

STATUTORY REQUIREMENTS FOR CASUALTY
COMPANIES

BY

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The Examination Syllabus of our Society (Associateship, Part II, Section 5)* calls for a knowledge, on the part of the student sitting for the Associateship Examinations, of insurance law, including the more important statutes of the United States and Canada (for Canadian candidates) relating to casualty insurance. Attention has recently been called to the dearth of suitable texts covering this section of the syllabus and steps have been taken by our Society to remedy this situation.

As the preparation of a suitable text or texts will take considerable time, the writer has prepared the following rather brief outline of statutory requirements relating to casualty insurance and casualty companies. No attempt has been made to cover all the legal features that a text book on casualty insurance law would embrace but rather to treat in a more or less general way statutory requirements as they affect the relations of casualty insurance companies and state insurance departments.

VARIETY OF STATE LAWS

Insurance companies of all classes, if transacting a countrywide business, are subject to a greater multiplicity of state laws than any other class of corporation. Legislation is usually enacted in the various states from the point of view of each particular state with the result that there is a lack of uniformity of statutory requirements making it difficult to effectively and efficiently carry on an interstate business. Conditions in this respect are improving and the National Convention of Insurance Commissioners has accomplished much in bringing about a greater degree of uniformity through the sponsoring of uniform bills for enact-

*Since this paper was written a change has been made in the Syllabus whereby insurance law is made a part of the Fellowship Examinations (Part I, Section II).

ment by the various state legislatures. The millenium, however, has not yet arrived*.

INFLUENCE OF LIFE AND FIRE AND MARINE INSURANCE LEGISLATION

Casualty insurance is the youngest of the three major branches of insurance and naturally legislation affecting it has been influenced by existing statutes applicable to life and fire and marine insurance. It is easier in legislation, as in other matters, to follow the line of least resistance and this has resulted in the past in subjecting casualty companies to statutes not adapted to the conditions of the business and has in some instances restricted the normal development of the business. For example: Too much attention has been given in the past to maintaining a clear line of demarcation between classes of business that a fire company may write and classes of business that a casualty company may write. A more liberal view of this question is evident at the present time.

EFFECT OF CHANGING CONDITIONS

In addition to being the youngest of the major branches of insurance, casualty insurance has been subject to comparatively rapid changes in conditions, particularly the development of new or extended classes of coverage. In the early days of the business, employers' liability and accident and health were the only lines written in any considerable volume. The development of the automobile industry and the rapid spread of workmen's compensation laws together with the extension of corporate surety and fidelity business and its undertaking by general casualty companies, not to mention the increase in importance of the minor lines, produced an era, beginning about fifteen years ago, of rapid growth and constantly changing conditions. This era is still running. Constant changes in compensation laws present new problems; the development of the automobile lines

*The substitution of federal for state regulation of insurance has been sponsored on several occasions but to date no progress has been made and as the United States Supreme Court has consistently held that insurance is not commerce and consequently not subject to federal control there is little prospect of any relief from this quarter. There is considerable doubt, however, if such a change would bring any relief.

is constantly going on and new coverages are being devised and old coverages extended. The growth of the casualty insurance business in the past fifteen years may be measured roughly by reference to the annual reports of any of the important insurance states. Taking the Connecticut Insurance Reports for instance, we find that in 1909 forty-nine stock, mutual and foreign casualty companies wrote an aggregate country-wide volume of business of \$81,778,191.58; in 1924, seventy-three similar companies wrote an aggregate volume of \$521,669,125.14. The following table, taken from the Connecticut reports, shows the premium volume at five year intervals from 1909 to 1924:

Year	No. of Companies	Premiums Written
1909	49	\$ 81,778,191.58
1914	57	133,782,221.95
1919	60	310,622,591.48
1924	73	521,669,125.14

The above figures are of no value as a measure of the total amount of countrywide business written in the years in question as they are limited to the business of only those companies licensed in Connecticut and further are not an accurate measure of the increase in casualty business during the five and fifteen year periods owing to the fact that the number of companies licensed in Connecticut has constantly increased. They do, however, give a rough indication of the enormous increase in the casualty business during the past fifteen years. Because of the rapid development of the casualty business, legislation, which is always several steps behind existing conditions, has not in many respects kept pace with the business and this fact is quite noticeable in a study of laws governing the operation of casualty companies.

INCORPORATION

As the starting point of an insurance company is its incorporation it is desirable to begin with the consideration of the general subject of statutory requirements at this point, particularly because of the relationship between requirements for incorporation of domestic companies and requirements for admission of companies of other states. Unless otherwise specified, all requirements mentioned apply to stock companies.

In the early days of insurance in the United States, companies were incorporated either by special act of the state legislature or under the general corporation laws. With the progress of insurance legislation, special incorporation laws were developed applying specifically to insurance companies. All three methods still prevail although Connecticut and Rhode Island are the only states that provide for incorporation only by special legislative act. In Massachusetts companies are incorporated under the general incorporation laws but must also conform to certain provisions of the insurance laws. In New York, casualty companies are incorporated under the statutes applicable exclusively to insurance companies, subject to certain provisions of the general corporation laws.

The special act method, owing to abuses that existed in years past and also because of its inelasticity due to the fact that incorporations of new companies or changes in the charters of existing companies must wait upon the convening of the legislature, and in most states this body meets but once in two years, is not popular at the present time.

In general the laws relating to the incorporation of stock casualty companies provide that the charter or articles of incorporation must state the following:

1. The names and addresses of the incorporators;
2. The name of the company;
3. The location of the company;
4. The kinds of business to be transacted;
5. The mode in which the corporate powers are to be exercised including provision for directors;
6. The amount of paid in capital;
7. The amount of paid in surplus.

Quotations from certain sections of the New York Insurance Law will perhaps best illustrate some of the provisions mentioned above:

Section 70 of Chapter 28 of the Consolidated Laws which covers the incorporation of both life and casualty companies, provides as follows:

“Thirteen or more persons may become a corporation for the purpose of making any of the following kinds of insurance:

- (1) Upon the lives or the health of persons and every insurance appertaining thereto, and to grant, purchase and dispose of annuities.

(2) Against injury, disablement or death resulting from traveling or general accident, and against disablement resulting from sickness and every insurance appertaining thereto.

(3) Insuring any one (a) against loss or damage resulting from accident to or injury suffered by an employee or other person, and for which the person insured is liable, (b) against loss or damage to property caused by animals or by any vehicle drawn by animal power, and for which loss or damage the person insured is liable, and (c) against any other loss or damage to property and for which the insured is liable, except loss or damage caused by risks or hazards of the kinds mentioned in subdivisions seven, nine, ten and eleven of this section.

(4) Guaranteeing the fidelity of persons holding places of public or private trust. Guaranteeing the performance of contracts other than insurance policies; guaranteeing the performance of insurance contracts where surety bonds are accepted by states or municipalities; executing or guaranteeing bonds and undertakings required or permitted in all actions or proceedings or by law allowed; and indemnifying banks, bankers, brokers, financial or moneyed associations, or financial or moneyed corporations, against the loss of any bills of exchange, notes, drafts, acceptances of drafts, bonds, securities, evidences of debts, deeds, mortgages, documents, currency and money, except that no such contract or indemnity indemnifying banks, bankers, brokers, financial or moneyed associations, or financial or moneyed corporations, shall indemnify against loss caused by marine risks, or risks of transportation or navigation. A company authorized to do the business mentioned in this subdivision may guarantee any federal land bank against loss by reason of defective title or incumbrances on real property on which any such federal land bank may make a loan secured by a mortgage.

