

FACTS, FIGURES AND FALLACIES OF CANVASSING.

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In the comments which follow I have endeavored to confine myself to a discussion of the accuracy or inaccuracy, merits and demerits of various ratios and comparisons with which correspondence with our own field staff has shown me, insurance salesmen come into frequent contact.

One of the snags, the bugbear of insurance men, is ratios, and of the making of these there is no end. There are some ratios which peculiarly favor the young company and make an unfavorable appearance in the report of the old company; others in which only an old company can make a reputable showing. Then, again, some ratios appear outwardly to be all-sufficing proof of superiority, but inwardly and on close inspection there is little or nothing to them. "They are full of sound and fury, signifying nothing." Others are directly and reprehensibly deceptive—on the surface fair to the eye, but when examined closely found to be merely "whited sepulchres."

It is remarkable how distinctly we can divide our ratios into the two broad classes, (a) those favoring young companies, (b) those favoring old companies.

Let us consider first:

(A) "Young companies' " ratios.

1. (a) Death losses per M assured.
- (b) Actual to expected death losses.
- (c) Actual to expected death strain.

FALLACIES SHOWN.

Ratio (a) combines three gross fallacies, viz.: (1) It takes no account of the effect of medical selection which, in a young company, with its large proportion of new business to old, would figure very markedly; (2) It ignores the fact that a young company has a greater proportion of young lives on its books than has an old company, and that these young lives are not contributing, or have not contributed as much to the mortality costs as the old lives. (3) No allowance whatever is made for the reserves accumulated under those policies that fall in as death claims. Thus, if a \$1,000 policy has in the fifteenth year an accumulated reserve out of the policyholders' payments of \$700, we can see that the real loss is only \$300. In an old company while, naturally, more losses per M assured occur, yet their virulence is considerably mitigated by the fact that a large proportion of these claims is on policies many years in force and upon which substantial reserves—particularly substantial in the case of endowments—have been accumulated.

To take account of the effect of medical selection, strongest, of course, at the outset, and gradually wearing off, we should, in comparing two companies, have before us the death ratios of each for insurances one year old, two years old, three years old, * * * ten years old, etc. To estimate the importance of young lives and reserves, we should know also the proportions of the different plans, the ages, etc.—data not furnished to rival agents, we may be sure.

This ratio, death losses per M assured, is, then, impossible, as a basis of fair comparison. So for the same reasons is the ratio of actual to expected losses, where only the amounts of assurances are

considered and the reserves ignored. It would easily be possible for one company, by having a larger proportion of young or recently examined lives, to show a smaller ratio herein, and yet in reality not have nearly as favorable a mortality experience as an older company.

FAIR COMPARISONS.

The only passably fair basis of comparison of the death rates of two companies is the ratio of actual to expected death strain. This is ascertained by summing the total death strain (amounts minus reserves) actually incurred and taking the ratio of the total to the sum of the total death strain expected for all policies according to some standard mortality table—a "select" table, of course, i.e., one giving effect to the lower mortality experienced in the early policy years due to medical selection. Occasionally companies in publishing this ratio, disguise the fact that they have used an "aggregate" or the "ultimate" table, where "selection" is ignored, in computing their expected mortality. Their expected mortality is, accordingly, abnormally high, thus making their ratio of actual to expected death strain abnormally low. Some, perhaps, make this mistake through ignorance, in which blissful case 't'were folly for them to be wise." However, the alert agent, in competition, will do well to suspect any abnormally low death rate for an old company till he has ascertained their basis of computation.

2. (a) Business written to business in force.
- (b) Gain in business in force to old business.
- (c) Gain in business to new business.

No fallacy lurks in the use of these ratios as a basis of comparison between companies. Rather it protrudes. It is patent that no well-established company with a goodly volume of old business on its books can hope to show the ratio of, say, some "mushroom" company whose total business in force is perhaps one-tenth of the yearly business written by the older company. With companies of approximately equal ages and sizes, however, it may give an indication of the rates of progressiveness and stability of business, but should be used with caution. Thus a high ratio for a company in any particular year may indicate large increase in stable new business, and light lapse and termination rates; but then, again, it may only be the resultant of undue weakness in preceding years, where, e.g., terminations may have been unduly high.

INTEREST EARNINGS.

3. Interest earned on investible assets.

This is, in the main, a "young companies' " ratio, for they, with their small assets and small income, can generally invest with greater ease in high-yielding and yet safe securities than can the large companies with their deluge-like receipts. A comparison of the gross rates of interest, however, is not always a safe guide. The policy of one company in investing mainly in, say, bonds, subject to little investment charge, will cause their gross rates to verge closely on their net rates, whereas a company investing largely in mortgages will, while showing a larger gross rate on that account, have heavier proportionate investment expenses to deduct in ascertaining their net rate.

The adage, "High interest rate—low security," is worthy of the utmost respect, but then so too is the well-tried management of any of our well-es-