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CHARLES J. BRAND, Chief

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THE ORGANIZATION AND MANAGEMENT OF A FARMERS' MUTUAL FIRE INSURANCE COMPANY.

By V. N. VALGREN,
Investigator in Agricultural Insurance.

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INTRODUCTION.

Farmers' mutual fire insurance companies represent one of the most successful efforts at rural cooperation in the United States. Nearly 2,000 such companies are in existence, with a total amount of insurance in force exceeding $5\frac{1}{4}$ billion dollars. These companies are increasing rapidly in number and size. In some States of the Middle West fully three-fourths of all insurable farm property is now insured in the farmers' own companies. Organizations of this kind are found in every State except Florida, Mississippi, Louisiana, New Mexico, Arizona, and Nevada.

The organization of a farmers' mutual insurance company should be preceded by a certain amount of preparatory work. The legal

NOTE.—This bulletin is intended mainly for two classes of readers—those contemplating the organization of a farmers' mutual fire insurance company and those desiring to improve the methods and practices of an existing company. It aims to outline principles and methods developed by successful companies of this kind and to set forth the advanced ideas held by their officers, rather than to discuss the subject theoretically.

step of incorporation should not be taken until as large a percentage as possible of the substantial farmers in the community have been interested in the undertaking. Twenty-five States now provide in a separate chapter or division of their insurance laws for the incorporation of farmers' mutual fire insurance companies. In most of the other States it is possible to incorporate such companies under the insurance laws referring to fire insurance mutuals in general.

In any case the organizers are required to set forth in a formal paper, usually called articles of incorporation, the name of the proposed company, the location of its home office, the purpose of the organization, the business territory, the conditions of membership, a brief outline of the form of management proposed, and the conditions under which the various provisions outlined in the articles of incorporation may be altered or amended.

As soon as incorporation has been accomplished, a set of by-laws should be drawn up. If the articles of incorporation have described the nature and purpose of the organization in outline only, these same topics should be taken up fully in the by-laws. The machinery of management should be provided for and the conditions of insurance should be carefully stipulated. Detailed provisions regarding the routine of the business should be avoided, however, and considerable discretion in these matters should be left to the directors.

PURPOSE OF THE COMPANY.

The purpose of the organization should be stated clearly in the by-laws. It should be made evident that the object of the company is to safeguard its members against the burdens of disastrous losses, and that this is to be accomplished in the way that best serves the interests of the membership as a whole. This means that the company must promote energetically the elimination of preventable losses and distribute on an equitable basis the burden from those losses that it can not prevent.

The fact that a company of this kind is organized to prevent disastrous loss burdens does not mean that it should remove all burdens from the individuals who suffer losses of property. In all cases a reasonable part of the loss should be borne by the owner. It should be to his interest, above all others, to have his property remain in existence. If the entire loss is assumed by the company, it becomes a matter of no economic consequence to the owner whether his property is destroyed or not, and his strongest incentive to safeguard his property has been removed. There is also danger that a slight change of economic conditions may make it directly to his pecuniary advantage to have his property destroyed.

BUSINESS TERRITORY.

There has been a growing tendency in recent years on the part of legislatures to permit farmers' mutuals a wide business territory. Several States now permit companies of this kind to operate in the entire State. The tendency on the part of the companies to avail themselves of this privilege has been somewhat less marked. While it seems a natural ambition on the part of a farmers' mutual to desire to grow by extension of its territory as well as by adding to its risks within the territory already partly covered, there is danger that such ambition eventually will lead to less desirable results. One of the most important advantages that farmers' mutuals in general enjoy over larger companies is that of a community interest and a community pride in the success of the undertaking. Each member distinctly feels himself a part of the company. The individual member actively promotes the interests of the organization, is anxious to see all losers receive equal justice, and is usually satisfied with a reasonable settlement in case he himself suffers a loss. These conditions, together with the knowledge of one another's character and business affairs, tend to reduce the moral hazard to a minimum.

Even if a case of overinsurance in a farmers' mutual should occur in connection with property owned by an unscrupulous member who would be quite ready to occasion a loss to a large insurance company, located perhaps in a distant city, such a member is likely to hesitate to throw the loss upon his own neighbors. Thus the moral hazard is greatly reduced in the local farmers' mutual. Many of the local mutuals have done business for half a century or more without a single lawsuit. Such a record would rarely be possible except in a company founded on true cooperation and embodying the principle of community interest in some direct form. When risks are confined to a limited territory the saving in traveling expenses of directors, inspectors, and adjusters is also a large item.

MEMBERSHIP AND VOTING PRIVILEGE.

All persons whose applications for insurance have been accepted should be members of the company in every sense of the word. The character of the owner as well as the physical condition of the property should be considered before the application is approved. Once his application is accepted and a policy is issued to him, however, the new member should be treated in exactly the same way as the charter members.

Active cooperation of all the members should be the aim. The annual meeting should be well advertised and, if possible, made an interesting and significant community event. Occasionally a set of directors and officers are well satisfied to have the members neglect the annual meeting, thus leaving to those already in office all responsi-

bility, including the question of their own reelection. No intelligent or effective cooperation on the part of the membership can be expected under such circumstances and it is not conducive to true and continued progress, either in the improvement of risks or in the strengthening and expanding of the influence and reputation of the company. Members who know little or nothing about the organization to which they belong can hardly be expected to prove effective voluntary promoters of its interests.

A cooperative organization is logically an aggregation of persons rather than of wealth. While many plans of voting based on the amount of insurance carried are in use by the farmers' mutuals in different States, it is commonly conceded that the simple plan under which each member has one vote for each official to be elected, or for each measure to be passed upon, is best.

A somewhat stronger case is presented in favor of the right of a member to cumulate his vote upon less than the total number of directors to be elected. For instance, if three directors are to be chosen, each member is permitted three votes, which he may cast, one for each of three men, or two for one man and one for another, or all three for the same candidate. This plan is intended to give a reasonable representation to a minority faction, if such faction should exist. The plan is subject to the possibility of accident, however, unless it is combined with the very cumbersome preferential voting plan, and under certain circumstances it may make for minority control instead of for majority control with minority representation. Such an outcome is doubtless rather unlikely, but it is by no means impossible. Under the old plan of one vote for each of three candidates, the minority faction, if there be one, may be left unrepresented, but this is certainly less objectionable than to have the control of an organization turned over by mere chance to a minority.

A provision for votes by proxy, without proper safeguards, should be avoided. In a number of farmers' mutuals it has led to undesirable results. The vote of a member, as a rule at least, should be cast in person at the formal gathering of the membership, where the voter's own opinion can be expressed, and any such opinion based upon misunderstanding can be corrected. In a company with a limited business territory such a requirement can not be said to be unreasonable, so far as the average member is concerned. Individual cases may exist, of course, in which persons with sound and settled opinions in regard to the company's affairs find it difficult or even impossible to attend a given meeting. If it is thought desirable to provide for these exceptions, and if the laws of the State permit, voting by mail, under proper restrictions, may be provided for, or proxy voting may be permitted with a close limitation upon the number of proxy votes that may be assigned to any one member.

BOARD OF DIRECTORS.

The management of the company should be vested in a board of directors. The members of this board should be elected on such a plan that the term of office of only a part of the directors expires each year. Thus the board is a continuous body. The number of the directors should be sufficiently large to give representation to the different districts in the business territory, and to assure reasonably careful deliberation of questions of policy. If the number is too large, however, the transaction of business is likely to be unduly retarded by the profusion of opinions, and further, the per diem allowances for board meetings will become a needlessly heavy expense. Except where local conditions appear to require a certain grouping or distribution of the directors, nine members seem to form a board of convenient size. As nine is an odd number, there is no possibility of a deadlock when all members are present; at the same time a board of nine directors can be divided for election purposes into three groups or classes with the same number in each class.