(4a) Guaranteeing and indemnifying merchants, traders and those engaged in business and giving credit from loss and damage by reason of giving and extending credit to their customers and those dealing with them; and corporations authorized to do such last named business in this subdivision mentioned shall have all the powers conferred by section one hundred and seventy-eight of this chapter.

(5) Against loss by burglary, theft, larceny, forgery, vandalism or malicious mischief, the wrongful conversion, disposal, or concealment of automobiles held under a conditional sale contract or subject to a chattel mortgage, or any one or more of such hazards. Any corporation authorized to transact business as hereinbefore mentioned in this subdivision if possessed of a capital of at least two hundred thousand dollars, may, by taking the proceedings required in section fifty-two of this chapter, amend its charter so as to include therein the insurance of jewelers

and other persons engaged in the business or trade of manufacturing, buying, selling or dealing in, cutting or setting of precious stones, jewels, jewelry, gold, silver and other precious metals, whether as principals, agents, brokers, factors or otherwise, against any and all risks of loss, damage, injury, deterioration, loss of use or liability arising from or in connection with such business or trade. Such insurance shall be known and designated as 'jewelers' block insurance' and made under a policy upon the face and outside cover of which shall be printed in bold face type the words 'jewelers' block policy.'

(6) Upon glass against breakage.

(7) Against (a) loss or damage to steam boilers and pipes or containers connected therewith, waterheaters and pipes or containers connected therewith, apparatus for heating or lighting buildings or preparing food therein, fly wheels, power wheels and engines or other apparatus for applying or transmitting motive power and machinery connected therewith or operated thereby, caused by explosion thereof or accidental injury thereto; against (b) loss or damage to life or property resulting therefrom, including loss by legal liability resulting from or incurred in connection with claims against the assured because of loss or damage to persons or property caused as aforesaid; and against (c) loss of use and occupancy caused thereby, and to make inspection of and to issue certificates of inspection upon such boilers, pipes, fly wheels, engines and machinery.

(8) Upon the lives of horses, cattle and other live stock or against loss by the theft of any of such property or both.

(9) Against loss or damage to automobiles and airplanes, seaplanes, dirigibles or other aircraft (except loss or damage by fire or while being transported in any conveyance by land or water), and against loss or damage to property caused thereby, including loss by legal liability for damage to property resulting from the maintenance and use of automobiles and airplanes, seaplanes, dirigibles or other aircraft.

(10) Against loss or damage by water or other fluid to any goods or premises, arising from the breakage or leakage of sprinklers, pumps or other apparatus erected for extinguishing fires, or of other conduits or containers, or by casual water entering through leaks or openings in buildings, and of water pipes; against accidental injury to such sprinklers, pumps, fire apparatus, conduits or containers; and against damage from loss of use or occupancy of premises by reason of such causes, or any of them.

(11) Against loss or damage to elevators or other property, excepting loss or damage by fire, caused by the maintenance, operation or use of elevators, and including loss by legal liability for damage to property resulting from such operation, mainte-

nance or use of elevators; by making and filing in the office of the superintendent of insurance a certificate signed by each of them, stating their intention to form a corporation for the purpose or purposes named in some one of the foregoing subdivisions, specifying the subdivisions; and setting forth a copy of the charter which they propose to adopt, which shall state the name of the proposed corporation, the place where its principal office is to be located, the kind of insurance to be undertaken, and under which of the foregoing subdivisions it is authorized, the mode and manner in which its corporate powers are to be exercised, the number of its directors, the manner of electing its directors and officers, a majority of whom shall be citizens and residents of this state, the time of such elections, the names and postoffice addresses of the directors who shall serve until the first annual meeting of such corporation, the manner of filling vacancies, the amount of its capital and such other particulars as may be necessary to explain and make manifest the objects and purposes of the corporation.

Such certificates shall be proved or acknowledged and recorded in a book to be kept for that purpose, and a certified copy thereof delivered to the persons executing the same. Except as herein provided, no corporation shall be formed under this article for the purpose of undertaking any other kind of insurance than that specified in some one of the foregoing subdivisions, or more kinds of insurance than are specified in a single subdivision; but a corporation may be formed for all the purposes combined, or any two or more of them specified in the first and second subdivisions, and clause (a) of the third subdivision, or for all the purposes combined, or any two or more of them specified in the second, third, fourth, fourth-a, fifth, sixth, seventh, eighth, ninth, tenth and eleventh subdivisions. No one policy issued by any one corporation shall embrace the kinds of insurance that are specified in subdivision four with the kind of insurance specified in any other subdivision of this section."

From a consideration of the second paragraph of sub-section 11 it will be noted that, as respects classes of business that may be written, there is an overlapping of the powers granted to life and casualty companies. Both companies may write accident and health insurance and all forms of liability for loss or damage as the result of personal injury (employers, public, automobile, etc., liability and compensation).

While a considerable number of life companies have taken advantage of the privilege of writing accident and health insurance, only two of the larger companies, the Aetna Life Insurance Company and The Travelers Insurance Company, have availed

themselves of the authority to write the liability lines, and it is interesting to note that these two companies maintain a complete segregation of assets as between the life and the casualty business.

The section above quoted is one of the best examples of an up to date and comprehensive law defining the classes of business that a casualty company may write. Its up-to-dateness is evidenced by the 1925 amendment to sub-section 5 permitting the writing of "jewelers' block insurance."*

The shortcoming of the New York law and of the laws of many other states is its inelasticity. With conditions constantly changing and demands arising for new forms of coverage, a law that attempts to specifically enumerate the lines of business that a company may write is inadequate. This situation has long been realized and has been partially remedied. At the annual meeting of the National Convention of Insurance Commissioners in 1920, one of our fellow members, Honorable Clarence W. Hobbs, at that time Insurance Commissioner of Massachusetts, offered the following resolution which was adopted:

†"Resolved, That the Committee on Laws and Legislation consider and report upon the expediency of a uniform classification of insurance companies; also upon the expediency of a uniform method of authorizing the transaction of new lines of insurance under departmental license."

At the December, 1922, meeting of the National Convention, the Committee on Laws and Legislation presented the following resolution which was adopted:

"Resolved, That the Commissioners be requested to procure the enactment of the following legislation in their several States, viz.:

"An act to authorize the transaction of classes of insurance not specifically authorized by law.

Be it enacted, etc.—

Section 1.—An insurance company authorized to transact within the State any of the classes of insurance set forth in the

*This line however, probably will not be pushed to any great extent by casualty companies as a majority of the hazards insured against are those usually covered by marine companies who are at present better equipped to handle loss adjustments.

†*Proceedings* of the National Convention of Insurance Commissioners, 1920, Page 137.

laws relating to the powers of insurance companies may transact in addition thereto any form of insurance not specifically included in such laws, provided that such form of insurance is not contrary to public policy or prohibited by statute. Such additional forms shall be transacted only upon express license of the Insurance Commissioner, and upon such terms and conditions as he may from time to time prescribe."

