make the member choose his option at the time of applying for his policy. By this means selection against the company after bad health has set in is avoided. Another plan is to give slightly smaller bonuses in all cases than would be given to unexceptionably good lives. In other words, all those who take the bonus are looked upon as slightly under-average lives, and treated accordingly. But whatever be the system which is followed, of the necessity of something of the kind there can be no doubt.

The foregoing figures also speak eloquently as to the result of self-selection in producing a favorable mortality among endowment policyholders as compared with life policy holders. A man's opinion of himself is on the whole more reliable than that of the medical examiner, and the robust, self-confident men will usually select a plan by which they can profit by the assurance during their own life and not merely at death.

THE PROFIT ON LAPSED LIFE POLICIES.

A communicated article in the *Monetary Times* of November 13 deals at some length with the subject of lapsed life assurance policies, after correctly calling attention to the fact that both in the United States and in Canada lapses far exceed the natural terminations. The writer, however, approaches the subject from the standpoint of incomplete information, evidently, and easily falls into an error which is very common with the general public. The writer of the article referred to comments as follows:—

> The insurance companies, however, are undoubtedly the gainers by every policy that fails to become a claim. The more premiums paid, of course, so much the better, so long as death does not ensue; but every policy lapsed must of necessity represent a liability cancelled, and a consequent gain, first, to the company, and, second, to those policyholders who share the benefit in the shape of a division of profits. Here we evidently have an illustration of "Whoever hath to him shall be given, and he shall have more abundantly," for the prosperous man pays his own premiums easily, and shares in the benefit of the payments made by his poorer fellows, who from diverse chances of "outrageous fortunes" find themselves unable to continue their payments. No one will deny that great hardship is involved in this state of affairs, and there may possibly be great difficulty in devising a remedy.

The above is about a fair statement of the popular impression prevailing with regard to lapsed policies, and for that reason we give it brief consideration. What appears to the writer of the article to be a great hardship to the policyholder on the one hand and a source of much profit to the company on the other is, in the main, only in appearance. This view fails to apprehend the very important fact that the great bulk of life assurance policies which lapse do so during the first two years of their existence, and before the premium payment or payments more than cover the cost of carrying the risk, the agent's commission and other expense of getting the policy on the company's books. A very large number of the reported lapses occur before a second premium is paid at all, and not a few of this class represent an actual loss to the company, when expense and the loss of vitality belonging to a freshly examined insurant is considered. It is to be kept in mind that life assurance is based on the law of average, and that the larger the proportion of the assured in a given company who are fresh selections the lower will be the mortality rate. The men who allow their policies to lapse, excepting in the small proportion of cases where necessity compels them to give up, are those in robust health who are among the very best risks; hence their retirement increases the mortality rate by reducing the standard of average vitality.

Everybody familiar with the fundamentals on which life assurance rests, and who has carefully studied the mathematics of the question in the light of modern methods of getting business, knows very well that the companies gain next to nothing from one and two year policies which lapse. It follows that no profit having accrued from the existence of these policies, the companies are powerless to soften the hardship pertaining to the few cases—and in these one and two year policies they are very few—where the holder is compelled to lapse by reason of misfortune. It is obvious that, without robbing other policyholders, the company cannot stand between the unfortunate man and his loss. His premiums are exhausted in the regular and necessary requirements of the business. But how about terminated policies which are three years old and upward?

Upon policies which have been three or more years in force there is an accrued value, accumulating from what is called the reserve, and increasing with the age of the policy. Very few of such policies when terminated by reason of non-payment of premiums are classed with lapses at all, for the reason that as a rule the companies undertake to pay to the holder the principal part of the reserve value in cash, or to issue instead paid up policies for such amount as the accrued reserve will equitably purchase. In other words, life policies are now almost universally non-forfeitable after three years, not a few of the companies specifying definitely in the policy contract the paid-up and cash value in case of termination before maturity, that value in some of the States being *fixed* by law. Such arbitrary dealing with the subject, however, we have heretofore shown in these columns to be both undesirable and unnecessary, for under the influence of competition, and from a sense of equitable dealing, the companies voluntarily give to the retiring policyholder all that they can afford to give in justice to the great body of remaining policyholders. Now, all this large class of policies do not come under the head of "lapsed" but of "surrendered" policies, for which cash or paid-up insurance is given to the limit of equitable value. How extensively this is done may be inferred from the fact that in Canada alone during the past ten years the life companies have paid retiring policyholders in *cash surrender values* the sum of $2,385,285, while the paid-up policies have been on a large scale. It is perfectly certain in the light of recorded facts, whatever may have been the case many years ago, that under the practice prevailing at the present day the profit to life assurance companies from lapses is almost purely imaginary. In fact, all the companies constantly make earnest