

to insure cargoes with the Government's War Risk Office; they could insure in the open insurance market whenever the market rate happened to be more favourable to them than the Government's flat rate. The Government's War Risks Office supplemented the market, but did not supersede the market. What, however, it did do most effectively—and was set up to do—was to prevent unreasonably high rates from being charged in the market, and also to prevent any cargo in a British ship from being delayed through want of insurance. It is not too much to say that the country's cargo business could not have been carried on for a week after war broke out but for the establishment of the War Risks Office.

#### *Disadvantages of the Flat Rate.*

The scheme provided that the Government's flat rate of premium should not be less than 1 per cent. and not more than 5 per cent. of the insured values of the cargoes covered. The rate started at five guineas, and was from time to time reduced. For a long time it remained at the minimum of 1 per cent.—after the German cruisers had been driven off the seas; but the submarine activity introduced a new factor, the losses increased, and the rate was gradually advanced until it reached the maximum of 5 per cent. Losses continued to be suffered, and to exceed in amount the premiums paid into the funds of the War Risks Office. It became then a matter for consideration whether the rates—at least, for certain hazardous voyages—should not be raised beyond the original maximum of 5 per cent. But an advance in the maximum would not necessarily have met the deficit in the funds between the losses suffered and the premiums—for reasons which are inherent in the system of charging flat rates irrespective of the risks of actual voyages. For alongside the War Risks Office stands the open marine-insurance market, which charges rates based upon what underwriters, in their professional judgment, regard as the actual risks of particular voyages. The cargoes proceeding upon the less hazardous voyages are charged rates less than the Government's flat rate, and these cargoes—so far as is possible for shippers to obtain the necessary amount of cover—are insured in the market. On the other hand, the market can always protect itself against accepting cargoes upon the more hazardous risks by charging rates in excess of the Government's flat rate. The tendency has been—and always must be, to whatever height a flat rate be raised—for the best risks to go to the market and the worst risks to the Government War Risks Office. When the War Risks Office has received a share in the better risks (those of cargoes shipped upon the least hazardous routes) it has been because there was more cargo seeking insurance than the open market was willing or able to cover. This financial disadvantage to the War Risks Office is inherent in the system originally adopted of a flat rate irrespective of voyage.

#### *The One Remedy.*

There was also a serious public disadvantage in the advance of the flat rate beyond the maximum of 5 per cent. If this flat rate had been put up, the market would have followed by putting up the general level of its war-risk rates. The inevitable result would have been a general increase in prices to the consuming public, which would have been offset to only a small extent by the additional premiums becoming payable to the funds of the War Risks Office, for whose liabilities the taxpayers are responsible. The public would have paid more for everything imported, and the taxpayers would have received little or no relief to correspond with the increased cost. The one remedy—the only remedy—was to abolish the flat-rate system, and to adopt the open-market system of grading premiums according to the risks which experience from time to time shows the various voyages to involve. No other course was open if the Board of Trade desired—as it was bound to do in the taxpayers' interests—to make the funds of the War Risks Office adequate to meet the daily claims upon them. By assuming a large proportion of all the war risks, good and bad, it will be possible to set the less hazardous risks against those which are more hazardous, to meet the losses incidental to the submarine warfare and at the same time to quote the lowest rates which will, in fact, cover the risks undertaken. The War Risks Office was not established to make profits, but it should be administered in the public interest so that, if possible, the incomings and the outgoings may balance.

#### *The New Arrangements.*

As soon as the conclusion described above had been reached the Board approached representatives of the various interests in the marine-insurance market, and laid its proposals before them. After protracted negotiations it has at length been decided by the Board of Trade to continue the Government War Risks Office on the same general principles as heretofore—supplementing, but not superseding, the open market—to abolish the flat rates, and to insure cargoes at premiums graded from time to time according to the actual risks incurred upon particular voyages. In carrying out this scheme the Government will, as before, be assisted by representatives of the insurance market, and a special committee will sit daily at the new branch of the War Risks Office, at 53 Cornhill, London E.C., to work the scheme. The procedure will be that a broker placing a risk under the new scheme will take particulars of the risk to the Underwriting Committee at 53 Cornhill, who will accept liability on behalf of the Government War Risks Office at the office rate then in force for the voyage in question, the broker receiving a certificate embossed with a Government stamp showing that the risk has been accepted. The open market in war risks will remain in existence, and there will be no compulsion upon any one to insure with the Government War Risks Office if he prefers to place his risks in the market.