The suggested uniform statute or a similar statute has been enacted in at least eleven* states, but has not been sponsored as enthusiastically as its importance justifies.

It is appropriate to mention at this point that during the past few years there has been considerable agitation over the matter of multiple line insurance, in fact the National Convention of Insurance Commissioners has wrestled with the problem since 1919. The American system of single line companies appears to be too deeply rooted to be upset at present or in the near future. However, some progress has been made as is evidenced by the recent amendments to the New York statutes permitting the writing of jewelers' block (all risks) insurance by either casualty, fire and marine, or marine companies. The next step in the direction of multiple lines will undoubtedly be the more general adoption of statutes permitting a single company to write all classes of automobile coverage. This authority is at present granted by more than one-half the †states but has not been authorized to any extent in the Eastern states and accordingly has not been undertaken by any of the larger general casualty companies.

To return to the subject of classes of coverage authorized by statute, an examination of similar statutes of other states discloses that in general the classes follow those specified by the New York law but in most instances are less comprehensive‡. In the case of Massachusetts and certain other states a single section (Section 47, Chapter 185, General Laws) enumerates the classes of business that companies in general may be incorporated for but the following section limits the various combinations that

*Arizona, Arkansas, California, District of Columbia, Kansas, Louisiana, Massachusetts, Texas, Utah, Vermont and Washington.

†In some states such authority is granted only to companies restricting their business to automobile insurance only.

‡The Iowa statutes do not permit a life company to write automobile liability insurance.

may be made, which, so far as casualty insurance is concerned, are substantially the same as in the New York statutes.

The minimum number of incorporators varies; the New York law specifies thirteen, the Massachusetts law ten. There is usually no restriction as to the maximum number. In general the law specifies certain qualifications for incorporators. In New York the General Corporation Law (Section 4) provides as follows:

“A certificate of incorporation must be personally executed by natural persons of full age, at least two-thirds of whom must be citizens of the United States and one a resident of this State.”

The Massachusetts statute (Section 48, Chapter 175) provides that the incorporators must be “Residents of this Commonwealth.”

The name of the company is a matter that has generally received rather careful consideration by the law makers. Statutes bearing upon this matter usually have a two-fold purpose; first to insure that the name adopted by the company will clearly indicate the nature or character of its business and second that the business of an established company will not be injured by an infringement on its good name.*

The Massachusetts statutes cover both of the above points. Section 49, Chapter 175, of the General Laws provides in part as follows:

“The name of the Corporation shall be subject to approval by the †Commissioner and shall contain the word ‘Insurance’.”

Section 9, Chapter 155 of the General Laws provides in part as follows:

“A corporation . . . shall not assume the name of another corporation established under the laws of the Commonwealth, or of a corporation, firm, association or person carrying on business in the Commonwealth, at the time of such organization or within three years prior thereto or assume a name so similar thereto as to be likely to be mistaken for it, except with the written consent of said existing corporation, firm or association or of such person previously filed with the †Commissioner.”

*Statutory provisions for the protection of corporate names have been found essential for the protection of insurance companies as well as of corporations in nearly every other line of business, and have received favorable attention by the federal authorities and in state laws under the so-called “Unfair Trade Practices” acts.

†Commissioner of Corporations and Taxation.

The New York law (Section 10, Chapter 28) contains the following:

"No certificate of authority to transact the business of insurance in this state, shall be granted by the Superintendent of Insurance to any insurance corporation hereafter applying therefor, if such corporation has the same name as another corporation authorized to transact such business in this state at the time of granting such certificate, or a name so nearly resembling it as to be calculated to deceive."

As a rule the various state laws require that a domestic corporation must have its principal office of business in the state and must maintain there certain records, and as a rule companies have their general business offices in the home state. There are, however, a number of exceptions in case of insurance companies. A company may incorporate in a state other than that in which it intends to maintain its general office because of certain advantages in the matter of taxation or for other reasons. Again the general offices of an established company may be transferred to a foreign state as a result of change of control or because of business considerations affecting the efficient and economical transaction of its business*.

The kinds of business to be transacted are required to be stated in detail, first because it is a fundamental of corporation law that the charter or articles of incorporation must state the nature of the business or businesses to be transacted and second because in the United States, as previously pointed out, the legislative policy has been to draw a rather sharp distinction between the kinds of coverage that the various classes of companies may grant.

The corporate powers of a company are exercised through a board of directors and officials elected by the directors. The by-laws govern the number and method of electing directors and officers including the filling of vacancies. The by-laws must, of course, contain nothing inconsistent with the statutory law. The minimum number of directors is usually specified in the statutes and, like the number of incorporators, varies. In Massachusetts the minimum number is five and in New York, thirteen. The

*The maintenance of a "Principal Office" in the home state by a company with its general office in another state does not as a rule cause any great inconvenience as such a company will usually maintain a branch office or general agency in one of the larger cities of the home state.

law usually requires that the directors must be stockholders and in some cases specifies the minimum number of shares that a director must hold. It is also required by statute in many states that a majority of the directors must be citizens of the home state. The requirement that directors be stockholders is based upon the theory that those charged with the duty or accepting the honor of serving as directors will have a greater interest in the company's affairs if they are likewise stockholders. The Massachusetts law does not require that directors be stockholders.

The law imposes certain duties upon directors and holds them, jointly with the officers, accountable for the proper administration of the company's business. In some states the specific responsibilities are rather stringent. In Massachusetts, for example (Section 62, Chapter 175), the law provides that the directors or other officers of a company making or authorizing an investment or loan in violation of the statutes concerning such investments or loans shall be personally liable to the stockholders for any loss caused thereby; if they allow to be insured on a single risk a larger amount than authorized by statute (10% of net assets) they shall be personally liable for any loss in excess of the amounts to which they might lawfully insure; if they make or assent to further insurance, knowing that the accrued losses of the company equal its net assets, they shall be personally liable for any loss under such insurance.

The laws of most states prohibit any officer or director from receiving any benefit in commission, fees, brokerage or other pecuniary benefit in connection with investments, loans, sale or purchase of property, etc., engaged in by the company. This matter is covered in Section 36, Chapter 28, of the New York law. Probably the most inclusive statute of this nature is to be found in the Massachusetts law, Section 64, Chapter 175, which reads as follows:

"All investments and deposits of the funds of any such company shall be made in its corporate name and no director or other officer thereof, and no member of a committee having any authority in the investment or disposition of its funds, shall accept, of be the beneficiary, either directly or remotely, of any fee, brokerage, commission, gift or other consideration for or on account or any loan, deposit, purchase, sale, payment or exchange made by or in behalf of such company, or be pecuniarily interested in any such purchase, sale or loan, either as borrower, principal, co-

principal, agent or beneficiary, except that if a policyholder, he shall be entitled to all the benefits accruing under the terms of his contract."

