, because they keep them.

Mr. Jalonick—The companies, in making these rates, have taken them already into consideration. There is a certain amount of protection provided in a city by reason of the telephone system, and this additional charge will become a credit if they get the fire alarm system.

Mr. Cureton—Yet it would appear to me that it would have been perhaps plainer had you put it as a credit on the credit sheet.

Mr. Jalonick—I admit that perhaps it would have been.

The Witness—The next item is fire marshal, none, for that a charge of 3 cents.

Mr. Cureton, to the witness:

Q. Now, a fire marshal; take the town of Taylor; if they had a fire marshal that would take 3 cents off from the one hundred dollars' worth of business written?

A. Yes, sir.

Q. In one of the bills introduced here there is a provision made which in effect, with the amendments that will be offered to it, will provide for the duties of a fire marshal, to be performed by a member of this Rating Board, and provision is also made for them to appoint a fire marshal in every town and village or community if necessary in this State. If that provision is made the law and this board does appoint a fire marshal in every town, village or city in this State, where that is done 3 cents will come off of the key rate?

A. Provided he does his duty.

Q. Then it comes off?

A. Yes, sir.

Q. The testimony brought out yesterday, I believe, shows that about ten millions of dollars were collected in premiums for the year 1909 on the risks in this State; is that right?

A. Eight and a half million, I believe, it was.

Q. Can you figure just the saving that a fire marshal would save to the people of this State in the event it is carried out along the lines suggested?

A. I figured it approximately a little while ago; assuming that the average rate last year was \$1.47 and that eight and one-half millions was collected in premiums, there was about \$57,600,000, with the amount of risk specified in the policies, 3 cents for each \$100 on that amount would be a saving of about \$173,000 in round figures.

Q. Then if we pass a bill and it is perfected that way as we hope to perfect it by putting a fire marshal in every town and village in this State that desires it, letting them, of course, make such arrangements as they please for his payment, then we can save the people over \$170,000, according to your figures?

A. Yes, sir.

Q. Is it a practical proposition?

A. Yes, sir. And as the premium receipts increase and the amount of risk increases the saving will be greater because if this was to increase to sixty millions of dollars the proposition would go accordingly.

Q. This committee knows nothing about the 3 cent charge, but insurance companies have given us the general basis schedule and put a charge against us of 3 cents for the absence of a fire marshal; now, if we enact a law which will enable us to put a fire marshal in every town and village in the State, it would be entirely fair for the officers of the insurance companies of the State or for the Rating Board to cancel that 3 cents as specified in the key rate, or it would cancel itself.

A. It will cancel itself, and the companies will be only too glad to cancel it the moment they have the protection of a fire marshal.

Q. You have been in the insurance business for fifteen years?

A. Yes, sir.

Q. What is your opinion as to whether or not an effective association of fire marshals or an effective fire marshal law—what is the effect it would have on the fire losses of the State or the fire risk of the State?

A. It would have a tendency to materially decrease them; to materially decrease the fire waste in the State of Texas.

Q. And a consequent decrease in the loss and the fire rate in the State?

A. Yes, sir, when you can decrease

the loss you can decrease the rates accordingly.

Q. What is the next charge you have there?

A. Building laws, inadequate, 5 cents.

Q. What is an inadequate building—I should have said, what is an adequate building law?

A. An adequate building law is one that will first define a mercantile district, and after it is defined see that no frame buildings or iron clad buildings or shingle roof buildings or anything of that kind is permitted inside of that district.

Q. I see on the back of the schedules that it was recommended that the building code of the National Board of Fire Underwriters be used as a basis.

A. Yes, sir.

Q. Is that character of law in force anywhere?

A. Yes, sir.

Q. Where?

A. The code in its entirety, as it is written; I don't know, but generally, take the code with a few modifications, it is in use in a great many places. Take up through the North, they follow the National Code very closely in constructing buildings, especially for larger cities and towns.

Q. Is that in the form of an ordinance or a statute?

A. In the form of an ordinance of the city or town.

Q. Is that in effect anywhere in any city in this State?

A. I think so. I think some have adopted it since the key rate proposition came up or went into effect.

Q. The city of El Paso, it has been suggested, has that a building code?

A. I can't say definitely; I don't keep in that close touch with the details of the business.

Q. What is next?

A. Streets not paved in the business section, 2 cents.

Q. Tell us what the failure to pave a street has to do with the fire waste.

A. It has this much: Take in a town where they have muddy, heavy streets after a rain, you can not get the fire department to a fire; that is an inducement to pave the streets.

Q. Take a town that has got a muddy street, that horses and wagons and fire engines can't get along on so quickly, then this charge is added?

A. Yes, sir.

Q. But the direct and immediate risk by fire is lessened?

A. No, sir; not necessarily.

Q. Because of the fact when it has been raining and everything is wet there is less danger from the fire?

A. Not necessarily; if it happened to be struck by lightning it would burn just as fast.

Q. If the lightning, like Santa Claus, comes down the chimney or stovepipe?

A. You can't tell where it is going to come.

Q. What is the next charge?

A. Overhead trolleys and other electric power or light wire, one cent.

Q. Is there embraced in there the method of wiring or anything of that sort?

A. No, sir; that is because they have electric light wires overhead in the town.

Q. How else would they put them?

A. Underground.

Q. Does that simply refer to the business section?

A. It ought to be the entire town if they are high-current wires. I don't know what they mean by that.

Q. What is the next charge?

A. Conflagration hazard, obstruction of overhead railroads and overhead wires, two cents.

Q. Seems that there are overhead wires in there twice?

A. This is overhead wires here, referring to telephone wires.

Mr. Roulette—Let me answer that question. Under item No. 17 those charges are simply for hazard of having electrical wires in the town. Number 18, conflagration, that is an obstruction to the fire department, whatever it may be. You can not put up a ladder where there are high-tension wires in front of it that way.

Q. What next?

Mr. Crane (the witness)—A. The other is conflagration hazard. Construction of overhead wires, and frame ranges and shingle roofs. Frame ranges two cents and shingle roofs two cents.

Q. What is a frame range?

A. A frame range is practically a row of frame buildings, practically adjoining, usually right in the town district affecting the brick buildings or exposing the brick buildings.

Q. What is a frame range; does it take a whole block or a half a block?

A. In applying this key rate here, it would have to be, I think, the way they interpret that; probably six or seven buildings.

Mr. Roulette—Three or more.

Mr. Crane—Mr. Roulette suggests three or more buildings.

Q. Shingle roof, what about that?

A. Two cents; that applies to the entire town.

Q. Suppose we have a town with fifty per cent shingle roofs and fifty per cent metal roofs?

A. The full two cents would apply.

Q. The hazard is only one-half as great?

A. Anywhere a shingle roof got started the fire would spread from one to another.

Q. The initial hazard would be only half as great?

A. The initial yes, but after it started there might not be only one building in town; it might start in a building that had a metal roof and then spread all over town to the shingle roofs.

Q. But, on the other hand, a case might occur where the sparks would light on a metal roof a thousand times and not touch a shingle roof, yet you would be charged the same as if you had a shingle roof?

A. Yes, sir.

Q. Don't you think a shingle roof charge should be a graduated charge?

A. It would be a pretty hard proposition.

Q. Don't you think a charge for shingle roofs—don't you think it should be treated as a graduated hazard? Don't you think it should be a graduated charge?

A. I hardly think so. The charge is pretty small, and to find out the proportion of metal roofs and shingle roofs and the composition of the roofs, it would be a pretty difficult proposition. You would have to see every building before you could ascertain what that charge would be, or what it should be.

Q. What is the next charge?

A. That's the last one.

Q. Now the credits?

A. There are no credits for the town of Taylor to the key rate.

Q. I see over there in the list of credits, No. 22, "aerial" trucks; you don't refer to airships?

A. No, sir; that means a very large hook and ladder; in other words, instead of being a hook and ladder like you use in small towns, it is automatic in action, the ladder is a large rocker and it is thirty or forty feet long, with an extension ladder of equal length; when they get to the fire they release that with a spring and that thing rocks square up in the air, straight as it can get. If they are up forty feet and want to go forty more, you turn a crank and

the extension ladder goes on up to the top; it takes about thirty seconds to erect that ladder when you get in front of a building. That is an aerial ladder, or rather an aerial truck.

Q. Don't you think they ought to have a credit larger than one per cent on that perfected instrument?

A. No; I hardly think so; it is just a part of the department.

Q. Water tower, for water tower in service?

A. Yes, sir.

Q. I thought these people had a water tower of some character?

A. This is a kind of portable water tower; in other words, a long pipe on four wheels, and at the bottom of it they can hook from four to six engines on the extension of that pipe, something like that hook and ladder, it is about 40 feet long with a pipe on the inside of it that will extend up 40 feet more and has a flexible nozzle on it; they can regulate it from the ground. If a building with a fire in it is very high in a city, say eight or nine stories high, they can not get at it—they take this water tower and put it in front of this building, hook four or five engines to the bottom of it, and literally flood the building; in other words, making that apparatus do the work of five or six sets of firemen.

Q. Waterworks, where hydrants in business portions are provided with steamer connections; what does that mean?

A. The regular standard steam fire engines that they use in cities.

Q. Chemical engines—what is a chemical engine?

A. A chemical engine is usually about two 40-gallon tanks set on four wheels, filled with water; in the water is soda. In a bottle inside of these tanks is sulphuric acid. When you break this bottle of sulphuric acid the combination of the chemicals forms a very strong pressure. They take this and go through the building and put out a little fire with them. After a fire gets a good headway there is not enough of them to put out a large fire. The object is to put out a small fire and save the water damage.

Q. Don't you think that deserves very little credit—soda water and sulphuric acid?

A. No, sir; that combination of chemicals will smother a fire; it takes the oxygen out of the air and smothers a fire.

Q. Creates a gas that smothers a fire just like water smothers it?

A. It takes the oxygen out of the air, and, again, one reason why they use them it only throws a little small stream like a garden hose, and if you have only a small stream of water in there at a small fire, that small amount of water, consequently you don't get the big water damage that you would with a big 1 1/8-inch nozzle spraying water clear through the building.

Q. Since the issuance of the book of schedules of the insurance companies, have they from time to time reduced the rates on various sorts of risks, particularly special hazards—haven't they?

A. Yes, sir; they have made several amendments to that effect.

Q. For instance, on page 70 of the book of schedules you will find an amendment to No. 48 of general basis schedules; it seems to be on a bakery, cracker and candy factories?

A. Yes, sir.

Q. Bakeries, cracker and candy factories are pretty hazardous factories, aren't they? All requiring a good deal of fire, inflammable material?

A. Yes, sir; to a certain extent they are.

Q. When was this book of schedules promulgated?

A. I think about January 1st.

Q. Yes, sir. At the time of its promulgation the insurance companies had made a basis for this class of risks before this?

A. Yes, sir.

Q. Now, April 10, 1910, they filed an amendment which reduced the basis from two dollars to one dollar?

A. Yes, sir.

Q. Why did they do that?

A. I really could not tell you just why they did it; my ideas of the proposition is that after making a practical application of the schedule to the various risks of that class, they found that it was going to produce a rate higher than they really wanted for the class; therefore, they reduced it.

Q. Here is what they found, as a matter of fact: that the people in this class of business just would not buy the insurance as high as they made it, and they reduced it simply to get the insurance—they are sellers of insurance—that is about the size of it?

A. I don't really believe it was, but it might have been. I am not in a position to say.

Q. From January 1st to the 10th of April they had not collected sufficient

information to show them that they could write these businesses for half the basis rate that they had written before?

A. According to that schedule they had a good many of this kind; they had Fort Worth, where there is a good big one.

Q. I understand, but at that time they did not have statistics in reference to the number of burns and that sort of thing on this class of risks, and yet they cut it about half in two within a period of about three or four months?

A. Yes, sir.

Q. And the State cut them 25 per cent on a great deal of the other business, and a good many of the companies said we can not live at this—we must get out of the State?

A. Yes, sir.

Q. Don't you think that if they could stand a dollar cut on a two-dollar general basis on bakeries, cracker and candy factories, that they should have been able to stand a 25-cent cut on ordinary mercantile risks?

A. No, sir.

Q. You think not?

A. No, sir.

Q. You think, then, that mercantile risks are greater hazards than bakeries, cracker and candy factories?

A. No, sir.

Q. You think bakeries, cracker and candy factories are great hazards, do you, then?

A. Yes, sir.

Q. You think a cut of one dollar or cutting it half in two from the general basis rate was more equitable than the cut promulgated by the board on mercantile risks?

A. I don't know.

Q. That was the point I was trying to get at.

A. Well, I don't know.

Morning Session, August 4, 1910.

Mr. Reedy—I offer in evidence before the committee the following report, showing the action of the Tyler Commercial Club, which report is as follows:

"Tyler, Texas, July 20, 1910.

"Hon. M. D. Reedy, Representative, House of Representatives, Austin, Texas.

"Dear Sir: At a largely attended combined meeting of the Tyler Commercial Club and the citizens and property owners of Tyler held last night for the purpose of ascertaining the

wishes of the insurers of this city relating to the present fire insurance laws of Texas, and to convey same to our Senator and Representatives in the Legislature, after much discussion, a motion unanimously prevailed as expressing the consensus of opinion of the business interests and insurers of Tyler, as follows: That our Senator and Representatives be requested at this Special Session of the Legislature to vote and use their influence for such modifications of the existing statutes creating the present State Fire Insurance Rating Board and its powers as will remedy the defects and afford relief to the insuring public from the unreasonable penalties that have resulted in excessive advances in certain fire risks. The meeting favored and recommends the retention of a State Fire Rating Board as provided for under the present law, except that the salaries of members thereof be paid entirely by the State instead of by the fire insurance companies. The undersigned were appointed as a committee to convey to you gentlemen this action had at the mass meeting last night, and in compliance with our instructions we respectfully submit the above as expressing the will and desire of the business interests and insuring public of Tyler.

"S. H. COX, Chairman.

"J. H. BULLOCK,

"J. J. DAGLISH,

"JNO. T. BONNER,

"A. HICKS."

Mr. Cureton introduced before the committee and requested that the following letter be placed in the record:

"Houston, Texas, August 2, 1910.

"Mr. Ike M. Standifer, State Representative, Austin, Texas.

"Dear Sir: I suppose you know of the difficulty or perhaps the impossibility of getting any new insurance under the present State fire insurance law or the present attitude of the insurance companies. As the opening of the cotton season approaches those who handle cotton on commission are in sore trouble for protection against fire. The buyers use 'Marine Insurance' and have no trouble. The factors will be out of business until insurance can be obtained. I suppose you realize the importance of early action on the insurance matter, and I hope it will be the first to have attention from the Legislature.

"Yours very truly,

"E. W. TAYLOR."

Mr. Cureton—Mr. Hornberger is present and wishes to make a statement to the committee.

Mr. Hornberger—Gentlemen, I simply want to make a little statement to the committee. I merely want to state to the committee that ours is the only company that has its home office in Austin, Texas, and with no idea of presumption, but as a matter of convenience to the committee, I thought it might be of interest to the committee to say to them that we have the absolute record of our business including the books and everything as was kept in the home office, and for any information the committee may desire we will be glad to tender you our books. We have a record of every policy written in Texas by our company and every detail including the methods of running the business, and in fact of all of the larger towns and cities that you might want to go through and get information. I want to extend this invitation not only to the committee as a whole, but to each member of the committee to come to our office when they see fit and examine our books and records.

Mr. Cureton to the witness:

Q. What company is yours?

A. The Southern National Insurance Company.

Mr. Jalonick—I want to make the same statement and give the same invitation with reference to our company; I would be glad to extend the same invitation to the committee with reference to our office at Dallas; it is also a home company.

Mr. Reedy to Mr. Hornberger:

Q. From what you know of the insurance business in Texas, do you think it would be best to retain the fire rating force or abolish it, with adequate powers of course?

A. As I stated to the Senate committee the other day, I really do not want to be put in position of doing anything except working on behalf of the stockholders of the Home Insurance Company. For their interest it is certainly desirable that we do keep the board in order to receive protection, in order to be able to write out business and not be forced by the larger companies to write our stockholders' and friends' business. I am really just working for the stockholders of the Home Insurance Company. I believe conscientiously, however, that the Rating Board properly run and I would say run as it has been under the present force, would certainly be of benefit to the people in a very

short time, and especially so if you turn the companies loose as they were before that, because there would be no effort of any consequence to reduce fire waste and the only way it could be done is under the proper handling by the State and especially by the orders of the fire marshal, who can order a man to remove gasoline or such things as that as will cause fire. I believe the only real way to reduce the rates will be through the fire rating force. I did not come here this morning prepared to take this matter up, but I will say that especially home companies need this protection in order to have any chance to succeed in business.

Q. You mean that the Texas companies would have a more equal show under the rating board law properly managed and carried out than they otherwise would?

A. Yes, you take the wholesale men and naturally they are all more or less patriotic so long as it does not cost them anything to be that way. They will give a home company a policy for a rate fixed by law when nobody else can do better for them, but the home company can not take a great big wholesale house because the law forbids us to take more than 10 per cent of our capital stock and surplus in any one risk. He has no chance to deal with us, so he must go to the big insurance companies or combination companies and write his insurance. They will write his store, say at one-third of the rate and then they will make an agreement with this fellow that he shall write all of his retailers, but they must insure in this company. Every one of these little fellows must put his business in the same company that the home wholesale man put his risk in, and then the insurance companies can add to these little fellows and make their rates high enough to make up for the shortage that they have lost on the wholesale man's rate. The little man, as a general proposition, would like to patronize his home company; but when you go to him for business he says that the wholesale man says that he has got to put his insurance in the same company that he has his in, notwithstanding you tell him that you may be able to make him a better rate than they have made him. He will tell you that the wholesale man has extended him a credit and if he does not give this company the policy that the wholesale man will not give him the credit, and that is why I say we need this law.

Mr. Caves to Mr. Hornberger:

Q. Do you know of any actual instance of this kind?

A. Yes, sir.

Mr. Scruggs—That's right, make him tell it.

Mr. Cureton—Mr. Hornberger did not come as a witness this time and it was my idea to let the out of town people testify first.

Mr. Vaughan—It would seem there are tricks in all trades except lawyers.

Mr. Reedy—I did not intend to trespass upon the intention of Mr. Cureton with reference to examining this witness at this time, but since we have reached that I don't think I quite comprehend exactly; I would like to ask him this question:

Q. As I understand you, Mr. Hornberger, you stated that the wholesale man writes his insurance in a large company at a very low rate with the mutual understanding between him and the company that he writes to his patrons or uses his influence to cause his patrons to write in the same company?

A. Yes, sir.

Q. And while you are not under oath it is not improper to ask this question by way of explanation: Are the small insurers, his customers that we have been speaking about, required to pay excessive rates to make up his rate?

A. Yes, sir; there have been such cases under my observation, and I will be glad to be put under oath on this subject.

Yes, I want to ask Mr. Hornberger some questions along that line myself.

Mr. Reedy—He can be sworn to the truthfulness of the statements he has just made.

Mr. Cureton—Well, as the matter has gone as far as it has we will take Mr. Hornberger's testimony right now. I did not intend to take it now, but intended that he should only make this statement that he did make in the beginning, but I suppose we just as well go into the matter now.

(Mr. Hornberger was at this juncture sworn by the Chairman as a witness.)

Examined by Mr. Caves:

Q. This perhaps will involve a little repetition, but as I understand you did state that you knew of instances of which wholesale dealers had taken out fire insurance with certain fire insurance companies at a rate designated by you as a low rate between the insurer and the insuring company, the agent of the company rather, with the understanding with the agent of the insurer and the insuring company and the wholesale dealer to use his influence

with his customers and get them to take out insurance with this same company?

A. Yes, sir.

Q. And that he did do so?

A. Yes, sir.

Q. And in such cases the customers of the wholesaler in taking out their insurance would be charged a higher rate for their insurance than the wholesale dealer paid?

A. Not a direct rate, but he often paid more than his real rate was and of course they were all high as a matter of fact, but it was not a comparison to the wholesaler's rate and the other man's rate, only the other man's rate was increased. I didn't mean simply an agreement that the other fellow paid a higher rate than the wholesaler's rate. Retailers all pay higher rates than wholesalers do, anyway. Here is the fact here; the details of the case: I was representing big companies at that time and it was in San Antonio. All the wholesale men were getting very low rates and our agent there, for instance, in one particular case, I am going to state that case, he took the matter up with me and showed me the way he was charging.

Q. What is the names of these companies?

A. I will say I was working for Trezevant & Cochran at that time in my duties as special agent.

Q. President Cochran of Dallas?

A. Yes, sir. He would make these rates on the wholesale house and he showed me the way he was getting this other business on these other men. Now, if I am not mistaken, he showed me with reference to the people in the town of Campbelltown. He said "I can charge them more than their rate. People demand their insurance and I will make up for you and get you a good business and make you money on this and I can make these rates lower for that reason."

Q. Did he say "I can charge these retailers more than I can charge you or charge them more than their just rate would be?"

A. He said more than they had been paying. You understand, there was a peculiar condition at that time prevailing. There were not any regular schedule rates. He could add so much onto their rate and make them pay for these other people.

Q. Do you know of any instance in which these higher rates were charged against retailers?

A. I have just stated an instance, there at Campbellton. These cases came

up every now and then. He took me to my register and showed me. You see, I have been with the home company now for about five years and this was before I went with the home company in my work. Now, you take the other cases—I know on the other hand that something is being done, but we can not get hold of it. Lots of times we can not get in on the wholesale business to any extent.

Q. Why?

A. We have to of course conclude that the same reasons exist now as then. Since I have not been in the employ of big companies any more I naturally can not show it.

Q. Is it because you can't insure at the rate at which they are insuring?

A. Yes; we can't take the wholesale; we can't take their risks; we would not want to take part of his business at that rate simply to get his business at such a low rate unless we could get an inducement to throw these little fellows into it, but we can't take big enough policies to do the wholesaler any good.

Q. What influence was brought to bear on these retailers, if you know, to induce them to insure with the same company that the wholesale dealer was insuring with?

A. Well, they were written a letter.

Q. By whom?

A. By the wholesaler. I didn't see these letters; I was told that; that they would write them that we have, you owe us so much money and we want you to take out so much insurance to make what you owe us and in order to make this safe, we have investigated the companies and while there may be others the following companies we are absolutely certain about; I don't know that these are the exact words, but something to that effect, and we would like the policy in these companies to protect ourselves.

Q. Do you know of any instances where such a letter was written by the wholesale companies requiring the retailer to insure in some certain insurance company, and unless the retailer did that, the retailer would not be extended credit?

A. Isn't that letter—

Q. It is suggestive.

A. They said "you owe us some money, and to be safe we would like to have it in these companies."

Q. Did they say you must have it in these companies?

A. Yes—you take a fellow in this

line; you take a little fellow that owes a big fellow some money; they don't have to do a whole big lot to have him do what they want him to.

Q. Do you know the difference in the hazard or risk for the class of insurance rated with these wholesale dealers and the hazard or risk of the class that was being insured by the retailer, and whether that would make up the difference in the rate?

A. I explained to you while ago, I didn't mean that they were really charging more than the wholesaler because the rates are naturally different, but they were adding on to the prevailing rate of the retailer and were cutting the prevailing rate of the wholesaler; that is what I mean. I do not mean that they charged this man a dollar and charged that one \$1.25; these wholesalers' rates may have been \$1.25 and they cut it to 70 cents, something like that, or it might have been \$2 and they have written it at 70 cents, some such instances like that; I don't mean that, but similar cases have come up since these schedules have applied.

Q. The retail rate would be \$1.50 and the insurer would raise him to \$2.

A. Yes, or \$1.75, something like that, to make up the average; that was the statement.

Q. You know of that situation?

A. Yes, that was presented to me in my capacity in looking after the big companies' interests.

Q. When was that?

A. As I say, up to the time I left their employment.

Q. When was that?

A. I left them five years ago.

Q. Do you know whether the same conditions prevail today or not?

A. I don't know it; I can only infer it, because I am not on the inside now, you see.

Questioned by Mr. Reedy:

Q. This agreement that you have just been talking about, that the patron of the wholesaler should insure in specified companies, companies that he carried his insurance in, does it operate as an injustice and hardship or otherwise on the home company and the retailer, or otherwise?

