REPORT.

To the Policy Holders of the Lycoming Fire Insurance Company in the County of Centre:

The committee appointed to investigate the affairs of the Lycoming Insurance Company, and ascertain the necessity and legality of the recent extraordinary assessment of 25 per cent. levied by the company, do respectfully report:

That we began our investigations on Wednesday morning, July 14, 1880, at Muncy, and continued the same until Friday afternoon, July 16, since which time we have been busily engaged in making up the account, and arranging many other facts which do not not appear herein.

Our first object was to obtain a balance sheet on the 1st day of January, A. D. 1880, showing the actual condition of the company on that day, in order to get at the financial standing of the company at the present time. We therefore submitted a series of written interrogatories to the officers of the company. We did not get any correct information in reply to our first interrogatory, viz: "The condition of the company on the 1st of January last," till Friday morning, owing chiefly to the sickness and absence of the principal book keeper.

It is proper here to say, that in order to obtain full and accurate accounts from the books, it would require much longer time than we were able to give. The accounts do not appear upon any one book—no general ledger showing the same—but to obtain which it is necessary to examine not only the treasurer's books but also the accounts with the agents in all of the States in which the company transacted business. This involves a reference to many books and to numerous accounts.

By the laws of Pennsylvania an Insurance Department is created, and it is made the duty of the officers of every insurance company, on the 31st day of December in each and every year, to prepare an annual statement of the operations of the company during the preceding year, showing its entire available assets, liabilities, losses, incomes and expenditures, and forward the same to the Commissioner of the Insurance Department, at Harrisburg. The report so made is to be verified by the oaths of the President and Secretary of the company. This report is annually published by the Insurance Department for the information of the public, and especially for the information of the parties holding policies. We referred to this published statement, as contained in the report of Dec'r 31, 1879, for the purpose of ascertaining the condition of the company at the beginning of the present year. By this report the company had, on the 31st day of December, 1879, a *surplus* over and above all liabilities and expenditures of $54,462.29. The committee began the investigation right at this point, because, if this were true, there could be no ground for the large assessments made since, aggregating 31 per cent. of the premium notes. We called the attention of the officers of the company repeatedly to this fact, and they replied in substance that the published report was not a correct copy of the report made by the company, but that it was an inaccurate condensation or compilation made from it. That the report as made by the company did not show any surplus. We then asked to see the report as made by them to the Insurance Department; we were informed that the company had forwarded it to their attorneys at Harrisburg to be used in the trial of a suit with the State, which is still pending, upon the question of the liability of the company to pay a State tax, amounting to $3,000 on this surplus, which the State claimed was an "accumulated reserve" liable to be taxed, and which the Court of Dauphin county decided against the company. We then procured from Mr. Forster, the Commissioner at Harrisburg, a certified copy of the report made by the officers, and upon a full comparison of this report with the one published by the Department, we find the report made by the Insurance Department to be almost a literal copy of the report made by the company; and taking the report of the company as true, there was certainly on the 31st day of December, 1879, a surplus of 54,462.29, over and above all claims against the company. The affidavit made by the President and Secretary of the insurance company to this report shows that it purported to embrace all losses and liabilities of the company of whatever kind.

In the statement made by the officers of the company to the directors on the 28th day of May last, upon which statement was based the last two assessments, amounting to 25 per cent. (see copy of same hereto annexed) there is an item of indebtedness of $139,252.02, called "outstanding acceptances." We then inquired if the annual statement referred to, included the then outstanding acceptances in the liabilities of the company, and in reply to this question we learned the important fact that none of the acceptances outstanding on the 31st day of December, 1879, were reported by the company; and the reason given was, that had the true state of the company been represented in the annual statement the company could no longer have done business in any of the States outside of this Commonwealth. It was therefore necessary, in order to continue business, that this essential and important truth be suppressed, and the outstanding acceptances of the company do not appear in their report as a liability. Upon the contrary, the report conclusively shows that all debts *due* by the company, upon previous losses, were paid prior to the 31st day of December, 1879.