CAPITAL REQUIREMENTS

There is a decided lack of uniformity in the capital stock requirements of the laws of the various states. In some states no distinction is made as respects lines of business transacted while in others capital requirements vary according to the line or lines of business to be transacted. In general the minimum capital required is \$100,000 but with a few exceptions this minimum would not permit a company to transact more than a single line such as accident and health, plate glass, burglary, liability and compensation, etc. In about one-third of the states, at least \$200,000 capital is required to qualify for liability and compensation and in more than one-half the states at least \$250,000 capital to qualify for fidelity and surety*. In New York the law as respects capitalization has been developed on the plan of establishing a minimum capital requirement for a single line and a specific amount of additional capital for each additional line and this plan is also incorporated with variations and exceptions in the laws of a considerable number of states, including California, Louisiana, Massachusetts, Nebraska, New Jersey, Pennsylvania, Tennessee, Texas, Utah, Washington and Wisconsin.

Section 70 of Chapter 28, of the New York laws, which covers the incorporation of both life and casualty companies enumerates eleven kinds of insurance for which companies may be incorporated. For specific details and descriptions of coverages this †section should be studied. It will be sufficient to give here the lines provided for as they are commonly known or described in the Convention Annual Statement blank.

1. Life (including annuities) and health
2. Accident and health
3.
 - (a) Liability for personal injury or death
 - (b) Teams (including animal)
 - (c) Property damage, other than steam boiler, engine and machinery, automobile, sprinkler, water and elevator

*West Virginia requires \$600,000.

†See quotation from this law under "Incorporation", the preceding heading in the text of this paper.

4. Fidelity and surety
4. (a) Credit
5. Burglary (including "jewelers' block")
6. Glass
7. Steam boiler, engine and machinery
8. Live stock
9. Automobile and aircraft property damage and collision
10. Sprinkler and water damage
11. Elevator property damage and collision.

The permissible combinations of kinds and minimum and maximum capital requirements are covered in Section 12 of the same chapter. The second paragraph applying to life and casualty companies provides as follows:

"No domestic stock insurance corporation shall be hereafter authorized to transact the kind of insurance business described in subdivision one, two, five, six, seven, eight, nine, ten and eleven of section seventy of this chapter with a smaller capital stock than one hundred thousand dollars fully paid in in cash. No domestic stock insurance corporation shall be hereafter authorized to transact the kind of insurance business described in subdivisions three or four of section seventy of this chapter with a smaller capital stock than two hundred and fifty thousand dollars fully paid in in cash if authorized to transact any kind of insurance business described in one of such subdivisions or a smaller capital stock than five hundred thousand dollars fully paid in in cash if authorized to transact the kinds of insurance business described in both such subdivisions. Except as to requirements of a minimum capital stock for the transaction of the kinds of insurance business described in subdivisions three or four of section seventy of this chapter every domestic stock insurance corporation hereafter authorized having power to transact business under more than one subdivision of such section shall, in addition to the minimum capital stock prescribed in this section, have an additional capital stock of fifty thousand dollars fully paid in in cash, for every kind of insurance business more than one which it is authorized to transact. Any corporation to which this section is applicable shall also at the time of its organization, have a surplus equal to fifty per centum of its capital stock, which surplus shall also be fully paid in in cash; provided that this requirement shall not apply to existing corporations reincorporated."

From the foregoing it will be noted that under the New York law the minimum capital for a single line except liability, fidelity

and surety, *credit and burglary (if power to write "jewelers' block" is included) is \$100,000 with an additional \$50,000 for each additional line; provided, however, that the minimum for burglary (including jewelers' block) is \$200,000; liability or fidelity and surety \$250,000, or for both liability and fidelity and surety, \$500,000.

A company incorporated to write all lines of business provided for would require a minimum capital of \$950,000 arrived at as follows:

Liability (and other coverages specified in subdivision 3).....	\$250,000	Minimum
Fidelity and surety.....	250,000	"
Accident and health.....	50,000	Additional
Credit.....	50,000	"
Burglary (including or excluding jewelers' block).....	50,000	"
Glass.....	50,000	"
Steam boiler, engine and machinery.....	50,000	"
Live stock.....	50,000	"
Automobile and aircraft property damage and collision.....	50,000	"
Sprinkler and water damage.....	50,000	"
Elevator property damage and collision..	50,000	"
	<hr/>	
Total.....	\$950,000	

The Massachusetts law follows in general the New York law, the minimum capital required for all lines being \$900,000. (For further details see Sections 47, 48 and 51, Chapter 175, General Laws.) The Massachusetts law establishes a minimum for a single line and provides that for a combination of lines the capital required shall be the largest minimum capital for a single line plus one-half the minimum capital established for each additional line.

For the transaction of single lines and certain combinations of lines, there is a considerable difference between the New York and Massachusetts minimum capital requirements as will be noted from the following exhibit:

*The Department has ruled that a company organized to write credit business only must incorporate under the provisions of Section 170 providing for the incorporation of "Title and Credit Guaranty Corporations" which prescribes a minimum capital of \$250,000.

CAPITAL REQUIREMENTS

Line or Lines	New York	Massachusetts
Fidelity & surety.....	\$250,000	\$200,000
Credit.....	250,000	200,000
Liability and fidelity and surety.....	500,000	300,000
Liability.....	250,000	200,000
Burglary (including jewelers' block)...	100,000	200,000
Fidelity, surety and burglary.....	550,000	300,000
Steam boiler, engine and machinery...	100,000	200,000
Sprinkler and water damage.....	100,000	200,000

The legislative tendency at the present time is to set up standards of capitalization similar to those of New York and Massachusetts but there is a decided lack of uniformity.

SURPLUS REQUIREMENTS

The number of states requiring by statute a paid in surplus at organization is rather small. There is also, as in the case of capital requirements, a decided lack of uniformity. New York and Pennsylvania require a paid in cash surplus at organization of 50% of the paid in capital; Wisconsin requires 25% of the capital in case of companies other than surety companies and 50%, (\$125,000) of the minimum capital (\$250,000) in case of surety companies; Virginia, District of Columbia and Oregon specify 50% of the minimum capital; Washington specifies 50% of the minimum capital for some lines (fidelity and surety, liability and automobile) and 25% for other lines (accident, plate glass, burglary, credit, vehicle—other than automobile—and elevator). A few states specify a surplus only in case of companies transacting fidelity and surety business, among which may be mentioned: Idaho, 20% of minimum capital; Minnesota, 25% of minimum capital and Kansas 10% of capital.

The foregoing is not a complete list of states having statutory surplus requirements but is submitted to illustrate the lack of uniformity in the statutes covering the subject.

The matter of ample surplus requirements does not in general appear to have received as much attention and consideration as its importance justifies. The heavy initial expense of commencing business and the stringent unearned premium reserve requirements make heavy demands upon surplus during the early years of a company and an ample surplus fund should be required. Ex-

perience has demonstrated that an initial surplus of 50% is none too large and that 100% would not provide any too great a margin, especially in the case of a company desiring to write a substantial volume in the first few years of its existence.

INVESTMENTS—DOMESTIC COMPANIES

The main principle underlying the enactment of statutes regulating investments is to secure a certain measure of soundness and stability and prevent insurance funds from being wasted in speculative and unsound investments. All but two states, Connecticut and Rhode Island, have enacted some form of investment statute. There is practically no uniformity in such statutes. Roughly, investment statutes fall into three general classes, according to their scope, as follows:

1. Statutes prescribing the investment of capital only;
2. Statutes prescribing the investment of capital and a part of remaining funds;
3. Statutes prescribing the investment of all funds.

