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KANSAS RURAL INSTITUTIONS:
IV. FIFTY YEARS OF MUTUAL INSURANCE[1]

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In its first 50 years the Kansas rural institution here discussed withstood a number of severe tests. The institution was first the Kansas Farmers Mutual Insurance Association, but since December 18, 1940, it has been Upland Mutual Insurance Incorporated. Hereinafter in this report it is referred to as the Company.

The institution was born of adversity. Its simple beginning was made during the severe economic depression of the 1890's. Since then it has been tested not only by the hazards of fire and storm but also by many difficulties incident to two world wars and to the great depression of the 1930's.

Beginning with 40 members wishing to obtain insurance totaling $62,500, it completed its first half century with 16,639 members and with total insurance in force amounting to $51,941,000. Its experience provides an example of the value of mutual insurance and indications of the price that must be paid in integrity, courage, good faith, and devotion if that value is to be realized.

IN THE BEGINNING

The Company has a slightly tainted ancestry. According to C. J. Olson*, who was the first secretary, a predecessor organization, founded in 1892 had based its constitution and by-laws on those of a Michigan company and had ignored or at least had failed to observe the insurance laws of Kansas. This, says Olson, made the predecessor organization "liable to a penalty payable to the State of Kansas in the sum of $500 for each offense." The directors of the organization met, learned they were violating state law, decided to make a fresh start, and voted to reorganize under a new name, Kansas Farmers Mutual Insurance Association. On May 19, 1896, at the organization meeting, a list was made of the proposed incorporators. The list includes such names as Maloney, Adam, Olson, Martin, Luthi, and Gfeller, indicating the fact that there was no dominance by any one national-origin group. Neither was there any sectarian factor. The incorporators had property with an aggregate value of $52,500

1 Contribution No. 139 Department of Agricultural Economics.
*The material herein credited to Olson is from his 16-page "Story of the Kansas Farmers Mutual Insurance Association," published in 1930.

for which insurance was desired. A state charter for the new organization was issued on June 2, 1896. On June 6, 1896, by-laws were adopted. The Company was now launched.

There is some conflicting evidence on the question of why the little group of farmers who met and organized in the north-eastern corner of Dickinson County on May 19, 1896, wished to form a mutual insurance organization. In his booklet, Olson intimates that it was to obtain insurance at rates lower than those of established insurance companies. On the other hand, Mr. P. H. Gfeller who operated a farm in the neighborhood and who became a member of the Board of Directors of the Company in 1901, told the present writer in October, 1946, that the chief reason was the difficulty of getting into touch with representatives of the established companies either to obtain insurance or to obtain indemnity for losses. Perhaps both reasons are valid.

Certainly the economic conditions of the time and place would encourage farmers to look for low costs. Wheat in Dickinson County in 1896 brought only 46 cents a bushel and corn only 1.5 cents a bushel, according to official reports. Similar prices had prevailed for several years. Another bit of evidence of low economic status of the farmers of the community is the fact that the first 40 incorporators of the Company to list property for which they wished insurance listed property valued at a total of only $52,500, or an average of $1,312 per incorporator. Individual property values ranged from $300 to $3,000. Further evidence of low economic status is the fact that all the fire insurance in force in the entire state in 1896 amounted to only $118,000,000, and all the other property insurance amounted to only $21,000,000, as reported by the State Superintendent of Insurance in his annual report for 1896. Fifty years later, the fire insurance alone written in Kansas in one year considerably exceeded $1,000,000,000, according to the Insurance Com m issioner's report for 1945.

As the method of local transportation--unimproved roads and usually some form of "horse and buggy"--was relatively slow and inconvenient, it may well be that representatives of established insurance companies were not frequent visitors in the rural community. If they were not, this fact may well have been a factor in support of the local organization.

In the beginning, the Company sought to serve only four counties: Dickinson, Geary, Clay, and Riley. But gradually it expanded to other counties so that within a few years it had members in all sections of the State.

THE LENGTHENED SHADOW OF ONE MAN

The reading of the Company's records recalls an often-quoted statement made by Ralph Waldo Emerson: "An institution is the lengthened shadow of one man." Although many have contributed significantly to the development of the Company, the man who stands but above all others in the affairs of the Company during its first 40 years is the late C. J. Olson.

Living near the village of Stitt, Dickinson County, where the Company was organized, was a farmer by the name of Olson who was one of the 40 organizers. He was a member of the first board of directors. He was the first secretary. He was one of three men who obtained from the organizers the affidavits required to accompany the application for a charter. He personally presented the application to the State Superintendent of Insurance. Like other officers and directors, Olson served the infant institution without pay during the early stages of its development.

Olson's record of attendance at meetings of the members, the directors, the executive committee, and special committees of which he was a member is extraordinary. Examination of the Company's records from the organization meeting on May 19, 1896, to a meeting of the executive committee on May 11, 1936, a period of 40 years, discloses only one instance of Olson's absence. He missed a meeting of the board of directors on June 6, 1911. The absence probably was "by invitation" for at that meeting the directors increased the absentee's salary from $30 a month to $100 a month.

During the early years, Olson did all the Company's clerical work. For the first eight years, the Company's office was in Olson's home, a building but little larger than a present-day farm garage. Olson kept the books, filled in the policy forms, conducted most of the correspondence--in longhand--served as claim adjuster, assisted in the formation of a state association of mutual insurance companies, and served invariably as a delegate, often the only delegate, of the Company to the annual conventions of the national association and as a delegate to the state conventions.

During the 40 years of his continuous service as a director and as secretary, Olson saw the Company's membership increase from 40 to 12,520 and the insurance in force grow from nothing to more than $40,000,000. Throughout this long period he was a factor for continuity and progress, a stimulus to his colleagues, a pillar of strength to the Company, an exemplar of integrity and selfless devotion. His practical idealism and his extraordinary service must be included among the dominant factors in the development of the rural institution here discussed.

KINDS OF INSURANCE PROVIDED

The first set of by-laws, adopted June 6, 1896, provided that the Company might insure farm buildings and their contents, including livestock and farm implements. Certain risks were specifically excluded. Straw-covered or thatched-roofed buildings are examples. Moreover, the by-laws fixed maximum limits on indemnities in certain specified categories. For example, insurance might not exceed three-fourths the value of any building or personal property or $100 on a horse or $40 a head on cattle. Throughout the 50 years, these limitations naturally have been modified from time to time, but the three-fourths value limit is still generally used.

In 1945, the protection provided included fire (and lightning) insurance on farm and town buildings and their contents, on standing crops and on livestock; and wind (and hail) insurance on all these except standing crops.

Throughout the half century all the Company's business has fallen into two categories: fire, including lightning; and wind, including tornado and hail. In recent years the Company consciously has maintained approximate equality between fire risks and wind risks, so as to distribute hazards and, by assuming both types of risks, to increase the business.

All policies issued by the Company are non-assessable.

In the early years, the Company limited its business to the rural field--the farms, the school houses, the churches of the countryside. Later the business was expanded into the towns of the state, partly to diversify the hazards and partly to increase the volume of business. At the close of the half-century, according to the Company president, approximately 40 percent of the insurance in force was on town property and 60 percent was on rural property.

INSURANCE RATES

Speaking of conditions in 1896, Olson says in his booklet: "The rate charged by old-line companies at the time was $50 per thousand for five years." That would be $5 per hundred for five years, or an average of $1 per hundred per year. In his report for 1896, the State Superintendent of Insurance complained emphatically of high insurance rates but did not indicate how high they were. He supported his complaint by pointing to what he regarded as excessive profits of the insurance stock companies.

In the Company's first set of by-laws, adopted June 6, 1896, the following premium rates, stated in dollars per hundred dollars, were fixed:

Policies for one year, $0.50, cash
Policies for two years, $1.00, note
Policies for three years, $1.50, note
Policies for five years, $2.00, one-fifth cash

The rates were about half as high as those of the stock companies as Olson reported them. The promissory notes given by the policyholders were deferred premium payments but for years were called assessments. It is interesting that the rates fixed in the by-laws made no distinction between varying risks. A "fire proof" stone or brick dwelling bore the same rate as a frame barn filled with hay. Also, fire rates and wind rates were the same.

Of course, these naively simple arrangements soon had to be changed. On September 2, 1897, the directors made the first change of rates. They made a distinction between fire risks and wind risks, and fixed the rates of the latter a little below the fire rates. In the subsequent 48 years, the rate structure was changed frequently. It became complex and standardized; zoning of the state for fire rates was adopted by the Kansas mutuals; inspection and supervision, both by the Company and by the state, increased greatly; and rates declined significantly. In his report for 1945, the State Commissioner of Insurance reports (page 159) that the average fire rate charged by the stock insurance companies doing business in Kansas declined from $1.26 in 1909 to $0.57 in 1945. The fire rates charged by the Company in 1945 were even lower than the stock company average of $0.57, but they approached that average in the high rate zone on certain types of risks.

Zoning the state for fire rate purposes is an interesting arrangement made by the mutuals and used only by them. All but one of the Kansas mutuals doing a statewide business use the zone rates. Curiously, zoning for rates is used only for fire risks. Rates for wind risks are not zoned. The three zones used in fixing fire rates are shown in Figure 1.

