

The Mercantile
Fire Insurance
Company.

THE recent acquisition of the Capital Stock of the above Company by the London and Lancashire Fire Insurance Company, has induced some persons to state that this means the absorption and closing of the "Mercantile" entirely, which is calculated to injure its business. The following message has been received by Mr. Lockie, Managing Director of the Mercantile, from the Head Office of the London and Lancashire:

"Our Directors, realizing that the 'Mercantile' is peculiarly a local Company, with its value largely dependent upon the maintenance of its past independence, have come to the deliberate conclusion that there can be no object or advantage in that independence being terminated, but on the contrary desire that it shall continue to work as a Canadian Company, with all the benefits which local traditions and connection imply."

This is so explicit that the injurious reports to a contrary effect should cease, as they are wholly unjustified. A full report of the London and Lancashire will appear in next issue.

THE EXPENSE LOADING OF THE LIFE PREMIUM EXCEEDED.

The vital question in life insurance, next to the selection of the risks, is the expense of getting and caring for the business. So long as a company's mortality does not exceed the table-rate, and the expense of management does not exceed the "loading" portion of the premium, its affairs will move along from year to year on mathematically safe lines, assuming, of course, what, as a matter of fact, has never failed to be the case, that the interest realized on the investment of the reserve portion of the funds shall never fall below the rate assumed when the premium rate is fixed. Have the life companies as a whole on this side the water, especially those of the United States, kept within the lines indicated? So far as the experience of the past ten or twelve years is concerned, facts, we think, show that the question must be answered in the negative. Let us see.

It is a fact generally accepted by well-informed students of the business, that under the methods of management prevailing, and which for several years have prevailed, among American companies, a majority of the companies have expended each year more than a hundred per cent. of the first year's premiums in the getting of new business. The total expense of caring for the business after it has been secured may safely be said to exceed twelve and a half per cent. of the premiums. It is estimated by good authorities that under modern hothouse methods and lapse-producing practices the average life of the policy is about five years. Suppose a company issues a policy of \$1,000 at age 35 on the whole life plan, the standard table premium being \$26.49. A hundred per cent. of the premium for first year's expenses will be, of course, \$26.49. Twelve and a half per cent. for taking care of the business, will be, four years more, \$13.24. The mortality for the five years will call for about \$45 and the reserve, Actuaries' 4 per cent., demands \$61.34, or

a total at the end of the five years of \$146.07. The total premiums received for the five years will have been \$132.45 and the interest assumed \$5 more, or altogether \$137.45. This lacks just \$8.62 of balancing the account on the policy transaction. It is obvious that there must be a large saving in the mortality claims, as between the actual and the table rate and from interest above the assumed four per cent., or else the company is borrowing from the future in a perilous fashion. Charging only 90 per cent. of the first year's premium to new business, and the account would still show \$5.97 on the wrong side.

With the majority of American companies we fully believe, however, that the average first year's expense on the business, as of late conducted, will exceed rather than fall below a hundred per cent. We notice that recently the *Argus*, of Chicago, presented a table designed to show the expense of obtaining new business both for 1894 and 1895 of the companies active in reaching for new business, basing its calculation on the designated commissions, and bonuses to agents, and medical examinations as given by the companies in the official reports, plus one-fourth of the miscellaneous expenses, which gives 81 to 82.2 per cent. respectively for the two years as the expense for new business. This is evidently an ultra-conservative estimate, for if the other three fourths of all miscellaneous expenses, including commissions, etc., be charged up to expense of caring for the old business, it would call for from 15 to 19 per cent. of the total premiums, which is a good deal too much. This over-estimate charged up to new premiums would, we think, carry the new business expense to new premiums easily up to a hundred per cent. At all events, whatever the exact figures, which, of course, cannot be accurately fixed from the data furnished in the annual statements, it is in evidence from the reports, that while the surplus, excepting tontine surplus, of the companies to liabilities has increased only about three per cent. during the past dozen years, the average dividends to policy holders have decreased fully fifteen per cent. As everybody well-informed knows, the dividends of the companies making extraordinary exertions for new business are merely nominal. The saving from a favorable death-rate, from interest, from surrendered policies and other sources, has mainly gone to make good the overdrawn expense portion of the premium, instead of finding its way into the pockets of the policy-holders.

Fortunately there are indications that the company managers have come at last to realize the peril of extravagance in business getting, and are likely to moderate their desires for big business at a ruinous price. We shall be disappointed if the record made by the American companies in 1896 is not a decided improvement on that of the past ten years. The ratio of commissions and bonuses on new business was about one and a half per cent. less in 1895 than in 1894, while the total management expense to total premiums has decreased nearly one per cent. These are small improvements, but they furnish the ground for hoping to see a still more decided improvement in the situation.