PROFITS FROM THE STANDPOINT OF THE LIFE COMPANY AND THE PUBLIC.

(Percy C. H. Papps, Actuary Mutual Benefit Life Insurance Company, Newark, N. J., before the Insurance Institute of Toronto.)

(Continued from page 585).

It is undoubtedly true that such dissatisfaction as has existed in regard to dividend results has been due to the failure of previous estimates to be realized rather than to the size of the dividends themselves. In justice to the life companies it must be remembered that a fall in the rate of interest realized has a greater effect on dividends than is generally understood. It does not seem very significant to a policyholder to be told that the earnings have dropped from six to five per cent. He does not appreciate the fact that if the reserve is on a four per cent. basis, the rate of interest which goes into the dividends has been cut from two to one per cent., namely, cut in half.

DIVIDEND ESTIMATES.

Again, in spite of the abuses which grew up in connection with tontine or deferred dividends, it is undoubtedly true that policies with tontine or deferred dividends, proved popular, and these policies were better kept in force than the companies expected. The result was that the profits forfeited by those who surrendered or lapsed their policies were very much less than were expected. The failure to realize what they expected from this source was not due to any fault on the part of the companies. The one fault chargeable to the companies in connection with tontine or deferred dividend policies was the failure in some cases to make any provision to keep accurate account of the dividends to which such policies were entitled, and the failure to recognize the moral if not the legal liability which these accumulating dividends entailed.

At the same time it must be admitted that in some companies, perhaps more particularly the younger companies who had no experience but competition to guide them, the dividend estimates were most extravagant......I believe that less dissatisfaction and disappointment would have arisen over the failure of dividend estimates to materialize, if in placing the policies the benefits of the protection afforded had been emphasized rather than the probable dividend returns.

THE INVESTMENT ASPECT.

There is a temptation for an agent to go too far in offering a life insurance policy as an investment, and there is a tendency sometimes to go a little too far in showing what rate of interest will be realized on the assumption of certain dividend estimates being realized. A life policy is certainly a desirable investment, as an investment, if the policyholder places a proper value upon the insurance protection enjoyed. If no value is to be attached to the insurance, it stands to reason that as an investment the policy must return a very low rate of interest, unless the policy becomes a claim by the death of the insured.

In this connection I may refer to a plan which has not unfrequently been used to show the advantages of a twenty year endowment policy as an investment. This consists in subtracting from the endowment premium for $1,000 insurance, the premium for a twenty year term policy of $1,000, and showing at what rate of interest the difference in the premiums would have to be compounded in order to amount to the $1,000 payable at the end of the twenty years. The fallacy underlying this plan may be explained in two ways. In the first place, under the twenty year endowment insurance policy the reserve is gradually increasing year by year, until it finally equals $1,000 at the end of twenty years. It is, therefore, wrong to deduct from the endowment insurance premiums the premium for term insurance of $1,000, for the actual insurance enjoyed by the policyholder is the difference between $1,000 and the reserve on the policy. The value of the insurance being overstated, the portion of the premium representing the investment element is understated, and the rate of interest stated to be realized on the investment features is considerably overstated. Looking at the question in another way, it may be said that if a policyholder secured a twenty year term policy for $1,000, and invested each year the difference between the premiums for endowment insurance and term insurance, his estate would have, in the event of his death, not only the $1,000 furnished by the term policy, but the accumulation of the difference in premiums. Under the endowment insurance policy only the $1,000 would be payable in the event of death, so that the benefits are not equal and the comparison is unfair.

POLICYHOLDERS AND MANAGEMENT'S INTERESTS ALIKE.

In concluding I would like to say a few words in regard to the attitude of company and policyholder in regard to dividends, profits, or whatever we like to call the overpayments of premium which are credited or paid to policyholders. The individual policyholder seems to assume that the interests of the management of the company are diametrically opposed to his own. He seems to take the ground that the Company is trying to pay as small dividends to him as he will accept. A few moments' quiet consideration would show him that the management of the company is concerned in making the best possible showing, and that the payment of large dividends, resulting in satisfied policyholders, is one of the simplest means of securing a good reputation for the company. There is a general feeling that policyholders' dividends may be sacrificed in order to pay dividends to shareholders, but with a few exceptions the shareholders of companies which are earning and paying dividends to their shareholders, have had so long to wait from the time the company was started, until it was in a position to pay them any dividends, that they are only now receiving a moderate return by way of interest on the amounts they have invested. Again, in many cases the shareholders' earnings are dependent upon the amounts earned for the policyholders, so that it is to the direct interest of the shareholders, and consequently of the management of the companies, to make as large returns to the policyholders as possible.

As a final word I would like to drop a hint to some of the life companies in Canada who are finding it difficult to meet the competition of large dividends, low non-participating rates, or whatever it may be.