Making Life Insurance Safe

How the Public is protected by Government supervision and regulation

By George Gilbert

No portion of a man's estate can be more secure, dollar for dollar, than his life insurance. So absolute is this security that it is practically impossible for a policyholder to lose a dollar of the face value of his policy, if he is insured in a legal reserve company licensed by the Dominion Government. No other business in this country is surrounded by the same safeguards for the public as is the business of life insurance. No bank, loan company, mortgage corporation, trust company or other financial institution doing business in Canada carries the government O.K. as to its ability to carry out its contracts with the public that is carried by the life insurance company doing business under a license from the Dominion Government. This statement does not apply in the same degree to provincial companies not under Dominion government supervision, because, while the insurance laws of a province may be adequate, the expert inspection and examination required in order to ascertain whether the laws are being lived up to in every respect may not be provided for—a vital defect.

The Dominion government has not only prescribed an absolutely safe standard of solvency for the life companies but, thru its system of supervision it makes sure that the companies conform to the prescribed standard. This supervision is carried out by the Dominion Insurance Department, which is manned by experts capable of examining into the affairs of the companies and ascertaining if the requirements of the strict Dominion insurance laws are being complied with in every particular.

As the price of life insurance is paid by instalments or premiums over a number of years, while the benefit or payment of the amount of the policy may be deferred for a long period of time, it is but proper that the policyholder should be protected against the failure of a company to carry out its contracts. That every policyholder in Canada is so protected is due to our insurance laws and our government supervision of insurance companies.

While these strict insurance laws and close government supervision may not be needed in the case of the great majority of our life insurance companies, which are soundly managed and give more ample security than our laws call for, they furnish a guarantee that all licensed life companies are safe to insure with.

All Companies Licensed

In the first place our insurance laws require that before a life company can transact life insurance thruout Canada it must obtain a license from the Dominion Superintendent of Insurance. Before the superintendent can issue or renew a license he must satisfy himself that the requirements of our laws have been complied with and that the company is in a condition to meet its liabilities. All outside companies must maintain assets in Canada equal to their liabilities in Canada, except in respect of policies issued prior to March 31, 1878.

Another requirement of our insurance laws is that an annual statement must be filed each year with the Insurance Department, under oath, showing in detail the assets and liabilities, income and expenditure, and other information deemed necessary by the Insurance Department. Two half-yearly statements must also be filed showing the securities held at the end of June and at the end of December of each year. By a yearly inspection of each company, the experts of the Insurance Department must verify the correctness of the statements filed, and see that the correct figures are published in the annual report of the Superintendent of Insurance.

If deemed necessary, further examination may be made into the affairs of a company, and its books must be open for the inspection of the superintendent, who has the power to examine under oath the officers or agents of the company.

Once every five years, or oftener, the superintendent must value by the net premium method all the policies of the Canadian companies and all the Canadian policies of the other companies licensed to do business in Canada. The basis of valuation is the Om (5) Table of Mortality and 3½ per cent. interest. If any deficiency in assets is shown by this valuation it must be made good, or the license will be withdrawn. The superintendent also has power to visit the head office of any outside company, and examine into its condition and affairs.

The superintendent, or any officer or clerk under him, must not be interested directly or indirectly as a shareholder in any insurance company doing business in Canada. All amalgamations of companies, and transfers of business, must have the sanction of the government. If policy holders representing one-fifth of the total amount of insurance in a company object to the amalgamation or reinsurance of its business, the government must withhold its sanction.

Investment of Funds

All salaries, directors' fees, etc., must be authorized by a vote of the policyholders in a mutual company, and by a vote of the shareholders and other members, if any, in the case of a stock company. The superintendent of insurance must see that each company's investments are such as comply with the requirements of the Insurance Act. Canadian companies are permitted to invest in the following securities:

(a) Government, municipal or school corporation bonds without restriction.

(b) Bonds secured by mortgage on real estate or other assets of the company.

(c) Debentures of a company which has been doing business for not less than three years and which has not made any default in payment of interest within the period of three years from the date of the investment.

(d) Preferred stocks of any company upon which regular dividends have been paid for not less than five years preceding the investment, or the stocks of any company which are guaranteed by a company which has paid regular dividends upon its preferred or common stocks for not less than five years preceding the purchase of said guaranteed stock, providing that the amount of the stock so guaranteed is not in excess of 50 per cent. of the stock of the guaranteeing company.

(e) The common stock of any company which has paid regular dividends of at least 4 per cent. for seven years preceding the purchase, provided that not more than 30 per cent. of the common stocks and not more than 30 per cent. of the total issue of the stocks of any company shall be purchased. Investment in its own shares of the shares of another life company is prohibited.

(f) Ground rents, mortgages, hypothecs on real estate in Canada or elsewhere, where the company is carrying on business.

(g) Life or endowment contracts of the company, or of any other life insurance company licensed to do business in Canada.

The companies may lend their funds on the security of:

(a) Any of the bonds, debentures, stocks above mentioned, or

(b) Real estate or leaseholds subject to certain limitations. No loans to directors except policy loans are permitted.

A Canadian company doing business outside of Canada, must at all times retain in Canada and under its own control assets at least equal to the amount of its total liabilities to its policy holders in Canada, and at least two-thirds of the amount of these assets must be investments in or loans upon Canadian securities. Life companies must not be interested in the promotion or formation of any other company, and underwriting of the stock of other companies is restricted. The superintendent must allow as assets only such securities as are authorized by the Insurance Act.

Policy Contains Contract

The policy must contain the whole contract between the company and the assured. That is, rules and regulations, by-laws, applications, etc., cannot be made a part of the contract unless endorsed upon or attached to the policy when issued. The agent of the company cannot be deemed to be the agent of the insured. Estimates are forbidden of the profits or dividends expected to be received under any policy. Rebates or discrimination in favor of individual policyholders are forbidden. Premium rates must be filed with the superintendent.

Surplus must be ascertained and distributed to policyholders at least once every five years, except in case of deferred dividend policies, where the surplus must be ascertained and apportioned and must constitute a liability and be charged in its accounts accordingly. No policy of life insurance can be sold in Canada until a copy of the form has been sent to the superintendent. It must contain provision for thirty days of grace for payment of premium; permission to engage in the active service of the militia of Canada, at such extra premiums as may be fixed; that the policy shall be incontestable after at least two years, must have tables of surrender, loan and installment values and reinstatement provision. Separate accounts of participating and non-participating business must be kept.

Stock companies must have at least one-third of their directors, elected by the participating policyholders. Every holder of a participating policy must have a vote for the election of policyholders' directors. Holders of a participating policy for $4,000 are eligible for election as policyholders' directors. Ninety per cent. of the profits arising from participating policies must go to the participating policyholders as well as a share of the profits from the sale of securities in the proportion that the reserve on participating policies bears to the total reserve.

Assessment Companies

A standard form of incorporation for new companies is also prescribed. The cost of incorporation cannot be charged to the policyholders or be paid out of capital. To show that assessment societies do not carry the guarantee of their ability to carry out their contracts that is carried by the regular life companies, these societies are required to print on every application, policy and certificate issued or used the words: "This association is not required by law to maintain the reserve which is required of ordinary life insurance companies." The words: "Assessment System" must also appear at the head of every policy and in every circular

Continued on Page 30

MANUAL TRAINING WORK AT GLADSTONE, MAN.
Learning to make all kinds of useful articles. A good line of work for some members of Boys' and Girls' Clubs.