# THE LIFE COMPANIES' LAPSE RATIOS.

The Montreal Financial Times—a journal whose various ventures into the insurance field have been hitherto scarcely happy ones—printed in its issue of May 20th a table of the lapse ratios of the Canadian life companies last year in proportion to their new business of 1914, together with a long editorial thereupon. The calibre of the latter may be judged from its serious suggestion that the lapse ratio of the smaller companies is largely due to a regular system of "switching" by the larger companies, an insult which the executives of the large Canadian companies and their self-respecting agents will know how to appreciate. What the idea was in publishing this table and the comments thereupon by a writer who pretty obviously did not know what he was writing about, we should not care to guess. But the circumstances certainly suggest some other motive than that of a pure zeal for the welfare of the Canadian life insurance business.

The effect of the tabulation—possibly a designed effect—was, of course, to show up in a very unfavorable light, the smaller Canadian life companies and to suggest to their policyholders that their interests are not being carefully looked after, possibly that they are not even protected. That thereby a grossly unjust reflection was cast upon the smaller companies goes without saying. The safety of life policyholders is not dependent upon lapse ratios. Profits, to some extent, may be indirectly affected by them. But the primary purpose of life insurance is protection, not profits. And even in the matter of profits there are a good many other considerations than lapse ratios to be taken into account. It is a significant fact that while in recent years, several life companies have been wound up in Canada, in no case have the policyholders not been protected by re-insurance. At the present time, there is not the least ground for any uneasiness by any policyholder of a life insurance company under the supervision of the Dominion Insurance Department that his interests are not fully protected. The smaller Canadian life companies have their place in the Dominion as well as the large ones and are performing relatively as useful work. Size *per se* has nothing to do with financial strength—liabilities count as well as assets. A reasonable test of a life insurance company is the character of its investments. On that point, the smaller Canadian life companies have nothing to be ashamed of. As a matter of fact, the investment lists of some of the smaller companies compare very favorably with the investment lists of some of the larger companies. The most conservative of financiers could find no fault with the investment list of the National Life of Canada, a company which puts its investment funds almost entirely into municipal bonds, and is able to boast that since its establishment it has lost not a dollar in principal and has no interest in arrears. The investments of other small companies are likewise thoroughly sound.

### FACTS NOT TAKEN INTO CONSIDERATION.

The stupidity of such a compilation as that in question and the gross unfairness to the smaller and younger Canadian life companies of a comparison of lapse ratios is apparent to anyone who knows anything about the life insurance business. It would be very curious indeed if the smaller and younger companies did not show the larger ratios. The smaller and younger companies have necessarily a considerably larger amount of recently acquired business on their books in proportion to the whole business in force than have the older companies. As a company gets older, the proportion of recently acquired business in proportion to the whole in force naturally tends to decrease and with it, the proportion of lapses. For instance, a small and young company which in the last three years had doubled its amount of business in force would very naturally have a larger lapse ratio than an older and larger company which during the same period had only increased its business in force 50 per cent. Under such circumstances the older company would have nothing to boast about; possibly its lower ratio in lapses might be swelled by surrenders to a point equal to or above the lapse ratio of the younger company. The proportion of new business to the whole of a company's business in force is a vital consideration in connection with the lapse ratio; comparisons which ignore it are bound to be misleading. Again, there is the consideration of local circumstances and local depressions to be borne in mind. It is well known, for instance, that British Columbia has suffered more severely than any other part of Canada from the financial depression. Given two companies transacting business in that field and suffering lapses as a result of the financial depression, the larger and older company would naturally show the effect of the lapses less than the smaller and younger company, merely owing to the fact that the local recent business of the larger company would be in smaller proportion to its whole business in force than the local recent business of the smaller company.

The fact of the matter is that no conclusions, except misleading ones, can be drawn from a simple statement of the insurance companies' lapse ratios. They are not comparable. A statement of that character does not even make allowances for the differences in company management in dealing with this matter. Some managements lapse a policy the day after the expiry of the days of grace; others keep the business on the books for a considerable period—and have an apparently lower lapse ratio than those companies which take the sounder course. Companies, small or large, are entitled to take due credit for low lapse ratios when those low ratios are in good part accounted for by the careful management of the business, and undoubtedly much business could be conserved in Canada, which is now allowed to lapse, did all the companies, large and small, give themselves whole-heartedly to its conservation. But that is a different matter entirely to the pillorying of small companies for circumstances over which they have no control. Proportional figures can easily be used unfairly; and the Financial Times' use of them is a case in point of their grave misuse.