If fewer than three classes are provided for, the group or class arrangement, which is intended to make the board a continuous body, becomes of little value, since the policy of the board may be entirely reversed by the new members chosen at a single election. The same danger may easily appear, even with three classes provided for, when the number of directors is either seven or five. With a board of seven members, for example, one class would consist of three directors and the other two classes of two directors each. In the year when the term of the three directors regularly expired a single accidental vacancy in either of the other two classes would cause a majority of the board to be elected at one meeting.

An opportunity to make a radical change in the management at a single meeting might be desirable if a large number of the members always attended the annual meetings. But where the attendance is usually small, as is frequently the case, one or two dissatisfied members may bring in a few friends and control the meeting. If all or a majority of the directors are to be elected at this meeting, the affairs of the company may thus be controlled for an entire year by men who represent a very small percentage of the membership. On the other hand, when only a third of the directors are to be elected at one meeting, the opportunity for such an action is removed. Even if one small group should control one meeting, there is ample opportunity for the membership in general to be informed of the situation before the next annual meeting, so that the election of another third of the directors by the few disaffected members is readily prevented.

While factional difficulties have been rare in the farmers' mutuals, they are by no means unknown.

Since the directorate represents the members, a vacancy in the board should theoretically be filled by election in the manner in which the position was originally filled. An extra meeting for the purpose of filling such a vacancy, however, involves considerable trouble and expense, and it is perhaps well to provide that the remaining members of the board shall fill the vacancy temporarily, the one so selected holding office only until the next regular meeting.

The board of directors, subject to the articles of incorporation and the by-laws, should have full and complete charge of the business of the company. The limitations upon its powers provided for in the by-laws should be such as affect the broader policies of the company only. Details of administration should be left in general to the discretion of the board. Without discretionary powers in these matters the directors are not in a position promptly to meet new conditions that may arise, nor can they properly be held responsible for the efficient management of the company's affairs. All officers and employees should be elected or appointed by the board or its representatives and should hold office only so long as they discharge their duties faithfully and efficiently. The compensation of all such officers and employees should be fixed by the board. Only the compensation of the directors themselves should be stipulated in the by-laws.

OFFICERS AND COMMITTEES.

There are good reasons why the regular officers should generally be elected by the board from their own number. It is probable that the members will have elected as directors the men in the community who are best qualified to transact the company's business for them. Hence to insist that the officers be elected from outside the board may deprive the company of the active service of its best qualified members. The officers acquire an experience and a practical insight into the business which should be made to count in the directors' meetings. Especially is this true of the secretary and the president. The duties of the treasurer, however, as ordinarily prescribed, bring him but little into touch with the actual insurance business, and this office may well be held by any responsible person, regardless of other connection with the company. An official or responsible employee of a local bank often makes a desirable treasurer, since he usually has the requisite training and the conveniences for keeping accurate accounts with a minimum of labor and expense. Moreover, his methods of keeping accounts may give the secretary valuable suggestions in regard to the keeping of his books, for, with

all his knowledge of farm risks and mutual insurance principles, the secretary is seldom a skilled bookkeeper or accountant. In exceptional cases it may be found expedient to elect a secretary who at the time has no farm property to insure and therefore can not be a member of the company in a technical sense. He may be a retired farmer, for example, who for years has been an active member of the company.

While the directors as a body are responsible to the members, it involves needless expense to have them meet to pass upon routine business. On the other hand, it is undesirable to leave too much to the judgment of a single individual. The best plan, probably, is to provide for an executive committee to pass upon all matters of importance which are more or less routine in their nature. The president, secretary, and vice president properly constitute such a committee. The first two are connected actively with the details of the business in any case. There seems good reason for making the vice president the third member of this committee, since his duties as a committee member will keep him in touch with all angles of the business and qualify him for the duties of acting president, which he may be called upon to perform. By this plan the regular meetings of the board of directors may be reduced to about four a year. Special meetings of the board should be called whenever any extraordinary problems confront the company.

Another important committee for which all companies should provide is an auditing committee. It is almost impossible to over-emphasize the importance of a thorough annual audit of the books of the company. It is an added incentive to the officers in charge of the books to keep their records accurate and in good form.

While cases of misplaced confidence appear to be rare in companies of this kind, nevertheless provision should be made to prevent the possibility of misconduct or misuse of funds. Even though the reputations of the officers are such that fraud on their part seems impossible, it is desirable to maintain sound business practices and to guard against insinuations by some disaffected member. The officers themselves should insist upon a thorough annual audit as a matter of self-protection. It may be desirable to have the books audited annually by an experienced accountant, but this involves considerable expense. Under ordinary circumstances, especially for the company of moderate size, the most practicable auditing committee consists of members of the company. In a committee of three the chairman and at least one other member should be selected at the annual meeting from outside the board of directors. It may be well to have the third member selected by the board from their own number in order that no needless misunderstandings may arise.

APPLICATIONS FOR INSURANCE.

The most important single problem confronting a newly organized farmers' mutual fire insurance company is that of securing a sufficient number of acceptable applications for insurance within a reasonable distance of the home office. In passing upon applications, the standard applied to risks must vary somewhat with the economic development of the community which the company is intended to serve. In a new or undeveloped community risks will have to be accepted which, in a community more advanced in a material way, can and should be rejected. The cost of insurance will be higher, of course, in the undeveloped community, but since commercial rates for insurance, if protection of this type is available on any terms, will also be much higher, the saving through cooperative enterprise in fire protection may equal or even exceed the saving accomplished in the more advanced community.

While the standards for the material forms of the risk may thus vary to suit the locality, the requirements as to personal character of applicants need not and should not vary. A thriftless or dishonest person has no place in a farmers' mutual insurance company. When an individual is known to have these characteristics, it is the duty of the management not only to avoid soliciting his insurance, but to reject his application if it should be tendered. Those in charge of the company have no right to endanger its stability in order to avoid this unpleasant duty. Where mere suspicion of dishonesty exists and the management does not feel justified in rejecting an application for insurance and membership in the company, special precaution should be taken to see that the property is conservatively valued. Even where no suspicion of dishonesty exists, due care always should be exercised to avoid the creation of needless temptation through overinsurance, which frequently leads to a bad moral hazard.

With the above statements few, if any, of the men experienced in farmers' mutual insurance will disagree. On the question of who should solicit or accept applications, however, a variety of opinions will be found. In about 35 per cent of the farmers' mutuals all applications are taken by one or more special agents, and in an additional 10 per cent of the companies applications are taken at least in part by special agents. The other 55 per cent of the companies restrict the right of taking applications to the directors exclusively, to the officers exclusively, or to the directors and officers.

The extent to which the cooperative spirit has been developed in the community should be taken into consideration in deciding upon a plan for securing business. It is believed, however, that the plan of charging the directors with this duty, wherever it can

be put into practice, will increase the cooperative spirit. It will help to give the organization a broad and firm basis and make it more truly a community affair. Under the agency plan, on the other hand, there is greater danger that the interests of the company will be sacrificed in an effort to secure large applications and commissions.

The compensation for securing business should be a fixed amount rather than a percentage of the advance charges collected. The fixed amount leaves the one who takes the application unbiased as to the valuation and the consequent amount of insurance written. While a thoroughly conscientious and unselfish person may refuse to let the matter of his own compensation influence his judgment, there is no doubt as to the wisdom of eliminating temptation wherever possible.

The application should contain an accurate and fairly detailed description of the property to be insured and should also contain the proposed member's formal acceptance of the articles of incorporation and the by-laws of the company, together with his agreement to meet his share of all losses and legitimate expenses. The latter obligation frequently is embodied in a separate assessable note, though in most cases where this is done it merely adds another paper to be cared for, without corresponding advantage.

The policy or membership fee and the initial premium should be forwarded with the application to the secretary, unless a plan for periodic settlement of accounts between the company and the person receiving the application has been provided. Such application, when fully and regularly approved by the company's representative taking it, should impose full liability upon the company until a policy is issued or the application has been formally rejected. In the absence of such a provision, especially where the secretary does not give his full time to the duties of his office, the delay in issuing a policy may mean that the applicant goes without protection for some time after he has taken all necessary steps on his part to have his property insured.

