may be ascertained by subtracting the liabilities from the assets, but this net surplus is really a balance of two items. If we take the business of a company which has been increasing the amount of new business which it has written each year, and if we could ascertain the exact share of the total assets contributed by each policy, we would find that on the old business there was a substantial surplus, but that on the new business the assets did not equal the reserve, so that there was no surplus, but a deficit. The Company is solvent if its total assets exceed its liabilities and there is no cause for alarm because there is a temporary deficit on new business. At the same time it is well to remember that the surplus at the credit of the old policies is really in excess of the total net surplus of the Company. This presupposes that the ordinary reserves are used to measure each policy when it is desired to ascertain whether the policy has earned any surplus. I mention this matter for the reason that I once heard an actuary criticize a company very severely for allotting to maturing tontine policies a large proportion of the apparent net surplus. He failed to appreciate the fact that the Company had been increasing its new business very rapidly so that a large part of the real surplus on old business was hidden by the temporary deficit on new. I presume that the company in question took the stand that the maturing policies should be released from the necessity of supporting any longer the temporary deficit on new business and should be credited with the dividends earned.

EQUITABLE DISTRIBUTION.

Were an insurance company not required to hold a proper reserve the company could continue in business for many years, even if the premiums charged were entirely inadequate, merely by writing an increasing volume of new business each-year. It is now generally recognized that this has been done by Fraternal Societies operating upon the assessment plan. The overpayments of the sew members in the early years of their policies have been used to pay current claims instead of being husbanded to meet the claims arising from those same members when they had reached an age where the yearly cost of insurance is in excess of their yearly payments. This does not take place in a company operating upon the legal reserve plan, charging proper premiums and holding the required reserves, where future liabilities are not ignored as is the case with the Fraternal Societies operating upon the assessment plan.

Our life companies must be on their guard that they are not tempted to ignore the future liabilities in the way of dividends. The policyholder is liable to complain that his dividends are too small. The company must be sure that the scale of dividends it is paying is not too large and may be maintained as long as its present earnings are maintained. It is an easy matter for a company to pay too large dividends on a comparatively small number of maturing tontine policies. The difference between the dividends paid and those actually earned may be considered to be good advertising expenditure. So it may, but the new business obtained thereby is obtained under false pretences and by no stretch of the imagination can the company be considered as properly fulfilling its obligation of equitably distributing the cost of insurance amongst its policyholders.

NON-PARTICIPATING BUSINESS.

Let us now suppose that we have a well established company, issuing a large amount of participating insurance each year. It is proposed to issue non-participating insurance at very low rates, which are supposed to be justified by the fact that the agents will only use the non-participating rates to defeat another company in competition, and then if possible, write the prospect on the participating plan. Very small commissions are to be paid to the agents for writing this non-participating business, and it is felt that any loss on the small amount of such business actually written will be more than compensated for by the increase in the amount of participating business which the agents will be able to write in competition. Is this justifiable? You may say that this is a question in regard to non-participating insurance and is outside the subject of this paper. This is not the case, in my opinion. A company's dividend results will be judged by the difference between its participating and non-participating premiums; but apart from this there is another question to be considered. Would the company be able to conduct its business and maintain its agency forces if all the business were written on the non-participating plan? It is very evident that the agents could not live in most cases on the commission they could earn on the non-participating basis. Then suppose that the company pays a fair rate of commission, namely, such a rate as would support its field forces. Is there then a sufficient margin in the non-participating rates to provide the insurance and furnish the entire administrative expenses of the company, assuming that there is no participating business written? I believe that this analysis would show that some of the non-participating premiums charged are too low or that the commissions and expenses charged against participating business are too high. Where such a condition exists the company is not equitably distributing the cost of furnishing insurance between its participating and non-participating policyholders. It may be true that the cost of insurance to the participating policyholder is not increased, but the non-participating policyholders must be obtaining their insurance at a lower cost than is justifiable.

SERVICE AND PROTECTION IMPORTANT.

I have referred briefly to the fact that a company may be paying dividends to a few policies based upon a dividend scale which the current earnings of the company are insufficient to maintain. There is quite a temptation for a company to pay too large dividends to a few maturing policies for the sake of making a good showing. There is an equal temptation to pay too large dividends to new policies in order to make a good showing as to low cost in the early years. A company showing a low net cost on policies recently issued is in a position to attract new members who do not stop to think, but assume that if the cost is low in the early years it will be so in the later years.

In buying insurance the question of net cost is not so important as the question of the service and protection which the policyholder is to receive for the premiums paid. Some companies make a special bid for business on the plea of larger dividends or lower cost than a rival company and are successful in securing a certain share of the business. On the other hand the rival company secures its share from those who may appreciate other advantages more than lower net cost. Some agents would lead an observant by-stander to assume that they were trying to sell "Dividends" rather than "Life Insurance."

(To be continued).