

# ONTARIO POLICYHOLDERS.

## Local Opinion Favors Premier Whitney's Action—What Company Directors Have to Say of Insurance Situation.

Local opinion seems strongly to favor Premier Whitney's action in appointing counsel to look after the interest of Ontario policyholders at the sessions of the Insurance Commission. The plan is one that might well be adopted by other Provinces, as it would doubtless tend towards bringing Dominion and Provincial insurance laws into closer accord.

In the matter of the forthcoming investigation this much can be said for the various companies' directors—that apparently they have offered no opposition to the appointing of a commission, but seem rather to favor it. A specimen utterance was that of Mr. W. J. Flavell, a Canada Life director, at that company's recent annual meeting.

### Companies Want Investigation

He expressed himself as personally greatly pleased that the Government had issued a commission, and as endorsing the examination would be thorough, fearless and searching. Headed frankly that it was hardly possible that its findings would endorse the judgment of the directors of any of all life insurance companies, Canadian, British and American, in all their methods of doing business or securing investments. He hoped, however, that it would establish the good faith and honor of the men who sat on the respective boards. For himself and his fellow-directors he felt he could say without reservation that any possible errors were due to limitations of the same inadvertent character as the errors all men make at some time or other in their own business affairs. Of one thing he was sure, and as policyholders' directors wished to emphasize, that at no time had any director or body of directors attempted to secure advantage for Canada Life shareholders as against policyholders.

He spoke partly as follows:—It has been suggested, rather than directly charged, that directors use the moneys of this company in the purchase of securities, and secure personal profits because of such relations. It has been suggested that it has been possible, by the use of the company's funds, for directors to buy bonds, carrying with them bonus of common stock, reselling the bonds to the company, and holding the common stock as a personal asset. It has been alleged that there have been transactions in which the company and directors have been partners, and in which the company has supplied the money, while the profits have been divided between the directors and the company. I do not know what other form the suggestions have taken, but the whole matter is simply some relations between the directors and the company other than that of a trust relation, and that personal profits have come to the directors of an improper and wrong kind.

I wish to say on behalf of myself that every such statement or suggestion is untrue in every particular. I have borrowed no money, have had no common stock, have had no joint transaction, have participated in no underwriting, and have had no personal profit. I wish to say on behalf of my associate directors that as far as I know they are in the same position. I believe that the whole field of conjecture and unkind inference is and has been unwarranted.

It has been suggested that this company and its moneys were used for large underwriting transactions to help directors or others to make money, and that some effort will be made at this time to bolster up its position with the public by the disclosure of its assets. It has also been suggested that in connection with such underwriting blocks of common stock have passed to directors or their friends, and which blocks of common stock ought to be the property of the company. Subject to correction, I desire to say that this company has not been an underwriter, except on very rare occasions. Its moneys have not been used in underwriting on behalf of its directors or their friends. It took \$100,000.00 of the original underwriting of the Electrical Development Company's bonds, and received with underwriting, which was practically a purchase, \$100,000.00 of common stock. This stock will be found in the published statement of securities now before you, and has been carried in the assets of the company from the first. The company had an underwriting transaction in Grand Trunk Pacific bonds, which also was a purchase. No common stock, however, was issued with these bonds. I am not aware that it has had any other underwriting transactions. I am not aware that it has had any common stock, as a bonus, except in two instances, where it purchased securities. In one of these the securities were the Mexican Light & Power Company bonds, and were purchased from the Dominion Securities Company. These bonds and common stock were subsequently sold at a profit, hence do not appear on the list of published securities. In the other instance the securities are still held and appear on the published list on the table. There have not been any silent assets. No director to my knowledge has had common stock attached to any bonds the company has bought. No director to my knowledge has had any personal profit arising out of his connection with the company. No director to my knowledge has had any loan on stocks or securities from the company, or has had any transaction in which the company and the directors were sharers in the profits or losses.

It has been implied that the marked difference in the volume of call loans against securities at present, as compared to a few years ago, indicated some improper relations at the time that call loans were larger, and that if a truthful explanation were forthcoming it would show how improper these call loans had been.

