

GOVERNMENT SUPERVISION OF INSURANCE IN CANADA.

The following is a report prepared by Mr. W. Fitzgerald, Superintendent of Insurance, addressed to the Honourable W. S. Fielding, Minister of Finance, giving details of the features which are looked into by his department in connection with the Government supervision of insurance. The Report is inserted in full, and will, no doubt, be perused with interest. It deals "with the nature and object of the annual inspection of insurance companies, the methods adopted in making such inspections, and to some extent with the results produced" but no expression of opinion is given as to what if any amendments are necessary, or desirable in connection with the present Insurance Act.

OFFICE OF THE SUPERINTENDENT OF INSURANCE.

Ottawa, Nov. 5, 1905.

Hon. W. S. Fielding, Minister of Finance,

Sir:—In compliance with the request contained in your letter dated 6th October, 1905, for a special report dealing with the manner in which the inspection of insurance companies by this Office is carried on, showing what are the features which are looked into and to what extent inspection is able to go, I have the honour to submit the following:—

MEMORANDUM.

The principal object aimed at in every inspection of a company is to verify the last sworn statement made by the company to this office, to ascertain if the items called for in the blank forms sent to the companies from this office under the authority of the Insurance Act, have been correctly entered therein, to see that they are in accordance with the books and records of the company, that the value of the assets is not overstated, that the companies' liabilities are not underestimated and that the income and expenditure are accurately set forth and where any such statement is found to be inaccurate in any particular, to correct the same and present the statement as corrected to the Minister to be laid before Parliament pursuant to clause 15 of section 25 of the Insurance Act.

Errors met with in statements made by the companies may be divided into:

(a) Those arising from the officer compiling the same, placing upon an item an interpretation at variance with the intention of the statement form;

(b) Those where such officer understands the information desired but fails to work out the correct results;

(c) Cases where the opinions of the company's officers are at variance with those of the department.

An example of this latter class may be mentioned, the case of losses outstanding at the date of the statement being omitted, the company's officers taking the view that because they have been reported to the company at the date of the closing of their books for the year they need not be reported to the Government. All of these classes of errors we endeavour to correct.

Cases are rare where wilful misrepresentations have been made in the returns for the purpose of

concealing the true standing and condition of a company.

An instance, however, is mentioned on page 18.

All the accounts in the General Ledger are examined and also, where found necessary, the Journal Cash Book and other records of the company.

The total cash receipts of the company are ascertained and the disposal of that cash accounted for in the expenditure for losses and other returns to policy-holders, to dividends to stock holders, or for the general expenses of the company. In this way is found the exact amount of cash which the company has available each year for investment. The investment ledgers are then examined and the amount invested in every separate item of asset is determined. In this connection the changes in previous investments are examined and noted, such as the repayment and reinvestment of moneys invested in the current or in any previous year.

In this way the moneys which have become available for investment are never lost sight of, but are traceable from year to year, in the Ledger Assets of the company.

Before, therefore, the various securities and evidences of investment are examined and counted, we know exactly how much a company has expended on the Capital Account of its real estate, just how much it has loaned on the security of real estate or of stocks and bonds, how much it has expended in stocks, bonds and debentures, both in these items as a whole and also in each separate block of the securities forming any one item. We also know the exact amount which has been loaned to policy-holders upon the security of their policies.

The method adopted in verifying the statement of a company's assets may be conveniently dealt with under headings descriptive of the classes of securities mentioned therein.

These are therefore taken in the order in which they are entered in the statement.

REAL ESTATE OWNED BY THE COMPANY.

A company's real estate usually consists of two kinds, viz.:—

- (1) Real estate purchased by the company for office buildings for the company's use, and
- (2) Real estate acquired by the foreclosure of mortgages.

As to the former it may be said that it is usually, but not always, inserted in the return at the cost price to the company, and in such cases the return is verified by reference to the real estate ledger. On a few occasions in the past where the amounts at which buildings were held seemed to render it desirable, we procured valuations thereof. Such valuations in some instances bore out the values contained in the return and where the contrary was the case, copies of the valuations were sent to the companies concerned with an intimation that in the judgment of the Department, the values should be written down, which intimation was some times heeded but not invariably.

I do not think that under the Statute the Department could without a company's consent write off a portion of the cost price as sworn to by the company.

There have been instances where office buildings have been written up by the company, that is to say, a higher value has been placed upon them in the statement made to the Department than the cost price.