Within the three general classes there are many variations and the scope of investments ranges from liberality to rather close restriction. In the first class, some states regulate the investments to the amount of minimum capital required while in others the regulation applies to the total capital*. The second class is not of any great importance. In the third class, which embraces a majority of the states, we find most liberal provisions such as that of Tennessee whose investment law requires that funds must be invested in "good available securities" and rather stringent provisions as exemplified by the laws of Maine and Vermont which restrict investments to those permitted to savings banks.

By and large, however, the investment provisions are not burdensome, a rather wide choice being open to the companies as will be noted from the following list which is a sort of summary of the classes of investments generally approved:

*The New York Law (Section 16, Chapter 28) differentiates between investments of minimum capital required and balance of capital, restricting investment of minimum capital to stocks and bonds of the United States or of New York State or the bonds of a county or incorporated city of New York State.

1. Bonds, notes and other evidences of indebtedness of the United States;
2. Bonds, notes and other evidences of indebtedness of the home state or any political sub-division thereof;
3. Bonds, notes and other evidences of indebtedness of any other state of the United States or any political sub-division thereof;
4. Bonds, notes and other evidences of indebtedness of the Dominion of Canada, its provinces or any political sub-division thereof;
5. First mortgages on unencumbered real estate situated in the United States or Canada;
6. Collateral loans upon the foregoing classes of securities;
7. Certain corporate bonds;
8. Certain corporate stocks.

In those states, the statutes of which make a distinction between the investment of capital and other funds, investment of capital is generally restricted to those classes of securities considered to possess the greatest element of security. In most states the investment statutes in addition to prescribing investments also prohibit certain classes of investment.

A majority of states prohibit investment in real estate except such as is necessary for the companies' accommodation in the convenient transaction of its business, and such as it shall have acquired in good faith in settlement of debts or obligations or through foreclosure of mortgage loans, but require that all real estate acquired in the latter manner must be disposed of within a certain period of time, with authority to the Insurance Commissioner to extend such time, if, in his opinion, an extension of time is justified.

Some states prohibit the acquiring and holding of stock in other insurance companies. Of late, however, there has been a tendency to remove this barrier. Prior to 1923 the laws of the State of New York, (Section 16, Chapter 28) prohibited a domestic company from investing any of its funds in the stock of another insurance company carrying on the same kind of business but at the legislative session of that year the law was amended to permit such investment under certain conditions and subject to approval of the Superintendent of Insurance. The law was further amended in 1925. Investing in, or loaning money on security of a company's own stock, is also prohibited in most states.

IMPAIRMENT OF CAPITAL

With the exceptions of Indiana, all states and the District of Columbia have statutes prescribing the procedure in event of impairment of capital. The statutes are fairly uniform but the degree of impairment permitted before action is taken varies. The course generally prescribed requires that if the capital becomes impaired to a certain degree, the Insurance Commissioner shall notify the company that the impairment must be made good by the stockholders within a certain period, usually thirty, sixty or ninety days, and if such order is not complied with within the time specified, he shall then revoke its authority to further transact business and institute such legal proceedings as are necessary to preserve the assets and wind up the company's affairs. In some states, the supervising official is designated by law as receiver and liquidator. Most states provide that the impairment may be made good by a reduction of capital provided that such reduction does not bring the capital below the minimum specified for incorporation of new companies. The degree of impairment allowed before action is taken varies from "any impairment" to 50% impairment (Maine), the degrees most frequently stipulated being 20% and 25%.

DEPOSITS OF SECURITIES

Deposits of securities required by law are of two kinds: general deposits and special deposits. General deposits are those required for the benefit of all policyholders (and creditors) of the company. There are two classes of general deposit laws, one requiring a deposit by domestic companies and the other a deposit by companies of other states as a condition precedent to receiving authority to transact business. The latter class of law usually provides that a company may have its general deposit either in its home state or in some other state of the United States so that a company having a general deposit of sufficient amount in its home state will meet the general deposit requirements of all states in which it seeks to transact business. The amount of the general deposit specified by the laws of the various states varies. The minimum amount most generally specified is \$100,000. In some states there is a rough correlation between the capital required for various lines of business and the amount of deposit.

New York specifies a minimum deposit of \$100,000 and a maximum of \$250,000. Kentucky specifies a minimum of \$100,000 and a maximum of \$450,000. General deposit laws are found in the statutes of a majority of the states.

Special deposits are deposits required as a condition precedent to receiving authority to transact business in a state and are made for the benefit of policyholders (and creditors) in such state. Less than one-half the states have passed such laws and with one or two exceptions they apply to fidelity and surety business only. The states of Alabama, Delaware, Florida, Georgia, Idaho and Oregon for example, require a deposit in case of companies transacting fidelity and surety business. The amount of deposit ranges from \$10,000 to \$50,000. Arkansas and Louisiana provide either for a deposit or a *surety bond. Virginia requires a deposit from all classes of companies of not less than \$10,000 nor more than \$50,000, the amount to be determined by the Insurance Commissioner.

In general the classes of securities acceptable for both kinds of deposits are limited to the classes of securities prescribed for investment of capital.

REQUIREMENTS FOR ADMISSION

CAPITAL, SURPLUS AND INVESTMENTS.

In general the capital, surplus and investment requirements set as a standard for the admission of companies of other states follow the requirements applicable to domestic companies. Some states require a larger capital and surplus for other state companies than those required of domestic companies. For example: The Indiana statutes permit a domestic company to incorporate on a capital of \$100,000 and no paid in †surplus is

*A number of states which do not provide for a deposit require the filing of a surety bond. California, for example, requires from companies transacting workmen's compensation business in the state a bond of at least \$100,000 and not less than the amount of reserve for outstanding compensation losses in the state nor more than twice such reserve.

†While Indiana does not provide for a paid in surplus, it lays upon stockholders a double liability similar to that laid upon stockholders in national banks.

specified. A company of another state, however, to be eligible for admission must have a capital of \$200,000 or assets of \$2,000,000 and a net surplus over and above all liabilities of at least \$450,000. As a rule, states do not attempt to prescribe investment requirements for companies of other states beyond the amount of the minimum capital requirement. Maryland has a rather stringent investment law which applies to both domestic and other state companies. In general the investment requirements do not impose a hardship on companies seeking admission to the various states.

MISCELLANEOUS REQUIREMENTS

In addition to the requirements as to capital, surplus, investments and special deposits and incidental thereto or in substantiation thereof, the following is a partial list of statements, documents, etc., which are usually required:

- a. A certified copy of the charter or articles of incorporation;
- b. A copy of the last annual statement of the company duly executed and sworn to;
- c. A certificate of the proper officer of the home state that the company has complied with the laws of such state and is duly authorized. This certificate is known as a "certificate of compliance";
- d. A certificate of deposit;
- e. A power of attorney appointing the Insurance Commissioner, some other official, or a resident of the state, attorney for service of process in actions or proceedings against the company within the state.