A. Well, now, I don't think that I could say otherwise than that it did, because in the first place where he was not on the same equality to get out and get the benefit of competition because he was requested to put in certain companies, and in the next place the home

company didn't have any chances for business; that was the idea.

Questioned by Mr. Caves:

Q. Can you give us the name of any of those wholesale dealers that were involved in this question, that we may have them testify, if necessary?

A. I don't know the exact names, but it seems to me the Western Grocery Company, A. B. Frank and Company; I would not be positive about the exact names because five years ago is quite a while, but all these people got their rates very low in San Antonio, for instance.

Q. The wholesaler?

A. Yes, sir. I think that was the name of the firm; there was M. Half and Company; I think you will find something like that, particularly in my field; San Antonio was the wholesale point; that is why I can't quote you Dallas, because I was not working in Dallas. I can say this much, that you can probably find in Austin, I only know it by inference, that many of the little stores around the country are putting their business in, for instance, the Aetna and some other companies like that. I don't know the reason why; I just infer that is the reason that they give this preference; we can't find it out now. We just know it is a hard game to go against.

Examined by Scruggs:

Q. You stated, I believe, that you were here in the interest of the stockholders, to protect them?

A. Yes.

Q. I will ask you if the firm you are now telling these things on, Trezevant & Cochran, are not stockholders in your company?

A. By a peculiar accident they are, not because of any particular interest they have in the home companies.

Q. Have they stock in your company?

A. Yes, when you ask me that question I think I have a right to explain it to you. When this company was first started, the big companies were all driven out of Arkansas; they could not make the anti-trust affidavit that the State of Arkansas required, which made them swear that they were not in any combination anywhere in the world to fix rates, so the big companies were all driven out; Trezevant & Cochran organized a company of their own to do business in Arkansas during that time. I have stated before the Senate that I never had any better friends in the

world than Trezevant & Cochran, personally.

Q. I wanted to bring out the fact—

A. I want to bring out the full fact, too. We sold our stock in Arkansas about that time to a number of the agents with the idea that they were to have the company and were organized. Then Mr. Trezevant came down and said he wanted the company. I think you (Mr. Scruggs) came to see me and said you wanted the company, and I gave it to Mr. Trezevant because I had been working for him, and I understood him thoroughly and I felt that if I could show him a favor I would under those circumstances. Well, they got displeased with several agents who bought our stock, and they wanted to take up these agencies and we insisted we could not go back on the people who had bought stock from us and take the agencies away from them, and Trezevant & Cochran bought that stock to relieve them of the situation, and that is why they have seven shares in our company.

Q. This case you have related occurred several years before the taking effect of the present rating law?

A. Yes, sir.

Q. You have stated several cases, but you can not state the names of those that were connected with them?

A. I can not give the exact names, I have said.

Q. Were you working with the knowledge and consent of Trezevant & Cochran?

A. I was working as their special agent, looking after the interests of their company.

Q. You with the knowledge or consent of Trezevant & Cochran made this deal?

A. Yes, I was working for them as their special agent. I went to him and asked him why are you making this deal for this low rate, and he told me his reasons. That was satisfactory.

Q. You didn't go any further?

A. No.

Q. Your information of these things is by reason of the fact that the wholesale dealer told you he got this rate and the wholesale dealer got him business?

A. Yes, sir.

Q. Did you see the agent who got it?

A. Yes, sir.

Q. What was the name of the agent?

A. Julius M. Oppenheim.

Q. You don't think this business was

to throw you off to get you to pass on the cut rate of the wholesale house?

A. I don't think so.

Q. Don't you think Mr. Oppenheim was capable of making that kind of excuse to you in order to throw you off?

A. I don't know. There was no reason why he should.

Q. He jumped on you for cutting the rate on the wholesale house and he was getting something over here where there is a much higher rate. Do you know whether he did or not?

A. He got business where there was lower rates at Beeville, Floresville and other places where local agents had no chances.

Q. Isn't it a fact that he had relatives in each of those towns whose business he had always written?

A. No, not in each of those towns. I only know of one. That risk, of course, he got that way.

Q. Isn't it a fact that you have had recent occasion in a loss at Austin to feel aggrieved at Trezevant & Cochran and the companies they represent?

A. Yes, sir.

Q. Does that have anything to do with your testimony that you are giving now about this case that occurred when you were their confidential agent?

A. I think that reflection on me is unfair, because it was called up almost wholly unexpectedly to me. I stated before the Senate and you heard me, that I was satisfied and that the adjuster of Trezevant & Cochran was just as much surprised as I was when that big English company should throw down this business on this woman for six hundred dollars and urge her to bring suit, it was simply to ruin her business, and the adjuster was condemned by the New York manager for not jumping on the case right away.

Q. I am not talking about that case. You don't think it is possible that the local agent in this case could have deceived you in this matter at all?

A. I don't know. I say it might have been possible.

Q. You don't think it possible that it might have been the local agent's excuse in order to get you to pass on the wholesale rate?

A. I don't think that belongs to this case.

Q. Can you give the name of any retailer who paid a higher rate than he had been paying?

A. I can give the names of the towns.

Q. Can you give any names of retailers?

A. I said there was people in these different towns. I saw the names on the books. I can not name them.

Mr. Caves—I can give the name of the person in Campbellton. John Campbellton & Son. They are the only people there.

A. I take it so. I would not say positive it is John Campbellton & Son, but I think so.

Q. That they paid a higher rate than they had been paying in order to make up the wholesaler?

A. Yes, sir.

Q. Don't you know at the time you made that deal with the local agent and the wholesaler that that was in violation of the anti-trust law?

A. No.

Q. Did Trezevant & Cochran know anything about it except through you? Did you tell them about it?

A. I would not say that. I think this, I am pretty sure that I probably would, when we made some of those cheap rates that the agents would give us their business to make up for it, to make us money in it.

Q. But you didn't tell them the details you are putting into this record?

A. Don't think I did.

Q. Do you think if you had that they would have ratified a transaction of that kind?

Mr. Cureton—Of course, that is immaterial.

Q. You did not know, you say, that was a violation of the anti-trust law?

A. I tell you Trezevant & Cochran would not violate the anti-trust law, but if they can make money like that they would do it, without violation of the anti-trust law.

Q. You don't think that is a violation of the anti-trust law?

A. I don't think it is.

Q. Did the companies represented by Trezevant & Cochran know anything about this transaction?

A. I don't suppose the companies did. I don't suppose the Standard Oil directors know every time one of their representatives put somebody out of business, but they are all taught to do these things.

Q. Were you instructed to do that by Trezevant & Cochran?

A. I was instructed to make money and do business in a similar way. For instance, I would be sent to a town to cut the rate, snap up a line and take the business away. I was instructed to use

my judgment about getting the business. I don't see why you should force me to bring in Trezevant & Cochran. You are probably guilty of the same things.

Q. Can you name any case where I am guilty of the same thing?

(A member of the committee remarked that the committee should not determine what these people were guilty of.)

A. I wasn't making charges against individuals. I was just bringing out the custom of the business and Mr. Scruggs tries to mix me up with Trezevant & Cochran, and I want to say that I can cite him a case where I think his own firm at that time went in and snapped some business.

Q. Name it.

A. Were you in with Sam O. Smith when the trouble came up over the Huntsville business?

Q. I don't remember when it came up.

A. The firm that succeeded you, then, but it was just about that time. The Huntsville people were very friendly to home companies and decided to give home companies a line on each risk that had some twenty-two buildings, and we took it at the same rate they had. Either Mr. Smith was in that firm or Mr. Scruggs was in the firm, or it was right after he went out, and there was a special agent over there and told these people if you will drop out of this home company we will cut your rate on all this business down below this rate, and took it away.

Q. It is not a question of cutting rate. The question is cutting rates under an agreement to raise it on somebody else.

Q. The question is cutting the rate with an agreement to raise it on somebody else.

A. The point I am trying to bring out is they went over there and cut their own rate all to pieces to force their home company out of getting about one-tenth of the business.

Q. As special agent, wouldn't you cut the rate on any business to hold it for the home company against any company?

A. The special fight was because we were paying 10 per cent contingent to the agent.

Q. You were instructed to make a special fight against it?

A. I was in that particular case.

Q. You don't know of any case any office I was ever connected with cut a rate to increase it somewhere else?

A. I say you would cut a rate or do

anything else to get business if you was not violating the law if you knew it. I don't think that is unfair so long as there is no law against it.

Q. (By Mr. Jalonick)—I want to ask if this condition he found in San Antonio did not exist at the time he was with Trezevant & Cochran—if it was before you was special agent you found this condition when you went to San Antonio?

A. I guess I was partly to blame for it.

Q. The agent made the trade?

A. The agent made the trade, yes, sir.

Q. With the wholesaler and these representatives of the company?

A. Yes, sir.

G. H. Harris having been previously sworn, questioned by Mr. Cureton, testified as follows:

Q. Mr. Harris, where do you reside?

A. Taylor, Texas.

Q. What business are you in?

A. Secretary of the Board of Trade.

Q. How long have you been living at Taylor?

A. Been living at Taylor going on two years.

Q. How long have you been secretary of the Board of Trade?

A. Secretary since December 1.

Q. How long has the Board of Trade been in existence?

A. The Board of Trade as a permanent organization with a permanent secretary has been in existence since August 1, but it was organized with a temporary secretary July 10, 1909.

Q. What is the population of Taylor?

A. Estimated a little over 6000. I don't know what the census report is on it.

Q. Mr. Harris, you know what the line of your testimony is; I will ask you to go ahead and make your statement.

A. The trend of my testimony is this: We were down before the Senate a few days ago, Mr. Marse, Mr. Booth and myself, and we came down with a grievance. We had a mass meeting and a committee was appointed to come down here and put our case before the Senate committee and see what we could do in regard to helping local conditions. Our fire fighting facilities have been increased since 1909 and our rates have been raised, in some instances to a prohibitive rate, entirely with some merchants in some instances; just might as well give the business up. I went around and I got some data which is now in

the possession of Mr. Gilmore showing the old rate and the new rate which now exists. For instance, the Ickle Hardware Company, a two-story brick, the rate had been raised from: \$1.25 to \$5.25 on stock and from \$1.25 to \$5.27 on the building.

Q. What company did you refer to?

A. Ickle Hardware Company.

Q. Is that the new rate; is that the rate?

A. The 25 cents off?

Q. \$4.33; is that what the rate is now?

A. Yes, sir.

Q. The stock rate was \$1.25 originally, and now the rate is \$5.30?

A. \$5.30 or \$5.27.

Q. Is this a brick building?

A. Yes, sir; two-story.

Q. And a stock of hardware?

A. Yes, sir, and buggies.

Q. And the 25 per cent cut; does that apply to the stock also?

A. I suppose it does; yes, sir.

Q. Have you got the analysis of the rate for the Eikel Hardware Building?

A. No, sir, I have not; the only one I have is the one Mr. Morris submitted.

Q. Suppose we take that Morris risk, is that here?

A. Yes, sir; that is there.

Q. Well, the building, \$1 under the old rate, has been raised to \$2.41, and the stock was \$1 and raised to \$2.56; what was the stock?

A. General merchandise, groceries, clothing, shoes, hats, millinery.

Q. What do you think of that old rate, Mr. Harris?

Q. To speak candidly, that old rate under the conditions that existed—I was with Mr. Morris before I went with the Board of Trade, and am pretty thoroughly familiar with the business and precautions that were taken in the building and the precautions that Mr. Morris always exercised in the management of the business inside the store and around, it seems to me like the rate was perfectly right from my standpoint.

Q. Of course, you understand when we fix a rate, we have to fix the rate on the precaution that the average man takes. I am speaking about this particular case. You take the schedule there; he is charged, I believe, with floor not standard. Classification of the building, it is a B building; that means brick building, detached brick building, basis 25 cents; is that unreasonable, do you think?

A. Yes, sir, I do; I think all that schedule is wrong.

Q. You think the basis schedule is too high?

A. Yes, sir.

Q. The building is in block, charge 10 cents for that. What do you think about that; do you think a building in block ought to be charged a little bit more than one separate?

A. Well, it is isolated to a certain extent; it occupies the half of a block; there is an alley dividing it from the other half of the block; there is two streets, the side and front and back of the building is another street.

Q. How wide is the alley?

A. I suppose about a 20 foot alley.

Q. Don't you think if we should amend the law, we ought to fix it so Mr. Marse could offer a petition with affidavit and show that this rating here—showing the building in block was a mistake, that it occupies a block with a 10 foot exposure he should have the privilege of filing an affidavit with the board stating that is too high or too low, or whatever it may be?

A. I should think so.

Q. Additional occupants, one additional, 15 cents?

A. I expect that is the coffee roaster—the celebrated coffee roaster that has been discussed?

Q. Is there anybody else in that building besides Mr. Marse?

A. There is now—that coffee roaster.

Q. I am not talking about the coffee roaster; I think they will hit you with that down further on; that will be 50 cents when you get to that; but I am talking about these additional occupants.

A. There is one firm only in the building. In this main is the firm of T. W. Marse & Co. exclusively.

Q. I am talking about the building to which this analysis of the specific rate applies.

A. There is only one in that building. There is a millinery store on the corner, but it is in a separate building.

Q. Well, it does not come under this, then?

A. I don't know; the walls, I think, adjoin.

Q. Well, now, this other establishment, where you say there is another one in the building adjoining; who is it in there, and what sort of a building is it?

A. It used to be a bank building; it is a small building, now occupied by a millinery business.

Q. What sort of a wall between the two?

A. I think it is a partnership brick wall.

Q. Any openings in it?

A. Yes, sir; there are openings at the top; the Marse building was built there and they had these high windows—bull's-eye windows—and this building, being put up by the side of this other building, they left these bull's-eye windows in the building. I don't know but what you might term it as being—I think it is a heavy brick partition wall.

Q. How big are these bull's-eye windows?

A. They are the ordinary size; I suppose about 24, something like that.

Q. How many are there?

A. I think—I am not positive—but I think there are two.

Q. What would it cost to shut them up?

A. I suppose it would be very inexpensive.

Q. Five, ten or fifteen dollars?

A. At the most.

Q. Well, assuming that the charge of 15 cents for additional occupant would be a correct charge—

A. Yes, sir.

Q. That could be eliminated if the business that is, as we now suppose—that could be eliminated by a comparatively small cost?

A. Yes, sir.

Q. Now, the area of the building appears to be a little over 17,000 feet, with a charge of 15 cents for excessive area; what do you think about that?

A. Well, I think that is excessive.

Q. You think in making the basis schedules there should not have been so much charged for excessive floor space?

A. Not under the existing conditions.

Q. Plate glass fronts, 1 cent? What amount of plate glass front have they?

A. He has four show windows.

Q. Good size windows?

A. Yes, sir; two of them are pretty good size, and the other two are corner windows.

Q. Deficient parapets; now, what is that?

A. That is the—now, what would they call a standard parapet; those are brick parapets, with stone openings?

Q. How high are they, and what is their size and thickness?

A. Now, that; I don't know. I have never examined to see.

Q. I will see what he means by

standard parapet; page 17; well, here is what a standard size parapet is: to be not less than 12 inches in thickness, coped with stone, cement or tile, and rise not less than 18 inches above the roof at the lowest point; and he taxed you 1 cent?

A. I believe there is a part—the building has a sloping roof; the front part of the building. I don't know about the thickness; the height is standard; the front part of the building is standard; it is brick, with stone coping.

Q. Well, of course, we don't know why he charges that except he says for deficient parapets; it may be too low or not according to their standard; now, the cockloft or concealed space is charged as 1 cent on the Marse building?

A. According to that, that is all right.

Q. Now, metal cornice; he is charged with 3 cents?

A. There is something we hunted yesterday for and could not find the metal cornice.

Q. Well, that illustrates again, Mr. Harris, that there ought to be some economical method providing for the insured filing his complaint and affidavit with the Rating Board.

A. While you are on that subject, I would like to also state that the Odd Fellows' Hall is charged with a skylight, and there has not been any put in there.

Q. That only illustrates again that provision should be put into the law as above stated.

A. Yes, sir.

Q. And don't you think this about it, Mr. Harris, that when your policy is delivered to you that the company ought to be required to attach to the policy as a part of it the analysis of the specific rate?

A. Yes, sir.

Q. So as to give you a chance to show of what it is made up, and if anything is wrong, to take it up with the Rating Board and have it remedied?

A. Yes, sir; and probably some errors could be rectified.

Q. For instance, if they put anything in this list here that is not correct, it can be corrected?

A. Yes, sir.

Q. And save 10 or 15 cents on every \$100 insurance carried?

A. Yes, sir.

Q. Now, awning; one wood awning, 5 cents?

A. The wood awning; there is not any wood awnings on Mr. Marse's building.

Q. None at all?

A. No, sir; it is metal.

Q. Metal awning?

A. Yes, sir.

Q. Well, there is a charge either way, wood or metal?

A. Yes, sir.

Q. Wool floors, less than 2 inches thick, 1 cent for each floor?

A. That is what I want to explain. Mr. Marse has what is termed sanitary floors; he had the lumber specially sawed; it is inch and a quarter planks on a cement base—laid on cement.

Q. This wood is laid on cement?

A. Laid on cement.

Q. Solid cement?

A. Cement surface.

Q. In other words, the floor is really a cement floor with wood laid over it?

A. Yes, sir.

Q. Mr. Scruggs suggests that perhaps Mr. Marse's building is a two-story?

A. No, sir; it is not a two-story building. The back part of the building was built on a higher piece of ground and you just go up half-way steps to reach the ready-to-wear department; I suppose probably four steps, but that is built similar to the front. The same conditions exist there that exist in front. The floor is the same.

Q. The floor of the furnishing department is laid on cement?

A. Yes, sir. It is just solid from the first floor.

Q. What is it that supports the cement?

A. It is laid on the ground.

Q. (By Mr. Scruggs)—Here is the ground down here and here is the floor here?

A. Here is the ground here, and the ground slopes off down here and they have steps on this piece of ground; there is no two-story except the double-deck where the millinery department is. That is a gallery, I suppose about 14x16 or 18.

Q. All around the room?

A. No, sir; just in that corner of the building way back in the rear corner of the building, there is a double-deck that they use for millinery.

Q. (By Mr. Cureton)—Well, it appears then that the charge there against you is not justified by the schedule or that that is put in there on account of that deck; then that specific rate in the schedule, it should cover it and you are

wrongfully charged there and this schedule ought to be modified?

A. And, you know, under these conditions, there is no basement to the floor at all.

Q. I thing that he has got the best floor that has been testified about before this committee and the inspector ought to reinspect it.

A. That lumber was sawed especially for that floor, and is one and a quarter inches thick.

Q. Have you got any floors in your town two inches thick?

A. Mr. Marse is making a part of that grocery store floor a little thicker than that; it is still a part of this same building. In the grocery department he is putting a double floor in it, on account of the heavy traffic, a hardwood maple floor on top of the other floor, which will make it two and a quarter inches thick.

Q. So, they are going to tax you for that excess flooring?

A. Yes, sir; double flooring.

Q. Too much wood in the building?

A. Yes, sir.

Q. Well, the ceilings, says not standard, 1 cent; I don't know what a standard ceiling is; they all look alike to me; here is ceiling—wood ceiling?

A. It is a wood ceiling.

Q. Well, I assume that there should be a greater charge for a wood ceiling than for a metal ceiling?

A. Yes, sir.

Q. (By Mr. Vaughan)—Did you ever see or hear of a business house that had floors as much as two inches thick?

A. No, sir.

Mr. Scruggs—Did you ever hear of one, Mr. Vaughan?

Mr. Vaughan—No, sir.

Mr. Scruggs—Have you ever been to Dallas?

Mr. Vaughan—I have passed through there.

Mr. Scruggs—Have you ever looked at any buildings there? I expect I could show you twenty in Dallas with floors four inches thick.

Mr. Vaughan—I never heard of them.

Mr. Scruggs—If you will come down to Dallas I will take you in my automobile and show them to you at my expense.

Q. (By Mr. Cureton) Now, floor openings, there is one floor opening; what is that; do you recollect in the Marse risk?

A. Floor openings?

Q. Yes, sir.

A. I don't know of any.

Q. It says floor openings, one, 5

cents. Is there a stairway in the building?

A. There is stairway going to this double-deck.

Q. Well, now, there is a place where that building should be rerated in some way because there is no floor opening there and that charge should be taken off; there is a mistake in the rate. Skylights, not standard, fourteen?

A. The only thing that is not standard about these skylights is that it is not a wired glass; that is the only thing; there is a metal frame and heavy glass, but they are not wired.

Mr. Scruggs—It is not necessary that they should be wired if you have got the glass heavy enough; if you would put a wire net over the glass you would have the same effect.

A. Would that cover that or not?

Q. If the glass is thick enough.

A. There is an extra heavy, double strength glass; isn't that standard? It is quarter-inch glass in a metal frame.

Mr. Scruggs—If you will cover it with wire net that will prevent any spark from going through there; the idea is to protect the fire from spreading to some other building or to keep the fire from some other building from getting in there if the glass should break from the heat; that is what that charge is for. If he will take mesquite wire or screens or something of that kind and put over it to protect it to that extent, why, then, with glass a quarter of an inch thick there will be no charge for skylight.

Q. (By Mr. Cureton) By spending a few dollars he could cut it down 16 cents on each \$100?

A. He is progressive enough.

Mr. Crane—Chicken mesh is not heavy enough.

Mr. Cureton to the witness:

Q. Heating is the other one, steam or hot water?

A. Yes, sir; he uses a stove.

Q. Electric motor, 10 cents?

A. It is a coffee roaster. That is what it had reference to. That is the only motor that he has; that is the only motor in the building, that coffee roaster motor.

Q. Exposive charges—you have got exposive charges of 39 cents. What does this O. B. R. mean?

Mr. Scruggs—That means "occupied building rate."

Mr. Cureton to the witness:

Q. You seem to have a building within twenty feet of the rear which is an occupied building at the rate of \$1.63

from which they calculated an exposive charge of 6 cents. That is another building in the rear, an occupied building of \$2.26, on which they carried you 33 cents, making an exposure rate of 39 cents.

A. Could that have reference to the stables?

Q. No, sir.

A. Then what is it; there is no other building there that I know of?

Mr. Crane—If I remember right, he has in the back a stable of some kind—I do not remember, is some kind of warehouse, I believe, but it is a place where they make coffee rates. It is twenty feet in the rear of the brick building.

Mr. Cureton to the witness:

Q. Do you think exposure charges are too high, the stable and the crate factory?

A. I do not know. Mr. Marse himself realizes that the crate business would add to the risk to some extent.

Q. There is a fairly good test of it; suppose the insurance company would say to Mr. Marse if you will agree to write in your policy a clause to the effect that if the fire originates from either of these exposures, or is communicated by either of these exposures, then that the policy shall be void as against the company, would he be willing to do that and cut out the 39 cents exposure?

A. No, sir; he is too good a business man to accept it in any such way as that. He would not accept it under any conditions. Under no conditions would he accept anything like that.

Q. I was speaking to see if the exposure charge in the first place was more than the traffic would bear.

A. I think it is unreasonable from this standpoint, that the exposure you are speaking of is on a street, a wide street.

Q. Twenty feet?

A. Yes, sir; it is fifty feet wide, it is fifty feet to this exposure. That is, it is fifty feet across the street, the wide street. It is the back part of the building and the back part of the building is on another street; they have the entire width of the street there.

Q. It is marked twenty feet here?

A. The risk is twenty feet from the building, but I mean the other side, the risk faces on two streets. There is an exposure there.

Q. He had not put any exposure against you on that?

A. Well.

Q. I see the occupancy is marked

general merchandise with a coffee roaster and millinery; they make an occupied rate of \$1.97 on the building, that is the unoccupied rate and occupancy charge make \$1.97. The occupied rate being \$1.82 the sum of the various items which we have heretofore referred to.

A. That is for the key rate. Does that include the key rate?

Q. Yes, sir; that makes the total rate of \$2.36 on the building, \$2.48 on general merchandise and the coffee roaster and \$2.50 on the millinery?

A. Yes, sir.

Q. The occupancy charge was fifteen cents; that is where the coffee roaster comes in, and ten cents more for the motor?

A. Mr. Marse was advised by an insurance man that he had a gasoline motor, was that insurance man—he had a gasoline motor—he was advised by the insurance man that if he would take that out and that his insurance would be less, so he took it out and put in the electric motor and the insurance was ten cents.

