Insurance

By the Chairman, Manila Insurance Association

INSURANCE companies operating in the Philippines have been greatly concerned during the last year over various bills affecting their interests, and although strenuously opposed by every means in their power, some have been passed and the most important of all is now under consideration.

This important bill seeks to increase the local deposits of foreign insurance companies and to make them invest a percentage of their reserves locally. To anyone unconnected with insurance, the full implications of such a law are not obvious; in fact, the requirement may seem quite innocuous or even beneficial to the Philippine economy. However, there are so many aspects and ramifications that it is far from being the simple matter that it seems, and in the hearings which have been granted by the Committee on Banks and Corporations some interesting points have come out. It should be remarked here that the insurance representatives who attended the hearings much appreciate the attention they received in presenting their case.

The object of the bill is ostensibly to remove a disparity in the different requirements affecting domestic and foreign insurance companies, and to protect the interests of policy-holders, — but it has been admitted that the underlying aim is to obtain funds for the rehabilitation of the country.

The disparity question is disposed of by the fact that the ₱250,000, which is the minimum figure which must be subscribed before a domestic company can begin operations, represents their *capital*, whereas it is now proposed that foreign companies should provide the same sum as a *deposit* in addition to whatever their capital may be.

The argument that such a deposit would be a protection to policy-holders, is equally easily refuted. The time when the security offered by an insurance company is tested, is when the company is called upon to meet claims arising out of such a conflagration or catastrophic fire of which the press has reported so many examples in different parts of the world during the past few years. In cases such as these, local deposits, even when they are taken in conjunction with sums lodged to cover premium reserve, would represent only a fraction of the amount required, and it is on the main funds of the company that the claimant must rely for his indemnity. What is really necessary, therefore, is evidence that the central funds of the company, available to meet claims in all parts of the world, are sufficient.

Insurance companies, consequently, regard as unsound the locking-up in any country of assets which may be needed to meet an exceptional emergency in any part of the world. The danger of depending only upon funds locked up in a particular area, is apparent if consideration is given to the position which would have arisen had the companies been able to draw only on such funds in the case of calamities such as the San Francisco earthquake in 1906 or the Texas City disaster in 1947.

A further provision in the proposed bill is that insurance companies should invest a percentage of their premium reserves locally. Before commenting on this aspect of the bill it is necessary to explain that it is an insurance principle (and required by law) that 50% of a company's premium-income be regarded as "unearned" and debited to the year in which it is written, but be carried forward as a credit to the following year. It is obvious that the need for holding funds at a central point applies equally to premium reserves and to guarantee deposits. Such reserves certainly bear some relation to the volume of business transacted, but they represent only a fraction of the liabilities undertaken. It is no more equitable to require a proportion of the receipts of the foreign insurance companies from their operation in the Philippines to be retained in the country, than it would be to withhold from other foreign exporters a percentage of the receipts from the sale of their goods. By reason of their long specialization in insurance, the companies are able to sell (i.e. to export) this service. To place restraints on an exporters' operations tends to impair the free flow of service or goods at the most reasonable prices for the nationals of the importing country.

Having shown that the reasons for filing this bill are invalid, we wish further to show that it would not be to the advantage of the Philippine economy.

It is not a fact that vast sums of money are sent abroad by insurance companies. Statistics show that over a period of years a company's underwriting profit is approximately 5%, the balance being taken up, roughly equally, by the loss-ratio and the expense-ratio: these last two items represent large sums paid locally which have a beneficial effect on the country's economy. Should the bill be passed as drafted, it would drive some companies away from operating direct, but they would continue to accept re-insurance from the companies which remain, without contributing to the country's economy as they would if they operated direct.

It is equally obvious that the compulsory investment of large sums of money (in the preamble of the bill this is estimated at ₱5,625,000), will disrupt the local market, — which must be admitted to be narrow as compared with such markets as New York or London, and any large realization would be detrimental for the same reason. Not only would insurance companies suffer a depreciation of capital, but their enforced market operations would react disastrously upon the investing public.

It has been suggested that local investments are necessary in order to afford some protection to local policy-holders in the event of a war which might involve the country of origin of an insurance company. It is difficult to follow the reasoning of this argument after the experience of the recent war when the Philippines experienced a period during which local investments were worthless. Surely this a further argument for the diversification of investmnets, the security of which was proved by British companies which continued to meet all their obligations notwithstanding the predicament of their own country. If another war occurs, it could not be foreseen what countries would be involved, and therefore the protection of policy-holders is best served by the utmost liquidity of insurance companies' investments.

Real Estate

BY C. M. HOSKINS
C. M. Hoskins & Co., Inc.

THE Manila real estate market continued steady as to price levels during February, with a slight increase in peso volume of sales, ₱2,017,139, compared with ₱1,889,924 for January. Relatively small transactions continued to be the rule, the num-