

PRESENT DAY LIFE INSURANCE FEATURES AND TENDENCIES.

(Address by Col. W. C. Macdonald, President, Actuarial Society of America, at the annual meeting.)

Immediately following the New York State Investigation, in fact almost simultaneously therewith investigations were instituted in other States and in Canada, which resulted in a large amount of new insurance legislation being placed upon the Statute books, some of it wise, much of it otherwise, often sectional in character, restrictive in its nature, interfering unduly with the operations of the companies and the freedom of contract, and consequently disadvantageous to the best interests of the policyholder. This condition which continued more especially throughout the years 1906, 1907 and 1908, has extended in a lesser degree to the present time. It arises in a large measure out of the general antagonism which obtains to-day towards all corporations on the part of the general public. Legislation imposing heavy administrative burdens upon the companies unnecessarily and without corresponding advantage is all too common.

UNFAIR TAXATION.

The heaviest and most unfair burden which is imposed upon life insurance companies to-day is in the form of governmental taxation, the tendency of which is to become greater from year to year. In opposing or in seeking redress from these measures our arguments and appeals have been made to the legislator, their framer and creator. We have overlooked almost entirely the policyholder. Is it not to the latter that we should in a careful and systematic manner present our arguments and seek by reasonable and fair means to impress upon him the fact that the burden of all unnecessary legislation and taxation must ultimately be borne by him either directly in the form of increased premium rates or indirectly in reduced dividends. To be effective this must be done systematically. Much useful and educational work could be accomplished by every company without much added expense either through our annual reports, a page or more of which might be devoted to this purpose, or through the medium of the journals published by many companies, or by means of other literature issued from time to time.

NEW COMPANIES.

An outstanding result of the investigation has been the impetus given to the organization of new companies both in the United States and Canada. At the beginning of 1906 the active life companies reported as operating in the United States numbered one hundred and thirty-two. In 1912 they had increased to two hundred and fifty-two, or very nearly doubled. The increase in Canada has not been relatively so great. The contributing causes are various. The limitation placed on the volume of business a company was permitted to write under the New York law opened up to some extent a field for new enterprise. Field men whose positions had been endangered during the period of re-organization following the investigation sought new spheres for their energies and abilities, while in other cases local ambitions or necessities were the actuating causes. Much prominence had been given to the

value of the stock in some old and well established companies and the rate of dividend paid. This was utilized by promoters often unfairly in securing subscriptions for new shares. I can speak with authority in regard to Canada. The conditions under which the business of these old companies was established were vastly different from those of to-day. The amount of the paid-up capital was usually relatively small and the rate of dividend now paid has been given much prominence without regard to the experience or record of the past. The stock of these new companies is usually issued at a premium varying from 25 p.c. to 100 p.c., a large portion of which is necessarily absorbed in flotation expenses. Some of them give evidence of capable and energetic management, and we wish all of them every success, but it is safe to say that a number of them will be absorbed by other companies. Instances of this have already occurred. The interests of the policyholder under the present stringent laws will doubtless be safe-guarded, but the stockholders will in many cases experience some disappointment. While a bar cannot be placed on the organization of new companies, however beneficial it might be to have a "close" or "holiday" season for a period in life insurance, yet if insurance legislation is desirable some provision regulating the issue of prospectuses and of estimated stock dividend results might not prove unwholesome.

WASTE BY LAPSE AND SURRENDER.

Possibly no result of the investigation was more to be regretted than the sacrifice of a large volume of insurance protection, due to the unrest and want of confidence created in the public mind, which was aggravated unduly by sensational and often unfair articles in certain sections of the daily press, an unnecessary sacrifice, for the irregularities revealed were functional only, and not organic. They were susceptible of treatment and easily cured. The business was sound, and it is gratifying to record that the financial status of all the old, established companies in the United States and Canada and their ability to fulfil their obligations to the uttermost could never be honestly or seriously questioned. The decrease in the volume of new business written, which amounted to as much as sixty per centum was partly due to the limitation imposed upon the amount which a company might write, the temporary disorganization of the agency staffs and the financial panic of 1907, the effects of which extended into 1908. The business terminated by lapse and surrender in 1905 was equal to 6.77 per centum, and in 1906 it was 7.29 per centum of the total amount at risk, the business terminated by lapse alone in the latter year being 20.2 per centum of the total business issued in the two preceding years. Public confidence, however, was soon restored and a marked improvement was evidenced in the succeeding years in the volume of business and in the lapse rate which has continued to the present time. The lapsed business in the past three years has not averaged more than twelve per centum of the amount of new insurances issued in the two preceding years, as compared with a ratio of 13.7 per centum for the year 1904, and an average for the three years 1902, 1903 and 1904, of about 13 per centum. While the difference is not great it bears some evidence of improvement in the quality of the business now being placed on the books as compared with that of the pre-investigation years.