Mr. Scruggs—The gasoline motor would have been twenty-five cents or fifty cents. He only charged him ten cents for it; that is correct, it is a good deal less.

Mr. Cureton—Q. What sort of a business is this coffee roaster?

A. That built absolutely as near fire-proof as it is possible to build a building of that kind. It has the cement floor and it is built cut off from the other building, entirely separated and it could burn for twenty-four hours and never connect with the other building. It is not a separate building, but the walls are so thick. It has an additional brick wall. It has fire-proof doors made out of metal with metal fastenings, which at a certain temperature will melt off and rot. That coffee roaster could burn up and never injure the other part of the building at all.

Q. How large is the roaster?

A. It has four—

Q. In what manner is it heated?

A. It is heated by charcoal. Each roaster has a capacity of two hundred pounds, I think. The machinery is worked by an electric motor and carries the coffee to the roaster and carries it away from the roaster. The floor of the furnace room is made of cement and the walls are made of brick, and it is located on the second floor.

Q. Where is the list of exceptional charges there on the other building, here

is \$2.89 as he had got it on the other building.

A. There are two for the same building.

Q. Here is a charge for exceptional charges of rubbish and untidiness, five cents. You know what that refers to?

A. No, sir; I do not know. Mr. Marse has always been very careful in that respect.

Mr. Crane—We usually find in places accumulated a lot of trash.

Mr. Scruggs—That could have been trash in the rear of this millinery establishment.

Mr. Crane—It may have been.

Mr. Cureton—This shows that this is on the box-making factory apparently.

Mr. Crane—I don't believe then that is charged up to that.

Mr. Cureton—This is in the rear of 202 Third Street.

Mr. Crane—That's the box-making establishment and a separate risk altogether.

Mr. Cureton to the witness—Q. An exceptional charge of five cents for ashes and oil waste, five cents. The building seems to be classified on a basis of \$1.15, but then there is a charge of the key rate which makes it \$1.86?

A. That is the box factory.

Q. Then he could give you an occupancy charge for 40 cents, making the occupied rates \$2.56, expositive charges, 56 cents, exceptional charges ten cents, making the rate \$2.92 on the box factory?

A. Yes, sir; that will be away within sixty days.

Mr. Scruggs—Then you will get 40 cents credit on your exposure charge.

The Witness—On the coffee roaster, too.

Mr. Scruggs—Then you will get it back down to \$1 rate.

The Witness—There is one thing that is the thing to ask. Mr. Thompson has a lumber yard there and his rate jumped up from \$1 to \$2.50.

Mr. Cureton to the witness—Q. I see his rate is marked here \$3.54 now?

A. These insurance agents got very busy and Mr. Thompson's rate is now one cent less than it was in 1909. He was ready to come down here with us; he was coming here to give a talk to the committee, but he had nothing to talk on after that was done. They took the matter up with him and reduced his rates. Don't you think he ought to have come here and talked with the committee?

A. I do not think that he ought to have come here at all.

Q. Why is it those agents got so busy?

A. Heretofore they did not seem so anxious for business, but after we came down here last Thursday it seems like they got telephone messages on Friday and after that they met on the streets and says we are willing to take care of Mr. Marse's business. We are sorry we did not get it. Before that they would sit up in their office and wait for them to come to them; didn't seem to be anxious for our business. One agent says to me, come up to my office, I want to show you something. He told me that Thompson's rate was wrong, and then I went and talked to Thompson and told him he was getting cheap rates. Another agent said that the rate was figured out wrong and that Mr. Thompson's rate was right—that it ought to be \$3 and something. The agents got busy around there, too, and Thompson says I can't go with you fellows down there, he says they have got together and my rate is 99 cents. He says you fellows keep on going down there and we will get it on down further yet.

Mr. Cureton to the witness—Q. Mr. Marse himself is going to get a lower rate?

A. I promised you gentlemen that you rely on Mr. Marse; I will say it in Mr. Marse's behalf that these errors will be corrected. Another thing that puzzled us, our fire-fighting facilities are better now than they have ever been before. Our streets are being macadamized and we have bought a chemical engine and built a new fire station and put in new hose and still the rates are increased. We have got a record as good as any town in the State, I believe. I don't believe there is any town in the State that has a better record than Taylor.

Q. Taking up the analysis of the key rate of the town of Taylor, I will first direct your attention to the water waste; the standpipe uses cushion pumps and duplicate single boilers and carried for that is made for twelve cents on the key rate. Some of the testimony that has been introduced heretofore it would indicate that your standpipe is insufficient, that the standard of the water system ought to be 110 gallons for each merchant, 50 gallons is estimated for personal use and 50 gallons for reserve in case of fire. Do you know the size of your standpipe?

A. I do not know; the standpipe is over 100 feet high, though. It is as large as you will find in any town of that size.

Q. Are your pumps in duplicate?

A. No, sir; I think not. We have two boilers there and only get credit for one. The waterworks have an ice plant in the same building, and they have this extra boiler there that they get pressure from in case of fire. We are not getting credit for that condition, and I think we ought to have credit for it.

Q. I think the key rate if it was turned over to the board will be revised, and you will get credit for that?

A. We ought to have credit for it, and we haven't got it. I believe the key rate ought to come down as low as 49 cents.

Mr. Reedy—Mr. Cureton has said something about a chemical engine, another thing—

Mr. Cureton—I was simply referring to the water facilities.

Q. I noticed in this morning's paper the following dispatch:

Taylor, Texas, August 3, 1910.

In consequence of the long drought and the scarcity of water in the Taylor Water Company's reservoirs, the company has ordered the discontinuance of the use of water for sprinkling purposes and has declined to further supply the city's sprinkling wagons with the necessary dust-allaying fluid from the city's hydrants. A temporary arrangement has been made, however, with the owners of the Williams Bros.' artesian well for a supply of water for street sprinkling purposes until the Taylor Water Company's supply becomes more prolific.

It would appear from that dispatch that your actual water supply is deficient?

A. That has occurred last year and several times previous to that. These conditions has resulted on account of our water supply coming mainly from the San Gabriel river. It is pumped five miles, and these conditions will exist unless they get an extra reservoir. These conditions have existed in the past but there never has been any serious inconvenience from it.

Q. In your rates you are not charged anything for intermittent water supply. Here is a condition that is utterly disastrous to your town, but you are not carrying anything in the key rate for it. Personally, I think you should be charged for it, because it makes a

hazard on your property and everybody else's property greater, or to a certain extent, but we have never suffered from that.

Q. That's all they do?

A. I mean in this way: This cry gets out about every summer when the least drought comes on; this is a cry sent out by the waterworks people to keep the people from wasting water.

Q. In this key rate you are not charged with that charge; they charge you on things that is almost immaterial and overlooked; the biggest charge which is your whole water proposition, the water itself?

A. I will agree with you in that; it could be a serious thing in some instances where there was any cause for loss by those conditions.

Q. He charges you of having less than 75 per cent of meters; he charges you for that one per cent?

A. Yes, sir.

Q. Your pumping station is a frame building and he charges you for that?

A. Yes, sir.

Q. It is occupied by another occupant and he charges you for that ten cents.

A. Yes, sir; that is the ice plant.

Q. Now, about frame building for the pump station; don't you believe as a matter of precaution that every town, whether it has a charge made or not, that the pumping station ought to be concrete or brick building?

A. I do; and I will state that the manager there is perfectly willing to do everything possible in that respect. We had him before us when this thing came up, and he offered to do anything possible to reduce that key rate. Under the conditions now existing, our key rate ought to be about 49 cents, and with the additions that he intends to make to the water plant in regard to moving this ice plant away from it and putting up a brick, I believe our key rate will drop down to be lower than that. I believe we will have a very fair key rate.

Q. Supply mains from reservoirs and pumping station to service distribution not in duplicate and no intermediate storage reservoir, a charge of 2 cents. Water mains not wholly of cast iron, a charge of 5 cents.

Mr. Roulette—On page 12, No. 2, water supply not according to standard, at least 10 per cent below standard, 2 cents. Probably my hydraulic engineering department can get in communication with the mayor and arrange the key rate.

Q. Was the water there at that time?
 A. Yes; I can show you the same volume of water there now in these reservoirs that was there when you were there. Our reservoir is as full as at any other time, and our water supply is what we would have under ordinary circumstances.
 Q. When the river is dry, would you have enough water to continue that supply?
 A. Well, for 30 days, yes, sir.
 Q. Would have in case of a conflagration a 30 days' supply?
 A. Yes, sir.
 Q. I would like to ask this gentleman if a gentleman at my office has not written the mayor a letter within some 60 or 90 days ago, showing how the key rate could be reduced from 71 cents to 19 or 21 cents?
 A. I have heard nothing of it.
 Q. In every town and city in Texas?
 A. I tell you I don't know. I think when you write this, you ought to send a copy of it too, if they have a chamber of commerce or board of trade, the secretary of such institution, because they are in the interests of the people and probably the mayor might overlook a thing of that kind, while it would be to the interest of me or any other of the secretaries' interest to take the matter up directly.
 By Mr. Cureton:
 Q. Fire hydrants, 50 per cent over 300 feet apart in mercantile section and over 600 feet apart in the residence section. That is a matter that could be changed without very much trouble?
 A. Will be changed.
 Q. You realize that that change ought to be made whether there is any insurance rate or not? Fire department, less than five paid men, a charge of 5 cents. Can you remedy that without expensive cost?
 A. It would be expensive. We only employ one man at present; that is the driver; he has charge of the station and the chemical engine.
 Mr. Roulette:
 Q. On the point of population, police and fire charges are based upon population. You know we could not accept the old 1900 basis; we therefore took a uniform system of securing from the mayor the population of the town, and the railroad guide population and from the city directory, if any, the population, and then divided the total of these three by three for an average. As soon as the official census is promulgated the key rate will be changed. In this case, sup-

pose the official census of Taylor shows, I think Taylor shows 6,000—suppose that the official census shows that they have only 5000, that charge for the firemen will be wiped out at once. I wanted to make that clear to the committee.

A. According to the average census given out by other towns, I expect we may have 4000.

Q. By Mr. Cureton—I will ask you (Mr. Roulette) this question in connection with the new key rate. Don't you think towns ought to be classified according to population, for instance, towns up to 15,000, we will say, ought not to be taxed in the same proportion for business or police regulations and fire departments that cities of larger size than that should pay because of the hazards of the life of a city, in a small city where the ordinary hazard is not near so great as in cities of larger size?

Mr. Roulette—The charge for police is measured, in my opinion it is not—

Q. The hazard of a town is increased by traffic, of 15,000 or 20,000; below that population, don't you think the key rate ought to be classified and its charges eliminated and made smaller?

A. No, I don't. I think you discriminate then.

(Mr. Cureton resumed examining the witness.)

Q. Hook and ladder truck, none. You have none in your town?

A. No.

Q. That is a charge against you of 2 cents for that.

A. The chemical engine is connected with it; it is a hook and ladder combination; it is a combination wagon with a chemical engine; we have not a separate one.

Q. Probably you ought to have a credit for it.

A. It is the latest.

Q. Fire marshal, you have none? Fire alarm system, you have none? You have a telephone system throughout the whole town?

A. Two.

Q. We suggested that there ought to be a credit for the telephone system.

A. That is where we get all our alarms.

Q. Ninety-nine out of every one hundred in small towns come in by telephone?

A. Yes, sir.

Q. You have no building laws ordinance?

A. We have a fire limit and have a building ordinance within the fire limits.

Q. It says "adequate building laws, 5 cents."

Q. Streets not paved in the business section. I understood you to say they are paved in the business section?

A. We have placed orders, but they are not yet paved.

Q. Overhead trolley, power or light wires, 1 cent. Conflagration hazards, obstructions, railroads and overhead hazards, fire range and shingle roofs, 2 cents. I suppose you have those hazards in your town?

A. Yes, sir. Ought we to have some credit for macadamized streets?

Q. There is nothing marked for streets not paved.

A. The residence portion is being macadamized. The main street will be of vitrified brick. We have placed the order, but it is not done. The residence portion is being macadamized as fast as we can work on it.

Q. Streets not paved in the business section, 2 cents. I think where you have paved streets in the business section you ought to have credit for it. If the theory is correct, that is, it is harder for firemen to get to a fire on an unpaved street and harder to get to the residence section on unpaved streets, there ought to be a credit along those lines, perhaps.

A. I should think we ought to have a credit for macadamized streets.

Q. What do you think of the key rate system as a method of rating, looking towards the promulgation of the incentive to towns to improve and stop the fire waste and fire hazard?

A. Well, I think it is a good thing in one respect, and I think it is bad in another. I think if you gave a just and thorough examination and have a certain example to go by, I think it is good where it does not increase to too great an expense; it is merely to force the people to improve their fire fighting apparatus and facilities, but I don't believe they ought to be taxed too heavy for that.

Q. I am not asking you whether it is too high or too low—the present one.

A. I will admit that it is necessary.

Q. But taking the key rates as a whole and taking the key rate system and analyzing the various risks, what do you think the effect will be?

A. I believe it will tend to improve their fire fighting facilities; we are figuring now on having a fire marshal. We thought if we can employ a fire

marshal and pay him a certain salary or amount of money each year—

Q. Employing fire marshals in various cities of the State would save the State something like \$200,000.

A. We figured, I forget the figures, and the merchants figured that it would save a good deal of money in the town by reducing the key rates.

Q. Insurance rates in your town; have they been increased or decreased by key rates?

A. In some instances they have been decreased.

Q. What has been the general effect?

A. The general effect is about the same, but we are not fighting that part. We didn't come here on that proposition; we are fighting the mercantile rates.

Q. We are trying to get at the whole thing, and you probably think I am on both sides of the question. As a matter of fact, I am on neither side of it. I give every man the same sort of examination. You say you have a board of trade in your town?

A. Yes, sir.

Q. Your rates prior to the taking effect of this board law on business risks and buildings were lower than they are now?

A. Yes, with some exceptions.

Q. With some exceptions. For instance, some were a dollar and they have been raised three or four dollars?

A. Yes; some were four dollars and they raised to nine dollars.

Q. Indicating that the business risks before that were either too low or else they are now too high, one or the other?

A. Well, from one standpoint you might take it that way. From another standpoint it might be that they just figured they could get more money by raising the rates. That is the inference I put on it, because I have data here that shows that insurance companies have been making money for 1909.

Q. The point I am getting at is, the rates were either too low then or they are too high now?

A. Well, to answer you candidly, we don't think they were too low, because the hazards and our rating being almost immune, we felt really entitled to these rates.

Q. I will read to you a little dissertation here, an essay by Prof. Lester W. Zartman, who is a professor of economics in Yale University, reading from page 207, his subject being "Dis-

crimination on Insurance Risks," and here is what he says. I want to see if this condition applies to the town of Taylor:

"Taking up in order these varieties of rate discrimination, we first ask why there are preferred classes of risks. These classes exist because of the desire on the part of the companies to assess rates in such a way as to arouse the least opposition. There are many analogies between fire premiums and taxes; as with governments—which have always found it necessary to levy taxes not so much with regard to the question of their being ideally just as to the question of whether they can be imposed without raising a storm of opposition—so it is with the fire insurance companies. They have found that they can levy high rates on dwellings, on contents of dwellings, on churches, school houses, public buildings and kindred risks without causing much opposition. The reason is not far to seek. The rates on dwellings as a class are low, absolutely speaking; a few people have large values, so that the premium on each risk is moderate and usually causes little objection to be made. Suppose there is some opposition to the dwelling rates; it may result in a man complaining to his neighbor that the rates on dwellings are too high, and the neighbor may agree with him; but this is about as far as the opposition ever gets. In the same way high rates on churches, schools, and similar property cause little opposition, but how different is the situation if the companies make an increase in rates on mercantile or factory risks. Practically every city has its trade organization, a chamber of commerce, or a board of trade, composed of the leading business men of the city. Even a small increase in rates on risks owned by these men makes a great deal of difference to them, for here values are large. An increase in rates on risks owned by these men means opposition—and opposition which counts, for the organization already exists by which it can be concentrated. The influence which these boards of trade and similar organizations can have upon legislation is so powerful that any rating organization thinks twice before it raises rates upon mercantile and manufacturing risks."

Q. Now, do you agree with Prof. Zartman about the general conditions of this proposition?

A. Well, I do to a certain extent.

Q. Have those conditions obtained in Taylor?

A. To a certain extent.

Q. You had a Board of Trade there?

A. But then it was not organized and in condition to take up these things. I have the book of minutes and things of that kind; it didn't amount to anything, you might say.

Q. But since the first of January when these insurance rates were put up you have perfected the organization and now have a paid man?

A. Yes, sir.

Q. The evidence heretofore has shown that the mercantile risks in this State were rated lower in proportion to the hazard than the residence rates were; I was trying to see if that condition obtained in Taylor.

A. The merchants don't pay it, the people pay it; ultimately the people pay it. The condition is this, while the merchant is being raised to a certain extent he figures a certain amount of cost on his merchandise when he puts it in his house, fire insurance and everything else, and a decrease in the value of the stock the minute it is put on the shelf, so that stock is going to cost him additional.

Q. Suppose I go to Mr. Marse this evening and say I want a pair of shoes. All right, here is a standard pair of shoes marked \$4.00. I will say, well, I will not buy this evening; I think there will be some change in your town; I will buy tomorrow or next day, and tomorrow some reduction is made in the insurance, how much is going to come off of my shoes?

A. Not a cent.

Q. What good would it do?

A. It would give the merchants an opportunity to use it as an excuse to advance prices; some of them, reliable merchants, would not, but a certain class of merchants would.

Q. What was the average residence rate in your town prior to the taking effect of the board law?

A. I really don't know.

Q. About \$1.25?

A. I suppose about \$1.25, I think that is about what it was.

Q. You actually had business risks down there in the business part of your town, even lumber yards, millinery stores, box factories, coffee roasters, paying a smaller rate of insurance than the residents have done, isn't that true?

A. Well, in proportion, yes, sir; but you take the mercantile risks, we don't class that with the residence risk in any way.

Q. But we farmers have to pay for it all in the end?

A. That is very true, it all comes out of the consumer, but you take a condition where you give some people a club to use over the farmer they are going to use it. We don't think they were too low compared with our rating now.

Mr. Cureton—Therefore, I suppose, Mr. Chairman, we would like to introduce in evidence a list of business men in the town of Taylor including the risks and rates and let it go in the record.

	Old Rate	New Rate
A. Bain, stable.....	\$5.25	\$6.31
G. B. Brieger, shop.....	3.25	6.31
F. Kutschbach, shop.....	1.40	2.59
Hoch Hardware Co.....	1.25	2.84
Commercial Hotel.....	1.60	3.22
Kooock & Co., stock.....	1.60	3.46
Taylor's Laundry.....	2.50	4.58
J. A. Thompson, lumber yard.....	1.00	3.64
J. A. Thompson, office.....		1.32
G. A. Richter, stock.....	1.25	2.30
G. A. Richter, warehouse.....	2.50	5.19
H. J. Peterson, stock.....	1.25	2.67
Frewitt Hardware Co., stock.....	1.00	2.72
T. W. Marse & Co., stock.....	1.00	2.58
T. W. Marse & Co., building.....	1.00	2.41
Fosters' Laundry.....	4.50	7.81
Taylor Bottling Co.....	1.00	2.17
Forwood Co., furniture.....	1.30	1.68
Forwood Co., stable.....	4.00	7.57
Taylor Bedding Co.....	4.00	9.33
Taylor National Bank.....	1.25	1.79
J. J. Thames, building.....	1.25	2.24
J. J. Thames, stock.....	1.35	2.55
City National Bank, building.....	1.00	1.34
J. Melasky, building.....		1.93
J. Melasky, stock.....		2.08
Wolters & Rhode.....		3.79
Booth & Mendel.....		2.79
Stasny & Holub, building.....		1.69
Stasny & Holub, stock.....		1.88
Eikel Hardware Co., building.....	1.25	5.44
Eikel Hardware Co., stock.....	1.25	5.30
W. H. Davis, building.....	1.75	3.46
W. H. Davis, stock.....	1.75	3.36
Speegle Bros., building.....	1.00	2.11
Speegle Bros., stock.....	1.00	2.20
First National Bank, building.....		1.52
Sturgis Gas Co., building.....	1.25	3.12
Sturgis Gas Co., stock.....	1.25	3.29
J. Melasky, building.....	1.50	2.60
A. E. Dabney, stock.....	1.50	2.78
F. E. Edwards, stock.....	1.25	2.78
Carl Grau, building.....	1.25	2.81
C. Schlemmer, stock.....	1.50	3.02
T. H. De Lay & Co.....	1.25	2.82
Bowers Building.....	1.25	4.04
H. Melasky, stock.....	1.50	4.25
Hague Grocery Co., stock.....	1.50	4.15
Bowers Building.....	1.25	2.41
H. Grant, stock.....	1.25	2.52
Carl Grau, stock.....		2.27
Dan Murphy, building.....	1.25	2.17
Dan Murphy, building.....	1.25	3.10
Otto Schill, stock.....	1.25	3.36
Mrs. F. T. Cook, building.....	1.50	2.15
Eckhardt & Murphy.....	2.45	7.22
Bohls Bros., stock.....	2.45	6.45
L. H. Goldstein, P. O.....	2.00	3.82
L. H. Goldstein, frame.....	3.50	7.02
Aderholt Gin.....	4.00	7.70
Citizens' Electric Light & Power Company.....	.75	1.85

	Old Rate	New Rate
Diamond Roller Mills.....	\$2.55	\$5.85
Diamond Roller Mills, warehouse.....	1.25	3.62
Hartman Gin.....	4.00	4.10
Taylor Cotton Oil Works, mill.....	2.75	3.89
Taylor Cotton Oil Works, gin.....	3.75	4.58
Taylor Produce Co.....	2.25	4.79

Q. (By Mr. Reedy)—There is nobody representing your town—rather representing the residents or residence people of your town before the board or before this committee, but merely represent the commercial interests?

A. And the residence interests as well, when it becomes necessary, but we had a mass meeting of merchants in regard to the conditions and at the mass meeting there was a committee appointed to take this matter up and come down here.

Q. You represent that interest?

A. Mr. Bowles and myself, and there was nothing said in regard to the residence rate, consequently we are putting the fight on just what was brought up in the meeting.

Q. The residence people have no complaint to make at this time?

A. They have made none.

Q. (By Mr. Jalonick)—I infer from your statement to Mr. Cureton that you think the result of the application of this present law has been beneficial in a way in that it has caused the different towns in Texas to increase their fire fighting facilities and in towns where there is no fire fighting facilities, to remove trash and improve their premises to get the benefit of lower rates as a general principle, but that there are some instances perhaps and some errors in this law that if they were remedied, but the principle of giving a lower rate to the man who has got a better risk than one who has got a bad risk is a good law?

A. I think so.

Q. Now, Mr. Harris, I am advised by Mr. Roulette that he submitted a proposition to your people, that is he advised the mayor of the town or transmitted a letter to some one down there, and I assume you have not seen it, that at an expense of about \$5000 or \$6000 that your key rate could be reduced to 21 cents; you have not seen that letter, but he advises me that such a letter was transmitted to some one in Taylor and that if these improvements were made which would approximately cost \$5000 or \$6000 that your rate could

be reduced to a possible key rate of 21 cents, I will ask you if that reduction could be secured at that expense wouldn't it be better for Taylor to make these improvements, not entirely for the purpose of securing a reduction in rate, but for the improvement in the protection of the town?

A. A reduction of the chance of fire, anything that would improve our condition, would be beneficial, but it would be at our expense.

Q. That is true, but you get a reduction in your rate that would perhaps pay a great part of the expense; that protects your property.

A. But we are having a key rate and are not getting credit for it, that is, without it improved our fire fighting facilities.

Q. But what I want from you, and you have said that the principle of the law is good, though it is subject to improvement?

A. A good deal; yes, sir.

Q. Now, referring to the Marse risk with the coffee roaster in it; the present rate is \$2.53; now, you state that Mr. Marse will take out the coffee roaster—intends to do it?