When a conditional or tentative approval by the company's representative taking the application is provided for in the by-laws, an application so approved should not bind the company until finally passed upon and accepted at the company's home office. In any case, after due consideration of the application, either a policy should be issued and forwarded to the applicant or the application, together with the advance charges collected, should be returned promptly with formal notice that it has been rejected. The reason for rejection should be clearly stated whenever practicable.

INSPECTION OF RISKS.

By means of reasonable care in the selection of the risks from a physical standpoint, together with precautions to eliminate the moral hazard, it is possible for a farmer's mutual fire insurance company to bring the average annual loss ratio considerably below what would be expected from the experience of larger commercial concerns insuring farm risks. Since the expense item in the annual budget of a farmer's mutual is easily held below the corresponding outlays of commercial concerns, a considerable saving to the members can be effected. To stop here, however, is to fall far short of realizing the possibilities of a farmers' mutual insurance company. The annual fire loss in the United States, within as well as outside the farmers' mutuals, is very much higher than it should be, judged by the experiences of other countries. A large percentage of the fires that occur are readily preventable, and there is no better way for the company to live up to its purpose of safeguarding its members against disastrous loss burdens than to eliminate, as far as possible, all preventable losses.

The first and perhaps the most important step in a program for the improvement of risks and the elimination of preventable losses is an efficient system of inspection. Many defects that constitute fire dangers could be discovered and removed by a more thorough inspection than is now generally made by the representatives of the company who take the applications for insurance. It may be doubted, however, whether highly satisfactory results can be secured without the employment of a special inspector who makes a careful study of fire dangers and who inspects thoroughly all risks of the company at least every two or three years. It may be found that annual inspection is necessary for the best results. The experience of other classes of mutuals has amply demonstrated that money spent for efficient inspection of risks is a wise and profitable investment.

FORM AND TERM OF POLICY.

A reasonable uniformity among the farmers' mutuals in regard to their policy forms is undoubtedly desirable and should be encouraged. The advisability, however, of requiring them to use a standard policy applicable to all classes of insurance may be questioned. In many instances where the use of the standard policy by these companies has been prescribed by State law, they have continued to consider the by-laws printed on the back of the policy as the real agreement between the company and the insured.

It is unquestionably a condition essential for success in cooperative effort that the agreement between the organization and its members

be read and understood. The standard insurance policies of the various States, it must be admitted, are difficult reading for one not accustomed to legal phraseology. The provisions contained therein regarding manufacturing establishments and their operation are of no interest to the members of a farmers' mutual. These considerations appear to have induced the legislatures in a majority of the States that have special legal provisions for farmers' mutual companies to exempt such companies from the use of the standard fire insurance policy of the State.

A difference of opinion exists as to the term of years for which a policy should be written. A small number of the farmers' mutuals make their policies perpetual in form. The advantages claimed for such a plan are that it tends to give permanency to the company, and that it saves the expenses incident to the making of renewals. However, as the value of a given farm risk changes from time to time with the addition of new buildings, the deterioration of old ones, increase or decrease in the amount of stock or machinery on hand, such a policy, as a rule, will require changing at intervals, making it in effect a new contract, even though technically the old policy continues in force. There is also the danger that in the absence of a specific termination of a policy, the revaluation of the property will be unduly postponed, resulting in cases of overinsurance, with the consequent tendency toward a bad moral hazard. The duration of the limited-term policies issued by the farmers' mutuals varies from a single year to 10 years. The usual length of term, however, is five years, and more than seven-tenths of the farmers' mutuals write their policies for this period of time.

LIMITING THE SIZE OF INDIVIDUAL RISKS.

It is very important, especially in the early history of a company, when the total amount of its risks is relatively small, to limit carefully the amount of insurance written on a single building or on a group of buildings subject to the same fire. Not to limit the size of the risk is to invite disaster. The exact limit fixed upon such single risks must be determined to some extent by the average value of farm buildings in the community. It is perhaps safe to say, however, that no recently organized company should attempt to write more than \$2,000 on a single risk.

Some provision for sharing the liability involved in the larger risks with one or more other companies should be made whenever possible. Two ways of accomplishing this division are in vogue. One of these is the plan usually referred to as joint or concurrent insurance. Under this plan two or more companies issue separate policies for specified amounts on the same risk, care being taken that

the total amount of the two or more policies shall be well within the actual value of the property.

The second plan of sharing liability with other companies is that of reinsurance. Under this plan the original company in the first place insures the entire risk, but later makes a contract with another insurance company to assume a certain part of the liability.

The first of these two plans is the more easily applied, since the two or more companies sharing a given risk are practically independent of one another: hence uniformity in practice or approval of one another's methods is not required. Under the second plan the knowledge and approval of one another's methods and affairs are necessary before an agreement for reinsurance can be brought about.

EVILS OF BLANKET INSURANCE.

From the point of view of the company the insurance written should be as specific as possible. The practice of writing blanket insurance, that is, of covering a variety of insurable objects by a single lump sum of insurance, is unfair both to the company and to the members with a small amount of property to insure. It enables a member owning a large amount of property to protect himself against loss with a relatively small amount of insurance. In extreme instances all the personal property located on several separate farms has been thus covered by a single sum of insurance. Since loss of more than a small fraction of this property by any one fire is impossible the owner, under such a blanket plan, can protect all his personal property by an amount of insurance equal perhaps to 10 or at most 20 per cent of the value. A corresponding opportunity to secure more protection than is actually paid for is not open to the member who has but few items of personal property and these in a large measure subject to destruction by a single fire.

Inasmuch as under the blanket plan the property covered by the insurance is invariably out of proportion to the amount of insurance written, it makes the assessment per hundred of insurance unduly large, and thus in addition to giving an unfair advantage to the more wealthy members, it discredits the work of the company by making the average cost of protection appear higher than is actually the case. A number of the farmers' mutuels have reduced their rate of assessment materially, while at the same time they have made their assessments more just, by the simple method of changing their plan from one of giving blanket insurance to one of specific enumeration and valuation of the various kinds of property covered by the contract.

LIABILITY OF THE COMPANY AND OF THE INSURED.

Even large legal-reserve companies find it necessary in their contracts to exempt themselves from liability for losses due to such catastrophes as invasion, insurrection, riot, or civil war. A local mutual is, of course, even less capable of assuming liability for loss caused by such disasters, in which the destruction of property may surpass all expectations or estimates for which an insurance company can reasonably make provision. Since the destruction by windstorm of a building in which light and heat are used involves the probability of fire resulting from the fall, it is proper for the company to arrange for exemption from liability in the case of such fire loss. The insured should rely upon windstorm insurance for indemnity against loss primarily due to the windstorm hazard.

A few farmers' mutuals limit their liability for indemnity in case of all losses, whether total or partial, to three-fourths of the value of the property. Where the insurance written is limited to three-fourths of the actual value of each risk, as is here advocated, the member suffering a total loss bears one-fourth of the loss himself. A part of a partial loss can be borne by the insured with even less hardship. Prevailing practice requires full indemnity in the case of partial losses, however, up to the amount of the insurance carried, and this practice has been recognized in the accompanying by-laws.

The main reason for not embodying in the accompanying by-laws the more logical practice of three-fourths indemnity in all cases is the danger that unfair competition might result. In spite of its reasonableness, the practice offers an opportunity for agents of competing companies to alienate members who have suffered partial loss, by pointing out to them the greater indemnity that would have been paid by another company. A recent loser is likely to overlook the lessened cost of insurance resulting from the three-fourths provision, in his contemplation of the greater indemnity that he would have received under the full indemnity plan for partial losses which another company offers. He is not reminded, and may himself forget, that as a total loser he would be required to bear part of his own loss in either company. Hence, until insurance companies in general agree to adopt a better practice, it may be disadvantageous for a local mutual to adopt the three-fourths plan. Where a company already has adopted such a plan, however, and where the members understand and appreciate the closer approach to justice given thereby, it should be continued.

