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The Canadian Monetary Times.

FRIDAY, OCTOBER 1, 1869.

INSURANCE FAILURES AND GOVERNMENT SUPERVISION.

Public attention has been forcibly directed, by the recent failure of two leading English life insurance companies—the International and the Albert—to the present mode of conducting the business of life assurance; and earnest enquiry has been elicited as to the best measures to be adopted in order to avoid the recurrence of such disasters. The misfortunes of these companies cannot be ascribed in any way to defects in the principles of life assurance, but solely to errors in the practice of it. There should be no mistake on this point. Both these companies were saddled with a burden at the outset which they could not bear: favoritism and fraud had much to do with their ruin. No argument can be drawn from their experience to impeach the soundness of honestly managed companies; there is nothing in their cases which should in the least weaken public confidence in the beneficent system which they have so much abused for selfish ends.

No life assurance company will ever fail, if one simple rule be rigidly followed: to set aside and invest *safely* at interest such a portion of the premiums received each year as will be sufficient, according to actuarial calculations, to meet the liability accruing under each policy. In the case of the two companies referred to, compliance with this rule was impossible, as the receipts were in both instances pledged first to the payment of a heavy annual charge by way of compensation to their respective projectors. They were started and worked in the interests of a few individuals, instead of those of the policyholders. These latter, therefore, got only the remains of the feast; and it is a pretty bare bone they have to pick. What with commissions, and compensations, and bribes, there is little left. All this proves that there may be dishonesty, and mismanagement, and fraud in the practice of life assurance, as well as any other business—"only this and nothing more." The great question for solution is, then, how are these vices to be restrained, and the risks of policyholders reduced to the minimum?

Life assurance may be made a boon and a blessing, or a snare and a curse: all depends on the way it is administered. The system is in itself thoroughly sound; its objects are benevolent; its mission is one of philanthropy;—but from its peculiar nature, is exceedingly liable to abuses. Its practical working renders necessary the hoarding and investment of vast sums of money to be held in trust for the widows and orphans of the living generation. In the earlier years of a prosperous company, premiums flow in rapidly, and if the business obtained is of the right sort, very few death claims arise for years. An immense surplusage of ready cash, therefore, accumulates, and is at the disposal of the officers of the company. The temptation to lavish expenditure, individual favoritism, and private speculation in investments, not to say positive dishonesty, is too strong to be easily resisted.

The best known safeguard to the public is governmental inspection and supervision. It is the clear duty of government to see that every life company sets aside, from year to year, the sum necessary to meet the liability under its policies. Any legislation which falls short of this object is partial and defective. Government should exercise the power of sending their actuaries into the vaults of the life companies to value their securities, count their cash, estimate their liabilities, and give the public the benefit of the information. This is what is wanted in England. Life companies there do pretty much as they please. Their real position is known only to their officers and managers. The statement they are required to make is so indefinite as to be practically useless. Sound companies usually make honest statements; those which are unsound—the only case in which these statements are of real service—suppress or conceal the facts. Being interested parties, it is a mistake to rely on the representations of the companies themselves.

The admirable system adopted by the State of Massachusetts, and followed by the States of New York, Ohio, Illinois, Missouri, and California, is well adapted to the case. An Insurance Superintendent is appointed, who has no connection with, or interest in, any insurance company, and who is held in sufficient bonds for the faithful performance of his duties. He holds office for three years. No new company can commence business with a less capital than $100,000, which must be paid up and deposited in approved securities with the insurance department, and not less than thirteen persons may form themselves into a company. No company can commence business in the State, whether chartered there or elsewhere, without submitting its affairs to his inspection, and receiving his certificate of authority to do business, which is only given after proof of its entire solvency, and the perfect good faith of its management. This certificate must be annually renewed, to enable the company to continue business; and this annual renewal is only made after the presentation of a satisfactory statement on the 1st January in each year, under oath, setting forth—The number and kind of policies and annuities granted during the year; how many of each, and to applicants of what ages; the amount of insurance effected thereby; the amount received in premiums; the amount of interest, and all other receipts, the different items to be specified; the amount of losses paid during the year; the amount, if any, reported and unpaid; the amount of all expenses, the items to be specified; the whole number of policies in force; the amount insured thereby; the consequent liabilities; the amount of capital stock; the amount of accumulations; amount of assets, and how invested; the amount of dividends paid both to stockholders and policyholders, and the amount, if any, declared and unpaid; and, finally, a tabular statement of all the policies in force, whether for the whole term of life or any shorter term, showing how many for each term, of each class, at each age, and for what amounts. It will be seen that this style of publishing accounts does not afford a loophole for evasion or fraud. If the officers of the company furnish false or fraudulent accounts, they are liable to be dealt with under the criminal law.