A. It has been sold.

Q. It will be removed from the premises?

A. Yes, sir.

Q. But at the same time the occupancy charge of 33 cents will also be removed and at the same time the motor will be taken out because that operates the roaster. Now, with these credits, together with an error of 3 cents—wherever an error has been made the actuary would be glad to correct it—then at an expense of perhaps \$15 or \$25 a wire mesh netting could be put over these skylights which would eliminate a charge of 33 cents. These credits, by removing the coffee roaster and where he has a roaster, together with these credits I have mentioned, amount to \$1.02, which would bring Mr. Marse's rate down to \$1.51. Now, a further reduction of 25 per cent, that would bring the rate down again to \$1.13. The board has also ordered that the charge for additional occupancy will be 7 1-2 cents instead of 15. After that is made Mr. Marse would get a rate of \$1.05 1-2. Now, don't you think Mr. Marse will have a better risk after these hazards have been removed and is entitled to these reductions?

A. I do.

Q. Wasn't that rate given to him several years ago before the coffee roaster was put in there?

A. I couldn't answer; I wasn't there at the time.

Q. I believe I can state that it was and that rate was given to him before these hazards were added, and in the operation of the present system of rating with Mr. Marse that his risks now, with these hazards removed, will be approximately the same as it was before these hazards were put in there, which proves that the increase in these rates was brought about under the present system by the extra hazards that he put in his building. We will take Mr. Eikel's hardware store. Mr. Eikel is charged—what is his rate there, \$5.25?

A. Five dollars and twenty-five cents, I think it is.

Q. Did you know that Mr. Eikel had 25 pounds of dynamite in his store at the time that rate was made?

A. I have heard so, and also that he had it in 1909 before that rate was got; these conditions are the same today as they were then with this exception, in 1909 Mr. Eikel, in the rear of his store, had a frame building. The frame building now has been removed and an ironclad building put in its place, which should decrease it to some extent.

Q. (By Mr. Jalonick)—Well, I will ask you, Mr. Harris, is there an ordinance in your town prohibiting the storage of dynamite of more than twenty-five pounds in one place?

A. I can't answer that.

A Voice—I can answer that in detail. There is an ordinance with reference to the storage of dynamite, but just how much I can't say. That is within the city limits, and there is an ordinance prohibiting the storage of dynamite and such things within the fire limits to a certain amount, but I can't state from memory just how many pounds it is.

Q. Well, don't you think, Mr. Harris, that twenty-five pounds of dynamite not only increases the hazard of fire if it should occur in that building, but it is a hazard to the life of everybody within a radius of 1000 feet of that building?

A. Well, yes, sir; and I want to ask you this question: That if he is carrying dynamite in excess of the ordinances that that is up to him and that is between him and the city?

Q. If it is between him and the city, but the city don't enforce the ordinance; did they?

A. No, sir.

Q. Now, if the insurance companies make this inspection and charge Mr. —

increase Mr. Eikel's rate 2 1-2 per cent, and by reason of that heavy penalty of one-half of his rate here—5 per cent—forces him to remove that dynamite from that building, haven't the insurance companies done the people of Taylor a service?

A. Yes, sir. Will the removal of the dynamite put his rate back to the same rate it was—\$1.25?

Q. The removal will reduce the rate two and a half per cent?

A. How much will that bring that rate down; to the old rate?

Q. His rate here is \$5.30, and when the dynamite is moved out, which may perhaps save a great many of the lives of your people, his rate would be \$2.80?

A. Still that rate is increased over what it was.

Q. Yes, sir; that is true.

Q. (By Mr. Cureton)—Now, as a business man and a man having the interest of the people of Taylor and everybody in mind, do you think it an unjust charge to have to put such a charge against the storage of dynamite as would force every merchant to take dynamite out of the business part of town?

A. I think it is a wise move from a protection standpoint, but here is what I want to get at; will the removal of the dynamite give him the rate of insurance he has been insuring for in 1909? He still is charged with an increase.

Q. Yes; I understand.

Q. (By Mr. Jalonick)—The insurance companies are doing the people of Taylor a service?

A. I will admit that in this one instance, that the insurance companies are doing the people of Taylor a favor, in this one instance.

Q. Now, Mr. Harris, there is a charge here, in Mr. Eikel's rate, of twenty-five cents for an accumulation of empty barrels and boxes on the premises; twenty-five cents. Now, as Secretary of the Board of Trade, don't you think that the companies, by making that charge here, are helping you and your friends in cleaning up the town and doing everything that is for the benefit of Taylor in making that charge to force Mr. Eikel to move these boxes and barrels from his premises?

A. I think it is. If Mr. Eikel is furnished with that schedule, and where these points are emphasized I think it is good, but if it is just massed together and he don't understand why or where, I don't think it is any benefit.

Q. I will ask you to look at this rating of Taylor, which is a public document and is filed with the Rating Board in Austin and there is a copy of it in the hands of every agent in Taylor?

A. Yes, sir.

Q. Now, right here is file No. 171, No. 548, Main Street, east side, is this property; a hardware, two-story brick building; rate on building, \$5.44; rate on stock, \$5.30. That is the property on Main Street?

A. Yes, sir.

Q. Now, right below there; I will ask you to please read this footnote in little print there; No. 1, right below there.

A. I can't make that print out; you read them.

Q. No. 1, charges six cents; in the front of this book is a defect key rate, which Mr. Eikel or any man has access to, because it is a part of the book; No. 1 is "parapets, not standard"; there is a charge for that.

Mr. Reedy—I just want to correct Mr. Jalonick's statement that this book is accessible to any man. In the city of Tyler this book is not accessible to the insuring public, and is only in the possession of the local agents of the fire insurance companies.

Mr. Jalonick—Now, for Mr. Reedy's information and those present here, I will say that these books are in the hands of agents, and will be glad for them to show them to every insurer in Tyler, how his rate is made, showing the information you may term general, and if any insurer in Texas, whose risk has been specifically rated, he can secure from Mr. Roulette an analysis showing in detail every charge that has gone into the making out of a rate. On the back of the rate-book for every town in probably all of the rate books in the towns of Texas, there is a note which reads as follows:

"The analysis of the specific rates and information as to improvements that can be made to decrease the fire hazard and the insurance rate of each risk will be cheerfully furnished, upon request, by C. B. Roulette, fire insurance actuary, Praetorian Building, Dallas, Texas."

Mr. Reedy—I want to make this further statement in that connection at the instance of Mr. Roulette that by reason of the great expense these books can not be furnished to every individual insurer, but that they are furnished to the local agents for the inspection of the general public. This statement is

made at the suggestion of Mr. Roulette, I want to make this further explanation for myself, that I made request of the local agents at Tyler for the right to inspect one of these books and was told by two of the agents that they were for their private use, and that they could not be shown to the public.

Mr. Jalonick—Just a minute. I want to call Mr. Harris' (the witness) attention to go further into the detail of the rate of Mr. Eikel, that printed in very large letters in this little book, is this notation: "Note—Twenty-five pounds of dynamite in the above building." That information is in this book, and is in the hands of every insurance agent in Taylor.

Now, Mr. Reedy, in reference to your suggestion that you are unable to secure a sight of these books in Tyler, I will quote Section 9 of the board law, the present law: "Schedules and local tariffs filed in accordance with the provisions of this act shall be open to the inspection of the public, and each local agent shall have and exhibit to the public copies thereof, relative to all risks upon which he is authorized to write insurance."

The Witness—I would like to ask Mr. Jalonick if I can get this book.

Mr. Jalonick—This one belongs to the Fire Rating Board. Mr. Roulette can send you one, and if he hasn't an extra copy, if there is an extra copy at our office, I will be glad to get it for you.

Dudley Stephenson, being duly sworn as a witness, and examined by Mr. Cureton, testified as follows:

Question. Where do you live?

Answer. At Hillsboro.

Q. What is your business?

A. I am a lawyer by profession.

Q. Are you a member of the Legislature?

A. Yes, sir.

Q. Mr. Stephenson, I'll ask you if you made any request of the insurance men at Hillsboro for information as to the preparation of comparative rates between the old and the new law?

A. Yes, sir—Mr. A. W. Young.

Q. This letter in my possession and dated July 26, 1910; is that a letter that he sent to you for your use?

A. Yes, sir; at my request.

Q. This letter, gentlemen, is as follows:

"Hillsboro, Texas, July 26, 1910.

"Dear Dudley: In compliance with your request, I have prepared a statement showing old and new fire insurance

rates and the rates reduced by the Fire Rating Board, and I enclose copy for your use.

"I wish to call your attention to the large number of reductions in rate made by the companies, and I especially invite your attention to the fact that in each case where a rate has been raised it is on account of extremely bad physical conditions. In nearly all cases these bad physical conditions can be removed and a material reduction in the rates secured at a very small cost. In some cases, as on the Masonic Lodge risk, there are a number of frame and iron clad buildings exposing, making it a bad risk. But in nearly every case the new rates established by the Fire Rating Board are lower than the old rates prevailing prior to January 1, 1910.

"A careful study of these rates will convince you that the people of our city have been benefited by the new law. Practically every residence in the city is lower, and many business risks are lower even before the Fire Rating Board made a further reduction.

"At the time this law was passed, it was generally expected that certain cities would be hit pretty hard, for the reason that they had enjoyed the cut rates at the expense of the balance of the State. Indeed, this state of affairs is the direct cause of the passage of the act. There had been rank discrimination for several years, and the Legislature determined to stop it.

"I feel absolutely certain that the Fire Rating Board is able to and will handle the situation with entire satisfaction to the vast majority of the insuring public. I know of no law that would meet the approval of the people more certainly than the one we now have, and my honest opinion is that it should be left severely alone. It is possible that the Fire Rating Board may be able to make some suggestions for strengthening the law.

"Very truly, your friend,

"A. W. YOUNG."

Mr. Cureton, to witness:

Q. Now, you have heard the contents of this letter; I'll ask you whether or not of your own knowledge you know the facts stated by him to be true or false?

A. They are true, especially with the residence rates; they have been materially reduced. I have had some experience myself. My residence under the old rate—as a rule, the insurance agents

here when our policies run out, they just write it and send it to us by mail. My policy was renewed under the old law, and my premium for a three year policy was \$33. I discovered afterwards that it was written under the new law; that is, it was renewed under the new law, and I called the agent's attention to the fact, and I got a rebate of about \$8, I think it was.

Q. Your residence rate was then cut about one-fourth?

A. Yes, sir.

Q. Has the basis of risk in the town been cut or not?

A. That's my understanding. I talked with the insurance agents, and I talked with one of them over the phone yesterday just before I left. They insist that the majority of the risks have been reduced, and especially in every case where there were no extra hazards.

Q. In the list prepared and sent to you, the first risk there is the Citizens' National Bank, for 1909 was \$1.55 and the new rate reduced it to \$1.20, and since the reduction made by the board it is now 90 cents?

A. Yes, sir; I find in the majority of

instances they are greatly reduced unless it is where they have some special hazard.

Q. I notice the risk of R. O. Potts, \$1.40, reduced to 87 cents?

A. Yes, sir.

Q. I also notice here the risk of McDonald's barber shop, it was \$1.60, and it has been reduced to \$1.30?

A. Yes, sir.

Q. You have examined the list and know it is true personally, in a number of instances?

A. Yes, sir.

Q. This represents a list of the business men of Hillsboro?

A. Yes, sir; I don't know whether that covers all the business risks or not; that is all of the risks written by all of the companies or not, those are the ones at least by Mr. Young. I don't know whether it covers more or not. It evidently covers all the business risks.

Mr. Cureton—I offer in evidence in this connection the following tabulated statement showing the comparative rates, this being the statement made by Mr. Young and sent to Mr. Stephenson, and about which he has testified:

Comparison of Fire Insurance Rates in Hillsboro, Texas.	Old Rate in force Dec. 31, 1909		New Rates promulgated Jan. 1, 1910		New Rates put in force July 11, 1910, by Fire Rating Board.	
	Bldg.	Stock	Bldg.	Stock	Bldg.	Stock
Citizens National Bank.....	\$1.55	\$1.65	\$1.20	\$1.30	\$0.90	\$0.98
Graham & Co.....	1.35	1.35	1.78	2.10	1.34	1.57
*Taylor McMillan.....	2.25	2.25	2.12	2.30	1.59	1.73
*Guthrie, Turk & Co.....	2.25	2.25	2.12	2.30	1.59	1.73
R. O. Potts.....	1.40	1.50	1.16	1.34	.87	1.00
Smith & Tomlinson Co.....	1.45	1.60	1.50	1.80	1.13	1.35
*McDonald Barber Shop.....	1.60	1.75	1.81	1.98	1.30	1.42
*W. R. Masterson.....	1.60	1.75	1.81	1.98	1.30	1.42
W. H. Ellington & Co.....	1.35	1.60	1.23	1.53	.93	1.15
J. K. Dennis.....	1.90	2.00	1.89	2.09	1.42	1.57
Hillsboro Dry Goods Co.....	1.75	1.80	1.50	1.65	1.13	1.24
Mrs. Lomax.....	1.45	1.65	1.15	1.55	.87	1.17
*Groves Howard.....	1.65	1.85	1.93	2.11	1.45	1.58
*Misses Walling.....	1.65	2.10	1.93	2.31	1.45	1.73
Collins & Cummings, office building.....	1.45	1.75	1.53	1.93	1.15	1.45
Hill Co., furniture (vacant).....	1.75		1.93		1.45	
*Western Union.....	1.85	2.45	1.93	2.00	1.30	1.35
*Express Office.....	1.85	2.45	1.93	2.05	1.30	1.39
J. E. Martin.....	1.85	2.45	2.77	2.90	2.08	2.18
Carver Building (vacant).....	1.80	1.80	2.07		1.55	
Maxwell's stables.....	2.85	2.85	2.48	2.50	1.86	1.88
Wilkerson & Satterfield, lumber.....	1.00	1.00	3.93	3.93	2.95	2.95
Sturgis National Bank.....	.85	.95	1.36	1.35	1.01	1.01
*City Drug Store, (75c excess volatiles).....	2.10	2.30	2.74	2.98	1.98	2.16
*Edens Bros., (50c excess volatiles).....	2.10	2.25	2.74	2.78	1.98	2.01
Candy Kitchen, (50c gasoline).....	1.80	2.00	2.71	2.82	2.03	2.12
Old Rock Building.....	1.45	1.60	1.33	1.51	1.00	1.13
T. B. Bond, (\$1.00 for excess volatiles).....	1.55	1.80	2.61	2.98	1.96	2.24
*White Swan Cafe, (2 occupants).....	1.95	2.10	2.43	2.71	1.82	1.96
*Metropolitan Barber Shop.....	1.95	2.15	2.43	2.51	1.75	1.82
J. M. Turk, (50c for gasoline).....	1.95	2.10	2.03	2.12	1.52	1.59
Farmers National Bank.....	1.40	1.50	1.60	1.41	1.20	1.06
Martin Bros.....	1.65	1.75	1.22	1.39	.92	1.04
J. J. Clark restaurant.....	2.25	2.40	2.13	2.46	1.60	1.85
Sweeney Bowling Alley.....	2.00	2.20	1.74	1.87	1.31	1.40
L. S. Teplitz, dry goods.....	1.40	1.75	1.17	1.35	.88	1.01
*P. Mittenthal.....	2.20	2.45	3.80	4.02	2.63	2.79
*Browning, barber and dyeing.....	2.20	2.45	3.80	4.02	2.63	2.79

Comparison of Fire Insurance Rates in Hillsboro, Texas.	Old Rate in force Dec. 31, 1909		New Rates promulgated Jan. 1, 1910		New Rates put in force July 11, 1910, by Fire Rating Board.	
	Bldg.	Stock	Bldg.	Stock	Bldg.	Stock
*†Tom Martin, groceries.....	\$2.20	\$2.45	\$3.80	\$3.97	\$2.63	\$2.75
*†Confectionery store.....	2.20	2.45	3.80	4.07	2.63	2.84
Wades Livery Stable.....	3.15	3.15	2.97	2.88	2.08	2.01
Wicker, drugs.....	1.95	2.05	1.50	1.71	1.13	1.29
Dry Goods.....	1.95	2.55	2.76	3.01	2.00	2.18
Fox Market.....	1.95	2.20	2.76	3.01	2.00	2.18
S. W. Brister.....	1.85	2.00	1.56	1.76	1.17	1.32
*Young & Estes.....	1.85	2.00	1.56	1.76	1.17	1.32
*W. H. Turner, confectionery.....	1.85	2.10	1.56	1.86	1.17	1.33
Rotan Grocery Co.....	.90	1.00	1.21	1.46	.91	1.10
W. S. Wilson & Co., lumber.....	1.00	1.00	.87	.87	.65	.65
Wm. Adam.....	1.35	1.60	1.96	2.07	1.48	1.55
Bond-Turner, old stand, east side of street.....	1.75	1.95	1.85	1.78	1.39	1.34
Bond-Turner, new stand, west side of street.....	1.65	1.70	2.18	2.25	1.64	1.69
Second-hand Furniture Store.....	1.60	1.80	1.75	2.05	1.32	1.54
Loftin Feed Store.....	1.75	1.90	2.08	2.08	1.56	1.56
Masonic Lodge, building.....	2.75	2.55	5.62	5.19	4.15	3.83
Jas. Harrington.....	4.75	4.75	6.88	5.31	5.16	4.62
Blasingame.....	5.00	5.00	6.88	5.06	5.16	3.80
Wear Hotel.....	2.50	2.50	2.32	2.37	1.74	1.78
Post Office.....	2.30	2.05	2.55	2.24	1.92	1.68
S. L. Robertson, groceries.....	1.50	1.65	3.33	3.03	2.50	2.27
J. W. Parks, furniture, warehouse.....	6.10	5.35	7.34	5.77	5.50	4.33
W. F. Dixon, furniture, warehouse.....	4.85	4.45	2.68	2.66	2.01	2.00
J. W. Parks, furniture.....	2.20	2.00	2.68	2.66	2.01	2.00
W. F. Dixon, furniture.....	2.30	2.20	3.07	3.07	2.08	2.08
R. S. Lumpkin.....	2.30	2.20	3.07	3.12	2.08	2.12
Hillsboro Grain Co.....	2.20	2.00	3.07	3.02	2.16	2.12
Hill & Meredith, (\$1.00 for gasoline).....	1.55	1.60	2.85	2.85	2.14	2.14
First State Bank.....	2.15	1.65	1.52	1.46	1.14	1.10
Moving Picture, building.....	3.30	3.30	3.33	3.34	2.50	2.51
Restaurant.....	1.95	1.90	2.19	2.41	1.58	1.74
Matthew, tin shop.....	1.95	1.90	2.19	2.31	1.58	1.66
Moore, Hunstead & Co., buggies.....	2.25	1.90	3.28	3.25	2.46	2.44
E. B. Phelps, undertaker.....	2.45	2.35	2.59	2.72	1.95	2.04
V. Tomcik.....	2.45	2.35	2.59	2.77	1.95	2.08
Chas. Gebhart.....	2.05	2.15	2.12	2.15	1.59	1.62
Monarch Grocery Co., (\$1.00 for gasoline).....	1.65	1.65	2.74	2.77	2.06	2.08
Farmers Bakery.....	1.50	1.75	2.19	2.26	1.65	1.70
Smith & Tomlinson Co., (Franklin street).....	1.45	1.60	1.82	1.92	1.37	1.44
Farmers Market.....	1.30	1.55	1.65	1.90	1.24	1.43
Flanagan Bros.....	1.30	1.60	1.21	1.44	.91	.96
*Walter & Hafner.....	2.05	2.25	3.71	4.07	2.49	2.75
*L. Brin.....	2.05	2.25	3.71	3.97	2.49	2.73
*Chas. W. Beck.....	2.05	2.25	3.71	3.87	2.49	2.65
*Hooper Drug Store.....	2.05	2.25	3.71	3.97	2.49	2.76
†Star Confectionery.....	1.55	1.75	1.85	2.09	1.39	1.57
*H. F. Robey.....	1.95	2.05	2.38	2.75	1.57	1.85
*Restaurant.....	1.95	2.05	2.38	2.75	1.57	1.85
*W. H. Hord.....	1.95	2.05	2.38	2.75	1.57	1.85
*Jno. Q. Chrisman.....	1.95	2.05	2.38	2.55	1.57	1.70
T. H. Findley.....	1.50	1.65	1.54	1.68	1.16	1.26
Robey Bros., hardware.....	1.85	2.00	1.73	2.01	1.23	1.44
Restaurant.....	1.85	2.10	1.73	2.11	1.23	1.52
Singer Sewing Machines.....	1.95	2.10	2.74	2.79	1.91	1.95
Cleaning & Pressing.....	1.95	2.20	2.74	2.74	1.91	1.95
Cockrell & Keeton.....	1.95	2.00	2.74	2.74	1.91	1.95
Sowell, Cyrus & Co.....	1.50	1.65	2.06	2.11	1.55	1.58
A. H. Boegeman.....	1.35	1.50	1.09	1.29	.82	.97
Mirror.....	1.75	1.80	3.01	2.88	2.26	2.16
Lyon-Gray Lumber Co.....	1.00	1.00	8.95	8.95	6.72	6.72
Methodist Church.....	1.25	1.25	.93	.93		
Hill County Record Office.....	1.90	2.10	2.45	2.56	1.77	1.85
Garage.....	2.10	2.10	4.66	4.74	3.35	3.41
Cleaning and Pressing.....	2.10	2.20	4.66	4.74	3.35	3.41

Dwelling rates, prior to January 1, 1910:
 Frame dwelling with shingle roof, basis rate..... \$1.00
 If flues are built from ground, deduct..... \$0.25
 If metal flues are used, add 10c to..... .25
 If occupied by tenant, add..... .25

New dwelling rates in force January 1, 1910:
 Basis rate..... \$0.38
 If flues are built from ceiling, add..... \$0.25
 If flues are built on brackets, add..... .10
 If occupied by tenant, add..... .15

Under the old rate the average Hillsboro dwelling, occupied by owner, would rate at \$1.00, plus the exposures. Same dwelling, occupied by tenant, would rate at \$1.25.
 Under our new rates the same dwelling would rate, occupied by owner, at 88c, and occupied by tenant at \$1.03. Many of our dwellings have flues built on brackets. Such dwellings would rate at \$1.00 and \$1.25 according to occupancy under the old schedule, and at 73c, and 88c according to occupancy under the new schedule.

*No Fire Wall. *†No Fire Wall.—Gasoline kept in dangerous manner.
 †Telephone Exchange, second floor.

Afternoon Session, August 4, 1910.

W. C. Dugger of San Marcos, being sworn as a witness, testified as follows:

Mr. Cureton—You may just go ahead and make your statement.

The Witness—Now, in the first place, they have rated us without any water works at all, when we have got as good a water works system almost as there is in the State. They were taking up the mains and putting down larger mains when this man was there rating the town, and how in the world he come to rate us without water works I don't know. We put down eight-inch mains, bran new mains; they had been lying there four or five months; we have a reservoir about 165 feet above the town, and we have got as fine pressure as there is anywhere in the State.

Mr. Vaughan, to the witness:

Q. Have they given you any credit for your water works system since you laid your mains?

A. No, sir; our key rate now is 89 cents.

Q. Then that charge for water works or rather for not having water works, should be eliminated?

A. Yes, sir. Then he puts us down "fire department wholly voluntary," when we keep two paid men there all the time. We keep two paid men there all the time day and night for the purpose of hitching up the horses in case of a fire.

Mr. Vaughan:

Q. Did you have the two paid men there at the time these rates were fixed?

A. Yes, sir, for the last year or two they have stayed there every night in the house; they sleep there, and when the alarm is turned in it is their business to hitch the horses.

Mr. Cureton, to the witness:

Q. Mr. Dugger, they attempted to rate your town under the book of schedules as fixed by the insurance companies, and on page 11 the 2 cents charged for fire department—you see, a standard fire department for a city is a full paid fire department, consisting of five paid men for each five thousand inhabitants or fraction thereof, and one hook and ladder truck and all men sleeping in the building, etc. That is one hook and ladder truck for so many population; goes on and prescribes the kind and character of hose to be used, etc.

A. Yes, sir, I understand that; that

is for a first-class city, and ours is a second-class town, I know that.

Q. They charged you 10 cents extra for that?

A. Yes, sir, on account of being a wholly volunteer department.

Q. Your idea is that in fixing the key rate that you should have had some credit for the fire department that you did have?

A. Yes, sir; I don't think we ought to be charged up with that 10 cents. The basis rate on a first-class town would be different. For instance, take under the old schedule, the basis rate would be about 25 cents difference.

