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LAW ENFORCEMENT AND BURGLARY INSURANCE

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The term "Burglary Insurance," used in the title of this paper, is not a very happily chosen one. My purpose really is to discover whether there is any relation between the reported great increase of crimes against property and the insurance of property against such risks. I have found great difficulty in collecting material on burglary, narrowly defined as a felony committed against property "within the premises, with force and violence, of which there are visible marks upon the premises, which have been made by entry into the premises, or, after effecting the loss, have been made in effecting exit therefrom."

However there is good authority for giving "Burglary Insurance" a wider significance, for by common usage such insurance is meant to include insurance against theft and also robbery.[1] Such insurance risks are usually divided into five classes, namely, 1) residence, 2) mercantile open stock, 3) mercantile safe, 4) bank, and 5) messenger, paymaster, and office or store robbery. There are also special classes of risks, such as automobile theft.

It need not be insisted that the field that we are studying is a large one, and therefore of very considerable social importance. In 1925 there were sixty companies in the United States doing burglary and theft insurance. For the ten year period from 1916-25 these sixty companies did a total business of $177,616,086 in premiums. The six largest of these companies did $77,966,414 of this total business. But the main significance is not in the totals but in the rapidity with which this business has grown. In 1903 the total premiums paid on such insurance was less than $1,000,000, ten years later it was less than $4,000,000, and ten years later still it had grown to about $23,000,000, and in 1925 it was $28,200,130. Thus the volume of this insurance had increased about twenty-nine times in twenty-two years, and the great bulk of this increase has come in the last ten years, i. e., since the outbreak of the World War.[2]

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[1] *Lects. on Casualty Insurance*, F. S. Garrison.

[2] Best's *Insurance Reports, Casualty and Miscellaneous.*

As students of social phenomena we naturally are interested in inquiring into the causes for this remarkable development in a business so closely related to the security of property. Part of this great increase in burglary insurance has been due to high-pressure salesmanship. Circulars issued from the home office to agents are replete with the urge for more and more business. In the field of Residence Burglary Insurance, which comprises about 50% of total Burglary Insurance, it is pointed out that less than 500,000 policies are written annually, while, it is asserted, there are five million families in the United States which are acceptable risks.[3] So a great increase in business is expected in this quarter, and this in spite of the fact that the vice of underinsurance and the moral risk factor are particularly strongly felt in this type of insurance. From the complaints as to the difficulty of checking up on the moral risk factor in residence burglary insurance claims it is quite obvious that many of the 500,000 policies written do not fall within the five million desirable risk total mentioned above.

But perhaps the greatest stimulus for this increased writing of Burglary Insurance is the actual increase in burglary, at least of certain special and spectacular types of burglary, robbery, theft, etc. In 1921 the situation in residence burglary insurance was reported as unfavorable, in spite of the fact that the insurance rates had been raised several times.[4] In 1924 the criminal depredations cost the country slightly in excess of three billion dollars, i. e., a quarter of a million dollars more than one year of the great war cost us, and about what it costs to run the United States Government for one year.[5] Only about ten or twelve million dollars of this huge loss was covered by insurance. So it is argued that too little has been done by agents in writing this type of insurance.[6]

It is certainly permissible to doubt that any general increase in crime and misdemeanor exists in this country. A number of students of the subject, in the best positions to know, assert that we are not suffering from any such thing as a crime wave, for example, Mr. Kirchway and Police Commissioner McLaughlin of New York City. But it is evident that there has been increase in certain spectacular types of crimes against property, namely, robberies which involve risks to and actual loss of life. The Protective Committee of the

[3]*Burglary, Theft and Robbery Insurance*, Millbacher and Carr. (Clipping from article by F. S. Garrison, in Insurance Library Association, Boston.)

[4]*Lects. on Casualty Insurance*, F. S. Garrison.

[5]Literary Digest, March 28, 1925, *High Cost of Crooks*, quoted from report of protective Company of American Bankers Association.

[6]The Aetna-izer Supplement, May, 1926.

