

ULTIMATE EFFECT OF RIGHT TO LIFE POLICY LOANS.

(Arthur E. Childs, President Columbia National. Life of Boston.)

(Continued from p. 61).

Of course, it is true that the loans outstanding to-day represent the accumulation of the loans made through a long period of years, rather than any demand by policyholders for a large number of loans in any one year. They have consequently been made by the companies from their current income and maturities, and have interfered with their general investment policy to the extent that the funds thus annually used for loans to policyholders have not been free for other types of investment. Also while there may, and doubtless will be, continued increase in the percentage of reserves loaned to policyholders, yet if the companies take steps somewhat in line with the suggestions made in this paper, we need not anticipate that loans will ever constitute the greater part of the investments of a life insurance company.

LARGER POLICYHOLDERS GUILTY.

It may be fairly claimed that the smaller policyholders are not the guilty ones, but rather the larger policyholders. The amount at the disposal of the individual who has a large policy is of sufficient moment for him to turn to it in time of need. The membership of any life insurance company, however, is made up in general of the holders of smaller policies, in amounts running from one to five thousand dollars. These policyholders have on the average a very small amount which would be available for loans, and as they are largely individuals not engaged in trade for themselves, and have no business call for loans, or are farmers scattered throughout the width of the nation, they represent a class largely unaffected by periods of financial stringency, and should be of a type unlikely to borrow, unless it is in small amounts for the payment of premiums.

Some claim that policy loans do not increase lapses, but on the contrary keep policies in force, which otherwise would surrender, and there is no doubt merit in the claim. We must admit, however, that in many cases loans made against insurance policies for purposes other than paying the premium are unnecessary.

Further, we know that ninety per cent. of these loans are never repaid, the principal reason for which fact is found in the lack of understanding by the insured of the fundamental principles of life insurance.

Companies must invest their reserves accumulated from the premium payments of the insured in order that the level premiums charged by them will be adequate to meet the obligations undertaken. This is perfectly plain to you because you understand the business, but the insured does not understand the business. He has been trained first through our agents and then by law to believe that this fund is his own property, and when we charge him interest upon a loan made against the fund, he feels that we are charging him for the use of his own money, so he still borrows the limit, may then lapse his contract, and more often than not feels that he has been improperly treated.

The present method of training agents to point out to policyholders the readiness with which they can obtain loans on their policies may, if continued,

undermine the very foundations on which is built the beneficent system of life insurance.

Our mutual institutions have further to consider whether an injustice is not done their policyholders in granting them loans. This point has been so well covered by Mr. J. R. Clark that I am taking the liberty of quoting his arguments. Loans on demand at definite rates of interest in all parts of the country, made by mutual companies, restricted only by the amount of the reserve under the contract used as collateral, discriminate:

1st—Against the company in favor of the banks when rates are low.

2nd—In favor of the borrowing policyholder, for it enables him to borrow at the bank when money is plenty, or on his policy when money is scarce.

3rd—In favor of borrowing policyholders residing in high-rate territory.

4th—In favor of borrowing policyholders by destroying the principle of supply and demand.

In a mutual organization, practices which benefit a few at the expense of the whole should be eliminated. The loan privilege under its present conditions appears to benefit at the expense of all members those who borrow on their policies.

REVIEW.

In studying, then, the present standing of policy loans in this country, we find that the law looks upon as private property funds accumulated from premiums deposited with insurance companies for the protection of families. Furthermore, the law declares that the net accumulation of these funds can be withdrawn at will by the policyholder. That this is to his ultimate detriment, that it leads to the injury of the business, cannot be gainsaid. The immediate effect of this attitude is shown in the ever increasing ratio of policy loans and premium notes to reserves.

CAUSE.

We have, however, none to blame for this condition but ourselves. In reviewing the history of policy loans we find that it always has been the companies who have taken the initiative in the matter. When the laws required no loans, they gave 50 per cent. of the reserve; when they required 50 per cent. of the reserve, they gave more; and when they required 95 per cent. of the cash value, they went the limit and gave 100 per cent.

REMEDIES.

The Ultimate Effect of an Unrestricted Right to Borrow on Life Insurance Policies will be determined largely if not entirely by the attitude taken by the companies from this time on, just exactly as the present condition is the result of the attitude of the companies in the past.

The future legal status of a personal equity in an insurance contract will depend upon the education of the public, and this will depend upon the companies and their representatives.

The moral side of the question will always be the same. Hard-earned savings deposited with the companies for the protection of widows and orphans or for the necessities of old age can never morally be subjected to the whimsical demand for loans. The practical side of the question will be just what we make it. The future course taken by the curve will depend upon the position taken by our companies to-day.