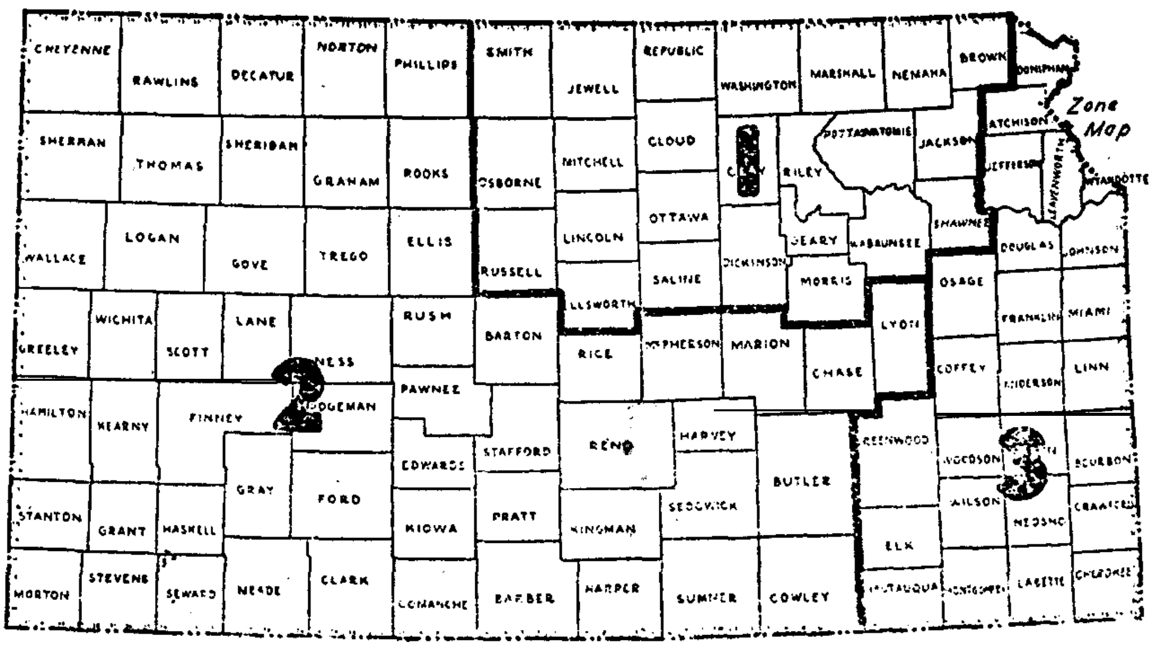

Figure 1. Map of Kansas showing the three fire insurance rate zones.

The fire rates on a farm building described as "brick dwelling, approved roof and contents of owner" at the close of the half-century are shown in Table 1.

TABLE 1. FIRE RATES ON ONE CLASS OF FARM FIRE RISK.

	Cash Plan			
	1 Year	3 Years	5 Years	5-Year Note
Zone 1	$0.34	$0.85	$1.36	$1.53
Zone 2	0.36	0.90	1.44	1.62
Zone 3	0.44	1.10	1.76	1.98

Presumably the zoning is based on average long-time fire loss experience. Nevertheless, it might be difficult to convince a Doniphan County farmer whose place adjoins that of a Brown County farmer that he should pay a fire rate of $0.44 while his Brown County neighbor pays only $0.34, or 22 percent less, on the same kind of property.

A great variety of rates applies to a great variety of risks assumed by the Company. In each of the three zones there are four classes of fire risks connected with farm buildings. Fire rates on town property are even more complex. Farm property, including livestock, is extensively classified, but not zoned, for rates on wind risks. For example, in 1945 the Company was charging special tornado and hail rates--added to the regular wind rates--varying from $0.32 to $4.00, depending on the kind of farm property insured.

Rates are fixed in various ways. They must, of course, bear some relation to loss experience. This experience sometimes involves trends, upward or downward, and rates must be adjusted in some relation to these trends. The Company subscribes for the service of the Kansas Inspection Bureau (often called the rating bureau), a private organization which keeps its subscribers informed regarding loss experience and other insurance factors. Subject to the approval of the State Insurance Commissioner, the Inspection Bureau fixes base rates, or "board" rates. Individual companies may vary their own rates from the base rates, subject to the approval of the Insurance Commissioner. In general, the Commissioner fixes rate ceilings and then endeavors to prevent any company, in the competition for business, from placing its rates so low as to impair the company's financial status and consequently its ability to keep faith with its policyholders.

Where fire protection is available, as in certain towns and most cities, the fire rates are substantially lower than those charged for insuring farm property. In 1945, for example, the "board" rates for fire insurance covering a brick dwelling with an approved roof ranged from $0.10 a year in "first to fourth class towns" to $0.34 a year in "tenth class towns." The towns are classified for insurance purposes by the rating bureau.

The use of town fire departments on nearby farms has been tried with some success. The Company will make arrangements for such protection if the policyholder so desires and is willing to pay a somewhat higher rate. This extra protection is limited by distance and by the absence, usually, of adequate water pressure at the farms and by the consequent need to depend on chemicals. Fire departments seldom go beyond a three-mile radius.

GROWTH IN MEMBERSHIP

One criterion for determining the value of an institution to its members is the extent to which the membership is sustained. Stable or increasing membership is one indication that the institution is helpful in some way to its members. Subjected to this test, the Company makes an excellent showing.

Every accepted applicant for an insurance policy with the Company becomes a member. His membership continues so long as his policy is in force.

On December 31,1896, the Company had 86 members. On December 31, 1902, membership exceeded 1,000 for the first time. It exceeded 5,000 for the first time on December 31, 1910. On

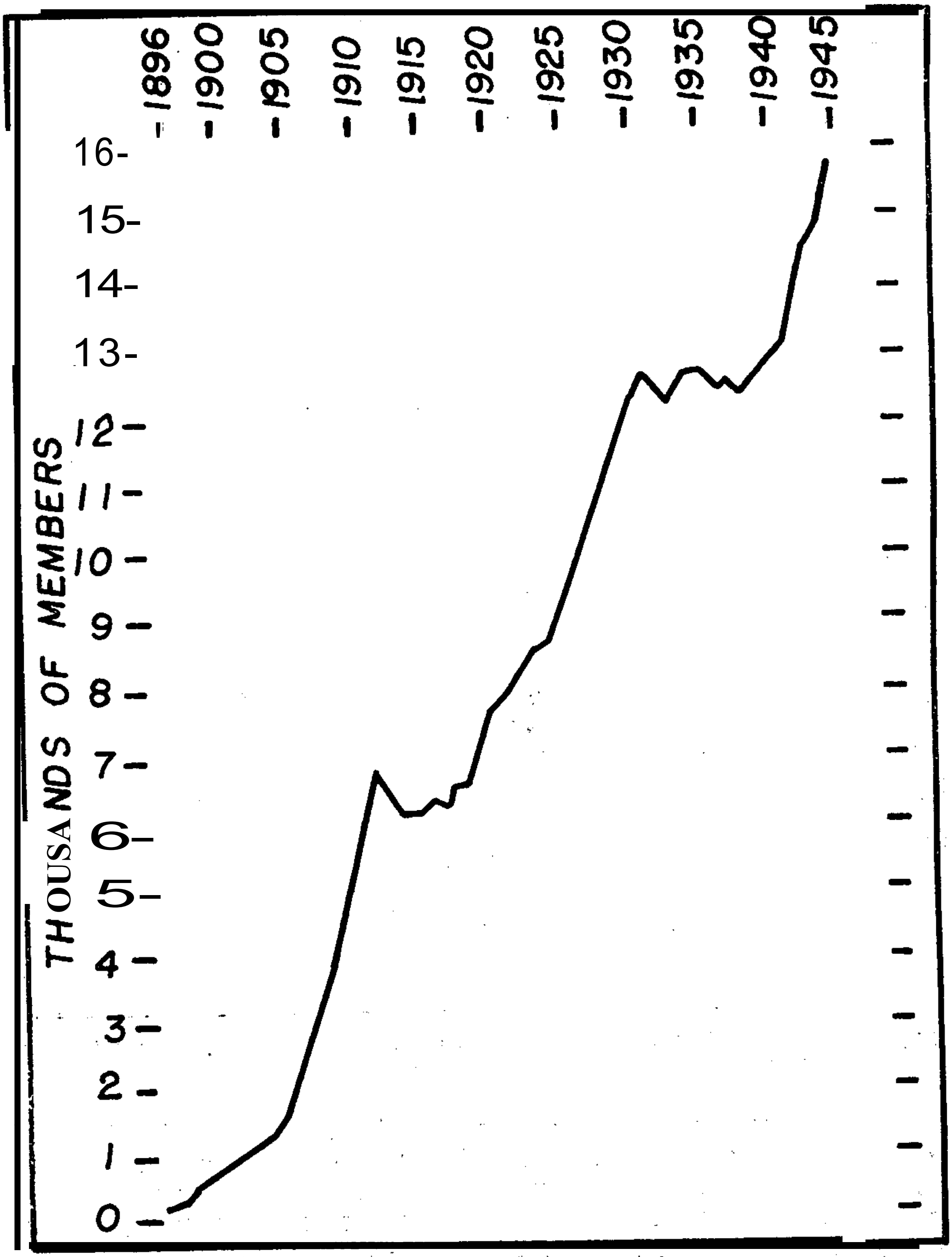

Figure 2. The Company's membership on December 31 of each year from 1896 to 1945.

December 31, 1927, it exceeded 10,000. The December 31 membership reached 15,000 for the first time at the close of the 50-year period, on December 31,1945, when it was 15,639. The membership on December 31 of each of the 50 years is indicated graphically in Figure 2.

