

## INTEREST EARNINGS OF LIFE COMPANIES IN CANADA, 1917.

The statistics published on page 1207 regarding the interest earnings in 1917 of the life companies doing business in Canada show that while the rates of interest earned by the Canadian companies receded very slightly last year, the rate of interest of the British and American companies was fractionally higher than in 1916. The method of compiling these statistics is as follows:—The mean of the assets is determined by dividing by two the sum of the ledger assets as at December 31, 1917, and at the same date a year earlier and adding thereto the market values of bonds, stocks, etc., over book values, or deducting in cases where the market value is less than the book value. The addition or deduction is not made in the case of the British and certain of the United States companies, where the Government Blue Book gives ledger values without information as to market divergence. In all cases "assets not admitted" are deducted from the sum of the ledger assets. The interest is considered as made up of receipts from interest and rents during the twelve months ending December 31, 1917, adding thereto the interest and rents due and accrued at the end of the year, less the same items outstanding at the close of 1916. This method has been found generally satisfactory. While there are occasional differences in the form of returns made by individual companies, these differences do not materially affect the results shown.

### Canadian Companies' Earnings

The fractional decline in the Canadian companies' earning power last year follows the slight recession of 1916, which was the first recorded in many years. The 1917 average rate for all Canadian companies of 6.00 per cent. compares with a rate of 6.05 in 1916, 6.21 in 1915, with a maximum of 6.28 per cent. in 1914, with 6.17 per cent. in 1913 and 5.87 per cent. in 1912. The pronounced increase in the rate of these earnings steadily maintained over a series of years up to 1914, is shown in the following summary of the average rate of interest earned each year since 1900:—

1900	1901	1902	1903	1904	1905	1906	1907
4.56	4.66	4.75	4.80	4.80	4.93	4.98	5.24
1908	1909	1910	1911	1912	1913	1914	1915
5.30	5.41	5.45	5.72	5.87	6.17	6.28	6.21
1916	1917						
6.05	6.00						

The recent recession in the average earning power of the Canadian companies is undoubtedly explained by the change in investment policy of the majority of the companies, a change which has been partly forced, by circumstances and legislation. The main factor in the rise of the companies, average earning power from 1900 to 1914 was the very extensive investments made in high interest yielding mortgages, the general rise in the rate of interest on all classes of securities during that period played quite a minor part. With the falling-off in demand for mortgages, and the advent of compulsory investment in Dominion Government securities, there has been a remarkable change in the character of the investments made by the Canadian companies. This is shown in the following table of the companies' mortgages and bonds and debentures in actual amount and proportion to total assets:—

Dec. 31st	Mortgages	Bonds and Debentures		% to Total Assets	
				Mortg.	B. & D.
1913	\$87,085,966	\$70,924,684	37.5	30.5	
1914	94,624,042	77,032,967	36.9	29.9	
1915	95,015,880	85,794,114	35.1	31.4	
1916	95,731,745	107,718,664	32.3	36.8	
1917	92,377,843	130,068,552	28.8	40.4	

It will be seen from this table that while mortgages decreased nearly \$3,250,000 last year, holdings of bonds and debentures increased over \$22,000,000. In 1916, mortgages actually declined slightly, while bonds and debentures increased \$22,000,000. The mere fact that the rates obtainable from War Loans and other high-grade government and municipal securities, however handsome, are not comparable with those obtained from mortgages, is sufficient to account for the decline in the companies' earning power.

### An Ample Margin

This decline need not be a matter of regret. Interest earnings are not everything, and a perusal of the companies' official returns of overdue interest shows plainly enough that some of them have had considerable trouble in collecting interest on a proportion of their mortgages. In common with all loan corporations, the companies have, no doubt, been prejudicially affected by the adverse legislation passed in several of the western provinces. However, when every allowance has been made for this, the figures of overdue interest and of the amounts of mortgages on which interest has been overdue over a year as at December 31st, 1917, certainly suggest in some cases, either laxity of management or a greediness after high interest returns leading to the acceptance in the past of loans not altogether desirable. For the present, of course, War Loans and not mortgages are the primary subject of investment interest with the life companies. But it is well that the facts here stated should be borne in mind, and it is to be hoped that when another demand for mortgage money arises, the companies will have learnt something from past experience.

With regard to the future, it is to be expected that the average interest rate will show a stationary or downward tendency while the companies are compelled to invest a substantial proportion of their annual increase in assets in Dominion Government loans. We think also the companies should bear in mind the possibility—we do not say probability—that this compulsory investment legislation will survive the war. However that may be, there is a very ample margin between the average interest rate earned and the valuation interest rate, which is very low in the case of most of the companies, and with a continuance of capable and economical management, policyholders in Canadian life companies are likely to find nothing to grumble about in regard to "profits," so far as these are dependent upon interest earnings.

### British and American Companies

The little group of British companies, including one Australian company, appearing in our tabulation, show a slight gain in their average interest rate last year. The immense subscriptions of the British life companies to War Loans issued at comparatively high rates of interest, have undoubtedly had an important effect in tending to increase the average return received from investments by these companies as a whole, and this tendency has been assisted by the policy of ruthless writing down of values, pursued by the companies generally. The average rate reported by the group included in the present tabulation of 4.60 and 4.43 per cent. in 1916, compares with 4.52 per cent. in 1915, 4.42 per cent. in 1914, 4.15 per cent. in 1913, and 4.10 per cent. in 1910.

In the case of the American companies operating in Canada, the interest rate for 1917 was 4.89 per

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