

# WANTS INTERNATIONAL INSURANCE

## Professor Josiah Royce of Harvard Advocates Insurance by the Nations of the Nations

In his book, "War and Insurance," (New York: The Macmillan Company; \$1.00 net.) Professor Royce has made the suggestion that international insurance be inaugurated, by which the nations would insure each other against some of the calamities to which peoples are subject, as, for instance, earthquakes, volcanic eruptions, pestilences, destructive storms, famines, crop failures, and marine disasters. International insurance might also in the beginning be applied, he thinks, to the destruction in wartime of the private property belonging to the subjects of unquestionably neutral States. With such beginnings, Professor Royce thinks it probable that international insurance might be extended, as the nations came to appreciate its benefits, until, even if war were not actually insured against, the insurance interests of the nations would be such that war would become increasingly more improbable. The cause of peace, in short, would be much furthered by the "deliberate application of the form of the insurer's community to international business." In the present article Professor Royce advances further ideas on the subject, and answers some of his critics.

By Josiah Royce,

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**N**EAR the beginning of the present war I wrote a little book entitled "War and Insurance," in which I stated and defended the thesis that the cause of the world's peace would be aided if in future the principle of insurance were gradually and progressively introduced into international business.

Insurance has already proved to be, in the modern life of individual nations, a cause of no little growth in social organization, in human solidarity, in reasonableness, and in peace. The best workings of the insurance principle have been, on the whole, its indirect workings. It has not only taught men, in manifold ways, both the best means and the wisdom of "bearing one another's burdens"; but it has also established many indirect, and for that very reason all the more potent, types of social linkage, which the individual policy holder or underwriter very seldom clearly and consciously estimates at their true value.

These indirect and less frequently noticed types of linkage have already transformed our civilization, so that ours is already an age and a civilization of insurance. Thus the greatest service of insurance has been done, so to speak, beneath the surface of our social life; and the most significant changes of our modern world through the indirect influence of insurance have grown up as if in the dark, becoming manifest only after they have been long developing their effectiveness. This fact furnishes a reason for looking forward most hopefully to great and good indirect results when once insurance assumes a definite international form.

Thus, for instance, one of the most significant indirect results of the development of fire insurance in the social life of our own nation has been the fact that fire insurance has made possible, and has systematized, a method of business whereby great numbers of people who would otherwise have no way of acquiring homes of their own, are now able, through thrift and patience, to become in time the owners of dwelling houses.

The method of business in question consists simply in this, that the home-seeker at the outset induces some one to advance the money whereby the house can be built, while the man for whom the new house is built makes the one who has advanced this money not only his mortgagee, but also the holder of an insurance policy whereby the advance made on the new house is rendered se-

cure. Without fire insurance this security, in great numbers of cases, could not be furnished.

In analogous ways, fidelity insurance, working in more or less indirect fashion, enables countless young men to begin life in positions of trust, and thus to find their places as people worthy of confidence in a world where they might otherwise be doomed to live only as temporary employes.

Life insurance may be used by the otherwise needy man to capitalize his own future, and thus to win his way through a period of struggle. And in all such cases social linkages are formed which depend upon the use of insurance, and

in this new art of international insurance.

And since the present war seemed to me, and still seems, to furnish a great, although so tragic, an opportunity to make such a beginning, I could not forego the chance which the moment offered to indicate, as I tried to do in my book, the general nature of this opportunity as I then saw it. First sketches of novel plans are very generally crude. The details of my own first statement of a mode of beginning international insurance were, as I myself said, wholly tentative, and were meant to be subject to a thorough revision. For such revision there has still been no sufficient

of the insurance world: "By its very nature war tends to impair, and in the long run to destroy, all sorts of interests which, apart from war, have constituted or have determined insurable risks."

Such comments seem to be obvious enough. They are just now, as I believe, frequent. But they so far leave unanswered the question: "What shall be done, or can be done, to protect, after the close of this war, those vast common interests which the insurance organizations now have in charge, but which wars, and, above all, great wars, tend plainly and dangerously to assail?" It is precisely this question to which my present discussion offers at least a partial answer.

The experts in each special branch of insurance must discover for themselves and must define in their own way the relations which war in general, and this war in particular, may be expected to have to the interests which they represent. But there is one type of problems, common to a number of distinct forms of insurance, to which I may next direct attention.

The problems to which I refer are those presented by the sort of insurance business which is called reinsurance. These problems are certain to be very considerably affected by the results of the present war. Some of them are already much affected. This, as I learn, upon inquiry from experts, is especially the case in some regions of the fire insurance field. But problems of reinsurance also play their part in life insurance and in marine insurance.

