

INDUSTRIAL INSURANCE.

Some Points Discussed by Insurance Superintendent— Lapse Ratio is High.

In an interesting memorandum, Mr. W. H. Hotchkiss, Superintendent of Insurance for New York State, has something to say on industrial insurance or insurance for the masses. It differs, he says, from ordinary life insurance both in the amount of the indemnity and in the size of the premium and the method of its collection. Its premiums are collected weekly, by agents or collectors, and are usually at the rate of 5 cents a week or multiples thereof. The average premium is said to be 10 cents; the average policy \$143.53. It is asserted that from one-fifth to one-fourth of the city population of the United States holds industrial policies. The enormous importance of this field of insurance cannot, therefore, be too much emphasized.

Industrial insurance, as conducted by the Metropolitan Life Insurance Company and the Prudential Insurance Company of America, was investigated by the Legislative Investigating Committee of 1905, commonly known as the Armstrong Committee. Such investigation was concededly somewhat superficial. Indeed, at its conclusion, the committee stated: "Apart from what has already been suggested, the committee is not prepared to make recommendations with reference to industrial insurance, further than to say that the subject is one deserving of special investigation. The most serious evils which have been disclosed by this inquiry, to wit: the excessive premiums, the enormous lapse rate and the hardships of the agents, seem to be inherent in the system. The alternative seems to be presented either of prohibiting altogether industrial insurance by private corporations, or of permitting its continuance substantially upon the present basis, subject to those regulations designed to secure economic administration applicable to all companies alike."

Industrial Insurance is Expensive.

The memorandum just published especially relates to an examination of the business of the Metropolitan Life Insurance Company of New York. As compared with the cost of ordinary insurance, it continues: Industrial insurance is expensive. The examiners' report directs attention to several particulars which should not be lost sight of by any one willing to have all the facts. The ratio of total expense to total premiums has in six years fallen from 43.73 per cent. to 36.60 per cent. During the same period, the same ratio as to companies doing business in New York on the ordinary plan only has fallen from 22.09 per cent. to 17.03 per cent. In the same period the benefits to new policyholders of industrial insurance have increased an average of 20 per cent., and the bonuses, largely to old policyholders, have amounted to an average of about seven and one-half weeks' premiums gratis. Owing to the peculiarities of industrial insurance, it is difficult to express these reductions in cost in terms of dollars and cents, but that there have been substantial reductions is apparent.

Further, the company claims that in 1909 it did its industrial business practically at cost. This seems to be borne out by the statement of the examiners in discussing the gain in the company's surplus from December 31, 1908, to December 31, 1909.

Question of Lapse Ratio.

The Armstrong report stated that the lapse ratio of the Metropolitan was extraordinary, adding "More than one-third of the policies do not survive three months, and about one-half are cancelled within a year." Such report, however, concluded that a heavy lapse ratio was inherent in industrial insurance; a conclusion clearly just when it is recalled that industrial insurance is, as a rule, placed with a class of the community where the slightest reduction in wage or increase in family expense almost inevitably leads to the dropping of the insurance carried, and the holder, being subject to such condition, has fifty-two opportunities to lapse each policy year; while, further, the lapse ratio necessarily omits from consideration all revivals which in this field are numerous and made easy by the rules of the companies doing an industrial business.

As previously indicated, the quarterly lapse has fallen from 51.46 per cent. in the Armstrong report to 41.10 per cent. at present, while cancellations of policies issued in 1909 amount to 25.05 per cent. as against an average for five years previous to the Armstrong report of 33.97 per cent. Summarizing these and similar figures, the examiners conclude: "It is evident from the above comparison that there is a substantial improvement in the persistence of the business."

No Return for Payments.

But the Armstrong report also calls attention to the fact that the insured who permit their policies to lapse receive no money in return for their payments. This is, in substance, still true. The practice of the company as to cancellations is to give to policyholders whose insurance has been in force at least three years the so-called non-forfeiture privileges; that is, paid-up or extended insurance. This company, save in

cases of extreme need, never grants a loan on an industrial policy, and gives cash surrender values only after such a policy has been in force ten years. In these particulars its practice is different from that of companies writing ordinary life insurance. This is thought to be necessarily so. Such a company cannot well give loan values, for the reason that the accounting necessary to keep track of the vast number of loans that would be made under these small policies would destroy the value of the privilege to the policyholders. In other words, the increased expense would be such as to make loans impracticable. For this reason, it seems to me that, at a time when both the company and the public are endeavoring to give benefits of this sort to the masses at the least possible expense, it would be ill advised to add unnecessarily to these expenses.

The policyholder should have his equity without doubt. This can be given in three different forms, cash, extended insurance or paid-up value. The cash value, especially during the earlier years, is so small as to be of little benefit to the policyholder, while the tendency to lapse which would thus be created would result in an increased expense. To get the best results, all waste must be eliminated, and it is questionable if the waste that would result from surrender values during the early years would not overcome the slight benefits to be derived from cash values.

Faults Inherent in Industrial Insurance.

The foregoing sufficiently indicates that this company has progressed in several ways since the investigation of five years ago. Certain criticisms then advanced still persist, though with less emphasis than was then apparent. Industrial insurance still costs the insured more than ordinary insurance. The lapse ratio is still high. These elements are inherent in industrial insurance itself, and all that can be expected of a company writing it is that it use every effort to lower such ratios.

I, therefore, reach the same conclusion as was apparently reached by the Armstrong Committee, says Mr. Hotchkiss: The interests of government require that the industrial masses have insurance, paid for weekly to collectors who go from door to door. It must be given them either by private corporations or by the State. Hence, the State must permit corporations to write industrial insurance practically as it is now written, or else the State must prohibit the writing of such insurance by private corporations and write it, itself. The State is, in my judgment, not yet ready to assume such a burden.

Indeed, it may properly be concluded that the present need is not so much new laws on this subject as the thorough supervision and frequent examination of companies of this class coupled with that searching publicity of men and methods now rightly demanded of all corporate enterprises in the insurance field.

MONTREAL DRYDOCK.

The details have been concluded, in the negotiations between the Dominion Government and the firm of Messrs. Vickers, Son, and Maxim, with reference to the drydock at Montreal. It is learned that the subsidy to be paid will be 3½ per cent. annually for thirty-five years on a total outlay of three million dollars. The subsidy, under the Act authorizing it, is not payable until the works are completed. The subsidiary works, as distinguished from the dock itself, are not valued in respect of subsidy.

The dock will be towed across the Atlantic and it is expected to be in position by the opening of navigation next year. The work has been done on government authority.

The dock will be of the first-class, and will be able to accommodate the largest ships now on the St. Lawrence, or likely to come to that service. The company, in addition to ship repairs, will go into shipbuilding and foundry works. On their report the government formally grants the subsidy.

Work on the excavation of the site at Molson's Creek is well advanced. While some official details have yet to be concluded and papers executed, the basis of agreement is fully determined, as is shown by the operations both on the site and the dock itself.

A special meeting of Laurentide holders has been called for May 9th at noon. In a circular to the shareholders Sir William Van Horne says: "Your directors are of the opinion that the time has arrived when the progress and development of the company's business renders it advisable that a reorganization should be effected. After careful consideration your directors think this can be best accomplished by the incorporation of a new company, with an increased authorized capital sufficient to meet the requirements for future extensions of the business in all its branches. The new company will acquire the shares and, as soon as practicable, the entire assets and undertaking of the present company, upon such terms as will afford every shareholder of the present company fair and equitable treatment."