In the annual report the liabilities of the company are fixed at the sum of $115,481.08. To meet this, they exhibit assets (available) far in excess thereof, which excess the Commissioner ascertained to be the above sum of $54,462.29. This annual report is wholly *incorrect* and *unreliable*, so far as it purports to show the liabilities of the company on that day.

After as careful an examination of the books as we could give, and from the facts reported to us by the officers of the company, and from a reference to the statements of February 25 and May 28, allowing the company credit with all assets in hand available for the payment of debts and losses, we find the company in arrear on the 1st of January in the sum of $196,388.45. This sum represents the *debt* due on that day after applying all available assets on hand. To this sum must be added the losses occurring since, amounting, on the 14th of July, to the further sum of $251,698.84. The cash policies in the State of New York have been reinsured since January 1, at a cost of $26,533.46, which must also be added. There is an item of taxes of $10,000.00, and a balance due agents, attorneys, advertising, adjusting salaries, &c., of $9,624.03, which must also be added, making the total indebtedness on the 14th day of July, A. D. 1880, amount to the sum of $494,244.78.

To meet this debt, the net cash premiums received since January 1, 1880, amounting to $70,798—the estimated net proceeds of assessment No. 38, (being 6 per cent.) amounting to $81,873.59—the whole amounting to $152,671.59, are to be applied. Making this deduction, the balance still remaining due from the company is $341,573.19. The estimated net proceeds of assessments Nos. 39 and 40 (being 25 per cent.) will amount to $346,875.00 From this exhibit of the affairs of the company it is evident it will require the whole of this extraordinary assessment to pay the debt.

In the above statement there is no calculation made for future losses by fire or for expenses, all of which will continually increase the debt or liability of the company. In addition to this no allowance has been made for the payment of a debt arising out of the cancellation of cash policies, which debt is gradually increasing hourly, and as rapidly as return premium certificates can be signed and sent. We have made a calculation of this debt thus far, from the 28th of May last, and have estimated what it will cost the company to cancel the cash policies still in force; and this item alone will amount to $100,000 more.

In order to ascertain the cause of this unfavorable condition of the company, we endeavored to trace the workings of the *cash plan* for a period of five years; and in order to avoid the effects of the fire in Chicago, in 1871, we began the period on the 1st day of January, A. D. 1875. The total amount of fire risks in force, cash and mutual, January 1, 1880, was $51,957,550.00; of this sum $32,872,625.00 were cash risks. This would make the proportion of the cash risks three-fifths of the whole. The following is the result:

Gross premiums received from January 1, 1875, to January 1, 1880,...	$2,469,336 00
From which deduct refunded premiums, re-insurance, commission and brokerage, pro rata, adjusting losses and general expenses, salaries, &c.	1,147,571 00
Net income from cash policies	$1,321,765 00
CONTRA.	
Paid for losses on cash policies in five years	$1,553,270 00
Actual loss to company	$231,505 00

The foregoing calculation shows an actual loss of about $46,000 annually for the last five years, and this *plan* no doubt, has been the cause more than any other, which has produced the present unhappy financial condition of the company.

We received a letter, addressed to us by citizens of Muncy, asking us to make certain inquiries into the alleged fact of loaning money of the company to certain of its officers, and the amount of salary paid to the several officers and clerks. We made inquiry as to these and other facts, but we found no evidence of the company having loaned any money to any one of the officers. Upon the contrary, we believe the company is indebted to certain officers for money loaned by them. The following statement shows the respective salaries paid each:

The president receives annually	$ 600
The treasurer " "	3,000
The secretary 50 cents on each policy.	
The assistant secretary	5,000
Three clerks, each $1,200	3,600
Three clerks, each 600	1,800
Two clerks, each 480	960
The four adjusters (expenses extra),	8,000

There are other expenses which we have not space to mention. The figures hereinbefore given are in some instances only approximations, but are believed to be substantially correct. To give exact figures would require the labor of experts for months.

