

cities have been financed largely on capital from abroad.

In THE CHRONICLE of the 17th March the course of the Canadian bank investments in bonds for the last four years was given. The rate of increase has not been over-rapid. If the banks are judged according to American ideas then it might be said that, holding such large amounts of savings bank funds, they might very properly hold a great deal more than the \$65,000,000 in bonds which they now own. The "Wall Street Journal," in discussing the matter, says that commercial banks, during a time of slack demand for money, might properly invest a moderate amount in good bonds, but that investments so made should not be regarded as permanent inasmuch as they represent a diversion of banking funds from their natural employment.

It is known to be the case that some of the Canadian banks have been induced to enlarge their bond investments because of the keen competition for commercial accounts. Large strong borrowers are much run after. The banks bid against each other for the privilege of making loans to them. Rates are cut, commissions reduced or waived altogether, and services performed for nothing. The effect of this has been to lower the revenue derived from mercantile business until it is in many instances but little higher than that which can be obtained from good bonds. As there is a much greater risk of loss from commercial loans than from bond investments judiciously made, it is natural that some bankers should turn their attention to the bond market more than they have done in the past, with the idea that they can possibly at some future time, take over from their rivals a great deal of first-class mercantile business on terms more favourable than can be had to-day. Others, no doubt, feel that it is wise at the present time to increase their bond holdings rather than to throw new funds into the competition for discount accounts. In this sense then the bond investments of the Canadian banks may be regarded as of a temporary nature. The bonds would be sold and the proceeds loaned to mercantile borrowers whenever the demand for credits becomes urgent enough to cause a rise in the rate of discount, or a more general willingness on the part of borrowers to accede to the demands of the bankers in the way of security for loans.

THE FEDERAL SUPERVISION OF INSURANCE was the subject of a lecture by Mr. Breckenridge, the well-known American lawyer, at Yale University on 5th inst., in which he argued strenuously that insurance is as much a part of modern commerce or navigation or transportation, and as inseparable from it "as vital motion is from vital existence." He is in favour of Federal Supervision, which he considers called for in the interests alike of the companies and policy-holders.

REBATING LIFE INSURANCE PREMIUMS.

By WILLIAM CHUBB.

(The Essay that won the R. Wilson-Smith Prize of \$25 offered for competition by Associates of the Insurance Institute, Montreal).

I.

Life insurance is primarily a commercial venture intended to benefit every individual whose interests are involved. So vital and general—even national—are these interests, that it is recognized as being the duty of every state in which such enterprises exist to exercise the strictest supervision over them and to be assured of their absolute integrity. There is no other business so hemmed in by restrictive laws, so paternally regarded by governments, and in which the interests of the people are so carefully guarded. Nevertheless, evil practices have crept in, and of those one of the worst and most universal is that of Rebating, a practice that has justly subjected insurance workers to much scorn and sarcasm. This blot on the record of life insurance I propose to investigate as thoroughly as is possible in so short a paper, to discuss its causes, and to suggest a remedy.

In the first place I shall endeavour to show that rebating is of no advantage to anyone concerned, the company, the agent, or the assured.

AS TO THE EFFECT UPON THE COMPANY.

The experience of life insurance companies has proved that owing to the heavy expenses connected with procuring business the premiums received do not provide for the reserve and pay the cost of carrying the risk for the first few years, and that, in order that a policy may be profitable, it must remain in force for at least four or five years. Now, one direct effect of the pernicious practice of rebating is to increase heavily the lapses at the end of the first year; for many a man is induced by a rebate to take out more insurance than he can continue to pay for after the first easy year. When the second premium becomes due he will either lapse outright, thus inflicting a heavy loss on the business, or he will reduce the amount of his insurance, in which case the company will have been on a big risk for a microscopic premium. Moreover, the lapsing of these policies affects the business in a still more vital way. If the man lapses outright he is very likely a good risk, sure of passing another medical examination, and so living on another company in the same way for another year; while, if he decide to pay the much increased renewal premium, he may be influenced by the knowledge that he might not successfully pass a second examination. The result is that the company suffers in respect of mortality by keeping the worst risks on its books. This fact alone is sufficient indication of the dangerous nature of rebating, and furnishes good reason for the employment of drastic measures of suppression.