

SOME FACTS ABOUT "NEW PREMIUMS" AND EXPENSES.

We have heretofore taken occasion to point out in these columns the peculiarities of the book keeping practised for some time past by the life assurance companies of the United States, by means of which the annual statements of these companies, as published in the reports of most of the State insurance departments, show the premiums on new business to be much larger than they really are, one of the results being to misrepresent the actual cost of that business. Current dividends on existing policies applied as premiums for reversionary additions, and surrender values applied as premiums for paid-up assurance, are habitually treated as "new premiums," together with other similar items, all of which come about as near to being premiums on new policies as the payment of a death claim comes to being an asset! As we have heretofore noted, one insurance commissioner—Commissioner Merrill of Massachusetts—has at last taken cognizance of this practice, heretofore allowed, but clearly in violation of the regulations governing the scheduled report required in common by the various insurance departments. In accordance with his previous notice to the companies, the Massachusetts commissioner has in his report for 1893 allowed as "cash received for new premiums" just what that entry covers, neither more nor less, and the customary "padding" has encountered a serious stumbling-block. When we state that the actual premiums received on new policies issued, as admitted in the Massachusetts report, are \$9,626,128 less than that item appears to be as given in the New York report, it will be seen how misleading has been the peculiar style of bookkeeping allowed for some time past. It can also be easily seen that any attempt to figure out the cost of new business by assuming the customary charge of seven and a half per cent. of the renewal premiums for taking care of the old business and using the new premiums, as heretofore allowed in the reports, as a factor, must result in placing that cost altogether too low. Just how much too low, it is the purpose of this article to demonstrate. In the first place, in order to illustrate the situation clearly, we append the new premiums for each of the ten largest companies for 1893, as stated respectively by the New York and Massachusetts insurance reports:—

COMPANY.	New Premiums, N. Y. Report.	New Premiums, Mass. Report.	Difference.
Etna Life	\$790,012	\$578,219	\$211,793
Connecticut Mutual. . .	534,896	322,759	212,137
Equitable Life	7,226,718	4,697,774	2,528,944
Mutual Benefit.	1,422,733	755,481	667,252
Mutual Life.	9,209,677	5,141,926	4,067,751
New England Life	318,296	217,330	100,966
New York Life.	6,306,563	5,958,786	347,777
Northwestern Mutual. .	2,007,590	1,714,518	293,072
Penn Mutual.	1,093,792	1,066,706	27,086
Provident Life & Trust	440,000	440,000	
14 other Companies. . .	5,631,534	4,466,184	1,165,350
Totals, 24 Companies.	\$34,984,811	\$25,358,683	\$9,626,128

Of the fourteen companies whose aggregate only is above given, three—the Manhattan, Travelers, and

Provident Savings—are each credited in the reports of both States with new premiums identical in amount in both reports. The aggregate difference of the 24 companies—over nine and a half millions—is the amount claimed by the companies as new premiums, though in fact only a myth, the Massachusetts report stating the true amount. It is evident that any calculation for ascertaining the portion of new premiums expended by the companies for obtaining new business, which is based upon the amounts given in column first of the above table, must be grossly inaccurate and consequently worthless. Suppose we accept the \$29,350,277 scheduled in the New York report as new premiums belonging to the ten companies, and proceed to deduct from the general expenses seven and a half per cent. of all renewals for taking care of the old business of the companies, allotting the balance of expenses for the cost of new business, we shall then have the following results:

Total general expenses.....	\$33,913,638
Deduct 7½ per cent. of the Renewals.....	8,083,119
Balance chargeable to new business.....	\$25,830,519
Amount of new premiums, N. Y. Report.....	29,350,277
Cost of new business, percentage.....	88.00

Now let us see the percentage of new premiums used for expenses, and chargeable to new business on the above basis, using, however, the amount of new premiums in the calculation as stated by the Massachusetts report. We then have the following:—

Total general expenses.....	\$33,913,638
Deduct 7½ per cent. of Renewals.....	8,083,119
Balance chargeable to new business.....	\$25,830,519
Amount of new premiums, Mass. Report.....	20,892,499
Cost of new business, percentage.....	123.63

Thus we find that the almost eight and a half million dollars which these ten companies report, and which by most insurance departments is allowed as new premiums, though in no sense premiums on new assurance issued, serves to reduce the actual cost of new business, as calculated on the above basis, by 35.63 per cent.! If the deduction from total expenses of seven and a half per cent. of the renewals is a sufficient one for taking care of the old business, as is generally conceded, then it follows that instead of 88 per cent. of the new premiums being used for expenses in connection with new business, more than 123 per cent. is thus used. In other words, after using every dollar of new premiums in business-getting, an amount equal to more than 23 per cent. of the new premiums was appropriated in 1893 from the funds belonging to the old policyholders to place new business on the books. We do not here give the percentages of the several companies considered, because the comparison, owing to the necessary dissimilarity of companies as to relative amounts of old and new business, might work injustice to some of them. The average results, however, deduced from the aggregates, furnish an interesting contribution to the all-absorbing expense question which we commend to the earnest attention of managers of life assurance companies great and small. It is not a good time just now for the covering up of facts by book-keeping jugglery.