American Bankers Association reports that in 1921 there were 240 burglaries and 97 "hold-ups" committed against their 22,000 member banks, while in 1924 there were 98 burglaries and 165 "hold-ups."[7] This shows an increase of 68 "hold-ups" in three years, and if the comparison had been made as from 1914 the contrast would have been much more startling. However when the totals have been made for both burglaries and "hold-ups" 1921 shows 337 and 1924 shows 263, a decrease of 74.

These figures do not indicate a crime wave against bank holdings but they do constitute a very good "talking point" for insurance increases on such property. The celebrated "nose for news" of our American newspapers has given most efficient free advertising material to the campaign for increased insurance on all property endangered by burglary and robbery. One bank "hold-up," involving the dramatic set of shooting and murder, is enough to excite a whole region, and if this "hold-up" occurs in New York or Chicago it will serve for the whole country. Our enlightened press will see to that.

The same condition is seen as to pay-roll "hold-ups." Such attacks on property have increased, and it is natural that there should be an increase of insurance against such risks after every such loss. But it may be doubted that it is wise for the insurance companies to emphasize such losses in their sales talks. There is a tendency to go too far in this covering of such risks. If the pay-roll is insured why worry about its loss? But this logic is too simple to be socially sound. A case is cited of a manufacturing plant in Chicago which had the custom of sending a woman stenographer in a taxi for the large pay-roll. When a protest was made as to the danger involved in this arrangement, the responsible official replied that they were insured up to the hilt, including the life of the woman. As to the woman she could take the job or leave it.

And other disagreeable factors emerge in this problem of hold-up insurance. It is more than suspected that a certain per cent of such robberies are staged, with the management on the inside. It is very difficult for the insurance companies to check-up on such reported losses, and it is to be feared that the tendency has been in the past to pay them and let the matter drop. The easiest way for the insurance companies to meet the situation is to raise their premium rates on such risks and pass on to the business insured the losses involved, and thus ultimately to penalize the consuming public. The companies insuring banks against hold-up risks have zoned the country,

[7]Literary Digest, March 28, 1925, *High Cost of Crooks.*

making the premium rate depend on the history of hold-up losses. There is a certain justice in this, for the communities should pay, in one way or another, for the protection of property. The difficulty with this arrangement is, socially speaking, that the individual honest citizen has little power to modify the situation and no power at all to escape its penalty. In any case raising rates has been ineffectual in solving the problem.

Another method is being tried, that of offering a discount of 10% on the premium rates for each armed guard accompanying the money in transit. This seems in the right direction, that of forcing respect for property, but it is evidently not going far toward solving the problem. The amount of money and negotiable securities in transit every bank day is too huge for it to be possible to find a sufficient number of courageous and dependable guards for its safe keeping in communities infested with desperate criminals. And the fact that the money is fully insured seems to make unnecessary any risky violence in its protection. Whatever may be said for this type of private protection of property, it is clearly a substitute for and not a case of law enforcement.

But the hireling guard is not the only one who fails to see the necessity for incurring personal danger in the protection of fully insured funds. A recent news story tells of the hold-up of a theater manager in a Pacific coast city. It seems that in this instance the bandits were inexperienced and very nervous and that it became necessary for the manager to assure them that all was well, for the money was fully insured. What is such a property owner likely to care whether such bandits are caught or not? Recently in Texas a young lady college graduate held up a bank, after backing into the vault and locking up the two members of the strong sex who were in charge. This young person seems to have a sense of humor, for after her arrest she said that she had rather be in her fix than in the shoes of the two men who had been cowed by a girl armed with a rusty, unloaded revolver. The funds in this case also were fully insured.

