INSURANCE COMPANIES' STATEMENTS

Comparison of Interest Rates Earned, as Now Published, May Be Very Misleading

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VI.

The next two divisions of the statement blank call for the cash income and expenditure of the company. The important items in the income are cash received for premiums and cash received for interest dividends and rents. The premium income is divided into first year, renewal, single and annuity premiums. The premiums in every case are gross, that is, they represent the amounts actually collected from the assured, and in the deduction made for reassurance premiums it must be remembered that it is not the net consideration paid to the reinsuring company which is to be regarded as premium, but the gross premium before the deduction for commision is made.

One of the options available to participating policyholders in the matter of receiving profits is to have their share of surplus applied to pay premiums. There are different ways in which these profits may be so applied: (1) as a reduction in the amount or number of premiums; (2) to purchase paid-up aiddditions to the policies; (3) to reduce the term of the policies, as in the case of endowment assurances, and in all these cases entries are made in both the income and expenditure, in one case as premiums paid by dividends, and in the other as dividends applied in payment of premiums. Where dividends are applied as reductions of premiums the amount of the yearly reductions is put through each year under the heading of "Renewal premiums paid by dividends," and in the expenditure under the heading of "Cash dividends applied in payment of premiums." Where dividends are applied to shorten the endowment or premium paying period of policies the amounts so applied are treated as renewal premiums paid by dividends. In the case of dividends being applied to purchase paid-up adidtions or bonuses to policies they are treated in the income as single premiums paid by dividends, and in the expenditure as cash dividends applied in payment of premiums.

Dividends on Deposit.

At the present time a number of companies grant policyholders the option of leaving their dividends on deposit to accumulate at interest and the following methods of treatment have been suggested: (1) When the dividend is declared and the option of deposit exercised by the assured, regard the dividend as paid, debit "Cash dividends paid to policyholders" and credit "Cash dividends left with the company" with the full amount of the dividend. Treat the latter account as a ledger liability and as interest is credited to the deposit, debit the interest account and credit the ledger liability account. The interest accumulations will, therefore, not be shown as dividends but as a deduction from interest being considered in the same light as interest allowed by the company on borrowed money. (2) When the dividend is left with the company regard it as paid and also show it in the income under some heading such as "Dividends left with the company to accumulate at interest;" then, when the dividend and the interest accumulations are actually paid, show the amount so expended under some heading such as "Dividends and interest thereon held on deposit surrendered during the year" in the expenditure. (3) Regard the dividend as paid only when actually disbursed in cash and then show the payment made to the policyholder divided into its component parts, dividend and interest on dividend. The first method which has been suggested by the department is perhaps the theoretically correct one, but it will perhaps be found that either of the other two methods is simpler and more practicable.

Show Disability Premiums Separately.

At the present time no separation of premiums for disability benefits is required It would, however, we think, be well to show the disability premiums separately, and it might also be well where a disability benefit takes the form of waiver of premium to show both, as income and expenditure, the premium waived. It has not been suggested by the department that the present value of future premiums should, on disability, be debited to disability claims and credited to some item of income, but this practice has to many companies seemed most desirable. Where the benefit takes the form of an instalment payment of the sum assured, the department has suggested that only the actual cash payments be charged to disability claims.

The statement calls for gross cash received for interest and net cash received for rents. From the gross cash received from rents from a property there should, therefore, be deducted all expenses connected therewith such as taxes and insurance, and it is also intended that where a company occupies a part of its real estate that a journal entry be made debiting rents payable and crediting rents receivable with a fair charge for its own occupancy. Only in this way can fair comparisons be made of the earnings and expenses of companies. It may not be out of place here to state that a comparison of the rates of interest earned as published in the present report of the superintendent of insurance may be very misleading, as no account whatever is taken of investment expenses in the computation of those rates.

Cash Paid for Death Claims.

The first two items in the expenditure show the amount of cash paid for death claims and matured endowments, including bonus additions. It must be noted that all payments made on account of reversionary bonuses should be shown with the death claims, matured endowments or surrender values paid and not as dividends since the profits, which were used to purchase these bonuses, have already been shown in the expenditure as dividends paid. The payment of interim bonuses declared on policies at the date of their becoming claims by death or maturity is, however, properly shown with the cash dividends paid to policyholders. Care should be exercised in posting to the death claims account to not only post the actual cash paid out by the company, but to also charge the account with all amounts owing for premiums, losses and interest. In the case of a claim arising under a policy where there has been an understatement of age the reduction in the sum assured due to the understatement should not be regarded as premiums due. A claim arising under a policy which, according to the provisions of the policy, must be less than its face amount should only pass through the death claims paid account for the reduced amount. Where the sum assured instead of being paid in one sum is paid in instalments, it is intended that only the actual instalments paid be charged to the account, "Payments on matured instalment policies." It has been suggested that when an instalment policy becomes a claim there should be a debit to the claims account of the commuted amount of the instalments with a corresponding credit to an income account. The present form of the statement does not provide for this practice being followed, but it would appear that the practice might be justified on the ground that there should be a close connection between the claims paid and the claims incurred.

Investment Expenses.

The item of investment expenses, which is called for under a separate heading in the expenditure, is one which has rarely been properly returned. It is the intention that, in addition to commission on loans and salaries and expenses of officials and clerks who devote their whole time to investments, there should be included a fair proportion of other salaries and expenses which are, in any way attributable to investments.

The other items in the statement of income and expenditure have not been found to present much difficulty. We have observed, however, that the account "Commissions advanced to agents" has sometimes been incorrectly treated. The account, of course, should be debited with all advances and credited with commissions earned so that the item in the statement will show the excess of the advances over the commissions earned and not the actual advances made.

In the statement of income and expenditure there are many items which admit of different methods of treatment and it is probable, that in some of these items the method of treatment which has been followed by the department is not the one best adapted to the general practice of accounting. Also, in some respects the present form of the annual blank, is found to be unsatisfactory or incomplete. The department has in contemplation the revision of the annual blank and has recently requested a committee of the Canadian Life Insurance Officers' Association to look into these matters and,