And at or after the close of the present war, large alterations and readjustments will be needed to adapt the future conduct of reinsurance to the new conditions that will result from the vast and widespread destruction which the war has already produced, and will continue to produce until it ends, and perhaps long after it has ended.

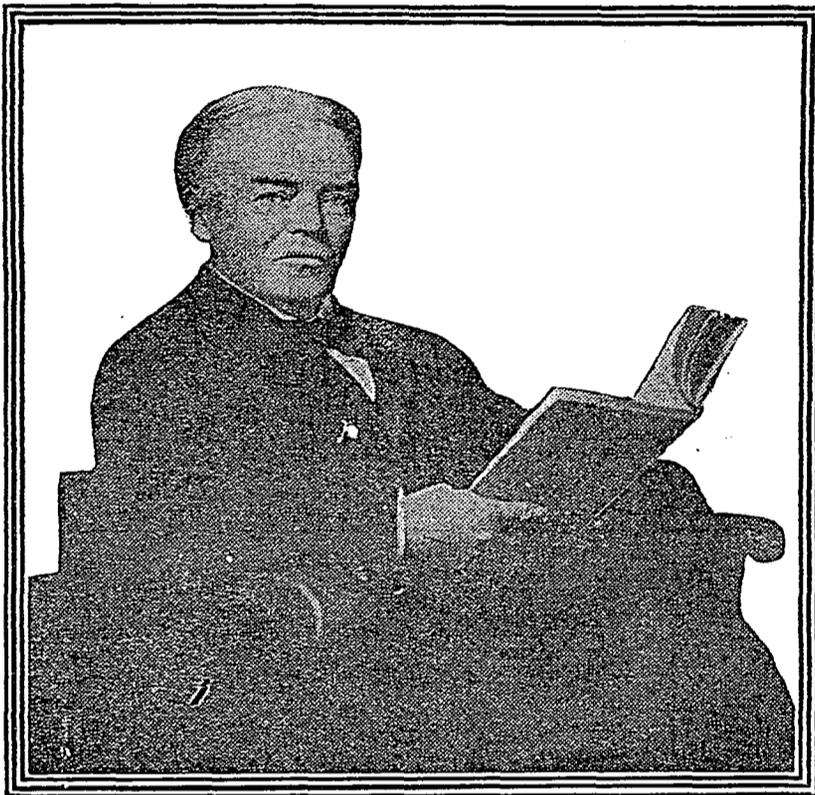
Without trespassing upon the special field of any expert in insurance, it seems reasonable for a layman to venture a mere hint regarding some of the ways in which this effect of the war upon the future conduct of reinsurance may be expected to show itself.

At any time, whether in peace or in war, an underwriter who has already undertaken to carry a given risk, and who regards this risk as altered in its probable value by events that have happened since he made his contract, may, like anyone else who has to face a problem which involves his own risks and fortunes, seek to make a new contract with a second insurer, who, for a consideration, based upon a new estimate of the risk as it appears in the light of the new facts, shall undertake to carry and to fulfill an agreed portion of the obligations which the first underwriter insured.

Such reinsurance may take place in exceptional ways, and may be confined to some one case or to some few individual cases. Reinsurance contracts of this sort are comparatively familiar in marine insurance, and often come to be mentioned in the newspapers of the day when some vessel is long overdue and when those underwriters who first insured her now go into the market to re-insure their risks. Such reinsurance contracts, when thus confined to individual cases and made subject to no general prior agreements among the various underwriters concerned, may more or less closely approach the character of mere wagers.

Reinsurance contracts possess, however, the character and the social and financial value of typical insurance transactions when they are made systematically, not merely because an underwriter desires not to carry longer a risk previously assumed, but in accordance with general agreements whereby various underwriters combine to carry in union some class that includes several, sometimes many, different insurance undertakings.

This is the case if underwriters A and



Professor Josiah Royce.

which tend to bind men in far-reaching unions such as without insurance would be impossible. Such social linkages are peace breeding, and are profoundly civilizing.

It is therefore not merely the "mutual" aspect of insurance wherein its most beneficent influence is manifested. Its greatest social power depends upon the fact that a man does not in general purchase an insurance policy merely for the transient creature of today called "himself." A man purchases insurance for his "beneficiary." His beneficiaries may include people or corporations of whose very existence he, the individual, is little aware. But his linkages with such beneficiaries may join him to the whole social order.

It is because the men of today are thus united through insurance in groups of greater complexity, stability, and value than any other sort of business or institution makes possible that we owe as much as we do to the indirect influences which the relations of insurers, adventurers, and beneficiaries make possible and effective.