The liability of the insured is either limited or unlimited. Unlimited liability in this case means that a member binds himself to pay his pro rata share of all losses and legitimate expenses of the company. Many persons have objected to this unlimited liability feature

in farmers' mutuals, although about seven-tenths of the companies are doing business successfully under this plan. It is argued that the apparently impossible might yet come to pass, that is, that losses in such number and amount might be experienced by a company that the necessary assessments would bankrupt the members who had not suffered fire losses. The fact is that in a farmers' mutual company with a reasonable number of risks, located on separate farms, anything corresponding to a conflagration loss is inconceivable. The only exception would seem to be a frontier community in which extensive prairie or forest fires were still possible.

REDUCTION AND CANCELLATION OF INSURANCE.

Inasmuch as the value of the insured property of a farmer changes from time to time, it becomes necessary to provide in the contract for readjustment in the amount of insurance. The opportunity for such readjustment should be open to the insured as well as to the company. The contract should provide also for the cancellation of the policy at the option either of the company or of the insured. No attempt should be made on the part of the company to retain a man who no longer desires to be a member, and it is absolutely necessary for the safety of the company to reserve the right arbitrarily to cancel any policy upon giving fair notice. The reasons for the company's wish to cancel may be perfectly valid from a practical standpoint and yet be of such a nature that they can not be argued with the insured. Such is the case in practically every instance where a bad moral hazard is discovered.

When cancellation takes place at the initiative of the insured, it is reasonable to charge him a short-term rate which is higher than the pro rata cost for the whole term of the policy. This is merely a proper recognition of the expense that the company has incurred in placing the insurance upon its books. The balance, if any, of the advance charges paid by the member, after the deduction of such short-term rate, should be returned. The by-laws should provide, however, that in case of voluntary cancellation by the insured following heavy loss experiences, he must be held liable for his share of all losses and legitimate expenses incurred by the company before such cancellation. Unless this is provided for there is the possibility that a member may cancel his policy because unusually heavy losses have been incurred which will make the next assessment higher than the average.

When, on the other hand, cancellation takes place at the initiative of the company, only the pro rata cost of insurance for the time protection has been given should be deducted from any advance charges paid by the insured. If a short-term rate is applied under these conditions the insured is likely to feel that he has been mistreated and wilfully defrauded.

FEES AND ASSESSMENTS.

A reasonable policy fee, or membership fee, should be provided for in the by-laws. This fee is usually large enough at least to compensate the representative of the company who takes the application and makes a survey of the risk.

Apparently many of the farmers' mutuals, in their early history, followed the plan of levying assessments after each material loss, and a few companies still adhere to this plan. It has been found, however, that after a company has reached a fair size this plan proves needlessly burdensome to the officers and also involves unnecessary expense in notifying members of their assessments and in receipting for these assessments when paid. The members themselves frequently find it annoying to be called upon for small assessments several times during the year. Other companies have adopted the plan of borrowing money with which to pay losses as they occur, and levy an assessment sufficient to repay the loans at the close of the business year.

An increasing number of farmers' mutuals, however, are adopting the plan of requiring the prepayment of an initial premium at least equal to one year's average cost and then collecting at the beginning of each succeeding year of the policy term an annual assessment in advance. This plan not only obviates frequent assessments but also eliminates much of the trouble occasionally experienced in enforcing payment by delinquent members. The fact that a reasonable amount of money is always on hand in the treasury of the company further tends to inspire confidence in the organization both on the part of the members and on the part of business men with whom the company or its policy holders may wish to deal.

Where the annual prepayment plan has been adopted the initial premium as well as the successive annual assessments should be based on a liberal estimate of the needs of the company for the coming 12 months, taking into consideration any funds already on hand. Should it be found, however, that the funds have become exhausted some time before the next regular assessment, the management should not hesitate to make good the deficiency by levying a special assessment upon all risks insured at the time of the occurrence of the unusual losses that exhausted the company's funds.

In the case of special assessments, as well as in the case of all regular assessments when levied in arrears, it is important that the payment of all dues be enforced in a businesslike manner. Several companies have suffered loss of reputation, and subsequently of membership, because of their failure to take prompt and effective measures to enforce their assessments. Once it is understood that the management of the company means what it says in its assessment

notice, little trouble is experienced in the collection of its dues, except perhaps from renters who have removed their insured personal property to some other State or locality.

CLASSIFICATION OF RISKS.

With relatively few exceptions the farmers' mutual fire insurance companies of this country hitherto have charged the same rate for all classes of farm property. In explanation of this practice it may be said that little information has been at hand on which a classification of the various kinds of farm property could be based. It also has been argued, for example, that while a barn may involve a greater fire hazard than a dwelling, each member, as a rule, owned and insured one building of each kind; hence little injustice was done by taking the more hazardous barn at the same rate as the less hazardous dwelling. Especially, it has been argued that the classification of property would involve an undesirable amount of additional work for the officers of the company, particularly for the secretary in making out his notices and records of assessments. The amount of insurance on each class of risk would have to be multiplied by its particular rate and then the sum of these products ascertained for each policy, while under the current practice the determination of a member's assessment involves but a single calculation.

In spite of these arguments, all of which must be admitted to have more or less weight, a reasonable classification of risks is required by considerations not only of justice but also of expediency. There is, after all, a very considerable difference in the nature of the property offered for insurance by different farmers. In one case the more hazardous barn may be worth twice as much as the less hazardous dwelling, and in another case a reverse relation between the two may exist. One farmer insures a large number of live stock and another does not. Still further, experience is bringing out more and more clearly that farm buildings put to the same use are by no means equally hazardous. The material of which they are constructed, the location with regard to other buildings, the absence or presence of proper lightning rods, very materially affect the fire hazard. In fact, this differentiation of risks with reference to the fire hazard is increasing rather than decreasing as the community progresses from an economic standpoint. While in the past practically all farm buildings were built of wood with shingle roofs, an increasing number of buildings are now constructed of brick or stone, while slate, tile, or metal roofs are even more frequent. The larger commercial companies, and also the larger mutuals that either classify or carefully select their risks, are making increased efforts to secure as risks farm buildings so constructed that the fire hazard

is reduced to a minimum. Unless the local farmers' mutual is willing to make concessions from its average rate for a risk of this kind, such risk is likely to be lost to the company. Furthermore, by giving reasonable concessions in its charges on desirable risks, the company offers a strong inducement to the farmer to improve his property by eliminating needless fire dangers.

A suggestive classification of farm property will be found in the accompanying by-laws. If an initial premium proportionate to the hazard is charged, and this premium is used as the basis for all assessments on the plan also provided for in the by-laws, the added work imposed upon the secretary by classification will be very small. Such a classification will enable a company to make more equitable charges for insurance, to safeguard itself against competition, and to encourage the improvement of its risks.

The method of handling the classification is further explained by the application and policy forms attached. In the space in the application for summarizing the insurance by classes will be found suggestive rates for each class. These rates, like the classification itself, will need adjustment in many instances in order to reflect, as nearly as may be, both average insurance cost and relative hazards on the different classes.

SETTLEMENT OF LOSSES.

The duty of the insured to prevent and to limit fire losses as far as possible should be clearly expressed in the by-laws. A provision should also be made to the effect that a sworn statement may be required of the insured as to his knowledge and belief in regard to the cause of the fire and the amount of damage or loss. Arbitration should be provided for to settle difficulties that may arise as to the amount of indemnity due. The simplest and perhaps the most satisfactory way of arranging for this arbitration is to have the company and the insured each select one member of the arbitration board, and then require the two so chosen to select a third member.

The cost of the arbitration should be borne equally by the company and the insured. It is sometimes argued that the party who, according to the findings of the board, is proven to have been in the wrong should pay the entire cost of arbitration; or, in other words, that the cost should be borne by the insured unless the award previously offered by the company is increased by the decision of the board. When such a provision exists, however, it frequently causes the arbitration expenses to influence the action of the board in a needless and unwarranted manner. It is felt, for instance, in the case of a member with modest resources who may have been honestly mistaken as to the value of the destroyed property, that circumstances justify the rais-

ing of the previous award of the company by a very small amount in order to throw all expenses of arbitration upon the party which can better afford to bear them. Such action, however, is decidedly unfair to the company. The addition to the award and the expenses of arbitration may not in themselves be serious considerations, but by having its original award set aside the company's reputation for fairness in the settlement of its losses is unjustly undermined.