The answer is both a simple and natural one. The reduction comes from two causes: First, for a number of years three separate and distinct large call loans were carried against Canada Atlantic bonds; against Lake Erie & Detroit River Railway Company bonds; against Bay of Quinte Railway bonds. These loans aggregated two and one-half millions of dollars. The borrowers were gentlemen having no connection, directly or indirectly, with the directors, and the loans were made prior to the present administration of the railways or a reorganization of their securities led to the paying off of these loans. These three items alone, therefore, represent more than

the Associate Manager of the Canadian Bank of Commerce in New York, or Mr. Watt, the present Treasurer, have been the Treasurers of the company, and each transaction which came to the Board came on the recommendation of the Treasurer or Investment Committee.

It has been alleged that directors have been careful of shareholders' interests and careless of policyholders' interests; that if the policyholders' directors had been true to their trust they would have protected policyholders from the improper acts which were said to be performed by the directors of the shareholders.

In reply to this, I beg to say that during the time I have been on the Board I have known of no effort made by any director or body of directors to secure advantage for shareholders against policyholders. I have not been aware of any division of interests on the Board. I have only met with a sincere desire on the part of all to contribute his

ing to call men practically thieves and vagabonds without producing evidence in support of it, and then say: "If you are not thieves and vagabonds, why don't you prove it?"

Personally, I am greatly pleased that the Government has issued a commission. I hope the examination will be thorough, fearless and searching. It is hardly possible that in its findings it will endorse the judgment of the directors of any of all life insurance companies, Canadian, British and American, in all their methods of doing business or securing investments. I do hope, however, that it will establish the good faith and honor of the men who sit on the respective boards.

The speech of the Canada Life President, Hon. G. A. Cox, at the same meeting, seemed likewise characterized by a frank discussion of present insurance conditions. He dealt as follows the company's various efforts to have its affairs investigated officially.

On the 25th of May last we invited the commissioner for the State of Ohio to join with the commissioner for Michigan in making the usual periodical examination of the company. We also intimated to the officers of the Canadian Insurance Department at Ottawa that we should be glad to have them join in this investigation, but the Canadian Superintendent, having only a few months before made his usual examination, did not then think it necessary to make a further one. The commissioner for Ohio also had such

dence before that committee appointed by the State of New York, where we also transacted business. Not only did we offer to give evidence in New York, but we invited the Armstrong Commission to send their experts to our head office and make an examination of our affairs here.

You will thus see that we have made two requests to the Canadian Superintendent of Insurance for a special examination, one request to the commissioner for Ohio, one to the commissioner for Michigan, and two offers to the Armstrong Committee of the New York Legislature. The directors and officers of this company submit that the foregoing statement of facts will satisfy any fair-minded person that the company has shown a disposition to submit its affairs for examination to any recognized existing authority.

In referring to the charter and capital of the Canada Life he said: The company was, as you know, organized in August, 1847, and was incorporated by an act of the Legislature of the late Province of Canada in April, 1849, with an authorized capital of \$50,000. By section 23 of the charter, authority was given the shareholders to increase the capital to a sum not exceeding \$250,000. This authority was exercised in 1855, and payments were made on account of subscribed capital in various years following until, in 1864, the amount paid up was \$125,000.00, at which it remained until 1900, when it was decided after careful consideration by the share-

holders should be allotted to the shareholders and not less than 90 per cent. to the policyholders. In order to get this change made each individual shareholder had to give his consent before Parliament would interfere with its vested rights. The shareholders thus, of their own accord, voluntarily surrendered to the policyholders three-fifths of the profits to which they were entitled. The 10 per cent. to which they are still entitled is not increased, decreased or in any way affected by the amount of paid-up capital, whether it be \$125,000.00, as it was, of \$100,000.00, as it now is; in either case, under agreement ratified by Act of Parliament in 1879, the shareholders are entitled to one-tenth of the profits. When the amount paid up was \$125,000.00 the shareholders received for many years a dividend and bonus at the rate of 30 per cent. per annum. They were liable to be called upon at any time for \$875,000.00, or 87-1/2 per cent. of the amount of their subscribed capital.

I will ask you to bear in mind that the \$1,000,000.00 paid in by the shareholders earns at the average rate of the company's invested funds \$49,200.00, leaving only \$30,800.00 per year from the profits of the Company to make up the 8 per cent. which they receive as dividends; it took practically the same amount to pay 30 per cent. of \$125,000.00 prior to 1900. That this stock dividend is no hardship upon its policyholders is evidenced from the fact that when spread over the \$107,000.00 of business in force, this dividend (over and above the interest earned), costs the policyholders only about 30 per cent. per \$1,000 of insurance per year, and for this they have not only the guarantee of \$1,000,000.00 additional security, but a continuity of management and an exchange that it is in the shareholders' interest to make as large profits for policyholders as possible.