Were any group of nations to begin in a businesslike and practicable way to do what the individual fellow members of a social order have now the means of doing, namely to insure against risks of some insurable sort, we should have a good reason to expect that analogous and beneficent indirect workings would ere long follow from even a modest beginning in the art of international insurance.

The vast and unexpected transformations which, as the experience of the nineteenth century showed, insurance has introduced into the social order of individual peoples are of a type so much needed in the mutual relations of various nations that no opportunity should be neglected to make such a beginning

time. But I already see aspects of the subject which need, as I believe, some recognition.

And I still believe that if insurance "of the nations, for the nations, and by the nations," once appeared in a practicable form, it would thenceforth not "vanish from the earth," but would tend, more than any international influence has yet tended, to "make the community of mankind visible," and so to further, gradually, perhaps slowly, but powerfully, the cause of peace.

Among the critics of my book there are, (despite all the objections to my plan which have been urged, and despite all the difficulties that lie in the way of introducing into international relations the principle of insurance,) some friendly counselors who have said: "If we could but see, or devise, some definite procedure whereby a beginning could be made in the insurance of any risks that are common to several nations, then, were this procedure such as, if proposed and undertaken, would involve a feasible and practicable business of international insurance, however modest this beginning, we should be even now quite willing to look with favor upon the discussion of the enterprise."

In fact, for such critics, it is precisely the way of beginning international insurance, on however limited a scale, that they most want to have explained. It is for such readers and critics of my plan that the present article is written.

Since the present war began, I have met with a good many expressions which have come from authoritative sources, and which have related to the ways in which so destructive and widespread a conflict, especially if it continues long, is likely to affect the future conduct of the various forms of insurance which already exist. Said, in effect, in a letter to me, a man prominent in his own part

B agree in advance that A may at pleasure, or subject to certain rules, reinsure with B such and such of the risks that A undertakes to carry; or, again, if A and B agree that of some class of risks which A assumes B shall be bound in advance to carry, for a suitable consideration, such and such a proportion. There are companies—some of them especially prominent in the fire insurance field—which devote themselves mainly to various types of reinsurance.

It will be noticed, on the basis of such facts, that reinsurance has already become, in a perfectly natural way, and quite apart from any philosopher's speculations, a business which has a wide international extent and importance; although, as yet, no group of nations has taken part in the conduct of reinsurance.

But as soon as we give a little attention to this side of our problem, we stand face to face with the fact that a perfectly definite form of genuinely international insurance has already come, through the course of evolution, very near, not only to general practicability, but to actual existence. The nations, therefore already have at hand an opportunity whose preciousness, as I believe, can hardly be overrated. Let us briefly consider what this opportunity is and implies.

That the State may, under certain conditions, undertake to insure its subjects or some class of its subjects, against various sorts of risks, is already a principle well recognized; although, of course, the expediency of state insurance in this or in that special form, is a topic that involves many matters of controversy. Most of the forms of modern social insurance involve a greater or less approach to using the State as an insurer of its own subjects. At the beginning of this war our national Government undertook to carry for our shippers some of the special risks to which the war has subjected our commerce. To speak of state insurance, then, is not to mention a wholly strange idea.

If, however, there exist, as has been for years the case, forms and plans of reinsurance which involve interests that are already international in their scope and extent, and in the variety of the problems and interests concerned; and if, at the conclusion of the present war, the whole business of reinsurance, in adjusting itself to the needs and demands of the future, will have to solve problems that will deeply concern the underwriters of many nations; why should not these international problems of the future of reinsurance, involving, as they necessarily will do, the future conduct and agreements of insurance corporations belonging to many peoples, be put at once under the care of a suitable international organ?

That is, why should not we make, and

promptly make, a beginning at the international conduct of the business of reinsurance? I refer especially to so much of this business of reinsurance as will in fact, at the end of the present war, demand, of and for the underwriters of different nations, readjustments, new contracts, new agreements among existing corporations belonging to various peoples, while these new problems and contracts will be too complex and too difficult to be readily and adequately and advantageously met by individual agreements among the many widely distributed private corporations that have to deal with the now rapidly changing situation of the whole insurance world, and that will have to deal with this situation in the future.

What sort of international organ would be suited to deal with these problems of reinsurance? The answer is furnished, I believe, by the International Board of Trustees, which in my book I have defined and proposed as the general organ for conducting this sort of insurance.