The damage by fire or lightning to a given piece of property often appears to the owner much more serious than it really is. For this reason a provision to the effect that the company may satisfy the claim against it by repairing or rebuilding frequently proves of value.

RESERVE.

The question of whether a farmers' mutual insurance company should aim to establish and maintain a reasonable reserve fund is closely related to the question of advance or post assessment already discussed. The reserve problem, however, leads still further into the question of how far the farmers' mutuals shall imitate the plan now imposed by law upon all capital-stock insurance companies and, in general, upon larger mutuals; namely, that of maintaining a certain reserve proportionate to the amount of business transacted. It is frequently held that to build up a reserve fund deprives the members of capital which each member might as well have in his own possession until it is needed by the company. The truth of the argument, so far as it goes, must be conceded. However, the necessary additional amount to be contributed by each member in order to build up a reasonable reserve is so small that it can not affect seriously the business operations or the prosperity of the individual members.

A reasonable reserve in the treasury of the company, on the other hand, performs a very useful function by equalizing the assessment from year to year. In case unexpectedly heavy losses should be experienced it may thus prevent dissatisfaction on the part of the members. In an extreme case it may even save the company from dissolution. The opinion appears to be growing among farmers' mutual insurance men that under a plan of annual assessments a reserve of about \$3,000 per million of insurance in force is useful as a shock absorber in the loss experience of the company.

AMENDMENT OF BY-LAWS AND ARTICLES OF INCORPORATION.

The by-laws, as well as the articles of incorporation, should prescribe carefully the method of their own amendment. A reasonable permanency in the company's plans and methods doubtless requires that something more than a mere majority of favorable votes should

be necessary to bring about an amendment. The percentage of favorable votes required should not be so large, however, that a relatively small number of members, aided by mere inertia or the attitude of opposition to all change on the part of other members, can block a desirable reform. A three-fifths majority represents a suitable requirement for amendment to the by-laws. The majority required for change in the articles of association logically should be slightly higher. Even here, however, two-thirds rather than three-fourths is believed to constitute a reasonable majority.

No amendment should be passed without due warning to the members that a change is contemplated. Such warning may be provided for by requiring that a notice of a proposed amendment shall be sent to every member a reasonable time before the meeting at which the amendment is to be considered. This special notice may properly be omitted only when an amendment has been formally acted upon and recommended by a majority vote at a regular or regularly called meeting of the members preceding that at which final action is contemplated.

SUGGESTIVE ORGANIZATION AND BUSINESS FORMS.

The accompanying suggestive articles of incorporation, by-laws, application, and policy embody the principles emphasized in the preceding pages. In many States it will be necessary to modify them to conform to local conditions and to comply with legal requirements. The advice of the State insurance commissioner should be freely sought in all cases of serious doubt. Especially is such consultation necessary when the question concerns the laws, or the interpretation of the laws, regulating insurance in the State. Even when changes are necessary, however, it is believed that the accompanying suggestive organization and business forms will be found useful.¹

¹ So far as its facilities permit, the Office of Markets and Rural Organization of the United States Department of Agriculture is ready to assist individual rural communities both in the formation of new organizations and in the improvement of existing insurance companies.

ARTICLES OF INCORPORATION.

——— FARMERS' MUTUAL FIRE INSURANCE COMPANY.

We, the undersigned, residents of ——— County, State of ———, who severally own property within said ——— County, having a total insurable value of ——— dollars, which we desire to insure, said property consisting of ——— separate risks, hereby associate ourselves together as a body corporate, and for that purpose subscribe to and adopt the following articles of incorporation:

ARTICLE I. The name of the corporation shall be ——— Farmers' Mutual Fire Insurance Company.

ART. II. The principal office of this company shall be located in ———.

ART. III. The business of this company shall be to safeguard its members, so far as possible, against property losses by reason of fire or lightning, and to distribute among all the members, on the mutual-insurance plan, any loss by fire or lightning which may occur in spite of all reasonable precautions.

ART. IV. The business territory of this company shall be confined to ———.

ART. V. Membership in this company shall be limited to persons who own or have a substantial interest in farm or country risks or similar detached risks within the limits of cities and villages which may be insurable under the rules of the company, in compliance with the laws of the State of ———.

ART. VI. The management of this company shall be vested in a board of nine (9) directors, who shall be elected for such term and in such manner as the by-laws shall provide.

ART. VII. These articles of incorporation may be amended by a two-thirds vote of the members present at any annual meeting or any regularly called special meeting (a quorum being present), at least thirty (30) days' notice of such proposed amendment having been given.

ART. VIII. The duration of this corporation shall be ——— years.

ART. IX. Until the first regular meeting of the members, the following shall act as a board of directors:

(Name.)

(Address.)

1.

2.

3.

Etc.

Signed (by incorporators):

(Name.)

(Address.)

1.

2.

3.

Etc.

BY-LAWS.

——— FARMERS' MUTUAL FIRE INSURANCE COMPANY.

SECTION 1. **Purpose.**

The purpose or object of this company shall be to protect its members against property losses from fire or from lightning. In the accomplishment of this purpose the company shall employ the following means:

First, careful periodic inspection of the property insured, followed by advice and warnings against fire dangers, and, when necessary, by orders for the improvement of bad risks; also, so far as possible, the general enlightenment of its members on matters of safe construction and proper maintenance and care of property in order to avoid danger of loss or damage.

Second, the distribution among its members on the mutual-insurance plan of any loss caused by fire or lightning which may occur in spite of all reasonable precautions.

SEC. 2. **Property that may be insured.**

This company shall insure only farm or country property consisting of detached dwellings and their contents; farm buildings, including silos, and their contents; farm machinery; vehicles; grain and hay in bin, stack, or loft; and live stock; and detached risks of similar hazard within the corporate limits of cities or villages, not less than 100 feet distant from all other risks in places lacking adequate fire protection, and not less than 50 feet distant in places having efficient fire protection: *Provided*, That no property of any class not considered reasonably safe by the board of directors or their representatives shall be insured: *And provided further*, That old and dilapidated structures, buildings wherein fire is used and the flues are defective or dangerous, paintings, jewelry, money, or securities or other evidences of ownership or of credit, shall in no case be insured by this company.

SEC. 3. **Membership and meetings.**

(a) **MEMBERSHIP.**—The membership of this company shall comprise all persons who have property insured therein.

(b) **ANNUAL MEETING.**—The annual meeting of the company shall be held on the third Tuesday in January of each year, in the city of ———. The exact place and hour of meeting shall be designated by the executive committee hereinafter provided for. Notice of such meeting shall be sent by the secretary to each member at least 15 days before the date of the meeting.

(c) **SPECIAL MEETINGS.**—Special meetings of the company shall be called whenever the board of directors by a two-thirds vote shall so order, or whenever one-fourth of the members shall petition for such meeting.

(d) **VOTING PRIVILEGE.**—Each member shall be entitled to one vote on all questions arising at the annual or special meetings of the company. No vote by proxy shall be allowed.

(e) **QUORUM.**—At all annual or special meetings of the company 15 members shall constitute a quorum.

SEC. 4. Directors.

(a) **ELECTION AND TERM.**—At the first annual meeting of the company nine directors shall be elected to succeed those designated as a temporary board in the articles of incorporation. The directors so chosen shall be divided by lot into three classes of three directors each. Those in class 1 shall hold office for one year; those in class 2 for two years; and those in class 3 for three years. At all subsequent annual meetings three directors shall be elected, to hold office for a term of three years, or until their successors are elected.

(b) **METHOD OF FILLING VACANCIES.**—Vacancies in the board of directors may be filled temporarily by the remaining members of the board. Persons so chosen shall hold office until the next annual meeting, when such vacancies shall be filled by election for the unexpired term.