The graph shows an all but continuous growth of membership. The line dips slightly between 1911, when the membership was 6,637, and 1918, when the membership was 6,447. Other slight dips occurred between 1931 (12,586) and 1933 (12,158) and between 1934 (12,588) and 1939 (12,481). With these impressively slight exceptions, membership increased annually throughout the 50 years. The increases were persistent rather than spectacular and so are indications of stability and dependability in the Company.

GROWTH OF INSURANCE IN FORCE

At the close of the first year on December 31,1896, insurance in force was $63,000. Figure 3 shows graphically how the Com-

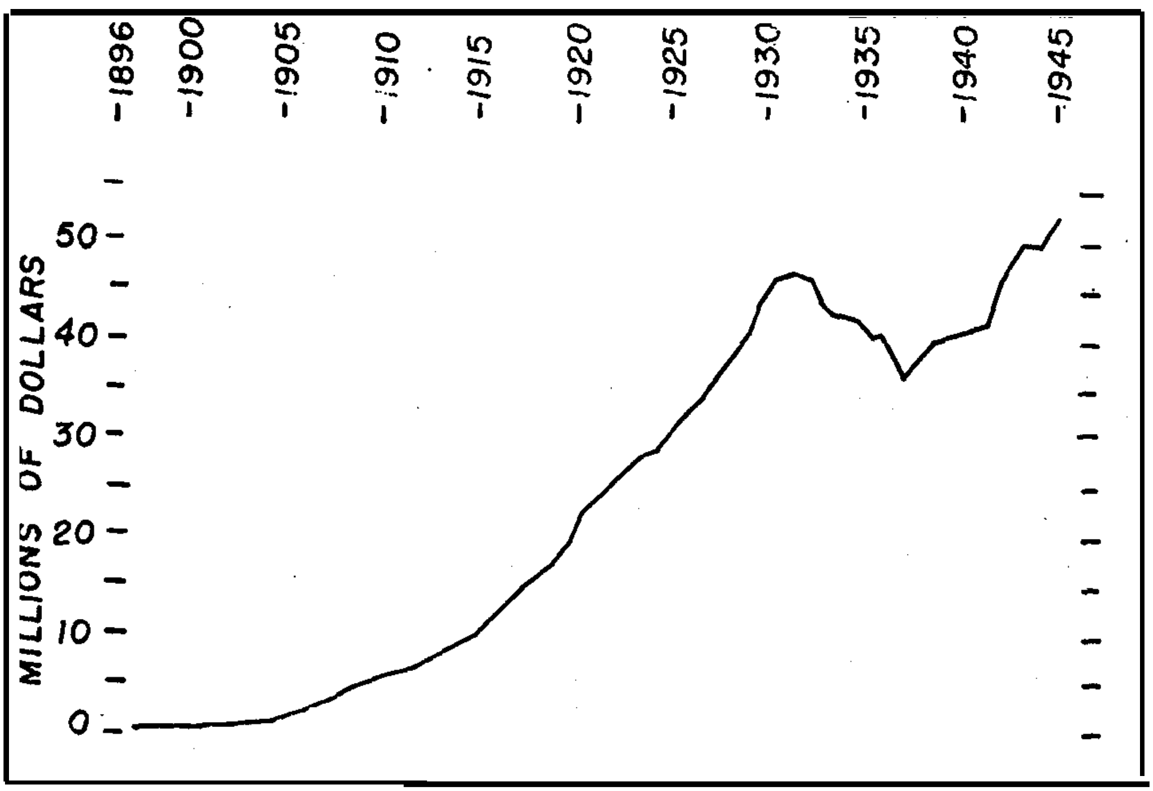

Figure 8. Amount, in millIons of dollars, of the Company's insurance in force on December of each year from 1896 to 1945.

pany's business grew from this small beginning. Until 1932 there was no year in which the insurance in force did not increase. The uninterrupted increase for more than a third of a century probably resulted chiefly from the following: (1) Members' and prospective members' confidence in the Company and interest in the insurance protection provided by the Company and a consequent fairly persistent increase in membership; (2) Increase in the size and quality of the physical property insured. Farm buildings, for example, became more numerous per farm, larger and better; (3) Increase in valuations. A moderate dip in insurance in force persisted throughout the depression of the 1930's until 1937, when the curve again turned upward. It continued to rise to the close of the 50-year period, December 31, 1945, when insurance in force amounted to $51,941,000.

Insurance in force per member was more than four times as great in amount at the close of the 50th year as it was at the beginning. Table 2 shows the insurance in force, the number of members, and the insurance per member at five-year intervals from 1896 to 1945.

TABLE 2. INSURANCE IN FORCE, NUMBER OF MEMBERS, AND AVERAGE INSURANCE PER MEMBER AT FIVE-YEAR INTERVALS, 1896 TO 1945.

December 31	Insurance in force (000 omitted)	Number of Members	Average insurance per member
1896	$ 63	86	$ 733
1901	780	993	785
1906	2,370	2,652	893
1911	7,416	6,637	1,117
1916	12,135	6,186	1,981
1921	23,760	7,808	3,043
1926	34,162	9,668	3,533
1931	46,914	12,586	3,727
1936	40,254	12,448	3,233
1941	41,890	12,826	3,266
1945	51,941	15,639	3,321

RURAL ENVIRONMENT

From the beginning, the Company has had its headquarters in Fragrant Hill township, of which the population in 1944 was 332. The township includes several villages. One of these is Stitt, where the Company had its headquarters until January, 1902, when it was decided to transfer to Upland, another village in the township and the present headquarters. Upland is composed of the Company's headquarters, a general store, a small telephone exchange building which is also a dwelling and fewer than a dozen other buildings. The nearest post office is eight miles away at Chapman, from which Upland is served by R. F. D. Members of the Company's office force who do not live in Upland live in villages and on farms within a radius of a few miles.

The environment is definitely rural, as is the spirit of the Company. It appears that the board of directors means to retain the environment and to preserve the rural spirit. As recently as June 13, 1939, the board declined, with thanks and appreciation, an attractive offer involving the removal of the headquarters to Abilene, the county seat.

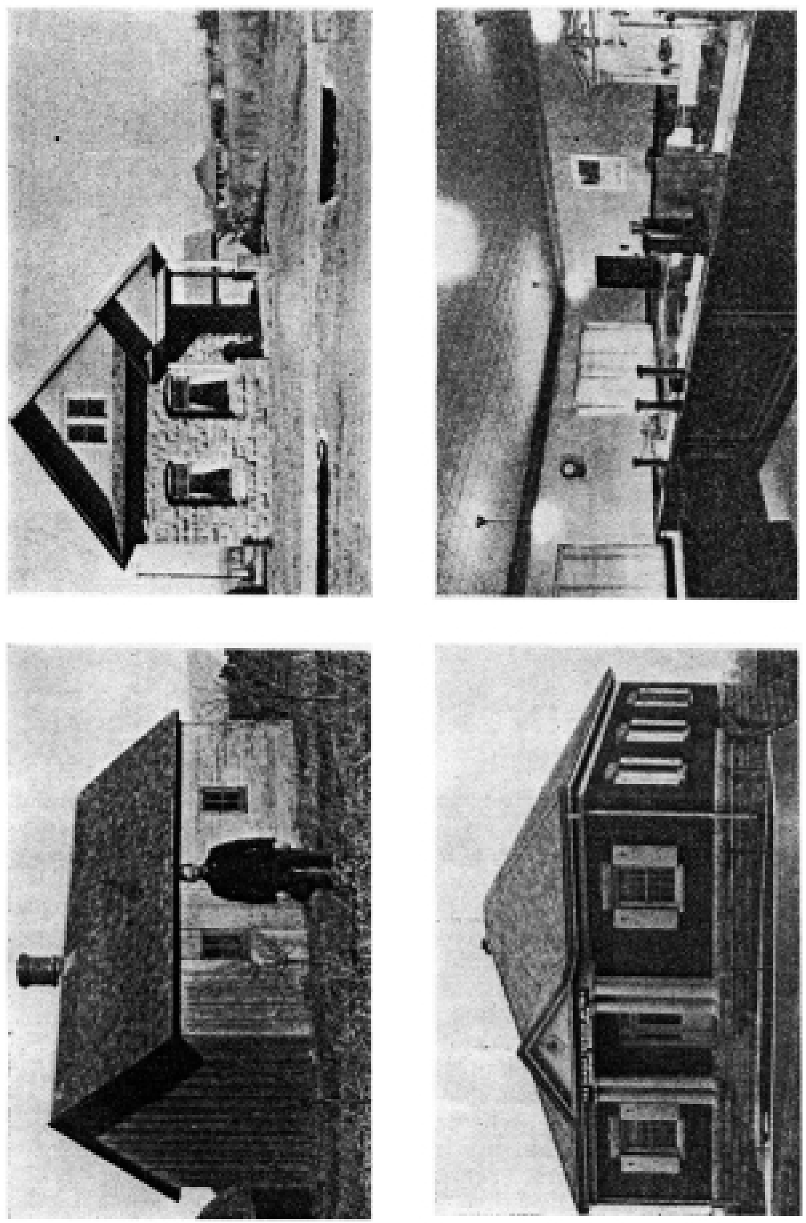

Figure 4. The Company's offices: upper left, C. J. Olson's home used as office from 1896 to 1904; upper right, Company office from 1904 to 1928; lower left, exterior and lower right, interior of present office built in 1928.

