

MUTUAL COMPANIES' UNSURPASSED RESULTS

Mutualization of Canadian Companies Would Not Result in Weakening in Security

Editor, *The Monetary Times*.

Sir,—The leading article in your issue of August 17th, concludes as follows:—

"The question [of mutualization] was prominently before the public in Canada about two years ago, and is not unlikely to be so again after the war, when it is to be hoped that Canadian life policyholders will give very careful thought before yielding the tried security and progress of proprietary companies for the comparative obscurity of mutualization. Communistic as is the basic idea of life assurance, only to a very limited extent can its government in the past be called democratic, while there are many and cogent reasons, too long to set out here, that its best development lies in continued individualistic control."

Relative Position of Companies.

The author of this article could surely not have studied the relative position of mutual and stock life companies on this continent, nor could he be familiar with the financial standing, the progress, and above all, the profit-paying record of the many American mutuals, or he would have paused before making such a statement as the above. It is a fact well known to students of life insurance, that most, if not all, of the American mutuals are conducted by officers of great ability, and with unsurpassed results. But if individualistic control, which Mr. Barton favors, is so much superior to the mutual, why is it that this system is not making the progress to which it ought to be entitled? In the United States, for example, of the \$24,618,659,968 of insurance in force, no less than \$17,644,160,092, or 72 per cent. is carried by mutual companies! Again, the five leading American mutual companies (including the Equitable now being mutualized) write more than one-third of the entire life insurance business in the United States. The smallest of these five has more business in force than all the home and foreign companies in Canada together! The question of the nature of their control cannot alone account for this great preponderance. In a democracy like the United States, capitalistic control of any business organization is viewed with distrust, and probably this may have some influence in favor of mutual companies; but I think it can easily be shown that a greater reason lies in the fact that American mutual life companies are amongst the best managed in the world. The further fact that the companies which have failed were all of the variety favored by your correspondent contributed to no small extent to the results mentioned. The latest of them was the Pittsburgh Life and Trust, which, but for the Metropolitan (a mutual company) coming to its rescue, by reinsuring its contracts, would have made a sorry spectacle in the hands of a receiver. Mr. Barton will hardly deny that the wrecking of that institution would have been impossible under the mutual system.

Little to Fear.

Your contributor has little to fear from the mutualization of Canadian companies on the score of "tried security," for, as a matter of fact, mutual companies have almost a perfect record in respect of solvency, practically all the failures being failures of stock companies.

As to both progress and security, history completely refutes the assumption that the mutualization of Canadian companies would result in a retrogression or a weakening in security—precisely the opposite would probably be the case.

Yours, etc.,

GEO. WEGENAST, Managing Director.

Mutual Life Assurance Co. of Canada, Waterloo, Ont.
September 12th, 1917.

ALLIANCE OF PHILADELPHIA IN CANADA

The Dominion Insurance Department has granted a license for the transaction of fire insurance to the Alliance Insurance Company of Philadelphia. To avoid, as far as possible, confusion with the old Alliance of London, England, it has been made a condition of granting the license that the company shall always state its full name in all its advertising matter, policies, literature, office signs, letter-heads and publications used in this country.

DANGERS OF MUTUAL PRINCIPLE

Position of the Policyholders—Mutualization of American Companies

Editor, *The Monetary Times*.

Sir,—In reply to Mr. Wegenast's letter, a copy of which you have forwarded me, neither the ability of the present officers of American mutual or stock companies is in question, so far as I am aware, but when Mr. Wegenast states: "that most, if not all, of the American mutuals are conducted with unsurpassed results," I cannot agree with him.

At least two well known stock life companies in the United States can more than hold their own with any mutual company on this continent, while, age for age, there is little difference between existing stock and mutual companies, except the great preponderance in numbers of the stock companies.

Of the five leading American mutual companies (Mr. Wegenast includes with them the Equitable now in process of mutualization) three achieved their success as stock companies. The fact that these companies wrote more than one-third of the entire life business of the United States, adds no force to any argument as to the respective merits of stock or mutual companies, for, until quite recently, they showed much the same results as stock companies.

Two-thirds of Business.

In 1915 (the only blue book at hand at the moment) five domestic stock life companies had written in Canada, not one-third, but nearly two-thirds of all life business written by domestic companies at that date, but this again tells us little as to the merits or demerits of stock or mutual companies per se.

Mr. Wegenast states: "The companies which have failed were all of the variety favored by your correspondent." In the Spectator Year Book, 1917, published in New York, may be read a list of some 50 American mutual life companies which have either failed, retired from business or been reinsured by stronger companies. This, too, in spite of the fact that, owing to legal and practical difficulties, very few mutual ordinary life insurance companies have been organized on the American continent in many years.

The history of fraternal life assurance organizations cannot be said to increase confidence in the mutual principle—in which connection it has had probably its widest and longest test.

The debate on the merits of the respective organizations, has proceeded for at least two centuries, and, while it will be readily admitted that there are to-day mutual life companies as strong and as ably managed as the best stock companies (and no better instance of this can be quoted than the company my critic so ably commands), this does not prove the case one way or the other.

Some of the Dangers.

Some of the chief dangers of the mutual principle are the absence of the personal interest of stock holders to inquire into the "why not," if the dividend falls, and therefore spur the management to success. The difficulty of combination amongst policyholders to change an inefficient or undesirable control and the liability to lack of initiative in an administration, which, under existing circumstances, after once elected, is practically self-controlled. The insurance of life differs from all other classes of insurance, in that its contracts are spread over long terms of years, instead of a few months only.

If a fire, a marine, a casualty, or any other class of insurance company, shows signs of weakness, policyholders have only to transfer to a company more suited to their requirements and the incident is at an end, so far as they are concerned. With a life policyholder this is not so. Each year of life increases the premium rate and usually decreases the eligibility as a standard risk. The older the policy the greater the sacrifice if the venture prove a failure.

Control of a Life Office.

The great importance of being able to change the control of a life office and of preparing for events of the distant future, are therefore peculiar to life companies.

If individualistic control in life insurance is not making the headway it should do, in my opinion, it must be accounted for by the drastic legislative enactments affecting life companies, which, in effect, have reduced the powers of admin-