

on the assumption of the interest rate which they were purchased to yield. If, however, a bond were in default as to principal and interest, or if it were not amply secured, it is perfectly clear that the amortization plan should not be followed, for then the security should not be valued above its market value. Also, if a company purchases bonds with the idea not of holding them permanently, but with the intention of disposing of them if they should deem it advisable to do so, market value should be used.

"As regards the difference in the methods adopted by the insurance department in regard to bonds and real estate mortgages, it must, of course, be remembered that mortgages are usually made for short periods, from three to five years, that they are almost invariably held by life insurance companies until maturity, and that in normal times at least, even if they were valued according to the current rate of interest, there would be very little difference between the market value and the book value, whereas in the case of long-term bonds the difference would be considerable.

"The amortization plan of valuing securities is the method provided for by the insurance law of the State of New York."

Favors Amortization Plan.

In *The Monetary Times* recently, it will be recalled, Colonel W. C. Macdonald, managing director and actuary of the Confederation Life Association, drew attention to the fact that under the amortization method, in which the security is carried on the books of the company at a value which will yield precisely the same rate of interest return as that at which it was purchased, disregarding entirely present market values, the danger may be a tendency to disregard or to consider whether the depreciated market value of the bond is due to existing financial conditions or to an actual depreciation in the inherent value of the security. This danger would naturally be greatest in companies which were not financially strong and which were desirous of making good showings in the form of dividend returns to their members.

Subject, however, to the exercise of proper judgment and discrimination, Colonel Macdonald inclines to the opinion that for a life insurance company, the amortization system is the preferable and fairest to the policyholders, that is, in so far as it is applicable to terminable securities, such as bonds and debentures. In regard to stocks, their value must, he thinks, without question be determined on the basis of the market quotations at the date of the investigation.

As to the valuation of mortgages, theoretically the same principle should be applicable to the valuation of a mortgage as to that of a bond. True, the fluctuation in the value of the mortgage is not only likely to be much less, but it is not so easily ascertainable, as mortgages are not a form of security which are generally bought and sold on the open market.

Higher Rates for Capital.

In addressing the insurance institute of Toronto recently, Mr. Thomas Bradshaw, F.I.A., referred also to these matters. "The appreciation in the last few years in the value of money," he said, "or, in other words, the higher rates of interest which has been paid for capital, has resulted in lower prices being paid for bonds. The insurance companies have not been slow to take advantage of this condition, with the result that they

have during the past two years been important purchasers at attractive prices. But this very condition which so greatly favored the making of new investments has had a rather disastrous effect upon the book value of investments which were made when money was cheap and bond prices relatively high, also upon those values which had been adjusted at a period when similar conditions prevailed. At the close of 1913 a very general readjustment of the values of their securities took place, with the result that the deductions made, either voluntarily or to comply with the terms of the Insurance Act, from 'book values' to bring them in accord with market values approximated \$2,400,000, or about 3 per cent. of their holdings.

"The existing system of valuing the terminable securities of insurance offices has been for some time open to question, and it is not unlikely that an improvement will be instituted which will be more rational and satisfactory. It does appear only reasonable that where a debenture carrying a fixed rate of interest and payable at par at its known maturity date has been purchased for permanent investment, that is, to be held until maturity, and to yield a specific rate of interest until it matures, the value should be determined year by year in accordance with the original yield basis at time of purchase, rather than in accordance with the ups and downs of the money market from year end to year end. There are, of course, two or three conditions which must be considered in this connection. If a company makes a practice of selling or trading in its municipals, then it is only right and proper that its holdings should be valued at a regular stock-taking period, and it should be prepared to accept the result, whatever that may be. Then again, there is the case of an insurance office which is not financially strong—one which may possibly have to reinsure its business or re-organize its affairs. Its assets may have to be taken over or realized upon promptly. In such a case market values should be considered, and it would appear as though such a company should be required to value them on that basis. To do otherwise would only add to its further embarrassment. Another case, where the original cost value or book value might require to be modified for the market value, is that of a security which is not likely to be paid when it matures at its full face value. Some unfavorable condition may have arisen in the financial affairs of the company or municipality, whose debentures or bond is held, which clearly indicates that a loss is inevitable."

Differences in Statements.

The question of the valuation of securities has also been raised in connection with the differences which are often seen between the companies' statements furnished to the insurance department and the statements sent to their shareholders, policyholders and to the press. The form of annual statement from insurance companies is provided by the Dominion insurance act and the statements of insurance companies as they appear in the blue book is in accordance therewith. The book value of the bonds and debentures is shown in the government statement, and, in accordance with the act, an addition to or a deduction from the assets is made according as the market value is above or below the book value.

Some of the reasons for the differences between the statements issued by companies are as follows:—

(1st) Difference of bookkeeping. The statement appearing in the blue book shows the cash income and cash expenditure of the company. The statement to share-