From this review of the affairs of the company it is apparent that it is no longer in a condition to do further business. No new risks will be taken and the policies are gradually expiring, so that the burden will fall more heavily on the members in the mutual plan, hereafter, unless some plan can be devised to go into liquidation and close up the affairs of the company, at the earliest possible day. All risks, cash and mutual, should be cancelled as soon as possible. What may be the best plan to close out the company: whether by having a receiver appointed, or by making a general assignment, or by the policy holders calling an early meeting and authorizing the present board of officers, with such other persons as they might choose, to settle up the affairs of the company and close out its business, we are not at present fully prepared to state. We believe, however, the present officers, or some of them, assisted by some one selected by the policy holders, would likely be more competent to close up the affairs, satisfactorily and economically, than any new board of management. It would certainly be at a less cost than by getting into litigation, and closing, after considerable delay, through the office of a receiver, who would, from necessity, be compelled to retain the present officers to do the work. But whatever plan may be adopted, we are well assured that the company should go into liquidation at once. In order to accomplish this, the officers should call a meeting of the Mutual policy holders at the earliest day practicable.

We would further state that the officers of the company treated us with courtesy, and seemed willing that we should make a thorough examination into their accounts. We feel it due to them, to say that we found nothing which indicated anything improper or erroneous in the accounts of the officers. And yet while we believe them to be men of integrity, we cannot but condemn their action in concealing the true condition of the company's affairs, in their annual reports to the Insurance Department. No doubt this was done in the hope that the tide would sooner or later turn in favor of the company, and it might yet recover from its embarrassments; but the "Milton fire," in which the company lost nearly $90,000, put an end to this delusion, and the assessment, which had long been deferred, was levied at last. Whether this desire, on the part of the officers, to keep the company in a favorable light before the public, is a sufficient justification for the character of the annual reports made, we leave to the decision of the policy holders, *who are* notwithstanding, *legally bound* to pay the present heavy assessments.

In a mutual insurance company the policy holders are the company, and the directors and officers are merely their authorized agents. For the negligence or mismanagement of these authorized agents the company is responsible to its creditors. This company was originally a purely mutual one, but by a supplement to its charter, passed the 1st day of May, 1861, it was authorized to insure upon the cash plan as well. The premiums arising from insurance upon the cash plan were by this act to be paid into the common treasury. All losses and expenses are paid out of the common treasury, and "cash policies" not being liable to assessments, all deficiencies of income must be supplied by assessments upon the premium notes of mutual policy holders. However inequitable this may now seem, the validity of this Act and the liability of the mutual policy holders to make up for the losses on the cash policies have been in more than one instance affirmed by our Supreme Court.

The history of this company, as now written, is a fitting commentary upon the policy of legislation which permitted a once safe and reliable mutual insurance company to enter into competition for cash business, with no other capital than the premium notes of confiding policy holders, and upon the folly of committing such large interests to the management of a few individuals without responsible supervision.

We have prepared a statement of the condition of the company, its assets and liabilities; an estimate (in part) of the liabilities incurred, and still to be incurred in the cancellation of cash policies, and also the workings; and the result of the "cash plan" for the last five years, which accompany this report, together with other statements, showing the losses the company has sustained in the different States; and also a particular and detailed statement of all the items making up the list of losses sustained by the company.

All of which is respectfully submitted.

A. O. FURST, D. S. KELLER,
WM. P. DUNCAN, ADAM HOY.

BELLEFONTE, PA., July 23, 1880.

EXHIBIT No. I.

Exhibit of Indebtedness and financial condition of the Lycoming Fire Insurance Company, on January 1, 1880, and July 14, 1880, as compiled from information given by the officers of the company, and facts obtained by an examination of its books:

January 1, 1880. Amount of indebtedness in excess of all available assets		$196,388 45
To which add losses by fire, viz:		
In January, 1880	$16,836 04	
" February, "	32,919 57	
" March, "	21,321 21	
" April, "	32,743 17	
" May, " (Milton $89,185.34)	122,986 95	
" June, "	13,528 90	
" July, " to 14,	11,363 00	
		251,698 84
Also add—		
Re-insurance of N. Y. policies		26,533 46
Taxes claimed by State of Pennsylvania		10,000 00
Balances due agents and attorneys, other taxes, advertising, adjusting, salaries		9,624 03
Total		$494,244 78
From which deduct—		
Net cash premiums received since January 1, 1880	$70,798 00	
Estimated *net* proceeds of assessment No. 38, (gross assessment about $120,000)	81,873 59	
		152,671 59
Amount of indebtedness July 14, 1880		$341,573 19
Estimated net proceeds of assessment No. 39, (12½ ₱ ct.) (gross assessment $237,500)	$178,125 00	
Estimated net proceeds of assessment No. 40, (12½ ₱ ct.) (gross assessment $225,000)	168,750 00	
		$346,875 00

NOTE.—In the foregoing statement no account has been taken of the liability arising out of the cancellation of cash policies since May 28, 1880. We find charged on the books:

For return premiums since May 28, 1880, on policies cancelled by company	$3,256 17
We also found 1420 policies returned for cancellation and not yet entered upon the books, to cancel which it was estimated would require about	18,000 00
There remains in force, cash risks approximating $20,000,000, to cancel which the committee estimate (taking the cost of the New York re-insurance as a guide) will require about	75,000 00

EXHIBIT No. II.

Exhibit showing the loss resulting from insurance on the cash plan for the five years beginning January 1, 1875, and ending January 1, 1880. The time of beginning was fixed January 1, 1875, so as to exclude the effects of the Chicago fire (1871), which itself cost the company about $500,000:

Gross premiums received from January 1, 1875, to January 1, 1880,...		$2,469,336 00
From which deduct refunded premiums	$388,341	
Re-insurance paid	15,869	
Commission and brokerage estimated	413,025	
Pro rata of "adjusting losses and general expenses"	264,336	
Pro rata of salaries and taxes for five years, say three-fifths of $110,000	66,000	
		1,147,571 00
Net income from cash policies		$1,321,765 00
CONTRA.		
Paid for losses on cash policies		$1,553,270 00
Actual loss to company in five years		$231,505 00

STATEMENT A.

Statement submitted to the Board of Directors at their meeting February 25, 1880:

LIABILITIES.		
Losses in suit	$59,352 00	
Unsettled to date	30,214 19	
" from last year	11,570 00	
Settled due in March	16,639 02	
" " April	12,118 84	
" " May	2,547 00	
		$132,441 05
Outstanding acceptances due in February	34,743 99	
" " " March	61,994 15	
" " " April	32,322 96	
" " " May	31,767 50	
		160,828 60
Taxes, advertising and other bills		10,000 00
		303,269 65
ASSETS.		
Agency balances estimated	40,000 00	
Assessments due and collectible estimated	50,000 00	
Catawissa 7 ₱ ct. bonds	11,000 00	
Bills receivable	3,762 18	
Mortgages	7,135 38	
Judgments	4,342 40	
		116,239 96
Indebtedness of company		187,029 69
		$303,269 65

STATEMENT B.

Statement of the affairs of the Lycoming Fire Insurance Company as presented to the Board of Directors, May 28, 1880:

LIABILITIES.		
Unsettled and unpaid claims in Pennsylvania, including those in suit	$219,908 02	
Ohio claims unsettled, unpaid and in suit	8,530 25	
California and Nevada unsettled, unpaid and in suit	10,000 00	
Illinois " " "	12,571 66	
Wisconsin " " "	4,735 00	
Missouri " " "	8,589 65	
New York " " "	24,343 10	
Vermont " " "	9,340 36	
Maryland " " "	5,869 76	
New Jersey " " "	3,345 26	
Maine " " "	800 00	
Connecticut " " "	737 00	
		$308,770 06
Outstanding acceptances		139,252 02
Miscellaneous bills unpaid		1,156 62
		$449,178 70
ASSETS.		
Agency balances	$16,853 01	
Assessments, including No. 38 (collectible)	86,436 62	
Bills receivable and mortgages	6,000 00	
		109,289 63
Indebtedness of company		339,889 07
		$449,178 70

RECAPITULATION.

Liabilities	$449,178 70
Available assets	109,289 63
Indebtedness of company exclusive of re-insurance	$339,889 07

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