

practice to the actuary's or the manager's ideal of expense. In these latter days rents, salaries, agents' commissions have sadly exceeded the modest allowance formerly made for them. And Mr. Whiting declares that such expenses cannot be adjusted upon ideals, illustrating by a comparison: "Freight charges and storage," he says, "are not proportioned to the value of goods, but to their bulk and weight." And so, in life assurance, "we must take expenses as we find them, and charge them [against the policy class] as they are caused." But we must give Mr. Whiting's paper in full, save the lengthened schedules which he offers as a rational basis for the distribution of expenses.

DISTRIBUTION OF EXPENSES IN LIFE INSURANCE.

WILLIAM D. WHITING.

The factors which go to make up life insurance calculations are the rate of interest, mortality and expense. These give us the essentials for important computations, such as making up premiums, reserves and dividends. Although all three are of primary importance, it happens, singularly enough, that only two have been particularly studied and developed; while the third, that of expense, has either been ignored or lumped together, in the most inconsiderate manner.

While something may be said for this procedure on the score of convenience, it is certainly neither scientific nor safe, and has led to very one-sided and confused results.

Some attempts have been made, it is true, to sketch out an ideal mode of distributing expenses upon the principle that they should be charged up to the policy-holder in proportion to the value of the insurance which he enjoys. But as practical facts, unfortunately, lend themselves but rarely to theoretical considerations, however just in themselves, we have never heard that any such attempts have been reduced to actual practice. Agents must be employed upon such terms as they will consent to work, in these times of fierce competition. Rents, salaries and general expenses refuse to be governed by "insurance values," and all endeavors to adjust them upon ideals fail.

Nor can it be justly held, that regardless of how expenses arise, their distribution should be made according to the benefit which they confer upon the individual to be charged. This is not the case in any of the affairs of life. Freight charges and storage are not proportionate to the value of the goods, but to their bulk and weight. And so in life insurance, expenses should be allotted, as nearly as may be, according as the policy-class occasions the expense, regardless of the value to the insurer. We must take expenses as we find them, and charge them as they are caused.

This is, of course, no easy task, and probably furnishes the reason why experts have been so reluctant to undertake its solution. The finer adjustments are, no doubt, impossible, but this does not excuse us from adopting certain broad and general principles not difficult to recognize or to handle, especially in view of the fact that our usual procedure, in its application to dividends, is absolutely unjust.

Although the relation of expenses to premiums, and to reserves, offers a most tempting field for actuarial exploration, we will not at this time enter therein, further than to remark that the present method of loading premiums by a variety of percentages, is open to serious

criticism, as such margin bears no just relation to the function which it is called upon to perform. And in calculating reserves for ascertaining the limit of solvency, the assumption that the arbitrary margin, with which the premiums may be loaded, is the exact measure for future expenses, is wholly indefensible. But our present business is with the relation between the expense element and the distribution of dividends.

Let us illustrate. The so-called contribution plan, so generally in use in this country, for making dividends, aims to distribute the profits into their several sources, of gains from interest (over 4% on reserves), from mortality (actual deaths, below tabular expectation), and from saving upon the marginal loading of the premiums. This is all plain enough sailing until we enter the fog-bank of expenses. The expenses of management, less surrender charges and lapsed reserves, are generally thrown in bulk upon the margin or loading, thus occasioning a dividend which rises with the duration of the policy. In this way part of the dividend is derived from interest, mortality and loading.

It is to this manipulation of expenses that we take exception. It is easy to perceive, that in the present state of interest earnings and for the average company, if the investment and mortality branches of the business were charged with the respective shares of the expenses which they themselves have occasioned, there would be no residual gain from either worth speaking about. The expenses of, and losses upon investments and assets, should clearly be deducted from interest earning; while the expense of getting the new business (including medical fees) which occasions the low mortality, less surrender and lapse gains, is clearly a debit against mortality. The more careful and conservative actuaries hold back a part of the interest gains as a Sinking Fund, against loss of principal by panic, embezzlement and other incidents, from which all investments are liable to suffer, and on account of diminishing market value as premium bonds approach maturity. They also hold back a part of the mortality gains from excessive new business as Suspended Mortality, against the loss after the fifth year, by reason of the construction of net premiums upon imperfect mortality tables.

THE CANADIAN MUTUAL LOAN.

There is a little trouble brewing in the Canadian Mutual Loan and Investment Company. At the annual meeting of that company, in August last two shareholders who desired the correction of some matters connected with the administration of the company, met with scant encouragement from its managers. They have, however, been meanwhile reinforced by others, and a circular has been addressed to its shareholders, signed by seventeen dissatisfied holders of stock, a copy of which has been sent to us. This circular takes exception to the wide powers enjoyed by the acting president, the acting secretary, and the general manager, who are, it seems, appointed "by declaration" to be the directors till 1894. The manager and the secretary, who form the majority of the board, have, under the statute, R. S. O. Cap. 169, power to appoint and discharge all officers; to pay such salaries as they deem fit; to make rules governing the association and its funds; to receive its moneys and approve

of its investments; and finally to approve of the bonds or security to be given by its officers. They have, as was to be supposed, approved their own bond.

But a matter to which exception has especially been taken is that, as the circular alleges, "a proxy from each shareholder has been written into the application [for shares], of whose existence the shareholder is generally unaware, and which enables the manager and secretary to control the vote at any general meeting." This, in the opinion of the signatories, "is not the proper way of obtaining proxies, and is an imposition upon the carelessness of the people." Another feature strongly objected to is the rule that proxies shall be filed fifteen days before the meeting. The conclusion of the protesting shareholders is that "it is absolutely unsafe to leave the directorate of the company in its present shape."

Accordingly it is proposed to hold a special general meeting of the shareholders, the law providing that such meeting may be called by the secretary if any fifteen shareholders so desire and state. Proxies intended to be used at such meeting, and revoking the proxies by the secretary and manager, are being sent out. Notice of the date of the special meeting is to be given in the Toronto papers. Among the questions upon which the views of shareholders are sought are the following:

Should the principal officers not be elected annually at the annual meeting, rather than by the officers themselves, who form a majority of the board?

Should not the objectionable clause in the application, already mentioned, be cancelled?

Should the manager and secretary have the approval of their own bonds?

Should not the board of directors be increased in number, a fair proportion to be residents outside of Toronto?

Should the two officials vested with so much power form a majority of the board?

Should not a rule be adopted that no secretary, general manager or subordinate officer shall vote in person or hold a proxy for that purpose?

An interesting field for discussion is here opened up. There is much force in some of the objections taken by this circular to the conduct of the company. It is significant to find local directors, valuers and solicitor of a company (which was boastfully designed to make money so rapidly and so certainly for both its borrower and lender) taking alarm at its management in this early stage.

A SALE SET ASIDE.

The custom of insolvent merchants disposing of their stocks in a free-and-easy way at the expense of their creditors, has been on the increase of late. A case arose in Western Ontario recently, which a creditor determined to make a test of. The principle at stake is an important one, and the result of the contestation was satisfactory.

The case in question was the London Shoe Company *versus* Side, and the decision reached is probably a matter of chagrin to the Side family. Some months ago, we are told, Matthew Side, of Chatham, general dealer, sold out