PHYSICAL FACILITIES

According to Olson, the Company's only "office" during the first eight years was in Olson's small farm home, where he did the office work "during the noon hour and evenings." In 1904, Olson reports, the Company constructed a stone building, 22' x 30', which was used as an office for 24 years. In 1928, the present office building, 40' x 40', with vault, basement, heating plant, and commodious office space, was erected at a cost, with initial equipment, of $17,000. By this time the Company had more than 10,000 members and about $40,000,000 of insurance in force. The three buildings are shown in Figure 4.

It was not until January 10, 1905, that the directors authorized the purchase of a typewriter. By this time the Company had 1,629 members and insurance in force amounted to almost one and one-half million dollars. It was January 11, 1909, when the directors authorized the purchase of an adding machine. By this time the membership was 3,888 and the insurance in force was nearly $4,000,000. Even then the directors required that the machine prove successful in a thorough trial in the Company's office before it was purchased. It was not until December 3, 1918, when the Company was 22 years old and had a membership of 6,447 and insurance in force of $16,000,000, that the first typewritten minutes appeared in the record. In August, 1937, a bookkeeping machine was purchased for $2,800.

These facts are stated to make it clear that the Company was notably careful to avoid unnecessary expenditures for physical facilities for Company use. In September, 1899, after weeks of discussion and consideration of plans for a Company-owned office building, the directors voted to defer building "until there is sufficient money in the treasury." They waited five years.

Since those early days, the Company's physical facilities have been improved gradually as the need for changes became clearly apparent. They now seem reasonably adequate. It is important to note that in this respect--as in others--the Company has been conservative. There has been no splurge.

SOURCES OF INCOME

As is usual with insurance organizations, premium payments have been the Company's chief source of income. Minor sources are interest on investments, rentals, and other receipts from property owned by the Company, and occasionally profits from the sale of Company property. The income must be sufficient to pay the operating expenses, which necessarily are considerable, and to indentify policyholders for losses.

The figures in Table 3 emphasize the dominant importance of premium receipts as a source of income for the Company. In the early years the income from so-called assessments was larger than that from premiums; but as experience accumulated that income diminished in importance. The table shows that in none

TABLE 3. SOURCES OF INCOME IN PERCENTAGES OF TOTAL INCOME BY FIVE-YEAR INTERVALS, 1900 TO 1945.

Year Ending Dec. 31	Premiums	Assessments*	Interest	Other	Total
	Percentage of income represented by---				
1900	30	50	0	20	100
1905	53	40	1	6	100
1910	65	31	3	1	100
1915	68	23	8	1	100
1920	76	13	8	3	100
1925	76	14	9	1	100
1930	73	9	7	11	100
1935	74	14	4	8	100
1940	91	0	7	2	100
1945	92	0	5	3	100

*While these receipts for 40 years were called assessments, they were in fact deferred installments on premium notes. Since 1937 such receipts properly have been called premium payments.

of the years shown did the interest income equal 10 percent of the total. Although this item is small, it is not unimportant, for it makes possible lower premium rates than would be necessary if there were no interest income.

COSTS OF OPERATION

The costs of operating an insurance company include many important items in addition to indemnity for losses. There are the costs of agents' services, of general management, of field supervision of agents, of inspection, and of adjusting claims. There are taxes, heat, light, transportation, and salaries of officials and of office staff. Sometimes, when the Company is obliged to borrow money, there is interest to pay. There are many miscellaneous expenses. Sometimes book values of the Company's assets must be reduced and this is, in effect, an expense.

In Table 4 is given a sample showing expenditures for losses, agents' compensation, salaries, and miscellaneous items at five-year intervals from 1900 to 1945.

The sample given in Table 4 indicates that about 84 percent of the Company's expenditures is for the payment of losses, the compensation of agents, and the salaries of officers and office staff. The sample is impaired somewhat by the inclusion of the year 1930, the Company's peak-loss year. If the average is calculated on the basis of only $33,000 in losses in 1930, instead of 428, losses for the 10 same years would represent 43 percent of total expenditures. It is conservative to say that during the half century losses varied widely from year to year, averaged between 40 and 50 percent of total annual expenditures, but sometimes fell below 40 percent and once exceeded 50 percent of annual expenditures.

The item of agents' compensation was larger than some would expect, averaging approximately one-fourth the total annual cost. But when the item is considered in relation to insurance in force, it is seen to be moderate. In its first full year, 1897, the Company had 241 members and paid its agents $188.91, or $0.78 per member. In 1945, there were 15,639 members and the agents were paid $33,214.30, or $2.12 per member. The 172 percent in-

TABLE 4. THREE CONTINUING ITEMS OF COST AT FIVE-YEAR INTERVALS 1900 TO 1945.

Year Ended Dec. 31	Losses Paid	Agents' Compensation	Salaries	All Others*	Total
1900	$ 1,550	$ 399	$ 130	$ 702	$ 2,781
1905	1,031	1,708	493	3,025	6,260
1910	7,694	5,110	1,025	2,129	15,958
1915	14,016	8,255	1,404	3,540	27,215
1920	25,519	20,077	2,303	9,823	57,722
1925	39,054	25,906	6,362	7,827	79,149
1930	133,428	31,724	9,037	28,019	202,205
1935	24,505	27,965	8,265	17,709	78,444
1940	48,279	27,966	10,572	18,195	105,012
1945	62,527	33,214	10,650	17,441	123,832
Total	$357,603	$152,324	$50,241	$105,413	$698,551
Percent	**31**	**26**	**7**	**16**	**100**

*Includes taxes, reinsurance, charge-offs, and many miscellaneous items.

crease in cost of agents per member seems large. But in the intervening years there were marked changes in price levels. As noted earlier, wheat sold in Dickinson County when the Company was chartered, in 1896, at 46 cents a bushel. In 1945, the corresponding price was $1.48 a bushel, an increase of 221 percent. In 1897, for each dollar paid to agents there was on December 31 a total of $831 of insurance outstanding. In 1945, the corresponding figure was $1,563 of insurance outstanding for each dollar paid to agents. Moreover, while the cost of agents per member was increasing 172 percent, the average insurance carried per member rose from $733 to $3,321, a rise of 353 percent. In 1945, the 175 agents employed by the Company were paid a total of $33,214.30 This was an average annual compensation of $190 per agent. Agents work on commission, which usually is 20 to 25 percent of the premiums paid on the policies sold.

The salary item is impressively moderate, averaging only about 7 percent of total expenditures for the period. As the officers served without pay in the early part of the period, when the business was small, the percentage of total expenditures going for salaries was slightly larger in the latter years of the period than the average of about 7 percent. In 1945, the figure was 8.6 percent.

The figures in the fifth column of Table 4 represent expenditures averaging about 16 percent of the total. These were for fees and taxes, charge-offs, interest on borrowed money, advertising, legal expenses, and a variety of other items.

One of the important findings regarding costs of operation is that losses representing 50 percent or less and agents' compensation representing 25 percent or more, account for approximately 75 percent of the Company's total expenditures.

THE RECORD OF INDEMNITY

In its first 50 years the Company indemnified its members to the extent of approximately $1,750,000. This is a measure of its usefulness. The large sum, distributed among thousands of members, to each according to his loss, served to cushion the shocks of damage and destruction and so had great human value as well as economic significance. But the record of indemnity is only a partial measure of the Company's usefulness. Dependable insurance has great value even if no loss or damage occurs. It gives the policyholder a sense of security that is invaluable in the maintenance of confidence and high morale.

During the half-century the losses paid, the extent to which members were indemnified, ranged annually from a total of $228.80 in 1897 to a total of $133,428.64 in 1930. There was no consistent relation between insurance in force and losses. For example, in the peak-loss year, 1930, the insurance in force on December 31 was $46,200,000, or substantially less than the $49,000,000 in force in 1944, when the losses were only $41,635.23, or less than one-third the losses of 1930. Of course, over a long period, the losses will bear a relation to insurance in force, but within a shorter period they need not do so.

It is interesting to compare the losses resulting from fire (and lightning) with those caused by wind (and hail). Although the amount of fire insurance in force usually is only slightly higher than the amount of wind insurance, the Company's total losses from fire have almost always been significantly higher than those from wind. For example, during the 10 years ended December 31, 1945, the losses from fire represented 70 percent of the total losses, those from wind 30 percent. The premiums charged differ, of course, in about the same ratio, premium collections for fire insurance representing about 70 percent of the total and those for wind insurance about 30 percent.

Occasionally the usual loss ratio has failed to hold, as it did in 1919, when the losses from wind equalled 79 percent of the total, and in 1930, the peak year in the Company's loss record, when the losses from wind equalled 63 percent of the total. The wind damage in 1930 provided one of the most severe tests to which the Company has been subjected. In that year, the total losses--from fire and wind--plus the operating expenses far exceeded the total income. As the great depression was becoming acute, the unusual losses were specially difficult to bear.

The year 1930 was a bad year for wind damage throughout the state. The Weather Bureau* reported 24 tornadoes causing property loss of $1,288,700. Of the total, 14 tornadoes occurred

*Climatological Data, Kansas Section, Annual, 1930.

during the month of May and caused damage estimated at $970,000. A single tornado which swept across Dickinson County on May 5 caused losses amounting to $100,000, according to the Weather Bureau report. These storms; all in the Company's territory, account for much of the wind damage of the year.

