PRESENT DAY LIFE INSURANCE FEATURES AND TENDENCIES.

(Address by Col. W. C. Macdonald, President, Actuarial Society of America, at the annual meeting.)

(Concluded from p. 801.)

LIBERALIZING OF POLICY CONTRACTS.

The liberalizing of the policy contracts which has taken place in recent years has been most marked, and the present day contract with its entire absence of conditions and restrictions, its various non-forfeiture privileges and instalment options and disability benefits, etc., presents an interesting contrast to the contracts of even a quarter of a century ago. These added benefits and privileges are greatly to the advantage of the policyholder, but if government standardized policies had been adopted some years ago it will hardly admit of argument that the policyholder of to-day would not be in the enjoyment of as liberal a form of contract or one embodying so many benefits as that which he is now entitled to receive. Improvement and progress in this respect would have been slower. The lesson is obvious. We should seek by legislation to safe-guard merely without unduly restricting or interfering with the liberty of contract.

HAVE WE GONE TOO FAR?

In one respect I am inclined to share the opinion entertained by some others and think that it is questionable if we have not gone too far, viz., in the granting of high cash surrender and loan values, the full reserve value being in some instances guaranteed after a policy has been but a few years in force. Doubtless this may be of advantage from a canvassing standpoint and facilitate the work of the agent by adding to the apparent attractiveness of the policy contract, but it unquestionably facilitates the "twisting" of business, and in the event of unfavorable circumstances, external or internal, which may have the effect of creating a want of confidence, must tend to increase withdrawals. We are in this way placing a temptation before a policyholder to surrender his contract, and thus deprive those dependent upon him of the protection which he had thus provided for them. The policyholder who can withdraw the full reserve value of his policy will, under certain circumstances, be undoubtedly and unnecessarily tempted to do so. We can all perhaps cite cases which have come under our observation in practice where a person holding several policies in the same or different companies has, after careful enquiry, decided to surrender the policy yielding the most favorable surrender value.

POLICY LOANS.

The high cash value carries with it the accompanying privilege of high loan values obtainable on demand and upon most reasonable terms, probably more favorable than can be otherwise secured. The effect of this is making itself felt in a marked degree at the present time. At the end of 1905 the total amount of the policy loans in companies reporting to the New York Department amounted to $196,710,000, equal to 8.8 per centum of the reserve values. In 1912 the loans had increased to $525,589,000, or equal to 15.2 per centum. In Canada at the end of 1905 the policy loans amounted to $9,679,000, or 10.6 per centum of the amount of the policy reserve. At the end of 1911, the figures for 1912 not being available, the policy loans had increased to $22,960,000, or 14.2 per centum.

The value to the policyholder of being able to borrow on demand and upon easy terms on his policy may not be questioned. Experience indicates, however, that a comparatively small amount of the loans secured are discharged before the maturity of the contract, and they not infrequently pave the way to the surrender of the policy. Is our liberality in this respect altogether wise?

EFFECTS OF THE ANNUAL DIVIDEND SYSTEM.

The abolition of the deferred and the compulsory adoption of the annual dividend system was one of the important provisions of the New York law. It no doubt, had led to abuses, but they were not of a nature which it was impossible to remedy. Its retention accompanied by a proper system of accounting and the prohibition of estimates would have preserved a plan of insurance which appealed to many, and which possessed some distinct advantages, particularly in connection with the insurance of under-average or sub-standard lives.

The adoption exclusively of the annual dividend system and the general demand which has been created for this form of contract has, combined with the liberalization of the policy contract, resulted in a form of competition which may not prove altogether healthy. Competition to-day is drifting almost entirely into a question of lowest net cost and highest cash surrender values. The desire, we might even say the necessity, in order to meet competition to declare large dividends is already apparent. Danger is not likely to arise when financial conditions are favorable as at present, when trade is good and the earning power of the companies is gradually improving. If a day of reckoning comes, and I would not wish to be considered pessimistic, it will be when financial and commercial depression ensue, when the earning power of money is reduced with consequent variations in the values of securities, and when losses on investments may occur or other unforeseen contingencies arise. The maintenance of substantial surplus reserves—greater than would be requisite under the deferred dividend system—is an important necessity in order to properly safe-guard and protect the company in such an emergency, as the temptation to maintain the rate of dividend beyond that which prudence would justify will be great. Statutory limitations as to the amount of the surplus reserves a company may hold are not only unnecessary, but may be fraught with danger. The wise legislator will seek to encourage and not restrict the building up of surplus reserves within all reasonable limits. The keenness of present day competition will impel us in the opposite direction and will be sufficient to ensure that the accumulations are not excessive. It may not be by any means the company which is paying the highest scale of dividends which will experience the greatest measure of strain. On the contrary it is not unlikely that it will be greater in those somewhat lower down in order who are straining their resources that they may equal or excel their competitors.

CONFIDENCE IN THE FUTURE.

While the business to-day may present problems for careful and conservative consideration, yet there is good ground for high hope and confidence as to the