(c) **POWERS AND DUTIES.**—The board of directors shall have charge of all the business of the company. They shall hold meetings at such times and places as they deem necessary. They shall elect the officers of the company. They shall direct the levying of all assessments and shall appoint, or authorize the appointment of, all inspectors, adjusters, and other employees of the company. They may divide the business territory of the company into districts and apportion among themselves the agency and supervision of these districts in such manner as will best serve the interests of the company. They shall designate depositories for the company's funds.

(d) **QUORUM AT BOARD MEETING.**—Five directors shall constitute a quorum at a board meeting.

SEC. 5. Officers.

(a) **TITLES, ELECTION, AND TERM.**—The officers of this association shall consist of a president, a vice president, a secretary, and a treasurer, and shall be elected by the board of directors from their own number: *Provided*, That the office of treasurer may, by a two-thirds vote of the board, be filled by any competent and trustworthy person without reference to other connection with the company. If the treasurer is not a director, he shall attend and be heard at the meetings of the board, but shall have no vote at such meetings. Each officer, unless removed by a two-thirds vote of the board, shall hold office for one year or until his successor has been elected and qualified.

(b) **DUTIES OF THE PRESIDENT.**—The president shall preside over all meetings of the board of directors. He shall also call to order all meetings of the company and shall preside until a temporary chairman has been elected. He shall sign all policies, vouchers, or orders issued by the company, and shall perform such other duties as are usually performed by such officer, or as the board may assign to him. It shall also be his duty to see that the auditing committee hereinafter provided for does its work, and to fill by appointment any vacancies in this committee that may occur.

(c) **DUTIES OF THE VICE PRESIDENT.**—The vice president, in addition to his duties as a member of the executive committee hereinafter provided for, shall perform all the duties of the president during the absence or inability of that officer.

(d) **DUTIES OF THE SECRETARY.**—The secretary shall keep a complete and accurate record of all transactions of the company. He shall write and sign all policies, vouchers, or orders issued by the company. He shall, under the direction of the board of directors, have charge of the levying of all assessments and the collection of these assessments and any other money due the company, and shall turn over all money so collected to the treasurer. He shall make a complete and accurate report of the year's business at each

annual meeting of the company, and shall perform such other duties as the board may assign to him.

(e) **DUTIES OF THE TREASURER.**—The treasurer shall, under the direction of the board of directors, have charge of all the funds of the company. He shall deposit said funds in the depository or depositories designated by the board. He shall pay all vouchers or orders properly attested by the secretary and the president and shall make a complete and accurate report of the finances of the company at each annual meeting.

(f) **BONDS.**—The secretary and the treasurer, before entering upon their respective duties, shall each give bond in such sum and in such form as shall be required by the board.

SEC. 6. Committees.

(a) **EXECUTIVE COMMITTEE.**—The president, secretary, and vice president shall constitute an executive committee, which shall exercise such powers and perform such duties as may be delegated or imposed by the board of directors, or as in these by-laws provided.

(b) **AUDITING COMMITTEE.**—The members shall at each annual meeting elect two competent persons, who, together with a third person selected by the board from their own number not later than December 31 of the current year, shall constitute an auditing committee. Said committee shall audit carefully all books and accounts for that year and report their findings at the next annual meeting. A special audit of such books and accounts by an expert accountant may be ordered by the members at any annual meeting or any regularly called special meeting. Such special audit may also be ordered at any time by the board of directors.

SEC. 7. Salaries.

(a) **SALARIES OF DIRECTORS.**—Each director shall receive \$2 per day and necessary expenses for such time as he actually spends in transacting the business of the company. The compensation for taking applications for insurance shall be equal to the policy fee provided for in section 12, and no per diem shall be allowed directors for such services.

(b) **SALARIES OF OFFICERS AND EMPLOYEES.**—The officers and employees of the company shall receive such reasonable compensation as the board of directors shall determine: *Provided*, That no officer who is also a director shall receive pay both as a director and as an officer for the same service.

SEC. 8. Applications for insurance.

(a) **RECEIVING APPLICATIONS.**—It shall be the duty of the directors, each in his own community, or in such district as the board shall designate, to receive and at their discretion to solicit applications for insurance from all persons of good character and reputation who are the owners of property insurable under the rules and regulations of this company. All such applications must be approved and signed by the director before being forwarded to the secretary and, unless otherwise ordered by the board, must be accompanied by the policy fee and initial premium hereinafter provided for. Before indicating his approval of an application the director shall satisfy himself by means of careful personal inspection and survey that the description of the property is correct and that the risk is in all respects a desirable one; or if serious defects are found he shall see that these are remedied before his approval is given. In case of less dangerous defects that can not be readily remedied, or that the owner is unwilling to go to the expense of removing, the director shall, if it seem to him proper, give the application his conditional approval, accompanying the application with a full and accurate statement of his reasons for such conditional approval.

(b) **FINAL APPROVAL BY THE COMPANY.**—An application reaching the secretary with the conditional approval of a director shall be passed upon by the executive committee before a policy is issued to the maker of such application. An application received with the full approval of a director may, unless the board otherwise orders, be passed upon by the secretary, who, in case no errors or inconsistencies or other reasons for delay or for reference to the executive committee are discovered by him, shall promptly issue a policy on the basis of said application and forward such policy to the applicant.

SEC. 9. Special inspection of property.

At least once every three years the property insured shall be thoroughly inspected by a competent person employed by the company as special inspector. Said inspector shall carefully examine the flues of all dwellings or other buildings wherein fire is used, note the placing and the condition of stoves and fireplaces and the disposition of ashes therefrom, inquire into the system or method of lighting buildings, examine all lightning rods, and ascertain if fences are properly grounded. He shall take careful notice of any and all defects or dangerous practices. He shall also note the presence or absence of means of combating a fire, such as readily available water supply, or chemical extinguishers, and suitable ladders by means of which the top of the roof can be quickly reached. He shall advise with the insured concerning the general improvement of the risks, and shall recommend specific measures for the removal of conditions materially increasing the hazard thereof. He shall report to the company, upon blanks furnished him for that purpose, the condition of each member's risk or risks, together with the recommendations, if any, made by him for the removal of dangerous conditions. Refusal or neglect on the part of the insured to carry out specific recommendations of the inspector may, in the discretion of the board of directors or their representatives, be made cause for the cancellation of his policy or policies.

SEC. 10. General conditions of insurance.

(a) **TERM OF POLICY.**—Except as hereinafter provided, all policies shall be written for a term of five years, and shall date from the date specified in the application. An application which has the full approval of a director shall cause the insurance applied for to be in full force and effect from the date specified therein, unless and until such application is rejected by the executive committee and notice thereof given to the applicant. An application with the conditional approval of a director shall impose no liability upon the company until approved by the executive committee.

(b) **LIMITS TO THE AMOUNT OF INSURANCE.**—The directors of this company shall exercise due care to prevent the insurance of any property for more than three-fourths or less than one-half of the cash value of the property: *Provided*, That until the company has \$500,000 of insurance in force no single risk or group of property subject to one and the same fire shall be insured for an amount greater than \$1,500, nor shall such maximum single risk exceed \$2,000 until the company has \$1,000,000 of insurance in force, nor shall it later exceed two-tenths of 1 per cent of the insurance in force: *And provided further*, That the insurance placed on live stock shall not exceed an amount per head of \$200 on horses, \$60 on cattle, \$15 on hogs, and \$10 on sheep.

(c) **LIABILITY OF THE COMPANY.**—This company shall in no case be liable for loss or damage from other cause than that of fire or lightning, nor for more than the actual cash value of the property at the time of the loss, nor shall it be liable for loss caused directly or indirectly by invasion, insurrection, riot, or civil war, or by order of any civil authority. If a building or any part thereof fall, except as the result of fire or lightning, the insurance

by this company on such building, or on its contents, shall immediately cease.

(d) **LIABILITY OF THE INSURED.**—The liability of the insured shall be limited to his pro rata share of the losses and expenses of the company, plus a reasonable contribution to the reserve.