GETTING BUSINESS

The Company is in competition with many other insurance organizations, mutual and stock, and it must strive constantly to get its share of the business. Its efforts in this direction are chiefly of two kinds: the dissemination of information about the Company and its services, and the development and maintenance of good will toward the Company. Not infrequently the two overlap and supplement each other.

At the first annual meeting, on January 5, 1897, the members present elected William Niemoeller as "lecturer" to speak on the subject of insurance at the 1898 annual meeting. This appears to be the Company's first formal arrangement for the dissemination of information. On, January 4, 1898, those present at the annual meeting heard not only the lecture on insurance by Mr. Niemoeller but also three other lecturers on the same subject, one of them the ever-active C. J. Olson.

Expenditures for newspaper advertising are reported as early as 1897, in the first annual report to the State Insurance Department. In May, 1903, the Company purchased 100 calendars for $31.00. In 1908 the Company's annual statement was published in four newspapers (two in Abilene and two in Junction City) at a total cost of $27.75. In the same year, the Company purchased calendars at a total cost of $128.25. Calendars continue to be an extensively used form of advertising. Newspaper advertising has continued as a means of disseminating information.

In 1915, the Company issued a printed statement showing growth by years since 1897 and also giving an itemized list of losses during the first eight months of 1915, together with the names and addresses of the beneficiaries. In 1930 it published the Olson history of the Company. In recent years some slight use has been made of radio advertising.

By 1944, the annual expenditure for "advertising and subscriptions" had grown to $2,797.11. This sum is moderate in relation to the unending necessity to get business. It is important to recognize that each year a large percentage, sometimes as much as 25 percent, of the insurance in force terminates. If the amount terminating exceeds the amount of insurance added during the year, as it did in 1932, for example, the Company loses ground. Hence there must be unremitting effort, by the Company's agents, through formal advertising, by personal contact, and through the constant fostering of good will, to get business.

THE STRUCTURE OF ORGANIZATION

Ultimate power and authority in the affairs of the Company rest with the members, the policyholders. Each member is entitled to at least as many votes as there are directors to be elected, usually five. Also, he is entitled to an equal number of additional votes for each $500 of Company insurance carried by him, after the first $500. He may vote either in person or by proxy, but no member may hold or use the proxies of more than 25 members.

Next to the members in power and authority is the board of directors. There are 15 directors and they are elected for three-year terms, so that the terms of five expire, and are subject to change, each year.

Within the board of directors is the executive committee of five. It is composed of the president, the secretary, and three other directors designated by the board of directors.

Under the direction of the board of directors and the executive committee are the officers, elected by the directors from among themselves: president, vice-president, second vice-president, secretary, treasurer.

Subject to the approval of the directors, the officers appoint agents, office personnel, and other necessary employees.

Until January 13, 1942, when the present president was elected, the most active and most highly paid officer of the Company was the secretary. On the date mentioned, the president was made the most active officer and his pay was adjusted accordingly. Only since that date has the president been a full-time employee of the Company.

POLICIES OF OPERATION AND MANAGEMENT

In general, during the 50 years the Company's policies of operation and management have changed gradually from the complex to, the simple, from the cumbersome to the "streamlined." The first by-laws, adopted on June 6, 1896, contain a total of 34 articles. These contain much detail, including even the rates to be charged for insurance and the form to be used in applying for an insurance policy. Throughout the half century action was taken repeatedly to simplify the by-laws and to authorize the directors and officers to handle details. The by-laws revised to February 15, 1945, contain only 14 articles, less than half the original number, and most of the 14 are briefer than their original counterparts.

The same trend prevailed in the management. In the early years some attempts were made to act upon details at the annual meeting of members. This soon proved impracticable and details were assigned to the board of directors. The board met regularly four times a year and occasionally held a special meeting. It acted upon all claims and bills presented to the Company and attended to many other details. By the latter part of the half century the directors had reduced the frequency of their regular meetings to once a year, as is provided in the latest revision of the by-laws, and virtually all the details they formerly dealt with were handled by the executive committee, composed of the president, the secretary, and three other members of the board of directors, or by the officers. Now the board of directors elects the executive committee and the officers, fixes their compensation, prescribes the forms of applications, and policies, and determines general policies within which the executive committee and the officers conduct the business.

As time has passed and the business has grown the executive committee has assigned more and more of the details to the officers. The committee now meets only about six times a year, when it gives formal approval to bills and claims already paid by the officers, decides upon questionable claims and bills referred to it by the officers, and acts upon other matters upon which the officers are either unauthorized or disinclined to act.

Thus, as the business has grown in size and complexity, as state laws and regulations have increasingly circumscribed the management, and as the necessity for prompt and decisive action has increased, the Company's business has gravitated increasingly into the hands of full-time, professional managerial personnel. It has long since ceased to be practicable for the conduct of the Company's business to be left to the part-time attention of a group of devoted farmers, as was the practice in the early years.

CONTINUITY OF MANAGEMENT

The success of the Company is doubtless due largely to the extraordinary degree of continuity in the managerial personnel --directors, executive committeemen, and officers. Elsewhere in this report reference has been made to the long continuous service of one of the founders of the Company, the late C. J. Olson; who was a member of the board of directors and the secretary during the first 40 years. Several others have comparable, though not equal, records.

John Wilkins served as president for 26 years, his service being terminated by his death. E. G. Hanna's service as vice-president was followed by his service as president for a combined period of 35 years. The present president, Theodore Gfeller, has served continuously in various capacities since October, 1920. Miss Maude Scripter, the nresent secretary, has served continuously since November, 1920, when she was employed as clerk and stenographer. Mr. Gfeller and Miss Scripter have been with the Company throughout more than half its life.

In its first 50 years, the Company had only two treasurers, W. J. Geist during the first 21 years and William P. Geist during the remainder of the period. Like the presidents and secretaries, these two served as directors also. Many of the directors during the half-century served continuously for 20 years or more.

Continuity of key personnel makes for stability of managerial policy. It also indicates satisfaction of the members with the management. Throughout the half-century the Company enjoyed sufficient managerial continuity to have stability and it changed personnel with sufficient frequency to avoid stagnation. One-third of the 15 directorships become vacant each year and the members at the annual meeting have an opportunity to replace the incumbents, as they sometimes do. The 15 directors have a similar opportunity regarding the officers, all of whose terms expire each year.

SAFEGUARDING THE INTERESTS OF POLICYHOLDERS

In a mutual insurance company the interests of the policyholders are paramount. Subject always to state laws and regulations and to the expressed will of the policyholders, it is a function of the officers and directors to safeguard these interests.

Keeping the business going on a financially sound basis is a primary requirement. If, for whatever reason, the business becomes unsound, unsafe or unreliable, the interests of policyholders are impaired, if not destroyed. The individual policyholder is obliged to rely extensively upon the competence and integrity of the officers and directors. The experience of the Company and of other comparable organizations has led to the adoption of certain practices which, through repeated use, have become a part of the institution.

One of these practices is that of joining with other organizations having similar interests to influence legislation. Either unintentionally or designedly, by either acts of omission or acts of commission, the state legislature may either support or impair the interests of policyholders. On January 8, 1901, before the Company was five years old, the directors voted to contribute $15.00 to the state mutual insurance association's legislative representative as the Company's share of legislative expenses, "so as to see that no laws are passed adverse to mutual insurance companies of Kansas," to quote from the minutes of the directors' meeting. Two years later, in May, 1903, a contribution of $10.00 was made for the same purpose. The practice has continued to the present, with the costs increasing considerably as time passed.

A second safeguard is frequent auditing of the Company's accounts. In the records the first mention of auditing is in the minutes of a directors' meeting on March 7, 1899, when a committee of directors was appointed to make an audit. The only irregularity discovered by the auditors was corrected on June 6 by reimbursing the secretary; C. J. Olson, in the amount of $71.73 which he had "improperly charged to himself"! At the annual meeting on January 2,1900, the report of the auditors was "acclaimed and approved." The annual election of auditors by the directors soon developed into a fixed custom. Each time the directors elect two of their own members. The auditing committee regularly reports to the directors and to the members at the annual meeting. The auditors are paid a per diem, which has ranged from $2 in the early years to $5 recently. Only once during the 50 years did the Company employ a firm of certified public accountants to make the audit. That was in 1937. Since then the directors have seemed to think that their own audits and the periodic examinations by the State Insurance Commissioner are sufficient, and they so declared on October 10, 1939.

The work of the Company's inspectors and claim adjusters is another important safeguard.

Still another is the well-established requirement that officers responsible for the Company's money shall be bonded by a fidelity company. This requirement applies to the president, the secretary, and the treasurer. The sizes of the bonds required vary with the sums of Company money involved in each instance. From time to time as the Company's business grows the bond requirements are increased. The premiums on fidelity bonds are paid by the Company. For a time the agents were bonded but it was soon decided that the small sums handled by each agent did not warrant the payment of fidelity bonding premiums.

In 1937, by which time government bonds were becoming a major item in the Company's investment portfolio, the directors voted to take out theft insurance on the bonds held. The premium rate for this insurance was $2 per $1,000 per annum.

From its earliest days the Company has sought and used legal counsel. In fact, according to Olson, a legal opinion obtained by the Company's organizers in April, 1896, actually led to the organization of the Company on the 19th of the following month. The first reference to an attorney's fee appears in the minutes of a meeting held on December 7, 1897, when the directors approved such an item for $12.50. Throughout the half-century the Company repeatedly had need of legal counsel and the records show expenditures for such counsel or other legal service almost every year. Since 1934. the board of directors has always included a lawyer. The Company's frequent use of legal counsel doubtless is an important factor in the infrequency of expensive litigation. Bv seeking and using legal services, the Company most of the time has been able to keep out of court and so probably has saved itself from the expense, the annoyance, and the ill will of extensive legal entanglements. This, of course, has benefited the policyholders.

