POLICY LOANS: A COMPARISON OF INTERNATIONAL PRACTICE.

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The Policy Loan is the off-spring of the cash value and like its parent has strayed into tracks divergent from the old main road. As in the case of cash values, loan values have been carried to extremes, the general practice being to loan, as well as to give as a cash value, the full reserve upon the policy after the tenth year of insurance.

Of the two concessions the cash value is the more defensible, on the theory that it is wiser for a man to sell his house than to risk its loss by excessive mortgaging. No concession ever granted has caused graver disappointment to beneficiaries than policy loans. This is particularly true when taken with the assistance of the Change of Beneficiary Clause, whereby the wife of the insured is too frequently denied a knowledge of the transaction. In two companies at least, in the case of policies drawn in favor of the wife, unless the insured insists upon his privileges under the Change of Beneficiary Clause, an effort is made to obtain the wife's signature to the loan papers. It is surprising how often the mortgage of a policy is thus avoided. One class of loans—those taken out on policies issued for the protection of business ventures or for surety commercial purposes, are always justifiable; they are serving a purpose for which the contract was entered into. But one cannot view with equanimity the taking of loans on policies issued for family protection and unfortunately the greater number of loans are taken on this class of policies, thereby lessening the protective benefits of life insurance. If those who have it within their power to make and amend laws could know the disappointment incident to policy loans and the hardships which are often inflicted on the insured himself, they would find sufficient reason in these disappointments alone to amend this section so that loans would be mandatory only for the purpose of paying premiums, leaving the question of an additional loan to the judgment of the officers of the companies, but stipulating that it shall in no case exceed the cash value which, as I have pointed out, should be on a reduced basis.

There are many who were engaged in life insurance in the days when cash values were paid, and cash loans made, by voluntary concession only, no guarantees being embodied in the policies. I do not believe that any one of them can recall a complaint by a policyholder of injustice or even of embarrassment, excepting possibly in the case of one or two companies which declined to make loans on any pretext even for the purpose of paying premiums.

FOREIGN PRACTICE.

In foreign countries where life insurance has been practiced longer than here underwriters have prudently abstained from following our lead with respect to maximum cash values, although they have adopted several of our American innovations. In a review of the cash surrender values offered by the English companies, I find that in the case of thirty-nine, the cash values range from twenty-five per cent. to fifty per cent. of the premiums paid. The values for all ordinary durations of insurance are very much below the reserves held under the policies. In no case, so far as I can discover, is more than eighty per cent. of the reserve guaranteed and in general the values are fully twenty per cent. lower than in this country.

The English companies also grant policy loans and usually some reference thereto is made in the policy contracts, but as a rule the amount of loan procurable is not stated. The prospectuses of the companies show that in practice the loans are limited to the cash surrender values which as above stated are always well within the reserves.

The policy of one company contains a rather unique provision to the effect that in case the rate of discount in the Bank of England is 7 per cent. or more at the time the cash value is applied for the directors may either pay a reduced value or defer payment until the rate falls below seven per cent. That the person who drafted this condition possesses amongst his other traits that of perspicacity is only too well evidenced by the present conditions on the other side of the sea.

I have also inquired into the practice of the French companies with respect to cash values. I find that the policies of the leading companies provide for cash values, but the amounts instead of being specified in the contracts are subject to the rules of the Board of Directors at the time of surrender. Except in the case of one company, the values do not exceed eighty-five per cent. of the reserves, closely following the English practice. Again in France, as in England, the policies mention that loans will be granted, but only one of the leading companies enters tables of amounts. In practice loans are made up to an amount not exceeding ninety-five per cent. of the cash value. One of the French companies checks against declining values in securities by providing that, in case French rentes are quoted below 90, the cash value may be reduced.

From this statement of foreign practice it will be seen that, both in the granting of the cash values and the granting of policy loans, the English and the French companies are far more conservative and prudent than the American companies, avoiding extreme liberality and safe-guarding their policyholders by keeping their payments fairly within the reserves.

INFLUENCE UPON INVESTMENT POLICY.

Another point with respect to cash values and policy loans which we must consider is that the investments of the life insurance companies are made with regard to the maturity of the policy contracts and the continuance of the business under normal conditions. The two most common forms of investment, therefore, are mortgages and long-time bonds. When money is easy and there is an active investment market, it is possible to realize upon bonds, or to collect a part at least of the mortgages which mature. On the other hand, under unfavorable conditions, these two classes of securities are anything but liquid. Consequently, it follows that if unduly liberal cash values and policy loans are to continue to be a feature of policy contracts the life insurance companies will eventually be required to make short-time or call loans. These forms of investment are now practically denied to life insurance companies.

At present there are apparently only two ways by which the companies can protect themselves against the possibility of a long continued drain if one should occur in the years to come. One is by carrying large cash balances, which is obviously objectionable; and the other is by purchasing short time bonds, of which there are comparatively few in the market. And if