

PRESIDENT'S ADDRESS.

The president, Hon. Geo. A. Cox, said:

In rising to move the adoption of the annual report, I desire first of all to welcome our policy-holders and shareholders to our new home office with its well lighted, well ventilated and commodious apartments, fitted up at comparatively small expense in this fire-proof building, with its excellent vault accommodation. After the meeting is over we will have pleasure in granting the freedom of the whole office to any of those present who may desire to see through our different departments.

The directors' report refers to the removal of the head office to Toronto, and to the special legislation secured at the last session of Parliament, by which additional privileges were voluntarily granted by the company to its many thousands of policy-holders. The wisdom of these departures was for a time doubted by some, but the best verdict thereupon is the results to the company's business. It is, therefore, a matter of satisfaction that the new business of the year just closed largely exceeds that of the best year in the company's history. From every part of the Dominion came these evidences of approval and confidence. While this increased business was to a certain extent due to the fact that new premium rates were to go into effect at the beginning of the year in this and other companies, still the fact that the Canada Life received a much larger volume of new business in the Dominion than any other company, is the best evidence of the wisdom of the departures just referred to.

At this point, however, I think it proper to say that it is not my intention nor of those responsible for the management of the company to depart from the conservative principles by which it has been so long conducted. I believe in building on foundations that will stand the strain and stress of years. Whether in securing of business or in making investments, I prefer to look at the matter as it is likely to appear ten, twenty or thirty years hence, and I am content to sacrifice transient success for absolute security and the permanent welfare of those whose interests are wrapped up in this institution. At the same time I think we should not be doing our duty if we did not seek to keep the Canada Life thoroughly abreast of the times, both in its agencies and at head office. "Conservative Progress" will therefore be our motto.

I now come to the most important matter dealt with in the report, viz., the quinquennial investigation. That is always an eventful period, but especially so on this occasion, for the reason that the life companies are now brought face to face with a most serious practical problem, viz., the readjustment of their finances due to the permanent fall that has taken place in the rate of interest. Many persons who are not familiar with life assurance finance do not realize the important place which interest holds in the foundations of a life company. Without its interest income a life company would soon become insolvent. It is not alone from the premiums, but from the interest as well that claims must be met, and if interest is likely to fall below what has been assumed, then the security of a company's contracts is endangered. Moreover the securing of a rate of interest larger than that assumed in a company's calculations is one of its main sources of profit. Hence it is of the highest importance that the margin of interest for profit should be maintained.

I will illustrate in two ways the effect of a fall in the rate of interest. Within a period of twelve years the rate of interest has fallen two per cent. Now taking the assets of a company like the Canada Life at \$21,000,000, this means an annual shrinkage in its interest income of \$420,000, or in five years the accumulated loss would amount to almost \$2,300,000. This clearly demonstrates the effect of a fall in the rate of interest.

My second illustration shows what annual premium would be required to insure a man for \$1,000 at age 30 upon the Whole Life Plan, supposing no interest were assumed as procurable. The gross annual premium would be \$32.75, whereas the rate which we now charge for a non-profit policy on that plan is only \$20.50, or \$12.25 per year less. The difference is accounted for by assuming the benefit from interest.

These illustrations prove the almost criminal negligence that would be involved in blissfully closing one's eyes to facts before us, and gently drifting either into ultimate insecurity or into a condition devoid of earning power. Hence in the face of a rate of interest that has permanently fallen, and that will in all probability continue for some time to fall, the advocates of an immediate division of a nominal surplus may defeat their own object, and prejudice their own interest by impairing the stability of a company from which their children may obtain little because they themselves have already eaten the fruit. Therefore it becomes at times the bounden duty of those charged with the administration of a great trust to maintain people's interests even against their opinions.

Under the amended Insurance Act of last session all the companies must now hold their reserves on new business upon a 3½ per cent. interest basis, and must further proceed to bring the reserves on all existing business to the same basis. As generous creditors sometimes do for respectable debtors, the Government has granted an extension of time in which any company, however weak, might easily meet its obligations under existing contracts. But a law which is framed to aid the weak should not be used to bind the strong.