The foregoing cover the main requirements, documents, certificates, etc. Some states, however, have additional requirements as a result of special or peculiar laws or rulings of the supervising official. Among these may be mentioned:

- f. Appointment of a general agent;
- g. Copies of certain forms of policies;
- h. Copy of last report of examination;
- i. Copy of by-laws.

The New York law, Section 29, Chapter 28, requires that a company applying for admission must file an agreement under its corporate seal that it will not, while authorized to do business

therein, transact any business therein which a similar domestic company is prohibited from transacting.

A Wisconsin law requires that a company applying for admission must be examined by the Wisconsin Department.

A Michigan law requires that a company must have been in business for at least a year before it is eligible for admission.

REQUIREMENTS—FOREIGN COMPANIES

The foregoing requirements apply to stock companies of the United States. In general the requirements for companies of foreign governments are substantially the same. In lieu of capital stock, a foreign company is required to have a deposit in some one of the states for the benefit of all policyholders and creditors in the United States at least equal to the capital stock required of domestic companies.

REMOVAL OF SUITS TO FEDERAL COURTS

A number of states have statutes prohibiting removal of suits or actions arising in the state to the federal courts and several states require, or did require, a company on applying for admission to execute an agreement not to so remove or attempt to remove such suits or actions. The usual penalty provided for violation of the statute or agreement is revocation of license. However, the Arkansas statute covering this matter was declared unconstitutional in 1922 by the Supreme Court of the United States in the case of *Terrel, Secretary of State of Arkansas vs. Burke Construction Co.* and, while this case did not involve an insurance company, a more recent decision of the Supreme Court of Minnesota in the case of *Minnesota vs. Security Fire Insurance Co.*, decided in July, 1924, and involving the legality of statutes and agreements such as those under consideration, followed the decision of the United States Supreme Court in the *Burke Construction Co.*, case. As these two cases establish a precedent that undoubtedly would be followed in other states, such statutes may be considered as ineffective at the present time.

ANTI-COMPACT LAWS

Anti-compact laws, statutes forbidding companies or their agents from entering into agreements designed to prevent open and free competition, as applying to casualty companies

are found in the statutes of the following states: Arkansas, Georgia, Iowa, Kansas, Mississippi, Nebraska, Oregon, South Carolina, Texas and Washington. The number of states having such laws applicable to fire companies is much larger. The scope of the laws varies, some applying only to compacts affecting rates while others apply to rates, commissions and methods of transacting business. The enactment of rating laws since the introduction and development of workmen's compensation insurance has done much to nullify the effects of anti-compact laws and the real value of such laws under present conditions is open to question.

The Oregon statute (Section 6361, General Statutes) is a good example of one of the more comprehensive statutes. It provides as follows:

"It shall be unlawful for any insurance company authorized to transact business in this state, or any manager or any agent or representative thereof, to, either within or outside of this state, directly or indirectly, enter into any contract, understanding or combination, with any other insurance company, or any manager, or any agent or representative thereof, or to jointly or severally do any act or engage in any practice or practices for the purpose of controlling the rate to be charged, or commissions or other compensations to be paid, for insuring any risk or class or classes of risks, in this state, or for the purpose of discriminating against or differentiating from any company, manager or agent, by reason of its or his plan or method of transacting business or its or his affiliation or non-affiliation with any board or association of insurance companies, managers, agents or representatives, or for any purpose detrimental to free competition in the business or injurious to the insuring public. Whenever the commissioner shall have knowledge of any violation of this section, he shall forthwith order such offending company, manager, agent or representative to immediately discontinue such practice or show cause to the satisfaction of the commissioner why such order should not be complied with. Within thirty days from the receipt of such order, and upon a failure to comply with such order, the commissioner shall forthwith revoke the license of such offending company or agent, and no renewal of the license so revoked shall be granted within three years from the date of the revocation."

ANTI-DISCRIMINATION LAWS

Laws designed to prevent discrimination in rates between insurers or risks of the same class or hazard are found in the statutes of nearly all states, although in quite a few such laws apply to life insurance only. The laws vary in scope, some of the

statutes covering rebates of premiums only while others extend to any valuable consideration or inducement not specified in the policy. The Connecticut statute (Section 4122, General Statutes) while not as comprehensive as that of some of the other states, has the advantage of brevity and will serve as a satisfactory example. It provides:

"No insurance company doing business in this state, including life insurance companies referred to in Section 4121, or attorney, agent, sub-agent, broker or any other person shall pay or allow, or offer to pay or allow, as inducement to insurance, any rebate of premium payable on the policy, or any special favor or advantage in the dividends or other benefits to accrue thereon, or any valuable consideration or accept from any company, or attorney, agent, sub-agent, broker or any other person, as inducement to insurance, any such rebate of premium payable on the policy, or any special favor or advantage in the dividends or other benefits to accrue thereon, or any valuable consideration or inducement not specified in the policy of insurance. No person shall be excused from testifying or from producing any books, papers, contracts, agreements or documents, at the trial of any other person charged with the violation of any provision of this section, on the ground that such testimony or evidence may tend to incriminate him, but no person shall be prosecuted for any act concerning which he shall be compelled to so testify or produce documentary and other evidence, except for perjury committed in so testifying. Any person, firm or corporation violating any of the provisions of this section shall be fined not more than five hundred dollars."

RATE MAKING LAWS

Rating laws are the outgrowth and development of anti-discrimination laws. They are of comparatively recent origin but have developed rapidly since the introduction of workmen's compensation insurance. Rating laws of one kind or another are found in thirty-seven states. As respects casualty insurance, the laws fall into two classes: (1) General laws applying to all lines and (2) specific laws applying to one or more lines. General laws of material scope are found in New York, North Carolina, Vermont and West Virginia. A few other states have general laws of lesser scope. Specific laws applying primarily to workmen's compensation and employers' liability, but in some

cases also embracing fidelity and surety and, in one instance, plate glass, are found in approximately twenty states.

The New York law, Sections 141 and 141b, Chapter 28, furnishes an example of an up to date general rating law. For an example of a specific law applying to workmen's compensation insurance, the laws of any of the following states will serve: New Jersey, Pennsylvania, Minnesota or Wisconsin.

For a detailed and more extensive discussion of anti-compact, anti-discrimination and rating laws, reference should be made to the paper of Hon. Clarence W. Hobbs entitled "State Regulation of Insurance Rates" in the *Proceedings* of this Society, Volume XI, page 218.

POLICY FORMS AND PROVISIONS

Aside from accident and health and workmen's compensation policies, the filing and approval of casualty policy forms is not generally required. Less than one-third of the states require the filing of all such forms either by statute or ruling and in some of these, filing only and not approval is required. There are, however, many statutes specifying that certain policies shall contain certain provisions or prohibiting the incorporation of certain provisions or conditions, particularly in the case of accident and health, liability and workmen's compensation where filing is not required. One of the more or less generally specified provisions in case of liability is the so-called bankruptcy or insolvency provision making an insurance company absolutely liable for payment of a judgement for damages regardless of the satisfaction of such judgement by the insured or the financial status of the insured. Such laws are of importance since they have the effect of changing the liability contract from one of indemnity to one of insurance. A further extension of this principal is found in laws providing for compulsory automobile liability insurance.