Q. They have not attempted to follow the old schedule at all; they have made a schedule to apply to all cities.

Mr. Scruggs—What is the key rate of that town?

The Witness—Eighty-nine cents.

Mr. Scruggs—The high rate is due to the error in the exposure tables; wherever the key rate goes over 70 cents that exposure tables double up; that goes across the street.

Mr. Cureton, to the witness:

Q. You say you have a first-class water system?

A. When this rate was made they were taking up the four-inch mains and six-inch mains and putting down eight-inch mains, so unless it was that fact that made them rate us that way, I don't know what it was. We had good water works, but these mains were not large enough, and we were taking them up. Now they place the system deficient and charge us for that.

Q. How about the police system?

A. They have marked or rated that deficient too.

Q. Under the police system as put in that book of schedules it says that at least two paid men for each 2500 population or fraction thereof.

A. Well, we have only one. On the fire marshal, we have got nothing. We have none. On the building laws, we have got none. Now, on the streets—we have got every street in San Marcos in good shape; we put down cobblestones and then gravel and 'doby on top, and it is that way all over the whole town nearly. We first put down cobblestones about eight or ten inches all over the street with it and then top that off with gravel and 'doby.

Mr. Cureton, to Mr. Scruggs:

Q. If the streets are in the condition he says they are, ought there to be a charge of 2 cents?

Mr. Scruggs—A macadamized street is not a paved street.

The Witness—They are better streets than they have here in this town.

Then here is something about frame range and shingle roof; how does that apply?

Mr. Scruggs—All of your dwellings are shingle roof?

A. Yes, sir; most of them.

Q. Haven't you got some frame buildings in rows?

A. Yes, sir; off of the square. We have got on the square two frame buildings only; then when you get off of the square down towards the depot there are about five down there.

Here is the rate; I want to show you that.

Mr. Cureton, to the witness:

Q. Then this 50 cents under your statement should be eliminated?

A. Yes, sir; 60 cents it is.

Q. And the 2 cents for the paved section would make 52 cents. Then under the fire department; under the rules he has put it correctly, whether or not you should have credit for a partial fire department is a matter perhaps for the Rating Board to determine and not us. These people evidently rated it correctly according to the rules made by the insurance companies, but whether or not that schedule is correct is one that the Legislature will have to determine or some one else appointed by the law. Now, take the charge of 52 cents off, which is under your statement an incorrect charge, then that would leave your key rate 37 cents.

A. Yes, sir.

Q. Of course, if your water works system is not technically correct, with the start you have you can make it so?

A. Yes, sir; we tested it out; day before yesterday the fire company tested it and found that it was twice as good as it has ever been before.

Q. Have you got a fire alarm system?

A. No, sir.

Q. Have you got telephones over the town?

A. Yes, sir; two different systems; two exchanges.

Q. All over the town?

A. Yes, sir.

Q. Are they open at night, all night?

A. Yes, sir, and all of our fire alarms are turned in there; either get connection at one place or another.

Q. Mr. Scruggs, I think the fire alarm system for these little towns; I believe the telephone system would be

more practical and be of more service than the fire alarm system.

Mr. Scruggs—What are you going to do if you have got a telephone system in the big towns too; what are you going to do with the question of discrimination?

Mr. Cureton, to the witness:

Q. Go ahead.

The Witness—The alarm is turned in there by the telephone, and when the telephone rings, it rings the bells, one of the bells giving the fire alarm.

Mr. Scruggs—What do you do when the girl goes to sleep?

A. She don't go to sleep.

Mr. Cureton—You mean it automatically rings the bell?

The Witness—Yes, sir.

Mr. Scruggs—That's impossible, unless the telephone girl rings the bell.

The Witness—She does that; she rings it the same way, with electricity.

Mr. Scruggs—What if she is away or gone to sleep or anything of that kind?

The Witness—She don't go to sleep; it is her business to stay up all night.

Mr. Scruggs—How many are on duty at a time at night?

The Witness—One and two; two the first part of the night and one the latter part of the night.

Q. Suppose she has to go out for a call of nature for five minutes and a fire gets started?

A. We have two exchanges there, and if one don't get it the other will.

Mr. Cureton, to the witness:

Q. You can bring your key rate to 37 cents by having it correct?

A. Yes, sir. I went around and took this up and took all the rates and the best risks over the town. Turn there to page 7; I want to show you something there; that last one there on the page there, see that \$5.48 and \$4.45?

Q. What is the number?

A. Numbers 214 and 215. This B building there. The building is written until after January first—it used to be written at \$1.35. I used to write it myself, \$1.35 and \$1.65 was the highest rate put on it. It was written up on January first, 1910. Now then the rate on that is \$5.48 on the building and \$4.45 on the stock. They have got that man charged up a dollar for gasoline when he never sold gasoline in his life. He will swear that he never had any gasoline in there at all. I went there yesterday and went all through his place.

Mr. Scruggs—Any of his neighbors have gasoline?

The Witness—I don't think there is any.

Mr. Scruggs—If there was any within 30 feet of him, he would be charged just the same.

The Witness—There is some on the corner away out in the back yard. The city won't allow them to keep it inside. He has also got a man charged with an awning there who never had an awning in his life.

Q. That charge is due to a mistake of the inspector?

A. Yes, sir; I know that.

Mr. Cureton, to the witness:

Q. And not to the law?

A. No, sir.

Q. There is a charge of a dollar?

A. Yes, sir.

Q. Has this man ever notified the insurance company that he had no gasoline there?

A. He never did know what he was charged for until yesterday; I went through and showed him. You know, the agents down there wouldn't let me have this book (rate book for San Marcos). Do you know how I got this book? An agent walked off yesterday and turned his back and let me steal it. He said he couldn't let me have the book, and if they found out I had the book that he would lose his business. I wouldn't tell you today who I got it from.

Q. Now, Mr. Dugger, if we put a provision in this law requiring the insurance companies to furnish you—to furnish each policyholder with an analysis of his specific rate, as well as the key rate of his town, don't you think it would be an improvement over the present system, because it will give to each insurer the analysis of his rate, and he can then take it to the Rating Board under a system which we can devise and adjust these rates when there was any mistake; wouldn't that be an improvement in the law?

A. Yes, sir; I think so; a big one.

Q. All right; go ahead.

A. Now, let's see; on that first fellow's risk there is another error or two in that charge, \$1.05; you see the parapet walls there; they have got him charged with walls not standard parapet roof and they extend two and a half feet above the walls. I was up there yesterday evening.

Q. What is the thickness of them?

A. Thirteen inches; same thickness of the wall.

Mr. Vaughan—You think none of the parapet is less than eighteen inches off the roof?

A. No, sir; it is more than that; there is one place about two feet, and another is two and a half.

Q. (By Mr. Cureton.) That means that the walls are not standard.

Mr. Crane—No; one is a defect charge, and that is the charge for that defect.

Q. On No. 1 he is charged 15 cents for defective parapets?

A. Yes, sir; two of them is two and a half feet, and one is two.

Q. What is the thickness?

A. The two on the outside is thirteen and the other is about twelve; the one through the center is twelve; there are two buildings, you know, and on this one it is two feet and on the other one it is two and a half feet on the outside.

Q. Well, of course, if he has got the standard parapets, why he ought not to be charged with that 5 cents. That is a matter that he would probably get corrected by calling attention to it.

Q. (By Mr. Scruggs.) Do you know what a standard parapet is?

A. Two and a half feet.

Q. Above what?

A. Above the roof.

Q. Above what part of the roof?

A. Well, the basis of the roof there. Of course, if you put them two and a half feet above the comb on the roof, it would have to be five or six feet high.

Q. Do you know how thick the parapets have to be?

A. I don't know exactly.

Q. You say he has got a standard parapet?

A. I don't say that I know what a standard parapet is.

Q. You don't know whether that is a standard parapet or not?

A. I don't know what you people call a standard parapet. I don't know what the rule is.

Q. It would be eighteen inches above the highest part of the roof.

A. Well, mine would have to be six feet high; there ain't one in Texas.

Q. I can show you a dozen right out down the street there.

Mr. Reedy—Mr. Chairman, I want to call attention to the fact—I may be very wrong about it, but these individual grievances in a book hurriedly gotten up and admitted to contain some possible errors, can't serve as a guide for us in making a bill or in passing a bill that

would be effective, and I think that perhaps with two or three exceptions such as we have had, we might perhaps get along without so much of this as an economy of time and labor. I have some such special grievances as that in the book I have got, where the people have given the difference between the old rate and the new, but I feel like it would be burdensome on the time of the committee and not likely accomplish much good to take up the time to go into individual matters that way.

Witness—I don't think you have got any here where the rate is \$12.27.

Q. (By Mr. Cureton.) Where you have a rate of say \$12.27, that rate has been obtained by the simple application of the rules laid down, hasn't it; I am not saying whether the rules are right or wrong?

A. I don't know. I used to understand the old Hartford tariff. I have been out of the business for a short while—for some little time, and I understood that thoroughly. I could take the old Hartford tariff and make rates anywhere, but I have not studied that book since it was gotten out; that is all bran new to me in the last few days. I used to be in the insurance business about twenty years, and I went out, but the people seemed to think I was the man to attend to this.

Q. The old Hartford tariff, in the first place, was not always adhered to in San Marcos or anywhere else?

A. Yes, sir; possibly that one was—

Q. If it was possible to get it—when the fellow did not hammer you down to the lower rate?

A. The Hartford tariff was \$1.

Q. The old Hartford tariff made no attempt to classify the elements of the various hazards and risks; it just simply classified your towns?

A. Yes, sir, it did; just as much as that book right there.

Q. It had an analysis of that character?

A. It had something similar to that: it may not have been word for word, but it was as much a book as that and it goes on and tells you how to make these rates and everything of that kind.

Q. Now, what do you think we ought to do?

A. About this business?

Q. Yes, sir.

A. Cut out this board and let them go back like they were; that is what I would say.

Q. All right. Now, how are you going to put them back like they were?

A. Cut out the board and turn the board loose and let them go on.

Q. Now, let's see where we will be if we cut out the board.

A. Cut out this board business and let them go right back where they were.

Q. All right. If we were to cut out the law, let us see where we would be; you will find that the insurance companies have been permitted under the law to have established a legalized trust or combine for the purpose of making rates—the identical rates of which you are now complaining; you will find that they have, by employing a rate bureau, which, in itself employs some seventy-five or one hundred men, and give them a quarter of a million dollars for fixing specific rates absolutely on about 100 towns in this State, and perhaps on the greater amount of the insurable property of this State, and they have fixed these rates and fixed them so high in your town that you want the law repealed. Now, where will you be if we repeal the law and leave the Rate Bureau and leave these gentlemen already in possession here in charge of the rules that were established by a lawful trust and combine?

A. If you will leave it that way, they will be like merchants or business people; they will fix them so they can simply get together, just like they had them.

Q. They do not have to get together now?

A. Well, they will bust up.

Q. The proposal has already been made and accepted by the high contracting parties; they are already together; it is not a theory but a condition which confronts us; here is their books; every agent has their books; the combine and the trust has been made; you may repeal the law, but you can't prosecute their combine.

A. Well, it would not last long, because some of it would bust up.

Q. Why should they bust it?

A. Just like they have always done. Since I have been in business I have seen a half dozen times, some fellow will lead the way and I did business—

Q. They never did bust up until the anti-trust law put the Jalonick Rating Bureau out of business.

A. It is already out of business; whenever you knock this thing out, you put them right back under the anti-trust law.

Q. The produce of the bureau is al-

ready in the hands of every agent in the country, and they are working by it.

A. It is my idea that when you get one started to break, every one will go.

Q. Let's see if that is the right thing, the testimony here, without any contradiction and without any variance and beyond any doubt, shows that the residence rates all over the State have, in the main, been reduced some 20 or 25 per cent; there can be no question about it; it is without contradiction or variance; every witness testifies that the residence rates of the State have, in the main, been reduced 20 to 25 per cent, and that the people who carry insurance on residences comprise three-fourths of the people of the State. Now, we say that has been done under these rates and under this Rating Board; now, on the other hand, the testimony, without contradiction and without variance, shows that the business rates of the State have been raised from a few cents up to two or three hundred per cent in some instances; all right; and that the business rates of the State cover about three-fourths of the property. Now, if we repeal the Rating Board and the companies compete as you say they will compete, and the business risks cut down still in that way to have benefited three-fourths of the wealth of the State, and on the other hand, if we keep the rate as it now is, we will benefit three-fourths of the people of the State; now, with us it is money on one side and the people on the other. Which would you benefit?

A. Let me show you. Before this thing ever came up our rate on dwellings was 95 cents where the flues were not built from the ground and where they were built from the ground the rate was 70 cents; that is reasonable; nobody kicked at that kind of a rate on dwellings. Now then, on the other hand, you take our business risks and I notice that the wholesale men down there, his business rate was \$1 and sometimes he got it at \$1, and then a little fellow that is in a confectionery store there got the same rate that the other fellow did, so that there can be no discrimination.

Q. Do you know what the residence rate in your town was?

A. Yes, sir; I have got my dwelling right; today they want \$1.35; I did pay 95 cents.

Q. Your present residence rate is \$1.35?

A. Yes, sir.

Q. Now, according to your testimony?

A. Some of them was \$2.

Q. According to your testimony, and I accept it to be absolutely true, your key rate is 52 cents too high; let's take 52 cents off of \$1.35, and you would have a rate of 83 cents?

A. I paid 95.

Q. Eighty-three from 95 leaves 12 cents?

A. Yes, sir.

Q. You are 12 cents to the good?

A. I will tell you what is the matter with the insurance people right today—where the nigger is in the woodpile. If there was some way to make the insurance people get an insurance man—a man who knows values; he ought to understand the value of goods; he ought to be a man to approximate values and get such a man as that and then go to work and take a man's moral character; in case he has burned out three or four times and never had no explanation—there is where half the fires—there is where they are short.

Q. You think the moral hazard ought to be taken into consideration?

A. Yes, sir.

Q. If that is true, in case of any large amount of money which a man might receive by burning a building and increasing the moral hazard; that is to say, if he should burn the building, it would increase the moral hazard?

A. Yes, sir.

Q. In other words, here is a man here who insures with an agent for \$1000 when it is not worth \$500; that increases the moral hazard; that increases the moral hazard of the building?

A. Yes, sir.

Q. Don't you think a policy law in this State which compels the insurance companies to pay the face of the policies regardless of the value of the property is a bad law and increases the moral hazard on the houses in this State?

A. Yes, sir; that is the valued policy law you are referring to.

Q. It don't apply to personal property, but everything else.

A. I never knew it applied to mercantile risks before.

Q. How long were you in the insurance business?

A. About 20 years.

Q. That is your judgment about it?

A. Yes, sir; I tell you that we have as moral a town as there is in the

State, I expect, today. Half the fires we have had have been incendiary fires; not a question about it. If you cut that out you see the insurance companies could make some money.

Q. I agree with you exactly. I don't expect that the majority of the committee does.

A. We have some agents in our town, and an old crippled woman that lets a man—and don't know a thing in the world about it—will a man all the insurance he wants. I can tell you of a house that has burned; he came and wanted over insurance and I refused it because I knew it was too much.

Q. Don't you think that if we amend this law as I suggested a while ago with an analysis that the rate will be delivered to each policy holder and amend the law so that if the policy holder is not satisfied with the analysis made refers it to the Rating Board together with an affidavit showing for instance that a certain exposure, showing the facts about it, so that it may be tried and determined before the Rating Board with no expense to him except the cost of getting up three or four affidavits; don't you think that would be a valuable addition to the law?

A. Yes, sir.

Q. Don't you think that we ought to do that?

A. Yes, sir.

Q. Another thing: In one of the bills we are contemplating one member of this board is to act as Fire Marshal for the board with authority to appoint a Fire Marshal in every town and village in this State, the town or village, of course, to pay the Fire Marshal if he must have a salary; but of course most of them would not have to have a salary, and to appoint a Fire Marshal to see about the town and report the conditions of a burn, if we appoint a Fire Marshal according to their own schedules the way they have filed it, it would save the State something like \$200,000 a year; don't you think that ought to be put in the law?

A. Yes, sir.

Q. It would do some good, especially upon the moral hazard. We have found upon investigation yesterday that the insurance companies in preparing their general basis schedules had made a mistake in the exposure charges; for instance, they have made an exposure charge if a building is less than 80 feet when the majority of the streets of the State are only 40 feet; the companies

say to us that, admit that is a mistake and we are willing to correct that—don't you think that we ought to fix a law to compel them to correct it?

A. I think so.

Q. There is too much money involved, you know, there are so many places with streets less than 80 feet here, they would have corrected that already except for the fact that so many companies have withdrawn from the State. Don't you think that we ought to pass a law which would insure that those corrections will be made?

A. Yes, sir.

By Mr. Scruggs:

Q. Don't you think that the companies through competition would correct all of that if you would turn them loose?

A. I believe they would.

Q. Do you believe there is any law necessary to make them do that if you let them get at each other's throats?

A. I started in the insurance business with a combination and they knocked it out, the first one ever in the State; and I worked for years and they got up another one; they knocked that out. The point all the time with me was par value for what they got.

Q. Don't you think they would do that if they didn't have any law?

A. I think so.

By Mr. Gilmore:

If they got at each other's throats, as Mr. Scruggs suggested; if they got at somebody's throat; if they got risks so low that they can not afford to carry them, wouldn't they have to get somebody else's throat to make up for carrying it?

A. That is their business.

Q. This is for the public service, for the whole State, dependent upon this insurance for protection; do you think it is right to let them go to San Marcos and cut each other's throats and cut rates below cost of carrying it, and then go to Wills Point and charge some additional all around in order to make up what they lost in San Marcos? Do you think that is a proper plan upon which a public service corporation should operate?

A. I don't know about that.

Q. Let's change it. Suppose they came into Wills Point and cut rates and cut each other's throats there and cut prices of insurance down below what it costs them to carry it, and then they came to San Marcos and raised your rates a little?

A. I know men that have in rates that have run five years right now that they get less than one year's rate.

Q. Answer my question. Don't you think it is an improper way for a public service corporation to be run, discriminating in one section to make it up in some other section?

A. My idea about it is "free fight" for everything.

Mr. Scruggs—You are a Democrat.

A. Yes, sir.

Q. You are willing to take your chances on getting the best of it and let some other fellow suffer?

A. I know so much about fire insurance business, I believe it will regulate itself. One of them will cut out and cut the rate in spite of all.

Q. That is freely admitted here. This being, as you admitted, a public service which all the people must have, do you think it is a just principle for one town or one community to get the advantage at the expense of some other community where they are perhaps helpless?

A. If you people would do this and make the rates yourselves and say to them, like the Railroad Commission, I suppose that's the way it is going to be done, unless you do it that way I say turn them loose. That's my doctrine.

Mr. Scruggs—That's right.

Mr. Cureton—Now, Mr. Dugger, when a house burns there is that much wealth that belongs to the community that is wasted?

A. Yes, sir.

Q. That is known as waste, just like when a good man dies, that much wealth has passed away, and in any system whether we design it or somebody else designs it, which permits a large fire waste is a bad system?

A. Yes, sir.

Q. Regardless of combination figures?

A. Yes, sir.

Q. On the other hand, any system which conserves the property of the State and reduces the fire waste would be a better system than one which permits a greater loss and fire waste?

A. Do you know what makes the fire waste?

Q. I don't know.

A. Over insurance and moral hazard makes three-fourths of the fire waste.

Q. What I wanted to call your attention to was the condition of affairs which prevailed when the companies cut their own throats. I want to read to you two paragraphs from a little book

published in 1901, and written by a man named A. F. Dean, who seems to be well known in insurance circles, the book having been written ten years ago, as follows:

"It is in the power of the constituted authorities to abolish fire insurance; but it is not within their power to compel the sale of indemnity at less than cost; laws can not lower rates, but may do much to lower cost. Once lower the cost, and competition will lower rates.

"A comparison of existing laws and the average loss on each \$100 of fire insurance in different parts of the world shows that:

"In France, the loss on each \$100 is about \$0.06.

"In Great Britain, the loss on each \$100 is about \$0.09.

"In New York, the loss on each \$100 is about \$0.58.

"In Massachusetts, the loss on each \$100 is about \$0.60.

"In Texas, the loss on each \$100 is about \$1.10.

"In Arkansas, the loss on each \$100 is about \$1.31.

"The average loss in Arkansas and Texas is about twice as high as in New York and Massachusetts; thirteen times as high as in Great Britain and twenty times as high as in France.

"The official statistics show that for the eighteen years ending January 1, 1898, the net underwriting profit loss for each dollar of premiums received by the companies in the States named has been as follows:

	Net Loss.	Net Profit.
In New York.....	.00	.05
In Massachusetts ..	.00	.03
In Texas02	.00
In Arkansas01	.00

"While the average underwriting profits of England and France are not obtainable for comparison, the business of those companies is free from the wide fluctuations in loss ratio which have made it so hazardous in this country and underwriting profits have been small but uniform, at rates which seem amazingly low from an American standpoint.

"In France, where the cost is lowest, the code of Napoleon provides that every person is personally liable for any loss, damage, or injury caused by his own carelessness or negligence. Under this law, the presumption is that every fire is caused by the act or neglect of the tenant and the burden of proof rests with him to show that the fire origi-

ated from a defect in the building or from some cause beyond his control. In the absence of such proof, the tenant is responsible to his landlord and neighbor. If the fire originated from defects in the building, the landlord is held responsible to the tenant and to the owners of adjoining property."

Q. What I want to call your attention to is that under the competitive system in Texas the loss is \$1.10 or nearly twenty times what it is in France, over ten times what it is in Great Britain and nearly twice what it is in New York City. Do you think with this experience before us for the purpose of conserving and preserving the loss of the State and destroying the fire waste of the State it would be best for us to wipe out this thing and let them go back like they were before?

A. It looks to me like it is a moral hazard right there. If you had some way of stopping over insurance—

Q. Let's take it this way; here are the key rates and specific rates; isn't there a possibility for merchants to reduce their specific rates and towns to reduce their key rates if competition is a good thing—here is one merchant, one of the leading merchants on this block and one on this block; this one takes the key rate system, makes the necessary repairs to reduce his fire insurance, and this one neglects it and pays no attention to it, and consequently endangers the life of the whole community. Now, if competition works, why won't it work to reduce the fire losses in this State under this system?

A. I suppose it will when the people have a chance to find out what it is.

Q. Don't you think it is better to seek to reduce the fire losses than for these companies to seek to cut each other's throats.

A. Certainly. I don't want to see them cut their throats, but I don't think you have got the right thing yet to get this thing down. If you will pass a law to force them to get the confidence of the people and stop over insurance and then if you find a man with a bad character, pass him up—

Q. Here are twenty men in this town who take insurance, one is a man with a kind of a bad character, you turn the

companies loose in competition, I want to know if the man with the bad character will stand any chance of getting insurance?

A. He would come nearer getting it under a high rate than under a cheap one.

Q. Wouldn't agents, when cutting each other's throats, agree to take larger risks on rotten buildings than otherwise? What does competition mean but getting business?

A. Certainly. You take these rates as they are and a fellow don't think he has to go out to get business; he sits in his office and waits for it to come, but when he knows he has got to rustle for it, you will see him get out.

Q. The greatest trouble with this law is lack of knowledge on the part of the insuring public as to how to fix their business to cut down their insurance as it was before, or about that?

A. Yes, sir. I took that book (indicating) to a dry goods man and showed him his rate. Up above he has got a skylight, he showed me his skylight, got glass over it, a metal frame and also a wire and steel; they have him charged up with that, and he was perfectly astonished.

Mr. Vaughan—Here is a letter from R. E. Ward of Georgetown, containing some comparative rates; if there is no objection, I will ask that be made a part of the record.

(Letter as follows:)

"Georgetown, Texas, July 31, 1910.

"Hon. W. S. Brookshire, Austin, Texas.

"Dear Sir: I failed to get a hearing before the committee yesterday on account of the number to be heard. I inclose you statement of some of the mercantile risks in this town, and you may use it as you think best. I was in the committee room quite a while, and am satisfied that they are determined to do something, and I do not think it necessary for outside parties to make further showing as they are now stirred to action by urgent necessity. I wish to add that residences rates in this town are increased from 5 to 41 per cent. Yours most truly,

"R. E. WARD."