The choice and formation of this Board of Trustees would involve no new and strife-breeding treaties among the various nations. The board, when once constituted, would have no political powers or functions whatever. Its conduct of the trust funds committed to its care would need no supervision from any arbitration tribunal. No diplomatists would have any voice in its doings. Its funds themselves could be protected, and the longer it existed the more varied and effective this perfectly peaceful self-protection would become, if the board were at the outset constituted as, with reasonable probability, it could be constituted.

Its business would consist, in general, in selling various sorts of policies to the nations which, for any reason, chose to have dealings with the International Insurance Trustees. Nations that made trust agreements with the board could withdraw from them at pleasure, in a perfectly peaceful way, by the expedient of surrendering, upon terms determined by previous agreements, the policies that they had come to possess. The Board of Trustees would have a strong interest in so planning its policies and in so administering its international business as to retain and increase its reputation as an insurance corporation deserving of patronage, and able to offer policies which the insuring nations would find advantageous to themselves.

In my book I have in general defined the nature, constitution, and possible functions of this International Board of Insurance Trustees. My critics have doubted whether I could name a set of insurable risks, common to various nations, and sufficiently attractive to induce a group of nations to do a practicable business with the board when once it had been formed.

My present article points out that, from the end of the present war, there

will be a constant increase and variety of reinsurance plans and contracts needed by the private insurance companies of various nations. If the conduct of this new reinsurance business is not put under the care of an International Board of Trustees, the business, of course, will in one way or another come in time to be done.

But, apart from international co-operation, directed to this end, such business will depend upon special agreements made amongst individual corporations belonging to different nations, and will be subject to complications and to competitive hindrances such as must rapidly increase under the new conditions. New and large investments of private capital will be called for, and, for some time, will be harder to obtain, to organize, and to adjust to current requirements than was the case in the conduct of these larger undertakings of the insurance world before the war.

At this point, if only these new problems of reinsurance receive the attention due to the international scope, and to the vast importance of the commercial interests involved, it becomes possible to bring into existence a corporation whose functions, at the very beginning of its life, would be those of a "treaty company" undertaking reinsurance.

Its first contracts might be made, on the one hand, with those already existing private corporations which in any nation desired to reinsure some of their existing or future risks, or which needed to find a systematic way of readjusting their business to the new conditions.

On the other hand, the contracts of this new treaty company from the very outset might in part be made with those nations which, for the sake of aiding their own underwriters in dealing with the manifold and complex problems of the new era, decided to undertake, in whatever way they found suited to the new conditions, the reinsurance of risks which their own insurance corporations had already undertaken to carry, or which these insurance corporations desired in future to undertake and to insure.

Such a business, or part thereof, may actually come to constitute the task of some new private corporation which will be formed in the near future, after the present war. There will no doubt be new "treaty companies." Some of them will do an international business. They will be needed. They will also need large new investments of capital in order to carry on their reinsurance business.

What I propose is that this possible new reinsurance corporation should actually begin its life as the international board of insurance trustees which, in my book, I have in outline described, and have proposed. At the outset, although not for any very long period, I propose that the functions of the Board of

Trustees be provisionally limited to this perfectly practicable activity of reinsurance.

The reasons why such a reinsurance board of trustees would have ample reinsurance business with which to begin its task have now been indicated. The motives which would at first tend to make such international reinsurance attractive to the individual nations have also been sketched.

The individual nation would at first be induced to take out policies with the international board by the desire, or by the actual need, of aiding its own underwriters to adjust their business to the complications of the new life after this war, or at any rate in some near future time. The board itself would be an entirely new sort of international organ. It would have as its most important task that of finding and of making practicable still other forms of international insurance. Its indirect influence would from the very beginning far outrank in importance its direct accomplishment. Its mode of development would be guided by experience.

At no point in the growth of its work would any fundamental transformation of human nature be needed as a condition prior to its possessing a genuine, a peace-making, and a potent influence. Once having been constituted, with international reinsurance for its first enterprise, it would gradually discover new enterprises, and would increase both its direct workings and its indirect furthering of the cause of humanity by each of its new enterprises.

It would stand in opposition to none of the other peace-making influences which may come to take part in international affairs. It might well tend, in the long run, to transform international relations as, in our recent history, insurance has transformed the social life of individual nations. I submit that the time is ripe for the beginning, in this form, of international insurance; and that the prospect is impressive.

After forming this general plan I submitted it to my colleagues, Mr. W. B. Medlicott and Mr. H. B. Dow, Lecturers on Fire and Life Insurance respectively in the Graduate School of Business Administration at Harvard. I have to thank both of them for valuable suggestions with regard to reinsurance, and for encouragement regarding the general ideas involved. Mr. Medlicott, in particular, is my authority for laying stress upon the international importance which reinsurance has already acquired in his own field, and for the high organization which the business in question already possesses. While I thank my colleagues for their guidance as to special facts, and for their general approval of the spirit of my idea, I alone am responsible for the principal proposals contained in this paper.