TAXATION EXPERIENCE

In the Company's records the first reference to the payment of a tax is in the minutes of a meeting held by the directors on March 7, 1899. At that meeting the directors ordered the payment of the cost of revenue stamps for the fidelity bonds of the secretary and the treasurer. These stamps were a consequence of the Spanish-American War begun the year before. They were a form of Federal taxation. As the two bonds were for only $500 each, the stamp tax could not have been more than a few cents.

Thirty years later, in 1929, the Company paid $6,596.53 in Federal income tax alone. In addition, it paid property taxes on its office building and other real estate owned, a State Fire Marshal tax, and various other state charges. In 1932, the Federal income tax payments previously made--about $7,500--were refunded for the reason that, under the laws then prevailing, the Company was found to be exempt from that tax. The refunds helped the Company to survive the depression of the 1930's. Later, amendments to the Federal statutes made the Company liable to a Federal income tax based on (1) income from investments, or (2) gross income, whichever tax is the larger. Usually the gross income tax of 1 percent exceeds the tax (at varying rates) on the income from investments, and is therefore the one that is paid. It usually is of the order of $2,000 a year.

In 1945, the Company paid in Federal income tax, state property tax, State Fire Marshal tax (0.4 percent of fire premiums collected), and other state fees and charges a total of about $3,100, or about 2 percent of the gross income.

IMPACT OF DEPRESSION

Although the Company came into existence after the worst part of the depression of the 1890's had passed, in its early stages it nevertheless was influenced by that depression. Prices were still low and times were still hard during the second half of 1896. The depression psychology still persisted. As late as September 2, 1897, when, as we now know, the depression was passing out, the directors voted that delinquents be "notified to pay up by October 1, 1897." This action indicates "slow pay", one of the common phenomena of depression. On December 7,1897, the directors instructed the secretary to "proceed to collect outstanding assessments".* These two, and several other entries, indicate that in its early years the Company, was influenced by both the financial conditions and the attitudes to which economic depression gives rise.

The Company's real struggle with depression came in the 1930's. The year 1929 was a prosperous one. Insurance in force increased more than $3,000,000; total income exceeded disbursements by 14 percent and enabled the directors to add about $10,000 to the reserve. The Company paid $6,596.53 Federal income tax. But in 1930, the Company was beset by both excessive losses and the onset of depression. For the first time, disbursements exceeded income. Losses paid amounted to $133,000, the largest in the Company's first 50 years. At the end of the year, the record showed a $20,000 indebtedness for money borrowed.

At their meeting on January 13, 1931, the directors voted to dispose of a farm, on which they had been obliged to foreclose a mortgage, at a loss of $2,300, or about 20 percent. This was only the beginning of such losses. Although insurance in force in-

*According to the Company president in 1947, the term "assessment" was used erroneously for years to denote deferred installments on premium notes and the Company never has issued assessable policies.

creased slightly in 1931, collections of premium payments declined 26 percent. Total disbursements again exceeded total income. Some of the Company's funds were impounded in closed banks. Total resources and the reserve fund both declined. The December 31 statement shows $15,500 indebtedness for borrowed money. Large numbers of no-fund checks from policyholders and others "bounced" back to the Company.

In 1932, the directors began retrenching on their own expenses. For example, the mileage rate allowed officers and directors was reduced from ten cents to eight cents. On March 18, the directors voted to apply to the Reconstruction Finance Corporation for a loan of $25,000. The application was accepted and the loan was made. (This does not support the allegation commonly made at the time that R. F. C. was maintained solely to bail out the "big fellows".) In 1932, the price of wheat in Dickinson County fell to 29 cents a bushel and that of corn fell to 15 cents a bushel. By the end of the year, insurance in force was down more than a million dollars and collections again were down. No-fund checks increased in frequency. One helpful thing was the refunding of more than $7,000 paid by the Company in previous years as Federal income tax. But the Company found itself in the real estate business to the extent of $40,000 in real estate owned and $19,000 in real estate sold on contract. At the close of the year the Company held $63,000 in premium notes, almost as much as its cash premium collection ($67,000) during the year.

At its January meeting in 1933, the board of directors reduced by 10 percent all full-time salaries of its officers and employees. In February the directors voted to "accept the regulations of the Insurance Commissioner to make insurance safe". The regulations included a provision that losses paid in any one month should not exceed the total receipts for that month. (This arrangement was discontinued promptly when conditions began to improve.) There was a no-fund check for $1,502.38. In March the directors authorized negotiation for another $25,000 loan from the R. F. C. if the loan should become necessary, and considered a proposal to join other Kansas mutuals in reinsuring one which was "in dire circumstances." In May they voted not to join as had been proposed as the condition of the distressed mutual was "such as it would be unwise to participate in the reinsurance contract". In June they voted to support the Commissioner's request that "agents' balances be reduced one-half." The December 31 report showed $3,000,000 drop in insurance in force, a total of $72,000 in real estate owned or sold on contract, $19,000 in agents' balances, and $62,000 in premium notes. It was necessary to charge off as possibly uncollectable a considerable sum of agents' balances. The year 1933 was a busy and difficult one.

In 1934, extreme drought throughout the state added to the economic difficulties. On February 10, the Executive Committee voted to investigate reinsurance against unusually large losses;

in short, catastrophe reinsurance. Losses from wind damage were extremely numerous, though fortunately most of them were small. At four meetings in July, August, September, and October, the executive committee approved no fewer than 296 claims for wind damage, the claims ranging from $1.00 to $1,350:-00, most of them less than $100.00 each. Due largely to short supply resulting from the widespread extreme drought, the wheat price in Dickinson County rose to 84 cents a bushel and the corn price rose even higher, to 89 cents a bushel. The December 31 report shows another decline in insurance in force, but the total income for the year exceeded slightly the total disbursements. A cheerful note is that the sum of $5,271 in agents' balances previously charged off was paid up. The Company still held premium notes in the amount of $67,000.

By December 31, 1935, the Company's position had improved. Although insurance in force had declined, income exceeded disbursements by about $45,000, and agents' balances of $7,346 previously charged off were paid up. Losses were comparatively light. The Company was beginning to see its way out, though the way was far from smooth.

In 1936, there were foreclosures of several mortgages, debt adjustments, and other evidences of the havoc caused by the depression. For example, some loss claims were paid for damage to farm properties which had been taken over by the Federal Land Bank and by other credit agencies. By December 31, the decline in insurance in force had all but stopped and premium collections had risen slightly. It was still necessary to charge off some agents' balances, but the total of these charge-offs was less than half the total amount collected on such balances previously charged off. Still the Company held real estate valued at $87,000 and premium notes in excess of $67,000. But it had paid off its loans.

In 1937, the Company made several new real estate loans and also invested heavily in bonds, largely United States Treasury issues. The Company reduced its valuations on 11 of its properties. Income exceeded disbursements by $18,000. In 1938, income exceeded disbursements by only $3,000; but the assets improved markedly, particularly through a reduction in real estate owned and an increase in bonds. Premium balances due were down to $15,000. By December 31, 1939, insurance in force was substantially increased, income was well above disbursements, premium collections were sharply up, and the investment portfolio was again substantially improved.

There were many difficulties ahead, but the worst was over.

The great depression resulted in substantial losses to the Company, losses caused by general conditions or associated with moral hazards. But through the devotion of its officers, the loyalty of its members, and the cooperation of State and Federal agencies, and because of the essential soundness of the organization, the Company survived an ordeal that proved fatal to thousands of other business organizations, both individual and cooperative.*

SHARING THE RISKS: REINSURANCE

Essentially, an insurance organization is a mechanism through which the individual members of a group share one another's insurable risks. The premiums paid by the members of the organization are contributions to a fund common to all the members and used to indemnify each member wholly or in part for any loss he may suffer through damage or destruction of the insured property. The receipts from premium payments and from interest or other income from the investment of the common fund are used to indemnify losses and to pay the expenses of operating the organization. Thus, all members of the organization share one another's risks.

But this is not the only way in which risks may be shared. Reinsurance is a method by which two or more insurance groups (companies) may share one another's risks. Essentially the same principles underlie the spreading of risks among groups as underlie the spreading of risks among individual members of a group. This fact leads to and justifies reinsurance.

In the Company records the first mention of reinsurance is in the minutes of a meeting held by the executive committee on December, 30, 1902. On that date the committee approved a reinsurance contract with Alliance Cooperative Insurance Company of Topeka. Bills approved by the executive committee on August 10, 1903, included one for $3.60 for reinsurance. The annual report December 31,1903, shows that during the year the Company expended a total of $14.30 for reinsurance. This sum compares with receipts of $4,013.58 from premiums. Obviously, thus far reinsurance was used sparingly. Two years later, on December 31, 1906, the Company's reinsured risks amounted to $19,700, or about 1 percent of the insurance in force. On January 14, 1907, the directors voted to reinsure each individual risk of more than $1,500. By December 6, 1923, the Company was reinsuring with seven other Kansas mutuals. During the year 1927 reinsured losses amounted to $7,340 out of total losses of $52,735, or to about 14 percent.