ASSURED.	1909		1910	
	Bldg.	Stock	Bldg.	Stock
J. J. Patrick, grocery.....	\$2.15	\$2.05	\$3.05	\$2.96
E. F. Booty, dry goods.....	1.80	1.75	3.65	3.40
Georgetown Grain Co., grain.....	1.45	1.45	3.31	3.05
Geo. N. McDaniel, hardware.....	1.65	1.80	3.51	3.24
The Fair, dry goods.....	1.20	1.50	3.72	3.50
Sam Henderson, dry goods.....	1.30	1.30	2.53	2.41
New Bank Building (vacant).....	1.40		1.93	
Stromburg-Hoffman Co., dry goods.....		1.30	1.57	1.51
Farmers State Bank.....				
Heard & Anderson, grocery.....	2.00	1.90	3.68	3.17
Lindell, Peterson & Hamilton, hardware.....	1.95	1.90	5.97	5.43
Mann. Drug Store.....		1.85	3.41	2.86
Wilcox Jewelry, jewelry.....	2.50	1.90	3.92	3.44
Burkhardt, barber shop.....	2.50	1.90		
O. K. Grocery, grocery.....	2.30	1.85	3.12	2.43
Brencky, confectionery.....		2.35		2.53
Carl Burkhardt, confectionery.....			2.07	1.86
Price Bros., grocery.....		1.60	3.12	2.57
Ford.....				
Stone, drugs.....	1.60	1.60	2.84	2.63
Magee (Good Luck Store), dry goods.....	1.75	1.50	4.89	3.85
Harty, grocery.....	1.65	1.65	3.12	2.73
The Toggary, gents' furnishings goods.....	1.65	1.65	3.12	2.73
Alcove, confectionery.....		1.70		3.37
Richardson, books.....		1.30		2.93
Rountree, printing office.....	1.75	1.75	4.12	4.73
Mood, grocery.....		1.50	2.35	2.11
Long, drugs.....		1.95	3.51	3.25
I. O. O. F., building.....	1.50	1.50	2.31	2.09
Glasscock, buildings.....	1.25		1.67	
Sun Office.....		2.20	3.87	3.21
Pool Hall.....	4.05	3.75	6.00	4.99
Barber Shop.....	4.05	3.75	6.00	5.68
Davis.....	1.55	1.85	2.18	2.15
Talbott, building.....	1.30		1.74	
Locket, mercantile.....	1.30	1.30	1.74	1.60
First National Bank.....	1.50	1.85	2.94	
Belford.....	1.25	1.25	3.49	3.32
Griffith.....	1.25	1.25	3.67	3.57
Oil Mill.....	3.95	3.95	4.42	4.42
Farmers Gin Co.....	4.00	4.00	6.04	6.04
Georgetown Gin Co.....	4.50	4.50	5.85	5.85

Mr. Vaughan—Here is a letter from Mr. L. E. Wolff of San Antonio with reference to the co-insurance clause; I will ask that also be made a part of the record.

“San Antonio, Texas, August 2, 1910.

“Chairman Committee on Insurance, House of Representatives, Austin, Tex.

“Dear Sir: Pardon me for presuming to take a few moments of your time. My twenty years' experience as State and city superintendent of schools has convinced me that the great army of boys not destined for the professions should give as much time in school to industrial training as books. Accordingly, last September I established the L. E. Wolff Vocational School for Boys in San Antonio at great sacrifice of money and comfort. When a month ago my shop containing more than \$5000 of wood and iron working machinery was destroyed by fire, I learned for the first time that the co-insurance clause was in

my policy. Having insured only residences heretofore, I was ignorant of such a clause. In view of the vital importance of the co-insurance clause, it would seem to me advisable to require this clause printed in bold type, possibly in red. I find that many very intelligent citizens here have no idea whether there is a co-insurance clause on their policies or not. Another thing: I find that the State Board of Underwriters, through Mr. Crane, has placed as high a rate upon my industrial school as if it was a commercial shop. This will tend to discourage and cripple similar schools. I am wondering where a similar high rate is being placed on all manual training schools in the State. If so, this will discourage a movement for manual training schools in which the best people of Texas are deeply interested. Again, would it be wise to compel insurance companies doing business in Texas to pay the loss promptly after adjustment instead of sixty days after

adjustment? I think few policy holders realize, till they have had a fire, that their money for damage cannot be paid without discount before sixty days after adjustment. Again, should a vacancy permit be permitted to reduce the insurance company's liability? I have wondered whether the danger from fire is as great with the electric current turned off or the lamps and candles unused and fires for cooking and warming not in use in a vacant house as in an occupied house. Trusting that I have not trespassed too much upon you time, I am, yours very truly,

"L. E. WOLFF."

Morning Session, August 5, 1910.

H. L. Wright, being duly sworn and examined by Mr. Cureton, testified as follows:

Question. What is your occupation, Mr. Wright?

Answer. I am a member of the State Fire Rating Board.

Q. Have you had any experience in the insurance business?

A. Yes, sir.

Q. What place in the State?

A. At Palestine, Texas.

Q. Have you had an occasion to investigate the question of insurance since you have been a member of the Fire Rating Board?

A. Yes, sir.

Q. To what extent?

A. Well, I have gone into it thoroughly; we have gone into it as thoroughly as we could with the time that we have to work on it.

Q. You held a public hearing in Ft. Worth and San Antonio, I believe?

A. Yes, sir; we held a public hearing in Austin first, and then went to Ft. Worth and held a public hearing and later came back here and still later on we held another hearing in Austin. The board, that is, the individual members of the board, went to different cities in the State, but did not hear a public at each place, but simply went there for the purpose of investigating the condition.

Q. Did you know the condition of the fire insurance business prior to the taking effect of the Fire Rating Board law?

A. Yes, sir; it was in a very demoralized condition, and discrimination reigned generally.

Q. Could you give an illustration of the discrimination?

A. Yes, sir; I guess you want it as broad as you can get it?

Q. Yes, sir.

A. I was in the insurance business for twenty years in Palestine continuously before I went on this board. My operations as such as is extended all over the line of the International and Great Northern Railroad Company in Palestine. The International and Great Northern Railroad Company, you know, runs from Longview to Laredo and from Mineola to Galveston and Ft. Worth to Houston. I used to write a good deal of business for the International and Great Northern Railroad Company as well as local business right at home. The discrimination extended throughout the entire territory. To be specific, I wrote the cotton insurance for the I. & G. N. R. R. Co. one season throughout the State, and in that way my operation covered the unprotected towns and the protected towns where there were no compresses. The companies had local agents where there were compresses; of course, we did not write insurance where the companies had local agents situated.

Q. What did you write the cotton for?

A. Do you mean the rate? We wrote that for 2 1-2 per cent.

Q. What rate was paid locally?

A. Palestine was a protected town, and we wrote cotton there for 3 per cent and we wrote the farmers and merchants for 3 per cent and we wrote the compress people for 2 per cent; all of this cotton was located right there on the same platform.

Q. In the compress yards, I suppose, they had some means of putting out fire, too?

A. Yes, sir.

Q. I notice here in the memorandum that you have given me, I notice you make a statement with reference to wholesale groceries in Palestine.

A. Yes, sir; the average rate of the wholesale groceries for 1909, 80 cents. The average rate for the retail groceries for 1909 was \$1.58; that was the average rate for Palestine. The wholesale groceries had a combination; they would come to us and want insurance for a certain rate; we assumed that they had a combination for this purpose. They would tell us that they would give us their insurance if we would let them have it for a certain rate, and if we did not give it to them for that rate, they would give it to other companies. Formally, of course, we would write it at their rate. In the early part of 1909 we wrote the Moore Grocery Company for 90

cents. They wrote us later on that they had a rate made them for 80 cents, and if we could not write it at that rate, that they would give their's to somebody else. We took the matter up with our companies, and finally we had to write it at that rate. We had the same experience with the compress people. The business was in a very bad state of demoralization, and this demoralization seemed to start in San Antonio. In San Antonio they cut the compress to \$1.75, and the people interested in the Palestine compress were also interested in the San Antonio compresses, and they made a demand on us that we cut the rate to \$1.75, and I told them we could not do it. Mr. Manager of the compress was a friend of mine, and he said if we would cut the rate 2 per cent that he would let his policy stay with us, but if we did not he would send to San Antonio and get his insurance.

Q. You say that the local agents of the compress got his insurance for 2 per cent, while at the same time you would charge the farmers and merchants 3 per cent for cotton on the same yard?

A. Yes, sir.

Q. Why was that?

A. As I have just explained, the compress people there had an interest in the compresses all over the State, and their business was big enough to be an inducement to hammer down the rate, while the local buyers did not have that kind of influence to bear. It was just like the railroad company. They ask us to give them a rate on cotton; they ask us to bid against the San Antonio agent, and told us that the same time we were bidding against the San Antonio agents. We bid 2 1-2 per cent and we got the cotton on the ground.

Q. I notice here you have made some notation about marine insurance companies and you have stated here that the marine insurance companies were a very prolific force of demoralization. It seems that they run the shore risk at the same rate. Do you mean that the marine insurance companies were a source of demoralization?

A. It is true that they were a great source of demoralization. In support of that statement, while I was writing this cotton scattered all over the State for the railroad companies, the Bryan compress burned and a big lot of cotton was destroyed by fire. The marine insurance companies undertook to put the responsibility on the railroad company, and claimed that the engines of the railroad company set the compress on fire. The

claim agent of the railroad company took the matter up and settled the law with us on this cotton that we have been writing, and we got the money for it, and afterwards he came to see me about the compress at Bryan, and I told him all that was going on. I told him I would undertake to get up the evidence with reference to the matter, and I did get it up. I got a letter from the company on that particular business, a letter from the Royal Insurance Company, the biggest fire insurance company in the country.

(By Mr. Scruggs.) There may be larger companies, but they don't confine themselves to fire business?

A. That is what I mean.

Q. Yes, the largest exclusive fire insurance companies in the world.

A. I had this kind of a letter; I wrote them that the marine companies were figuring on suing the railroad and had threatened suit; were holding up the matter, and the reply to my letter was, this language was used in reply, practically: the fire companies have paid the marine companies this loss, for we ourselves have participated in the payment of the same and hold their receipts for the money. I simply turned that letter over to the railroad company, and said if I was you fellows I would advise you to sue. Well, they never brought any suit. That settled it.

Q. That was a peculiar state of affairs—remarkable.

A. It is just that way.

Mr. Scruggs—It is just that way. That testimony is correct.

Q. I think I understand what you mean by shore end of the marine business; for fear I do not and to get it in the record entirely clear, I would like for you to explain it.

A. It is cotton located in the yards and around compresses in other points where it is concentrated to go on the cars to be carried to the ship's side, and when it reaches the ship side and is put on the hold of a ship it ceases to be shore cotton; it is shore cotton up to that point under that rate.

Mr. Scruggs—This is a simple definition. Is that at the shore end at that time cotton remains on the land, wherever located?

Mr. Cureton—Q. And that is after it has been billed for shipment.

Mr. Scruggs—With through bill of lading.

Mr. Wright—Beg pardon. They take it before ever there is a bill of lading signed; Ikey, and Jakey, and John, and

Tom, will take cotton and claim their export just for the purpose of getting the low rate on the cotton when they never exported a bale of cotton in their lives, and they get behind that, and the marine companies get in behind the fire companies, and they take it at a low rate and charge them a low rate when they have it on the same yard. Ain't that true?

Mr. Scruggs—I don't think it is.

Mr. Wright—I think it is; I think that letter of mine substantiates it.

Mr. Scruggs—It is true that they insure cotton wherever located, but it is not true that they insure it under the same kind of policy.

A. It is not reasonable that a marine company is going to pay a fire company a higher rate than it gets from the man who is taking the insurance.

Mr. Scruggs—It is true, I think, for this reason: that marine company has the cotton a good length of time while it is on the water, percentage and chances for fires on the water are much less than on land, and the marine companies made an average rate on cotton both on water and on the land, an equalizing rate clear through, which is lower than the rate of the fire insurance company of the land. By that means they get these contracts Mr. Wright is talking about, and by that means they get these fire insurance companies to take the shore end that the fire insurance companies may reimburse the marine companies for any fire that may occur while on land, the marine companies all the while retaining their water part of it. When they pay for that land end, my understanding is that they pay a little higher rate than the average rate that they charge for the whole thing.

Mr. Gilmore—Why should they wish to reinsure at all?

A. Because they are afraid of the land end of it.

Mr. Wright—I can say this in reply to that: if they did not insure the public would not have insurance for the reason that the marine companies haven't got as much as a million dollars asset and the amount of their insurance is largely in excess of that—

Q. I want to bring out the point that marine companies insure on a higher rate on a higher hazard than on a lower hazard; I have always understood that the marine insurance companies took reinsurance from the fire insurance companies at a higher rate than the marine companies charged.

Mr. Cureton—Reinsurance in the fire

companies by the marine companies, that is handled through the general offices of the fire companies, for instance?

A. Yes, sir.

Q. For instance, it probably would be handled in London or Edinburgh or New York?

A. Yes, sir.

Q. Consequently that part of the premium would not show in the profits or in the gross receipts of the company operating in Texas; for example, let's take Mr. Scruggs' company, the Williamsburg City—it might insure or re-insure for some marine companies a large amount of cotton exported from Texas ports, and that would be done at the home office and therefore what it received would not show in Mr. Scruggs' report to the Insurance Commissioner as Texas business?

Mr. Scruggs—You are mistaken; it would show; the report is made at the home office, but the companies would pay no expense on it, no commissions to local agents; they pay taxes of the State and town, but don't pay me anything or do not pay the local agent anything.

Mr. Wright—By reason of the fact that they assume that risk and it is a big risk, cotton is probably the biggest risk of all other products during the season, and because they assume it at so much lower rate it brings the general average down low and the little fellow has got to carry that heavy load to make up that difference.

Mr. Cureton—You think that we should so frame the bill as to make these rates cover the shore end of the marine insurance?

A. Yes. On that point again: I talked with one of the leading exporters of the country, who was a friend of mine; placed his business with me all the time I was in business while he was there, and he remarked to me in a conversation one day that it didn't make any difference how much lower rate they got, the producers did not get any benefit of that because they used that to their advantage to get a better deal in the old country, the foreign country where they exported the cotton to.

Mr. Gilmore—Under the present law, hasn't the board authority to deal with the shore end of this insurance?

A. No; not in the marine.

Q. But you have in the local companies in reinsuring?

A. Yes; with the marine, but under the present law they have got to file their basis schedule with us, and if they rate this marine at a lower rate than

its schedules call for, they are subject to have their authorities revoked.

Mr. Hamby—Let me make a statement: As to the board having any control over the insurance of the marine, shore end of the marine risk, now I feel that we haven't under the present law, for the reason that the Attorney General has held, at least in formula, that in his opinion the present law does not contemplate that the board should have jurisdiction over the rates of any property that has no fixed location or fixed condition, and marine risks do not have that fixed location. I feel like we are tied, our actions are bound by his opinions in that matter. Certainly the law is not specific. The board has held that Section 7 of the law which says no company shall engage in or participate in the insurance of any property located in the State would bind an insurance company. We feel like even though an insurance company does not issue a direct policy to the insured that by reason of undertaking a part of the hazard for the company that has issued a direct policy it is participating in this insurance in a way. It is not participating directly, but it is participating in the premium derived from that risk.

Mr. Terrell of Bexar—If we should make this law covering all companies writing fire insurance business in this State, regulate the rates of all companies writing insurance in this State, so far as their business applies to this State, would not that get all?

A. I think the law ought to be very specific on that point.

Mr. Wright—I do, too; because they try every way to get out, the marine companies.

Mr. Terrell—What I was getting at: I wanted to make it as general as possible so that none of them could slip out from under it and would not every company writing fire insurance business in this State—

A. Or issuing policy or contract that undertakes the hazard of fire.

Mr. Cureton—Whether the property is fixed, movable, stationary or in transit?

A. Yes; we want one to get it all.

Q. (By Mr. Cureton.) Now, Mr. Wright, is there anything else that you desire to state to go into this record?

A. I had a memorandum. I don't see it here; let me see—on this point.

Q. (By Mr. Reedy.) While you are looking up that memorandum, I would like to get a little information on this

proposition: whether the board ought to have control over these local mutuals?

A. You mean these county mutuals?

Q. Yes, sir.

A. Well, as long as they are confined to their own county, and it is just simply an individual contract, I don't know whether you could frame a law to take them over; for instance—

Q. (By Mr. Terrell.) Can't we frame a law giving the right to employ inspectors to inspect all companies, mutual or otherwise?

A. Yes, sir; I think everything ought to be under the direction of this board that writes fire policies, absolutely. It is not only unfair to the companies, but it is unfair to the assured not to do that. Now, we had brought out in our hearing here, a man got up and he testified that one mutual concern had paid 60 per cent in dividends. That was a lumber man from San Antonio by the name of Hilliard. I guess you may know him.

Q. (By Mr. Reedy.) Let's distinguish between local mutuals and mutuals doing a general business.

A. Yes, sir. This was doing only a purely mutual business, but was doing it all over the country, and my recollection is that the headquarters of it was in Kansas City; I don't think they have a right in Texas to do business, because they are what you call reciprocals, and Judge Hawkins ruled a while back that the Texas law did not have any jurisdiction over them. I think they ought to be placed under the law.

Mr. Gilmore—To be specific with reference to Mr. Reedy's question, I recall that we have a printer's mutual.

A. Yes, sir.

Q. Which is really—

A. Accident concern.

Q. No, sir. It is purely a mutual affair that we go into, and I haven't got any insurance in it myself but probably will have, but we agree to assume our own risk. We join together in an association—

Mr. Scruggs—It ought to be this way: That a company operating for mutual purposes and not for profit.

Q. That is the point I am bringing out. That ought not to be under the board.

Mr. Scruggs—A mutual company operating for the benefit of its members and not for profit, they should be eliminated.

A. That is what—

Mr. Scruggs—Operated for the benefit of its subscribers and not for profit.

A. I think they ought to be exempted, because they do not do any business outside of themselves, and it is a co-operative affair.

Mr. Scruggs—But the trouble is, like the man in San Antonio who says he is running a mutual company and he is running a stock affair business.

A. That ought to be put under the law. About these mutual companies, a good many years ago here, the stock fire companies were having trouble with the anti-trust law. There was a suit filed and the Legislature passed a law, about three or four lines long, permitting the organization of mutual fire insurance companies; that was about the language used. They just flooded this State with them, and they would go out and get a wagon at a railroad station and go all through the country and haul the farmers in, and just give them a chromo almost to get them to insure. The result was that lots of farm houses burned up, and some of the houses have never been paid for. I will give you a specific case so as to back up what I say. There was one organization in Austin named the Home Mutual. Mr. Hancock was a member of that company. Mr. Hamby was then their secretary. They went out over the country and in all parts of the country—I had been in the insurance business a long time and was pretty well identified with the people, and I tried to explain to them that these things had no standing; they could not get their money if they burned. Well, they would say, you have been connected with the old line companies and working for them, and you are just talking that way because you don't want these companies to get the business. I said that is just where you are mistaken, and if you insist, I will take one of these mutuals and you can take your choice, but I am going to tell you in advance, you are liable never to get your money, and they insisted that I give them insurance in the mutual. One fellow was a friend of mine; he had a little store out in the country, and the mutual companies offered him about half the regular rate, and I wrote him, and he burned, and he hasn't gotten his money yet. He got a compromise, and got probably 15 per cent; I don't remember the exact amount, but it was a very small amount; and another fellow wanted a tornado policy, and he took it in the mutual because he got a very much lower rate; then it blowed down, and he got a very small compromise; very much smaller than he should have

gotten in proportion to the rate he paid. Later on, that company went into the hands of a receiver, and the Insurance Commissioner filed suit against those people to make them give up—for an accounting; he filed suit for an accounting. My recollection is that he told me that was the case; and they compromised after a while with the creditors by paying over \$10,000 to be disbursed by the receiver, and that was just spread out, and it was a little more than the premium returned to the people. Just such small concerns as this, who get a desk in one corner and go out and sell mutual policies—

Q. (By Mr. Cureton)—Do they get a charter?

A. They got a charter in those days from the State, but they do not now.

Q. (By Mr. Reedy)—Now, right there; are those the stock mutuals or the local mutuals that you are talking about now?

A. I was talking about what they call the State Mutuals.

Mr. Scruggs—He is talking about what we insurance people call wild cat insurance.

Q. That law has been repealed, so that now mutual companies organize under the laws of the State, and if properly handled, is not an unsafe proposition, if they are confined to what they are doing. The law now provides that they must have as many as one thousand policies, the premiums on which will amount to \$10 each. They can give that in notes or otherwise—pay it in cash. Then when they pay that in, they can get a charter from the State. Now, 60 per cent of that is to be put out at interest for the protection of the policy holders and the other 40 per cent may be used by the organizers in the payment of expenses.

Mr. Scruggs—The difficulty lies in the fact that there is no way to see whether or not they are complying with the law after they get started.

A. They do not have to do anything more than that on those mutuals. Now, then, each policy, as I understand from one of the managers who was talking to me about it, provides that if a loss occurs that the policy is subject to an assessment to pay that loss. Now, I have a copy of the charter of two of them right in my office now, and a copy of the by-laws of one of them. One is called the Ginners' Mutual of Tyler, Texas, and the other is the Millers' Mutual of Fort Worth, Texas. Now, those are regularly organized, mutual concerns, and I am sure, in talking to Mr.

White, that he would have no objection to be under the law, and he told me he thought they ought to be. Mr. White limits his insurance to gins exclusively. The Millers' Mutual of Fort Worth writes on grain and mills and things of that kind. They do not start out and do a general business, but they come in competition with the other companies that do write gins.

Mr. Cureton—I know that is the history of insurance; that during recurring terms of years the mutual insurance proposition takes the country.

A. That is it.

Q. And up to the present writing, so far as the history goes, it has always been disastrous?

A. Yes, sir; as a general proposition. Some mutuals in the country are very strong institutions, but they are very old institutions.

Q. Of course, you understand the suggestion I make does not apply to county mutuals such as exist in this State?

A. No, sir; such as the printers' mutual.

Mr. Scruggs—Mr. Wright has referred to the connection of Mr. Austin Hancock with the Home Mutual Insurance Company of Austin and the failure of that company, and the fact that Mr. Hancock afterwards organized the Austin Fire Insurance Company. This is the same Hancock who was a member of the firm of New York Brokers, known as Wildon & Hancock?

Mr. Wright—Yes, sir; I have been in his office in New York.

Mr. Scruggs—In the discussion of this firm of brokers yesterday by Mr. Holbrook, from Galveston, I made the statement in explaining who Wildon & Hancock was, that Mr. Hancock had had this mutual company who had robbed the people; that he organized the Austin Fire Insurance Company and had gone into San Francisco with it and had bursted the company in San Francisco.

In justice to the Austin Fire Insurance Company I wish to say that that in no way reflected upon the standing of the company in this State; nearly all fire insurance companies operating in San Francisco went broke by the San Francisco fire. The Austin Fire Insurance Company was in better fix than some others because they were able to reinstate themselves by making their capital stock smaller, and it was unnecessary for them to call upon their stockholders. There was never any time when the company was not able to pay

all of its liabilities, but it had to readjust itself after the San Francisco fire. I want that to go in the record because the public might consider that my statement reflects on the Austin Fire Insurance Company as now managed and as now constituted.

Q. (By Mr. Terrell)—Mr. Wright, do you believe we ought to have a uniform rate or a maximum rate?

A. Well, I have thought a good deal about that since this came up, and the suggestion you made that they could take advantage of that condition competition applied to a maximum rate and write a man's mercantile stock and give him the advantage and yet allow the homestead to be high, but now if you will put in this an amendment in that maximum rate law section that even if they have a right to compete, before they reduce the rate on any particular class, they must file their intention to do so with the board, then, if the board says it is discriminating in favor of one class against another, let the board pass an order to bring all classes down in the same proportion.

Q. The effect of that by the board would be simply to reduce the rates to uniform?

A. That would be all.

Q. You would still have a fixed rate. If you have a fixed rate with the power of the board to reduce, don't you have a simpler procedure and get the same result?

A. It is simpler and you get exactly the same result; you couldn't throw the burden on the wholesaler, but the board could control that, but you might have a uniform rate.