(e) **JOINT OR CONCURRENT INSURANCE.**—Property insured in this company shall not be insured in other companies except with the written consent of this company. Where joint insurance is permitted, this company shall be liable only for such part of the loss as the insurance carried in it represents of the total insurance carried on the property, whether the insurance carried in the other company or companies is valid or not.

(f) **INSURANCE TO BE SPECIFIC.**—Buildings shall be separately described, and the value of each building and the amount of insurance thereon shall be stated in the application and in the policy. The value of each class of other property and the amount of insurance thereon shall be similarly stated.

(g) **FALSE STATEMENT BY APPLICANT.**—A false description of the property by the applicant or any false statement by him, either in regard to ownership or relative to any other material fact, shall render the insurance on the property in question void.

(h) **SALE OF PROPERTY AND TRANSFER OF POLICY.**—The sale of insured property shall immediately suspend the insurance thereon, and unless application for transfer of the policy is received and accepted within 10 days after the date of sale, the policy shall be canceled. A policy may be transferred or assigned by obtaining the consent of the company and paying a fee of 50 cents.

(i) **REMOVAL OF PROPERTY AND CHANGES IN FORM OR USE.**—The permanent removal of personal property, or any change or alteration in the form, occupancy, or use of a building affecting it as a risk by increasing the fire hazard, shall render the insurance thereon void, unless the consent of the company has been previously obtained for such removal or change.

SEC. 11. Reduction and cancellation of insurance.

(a) **ACTION BY THE INSURED.**—A member may at any time, upon written request to the secretary and the payment of all valid claims against him, have his policy canceled. He may also, upon showing cause, have the amount of his policy reduced.

(b) **ACTION BY THE COMPANY.**—The company may, upon five days' notice, for refusal to remedy dangerous conditions, or for any other cause deemed sufficient by the board of directors or their representatives, cancel any policy or any part thereof.

(c) **RETURN OF UNEARNED PREMIUM OR ASSESSMENTS.**—When cancellation takes place at the request of the insured the company shall return such part of the premium or last regular assessment as remains after the deduction of one-eighth thereof for each month or major fraction of a month that has elapsed on the current policy year: *Provided*, That should the pro rata cost of insurance for such period exceed the short-term rate above prescribed, the actual pro rata cost shall be deducted. When cancellation takes place at the initiative of the company, such part of the premium or regular assessment shall be returned as is proportional to the unexpired part of the current policy year.

SEC. 12. Fees and assessments.

(a) **POLICY FEE AND INITIAL PREMIUM.**—A policy fee of \$1.50 and an initial premium to be fixed by the board shall be paid by the applicant, or satisfactory security for their payment shall be given by him, at the time of making application for insurance. For additional insurance a member shall be charged,

in addition to the initial premium, a policy fee of 75 cents when the additional insurance applied for is \$500 or less, and \$1.50 when the sum applied for is greater than \$500.

(b) **REGULAR ASSESSMENT.**—Not later than October 20 of each year the board of directors shall determine the rate of assessment for that year, basing such rate upon past experience as to the needs of the company. Said assessment shall be due on or before November 30 of the same year. Policies written on or after December 1 of the previous year and before June 1 of the current year shall be subject to the regular assessment of the current year and to three succeeding regular annual assessments. Policies written on or after June 1 of the current year and before December 1 of the current year shall be exempt from the regular annual assessment of that year, but shall be subject to four succeeding regular annual assessments.

(c) **SPECIAL ASSESSMENTS.**—Should unexpectedly heavy losses occur which can not be met by the funds on hand, supplemented at the discretion of the board of directors by a sum not exceeding two-tenths of 1 per cent ($\frac{2}{10}\%$) of the insurance in force, which may be borrowed, a special assessment shall be levied on all policies in force at the time of such loss or losses.

(d) **NOTICE OF ASSESSMENT.**—Not later than November 1 of each year the secretary shall, by letter directed to the post-office address given in the application, or to the latest address, if he has been informed of a change, notify the member of the amount due from him. He shall also include with this notice such information bearing upon the business of the company as may be considered of practical interest and value to the member. Should the member continue to neglect or refuse to pay such assessment for 10 days after the assessment has become due, the secretary shall send by registered mail a second notice, adding 25 cents to the assessment to cover the extra work and expense occasioned by the member's neglect.

SEC. 13. Suspension, forfeiture of membership, and reinstatement.

(a) **SUSPENSION OF POLICY.**¹—The sending of the two notices described in paragraph (d) of section 12 shall constitute legal notice, and unless payment is received within 10 days after the sending of the second notice the policy in question shall stand suspended until the assessment is paid. The company shall not be liable for any loss suffered by the holder of such policy during the period of suspension, nor shall the later acceptance of the full assessment render the company liable for such loss. The part of the assessment corresponding to the cost of insurance for the period during which the policy was suspended shall be considered a penalty for delinquency.

(b) **FORFEITURE OF MEMBERSHIP.**—One month after the second notice, a policy still remaining suspended shall be canceled, and the holder shall be dropped from membership in the company. Such cancellation shall in no way release the former member from any debt already incurred to the company.

(c) **REINSTATEMENT.**—A person having forfeited his membership under the provisions of paragraphs (a) and (b) of this section may, at the discretion of the board of directors, upon proper application for reinstatement, the payment of past dues, if any, the acceptance of a new policy, and the payment of the regular policy fee and initial premium, have his membership restored.

SEC. 14. Classification and rates.

(a) **CLASSIFICATION.**—Property insured by this company shall be classified as follows, the contents of buildings taking the same classification as the

¹ Where the State law specifically provides the manner in which the insurance liability may be terminated and no suspension of a policy is provided for, direct cancellation without previous suspension may be necessary.

building in which they are kept: *Provided*, That the board of directors shall have power to prescribe rules under which kinds of property not specifically hereinafter enumerated may be placed in one or the other of the following classes, or in additional classes created by the board.

Class A.—Brick or stone dwellings with roof of slate, metal, or other non-combustible material, when properly rodded against lightning.

Class B.—Brick or stone dwellings with wooden roof, when properly rodded. Wooden dwellings with roof of noncombustible material, when properly rodded.

Unrodded brick or stone dwellings with roof of noncombustible material.

Class C.—Wooden dwellings with wooden roofs, when properly rodded.

Unrodded brick or stone dwellings with wooden roof.

Unrodded wooden dwellings with roof of noncombustible material.

Granaries, corn cribs, and hog houses located not less than 100 feet from the dwelling, nor less than 50 feet from the barn, such buildings being properly rodded in all cases where the insurance applied for is \$200 or more.

Live stock not pastured during the summer months except where all fences are properly grounded.

Class D.—Barns properly rodded.

Unrodded wooden dwellings with wooden roofs.

Granaries, corn cribs, and hog houses located nearer the dwelling or the barn than as specified for Class C, or lacking the lightning protection required for that class.

Live stock pastured during the summer months where fences are not properly grounded.

Class E.—Unrodded barns and other property deemed to be of similar hazard.

(b) INITIAL PREMIUM RATES¹ AND BASIS OF ASSESSMENT.—The rates of initial premium for the various classes of property shall be determined by the board of directors, and shall be so adjusted as normally to cover one year's cost of insurance together with a reasonable contribution to the reserve. Assessments shall also be determined by the board, shall be based on the initial premium, and shall constitute a fixed percentage thereof, being equal to, greater, or less than 100 per cent, as the needs of the company may require.

SEC. 15. Losses.

(a) PREVENTION OF LOSS.—It shall be the duty of the insured to cooperate with the company in making his property as safe from loss as may be reasonably possible. In case of fire he shall use his best endeavors to save his property and to protect from further damage such parts thereof as are not destroyed.

(b) NOTICE OF LOSS.—A member incurring a loss shall immediately notify the company, and the latter shall promptly provide for the adjustment of such loss.

(c) STATEMENT OF LOSS.—It shall be the duty of the insured, when so required by the company, to make a complete and sworn statement of the loss incurred by him. Such statement shall include a complete list of the property lost or damaged and the value thereof before the loss occurred, and shall indicate the time of the loss, the member's knowledge or belief as to the cause of the loss, and if by fire, his knowledge or belief as to how such fire originated.