But it is not alone in cases where violence is threatened that easy money is to be had and little enthusiasm shown in the protection of money, even in large amounts. About contemporaneously with the two cases cited above one of the largest banks in New York City is reported to have paid out on two bad checks almost one hundred and fifty thousand dollars. The account goes on monotonously to say that the actual loss falls on the surety companies which insure this bank against loss by forgery. And yet when these checks were care-fully examined it was quickly seen that the signatures were tracings and not genuine.[8] "All that is necessary to prove loss under an insurance policy for check alteration and forgery is the filing of an affidavit to the effect that the loss has occurred, together with the altered, forged or falsified check."[9] This last astonishing statement is not an invention by me, but a direct quotation from one of the leading insurance journals. It is apparently meant as a boost for the above type of insurance, for the article goes on to say "To the activities of the modern criminal there is only one answer and that is the possession of an insurance policy or policies which will pay for the losses resulting from a criminal act and will thus safeguard the wealth and financial future of the assured." I should say that this suggestion is about the worst that could be made for the safeguarding of wealth, and that the offender against property would be completely indifferent as to whether it was a bank or an insurance company which suffered the loss resulting from his criminal act. It may be that we have reached a pass in this country where the bankers and other possessors of ready cash are compelled to resort to such dearly bought insurance against inevitable losses by fraud and violence, but it seems scarcely appropriate for the casualty insurance companies to push their business by advertising their frequent and large losses. One wonders why this same article goes on to lament the great increase of crimes such as forgery, and that "conviction, even for a major offense grows daily more difficult," unless this plaint also is a boost to business.[10]

But conditions within the banks are not much better than those which threaten from without. The American Bankers Association warns its member banks against laxity, and the Protective Committee of this Association says: "In dealing with these controllable crimes, bankers should be directly interested in the fact that fidelity losses have increased more rapidly in the past four years than in any previous period on record. The experience of surety companies shows the loss ratio on bank fidelity risks to be more than 15% greater than fidelity losses in other lines." A case of carelessness in employing is cited in which one clerk, being tried for embezzlement, had worked in three banks in five months, embezzling from all three. The first two banks to suffer let him off when a part of the stolen money was returned.[11] Surely such conditions in the citadels of our finance do not help either

[8]New York Times—about November 27, 1926.

[9]The Spectator, Fire and Casualty Section, June 2nd, 1923.

[10]Literary Digest, March 28, 1925, *High Cost of Crooks.*

[11]E. A. St. John, *Trying to Cut Down Embezzlement,* American Industries, December, 1924.

in the protection of property or in enforcing the law for such protection.

The president of a national surety company, in an article in a trade paper, says that embezzlement is increasing from year to year. The surety companies paid losses in 1913 of $3,328,789 ($2,030,201 on embezzlements and $1,298,588 on burglaries), and in 1923 they paid $20,912,796 ($10,371,258 on embezzlements and $10,601,448 on burglaries), on such losses. This is an increase of 650% in ten years. This alarmed surety official goes on to say: "Our experience tends to show that the employer is largely responsible for most embezzlement losses. The employer himself created the opportunity to make the theft. He does not want to take the time to investigate every employee thoroughly before he hires him—he wants a plausible salesman. Then he relies upon our bond for protection."[12] It seems hardly necessary tiresomely to repeat "What else could be expected?" Did not the fluent salesman teach this employer that this same bond was his protection and, as if the urge of large commissions were not enough, did not the home office of the insurance company furnish the ammunition of stock selling phrases with which the salesman was armed?

A certain circular, sent out by one of the indemnity companies to its managers and agents, makes interesting reading. The year 1916 is praised as the best year yet in this line, and it is said that such insurance had been found easy to write. Losses of pay-rolls are cited and the agents are advised to point out to treasurers of companies that if their pay-rolls are lost uninsured this will cause criticism. Agents are urged to get purchasers to take larger amounts of insurance, and reprints of sensational newspaper headlines, telling of robberies by "bandits," are enclosed.[13] This was in 1916. I wonder if this company now, ten years later, feels like using such selling arguments.

There is such a thing as getting ones fingers badly burned with an excess of success, and the indemnity companies seem to have discovered this homely but salutary truth. The fire in this case was the open stock insurance situation in New York City. The high pressure salesman of open stock burglary and theft insurance was gladly received by merchants of a certain class in that great center of commerce. Much business was written, and with great satisfaction on both sides. But this satisfaction was not long mutual, and it was

[12]Circular of Travelers Indemnity Company, November 21, 1916.
[13]The Spectator, August 26, 1926.

proven again that the volume of insurance written has no necessary connection with a sound insurance policy.

