

LIFE POLICY LOANS: TREND OF RECENT EVENTS.

The subsequent discussion of the subject of the recent increase in the demand for loans secured by the surrender value of life insurance policies, has substantially confirmed the views taken by THE CHRONICLE in the issue for February 20th. It was then stated that "Obligations of all kinds have had to be met—instalments on real estate speculations, additional margins against depreciations in stocks, the means of carrying speculative commitments of many kinds until such time as they can be turned into cash. To many, no doubt, their life policies have proved the best and cheapest method by which they could tide themselves over a 'hard-up' period." That policy loans will always represent a considerable and more or less variable proportion of the assets of life insurance companies is certain, but that the future will show a greatly increased proportion of this description of assets seems, on a survey of the facts, not at all probable.

EXTREMES OF OPINION

The extremes of opinion on this question are well represented on the first hand by the following statement which we quote from the forty-ninth annual report and balance sheet of the Provident Life & Trust Company, of Philadelphia, Pa.:

"So general has this practice of borrowing money on policies become that many of the Companies are considering it a menace to the full benefits of life insurance.

In the fervor of excitement following the Life Insurance investigation in New York in 1905, the law makers of different States vied with each other in placing upon the statute books laws relative to the business, and among many others were those passed by several states making it obligatory for Life Insurance Companies to contract in their policies to lend a large portion of the reserve thereon. It was only by most persistent effort that representatives of this and some other conservative companies induced those responsible for such legislation to introduce a provision allowing the companies to require notice in advance for such loans should they deem it necessary or desirable.

Some of the companies, notwithstanding this provision allowed by law, issued their contracts agreeing to loan money on demand without notice. This Company has never issued such a contract, believing it most unwise to do so.

To-day, not only are the companies which issued such contracts realizing the dangers to which they have subjected themselves, but the Insurance Commissioners of the different States are insisting upon the passage of laws to compel Companies to reserve the right to require notice for loans or payment of cash values on policies.

The National Convention of Insurance Commissioners, held in New York in twelfth month, 1913, passed the following Resolution on this subject:

"Whereas, The percentage of policy loans to reserves of legal reserve life insured companies has, during the past twenty-five years, increased from approximately 3 1-3 per cent. to more than 16 per cent., and it has been estimated that there are now loans outstanding approximating \$550,000,000; and,

"Whereas, The increase has been very marked during the past eight years, and indications are that they will increase to an alarming degree during this; and,

"Whereas, There are now one hundred and twenty (120) companies which are inserting a demand loan clause in their policies, thereby establishing for themselves a national banking obligation which was specifically declared unsafe by the Colorado Springs and Milwaukee conventions of the National Convention of Insurance Commissioners; and,

"Whereas, These companies, having only approximately one per cent. of cash on hand, cannot expect to be able to carry out their contracts during future panics without the danger of wiping out their surplus by the forced conversion of their securities upon a broken market; and,

"Whereas, Twenty years hence the existing obligations already placed upon the books will have a loanable value that will be subject to call of approximately \$1,500,000,000, and if continued will ultimately render liable to call the entire reserve of these companies; and,

"Whereas, A bill was drafted by the National Convention of Insurance Commissioners which provided that no legal reserve life insurance company should issue any policy in which the company did not reserve to itself the right to defer the granting of a policy loan or a cash surrender value for a period of sixty days within the State where this bill was passed; and,

"Whereas, This measure has been enacted into law in substance only in the State of Minnesota and Connecticut, thus affording merely a partial remedy by causing leaving the companies at liberty to continue this unsafe practice in forty-six States; and,

"Whereas, It is clear that it is the imperative duty of the National Convention of Insurance Commissioners that some means be taken whereby the demand obligation upon legal reserve life insurance companies be checked at the earliest possible moment; therefore, be it

"Resolved, That it is the manifest duty of each and every Commissioner of Insurance to have introduced in the legislature of his respective State the measure previously adopted by this convention with the amendments, however, that the same is not to apply in case a loan is issued for the purpose of paying a premium, and that no legal reserve life insurance company shall be licensed, or relicensed, in the State where the measure is passed which hereafter issued anywhere a policy which does not reserve to the company the right to defer the granting of a policy loan or a cash surrender value for a period of not less than sixty days."

ANOTHER VIEW.

On the second hand there may be quoted the closing paragraphs of the testimony of an "Experienced Agent" as printed in the *Monetary Times*, for March 27th, which are as follows:

"Moreover, the loan feature, which is certainly perfectly safe for the company, within the reasonable restrictions already referred to, is coming now to be used very freely as an emergency resource for business men. I know of two cases in Philadelphia recently where two loans of \$100,000 each have been made for temporary business purposes on large blocks of life insurance by men of high business standing, who certainly would resent any suggestion that they needed the advice of a life insurance officer as to how they should handle their own property.

"You can, therefore, quote me as being emphatically opposed to any radical modification of the loan features of life insurance policies, for so sure as such change shall be made a severe check will be put upon the development of the business and the agent will be severely handicapped.

"Of course, much of the business mortgaged by policy loans will lapse, and we agents will be the principal sufferers because of our loss of renewal commissions. But for every \$1,000 loss through the loan privilege we gain \$3,000 through the value of this feature in getting new business."

RESTRICTION WOULD STIMULATE TEMPORARY INSURANCE.

Although the amount of loans on policies of the companies reporting to the State of New York twenty-five years ago, on December 31st, 1889, were only \$19,028,751, and of outstanding temporary insurances of every description, were only \$139,934,358; the total amount of policies outstanding were only \$3,144,677,311 then, and had increased to \$13,527,321,222 on December 31st, 1912. Hence, there is good reason to suppose that if the liberal rules now governing policy loans were greatly restricted, temporary insurance would be considerably stimulated, and the total amount of the growth of outstanding business might be diminished far more than policy loans would be, which would be obviously

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