In order to place before our directors just what was involved in passing to the higher standard, it was decided during last year to ask our Actuarial Department to make a detailed valuation

of our 37,000 policies upon the Hm. 3½ per cent. basis. In addition to this, two other full detailed valuations were made, viz., one upon the Actuaries' Table and interest at 4 per cent., and the other upon the American Experience 4 per cent. Table. Never has such an exhaustive investigation of its policy liabilities been undertaken by the company. But the results proved of very great value and interest. While the Actuarial Department was busily engaged in measuring up the policy liabilities on different bases, the newly appointed treasurer was hard at work taking stock of our assets. When the two sides of our balance sheet came together, therefore, it was a matter of great satisfaction that the company was found in possession of a substantial surplus over all liabilities, even upon the high standard of Hm. 3½ per cent.—the new Government basis.

In order to have the benefit of independent expert opinion as to how far the company should now go towards meeting the new Government standard, it was decided to lay the whole situation before two distinguished actuaries, one English and the other American. The gentlemen selected were H. W. Manly, F.I.A., of London, Eng., the president of the Institute of Actuaries of Great Britain, and Mr. David Parks Fackler, consulting actuary of New York, ex-president of the Actuarial Society of America. Mr. Manly, who, by the way, holds the highest office in the gift of British actuaries, is so strongly convinced of the necessity and advantages of the adoption of the new 3½ per cent. basis, that he did not hesitate to recommend its immediate adoption. "After weighing," he says, "all the arguments in favor of or against either of the courses open, I am strongly of the opinion that it would be better for the company and for the policy-holders generally to make the change at once, even if you have to pass a bonus altogether." Mr. Manly's exhaustive report as well as that of Mr. Fackler, will be printed for the benefit of our policy-holders.

Mr. Fackler's opinion would have supported a like conservative course, but he also looked favorably upon a proposal that was under consideration by the directors, viz., the paying of a moderate bonus to policy-holders upon this occasion, and then during the present quinquennial period passing to the full 3½ per cent standard.

Our own actuary, Mr. F. Sanderson, M.A., A.I.A., F.S.S., who deservedly stands high in his own profession, and whom the directors regard as one of the most able, reliable and conservative actuaries in Canada, would have preferred the immediate adoption of the Hm. 3½ standard, but after a careful consideration of the question in all its bearings, he was quite in accord with the medium course that has been pursued.

After looking at the matter from every point of view, the directors finally concluded to place the reserves upon the Actuaries' 4 per cent. basis, and to set aside a special reserve of \$275,000 in addition to the \$225,000 set aside a year ago, or in all a special reserve of half a million dollars towards placing the reserves upon a 3½ per cent. basis.

It was then decided to allot to policy-holders the rate of bonus mentioned in the report, but to dispense with the usual quinquennial bonus to shareholders. Speaking of these proposals Mr. Fackler says: "I believe that all arguments worthy of consideration favor a course at least as conservative as that proposed, and it has my hearty approval."

There are two important points in Mr. Manly's report to which I wish to draw special attention.

First—"That the rate of interest used in calculating reserves should not only have reference to the interest now earned, but in order to secure absolute safety should be based on a level rate which, so far as can be discerned, will be permanent when obtained. In fact there must be an intelligent anticipation of a future rate of interest."

Second—"That the proper persons to bear the burden of the change to the higher reserve standard are those policy-holders (and shareholders), who have received an excess of profit in the past, equivalent to the difference in the reserves made, and the larger reserves, which we now know ought to have been made."

I am strongly convinced of the soundness of these arguments, and I believe if they are properly understood they will make clear to many minds what otherwise may seem incomprehensible.

Reference is made in the directors' report to what leading companies in Great Britain, United States and Australia are doing towards placing their reserves on a lower interest basis. I find on enquiry that already six British companies have reduced their valuation rate of interest to 2½ per cent., one even having come down to 2 per cent., while nearly fifty others have come down to 3 per cent. In addition to these reserves most high class British companies hold special reserves to cover other possible contingencies.

Then in the United States several of the largest companies are adopting a three per cent. basis, and before long every high class company in that country will have abandoned the four per cent. standard hitherto in use.

It is also noteworthy that in Australia and New Zealand the leading companies have for some years abandoned the four per cent. basis, although the rates of interest secured there are higher than in Canada. It is evident, therefore, that if the Canada Life is to continue as a leader among the great companies of the world, we cannot afford to fall behind in this matter of valuation standard.

The moderate but effective step which we have taken on this