INVESTMENT OF LIFE INSURANCE FUNDS

I.

The Importance of a High Rate of Interest

(Continued.)

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In the article which appeared in last week's Monetary Times the percentage holdings of all companies reporting to New York State were given. In the table below similar ratios are shown for all (198) United States companies doing ordinary business. Thus 3.9 is the percentage which the value of the combined real estate holdings of all regular life companies in United States bears to the total admitted assets of these companies. But by taking these percentages, we do not necessarily arrive at the investment policy of the average company. The enormous assets of the gigantic companies form such a large percentage of the total assets, that what we have obtained is the average for such companies. This is borne out in the table below, where I also give the percentage holdings of the ten largest companies:

It is seen that the total assets of the ten largest companies are approximately 79 per cent. of the total assets of all companies, and, moreover, that the percentage holdings of investments are practically the same.

No Proof That Small Companies Follow These Lines.

But this is no proof that the investment policies of the medium-sized or small companies follow along these lines. The investment policy of a medium-sized or small company might differ radically from that of these large companies, but little or no change would be made in the ratios of the combined companies. To set out these facts, I have again taken the year book, and computed the percentages of investment holdings of different groups of companies, according to their assets. These groups have been rather arbitrarily selected, but suffice, I believe, to show the point in question. For instance, column (1) deals with the whole 198 companies, as given above; column (2) with the ten largest companies, also given above; while column (3) deals with the twelve companies following, with assets ranging between 20 millions and 60 millions; column (4) with the next 11 companies with assets between 6 millions and 19 millions; and so on.

Considering firstly real estate, we find our ratios rise from 3.2 per cent. to 7.91 per cent and then decline to 3.93 per cent. This is in accordance with what we might expect. With the largest companies—the three largest of which belong to New York—the real estate holdings allowed by law must necessarily form a small percentage of their immense total assets. In those groups with smaller assets, the percentage, as might be expected, is greater. Most of these companies have expensive office buildings and also their share of foreclosed real estate mortgages. As we approach the companies with small assets, the percentage declines, as numerous of the smaller companies will not own their head office premises, and, moreover, the younger companies will not have been in the investment field a sufficient length of time to possess many properties, acquired by foreclosure.

Turning to mortgages and bonds, we find such a continual and pronounced rise in the percentages of the former and such a continual and pronounced fall in those of the latter, that any doubt we may have had as to there being no relation between the size of a company and its investment policy at once vanishes.

It cannot be said that the same tendencies would be shown were a similar investigation applied to the Canadian companies. This can be explained from the fact that they are too few to make good average groups, and hence the personal element of individual companies would enter too largely into the ratios.

Explanation Re Bonds and Mortgages.

To explain the preference of the smaller companies for mortgages, and the seeming preference of the larger companies for bonds, the following reasons, among others, may be given:

It has been definitely ascertained that mortgages, on the average, yield a better rate of interest than do bonds. Young companies are naturally anxious to make the highest possible rate of interest on their funds, and must do so to compete successfully against the larger companies with their low expense rates;

Companies with enormous funds find difficulty in obtaining sufficient suitable real estate mortgages. Even if they did so, it might lead to over-investment in a certain locality, and a depreciation of land values in that locality would work much havoc;

Very possibly a larger proportion of the smaller companies are located in advantageous localities for mortgage loaning;

Large companies doing an extensive foreign business require large bond holdings for government deposits;

Conversely, a great many of the smaller companies are not organized in various States, and require fewer bonds (in proportion) for this purpose;

It is reasonable to expect that some of the larger companies are very closely associated with bond-houses;

The larger companies invested in long-term bonds in the nineties, and other years, when the interest yield on mortgage loans was low. Many of these bonds they still hold;

Mortgage loans have proved more popular during recent years, and the increased investments therein of the younger companies will show more perceptibly in the ratios than will be the case with the larger companies;

It is necessary for the larger (and older) companies to keep a higher percentage of their funds in investments that are readily realizable, to allow for the payment of their greater proportion of death claims, matured endowments,

(Continued on next page, foot of second column).

Table Showing Percentage Holdings of Ten Largest Companies.

	Admitted Assets.	Real Estate. %	Mortgages on Real Estate. %	Stocks. %	Bonds. %	Loans on Collateral. %	Premium Notes. %	Policy Loans. %	Cash. %	Deferred Premiums. %	Other Assets. %
Co. No. 1	$ 637,876,567	1.81	14.5	....	63.60	.03	.71	15.61	1.41	1.15	1.14
2	572,859,063	4.55	24.5	8.10	48.2	....	....	12.38	.77	.68	.72
3	485,192,957	5.96	20.4	7.88	48.0	.66	....	13.44	2.22	1.03	.87
4	273,813,036	.80	55.0	....	26.	....	.2	14.61	.66	1.07	1.58
5	137,602,579	2.22	47.1	....	27.1	1.92	4.11	13.51	.96	1.20	1.88
6	116,803,021	1.65	40.3	.32	35.1	1.72	2.33	13.45	2.23	1.67	1.20
7	95,245,844	.62	49.1	7.23	26.9	1.38	.17	8.56	3.22	1.04	1.78
8	81,234,785	.58	77.2	....	.03	....	2.50	14.78	.83	.58	3.45
9	74,667,192	1.93	26.9	.44	55.9	1.47	.002	10.53	.21	1.45	1.22
10	68,374,910	8.70	42.9	1.07	35.7	....	.40	6.99	1.59	.77	1.78
The 10 companies combined . . .	$2,543,669,954	3.2	29.6	3.7	45.5	.3	.6	13.5	1.4	1.0	1.2
All (198) companies	$3,242,600,879	3.9	31.38	3.55	42.30	.45	.78	13.44	1.71	1.18	1.20

Table Showing Percentage Holdings of Different Groups of Companies.

Combined assets . . .	$3,242,600,879	$2,543,669,954	$447,532,128	$120,875,506	$82,402,482	$19,930,620	$12,663,019
No. of companies.	198	10	12	11	30	25	29
Range of Assets......	From $12,480 to $637,876.567	From $68,000,000 to $638,000,000	From $20.000,000 to $60,000,000	From $6 000,000 to $19,000,000	From $1,000,000 to $6,000,000	From $600,000 $1,000,000	From $300,000 to $600,000
	%	%	%	%	%	%	%
Real Estate	3.9	3.2	7.02	7.91	3.69	3.57	3.93
Mortgages	31.38	29.6	36.09	37.09	39.69	49.18	56.40
Bonds	42.30	45.5	35.50	24.64	22.46	14.85	12.44
Policy loans	13.4	13.5	12.98	14.34	18.31	12.32	4.99
	(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)	(Col. 5)	(Col. 6)	(Col. 7)