But something very good came out of this sad experience; the companies writing burglary insurance in New York City were forced to unite on a common protective policy. This had been attempted before but competition had been too close to make any effective co-operation possible. Thirty-one of these companies have formed a Central-Burglarly Insurance Bureau and adopted a plan "with a view to putting an end to staged burglaries and criminally prosecuting the rings of insurance swindlers." The committee on organization made six recommendations: 1) Investigate all applications, and prepare a list of undesirables; 2) Investigate all losses reported; 3) Determine value of stolen merchandise; 4) Recommend amount to be paid; 5) General purpose: to improve conditions, prevent burglaries, cooperate with the District Attorney's office in apprehending and prosecuting burglaries and false claimants; 6) To place in charge a thoroughly equipped, reliable man, acceptable to the police department.[14]

It is perhaps ungracious to suggest that the wonder is not that this wise move is now made but that it was not made much earlier. "Police Commissioner McLaughlin has said that the majority of these alleged burglary cases are inside jobs."[15] A "swindling trust" is known to exist both by the State Insurance Department and by the local police, and the insurance companies concerned must at least have had their suspicions, but when it was known that this specialized crime was organized it was realized that it could be fought only by organization. Hitherto the insurance companies had worked independently. Mr. Leon Hoage, who wrote a series of articles for "The Insurance Press" says: "Naturally it may seem strange, if 40% of all so-called loft burglaries and over 50% of all business robberies have perhaps been staged by rings of the alleged swindling trust for the purpose of robbing the insurance companies, that there have not been more arrests and prosecutions before this. I can explain this by saying that up to a short time ago the insurance companies were satisfied to break the claims and not have false claimants prosecuted. There was no cooperation."

It is very certain from all this that there was not much co-operation which looked in the direction of law enforcement. In an

[14]Insurance Press, August 25, 1926.

[15]The Insurance Press, August 25, 1926. Article by D. C. MacIntyre, Supt. of Burglary Department, Continental Casualty Company.

article on "Over Insurance and Robbery Risks," in this same issue of "The Insurance Press,"[16] we get some further light on the cause for this remarkable situation. Here it is said that this over insurance and its extra moral hazard "is not caused by the people who buy insurance so much as by the people who sell it." These hard words were not spoken by an outside, unsympathetic critic but by the superintendent of the burglary department of an important casualty insurance company. He believes that the trouble lies in the mistaken zeal on the part of the agents, but one finds it difficult to believe that the "higher-ups" entirely escaped such "zeal."

However, this gentleman is undoubtedly right in suggesting that much of the trouble has come in the encouraging of a careless, rather than a criminal, attitude toward property. Countless small retail merchants, whose daily turn over is not above two or three hundred dollars, are carrying policies whose maximum indemnity is $1,000.00. Before this small merchant had the policy he probably made daily trips to the bank with one or two hundred dollars. "Now, having a policy sufficient to cover several days' drawings he makes less frequent trips to the bank, thereby increasing the hazard both inside and outside." And I fully agree that this growing carelessness of attitude toward the protection of property is at least as dangerous a symptom as the much talked of criminal attack on property rights. But have not these insurance companies promoted the very condition, which they now bewail, by a policy which permitted, and at least indirectly encouraged, the "full insurance" and even the over insurance of the most stealable forms of property?

I do not, of course, mean that these companies actually wish this increase of "financial crimes," but I think it true to say that they have not exercised proper foresight and due caution in dealing with the socially dangerous elements which are necessarily connected with their business. They have taken measures to limit risks, especially moral risks. In Personal hold-up insurance money and securities are insured up to $50.00 only, and this is also the limit on such property in residence insurance. This is right, for the risk is great and loss is hard to verify. This discourages dishonesty and carelessness on the part of the owners.[17]

Perhaps we will have to look elsewhere to find further causes for the conditions which have been described. A study of the financial

[16]*Burglary, Theft and Robbery Insurance,* G. F. Michalbacher and L. H. Carr. Reprint—*Proceedings Casualty Actuarial Society.*

[17]Best's *Insurance Reports, Casualty and Miscellaneous,* 1926.