By 1936 the Company had a well developed policy of reinsurance which now entails the payment of approximately $20,000 annually for reinsurance and the receipt of approximately equal sums from other mutuals which reinsure with the Company. As examples, Table 5 gives data on this subject for three of the last 10 years covered by this study.

*The moderate depression of the 1920's and the severe one of the 1930's were accompanied by the going out of business of 10 Kansas mutual insurance companies between 1925 and 1945, according to information from the office of the State Commissioner of Insurance. Of the 10, all but three closed before 1935. Usually, the insurance of the company that closed was taken over by other mutuals that policyholders were protected.

TABLE 6. PREMIUMS FOR REINSURANCE IN 1936, 1940, AND 1946.

	1936	1940	1945
For Risks Assumed			
Number of Companies	9	6	6
Premiums received by the Company:			
For fire risks	$ 8,767.07	$ 8,960.98	$15,559.78
For other risks	2,914.21	3,680.77	6,275.05
Total	$11,681.28	$12,641.75	$21,834.83
For Risks Ceded			
Number of Companies	7	7	7
Premiums paid by the Company :			
For fire risks	$ 8,337.93	$ 5,926.62	$13,181.18
For other risks	3,697.0 l	4,229.04	8,681.98
Total	$12,034.94	$10,155.66	$21,863.16

The sample provided in the table indicates that reinsurance has become a well-established practice with the Company and that it entails both the ceding of risks and the assumption of risks. By the end of the 50th year, the Company's annual receipts for reinsurance premiums on risks assumed were virtually the same in amount as its expenditures for reinsurance premiums for risks ceded. This amount in 1946 equalled about 12 percent of the gross premiums (approximately $131,000) received by the Company in that year. Of the gross amount of insurance in force on December 31, 1945, not-quite $52,000,000, a total of $5,700,000, or about 11 percent, was covered by reinsurance.

In 1937, the Company took out a reinsurance policy with Lloyds of London. The policy insured the Company against catastrophic loss from wind. For a premium equal to 8 percent of the wind insurance premiums collected by the Company in a 12-month period, Lloyds agreed to indemnify the Company for 90 percent of the wind losses during any 48 hours in the 12-month period in excess of $36,000, the reinsurer's liability being limited to $75,000 After one year, the Lloyds policy was not renewed; but in 1943 a policy similar but not limited to a 48 hour period was taken out with an American reinsurance company and it has been continued. Also, with the same reinsurer, the Company has a fire policy covering one-occurrence fire losses above $7,-500. The reinsurer's maximum annual liability is $30,000. One indemnity ($1,500) was collected on the policy by the Company in 1945.

The use of this so-called catastrophe insurance helps significantly to protect the Company and its policyholders against excessive losses such as occurred in 1930 and which, combined with economic depression, subjected the Company to an extremely severe test.

CHANGES IN THE INVESTMENT PORTFOLIO

An insurance organization must maintain constantly a fund from which it may indemnify policyholders promptly for losses sustained. In a mutual organization like the Company the fund is built up from time to time from the excesses of receipts over expenditures. The size of the fund must bear a relation to the amount of insurance in force, increasing as the risks increase. The investment and the safeguarding of this fund are never-ending problems for the insurance organization. Safety, liquidity, and yield are the major considerations in the investment of the fund. Of the three, safety is the most important. All three are subject to changes imposed by changing economic conditions.

In the Company's first 50 years there were many significant changes in conditions affecting investment. Some of the effects of these changes are indicated by the changes in the Company's investment portfolio.

The first reference to investment in the Company's records appears in the minutes of a meeting held by the board of directors on December 8, 1896. On that date the treasurer was directed to deposit his receipts in $50.00 amounts with the cooperative store at Fragrant Hill and at the cooperative store at Wakefield, alternately, at 8 percent interest and subject to withdrawal on 30 days' notice. This action provided some diversification (two debtors), a good yield (8 percent) and some liquidity (30 days' notice).

At the sixth annual meeting, on January 7, 1902, the stockholders voted to invest $500 of the reserve fund in a loan "for one or more years on real estate security." This was the first authorization to make a real estate loan. At that time, the entire amount of the reserve fund ($769.30) was held in cash.. By December 31, 1902, the authorized loan had not been made, for all the total resources of $11,374.84 were represented by premium notes ($8,770.82), cash on hand and in banks, and one deposit of $671.45 with the Golden Rule Store at 6 percent. The Arst real estate loan made was for $700. It appeared in the annual statement of December 31, 1904. At the same time premium notes represented $11,045.10; cash on hand and in banks, $1,778.05; the Golden Rule deposit $600.00; and small miscellaneous items the remainder of total resources of $15,732.

The annual statements at five-year intervals beginning December 31, 1905, show changes in the investment portfolio as given in Table 6 in percentages of total resources.

The figures in Table 6 show the following facts about the Company's investment portfolio during the period: (1) A persistent decline in the percentage of total resources represented by premium notes, a decline from 63 percent in 1905 to only 9 percent in 1945. (2) A gradual rise followed by a gradual decline in the relative importance of real estate mortgage loans. (3) Little investment in bonds until the depression of the 1930's, and thereafter increasing dependence on bonds. The rise in the importance of bonds. (Federal, state, and municipal bonds) doubtless resulted chiefly from two factors: the comparative safety and high liquidity of bonds, and the popular pressure after 1939 to

TABLE 6. PERCENTAGES OF TOTAL RESOURCES INVESTED IN SPECIFIED CATEGORIES AT FIVE-YEAR INTERVALS, 1905 TO 1946.

Dec. 1931	Premium Notes (& Agents' Balances)	Real Estate Mortgage Loans	Bonds	Cash and Bank Deposits	Real Estate Owned or Sold on Contract	All Other	Total
1905	63	8	5	13	0	11	100
1910	58	25	0	7	0	10	100
1916	30	55	0	8	1*	6	100
1920	26	56	7	4	#	7	100
1926	21	62	3	7	#	7	100
1930	17	60	#	2	7	14	100
1935	17	30	10	17	23	3	100
1940	4	28	41	13	13	1	100
1945	9	11	68	10	1*	1	100

*Office building, owned. #Less than 1%.

buy defense and war bonds. On December 31, 1946, when bonds represented 68 percent of the resources, Federal government bonds represented 93 percent of the bond portfolio and Kansas municipal bonds made up the remaining 7 percent. (4) A successful effort to keep the funds invested and the consequent low percentage of cash and bank deposits, usually less than 10 percent. (5) A marked increase in the percentage of real estate owned and real estate sold on contract during the depression of the 1930's and a prompt reduction of' this item almost to the vanishing point as the depression passed.

This sample provides impressive evidence of the fact that a company like the one under consideration must watch its investment portfolio closely and modify it from time to time as a result of experience and in response to changes in general economic conditions.

MORAL HAZARDS

Every insurance organization must take into account such possibilities as that the holder of a fire insurance policy will set fire to his own house or barn, that the organization's representative will connive with a policyholder and overstate the extent of the damage, or that some policyholders will file unwarranted claims for indemnity. These possibilities and many others like them are moral hazards.

An early reference, involving an unwarranted claim, appears in the minutes of a meeting of the executive committee, on August 2, 1902. The owner of a mare that was insured against lightning filed a claim for indemnity for the loss of the mare's colt, which had been killed by lightning. The committee, of course, disallowed the claim, "as the colt specified was not insured." On January 9, 1905, the board of directors voted to notify bondsmen that one of the Company's agents was in arrears $260 in his remitting of premium receipts. On June 2, 1907, the board of directors found it necessary to instruct agents to comply with the regulations in writing policies and not to insure for more than three-fourths value and not to insure any insubstantial building. On January 11, 1916, the board of directors instructed the president and secretary to investigate the case of one of the members of the board who was "giving rebates on commissions among patrons that he writes insurance for" and voted that "the directors be allowed no rebate on commission when procuring insurance." These are only a few of many examples.

It is widely believed that economic adversity increases the moral hazards. By using the average Kansas price of wheat as an index of economic conditions and by selecting representative three-year periods, it is possible to obtain from the Company's records some data bearing on the subject. Such data are presented in Table 7, in which losses paid, in percentages of total premium receipts, are compared to the price of wheat in two three-year periods of high prices and one three-year period of low prices.

TABLE 7. CHANGES IN WHEAT PRICES IN RELATION TO LOSSES PAID.

Year Ending Dec. 31	Price of Wheat (Kansas)	Losses paid, expressed as percentages of total premium receipts		
		Fire	Wind	Total
1918	$2.00	29	1	30
1919	1.98	15	57	72
1920	1.86	25	8	33
1930	0 63	32	55	87
1931	0.34	63	6	69
1932	0.23	80	5	85
1942	1.05	27	21	48
1943	1.32	30	25	55
1944	1.42	20	9	29

It should be noted that the losses, both from fire and wind separately and from the two combined, are expressed as percentages of the sum of fire premiums and wind premiums.

The data in the table suggest an increase in the moral hazard of fire insurance with a decline in the price of wheat. They make no comparable suggestion regarding wind insurance. A careless, dishonest, or desperate policyholder can cause a fire but he cannot create a tornado.

The whole subject of moral hazards is of great importance to the insurance business. It is too complex for extensive discussion here. What is given here is given only to exemplify the fact that there are moral hazards and that they are important.

In its 50 years of experience, the Company has found it necessary to set up many safeguards against these hazards. The safeguards include supervision of agents, careful inspections; certain limitations and exclusions stated in the insurance policies, auditing, and various others. No insurance organization, whether individual or cooperative, that fails to take moral hazards carefully into account reasonably can expect to survive for long.

