

INVESTMENTS AND LIFE INSURANCE COMPANIES

(Continued from page 8)

trust and other corporations may also be bought, with limitations on some of them as to having paid dividends for a period of years previous to the date of purchase. In making investments of this character, where so much often depends on the management of the corporations or institutions issuing these securities, greater care is necessary, and it must also be borne in mind that this class of securities are liable to show a greater fluctuation in value than those previously referred to. I fear that those who are entrusted with making investments for life insurance companies are sometimes tempted into the purchasing too liberally of this class of securities on account of the attractive rates of interest they offer, which help very materially in increasing the average earning rate.

Real Estate Mortgages

Loans or mortgages on real estate constitute one of the most important and safest assets on the books of life insurance companies. They are more troublesome and expensive to handle than bonds or debentures, but in most cases the mortgages have the advantage of being a registered claim against a particular piece of property. To carry a mortgage business on successfully it is necessary to have a good organization for this purpose with managers and inspectors fully qualified for this work. Mortgages may be on city, town, village or farm properties, with the preference given to city or farm properties where there is likely to be less fluctuation in values and a more permanent demand for such securities. The Insurance Act permits life companies to lend up to 60 per cent. of the value on real estate mortgages, although most companies do not advance over 50 per cent. of the value placed on these properties by their own inspectors.

Mortgage investments should only be made upon improved farm, city or town properties, and where the revenue from such properties is sufficient to meet the annual interest payments and make provision for a reserve to apply on the principal amount of the debt. Mortgages, while requiring a little more work to handle than bonds and debentures are more profitable, as the rate of interest they bear is higher, ranging at the present time from six and a half to eight per cent. according to the class of security they represent, and the part of the country in which the investments are made.

By carrying a good proportion of mortgage investments a life company is better able to maintain a good average rate of interest than if their investments were confined to bonds, debentures and stocks, which do not yield as high returns. Then, on the other hand, when the two classes of investments are held an opportunity is afforded to change the policy of investment according to the market demand for mortgages or bonds. During the past four years, covering the war period, the life companies have had an opportunity of placing most of their surplus funds in bond and debenture investments at favorable rates, with the result, as has been stated, that these assets increased over 50 per cent., whereas during the same period the mortgage investments have shown a decrease of two per cent., due principally to the check placed upon the development of the country by the carrying on of the war. With the cessation of hostilities there is already evidence of a more active demand for mortgage funds, and the probability is that this will increase as time goes on.

Average Earning Rate

Reference has already been made to the average earning rate, and as this is sometimes used by the agents in their canvass I do not think it should be overlooked when discussing investments, as it is on these securities that this rate depends. When building up an average earning rate I think due regard should be had to its permanence. It is dangerous to specialize in any certain class of investments which bear a high rate of interest, for when the time comes

that these particular investments show a lower yield rate the inevitable result is the lowering of the average rate. It is therefore in my opinion advisable to have a certain proportion of assets in mortgages and bonds and debentures so that there may be a choice of the class of investments to make. The average holdings in any one of these classes must depend entirely on the market. I do not think it is possible to establish any fixed percentage of holdings for any one of them. The permanency of an average earning rate is very materially helped by the investment in long term securities and for that reason these are always sought after by life insurance companies.

There is no need for life companies to go extensively into the investment of quick or liquid assets which usually bear lower rates of interest, for if a company is in a solvent position its revenue should make provision for any contingencies that may arise. Their ability to do this was well demonstrated to us recently when all companies were taxed to their utmost to meet influenza and war claims along with the average mortality claims.

Policy Loans and Real Estate

The other principal assets of life insurance companies already mentioned, policy loans and real estate require very little explanation. Using the figures at the close of business in 1917, the life companies only had about 13 per cent. of their investments in policy loans. These loans the field men are quite familiar with and no further mention of them is required than to say they are secured by reserves already held for the policies against which the loans are made. Might I be permitted to criticize the practice of some of the field men when canvassing their risks for giving too much prominence in their talk to the fact that the policy holder is entitled to borrow on his policy and sometimes leaving the impression that it is quite legitimate for him to borrow on his policy for all or any purposes, with the result that for some years the percentage of policy loans to total assets increased at an alarming rate. From 1910 to 1914, policy loans showed an increase of about 80 per cent., but from 1914 to 1917, this increase was 18 per cent. or a comparison on the average of 20 per cent. per annum in the first four year period as against six per cent. in the last three year period. This decrease was due no doubt to the efforts put forth by the companies to discourage indiscriminate borrowings on policies. It is quite in order to advise a prospective risk that he may borrow on his policy, but at the same time he should be cautioned that this privilege should not be taken advantage of except for legitimate purposes such as making provision for the payment of a premium which he is unable to meet. In the case of business insurance no exception can be taken to the policy holder for borrowing to protect his business interests.

Real Estate and Sundry Assets

Real estate purchases may be made for the purpose of providing office premises, these only represent about five per cent. of the total assets of the companies. The balance of the assets of the life companies, six per cent., are made up of cash interest and premiums outstanding, and sundry small investments.

Insurance Companies' Part in Developing Country

In conclusion I would like to call attention to the important part that has in the past, and is now being played by the life insurance companies in the development of this great country of ours, through its large investments in bonds, debentures, stocks and mortgages.

Covering the period from 1900 to the close of business in 1917 investments in bonds, debentures and stocks increased from twenty-two million to one hundred and fifty million dollars, and mortgage investments increased from eighteen million to over ninety-two million dollars, and total assets from fifty-nine million to about one and a half billion dollars. The life companies also rendered valuable assistance to the Finance Minister during the period of the war by subscribing over ninety-two millions to his various loans.