

APPENDIX No. 1

Contract 'No. 3,' among other things, stipulated for the payment each week of the sum stated therein, by the association to the party of the second part, said moneys to be used by him as advances to sub-agents in the procurement of new business. He was to be charged with the moneys thus given him, which were to be deposited in bank weekly to his credit as general manager, and subject to his cheque, and he was to account to the association in detail, with proper vouchers, as to the disposition he may have made of the sums thus placed at his disposal, in distributing the same among sub-agents in the nature of advances to them. This contract was dated January 7, 1897, and was to continue for the period of two years if satisfactory to the association. It was terminated on January 22 following by the execution of contract 'No. 4.' This latter was annulled and supplemented by 'No. 5,' dated July 23, 1898. The ledger account, containing the record of the advances mentioned, was opened January 7, 1897, the last entry having been made August 5, 1898, closing the account as of July 27, 1898, by a credit of commuted commissions. The last debit to the account, in the nature of an advance, was July 27, 1898. From the opening of this account to the date of the last entry, or a period of eighteen months, the sum of \$360,915.07 had been invested for the purpose of procuring new business. The amount thus invested, it will be seen, being the nature of sums advanced or loaned to agents, could only be reimbursed to the association by agents earning commissions to the extent of the money so loaned or by returning the same in cash. Otherwise the loans would become debit balance due from agents. Of the \$360,915.07 advanced during the period stated, \$244,954.07 had become debit balances on July 1 last and stood at that figure on that date. The following comparison will indicate the significance of this result.

From the commencement of business by the association in 1881 down to the execution of the contract of January 7, 1897, or for some sixteen years, the total amount of agents' balances created was \$529,459.93. For the eighteen months during which the contracts for which I speak of ran, the agents' debit balances amounted to \$244,954.07. The value of these balances owing the association is extremely uncertain. Of a total of \$744,414 of these items accruing since its organization it had marked off to the end of 1897, \$419,235.24, or over 50 per cent of the total.

A reference to 'Account No. 4,' indicates that the contract of January 7, 1897, contemplated the payment to the general management of a commission to him on new business in addition to the commissions provided for in the contract to be paid by him to sub-agents, and the account shows this commission to have been so allowed him to the extent of \$93,810.78, notwithstanding the fact that at the same time his sub-agents were becoming indebted to the association for moneys belonging to it, and which they ultimately failed to remit. These unpaid balances of 1897 form the larger portion of the \$244,954.07 of agents' debit balances, to which attention has been called. The value of these accounts could not be reliably ascertained at the date of the last examination, they having been so recently created, but an examination of them at this late day must lead to the conclusion already given in presenting this manner to you, viz., that they are of nominal value only.

The value of the business acquired in 1897, to which year these business chiefly pertain, can best be judged by the length of time this business continues upon the association's books. Its ability likewise to reimburse itself wholly or in part for the moneys advanced to agents and not subsequently earned by them in commissions, would depend upon the persistency of this business. The insurance effected in 1897 was in the main written upon what is known as the 'Five-year combination option policy'. The business then procured amounted to \$30,700,000. On May 16 last but \$16,800,000 remained.

The commission cost of this business on initial year's premiums from the time these policies were first written in 1896 to May 16, 1899, is as follows:—