Q. Why?

A. Merchants ought to have the same rate. Take two merchants in the same class of buildings, right side by side, if you was to give one merchant one rate and don't give the same rate to the other merchant, that fellow don't get the benefit of the rate, and he has got to sell on a closer margin of profit than the other.

Q. Suppose Mr. Scruggs should determine to give a certain wholesaler in a town a lower rate, couldn't he file a lower maximum rate with the board and only take one or two out of each town and thus discriminate against the balance?

A. Yes, sir, he could file a lower maximum rate. You can't make them take anything.

Q. Don't you believe it would be right for the board to make the companies

make the same reasonable income out of the same class of business?

A. Yes, sir, they ought to be; there is no question about that in my mind. I was entirely favorable to the maximum feature of the law, and must confess I hadn't seen it; it hadn't occurred to me it could give one class the advantage until you brought it out.

Q. With a minimum it makes exactly the same thing?

A. Yes, sir; that is true.

Q. (Mr. Cureton.) The whole purpose in my mind was to see some way so the companies might, in a measure, compete.

A. Yes, sir; I understand that.

Q. I believe in all probability an element of competition will aid in determining the final rate, at which companies can do business and make a profit.

A. I agree with you on that proposition.

Q. Don't you think the board also ought to put this sort of an amendment in the proposed law that any companies, if they so desire, can file with the board an amendment to their schedule—for instance, reducing the charge, we will say, on exposures as applicable to all classes of property, and let the board take that under consideration, and if they find it is correct and proper, to permit the reduction, and in that way the companies would compete with all other companies on the exposure charge, and thus in all probability bring them all down to the minimum? Exposure charge, and of course the exposure charge would apply to all property; they might reduce the charge for floor openings or might reduce it on some other item to make up the rate.

A. Yes, sir; as we did in our order.

Q. (By Mr. Reedy.) Couldn't that be done equally well in a uniform rate and under the present law, regardless of where it was cut off and a reduction in any charge would be a lowering of the rate generally?

A. Yes, sir; reduction in rate because under this method of rating every charge entered into the make-up of the final rate and every credit.

Q. And everything deducted from any charge would be a reduction of the rate?

A. Why, sure.

Q. Regardless of whether you had a maximum schedule or absolute rate?

A. Sure; the charges and credits as put down in the schedule, whether they adopt this schedule or not, wherever applicable, must be applied in order to

prevent discrimination. For instance, if you have two houses with shingle roof and your neighbor has a brick house with a metal roof, they must either equalize between the roofs or recognize that roof by giving credit.

Q. (By Mr. Gilmore.) Under the present law discrimination is possible?

A. So far as that is concerned, it is mighty hard to prevent discrimination absolutely, and under the present law I think it is possible; in fact, I can show you an instance of discrimination in this schedule.

Mr. Cureton—Let him point it out, Mr. Gilmore.

The Witness—Page 47, minimum to be not less than 25 cents. That is the basis rate for dwellings, two-thirds of the key rate of a town; suppose that key rate was 25 cents, two-thirds of 25 cents is a lot less than 25 cents; there is discrimination in the schedule; the only possible way we had was to add "maximum not to exceed 50 cents." They said that we had discriminated. We said yes, we have discriminated the rate there.

Q. Suppose there was some particularly good line of business which the insurance people want and in order to get it, some companies want to make a lower rate than the filed schedule; is it possible under this to file a specific schedule for that particular risk?

A. Sure, they can file a minimum, but they have got to give thirty days' notice to the board and gets its approval under the present law.

Mr. Scruggs to the witness—Q. Mr. Wright, you stated awhile ago that the occupancy charge for wholesale groceries, or rather that the rate for wholesale groceries, were lower than the rate for retail groceries; in justice to the schedule adopted by the insurance companies, is not the occupancy charge now the same as retail groceries?

A. Yes, sir; he asked me about what it was prior to that.

Q. I wanted to show that the companies had corrected that.

A. As far as that is concerned, it was the same under the old high tariff.

Q. The wholesale grocery stocks is rated higher now than the retail grocery stock under that schedule?

A. I have not run that out to see. The maximum area charge on retail groceries is fifteen cents while on wholesale groceries it is ten cents.

Q. The retail grocer; they sell them to get the area charge?

A. Yes, sir; but they are speaking about what the books show.

Mr. Cureton to the witness—Q. Suppose that a town itself for a period of years maintains an extra good record for fires, don't you think or do you not think we should put in this law a provision providing that the board may cause a reduction in the general rate of that town as a reward for maintaining a good fire record, say for a period of three, four or five years?

A. I am going to answer that question, and say yes, and in doing so I may take issue probably with some of the general agents.

Mr. Scruggs—You will not take issue with this agent.

The Witness—I am borne out in this statement or in making this reply upon that point by the authorities on the question. Take Zartman and the Universal schedule, they both expand on that question and on that very point. They take into consideration the climatic condition and the high winds and they take into consideration whether or not a town is hilly as to whether or not fire companies can get to the fires and they make a discrimination or differentiation, if you please, along those lines.

Q. The fire record of the town itself should be made a part of the key rate?

A. Yes sir; it is true and is so recognized by the acts of the insurance companies themselves throughout the United States. They tell you that this State gets the lower rates than that State, for instance, you take Dean's schedule, it is based upon the burning ratio of the State. That thing itself produces it; a specific case would naturally give the State that had a record justifying a rate illustrating that they gave it some consideration.

Q. It would apply especially to the German community?

A. Yes, sir.

Q. The key rate analysis, which has been promulgated; in that the topography of the town does not seem to enter into the making up of the key rate?

A. No, sir.

Q. Don't you think the topography should enter into the question of making the key rate?

A. Yes, sir, and it does as recognized by the authorities on insurance.

Mr. Scruggs to the witness—Don't you think that if a town should be credited for having a low fire loss ratio that a town with a high loss ratio should be advanced in rate?

A. Yes, sir, of course it would work both ways; it is not a one-sided propo-

sition. However, this should be done with a good deal of caution both ways, and done to a limited extent.

Mr. Scruggs—We tried to cover the point of topography by calling for paved streets to cover the town, with reference to the accessibility by the fire department. In the State of Texas there are only one or two towns that would be affected by hills; Austin is one of them. Muddy streets affect the ability of a fire department to get to the fire more than hills do.

Mr. Cureton—There are a great many small towns in the country that the topography would affect it a good deal. That is true of my town. We have a very hilly; while the population is less than a thousand, we have about seven miles of macadamized streets.

Mr. Cureton, to Mr. Von Rosenberg—Mr. Von Rosenberg, we have requested your attendance to see if there is any suggestion that you want to make along any particular line of investigation that you desire. We would be pleased to make any investigation that you want. We had not bothered you heretofore because we knew that you had just gone into office and were getting accustomed to the new clothes, and probably did not want to be bothered with any committee. Any line of investigation that you wish to have we would be pleased to take it up.

Mr. Von Rosenberg—There is no particular suggestion that I wish to make except, of course, like any other professional man that had a certain view upon this subject, and when the present law was first passed last year I did not think it was a proper kind of a law to be passed by the State. I believe that there should be competition between companies, but after investigating the matter more thoroughly I came to the conclusion that the Fire Rating Board would be beneficial to the home companies and that they would be able to compete with foreign and old companies and would be upon an equal footing as far as establishing home companies is concerned, and also in obtaining uniform rates it would be a good law.

With reference to getting up these rates, I concluded it was unfortunate that this law was passed in such a way that these schedules were all to be filed on the first day of the year before the investigation by the Fire Rating Board and before the companies had time to adjust themselves to the new rates. A certain amount of time should be given within which these rates should be filed

and then gone over to see whether or not they are proper rates to be used, and after a certain time let them be in force. That is about all I know in a general way about the business.

Mr. Cureton—I desire in order that it may go into the record that you are the present Commissioner of Insurance, and have only been in office how long?

A. Only one day.

Q. If there is anything that occurs to you at any time that you would like for the House Committee to do towards investigation of any subject on this question, the House Committee will comply with your request in reference thereto. For myself, as one of the authors of one of the bills before us, I would be very glad to have your advice on any question concerning the matter.

Mr. Von Rosenberg—I would like to make the suggestion that you write such a law as could be easily understood.

Mr. Scruggs—I think one thing in it will be plain enough; that is that the board will have absolute charge of the matter; of everything. The board will tell us what to do. A law of three lines would be sufficient, just to turn the insurance matter over to the board and let them run it.

Mr. Hamby—Have you given any thought as to the effect of a law such as is before us upon the physical conditions of the State as regards the fire risks?

Mr. Von Rosenberg—Yes, sir, of course, from time to time since the law has been in effect. I think it is a good idea that the rates of course should be based upon the hazard that exists surrounding each dwelling. It ought to rest with the people themselves if they want a lower rate, to adopt their premises to the conditions necessary to give them a lower rate.

Mr. Reedy, to Witness Wright:

Q. There is a question I want to ask you while you are on the stand that pertains to a matter that came up yesterday. I would like to know if you have information in your office that will throw any light on it; that is whether before the Rating Board was created there was such a practice carried on in this State between the wholesale men of the State and the insurance companies by which the wholesaler could have a very low rate of insurance and it was afterwards made up for the company by the wholesaler using his influence to get his customers to insure in the same company?

A. That existed in this way: not between the companies and the wholesaler, but between the local agent and the wholesaler. The wholesaler, for instance, would give us a rate under the best possible terms and without any agreement; that is, he would get us to get him a rate under the possible terms and without any agreement in writing or anything of that kind, but he would suggest that he had a customer at such and such a place that was buying goods from him and that it behooved him to see that his customer had his stock insured, because if he burned, he was crediting him and he wouldn't get his money, and he would send them to this agent. He would say, "I'll send him to you."

Mr. Scruggs—Was it agreed that you were to charge them higher for their insurance than the companies charged the wholesaler?

A. There wasn't any agreement about that. They would say the rate matter you can attend to yourself. They wouldn't try to influence that, but they would throw the business that way, and there was the moral suasion to the agent, as a lot more business came from the wholesaler, to give him a better advantage in his rates.

Mr. Reedy—Now, have you any evidence of that sort of procedure of business in your office?

A. No; that was in the local; we have got nothing of that kind in our office here. We could not establish that by documentary evidence. These things are generally talked over, not written.

Mr. Scruggs—A deal of that kind is entirely correct so long as the retailer is left free to get the lowest rate he could get; he was not forced to let you write his business; the retailer was left free to get the lowest rate he could. You didn't increase his rate?

A. I wrote the rate that the retailer was written at, not the same rate that the wholesaler had been getting.

Q. At the same rate the retailer had been paying?

A. Yes, sir.

Mr. Reedy—Was there a moral pressure brought to bear on the retailer?

A. To give his business to that local agent?

Q. Yes.

A. He would be sent to him. I have had them sent to me. On this question of discrimination and demoralization, if it was not so thoroughly admitted on the hearing that we have, and the record is so permeated with it, I don't feel like it is necessary to take up the time—that is

admitted by everybody. If I thought so, I could sit here and tell you particular instances and give their names all day.

Mr. Scruggs—There is no controversy on that at all.

Mr. Cureton—Here is the question that confronts the committee: Suppose that in this law we give the board authority to make and promulgate the general basis schedules now, shall we or not give the companies then permission to employ a common agent to apply these schedules to the various risks of the State?

A. I think so. I don't see that it can do any harm for the reason that these applications have to go back to the board to be approved anyhow, and it is the most economical way, and I can't see where there would be any reasonable objection to it at all.

Mr. Hamby—For the purpose of getting it in the record, I desire to say that I thoroughly concur in Mr. Wright's opinion. It would be strictly in the interest of economy, therefore in the interest of the people. The company should be left free to employ any methods that they deem wise for the purpose of minimizing the cost of insurance; that is one of the larger items of the cost of insurance.

Mr. Scruggs—You gentlemen both think that before this rate, which is applied by the expert, is printed and sent to the public that the gentlemen making the rate, such sheets as I have been discussing, should first be submitted to you for your O. K. on it?

Mr. Hamby—That will be a matter of detail.

Mr. Scruggs—If you are going to make any corrections on that rate it ought to be made before we go to the expense of printing the books. In other words, you have your approval on each one of these analysis slips before we go to the expense of printing them?

A. Yes.

Q. When they make up that rate, they will send you a carbon sheet, or two carbon sheets, and you O. K. one and send it back and file the other?

A. For the purpose of systemizing the chaotic conditions that now exist in the insurance business and giving the public and everybody as quick relief as possible, I think that these things are naturally in order, and I can not see where any harm would come.

Q. There are 140 companies doing business in the State. If we compel each one, and especially its underwriting bureau, to make a specific rate for the

State and apply a specific schedule promulgated by you, it would cost them 140 times as much to do it separately as for them to do it jointly.

A. I think it would cost some of the small companies all their income to do the work.

Mr. Scruggs—And all their capital—of some of them.

Mr. Scruggs—You have discussed several times the question of the companies furnishing the assured with a detailed statement of how his rate is made in order that he may know what is necessary to correct his risk. I would suggest that instead of having the local agent furnish that with each policy as you have said, that the Rating Board, or rather the expert, be required to furnish him a copy at the same time he furnishes the Board of Commissioners a copy; the idea I have in that is to stop us before we go to the expense of printing these books and getting them before the public, in the interest of economy and in order to save the additional labor of having to furnish all local agents with a full list of these things; the amount of labor and expense involved would eat us up.

Mr. Hamby—It would be well to leave matters of that kind at the discretion of the board. I think it would be well to have in the law that all schedules and specific rates shall be published and open to the inspection of the public.

Mr. Scruggs—That suits us.

Mr. Scruggs—As to furnishing each individual with the make-up of the published rate, that has always been done at request. I think it would be best that such matters of detail be left to the discretion of the board.

Mr. Cureton—I am still of the opinion that he ought to be furnished anyhow, some time.

Mr. Scruggs—Then require him to furnish him with a copy at the same time he furnishes the board.

Mr. Cureton—Then afterwards when a different person buys the building or gains control of it, he can get it by asking the company for it.

Mr. Scruggs—I want to get rid of this additional labor on every policy. No objection to giving it to him.

Mr. Wright—But the constant confusion to the insurer and the man buying the insurance and the local agent, if a local agent has got to go too often to a policy holder to make changes for any reason—no matter what—the policy holder gets very tired of it. It becomes

burdensome to him. He can't always stop and go get his policy; he is waiting on a customer; maybe his policy is in the bank with a mortgage clause attached to it; maybe some one has to look him up; if this thing can be handled so as to avoid so much confusion as possible, it will be well for it to be handled in that way.

Mr. Scruggs—Your idea is all right, Mr. Cureton, but I think the getting to it can be simplified so it won't hurt anybody. We can send that to the board and let the board send it to the assured, rather do it that way, so the board can testify to the fact that it was sent to the assured. I am willing to let it be left entirely to the board, but don't require a local agent to put a schedule on every policy that he writes, because that would require half a million dollars of labor throughout the State. It would be heavy on the bureau because we would have to furnish every local agent a full copy of the risks; as it is now, we give it to the board and it is open to the public.

Mr. Cureton—The local insurance agent, I suppose, would probably keep, or rather, he has in his office a printed form of every schedule?

Mr. Scruggs—Oh, yes; he has a printed form on which this is made, but he has not got the risk.

Q. He has practically got it, by referring to the number?

A. It just shows the result.

Q. He can get the details—

A. That only applies to exceptional charges.

Mr. Wright—There is another advantage in having these specific rates that the company would promulgate from the general basis schedules furnished them, and that is this: We are dealing with human beings in making these rates and they pass through a good many hands, and no matter how careful they are to check, errors will creep in, and sometimes a man's rate will be double in the printed book what it really is on the sheet that is scheduled; printers make mistakes in setting things up; we had quite a complaint not long ago from my home town; I simply sat down and wrote to Mr. Roulette's office for an analysis of that fire risk and did not tell him anything about what I had in mind. In making up that analysis Mr. Roulette, after comparing it with that schedule, followed it up with a bulletin correcting that rate. If these things are put back to us to check up, then we can see if it is correctly applied.

Q. Should there not be filed with the

fire marshal of each city or town having one, or if not having a fire marshal, with the mayor of each city or town, a copy of the general basis schedules and also a copy of the specific schedules for such town?

A. I think so, because it will involve very little additional expense and work, and he is the public official of the city or town, and that gives it more publicity. I think it would be all right.

Q. What do you think of that?

Mr. Scruggs—What is it—general basis schedule?

Mr. Cureton—Just these two books (indicating the books referred to).

Mr. Scruggs—Needn't put that in the law. We will do that.

Mr. Cureton—It appears to be the opinion of a great many well informed men that one trouble with the insurance law now is that it is lacking publicity.

Mr. Scruggs—We agree with that.

Mr. Wright—Put it right in the law.

Mr. Scruggs—We won't object to that. We do object to giving a detail of each risk. They would throw it in the waste basket, and we would have the work for nothing.

J. H. Crane, being called before the committee, and having been previously sworn, testified as follows:

Direct examination by Mr. Scruggs:

Question. How long have you been in the fire insurance business; the fire rating business?

Answer. About eight years.

Q. During that eight years, how many different rating schedules have you applied?

A. Three.

Q. Where were you located in each point when you applied them?

A. First, Minneapolis, Minnesota.

Q. What next?

A. Oklahoma City.

Q. And then Texas?

A. Yes, sir.

Q. What schedule did you apply in Minneapolis?

A. I worked under what was known—please don't confuse this Mercantile schedule with the Universal Mercantile schedule. About eight or ten years ago; maybe a little longer, the companies throughout the middle West found that they would have to have a schedule, and they got up what was known as the Mercantile schedule; it was simply a small book, and that was used throughout the Middle States.

Q. Now, in Oklahoma, what schedule did you apply?

A. The Dean.

Q. Did either of these schedules have a key rate system in them?

A. No, sir.

Q. How did they classify the towns in these other two schedules?

A. They were classified by their water works.

Q. Arbitrary basis?

A. Yes, sir, arbitrary basis to a certain extent; it did not go into detail. We took practically the same things into consideration in arriving at the class of the town, but we did not go into detail on a regular key rate basis.

Q. Now, in your estimation, is this schedule we are applying in Texas; this amended schedule, any higher than the one you applied in Minnesota as a general proposition? In answering that I would suggest that you consider the amendments that are now on file to this schedule, making the corrections that are necessary.

A. I don't think there would be much difference then.

Q. How much difference would there be between this schedule and the other schedule?

A. Well, we have got to stop and take into consideration that in the Dean schedule, you can get any basis out of it you want; you can get a high rate or a low rate.

Q. I am talking about the average application of it.

A. The average application of the States used, it will run, oh, I should think about the same think when you get this new schedule amended and work it.

Q. Do you think the companies, in building this schedule, have treated the people of Texas fairly and not attempted to make the schedules too high?

A. That would be my judgment.

Q. Mr. Cureton suggests that I ask you as to the relative rates under our schedule on dwellings and the relative rates under these other schedules on dwellings; how about that part?

A. Well, some places they are lower and some places they run higher.

Q. How would you make your basis?

A. Well, some places these schedules produce lower rates and some higher.

Q. Don't you think that is due to the existing conditions in the State?

A. Yes, sir; that is what causes the difference in the rates between the different States; it is the local conditions.

Mr. Scruggs—The point I wanted to get in the record was that the companies had not attempted to build a schedule that would produce higher rates than

would be produced elsewhere; to get away from the idea that prevails that we build this schedule and have attempted to take advantage of the people.

A. You might say it is individual cases; when I first went into Oklahoma the basis rate on frame mercantiles was \$2; that was the basis rate. Now, the occupancy and deficiency charges are all added to that; the companies found that as the State was improving and a better class of citizens came into the State, and the loss begin to do down, why they cut that from \$2 to \$1.15.

Q. What is it in this schedule—the basis rate for a frame mercantile?

A. \$1.40, strictly frame, and \$1.15 iron clad.

Q. Now, can you tell Mr. Cureton in your estimation why these Oklahoma rates are lower than the Texas rates?

A. I think the principal reason for that is that the supervision by the companies over the risks—looking after the general conditions of the State, has kept the loss ratio down and kept the State cleaned up.

Q. Don't you think that the statute law in Oklahoma prohibiting any citizen from collecting more than three-fourths of the value of his property has something to do with that?

A. That has had a good deal to do with it.

Q. That is the statute in the State of Oklahoma, is it?

A. It is, unless they have changed it very recently.

Mr. Terrell—I would be willing to join you in a change in that law this far: You could collect a policy provided—collect it in full provided the companies are not willing to absolutely replace his property in the same condition it was before.

Mr. Scruggs—I am willing to do that if you will provide in the law, you understand, how we are to determine whether it is replaced. The difficulty about that replacement theory is—if you will make that in the policy it is all right—but the difficulty lies in this fact: You go ahead and replace it, and the fellow says, I won't accept it; it ain't as good as it was. I had something here and you put in something else. And after we go to the expense to replace it, he refuses to accept it, and says it is not as good as it was before and not a similar building, whether the facts justify it or not. We have already put our money in it, and then we have got to pay him some more as a compromise set-

tlement. The companies can't afford to do it. If the law could define some way to determine whether or not it was a replacement of the building and to force him to accept it after it had been replaced, the companies would have no objection whatever, but you can't do it under the law because he will point out little defects; probably here is a chimney that is not as high as it was before and not as good as before, and he will make so many of these little charges until it will just eat you up.

Mr. Terrell—I believe we could amend the law so as to leave it up to them to agree on an architect to supervise it, or in case of failure to agree, to have an appointment made.

Mr. Scruggs—Just fix it so the insured can not collect more than the value of his property.

Mr. Terrell—That will put them in court too much.

Mr. Scruggs—We don't have any suits under the valued policy law. We just walk up and pay them.

Mr. Terrell—I disagree with you on that proposition of walking up and paying. It is very often the case where the offer is a less amount, where the man has to take it because he has to have the money.

Mr. Scruggs—That might be so.

Mr. Terrell—I know of two cases recently at home, both small losses. They tried the same stunt on us down there not three months ago for a little rent house we had out there; worth about \$700; insured for \$500; and they tried to get us to take a less amount on the theory that the house was vacant fifteen days last year without a vacancy permit.

Mr. Scruggs—I admit we try to fight that law all we can. We have adjusted ourselves to that law, and we are getting along fairly well with it. If you want to reduce the fire waste in this State, you can't do it on real property as long as that law remains on the books, and the only way to give the companies an opportunity to break even is to prohibit them from breaking even or leaving it an open proposition.

Gross R. Scruggs being duly sworn, in answer to questions propounded, testified as follows:

Q. (By Mr. Cureton.) Where do you live, Mr. Scruggs?

A. Dallas, Texas.

Q. What is your occupation?

A. Fire insurance, general agent.

Q. Now, for the purpose of making our record complete, which the resolu-

tion of the House requires, I want you to give to the stenographer the names of the various insurance men who have been here representing companies before the committee, whether they were called as witnesses or not.

A. I don't know that I can give you all of them. Mr. W. H. Stacy, Austin; O. H. Milligan, Austin; H. B. Beers, Galveston; J. G. Hornberger, Austin; Thos. L. Monogan, Dallas; Sam P. Cochran, Dallas; T. A. Manning, Dallas; Herman F. Lloyd, Houston; J. Jalonick, Dallas; Newt. M. Smith, Dallas; E. W. Gaffney, Dallas; W. L. Stiles, San Antonio; George Willig, Waco; R. L. Pollard, Austin; James Cravens, Houston; Jim Radford, Houston; C. C. Wright, Dallas; Jas. W. Cochran, Dallas; J. H. Crane, Dallas; T. B. Roulet, Dallas; Mr. Rennert, in charge of rating bureau work in Austin; R. H. Cousins, Austin; Mr. Barlow, city attorney of Taylor.

Q. Mr. Scruggs, the matter I want to ask you about is who made the book of schedules promulgated by the companies in the State?

A. A committee of seven gentlemen.

Q. Representing what?

A. Seven insurance men compiled the data from which one company made the book.

Q. Now, the seven gentlemen who compiled the data, by whom were they selected?

A. They were selected by a general meeting of all insurance companies—I don't know that all were present, but all were invited to be present—doing business in the State of Texas.

Q. Who were the men selected?

A. The committee consisted of Jas. W. Cochran, chairman; Gross R. Scruggs, C. C. Wright, A. R. Phillips, Jos. W. Russell, George W. Jalonick and R. B. Esser.