### Investments

A printed list is laid upon the table showing in detail every dollar of our assets, aggregating over \$30,000,000.00. Mr. Alexander Bruce, K. C., Chairman of the Investment Committee, and Mr. J. L. Watt, the Treasurer of the Company, will give to any policyholder who may desire it—at the close of the meeting—the fullest information as to where, when, and at what price, and from whom the various securities were purchased. Every transaction in the

interest thereon constitutes the reserve, and is a distinct liability, and absolutely necessary to enable the company to carry out its contracts. Without this accumulated reserve, a level premium company would soon become insolvent. From another point of view, the reserve is the sum which one company, would have to hand over to another company to assume its contracts. Hence it is often called the re-insurance fund.

We have the most conclusive evidence that a very large majority of our policyholders are entirely in accord with the strong and safe policy that has been carried out, even though it did temporarily reduce the amount of surplus available for distribution of profits. The steady increase in our new business, a good percentage of which is additional insurance upon our present policyholders and new insurance upon the members of their families, testifies to the fact that we have a contented and satisfied body of policyholders, and well they may be satisfied. I have no hesitation in making the statement that no other company doing business in this country, Canadian, British or American, has or mutual, has given better security or better results to its policyholders—spread over a long term of years—than has the Canada Life, and in these years I include our last two quinquennial distributions that have fallen somewhat below the previous distribution because of the strengthening of our reserves.

### Minimum Policyholders

These old low-premium contracts, which it is stated were withdrawn in 1896, have come in for a good deal of discussion by holders who do not bear in mind the terms under which they were issued. Senator Cox explained that they were the equivalent of other contracts issued by the Canada Life at the same time, their distinguishing feature being a very low premium rate owing to the immediate application towards premium reduction of future profits. The policies specified that if the actual rate of profit earned was less than that assumed in advance, the difference should be charged up against the policy. This, it was explained, was merely a measure of justice between minimum and full-policy policies.

How low the minimum premiums were is shown by the comparison with other plans made by Senator Cox:—

Age.	Full Profit.	Whole Life Rates.		Present Profit Rates.
		1876.	1896.	
21	\$16.30	\$15.00	\$12.80	\$19.40
25	19.00	17.30	14.70	21.30
30	22.30	20.10	17.50	24.25
40	30.50	27.40	24.70	32.60
50	42.60	39.00	35.70	47.05

To further illustrate the working of this minimum system, let me give you the following example: On a \$10,000.00 policy issued in 1876 at age 35, where the premium was \$24.00:

At the division of profits in 1880 the amount added to the policy was \$65.00  
At the division of profits in 1885 the amount added to the policy was \$87.50  
At the division of profits in 1890 the amount added to the policy was \$65.00  
At the division of profits in 1895 the amount added to the policy was \$75.00  
At the division in 1900 the amount deducted from the policy was \$250.00  
At the division in 1905 the amount deducted from the policy was \$125.00  
showing that the policy now stands at \$11,937.50.

investment department is carried out upon the recommendation of the Treasurer to the Investment Committee, composed of Messrs. A. Bruce, K. C., B. E. Walker, J. W. Flavell, Hon. Wm. Gibson, Mr. John Hoskin, K. C., Mr. E. Wood, the General Manager and the President, and each transaction is then reported to the full board, which meets every two weeks. The securities of the Company are worth a good deal more than their face value, and a good many thousands of dollars more than the price at which they stand in the books.

The strengthening of the Canada Life's policy reserves has received a good deal of discussion. Senator Cox explained the position as follows:—

### Stronger Reserve Basis

The act of 1890 required all companies to compute their reserves at 3-1/2 per cent. upon all business issued on and after 1st of January, 1900, and to change all business then on their books to 4 per cent. before the end of 1910, and to 3-1/2 per cent. before the end of 1915. The shareholders, directors and officers of the company, after prolonged and careful consideration, and after consultation with our own actuary as well as the most eminent British and American actuaries, with a number of the most prominent financiers in Canada, and a number of our policyholders, came to the conclusion that it was in the best interests of the Company to proceed with as little delay as possible to comply with the law, rather than take the full time that had been allowed by the Government at the request of some companies who thought they would find it impossible to make the change at an earlier date. We believed, then, and we as firmly believe now, that the course decided upon was the correct one in the interests of the policyholders as a whole. The sum of over \$2,500,000.00 which had been added to our reserves somewhat sooner than required by law has not been lost or diverted from the policyholders any more than has the \$10,000,000.00 of reserve fund held by the bank of Montreal been diverted from its shareholders; indeed, there is added security to the policyholder, in that the portion of this fund represented by his policy is credited direct to his policy account. The amount has been carefully invested, providing additional security for policyholders and earning additional interest, which will increase their future profits.

