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Loans on Life Insurance Policies

RAPID as Has Been the Growth of the Assets, the Increase in Policy Loans
Has Been Nearly Twice as Great—How Loans Increase in Abnormal Times
—Drastic Restrictions Would Be Unwise—Analysis of the Situation in Canada.

By R. W. BARTON, A.I.A.

THE granting of loans upon life policies is compulsory in Canada, under the Dominion Insurance Act, and the proportion of funds so invested is therefore only to a very limited extent under the control of life companies. In fact, this control is practically confined to the option of a company to defer the loan for a period of three months and to charge 7 per cent. thereon, provided such provision is stated in the policy.

A marked increase in the proportion of the total funds of the companies so called for, has been noted in Canada and also in the United States, where similar compulsory regulations are in force.

The meaning and dangers involved in this increase were subjects considered at the meeting in New York of the Association of Life Insurance Presidents in 1913 and the subject has been dealt with on several occasions previously in *The Monetary Times*. The increase still continues and the statistics available point to probable further increase in future.

At the end of 1915, out of total assets amounting to \$274,273,018, Canadian life companies had loaned to policyholders by way of cash loans and premium obligations on policies in force, \$39,311,402, or 14.34 per cent. of their total assets; an increase in five years of \$18,902,179 in amount and nearly 2½ per cent. in proportion.

The following table shows the total assets and the loans, including premium obligations, upon policies of Canadian life companies, at five-yearly intervals since 1890 and the proportion which these loans bear to the assets.

Canadian Life Companies.

Year.	Total assets.	Loans on policies.	Percentage.
1890	\$ 20,740,444	\$ 1,716,561	8.28
1895	35,323,297	3,582,862	10.14
1900	59,504,066	6,014,022	10.11
1905	102,438,415	9,679,244	9.45
1910	170,804,631	20,409,223	11.95
1915	274,273,018	39,311,402	14.34

This shows that rapid as has been the growth of the assets, the increase in loans on policies has been nearly twice as great and that the proportion is still rising.

A better idea of the continuous increase in proportion is obtained from the following table showing the growth in percentage each year from 1900 to 1915.

Percentage of Loans on Policies to Total Assets.

Year.	Percentage.	Year.	Percentage.
1901	9.7	1909	12.0
1902	9.6	1910	12.0
1903	9.7	1911	12.0
1904	9.7	1912	12.2
1905	9.4	1913	13.2
1906	9.7	1914	14.0
1907	11.2	1915	14.3
1908	12.1		

The large increase in 1907 and 1908 is accounted for by hard times in Canada during and after the financial crisis in the United States market in 1907, while the collapse of the land boom in Central and Western Canada in 1913 and the war conditions of 1914 and 1915 are plainly reflected in the higher percentages of those years. In the latter years, the situation was no doubt a good deal relieved by the great harvest and large contracts for war supplies, or a larger proportion might have been called for.

A comparison, over the past ten years, of the increase in assets each year with the increase in policy loans, shows to what extent the annual surplus is called upon to meet the demand for these loans.

Year.	Increase in assets.	Increase in policy loans.	Percentage.
1906	\$12,122,419	\$1,312,202	10.82
1907	10,617,381	2,966,066	27.94
1908	13,313,164	2,693,334	20.23
1909	15,298,913	1,658,805	10.84
1910	17,014,340	1,999,572	11.75
1911	19,917,727	2,550,817	12.81
1912	20,910,517	2,919,823	13.96
1913	21,611,621	4,995,446	23.11
1914	24,582,443	5,333,158	21.69
1915	16,446,079	3,102,935	18.87

Here the increasing proportion absorbed each year is well marked, while the effect of the hard times of 1907-1908 (which never amounted to a crisis in Canada) and the