OUTSIDE RELATIONSHIPS

Unlike some organizations set up to help in the solutions of their members' problems, the Company never attempted to operate in a vacuum. From its early years, it has cultivated relationships with other organizations and made frequent contributions to the public welfare.

As early as September 4, 1900, the secretary informed the directors of a meeting to be held at Emporia on September 26 for the purpose of organizing an association of Kansas mutual insurance companies. The directors appointed the secretary, C. J. Olson, official delegate to the meeting and voted that his expenses be paid by the Company. Ever since that time the Company has been an active member of the state association. Each year for many years all the officers and directors have been designated by the directors as official delegates to the association's annual meetings. Not infrequently several, sometimes all, members of the office force also attend the annual meetings. In this way the Company maintains contact with all the other "mutuals" in the state and learns to act with them in matters of common interest.

Since 1903, the Company has been a member of the National Association of Mutual Insurance Companies. Usually the president and secretary are designated as official delegates to the National meetings. Representation at these meetings helps to keep the Company informed regarding national developments in mutual insurance.

For several years the Company has maintained membership in the Kansas State Chamber of Commerce, an organization of representatives of all the major interests of the people of the state--agricultural, industrial, financial, educational--and devoted entirely to the best interests of the state as a whole.

The records show that the Company has been a frequent contributor to the Red Cross, an extensive purchaser of war bonds, a sharer, in short; of the burdens of the general community of which it is a part.

In its outside relationships the Company has acted intelligently and wholeheartedly, both in its own interest and for the public welfare. By taking an active part in the maintenance of these relationships, the Company has been an exemplar of good citizenship.

MEASURES OF DEVOTION

Any cooperative association is dependent upon the devotion of those who are designated to conduct its affairs. In the present instance these are the members of the board of directors, particularly those members who serve as officers and as members of the executive committee. The Company has been fortunate in this respect.

Attendance at directors' and executive committee meetings is one concrete measure of this devotion. Reference is made elsewhere in this report to the extraordinary record of C. J. Olson. The records of other directors and officers, while far less impressive than Olson's, are nevertheless upon the whole reasonably creditable. In the 50 years the directors held a total of 110 meetings, an average of 2.2 meetings a year. The directors met more frequently in the early years than in the later ones. In the first 1.0 years they met an average of 3.3 times a year. In the last 10 years the average was only 1.5 times ,a year.

During the half-century, of the 110 meetings only six failed to have a quorum, eight members; that is, 95 percent of the directors' meetings had an attendance of eight or more members. Yet at only six meetings, or 5 percent, were all 15 directors present. It was not until 1922, when the Company was 26 years old, that a directors' meeting was held with all members present.

But as is usually true in such cases, certain members of the board--notably C. J. Olson--were almost always present. It is the devotion of such members that is specially significant. If all the directors had been as inattentive as a few were, the Company probably would have failed.

The executive committee of five members has a better record than the board of directors. During the half-century, it held 230 meetings. Each of the 230 had an attendance of three (a quorum) or more. Six meetings had an attendance of three each, 51 had an attendance of four each, and 173, or 75 percent, had an attendance of five each. The record improved as the frequency of meeting increased. In the first 10 years, the. committee held 29 meetings, with an average attendance of 4.1. In the last 10 years there were 92 meetings and the average attendance was 4.9. Again, certain persons were good attenders and certain others were not so good.

It is important to consider attendance at directors' and committee meetings. A person who absents himself from these meetings seldom contributes by his absence to the welfare of the Company. For this reason as well as for positive reasons, the devotion shown by the members of the executive committee by their excellent record of attendance at committee meetings is doubtless an important factor in the Company's success.

Another measure of devotion is the extent to which certain members of the Company were willing to serve the Company without pay, or for almost negligible pay during the early, formative years.

In the very earliest stages nobody received pay for his services. The first mention of pay is in the minutes of a directors' meeting held on December 8, 1896, six months after the Company was chartered. At that meeting, the directors established a per diem of $2.00 for officers, directors, and adjusters while actually engaged in Company business. Presumably this $2.00 a day was expected to cover travel expense and subsistence as well as services. At the same meeting the directors provided that the secretary be paid 50 cents for each new policy issued, 10 cents for each change made in a policy, and four cents a policy for making and collecting "assessments". Even in the year 1900, when insurance in force reached $650,000, membership reached 863, and losses paid exceeded $1,500, the salaries paid amounted to only $130. It was not until January, 1902, that the secretary was paid a regular salary in addition to the modest fees stated above. The salary was $15 a month. By this time, insurance in force amounted to $800,000. The secretary then was the only officer to receive any regular salary. It was not until 1910, when the Company was 14 years old, membership was 6,866, and insurance in force exceeded $6,000,000 that the annual total expenditure for officers' salaries reached $1,000. In the same year the expenditure for clerk hire was only $571.10.

The information given above is sufficient to emphasize the facts that the Company has had extensive devotion from its officers and directors and that this devotion, during the early years particularly, was given either without pecuniary compensation or for almost negligibly small pay.

STICKING TO ITS LAST

It seems likely that the Company's success is due in no small measure to the fact that the adage, "The cobbler should stick to his last," has been extensively applied in the Company's affairs. Consistently, the insurance provided has been limited to the hazards of fire and wind. Usually the Company has avoided, or has approached gingerly, the insuring of things it didn't understand. Moreover, it has confined itself to insurance. For example, at the 10th annual meeting on January 9, 1906, the members discussed, but tabled, a proposal that the Company set up a bank in its office building.

On April 2, 1912, the directors voted to insure motor cars, presumably against fire and wind, "for one year at a time"--a note of caution. Twelve years later, on January 15, 1924, they voted to discontinue providing motor car insurance. For a long time the Company declined to insure against lightning damage to telephones and to radio sets. Company policy predominantly has been conservative, cautious, and inclined to keep the business within restricted areas with which the directors have been familiar.

Moreover, the Company has refused to indulge in the idolatry of size. In staying within conservative limits regarding the kinds of insurance provided, in declining to adopt proposals based chiefly or exclusively on promises of increased bigness, the Company has placed reliability and good service within a restricted field above the prospect of increased size at the possible sacrifice of quality.

MAJOR FINDINGS

For possible consideration by persons engaged in rural cooperative enterprises and by students of rural institutions, some of the major findings of the case study here reported upon are stated below:

1--Beginning with a small group of impecunious farmers at a time of severe economic depression, the Company in 50 years. developed into an enterprise with $52,000,000 of insurance in force.

2--The Company owes much to the ability and devotion of one man, who was its most active and most devoted member for the first 40 years.

3--Throughout the half-century, the Company restricted its activities to two carefully limited portions of two kinds of insurance--fire and wind--and resisted every impulse or proposal to expand into other fields.

4--In spite of all temptations to "move to town" the Company has kept itself definitely rural in environment and spirit.

5--Following the maxim of pay-as-you-go, the Company has developed its physical facilities only as it could pay for them and as the need for each of them became clearly evident.

6--Indemnity for losses represents about 50 percent and agents' compensation about 25 percent of the Company's costs of operation.

7--In its first half-century the Company indemnified its policyholders for losses sustained to the extent of approximately $1,750,000. In addition to receiving indemnification, policyholders benefited from a sense of security accompanying reliable insurance.

8--With fire insurance provided by the Company approximately equal to the wind insurance provided, the fire losses represent about 70 percent and wind losses about 30 percent of the total, and fire and wind premiums are in substantially the same ratio.

9--In its effort to engage successfully in competition for business, the Company relies chiefly on the quality of its service, the advertising of that service, and the maintenance of good will in its relations with its policyholders and with the public.

10--In its operation, the Company subjects itself to the judgment of its members--policyholders--once a year when directors are elected. The directors determine the operating policies and, as the business has grown, they have delegated authority increasingly to an executive committee of five officers and directors and to full-time employed personnel.

11--By restricting the number of proxies which any one member may vote, the Company safeguards the membership against excessive concentration of voting power.

12--Company is notable for its continuity of managerial personnel, and this continuity is doubtless an important factor in the Company's success.

13--The Company's extensive use of legal counsel and its strong spirit of fairness and good will have been accompanied by a high degree of freedom from expensive and annoying litigation.

14--The depression of the 1930's subjected the Company to severe strains; but efficient and devoted management, the helpfulness of public agencies, the loyalty of the membership, and the essential soundness of the Company's program brought survival and increased strength.

15--Reinsurance, including in recent years catastrophe reinsurance, has been used helpfully and extensively.

16--In the 50 years, the Company's investment policy has shifted from placing chief reliance on premium notes and real estate mortgages to placing chief reliance on United States Treasury bonds and Kansas municipal bonds.

17--Like other insurance organizations, the Company has always to contend with moral hazards among policyholders and among its own agents. There is some evidence suggesting that in the Company's fire insurance experience the moral hazard has varied inversely with economic conditions as measured by the price of wheat.

18--In its relationships with other organizations and with the public the Company has played the role of good cooperator and good citizen.

19--Perhaps the dominant factors in the Company's success during the half-century are the persistent devotion of most of its directors and the fact that the Company has "stuck to its last", preferring to give good service within a limited field rather than expand into other fields at the possible expense of reliability and quality.

20--As is often true of cooperative enterprises, the willingness of a few devoted and able members to give freely of their time, thought, and energy, particularly during the early years, was probably the most important single specific factor in the successful establishment of the institution.

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