Q. Well, now, after these seven men had been selected to compile the data—

A. They selected ten, but three of the gentlemen declined to serve.

Q. After these seven men had been selected, did they then hold a joint meeting for the purpose of preparing the data?

A. They met every day for some ninety days and worked all day on this work.

Q. Were they paid specially for this particular work by the joint companies?

A. They were paid for the work they performed.

Q. I want to ask this question, if the compilation of this book of schedules was expensive to the companies or otherwise?

A. It was not, it did not cost them exceeding \$4000 would be my estimate, including the printing.

Q. Now, in getting this data, from whom did you get it, Mr. Scruggs?

A. We had before us to compile this data the Universal Mercantile Schedule, Dean Schedule, Kansas Schedule, Oklahoma Schedule, New York State Schedule, Pennsylvania Schedule, Ohio Schedule, Louisiana Schedule and what was called the Southeastern Underwriters' Schedule, which is a tariff applied to all business in the South, east of the Mississippi river.

Q. Now, did you undertake to take the records of causes of fires extending over a period of years making out these schedules?

A. We did not, we took the records of other tariffs, which had been compiled on that basis.

Q. Now, these schedules to which you do refer were schedules which were in active use in various sections of the United States by companies doing business in those States?

A. All of them except the universal mercantile schedule which was not in use anywhere, it was merely a guide. It was spun out too far—it was subdivided too much to be applicable as an ordinary proposition to be practicable, but it gives us a guide to go by and we took the Universal Mercantile Schedule, and where they have two or three charges on practically the same things, we lump it into one charge.

Q. You pursued this same method that I have referred to in making out not alone the key rate, but the whole book, including the special hazards and all?

A. These companies which compiled that book, which was the Hartford Fire Insurance Company, did not follow always the information that we gave; this book is not the book we turned out.

Mr. Cureton to Mr. Scruggs:

Q. Do you know why the Hartford Fire Insurance Company was selected by your committee to do this work?

A. For three reasons, first—in the first place I want to correct that; we did not select them; they were not selected to do this work. They refused to co-operate with us in this work and demanded the right to build their own books themselves, but the reason we acquiesced in that and permitted them to do it was for three reasons. In the first place, they had the largest individual business of any one company in Texas, they write a half million dollars worth of premiums in this State; they

were therefore in better position to do just what was proper than any other one company. The second reason, they demanded the right to build their own book and if we had put out a book ourselves they would have changed it and amended it and we would have been forced to meet the changes and amendments and we let them go ahead so as to avoid confusion. The third reason, we recognized the fact that if every company put out a book themselves that it would take probably three or four or five months to get the matter down to a single basis. Wherever one company put out a rate lower I would have to change my book to meet it, and the process of adjustment would have to follow until it eventually came to one book.

Q. The data which you people selected, was it furnished to the Hartford people?

A. They got a copy of it, in company with other companies, then they made such corrections as they saw fit.

Q. And the other companies acquiesced?

A. The other companies have accepted the book; they recognize that competition would eventually force all of the rates to the same rate.

Q. The Hartford really made the book?

A. You might look at it that way; I do not. There have been a good many changes made since that they have had to make to meet the competition. There are about one hundred amendments on file now ready to be filed.

Q. After the book was published and promulgated any company had the right to file an amendment to it?

A. Yes, sir. Many companies have filed amendments that other companies did not concur in.

Mr. Gilmore:

Q. Suppose you reduce the exposure hazard, you can write at that rate, then the other companies would have to amend their schedule?

A. Yes, sir; they would have to amend the schedule. The idea is to force us to give thirty days' notice so as to keep us from taking advantage of the other companies and grabbing the business.

Mr. Cureton to the witness:

Q. I have before me amendment No. 24 to the general basis schedules issued by the Fire Association of Philadelphia by Trezevant & Cochran, general agents at Dallas—after the book of schedules was promulgated, Trezevant & Cochran, for that company or association, they

filed this amendment with the Rating Board thirty days before the amendment should take effect?

A. No, sir; they give notice that they are going to file the amendment thirty days before the filing of the amendment.

Q. What sort of notice?

A. They send notice of the amendment to the Rating Bureau and Mr. Roulet notifies every company that he is working for that; Trezevant & Cochran notifies of the filing of the amendment and the other companies have the same right to file their book and it cuts out the unfair competition, otherwise I could make a contract with you that I could write you for 50 cents and then go ahead and file my amendment after I had made my contract.

Q. Coming to Mr. Roulet, the bureau—he stated, I believe, that he represented 108 companies. Is he employed jointly by these companies?

A. No, sir; it is a several contract. He is under a separate contract with each of these companies to carry out their specific instructions in regard to basis schedules.

Q. If it was necessary to do so, he might be compelled to take a schedule and apply it to the risk of the town for each of these companies?

A. Yes, sir. If the schedule differed. But if that was a fact the expense would be in proportion to the number of schedules he would have to build. That is another reason why we attempted to get all of the companies together on the schedule, to start with, it would avoid a large expense. The idea was to let them fight out the proposition of competition of rates before the book was compiled, then we would have one book. If you didn't do that you would be in the same position as if you didn't have any actuary. If there were 100 different schedules there would be 100 different rate books, don't you see?

Q. If the law should provide that the board should promulgate a general basis schedule for all companies, what would be the best way, in your judgment, to prevent discrimination in the application of the general basis schedules, by letting each company apply the general basis schedules, or by permitting that to be done by the Rating Bureau?

A. If they built a complicated scientific schedule it would be absolutely impossible to have it applied any way except through a common expert. If the schedule is simplified, then in that event you would not need any expert to ap-

ply it. It depends altogether upon the basis schedule that they get out. Some basis schedules a long time ago had only three or four classes; so much for a brick house, so much for dwellings and so much for this and that, etc.; but when you come to specifying these things and giving credit for the different things in the individual risks, you get it more complicated, and the more complicated it becomes the more scientific it becomes and the more difficult of application.

Q. Assuming that our purpose is to reduce the fire loss of the State and yet to give the people as low a rate of insurance as possible, what character of schedule would you make or suggest?

A. I don't think you could improve upon the present schedule with one or two corrections, I mean with one or two additions to what are already filed.

Q. You suggested heretofore corrections in regard to exposure?

A. Yes, sir; that's all and a clause in your law giving the thirty days' notice in which to clean up premises for exceptional charges, that is thirty days after he is notified of the conditions. These exceptional charges, Mr. Cureton, is what is causing the trouble, and yet at the same time those are the very things that are operating to get a clean-up of the State and reduce the fire risk. They showed you here before the committee that Mistrot Bros. at Galveston fought the city of Galveston for eighteen months on removing some old boxes behind their store, and immediately after they had to pay a higher rate because of the presence of the boxes they got them out of the way. I think there has been a great hardship worked on the people of the State of Texas in that they were charged for these exceptional charges before they had notice of them; but the law did not permit us to cut them out. I think they should have been given a period of time after they had been notified that these exceptional charges were there to make corrections, and I think that the rate ought to be a net rate after all the corrections are made; I think if that had been done from the beginning there never would have been a single complaint against this law unless it would be from my good friend Walker.

Q. When these exceptional charges have been removed after the insurer has discovered by chance or otherwise the corrections necessary, have you instructed your agent to refund them that portion of the premium which these exceptional charges made?

A. I have, sir. It is hardly necessary to do it because the local agent is always looking for chances to better himself with his customer by paying back to him some rate; but your idea of furnishing the customer with a list of his charges would make the customer ask for it; the customer would ask for it, and then he would get it. So far as that is concerned, the local agents have been just as ignorant as the public and did not know themselves where they stood.

Q. The fact is that we have all been ignorant?

A. Yes; and you haven't given them time to work it out.

Q. Do you think it a practical proposition for a number of companies to send a special agent to a town or a village and hold a public meeting before these schedules are finally promulgated, if new ones should be made, for the purpose of discussing and instructing the local agents and the people who care to hear it upon their proposition?

A. There is no objection; local agents do that right now; they do that right now. But to hold a public hearing of property owners would not be a good idea for the simple reason that there would not be any one there except those whose rates have been increased at the hearing. The others would pay no attention to it. We will send special agents to every town to show the local agents the book and explain it to them before it goes into effect.

Mr. Crane—You can send somebody to explain these rates before the book goes into application, and you won't have five people to hear you; but you put the rate book out and let them know what their new rates are going to be, and you will have the entire town.

Q. We propose to put in the hands of each property owner the specific schedule, and then you can hold your meeting before the book is printed.

Mr. Crane—A very practical demonstration of that was at Beaumont, one of the first towns; I went there and tried to get the people and everybody through their Chamber of Commerce to come there and listen along these lines; I had eight people there. We put the rate book out, and our agents went up and down the street and told them what we had and we had every merchant in town out, 250 of them, and after they got through and understood the proposition they went away perfectly satisfied and started to work, and the Chamber of Commerce and the Retail Mer-

chants' Association took advantage of the meeting and got together and transacted a lot of business of their own, the biggest meeting they had ever had in two years.

Mr. Cureton—What this committee would like to know, Mr. Scruggs, is why a good many companies have withdrawn from the State and are not now writing business. What injustice, if any, has been done them, and how may that injustice, if any, be corrected?

A. There are two reasons why my office has withdrawn, and I think these two reasons will practically cover the reasons for all the rest. There may be some difference of opinion along that line. One reason is the fact that the board's order for a 25 cent reduction might be held to apply to all policies issued prior to the date of that order. Insurance companies can not afford to do business and not know what their contracts are. Any reduction order upsets their entire calculations and they have to refund commissions, an amount of money that they have counted on as being earned. They also have to go to the expense of looking up these policy holders in order to refund their money, to go to the expense of putting all these indorsements on their various records, and is very, very burdensome.

Mr. Cureton—One reason is under the order of the board they were apprehensive that they would be compelled to return to the policy holders—

A. No, no. That is correct, but you are hardly putting it fair to them. They wanted to avoid the labor, trouble and expense of returning that.

Q. I understand. Of returning to the policy holders an excess premium which would appear under the 25 cent reduction on policies written before that order.

A. Yes, sir; that was one reason. Another reason was that the board in making this order based the order upon the information which was not correct and inconclusive and was not universal; did not cover the State; that order also applied to rates as then existed without considering the rates that would exist when the corrections are made by the various policy holders. If that 25 per cent could be applied to the rates as promulgated which they figured on it would not be enough reduction, and if it had been applied to the rates after they had been corrected, it is just 25 cents too much reduction; therefore we could not agree to that order of reduction because

of the far reaching future effects of it; not the present effects.

Q. In other words, it was not clear in your mind whether this 25 cent reduction was a reduction from the rate on a particular class of hazards after you had filed an amendment reducing it?

A. Yes, sir.

Q. Or whether the 25 per cent reduction was on the rate as promulgated without the amendment?

A. Yes, that is correct; now, instead of discontinuing business, I, for one, would have come to Austin to discuss these matters with the board, but for the fact that we were advised by the people and the papers and everybody else that the Legislature would meet in ten days and repeal this law, and with the repeal of this law it would rescind the order and it would adjust itself all right, simply awaited the meeting of the Legislature to give us relief. If the Legislature don't give us relief, we have to go to work and find out what class we will have to write. In addition we will have to consider the final rate after corrections are made instead of the published rate which the board figured on.

Q. In considering the bills now introduced, if they should pass, giving the board authority to make general basis schedules and promulgate them, and that the risks shall thereafter be written by them, and in the interim between the repeal of the present law and the promulgation of these rates, if you will be permitted to write under the rates as they now exist, what, in your opinion, would the companies do?

A. You mean without the 25 per cent reduction ordered by the board?

Q. I don't myself understand it, but making a fixed and clear rate, suppose that we make it apply with the 25 per cent reduction on the rates as they are now published?

A. No objection in the world on my part to writing it, but we can not perpetuate that order and grant these reductions and corrections. We felt, as I tried to draw out in Hamby's testimony, that the order once being made, the board can never afford to rescind that order on account of public opinion. The Legislature can repeal that order, and the board can take the position that they won't re-enact it, and if they rescind that order without putting something into effect to offset the clamor from the public on the proposition, it would be such that it could be made effective—

Q. Suppose that the entire law is repealed and this new law goes into ef-

fect, and the new law permits you to write insurance according to the rates which have been—which are now, in effect and in effect under the order, would the companies go ahead and continue to write business until the promulgation of the new basis schedules and specific rates?

A. I don't know whether they would or not. We probably would resume in our office and decline such things as the schedules showed the rates too low. One of the great difficulties that confronted us at the time was that there was only 200 towns in the State that have been rated, and we have to write in 1600 towns without any basis for knowing what our rates will be. I can not afford to sell my policies without knowing what I am going to get for them.

Mr. Gilmore:

Q. You know this about these unrated towns: that they will be rated according to your reduction basis schedule?

A. Yes, sir.

Q. Then don't you know what you will get?

A. No, sir; do not.

Q. You know that you have got different individual risks which will be a matter that you have, with hazard cover whenever these rates are applied to the specific risk you will have that risk, whatever its hazard may be covered?

A. Yes; let me explain to you by telling you this: that we could not sustain that reduction on any rate produced under that book as we expect the book to turn out not a single one of them with the corrections that we propose to make; there ain't any of them that we could do it, and there are cases where the book makes the rate entirely too high and where the book ought to be reformed and corrected, like that one, exposure charges across the street. When this is connected, I would be willing to write the business, because 25 per cent leaves that higher than it ought to be. We do know that it can't stand a 25 per cent reduction when properly applied.

Q. Was it a fact that your companies wanted to avoid being controlled at all? Did it have anything to do with them discontinuing their business?

A. No. I never received a line of instruction from any of my companies on this proposition; never been a letter passed.

Q. On this discontinuation business?

A. Yes, sir.

Q. All on your own—
 A. Own volition; yes, sir.
 Q. Some companies are writing business?
 A. Yes, sir.
 Q. Some companies have refunded the unearned portion of this premium?
 A. They have not.
 Q. I am talking about this 25 per cent reduction.
 A. No; they have not.
 Q. I have had some insurance man to tell me that they have refunded the 25 per cent reduction.
 A. No, sir.
 Q. Mr. Cureton is under the "red rider" clause?
 Mr. Gilmore—No; my information was at least from one.
 Mr. Scruggs—What is the name of the company?
 Mr. Gilmore—The company Mr. Gaffney represents.
 Mr. Scruggs—He had nothing to refund. He has just started in business. He had nothing to refund.
 Mr. Gilmore—Perhaps I misunderstood him.
 Mr. Scruggs—Perhaps you did, because Gaffney is not very clear in his statements.
 Mr. Gilmore—He is a man, excellent gentleman, and I don't—I might have misunderstood him, but I don't believe I did.
 Q. By Mr. Gilmore—What companies have refunded under the 25 per cent reduction?
 Mr. Wright—North British and Mercantile ordered premiums refunded under the 25 per cent reduction, according to our order and it got noised abroad from some sources that the Commissioner, Mr. Hawkins, then Commissioner, had ruled that it was in violation of the law in that it discriminated between policyholders, and they could not continue that practice. Liverpool, London & Globe is another company that has refunded and several companies represented by J. D. Kitchen and Brother of New Orleans had ordered it and for the same reason they stopped it; they were afraid they would have their licenses revoked and they came here to see Mr. Hawkins about it and came in my office and saw us about it and they went down to get Mr. Hawkins to refer the matter to the Attorney General by letter, asking his construction on that point, if our order would justify that or reach back to it; just how the letter was worded I don't know, but they stayed around here for

a few days, these gentlemen did, trying to get some light on that subject. I, myself, at the request of the gentlemen, went to the Attorney General's office and asked them if such an opinion had been asked for. Judge Walthall says it has, and we are considering it. I believe that the companies will be justified under that order and under the law in refunding that premium on a pro rata basis if they see fit, but we have not framed up our opinion so as to give you an answer, but I will try to get it ready for you this evening. I went back that evening—well, it was the next morning—I went back to see General Walthall and he says the matter has been referred to General Lightfoot, and he will attend to it himself; the assistant will not give out an opinion. So far as this board is advised, General Lightfoot has never answered, and on yesterday I was talking to Mr. Von Rosenberg of present conditions and told him of this circumstance, and General Lightfoot came up, and he says, General, I understand there has been several opinions asked for by my predecessor and I want to talk to you about it, and I saw Mr. Von Rosenberg this morning and asked him if Mr. Lightfoot had answered on that issue yet, and he said no, it was still pending. So there is the story of the case.
 Q. Then, as I understand it, Mr. Wright, the former Commissioner of Insurance, held, in fact, it would be a discrimination by the companies?

A. No, sir; he did not hold that. He held exactly with the board on the advice of the attorneys—that is, the suggestion of the attorneys before our hearing, Mr. Thompson and Mr. Hanger who represented complainants, took the position that this board could not make a retroactive order; we could not force the companies to make this deduction, but that whatever order we made would take effect from the date the order went into effect. You will find that in the record from Mr. Hanger.

Q. I think they are exactly right on that.

A. And on several occasions we had it put up to us by telephone and telegraph and by mail, and Mr. Hamby and myself and Judge Hawkins all uniformly advised them we could not make a retroactive order, and did not intend to and did not consider that we had and I believe that Mr. Scruggs has got a letter in his pocket to that effect.

Mr. Scruggs—No, I haven't got it in my pocket.

Mr. Wright—Well, you have got it.

Mr. Scruggs—Oh, yes; I got it.

A. But if the companies wanted to do that, we saw nothing in the law to prevent them from doing it. That is still our proposition. Mr. Hawkins—with all due respect to the whole situation—Mr. Hawkins was in absolute harmony with us on that particular point and was writing letters accordingly.

Mr. Terrell—I want to ask something about that order.

Q. (By Mr. Terrell.) Was that 25 per cent reduction of the rates as published, or on the rates as reduced by corrections?

A. On the rate as published right then.

Q. As it existed at that time?

A. As it existed at that time. We could not anticipate that the corrections would be made.

Mr. Scruggs—But if the order is continued you understand and the corrections are then made, the reduction still applies?

A. Sure.

Mr. Scruggs—As a matter of fact, these corrections are being made every day.

Q. (By Mr. Terrell.) Mr. Wright, don't you think it would be proper to so amend that order at the present time that in case, by corrections, the individual rate is reduced as much as 25 per cent, then the reduction would no longer take effect, and if any individual risk your board believed to be excessive, that you could reduce the individual risk so as to make it absolutely certain—give the companies a right to continue doing business now, because the cotton crop is coming on very shortly and we are going to need practically every company in the State to handle that; don't you think your order could be amended at the present time to take effect now so the companies take—write under that proposition now?

Mr. Scruggs—That would be entirely satisfactory to us.

A. As to what could be done, that is a kind of a new thought you have thrown out to me, and I don't know just what we could do on that.

Q. I mean couldn't it be done?

A. I don't know what can be done under the law. I take it this way: Under that law that practically whatever we do in passing an order has to be done as the result of a hearing. It says we shall not make an order with-

out giving the parties notice. You see we have swapped horses in the mean time and our new man would have to be taken into account and consideration.

Mr. Terrell—As I understand, he don't get a vote unless you and Mr. Hamby disagree, under the present law.

A. That is true.

Q. Now, if the rate with the 25 per cent reduction—the rate as published, with the 25 per cent reduction was, in the opinion of the board, a fair rate and allowed only a reasonable income to the companies as the board should—if the—by reason of cleaning up and perfecting individual risks, the rate was reduced on that risk 25 per cent, wouldn't the companies be—wouldn't under the tariff of the board the companies be entitled to have that 25 per cent reduction no longer apply, or at least a part of it?

A. We would have to figure on that. That brings in a new matter altogether.

Mr. Terrell—The reason I was getting at it, is that the cotton crop will begin to move in a short time.

A. I appreciate the situation and this board will do anything they can under the law to relieve the situation and help the farmers move the cotton, but here is what can be done. If the cotton people could not move the cotton, they, as a class, could come to this board with a petition and have it set down for hearing and ask that this thing could all be gone into again, and if the rates the companies are getting are not such as the companies and they can get they could ask us to make a rate. I think we could do that without giving the ten days' notice of hearing.

Mr. Scruggs—Couldn't you amend your order by saying: This order was intended to apply to rates as they existed at the date of this order and it shall not apply to any risk where improvements have been made sufficient to reduce the rate 25 per cent; just to make the order clear?

A. No; I will tell you about that. If you will take the reduction as we made it; here is a copy of it; you see this don't apply to cotton at all. It applied to mercantile special hazards.

Mr. Scruggs—Ain't cotton a special hazard? It is covered in the whole book.

A. The old rate average on buildings and contents combined was \$1.96; there was not any cotton quoted in it; the new rate was 3 per cent; our order reducing that was 25 and 15 and some-

thing for occupancy charges; some few of them did have occupancy; of course, say that just for the purpose of getting at this, assume that 25 per cent straight reduction covered all these differences. That would bring the rate to \$2.25 against \$1.96; while your clean-up charges on the risks we investigated we will say would amount to 30 cents; that is the charge that policy holders can remove without any cost. We don't take into consideration a man going to remodel his building, and trash and things of that kind, which would amount to 30 cents, which a man could reduce, and bring it down to \$1.95, almost exactly what the average rate was; that is, of the risks that we investigated; the order might be modified this way. I speak of this as a possibility, but I don't mean we can get it and do it now, until we investigate and see whether we have got the authority or not. In answer to Mr. Terrell's question, it might be modified so that if the reduction of 25 per cent brought it down to a reasonable rate that the companies contend for—the old rate, we will say—and that the trash and stuff moved out from there would equal the reduction on any particular risk, let it rest, but on other risks where it did not bring it down to it, they would be entitled to have the clean-up charges, too.

Mr. Scruggs—That would be satisfactory to us, Mr. Wright.

Q. (By Mr. Cureton.) Mr. Wright, suppose that in amending this law, that we take and devote a section which we will call, for the sake of this discussion, "emergency rates" or "suspense rates," which are to obtain from the time this law goes into effect until new rates are promulgated by the board and applied; and that in these suspense rates the companies be permitted to write business according to the rates which have been heretofore promulgated under your 25 per cent reduction clause, but provide that where the company, since the promulgation of the 25 per cent reductions, files an amendment reducing the rate, then that the 25 per cent reduction shall only apply to your reduced rates proportionately; in other words, if they file an amendment reducing the rate 15 cents, then that the 25 per cent reduction order shall only reduce that particular rate or class of rates 10 cents; so if the total reduction is only 25 cents from what it was originally placed by the company; now, would that class of suspense rate, to write all this business in the interim, be approx-

imately just or at least bearable during suspense?

A. Well, that involves some investigation. It might. What do you think about it (speaking to Mr. Hamby)?

Mr. Hamby—I suggest that the law leave it in the hands of the board.

Mr. Cureton:

Q. I am putting into this new law a suspense rate section. Now, in drawing any bill we are forced to draw a section governing the rates during the interim, or, as we have called it here, a suspense rate, and we want to know how to make that fair and equitable to the companies?

Mr. Scruggs—You are figuring on some clause to put in the law?

Mr. Cureton—Yes, sir.

Mr. Hamby—I would suggest that the new law contain a section that would allow the board to promulgate such emergency or temporary rate as they see proper covering that feature, put in the new law a certain established rate now which may appear impracticable when you enforce it and it will give the board that latitude to adopt something similar to that now in the book.

Mr. Scruggs—A section giving the board authority to fix a temporary rate would be satisfactory.

Mr. Gilmore—Mr. Scruggs, I think I noticed in the newspaper where you made a statement to the Senate committee that 1909 rate in effect prior to this law would be satisfactory to you?

A. That would be with most if all 1909 rates were re-established; they wouldn't be satisfactory, but if you use the 1909 rates on mercantile and ask us to continue to write risks on dwellings as they are. I am willing to write just as I wrote last year, but not willing for you to make the legal rate or mercantile rate what it was last year and not get the same on dwellings.

Q. As a matter of fact, dwellings are the most profitable part in the insurance business?

A. Least profitable part in Texas, most profitable outside of Texas; I mean as a big class when I say least profitable.

Q. As compared to the premium charged and loss ratio isn't there more profit in residence rates than mercantile rates?

A. No, sir; not in Texas. It is outside of Texas.

Mr. Cousins—We give an agent 20 per cent commission on dwellings and 15 per cent on mercantile rates.