52.
ls
o.
TO
NY
na
n
to
h
S
O
D.
St.,
NTS

PUBLISHED EVERY FRIDAY
by
The Monetary Times
Printing Company
of Canada, Limited

Publishers also of
"The Canadian Engineer"

Monetary Times

Trade Review and Insurance Chronicle
of Canada

Established 1867 — Old as Confederation

JAS. J. SALMOND
Managing Director

FRED. W. FIELD
Managing Editor

A. E. JENNINGS
Advertising Manager

Investments Of Life Companies

ANALYSIS *of the principles which should govern and an interesting review of the investments of Canadian life offices during the past fifteen years*

By T. BRADSHAW, F.I.A.

PRACTICALLY every Canadian is interested either directly or indirectly in the investments of life assurance companies. It is well recognized that the system of life assurance affords provision and protection for families, dependents and businesses that no other means does. As an evidence of this it is only necessary to point out that, apart from fraternal assurance, which runs into big figures, the aggregate of life assurance carried by Canadians is over $1,200,000,000, that we are paying annually in premiums $40,000,000, and that the present investments of Canadian life companies, and the Canadian assets of British and United States life companies doing business here accumulated for future claims, aggregate $335,000,000. Having already entrusted these enormous savings to our life companies, and in addition having voluntarily obligated ourselves to implement these at the rate of $40,000,000 per year, is it not desirable that we spend a short time to find out how our funds (because the officers and directors of these institutions who handle them are our trustees) are being treated?

The premiums charged, and which the public pay, constitute the basis of the whole superstructure of life assurance. In determining these premiums, a specific rate of mortality, a definite provision for expense and a minimum rate of interest are assumed. The life company, in consideration of the payment of these premiums obligates itself to pay the sums assured as covered by its policies, which the public hold, and in most cases, additional amounts by way of surplus, otherwise referred to as profits, dividends or bonuses.

The investments of a life office, therefore, arise out of the accumulation of these premiums, and from interest, dividends, etc., from investments. The minimum rate of interest which these premiums are assumed to earn is 3½ per cent.

These policies continue usually for many years before they mature by the death of the assured or by the completion of the endowment period. Consequently, the premiums received and their interest accretions, even after expenses and current claims have been met, accumulate to comparatively large amounts. Those of Canadian life companies alone now amount to $228,000,000. The certainty of the maturity of the policy within a well-defined period of time renders the safe investment of these funds a necessity; while the fixing at the commencement of the assurance of a premium based on a definite rate of interest, necessitates the realization in the investment of the funds of a rate at least as high as that settled on.

The earning of a higher interest rate than that first fixed upon in the calculation of premiums, in part produces the surplus referred to, and the greater the difference between the assumed and the realized rate, the greater will be surplus earnings from this source. Take two companies whose invested insurance funds amount to $10,000,000 and whose premiums are based upon earning at least 3½ per cent. interest, if "A" earned 5 per cent. and "B" 6 per cent., the former's surplus, or profits for one year, from excess interest, would be 1½ per cent. on $10,000,000, or $150,000, while the latter's would be 2½ per cent. or $250,000. This surplus being returned to policyholders, it will be realized how, other things being equal, the cost of insurance to policyholders in Company "B" would be materially less than in Company "A"; and hence, how essential it is that profitable use should be made of the funds, keeping, of course, constantly in mind that security must never be sacrificed for the sake of obtaining a high rate of interest.

To the two essentials underlying the investment of life office funds—safety of the capital invested and the obtaining of a remunerative rate of interest—we would add the considerations that (*a*) as the major portion of a life company's obligations do not mature for many years, the larger part of the funds should be invested in long-term securities; (*b*) the number of classes of investment should not be too few, and the proportion of funds invested in each class should be carefully considered; (*c*) an annual review of each investment, in the light of existing financial and investing conditions, should be made.

In the United States the practice is somewhat similar to that prevailing in Canada in that, generally, each state legislates on the subject through its general insurance act.

In Great Britain the general attitude of legislation is to grant life offices practically unlimited powers of investment, and to throw the main responsibility for the duties associated therewith upon the members and directors of the company. There is no provision in the British insurance acts regulating life offices' investments.