

FACTS, FIGURES AND FALLACIES OF CANVASSING.

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(Continued from p. 857)

DIFFICULTIES OF COMPARISON.

It is sometimes argued that the old company with much paid-up business on its books will suffer in these expense comparisons owing to the income being smaller on that account. But its expenses on such business are also practically nil, so that little effect on the expense-income ratio is caused thereby. Indeed, where the ratio expense to business in force is used, the more paid-up business there is with its negligible expense, the lower will be the ratio. In this latter ratio, the kind of business written would also be important, for a company writing chiefly endowment insurance might make a very poor showing in comparison with a company whose business consisted largely of term or ordinary life insurance.

The only logical ratio for expenses is to find the total cost of new business to new premiums and of renewal business to renewal premiums. But no statistician or expert can say just what the total cost of new or renewal business has been even in his own company, much less for another company. He has to apportion arbitrarily such items as advertising, printing, administration expense, telegraph, postage, etc., etc. The proportion of such expense applicable to new business necessarily varies in different cases and accordingly cannot be honestly expressed by any fixed percentage of total expenditure, and therefore no attempt to do so should be made.

ASSETS AND SURPLUS COMPARISONS.

2. (a) Assets per M assured.
- (b) Surplus per M assured.
- (c) Surplus earned per M assured.
- (d) Reserves to insurance in force.

It is so obvious at a glance that any one of these ratios favors the older and larger company that no comment on the fallacy, or rather rank injustice, of using them in a comparison of a young with an old company, need be made. For companies of approximately equal ages and sizes, the ratios can perhaps be used, but subject to many qualifications. For example, the rate of progression of the company is to be considered. The proportion of the plans of insurance would be important, the endowment plans with their large accumulations contributing greatly to assets, surplus and reserves. A large proportion of deferred dividend business would help (a), (b) and (c), meaning as it does larger accumulations, while a great proportion of annual dividend or non-participating business would lower these ratios. In the case of (b) and (d), the reserve basis is, of course, all-important. If different bases are used, it is futile to make a comparison.

INCOME SAVED.

3. Percentage of income saved.

Most of the remarks made in reference to expense ratios hold here. It is clear that the larger the proportion of new business to old, the smaller will be the percentage of income saved, whether new business is or is not being obtained at a reasonable price. The ratio discriminates, therefore, against the young

company. The amounts of surpluses being paid out and the proportion of endowment and high-priced plans should be considered. Again, some companies have a regular period for surplus distribution for all plans and years of issue. Should the ratio be considered for any such company in one of these years of distribution, it will show considerable distortion from the usual trend. As a matter of fact for this ratio or any ratio, it is generally wise to consider the trend of the same ratios for some years past to notice any discrepancy in regularity. For example, a company might through some peculiar circumstances have a very heavy mortality one year which in all probability would be followed by a light mortality the following year. This would distort many of its ratios and, perhaps, especially in the case of a young company, render them useless for comparison.

SURPLUS EARNED.

4. Surplus earned on ledger assets.

This is a very important ratio and a good comparative one for companies of approximately equal ages, sizes and rates of progression, as it focalizes all significant ratios on the supreme point of earning power. The ratio is, however, well nigh impossible to ascertain accurately for the other company, and hence its chief importance—but, as a matter of fact, this statement holds true of every other known ratio—is to enable the management of any company to test their own progress year by year in order to eradicate defects, introduce improvements and still further nourish strong points. Quite often, however, the ratio can be approximately found from a company's published statement as follows: From surplus to policyholders, deduct the paid-up capital, thus obtaining the divisible surplus; from this latter amount deduct the divisible surplus as shown by the accounts at the end of the previous year and add the profits paid to policyholders during the year. The increase or decrease in the amount of dividends due and unpaid over that of the previous year should then be added or subtracted and to this result should be added the amount of dividends which the shareholders receive in excess of the interest earned on their paid-up capital.

A change in the reserve basis during the year will make it impossible to find from the statement alone the year's gain in surplus. It should also be noted whether any contingency reserve funds have been increased during the year by amounts drawn from the surplus. The dividends paid to policyholders shown in a company's statement will very probably include premium reductions earned in preceding years and now simply falling due. The "outsider," however, has no means of obtaining this proportion, which, of course, should be deducted in ascertaining the true surplus earned.

GUARANTEE OF RENEWAL COMMISSIONS.

Life Underwriters at their Hamilton convention passed a resolution requesting the executive to confer with the Life Officers' Association on the subject of agents' contracts, the convention expressing the view that such contracts should in future embody a clause whereby an agent who had served his company a certain period should have his renewal commissions guaranteed him and his heirs on an equitable basis.