

The public too must come to realize that recurring conflagrations have to be as surely reckoned with as so-called normal fires—and that insurance rates, in the best interests of the community, must be fixed accordingly.



#### DISCONTINUANCE OF DEFERRED DIVIDENDS.

The effect which the discontinuance of deferred dividend policies has upon surplus accumulations of life companies was recently discussed at some length in the annual report of the Massachusetts insurance department. In view of the circumstance that the Dominion's new Insurance Bill (if enacted as recommended by the Commons Banking and Commerce Committee) will put an end to the issuing of old-style deferred dividend contracts in Canada, Commissioner Hardison's comments are of very timely interest here.

Attention is called to the circumstance that the life companies transacting business in Massachusetts are most of them preparing to meet their liability on account of accruing deferred dividends by accumulating funds out of the current premiums and setting aside these funds, subject, usually, to the future contingencies of the business, as a liability on account of these deferred obligations. Evidently some of the companies which have hitherto been carrying a large amount in surplus for the payment of these maturing dividends have become wise to the fact, that, as no more deferred dividend policies may be issued, there will inevitably be a shrinkage in surplus as the maturing dividends become due and payable, and have therefore concluded that it is wiser and better to set aside a sum sufficient to take care of these future dividend obligations, as far as they can now be determined, than to shrink the surplus year by year by payments therefrom. The former plan cannot be misunderstood, and commends itself to conservative and thinking people; while the latter plan, of gradually shrinking the surplus to pay maturing obligations, is ever liable to be misconstrued and used by competitors against the company.

There are, however, some few companies in Massachusetts which seem to have laid aside no funds for paying these deferred dividend obligations, though the unassigned funds which they possess are of no great magnitude.

To put the case concretely, the commissioner supposes that a life insurance company has in force fifty millions of participating business and six millions of non-participating. It has no funds set aside to draw upon to pay dividends, either to annual or to deferred dividend policyholders. It writes now only annual dividend policies, and has

a surplus of about \$900,000, or about 6 per cent. of its reserve, which is about one-half what a Massachusetts company may retain as surplus. A not unnatural query is, From what source will such a company pay its deferred dividends? It would be indefensible to take the current earnings or profits of the annual dividend policies to pay these deferred dividends. To pay those maturing this year from the year's profits of those to mature in the future, or, to be more specific, to use the profits accruing this year on policies that mature their dividend periods in 1910, 1911 1912 and so on, to pay the dividends that should, on twenty-year deferred dividend policies, have been for twenty years accumulating in a fund to meet this very situation, and next year to repeat the same process, would not long afford relief were it permissible; for, as no more deferred dividend policies can be issued, and as the dividend on such policies is usually for each year not less than an annual dividend policy receives, and for a series of years not less than the sum of these various annual dividends, improved by interest, there will finally come a time when the profits of all the deferred dividend policies in force will not suffice to pay the dividends on those maturing during the year. Thus the company that has made no provision to take care of these dividend obligations assumed in the past will find its surplus, now none too large, gradually fading away, or else be obliged to handicap itself in the race for business by cutting its dividend all round to save its surplus. "Companies with this condition confronting them" says Commissioner Hardison, "cannot afford much longer to delay in taking steps to meet the obligations of the future on some well-defined and equitable plan, instead of leaving these obligations to take care of themselves, or to be paid by converting to that purpose the profits of others."

As regards Canadian conditions in this matter, it will be remembered that section 93 of the pending Insurance Bill stipulates with regard to existing deferred dividend contracts, that the company shall ascertain and *contingently apportion* to each class thereof, at least once in every five years (reckoning from the date of the policies) the share in surplus to which it is contingently entitled. The total sum of the shares so ascertained and contingently apportioned is to be carried into the accounts and therein shown as distinct from the unapportioned surplus. This provision for publicity should guard pretty effectually against companies relying upon any mere hand-to-mouth provision for maturing claims upon surplus.

THE CROWN FIRE INSURANCE COMPANY has been authorized to do business in British Columbia.