reports of the casualty insurance companies soon brings to one's attention three striking facts. The first of these is the huge cost to the business of brokers and agents, often over 50% of the total premiums. One large company reports "underwriting expenses" as above 57% of the total premium income.[18] The interests of the insurance company and the interests of the insurance brokers and agents are not always identical. It is no wonder that one hears of complaints that the broker often forces the company to take a certain per cent of known bad risks in order to get the rest of his business. This practice will not aid the newly formed Bureau in New York to eliminate fraudulent claims. Another striking fact which appears in these financial statements is the smallness of the per cent of the total income which is applied to the payment of losses. The fidelity losses paid in 1917 amounted to but 25% of the premiums received, and such losses amounted in 1923 to 34% of the income from premiums. One of the large casualty companies reported losses paid as about 43% of the premiums earned. "Losses paid" constitute the only concrete service rendered by these companies to the community, and the percentages given above would not seem to indicate that sufficient service is being rendered for the cost demanded, especially in a business done on such a large scale. The urge to write more and more business, in spite of mounting costs, would appear to be the root of the trouble. A feverish state of haste to be big in premiums does not encourage a right attitude of mind toward careful obedience to law, either of sound finance or good government.

The third fact which strikes one in these financial statements is the smallness of the profit which casualty companies make on their insurance business. In fact losses on such business are often reported, one of the largest companies reporting a $15,000 loss on its 1925 business. And yet this company is in sound financial condition, for it reports gains from investments of over a million one hundred thousand dollars. The writer of this paper makes no pretense to an understanding of the ways of high finance and it seems wonderful to him that companies can suffer losses on their supposed business and yet be prosperous and continue to increase the volume of their losing business. This mystery may be somewhat explained by the size, alertness and activity of the finance departments maintained by the insurance companies. One company, in a line other than casualty, reports a holding of about sixty million dollars in security, the larger part being in stocks. Of course an insurance company needs to in-

[18] *Proceedings Casualty Actuarial Society*, Vol. XI, Pt. I, November, 1924.

vest large sums in order to maintain its legal reserve fund, and it needs to be well and safely advised, but a safe financial policy would not necessarily imply a constant and active participation in the stock and bond markets. The huge funds in the hands of the insurance companies of this country gives to them enormous financial power, and the possession of power constitutes a temptation to use it. It is to be hoped that these companies will not join the ranks of the so-called investment bankers, but that they will give their attention to insurance, which is, after all, their legitimate business.

But the real cause of the trouble which we have examined must lie deeper than we have yet gone. I suspect that this trouble is not peculiar to the insurance companies at all, but that it is something which is the matter with our country as a whole. It is difficult clearly to define this state of mind which is poisoning our institutions, just because it is so all pervasive and takes on so many expressions. In one form it is the fallacy of mistaking bigness for greatness. Again it is seen in our hurry to possess money in order that we may immediately satisfy our desires. It shows in our impatience with all restraints however socially necessary these rules may be. The attitude of "going as far as you can—until you are stopped," of "putting it over," of "getting away with something" are symptoms of this national trouble. These are not new symptoms of human nature, but they are particularly dangerous now in a time when we are possessed of more power than we have judgment to use. We have mastered the technique of social cooperation but we have not developed the social responsibility which alone can make safe the use of this tremendous force. So we are attacking our civilization with the fruits of its development. The burglary insurance business has served as well as another to enforce the lesson that the safety of society must first be provided for, that we cannot for long attack the laws necessary for social existence and yet at the same time use these for our advantage.

If I have said anything which has led to the suspicion that I am biased against the insurance business I wish now utterly to disclaim this. It is my conviction that insurance is necessary, burglary insurance as well as many other types, and that all legitimate types of insurance may be further extended with profit to society. But it is my further conviction that sounder principle and practice will have to be applied by the insurance business if it is to prove itself the permanent friend of either law or the common good. I thoroughly agree with the sentiment expressed by Mr. William Leslie in his presidential address before the Casualty Actuarial Society that "The point of view should be that of the public and not that of any single class of insurance carriers,"[19] and to further socialize this fine statement I can only suggest that the public good is also prior to the interests of the insurance companies. The needed constructive reform can only come through the insurance companies themselves, and there are many insurance men who see this more clearly than we laymen can.