

PRACTICE OF LIFE COMPANIES AS TO LOAN AND SURRENDER VALUES.

The Liberalizing Trend of Recent Years in this Respect has been Notable.

Naturally, the unprecedented call upon life companies during 1907 and 1908, for advances upon policy contracts, has given particular interest to the consideration of present day practices in the granting of policy loans.

Practically all old-line life insurance companies allow their policyholders the privilege of taking a loan on their policies or of surrendering them after a certain number of years' premiums have been paid, and nearly all Canadian and American Companies state definitely in their policies the exact amounts which they will allow on these options at the end of one, two or three years up to the end of twenty years. Mr. J. B. McKechnie, A.I.A., lately pointed out to the Insurance Institute of Toronto that the importance of the subject is further increased of late years on account of Governmental interference or proposed interference in these matters. For example, in the Government Insurance Bill now before the Canadian Parliament there is a provision that no life insurance company (other than industrial) operating under the proposed Act shall issue or deliver a policy of life insurance unless it contains (among others) the following conditions:—

(1) The options as to surrender values, paid-up insurance, or extended insurance to which a policyholder is entitled in the event of default in a premium payment after three full annual premiums, shall have been paid.

(2) That after three full annual premiums have been paid, the holder of the policy shall upon a proper assignment of it to the company be entitled to borrow of the company on the sole security of the policy a sum not exceeding ninety-five per cent. of the cash surrender value thereof, less any indebtedness to the company at a rate of interest not exceeding six per cent; it being provided that such loan may at the option of the company be deferred for a period not exceeding three months from application therefor.

(3) A table showing in figures the surrender and loan values and the options available under the policy each year upon default in premium payments, until the end of the twentieth year of the policy, beginning with the year in which such values and options first become available.

The New York (Armstrong) laws which have been in actual operation for over two years provide that standard policy forms only shall be issued in the State of New York, by life insurance companies of the State, and these policy forms contain conditions relating to loan and surrender values which must be strictly adhered to by the companies. While legislation now under way will amend the restriction of absolute standard policy forms, standard provisions will certainly still be insisted upon.

In the State of Michigan, no policy can be delivered unless it contains loan and cash surrender options; also an automatic feature whereby the insurance must be continued, on default of premiums, either as a paid-up policy or as an extended term policy. It provides also that the cash surrender

values cannot be less than the full reserve by more than two and one-half per cent. of the sum insured, and that the table on which the reserve is calculated must be mentioned in the policy. If premiums are paid more frequently than yearly, an additional surrender value must be allowed for the instalments paid between anniversaries.

In order to give a fairly complete description of the forms of loan agreements, discharge forms, etc., in use, Mr. McKechnie wrote to a number of companies for copies of their forms. He received the forms from all the companies written to, which included eight Canadian, three American, two English, two Scotch, two Australian and one New Zealand company. These he examined very carefully and has set out a description of them in his completed paper, showing the various forms and conditions therein in use in the different countries.

Loan Conditions of Different Countries Compared.

The conditions found in loan agreements make a very interesting study. In going over the conditions in the loan agreement forms of the eight Canadian companies whose forms were examined, there were found thirty-one different conditions. Many of these, of course, were only minor conditions, and no one company's form contained them all. Australian and New Zealand companies also seem to make their loan forms very complete, while British and American companies' forms appear on the whole to be fairly simple and free from conditions. Mr. McKechnie expresses the opinion that we should endeavour to make our forms as free from conditions as possible, compatible with security to the company.

The question of the rates of interest charged on loans is also taken up. Canadian companies on the average charge from 5 1-2 to 6 per cent. American companies from 5 to 6 per cent., and British companies from 4 1-2 to 5 per cent. Australian companies charge about the same (or a little higher) rates as Canadian companies. Some companies vary the rate according to the amount of the loan and some allow a reduction, if the interest is paid promptly.

The modern life assurance policy has become the most available of ready assets. During the months following the American crisis of October, 1907, thousands of policyholders found a use for their contracts scarcely thought of when application for assurance was first made. Unfortunately, surrenders, as well as loans never to be repaid will remain as part of the aftermath of business disturbance. It cannot be overlooked that in very many instances, liberal cash values led to the giving up of policies that under old-time forfeiture conditions would have been held on to with grim determination. But, as remarked a week ago in this connection, no new good can be wrought without some accompanying drawbacks.

MR. RANDALL DAVIDSON, manager North British & Mercantile Insurance Company, has returned from a trip to the Coast.

THE BANK OF BRITISH NORTH AMERICA has opened a Branch at Paynton, Sask., under the temporary management of Mr. J. Jeffrey.