(d) SETTLEMENT OF DISPUTED CLAIMS.—In case of disagreement between the adjuster or adjusters and the member sustaining the loss, the company and the insured shall each select one person, not an officer or director of the company nor a relative of the insured, and the two so chosen shall select a third. These three shall constitute a board of arbitration, and their award shall be

¹ Suggested rates for the classes of property above outlined may be found in the application form (p. 30) under "Summary."

final and binding upon both parties.¹ The members of the board of arbitration shall be compensated on the same basis as is provided for directors, and the costs of this board shall be borne equally by the company and the insured.

(e) COMPANY MAY REPLACE OR REBUILD.—The company reserves the right to repair, rebuild, or replace any building or other property damaged or destroyed: *Provided*, That such repaired, rebuilt, or replaced property shall be of a value equal to that of the insured property immediately before the loss occurred.

(f) PAYMENT OF LOSSES.—Losses shall be paid within 60 days after the date of adjustment.

SEC. 16. Reserve.

It shall be a part of the working plan of this company to build up and to have on hand a reserve fund of three-tenths of 1 per cent (3/10%) of the insurance in force.

SEC. 17. Amendments.

The by-laws of this company may be amended by a three-fifths vote of the members present at any annual meeting or any regularly called special meeting (a quorum being present), provided notice of the intended amendment has been given in writing to the secretary in time to be included with the notice of such meeting, or provided the submission of such amendment was proposed and approved by a majority vote at the previous annual meeting. It is specifically provided and agreed that any amendment so passed shall immediately upon its passage affect and become a part of all outstanding policies, as well as of those issued after such amendment is made.

¹ The provision in regard to the force of the action of the arbitration board, though in general use by existing companies, may in some States have to be omitted because of conflict with State laws.

Form for outside of application:

Number _____.

APPLICATION

for

Insurance in the

_____ FARMERS' MUTUAL

FIRE INSURANCE COMPANY

of _____

made by

Name of applicant.-----
Address.

Amount of insurance	\$_____
Policy fee	\$_____
Initial premium	_____
Total	_____

Agent's approval:

This application has my _____ approval.
Full or conditional.

Signed _____,

Title _____

NOTE.—If your approval is *conditional*, be sure to give your reasons in a letter to accompany the application.Officially accepted and ordered filed
rejected returned this.---

day of _____, 191---

Secretary.

Form for application.

APPLICATION.

I, the undersigned, owner of the property hereinafter enumerated and described, located on the
1/4 of the 1/4 of section of township, County, in the State of, hereby apply to
the Farmers' Mutual Fire Insurance Company for insurance on said property in the respec-
tive sums indicated, said insurance to be in effect from the day of, 191..., at noon, to
the day of, 192..., at noon.

	Value.	Insur- ance.	Class.
Dwelling built of, with roof, in repair; rodged?.....			
Household goods in dwelling.....			
Wearing apparel in dwelling.....			
Provisions in dwelling.....			
Musical instruments in dwelling, as follows:.....			
Summer kitchen ft. by ft., ft. posts, in repair.....			
Wood house ft. by ft., ft. posts, in repair.....			
Granery built of, with roof, in repair; rodged?.....			
Contents of above-mentioned granary.....			
Corn crib ft. by ft., ft. posts, in repair.....			
Contents of above-mentioned corn crib.....			
Hog house ft. by ft., ft. posts, in repair.....			
Machine shed.....			
Farm implements and tools.....			
Wagons, carriages, and harness.....			
Horses and mules, number.....			
Cattle, number.....			
Barn built of, with roof, in repair; rodged?.....			
Hay and grain in above-mentioned barn.....			
Silo with contents, diameter ft., height ft., in repair.....			
.....			
.....			
.....			
.....			

Further descriptions:

Dwelling—main part, ft. by ft., ft. posts, stories, built
in; with wing or attachment ft. by ft., ft. posts,
built in; finished rooms; unfinished rooms; foundation
.....; number of chimneys; material; resting how?;
are stove pipes properly insulated where passing through partitions or
ceilings?; disposition of ashes; lighting system;
occupied by

Granary—main part, ft. by ft., ft. posts, built in;
with attachment or lean-to ft. by ft., ft. posts, used for

Barn—main part, ft. by ft., ft. posts, built in; with
attachment or lean-to ft. by ft., ft. posts, used for

SUMMARY.

Insur- ance by class.	Class and rate.	Initial premium.
.....	A .15	.....
.....	B .20	.....
.....	C .25	.....
.....	D .33	.....
.....	E .40	.....
.....	Totals.	.....

I hereby accept and subscribe to the articles of incorporation and the by-laws of the Farmers'
Mutual Fire Insurance Company, and in consideration of the above-stipulated insurance bind myself,
my heirs and assigns, to pay my pro rata share of all losses and legitimate expenses incurred by said
company while said insurance remains in force. I also affirm that the valuations, statements, and
descriptions given in this application, are to the best of my knowledge and belief, correct.

Signed:
Applicant.

Dated this day of 191...
Address.

Form for diagram of farmstead, to go on application:

DIAGRAM OF THE FARMSTEAD.

Assuming the dwelling to be located at the point so labeled, indicate the location of the other buildings on the place in a similar manner, giving the distance from the dwelling and from each other. Buildings not insured, if any, should be indicated by means of a cross over the square, thus: ☒

N.

W.

□
Dwelling.

E.

S.

Form for outside of policy:

No. —.

POLICY

Issued by the

———— FARMERS' MUTUAL

FIRE INSURANCE COMPANY

of —————

To —————

of —————

—————

Amount of insurance, \$ ———

Policy fee, \$ ———

Initial premium, ———

Total, ———

Expires —————, 192—

Application taken by

—————

Title —————

Form for policy:

FARMERS' MUTUAL FIRE INSURANCE COMPANY

LOCATED AT _____

In consideration of the agreement contained in the application and of dollars (\$.....), duly received, does insure of subject to the provisions of its by-laws, for a term of years, from the day of 191..., at noon, to the day of 192..., at noon, against all direct loss or damage by fire or lightning, except as in said by-laws provided, to the hereinafter-described property, located on the $\frac{1}{4}$ of the $\frac{1}{4}$ of section of township, county, State of

	Value.	Insurance.	Class.
Dwelling, described and indicated in application.....			
Household goods in dwelling.....			
Wearing apparel in dwelling.....			
Provisions in dwelling.....			
Musical instruments in dwelling, as follows:			
Summer kitchen, described and indicated in application.....			
Woodhouse, described and indicated in application.....			
Granary, described and indicated in application.....			
Contents of above-mentioned granary.....			
Corncrib, described and indicated in application.....			
Contents of above-mentioned corncrib.....			
Hog house, described and indicated in application.....			
Machine shed.....			
Farm implements and tools.....			
Wagons, carriages, and harness.....			
Horses and mules, number.....			
Cattle, number.....			
Barn, described and indicated in application.....			
Hay and grain in above-mentioned barn.....			
Silo with contents, described and indicated in application.....			
.....			
.....			
.....			
.....			

SUMMARY.

Insurance by class.	Class and rate.	Initial premium.
.....	A .15	.....
.....	B .20	.....
.....	C .25	.....
.....	D .33	.....
.....	E .40	.....
.....	Totals..	.....

And said company promises and agrees to indemnify the insured against loss or damage from the above mentioned causes, in the amounts above specified, not exceeding a total sum of \$, nor in any case exceeding the cash value of the property immediately before the loss or damage occurred.

In witness whereof the Farmers' Mutual Fire Insurance Company has executed and attested this policy on this day of, 191....

..... President.
 Secretary.

Form for assignment, to go on policy:

NOTICE.—No assignment of this policy shall be valid until approved by the company.

ASSIGNMENT.

For value received, I hereby transfer, assign, and set over unto _____ and _____ assigns all my rights, title, and interest in this Policy of Insurance, and all benefit and advantage to be derived therefrom.

Witness my hand this ____ day of _____, 191____.

Approved at _____ this ____ day of _____, 191____.

_____, *Secretary.*

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