

INSURANCE COMPANIES' CANADIAN ACCOUNTS.

The following is the text of the circular sent out by Mr. Finlayson, the Dominion insurance superintendent to companies, other than Canadian, regarding the records and documents to be maintained at the chief agency in Canada, as provided by section 35 of the Insurance Act. The matter is now under consideration by the insurance companies affected.

"Section 35 of the act, omitting for the present the provisos, which will be considered later, is as follows:—

"Such company shall keep at the agency in Canada records and documents sufficient to enable the agent to prepare and furnish the required statement of Canadian business, and such that the said statement may be readily verified therefrom."

CHIEF AGENT'S FUNCTIONS.

"The statement of Canadian business referred to includes a statement of the cash income and expenditure of the company in Canada, and it is therefore necessary for the verification of this portion of the statement that the entire income of the company in Canada shall pass through the chief agency, and that all payments for losses and other expenses in Canada shall be made from the bank account of the chief agent or from funds under his control. For this purpose all agents' remittances should be made to the chief agent, together with reports containing details of the policies, in respect of which the remittances are made, sufficient for the calculation of the reserve of unearned premiums. It is not necessary for the purpose of verifying this part of the statement that the daily reports of risks written and cancelled be made to the chief agent. These may, if desired, be made to the head office. The monthly or other statements, however, showing how the remittances are made up should be made to the chief agent.

"In order that the expenditure of the company in Canada may be checked, it is necessary that cheques drawn in payment of losses, expenses and other disbursements in Canada, whether drawn in Canada or at head office, should operate on the bank account of the chief agent or on accounts under his control, so that the entire expenditure in Canada can be traced through the records of the chief agent.

OTHER REQUIREMENTS.

"The necessary books for recording the income and expenditure in such detail as is called for by the Canadian annual statement should be maintained by the chief agent.

"The statement of Canadian business requires also that the liabilities of the company in Canada be shown. These liabilities are composed for the most part of the reserve of unearned premiums and the outstanding losses. For the verification of the reserve, it is necessary that the agent's statement accompanying the remittance to the chief agent, contain particulars of the policies written, cancelled and reinsured in licensed companies, sufficient for the determination of the net unearned premiums on the policies in force at any given date. For the verification of the outstanding losses, it is necessary that the chief agent receive direct from the agent or the insured, notification of all losses incurred.

From the record of losses incurred and of losses paid, the outstanding losses at any time can be ascertained.

"Transactions affecting the Canadian statement, carried out by the head office, should be reported to the chief agent in the same way as if carried out by an agent in Canada.

AN UNSATISFACTORY SYSTEM.

"The first proviso to section 35 makes an exception to the practice above referred to by permitting general agents to report and remit direct to the head office of the company and to file with the chief agent sworn statements of the business of the year transacted by them. This system has been adopted by several companies, but it must be pointed out that, while it is permitted by the act, it is unsatisfactory, since in many cases no satisfactory facilities for checking the business of the general agents are afforded. In the case of companies operating on the general agency system, it is desirable that the reports and remittances of the general agents be made direct to the chief agent.

"The second proviso to the section permits the officers of the department to visit the head offices of the companies. If, however, the provisions of the earlier part of the section are complied with this will very rarely be found to be necessary.

"The department has, in the course of its examination of British and foreign companies, found that in many cases the practice of the companies fails to conform with the requirements of the act in respect of the essential points mentioned above.

DEPARTMENTS' REQUESTS.

"It has in some cases been found that the agents report and remit direct to the head offices, that the Canadian statements are prepared at the head offices, and that the so-called chief agents are merely local agents with no direct knowledge of the companies' business in Canada other than that of their own agencies.

"The department's conception of the requirements of the act and of its duty to the public is that it shall be satisfied that the statements made to it by the companies, and by it transmitted to the public, shall represent the facts, and this under conditions prevailing in many of the chief agencies is at present impossible. It believes that the failure of many companies to furnish more adequate facilities for checking their Canadian statements is due to a misapprehension of the requirements of the act, and that it is only necessary to draw the attention of these companies to the infringement of the provisions of the act to secure in the future a satisfactory compliance.

"The department would therefore ask the companies to which section 35 of the act applies, and which have not in the past maintained the records and documents herein referred to as necessary for the purpose of verifying their Canadian annual statements, to bring their practice into conformity with the suggestions above made. It is desirable that the necessary changes in the system of reporting the Canadian business be completed at the earliest possible date, but at all events not later than the end of the year, in order that the Canadian accounts for the year 1916 may be maintained by the chief agents in entire conformity with the provisions of the act."