As many persons do not understand the nature and function of a reserve in life insurance, I may say that it is entirely different from the term reserve in a bank or ordinary joint stock company. In a life company the reserve grows out of the idea of a level premium, for while the level premium is greater than is required to cover the mortality risk in the earlier years of the policy, it is less than would be required for the later years. This over-payment with

### Necessary Expenses

We have, in common with all other companies, been criticized because of our increased Expense Ratio, but the very keen competition has made it more expensive to obtain business; and, even with the largely increased commission which all companies are obliged to pay, the field men are not in many cases sufficiently well paid, because of the prevailing abuse that has in recent years crept into the business, whereby many agents are forced through stress of competition and the importunities of assureds, to vie with each other to see who can give the largest rebate. The result is that the assureds received by way of rebate a very large proportion of the commissions on new premiums supposed to have been paid to the agents in Canada in 1905, and on account of which the companies are blamed for increased expense ratios. It is to be hoped, in the interest of the agents, the companies and the assured, that through some better understanding between the companies, through legislation, or in some other way, this evil may be effectually eradicated from the business.

In respect to our own Expense Ratio it is to a large extent the outcome of a well-considered policy that the directors have liberally entered upon when it was decided to extend our business to the United Kingdom and to further extend it in the United States.

It will be seen by reference to the records that our new paid-for business for the year 1900 was \$6,397,943.00, whereas for 1905 it was \$13,014,146.43. The total amount of business in force as at the 31st December, 1905, was \$107,681,883.00, of this amount \$12,464,931.00 has been placed on the books since January, 1st, 1900, or, say, 40 per cent. of the total amount for the last six years, as against 60 per cent. for the previous fifty-three years of the Company's history. This has been accomplished by the extension of our business to the United Kingdom, by opening additional branches in the United States and by improved organization at home.

The opening up of new territory, the planting of new agencies and the rapid increase of new business are invariably and unavoidably accompanied by an increased Expense Ratio. While especially and unanimously supported by my co-directors in the adoption of this policy, I personally take the full responsibility of having advised it, and I have no doubt whatever in my own mind that it will ultimately be of very great benefit to the Company and to the country. If it had been done fifteen years earlier we should by this time have had \$100,000,000 of money invested in Canada to assist in the development of the country, instead of only \$30,000,000, as we have at present; in other words, we are trying to bring back to Canada a portion of the many millions that foreign insurance companies have been

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# CANADA : LIFE

## ASSURANCE COMPANY

### 59th ANNUAL STATEMENT

ASSETS		LIABILITIES	
Government, Municipal and other Bonds, Stocks and Debentures.....	\$17,726,831 24	Re-insurance Reserve Fund (Hm) 3 1-2 per cent. and 3 per cent.....	\$28,505,936 00
Mortgages on Real Estate.....	5,185,612 99	Death claims in course of Settlement and Instalment Fund.....	261,030 01
Loans on Bonds, Stocks, Etc.....	149,987 59	Dividend to Policyholders in Course of Payment.....	35,843 41
Loans on Policies.....	3,629,593 86	Reserve for Policies, which may be revived	41,962 00
Real Estate owned (including Co.'s Buildings in Toronto, Hamilton, Montreal, Winnipeg, St. John, N. B., London, Eng.).....	1,834,307 92	Other Liabilities.....	91,190 66
Premiums in Transit and Deferred (net).....	601,314 03	Total Surplus on Policyholders' Account (Hm. 3 1-2 per cent. and 3 per cent.) after distributing surplus as below.....	1,393,403 28
Interest and Rents accrued.....	386,700 41		\$30,329,365 36
Other Assets.....	548,945 00		
Cash on hand and in Banks.....	266,072 32		
	<b>\$30,329,365 36</b>		
RECEIPTS		PAYMENTS	
Premium and Annuity Income (net).....	\$ 3,299,973 37	Death Claims (incl. Bonuses).....	\$ 1,389,053 28
Dividends applied to purchase Paid-up Additions.....	804,621 49	Endowments paid (inc. Bonuses).....	402,730 24
Interest, Etc.....	1,294,593 54	Cash Dividends to Policyholders.....	390,067 96
Profits on sale of Securities.....	70,380 24	Cash Dividends to Purchase Bonus additions to Policies.....	466,294 49
		Cash Dividends to meet anticipated Bonuses or Minimum Policies.....	338,327 00
		Surrender Values of Policies.....	144,292 13
		Cash Values of Matured Tontine Policies.....	114,625 00
		Paid Annuity.....	26,691 35
		TOTAL PAID TO POLICYHOLDERS.....	\$3,272,081 45
		Commission, Salaries and Expenses.....	739,515 27
		Taxes and Government Fees.....	267,270 70
		Stock Dividend.....	80,000 00
		Excess of Receipts over Payments.....	1,110,701 22
	<b>\$5,469,568 64</b>		<b>\$5,469,568 64</b>