As an example of a bankruptcy or insolvency liability law, the Connecticut provisions are quoted: (Chapter 331, Public Acts of 1919).

"1. Every insurance company which shall issue a policy to any person, firm or corporation, insuring against loss or damage on account of the bodily injury or death by accident of any person, or damage to the property of any person for which loss or damage such person, firm or corporation is legally responsible shall,

whenever a loss occurs under said policy, become absolutely liable, and the payment of said loss shall not depend upon the satisfaction by the assured of a final judgment against him for loss, damage or death occasioned by said casualty. No such contract of insurance shall be cancelled or annulled by any agreement between the insurance company and the assured after the said assured has become responsible for such loss or damage, and any such cancellation or annulment shall be void."

"2. Upon the recovery of a final judgment against any person, firm or corporation by any person including administrators or executors for loss or damage on account of bodily injury or death or damage to property, if the defendant in such action was insured against said loss or damage at the time when the right of action arose, and if such judgment shall not be satisfied within thirty days after the date when it was rendered, such judgment creditor shall be subrogated to all the rights of the defendant and shall have a right of action against the insurer to the same extent that the defendant in such action could have enforced his claim against such insurer had such defendant paid such judgment."

Approximately twenty states require the filing and approval of accident and health policy forms under so-called Uniform Standard Provisions laws. Such laws were enacted by the various states in 1912 and subsequently following an investigation of certain features of the accident and health business by the National Convention of Insurance Commissioners in 1911. There are two forms of such laws. The earlier laws enacted prior to 1914 specified the provisions to be included without specifying the wording of such provisions, and the later laws enacted in 1914 and subsequently which specified the exact wording of the provisions. Both laws prohibit the inclusion of certain provisions. The Massachusetts law serves as an example of the earlier laws and the New York law of the later laws. As the sections covering the provisions are rather lengthy, they are not quoted*.

Approximately twenty states require the filing and approval of workmen's compensation policies and in most of the other states having workmen's compensation acts, the law specifies certain provisions which must be included or prohibits the inclusion of certain provisions. A standard basic form of policy known as the "Standard Workmen's Compensation and Employers' Liability Policy" is used in nearly all states and made applicable

*For Massachusetts law, see Chapter 175, Sections 108-110. For New York law, see Chapter 28, Section 107.

to the provisions of the workmen's compensation acts of the individual states by means of endorsements.

RESIDENT AGENTS LAWS

Resident agents laws, statutes of a sort of paternalistic nature, designed to secure to resident agents the commission on all business written on property or other interests located within the state are found in the statutes of nearly forty states. Such laws have resulted in considerable friction and misunderstanding between companies, agents and Insurance Departments and have recently come into the limelight in connection with a well advertised plan of wholesale automobile insurance. A good example of such a law is found in the Connecticut statutes (Section 4290, General Statutes) which provides as follows:

"No insurance company, corporation or association incorporated under the laws of any other state of the United States, or under the laws of any foreign country shall issue or deliver any policy of, or make any contract of insurance on, either persons or property in this state, or covering any hazard or risk in the performance or non-performance of any duty relative to any contract or obligation, performed or to be performed in this state, or in connection with any obligation or duty which is governed or controlled by the laws of this state, but actually to be performed by any individual, firm or corporation not resident in this state, unless such policy or contract is issued through and countersigned by a lawfully constituted and licensed resident agent of this state, PROVIDED, nothing in this section shall be construed to apply to contracts or policies of life insurance or to certificates of fraternal benefit societies, or to insurance covering the rolling stock of any railroad, or to other common carrier, or to property in transit, or to reinsurance between companies."

AGENTS QUALIFICATIONS LAWS

Agents qualifications laws have received considerable attention by state supervisory officials and others during the past few years chiefly for the following reasons:

First: Because of the growing complexity of insurance contracts and extension of classes of coverage, the interests of the insuring public demand that an agent possess proper qualifications as to character and reputation and a reasonable understanding of the contracts he is engaged in selling.

Second: The entrance into the agency field of persons whose principal business is other than insurance, particularly those engaged primarily in the automobile business.

As yet but few states have passed agents qualifications laws. The most stringent law on the subject passed to date is that of Connecticut, enacted in 1923, which provides in part as follows: (Chapter 253, Public Acts of 1923)

"Sec. 1. An insurance agent is defined as a person authorized in writing by any insurer authorized to transact business in the state, to solicit, negotiate or effect contracts of insurance, surety or indemnity; or any member of a copartnership or association, or any stockholder, officer or agent of a corporation authorized to solicit, negotiate or effect such contracts, when such copartnership, association or corporation shall hold a direct agency appointment from any insurer.

"Sec. 2. No person shall engage in business as an insurance agent until he shall have obtained from the insurance commissioner a license therefor under the provisions of this act. Each applicant for such license shall file with the commissioner his written application for a license authorizing him to engage in business as an agent in the general or some specified line or lines of insurance, surety or indemnity coverage, which, under the provisions of the general statutes, may be written in the state, which application shall be accompanied by a statement, signed and sworn to by such applicant, on a blank furnished by the commissioner, setting forth such facts as he may require, and by the affidavit of an official or representative of an insurer authorized to transact business in the state or of a licensed insurance agent of the state, that the applicant is personally known to him; that the applicant has experience, or will be instructed, in the general or some specified line or lines of insurance, surety or indemnity coverage and that the applicant is of good reputation and worthy of a license.

"Sec. 3. The insurance commissioner, his deputy or an employee of the insurance department authorized by said commissioner, shall examine each person applying for the first time for a license to act as an insurance agent and, in his discretion, may examine any applicant for renewal of such license as to his qualifications to act as such agent. If said commissioner shall be satisfied that such applicant possesses the qualifications required by section two hereof and that he is reasonably familiar with the provisions of the general statutes relating to insurance and with the terms and conditions of the policies or contracts, he is proposing to solicit, negotiate or effect, he shall issue to such applicant an insurance agent's license to transact business in the state on behalf of any insurer certifying such applicant's name. Such license shall expire on March thirty-first in each year unless sooner revoked for cause by said commissioner."

Under the provisions of Section 3 of the above quoted act, the Insurance Commissioner is requiring new applicants for a license to satisfactorily pass a written examination on the subject of insurance coverages and policy provisions.

RECIPROCAL AND RETALIATORY LAWS

Nearly all states have enacted some form of reciprocal or retaliatory law. Such laws are in general the same regardless of by what name they are designated, their purpose being retaliatory rather than reciprocal. They usually apply to taxes, fines, penalties, licenses, fees and deposits. The following quotation from the Pennsylvania statutes (Section 212, Insurance laws) will serve as an example of such laws:

“If by the laws of any other State, any taxes, fines, penalties, licenses, fees, or other obligations or prohibitions, additional to or in excess of those imposed by the laws of this Commonwealth upon insurance companies, associations, and exchanges, of other states and their agents, are imposed on insurance companies, associations, and exchanges of this Commonwealth and their agents doing business in such State, like obligations and prohibitions shall be imposed upon all insurance companies, associations, and exchanges and their agents, of such State doing business in this Commonwealth, so long as such laws remain in force.”

