HOW FIRE COMPANIES ARE AFFECTED BY NEW DOMINION LEGISLATION

The amendments to the Insurance Act of 1910 introduced into the House of Commons last week by Hon. W. T. White, contain several important new provisions affecting the fire companies. The outstanding feature of these provisions is one that companies themselves transacting a particular business in Canada must not control or own other companies transacting a similar business, and that companies now controlling or owning such subsidiaries must dispose of them within ten years of the coming into force of the new provisions. Doubtless this legislation is aimed at putting an end to the control of a small fire insurance company by another small company which is itself in a shaky position, of which sort of thing there have been several instances in Canada. But the new provisions will presumably have a considerably more far-reaching effect than this. They will apparently compel the large British and foreign companies now owning subsidiaries in Canada transacting the same kind of business that they themselves transact to dispose of these companies to other control or wind them up. For instance, a number of British and American fire companies transacting fire insurance in Canada own or control Canadian companies also transacting fire business. What good effect it is hoped to produce by compelling these large corporations to dispose of their subsidiaries, it is difficult to see. There can be no question of the ability of the larger companies to take proper care of the obligations of their subsidiaries, which in fact form an integral part of their own obligations. The whole question would seem to be one of effective organisation. If a large company feels itself better able to develop its business in Canada through subsidiaries, whose obligations it guarantees absolutely, there would seem to be no reason why, the public being safely protected, it should not be allowed to do so. It is to be hoped that these provisions will be given the strictest scrutiny by interested parties before they are enacted.

TEXT OF THE PROVISIONS.

The provisions governing these arrangements are amendments and additions to section 63 of the Insurance Act of 1910, and are as follows:—

Sub-section 1 of section 63 of the said Act is amended by adding thereto the following:—

Provided, however, that no such company shall invest in the shares of any other company transacting, or authorized to transact, any class of insurance business which such company transacts or is authorized to transact.

The following new sub-section is added:—

Any such company having on hand or vested in trustees in trust for the company at the date of the coming into force of this sub-section, any securities or investments which, but for the proviso to sub-section 1 of this section would have been valid and competent, but which by reason thereof are not valid and competent, shall absolutely dispose of and realize the same within ten years after the coming into force of this sub-section.

This apparently does not affect underwriters' agencies which are not incorporated. Neither, of course, has it any bearing upon the arrangements between a company transacting, in its own name, say a fire business in Canada and owning a subsidiary which transacts casualty business.

NEW REQUIREMENT REGARDING ASSETS.

A further important provision is the requirement of retention in Canada under the Company's own control, of assets equal in amount to its liabilities to Canadian policyholders, and of these assets two-thirds must consist of investments in or loans upon Canadian securities. This is not likely to affect those companies who already have large Canadian investments, but some of the American companies who have quite lately entered the Canadian field, will, we believe, be affected by it to the extent of being compelled to increase the amount of their assets now in Canada, and change American securities for Canadian securities. There is in the 1910 Act, a similar provision affecting life companies only (Sec. 60), so that the effect of the new legislation is to put fire and other companies upon a par with life companies in this connection. The text of the provision (sec. 63, sub-sec. 4) is as follows:—

Notwithstanding anything contained in this Act, every such company shall at all times retain in Canada and under its own control, assets of a market value at least equal to the amount of its total liabilities to its policyholders in Canada, including among such liabilities, in respect of its outstanding unmatured policies in Canada, a reserve of unearned premiums calculated *pro rata* for the time unexpired, and of such assets, an amount at least equal to two-thirds of its total liabilities in Canada shall consist of investments in or loans upon Canadian securities.

PULLING UP WEAK COMPANIES.

Canadian fire companies only are affected by two other important new provisions. These companies whose capital is impaired to the extent of 25 per cent. or more are given six years to make up the deficiency on pain of losing their license. The section in question (135a) reads as follows:—

After the first day of January, one thousand nine hundred and twenty, if it appears to the Superintendent from any statement made to him or from any examination made by or for him, that the capital stock of any Canadian fire insurance company is impaired to the extent of twenty-five per centum or more thereof, he shall by notice sent by registered mail to the president and secretary call upon the company to make good the amount of such impairment within not more than three months from the date of the mailing of such notice, and upon the failure of the company to make the same good within the time so specified, the Minister may withdraw its license.

The effect of this regulation should be to weed out very weak companies and incidentally prevent shareholders continuing to lose further capital owing to the persistence of the management in business when the position of a company has become chronic. There is a similar new provision (184c) referring to Canadian fire companies licensed after January 1, 1915. On their capital becoming impaired to the extent of 25 per cent., they will at once be pulled up.