SUPERINTENDENT OF INSURANCE DISCUSSES LIFE INVESTMENTS.

Mr. George D. Finlayson, Superintendent of Insurance, Ottawa, in a recent address before the members of the Insurance Institute of Toronto, dealt with the investments of Life Companies. His remarks in dealing with the question of mortgage loans are specially worthy of note, notably so to many companies who have unduly favoured such investments in the past attracted more by the high rate of interest than by the principle underlying the security of Trust Funds.

"In life insurance," said Mr. Finlayson, "we are struck by the changing nature of the investments of the companies. This is perhaps due in part to war conditions, to the splendid response made by the companies to the Government's appeal for war funds, but it is important to note that the tendency was beginning to manifest itself before the outbreak of the war, due partially at least to the decreasing demand for mortgage loans. The change in the investments of Canadian life insurance companies during the four years of war is most striking. On July 1, 1914, one month before the outbreak of the war, the Canadian life insurance companies' funds were invested to the extent of 37.6 per cent. in mortgages. On July 1, 1918, four years later, the percentage was 27.0 per cent. The percentage invested in Government bonds increased from 0.75 per cent. to 17.8 per cent.; in municipal bonds from 11.7 per cent. to 13.5 per cent., while the investments in railway and corporation bonds declined from 18.6 per cent. to 12.3 per cent. Speaking generally the tendency has been towards the more conservative and liquid form of investments and while it is unsafe to predict the future the indications are that this tendency will be continued beyond the war.

"It may be worth while to mention here the necessity, revealed by the experience of the past few years, of greater care in the scrutiny of values, particularly in some of the cities, for the purpose of mortgage loans. No form of investment has, during the past five years, called for more investigation by the Department than mortgages. In the case of loans apparently insufficiently secured we have obtained independent valuations and have asked for the valuator's opinion of the fair value in normal times apart from what may be called the speculative value which may at some time have attached to the property, and in many cases the difference between this value and that on which the loan was based is almost incredible. The larger values appear to have been largely due to the original valuator's optimism as to the time when residential property would become business property, and this leads me to express the hope that we may, in our newer towns and cities at least, have in the future some form of town planning which will render this form of speculation less liable to be indulged in. The experience of the past few years in mortgage investments of insurance companies shows the necessity of a well-trained loaning organization on the spot. Loaning money at long range is liable to be costly in the long run and too often the satisfaction to be derived from a high interest return is marred by the necessity of a substantial mortgage investment reserve fund.

Restrictions Advocated

"Suggestions have from time to time been made that the investment sections of the Insurance Act are too liberal and that as a measure of greater protection for the insured, life insurance companies should be restricted in their investments to government and municipal securities. So far as this suggestion aims at obtaining for the policyholders of the life insurance companies the best possible security it must be commended; but it is impossible to overlook the effect on the cost of insurance resulting from the adoption of such a proposal. It is obvious that the immediate effect would be a reduction in the rate of interest earned on the company's funds and therefore an increase in the cost of insurance to the participating policyholder and probably to the non-participating policyholders. The effect on the interest rate would probably be greater than is sometimes supposed. The effect would be ultimately to reduce the rate of interest not only to the rates heretofore yielded by government and municipal securities in normal times but, by creating an artificial market, to reduce these rates below the level at which they have for some time stood.

"During the year 1917 the new investments of Canada life insurance companies, excluding collateral and policy loans, amounted to about $45,000,000 and British and foreign life companies added to their Canadian deposits about $7,000,000, making a total of $52,000,000 and it is important to note how far this amount would go towards supplying the current capital requirements of Canadian governments and municipalities. It is impossible to use for this purpose figures covering the years of war when government requirements have been abnormally high and municipal requirements abnormally low. We might take for comparison the year 1912, in which the total issue of Canadian municipal securities in Canada and elsewhere amounted to $48,000,000 and the total issue of Dominion and Provincial Government securities to $36,000,000, the total issue of government and municipal securities being $84,000,000. There is included in this figure a repayment of previous loans of the Dominion of $20,000,000 and it will therefore be seen that, excluding this refunding loan, the total capital requirements were $64,000,000. If instead of the year 1912 we take the average of the years 1910, 1911 and 1912, we have on this basis an issue of $54,000,000 compared with life companies investments in 1917 of $52,000,000. Now, if the companies are restricted by statute to investments of which there is sufficient only for their needs, it is not difficult to predict the trend of interest rates yielded by investments.

"But, it may be said, the government and municipalities will get cheaper money. This is of course true, but at whose expense? Evidently at the expense of the policyholder who would then be in the position of voluntarily taking his own resources by providing insurance to prevent his dependents from becoming a tax on the community later on, and of having the cost of his self-denial increased for the benefit of those who are less thoughtful and less provident. This incidence of the burden would be unfair and it would be a matter for regret if it should be necessary, as a permanent policy, in the interest of the policyholders to substitute narrow statutory limitations for the judgment and devotion to trust of the company executives charged with the investment of funds. For the latter nothing can really be substituted. Statutory liberality with self-imposed executive conservatism should be our aim and I feel confident that it can be worked out.

Enlargement of Benefits

"A second tendency which has for some years been noticeable is the gradual enlargement of the benefits granted by life insurance companies. Up to the year 1910 the life insurance companies in Canada were permitted to insure only against contingencies involving the failure or continuance of life but in that year provision was made in the Act for a certain

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