An example of a purely reciprocal law applying to taxes and fees is found in the Connecticut statutes (Section 1344, General Statutes) which provides as follows:

“Every insurance company or association incorporated by or organized under the laws of any other state and admitted to transact business in this state, and each agent of every such insurance company, shall pay the same fees and taxes to the insurance commissioner of this state as are imposed by such other state upon any similar insurance companies incorporated by or organized under the laws of this state, or upon the agents of any such companies, transacting business in such other state.”

TAXES, LICENSES, FEES AND ASSESSMENTS

A consideration of the many laws imposing taxes, licenses and fees would be a rather extensive undertaking and only a brief reference will be made to this subject.

Of the various taxes imposed, state taxes on premiums are the most important and account for a good share of all taxes collected

by the states or any of their political subdivisions. In all states except Nevada, casualty companies are subject to some form of *premium tax. The rate of tax on premiums varies between one and †two and three-quarters percent. There is a lack of uniformity in the basis of assessing premium taxes. Some states base the tax on net gross direct premiums only, without consideration of reinsurance premiums accepted or ceded; others (a majority) base the tax on net premiums, including reinsurance premiums received less reinsurance premiums ceded; still others specify some modification of the two above bases.

The laws of some states provide for income and franchise taxes and county and municipal taxes or fees. In addition fees for filing annual statements and other documents required by law to be filed are quite general. Publication fees are also required in a considerable number of states.

Assessments for the maintenance and support of industrial accident boards and rating bureaus are provided in many of the states having compensation acts. For detailed information regarding taxes and fees imposed by the various states, reference should be made to the pamphlet "Fees and Taxes Charged Insurance Companies under the laws of New York together with Abstracts of Fees, Taxes and Other Requirements of Other States" published annually by the New York Insurance Department.

ANNUAL STATEMENTS AND MISCELLANEOUS

The limiting date for filing annual statements is prescribed by statute in all states. In all but a few states the date specified is March 1st. In some of the states specifying an earlier date, authority to extend the time for filing, for good cause shown, is granted the supervising official.

In some states the law specifies in more or less detail what items shall be included in the statement and how certain assets shall be valued and liabilities determined. In other states the law specifies that the annual statement shall be filed on the form of blank

*Connecticut does not collect a premium tax from domestic companies but imposes capital stock and franchise taxes.

†Two states, Tennessee and Virginia tax workmen's compensation premiums at a higher rate but such taxes are designed to cover a part of the expenses of the administration of the compensation act.

furnished by the Insurance Commissioner or on the form adopted by the National Convention of Insurance Commissioners, although there are generally other provisions in the law covering the valuation of assets and determination of liabilities.

The following laws or requirements should be noted in connection with the determining of assets and liabilities. Real estate and bonds and stocks are valued at market prices regardless of cost. Furniture and fixtures, supplies, printed matter and stationery are not allowed as an asset and if included in the gross assets, must be deducted as assets not admitted. Premiums in course of collection over 90 days due must be deducted as assets not admitted.

In case of liabilities, the reserve for unpaid losses except liability, workmen's compensation and credit must include an estimated amount for losses incurred but not reported. Incurred but not reported or accrued credit losses are reserved for on the basis of a formula reserve—50% of the premiums earned less loss payments.

Liability and compensation losses including losses incurred but not reported are reserved for on the basis of a combination of specific case reserves and a formula reserve based upon the differences between certain percentages of earned premiums and losses and loss expenses paid. The basis used for any calendar year of issue at any statement year depends upon the period of time elapsed since the calendar year of issue and in one instance (the calendar year of issue two years prior to the statement year) upon which basis produces the larger reserve. This particular annual statement requirement was incorporated in the convention form of statement as a result of legislation proposed by the National Convention of Insurance Commissioners and adopted in several states in 1911, the law being known as the "Uniform Liability Loss Reserve Law." It has subsequently been amended and extended to cover workmen's compensation losses and more generally adopted by the states. At the present time approximately twenty states have adopted the law and since the annual statement blank provides for determining the loss reserve in accordance with the law, the effect, in case of those states which have not enacted the law but adopt or specify the convention form of annual statement blank, is the same as if the law had been enacted.

As the law takes up several printed pages, it is not quoted in this paper. It has been modified in some states but the Connecticut statutes (Sections 5410-5412) furnish an example of the law as approved by the National Convention of Insurance Commissioners. Reference should also be made to Schedule P of the Convention Annual Statement blank.

The reserves provided for by the Uniform Law are concisely as follows:

Year in which policies were issued (Prior to year of statement)	LIABILITY	COMPENSATION
10 or more	\$1500 per suit	Present value of unpaid claims
9	1000 " "	" " " " "
8	1000 " "	" " " " "
7	1000 " "	" " " " "
6	1000 " "	" " " " "
5	1000 " "	" " " " "
4	850 " "	" " " " "
3	850 " "	" " " " "
2	750 per suit or 60% of earned premiums less losses and loss expenses paid, whichever is greater.	Present value of unpaid claims or *65% of earned premiums less losses and loss expenses paid, whichever is greater.
1	60% of earned premiums less losses and loss expenses paid.	*65% of earned premiums less losses and loss expenses paid.
Current	60% of earned premiums less losses and loss expenses paid.	*65% of earned premiums less losses and loss expenses paid.

*The California law specifies 70%.

It should be noted, however, that as respects the reserve for compensation losses, the Convention Annual Statement blank has been amended to conform to amendments to the New York Law enacted in 1925 which provide that for policies issued in the year of statement and the year prior, the reserve in each case shall be 65% of the earned premiums less losses and loss expenses paid or the present value of unpaid claims whichever is greater, instead of 65% of the earned premiums less losses and loss expenses paid.

The basis of determining the unearned premium reserve is usually prescribed by statute although a few states have no law

on the subject as respects casualty companies. The basis most generally prescribed is 50% of all premiums in force under policies running for a term of one year or less and a *pro rata* amount under policies for longer terms. In lieu of the 50% basis, some states permit the computation on the basis of the actual unearned portions of the premiums in force. This basis is seldom used owing to the large amount of work involved but a modification thereof, the semi-monthly basis, is frequently employed and accepted by the various Insurance Departments. The semi-monthly basis, under which the reserve is kept by monthly instead of yearly expirations—all policies issued in any month being considered as issued in the middle of the month—gives a close approximation to the actual unearned premium reserve, particularly in case of business of a seasonable nature, such as automobile.

LIMITATION OF RISKS

Nearly all states have laws limiting the net amount of liability which a company may be allowed to assume on any single risk or hazard. The limit most generally specified is 10% of capital and surplus although some states specify a higher percentage.

The brief outline of statutory requirements contained in the foregoing pages is intended only as a general presentation and *résumé* of the more important statutory requirements affecting stock and foreign casualty companies. Certain specific requirements of the various states may be found in insurance publications, particularly "The Insurance Year Book" Casualty Edition, published by the Spectator Company, New York. In any questions of importance concerning the statutory requirements of particular states, such for example as the incorporation of a new company or applications for admission to transact business, the statutes of the state or states should be consulted and supplemented where necessary by first hand information obtained direct from the state supervising officials.