### ...GAINS IN 1905...

	1905.	1904.	Increase.
Amount of Assurances applied for.....	\$14,886,085	\$14,571,153	\$314,931
Policies Issued.....	13,325,579	13,043,503	282,076
Policies paid for.....	12,215,262	11,211,721	1,003,541
Total Business in force.....	107,681,883	101,805,944	5,875,939

The new business paid for in 1905 was greater in amount than that of any previous year in the Company's history.

A full report of the annual meeting and a complete list of the invested assets will appear in the Company's Paper, "Life Echoes."

three-quarters of the mysterious reduction. The remaining one-quarter is to be accounted for by the fact that, with the high rates prevailing for money it was possible to buy long-dated, high-grade securities on favorable terms, and your directors believed it would be sound policy to further reduce their call loans and use the money thus called in to increase their holdings of high-grade securities. I can think of no question which might be asked in relation to the investments of the company which could not be answered in the same simple and natural way.

Until my association with the Canada Life I had had little experience in investment companies. I have little or no knowledge of how investments are made in other life insurance corporations. The impression which has been left upon me as the result of association with the Canada Life is that its investments were made with conservative care and with excellent judgment. During the entire period of my identity with the company, Mr. H. B. Walker, now

share toward the development of the company, and it has been taken for granted that the interests of the shareholders and policyholders were common.

I presume as long as judgment is human that there are some acts which men perform that if they had to do them over again they would do differently. As directors of the Canada Life we are not exempt from this human contingency, but I desire to say, on behalf of myself—and I believe I speak correctly, on behalf of every other director—that the errors which have been made from time to time are of the same character as the errors which we have made in our own business and private affairs. I have a sense of pride and satisfaction in the security to the policyholders in the character of the investments held by this company. I cannot but think that many things adverse to the directors which have been said on the street or suggested by newspapers on this matter should have been left unsaid and unsuggested. It is hardly fair fight-

confidence in the ability and integrity of the commissioner for Michigan that be considered it unnecessary to join in the examinations, which was duly made by the officials of the latter department.

Again, in the month of September of last year, when the public mind was a good deal agitated over the investigation in New York, we renewed the request to the Canadian Superintendent of Insurance that we should be glad if he would make such further examination of all our affairs as he might deem necessary. We were, however, officially informed that the accounts for the year 1904 had all been verified and the securities examined, and that any further examinations would be made at the Superintendent's regular approaching examination. This latter is referred to in the directors' report.

In the month of November last, during the session of the Armstrong Commission in New York, we offered to send our officers with official documents to New York to give evi-

holders, to require payment in full for the shares. Every dollar of this amount, \$875,000.00, was paid in cash to the company by the shareholders, and this, as you know, was completed in 1904, the company now having a paid-up capital of \$1,000,000.00, of which 94 per cent. was paid in actual cash and the balance of 6 per cent. by bonus out of profits during the early years of the company—1849 to 1865—when little or no cash dividends were paid to shareholders. From this you will see that the oft-repeated story of only \$4,000 having been paid by the shareholders on account of the \$125,000.00 of capital is entirely without foundation.

In the early history of the Company the Act of Incorporation provided that profits arising from the business should be divided in the proportion of 25 per cent. to the shareholders and 75 per cent. to the policyholders. If remained in that way until 1879, when the shareholders made application for legislation providing that not more than 10 per cent. of