## GERMAN SCHOOL GIRLS WRITE OF KAISER

A SERIES of short essays written about the Kaiser by little German girls of the eighth and ninth classes, (second and third school year,) of the Girls' School in Frankfurt-on-the-Main are published in a recent issue of the Frankfurter Zeitung received here. The essays, together with the names of the little pupils writing them, are reproduced by the German paper with no attempt to improve the spelling, which in many of them is more phonetic than correct. All the essays, it is explained, were written without any help from the teacher or any other person. The essays, in all of which is presented a sadly altered picture of the Kaiser, follow:

YVONNE.

(A little German-Frenchwoman who was expelled from Paris, and who spells very badly.)

The Kaiser is a big man. He looks handsome, he has black eyes, has black hair, he has a black mustache. Now he is in the field to see the battle. He is very strong and very "berant" (?) and his people loves him very much. He has many enemies. He thinks of his people day and night. He loves his people, and his people loves him. The Kaiser thinks of his little German children which goes to school with their knapsacks on their backs.

LOUISE.

Our Kaiser is a dear man. He lives in Berlin, but now he is in the field and

cannot be with his wife. That is sad. The Kaiser hasn't got a nice time at all. His birthday turned out to be very serious this year; only flags were hung out. Now he stands out there and fights for the Fatherland because the enemies soon pushed into the country. The Kaiser would love to have peace in the country. He stands at the front and fights. The soldiers help the Kaiser win, his best fighter is Hindenburg, he has already won many heavy victories. We Germans love the Kaiser, but the Frenchmen, Englishmen, Belgians, Russians, and whatever they are called: they hate the Kaiser. Our Kaiser is stronger than the other people. The Kaiser was once very badly wounded, that makes us all very sorry, but he got well again, and that is good. The Kaiser is a very strong soldier, he is growing very old, that does not matter.

ELSA.

Now in the heavy war time our Kaiser has not an easy task, for it is difficult to watch over the army. He is now spending his time in Russia in order to set afire our brave troops with the sight of him. Our Kaiser is the best Lord of the Land. He travels about in order to inspect his troops. When you think of it how the Czar sits in St. Petersburg and lets his troops grow tired, you must realize that our Kaiser is the best Kaiser in the world. When our Kaiser returns for a few days to Berlin he speaks from his balcony to the German people. If the

Kaiser remains well Germany will not fall. The German people love its Kaiser so much that it is offering up all its forces in order to keep the Kaiser and the country. How good it is that our Kaiser established the field gray uniforms for the military, for at night you cannot see the gray uniform on the battlefield. On the other hand, the red trousers of the Frenchmen glow, and so they often betray themselves by that. We Germans trust to God and to the Kaiser, and this feeling always strengthens us anew and therefore we will and must win.

ERICA.

Our dear German Kaiser is very brave. He has blond hair, a small beard. But now he must go to the war and must fight against the Englishmen and the Russians and Frenchmen and some others. We German women and girls also want to help him in that, and, namely, by knitting and by begging the good God to help us. Then we will surely win. And we must hold to one more thing: We must hold firmly together and always keep our Kaiser high in honor. Then I can say I am a German, a real German child. But soon the Englishmen will have enough of us.

GERTRUD.

When the war broke out our Kaiser said I know no more parties, I know only Germans. And formerly our Kaiser was cheerful. And now he is so sad.

And formerly he got so much on his birthday. But now he gets very little. Now our Kaiser is no longer so fresh. Now he is very thin and pale. He always said we must win and we will win. And we are carrying that out. He is now much graver than formerly. In our celebration in the school we did not celebrate as merrily as at other times.

LOTTE.

Our Kaiser is not having a nice time at all now in the field; he has many sorrows, whether we will win or not. And about his son, the Crown Prince, that he may soon come back. Sometimes even our dear Kaiser must go out into the field. The Kaiser usually sits up nights and works, or else sits wrapt in thought and thinks of everything that can be done to bring about peace soon. And then when we have won a great victory our Kaiser always rejoices and praises our brave army. When our Kaiser was here once upon a time he waved to us with his hand and was very glad.

WILMA.

The Kaiser is victorious. The Kaiser and Hindenburg are victorious. The Kaiser is brave. The Englishmen are bad enemies. We shall surely win, because our Kaiser is so brave. We celebrate the Kaiser's birthday. Many German soldiers are in the midst of the field. The good Germans will take care that we win. The Germans fight bravely. We shall help the Fatherland to win.