

tish America came with its prestige rather heightened than lowered, for all claims were paid as promptly as they could be adjusted.

A company like the British America, that can point to a record stretching back to 1833, without its having a stain, or a reproach is a credit to the fire insurance business and to those by whom its affairs have been conducted.

The financial statement to 31st December, 1904, gives the total assets as \$2,043,678. The liabilities are, "capital stock subscribed, less calls in course of payment." \$835,397, losses under adjustment \$163,595, a dividend which was paid in January, \$20,644. These items make a total of \$1,019,636, the balance between that sum and the total assets is \$1,024,042 which sum constitutes the reserve fund.

The company since its organization has paid \$25,868,544 to policy-holders for loss claims.

The management is in the hands of Mr. J. J. Kenny, vice-president and managing director, and Mr. P. H. Sims, the very able and hardworking secretary. The gentlemen stand high in fire insurance circles as capable and honourable underwriters, they also enjoy a large measure of public confidence and respect.

#### DEFERRED DIVIDENDS.

##### TONTINE AND SEMI-TONTINE POLICIES.

By WALTER C. WRIGHT, Consulting Actuary.

In an address delivered to the Institute of Actuaries on January 28, 1901, entitled "The Effect of Using the Lapse Element in Calculating Premiums and Reserves," Mr. Arthur Hunter incidentally made the following assertion: "Under the old Tontine system, where the reserve was forfeited in case of discontinuance, no satisfactory answer could be made to the charge that in case of lapse a proper equivalent was not given to the policy-holder for the higher premium." The truth of this remark is unquestionable, and has added significance as being the statement of the Associate Actuary of the New York Life Insurance Company. It looks as if it could soon be said that the view held by the majority of thinking persons is that it also applies to deferred dividends.

That such a change of conviction appears to be gaining ground on the question of life insurance dividends, is testified by the following paragraph which I copy from the Standard of Boston, which quotes it from the address of Henry C. Lippincott, manager of agencies of the Penn Mutual Life Insurance Company, before the Wharton School of Finance of the University of Pennsylvania:

##### "OBJECTIONS TO DEFERRED DIVIDENDS."

"Insurance has for its central and sustaining idea the care of widows and orphans and one's own protection in old age. Take away this proper motive and the system if it do not fail becomes something else. It has by so much ceased to be insurance. When one sets out to buy insurance if rightly informed he will

get all that his money can command and to this end all of his money will be thus applied. No part of it will be exposed to loss in consideration of prospective gain from the losses of others! Gambling is a harsh word, and the deferred dividend system has been so contrived and exploited as measurably to conceal its true operation, but gambling with surplus is truly expressive of its nature. Large returns, handsome profits, are the inducements, while little or nothing is said of the sources from which such gains are derived nor the hazard to which each member of the class is exposed. Such a plan appeals most strongly to one of the worst sides of our human nature—an instinctive, and may be perfectly natural, desire for something without an exchange of equivalent value. One fact here stands prominently in relief. This appeal to cupidity has tremendously aided in the diffusion of life insurance."

Notwithstanding the undeniable truth stated in the last sentence of this quotation, most striking positive evidence of the decline in popularity of deferred dividends has been published since the paragraph was penned. This is to be found in the report of S. H. Wolfe, on his recent examination of the Northwestern Mutual Life Insurance Company, for the Insurance Department of Wisconsin. He makes the following statements in that report:

"The company is a mutual organization in the strictest and best sense. It issues annual dividends and semi-tontine policies. All the policy-holders of the same class, whether they hold annual dividend contracts or semi-tontine contracts, receive the same dividend each year, *i.e.*, two policy-holders aged 35 holding twenty-payment life policies, one upon the annual dividend basis and the other upon the deferred dividend basis, will receive each year exactly the same dividend apportionment. In the latter case, however, the unpaid dividends are accumulated at interest and constitute the tontine fund. The company does not, however, compel the policy-holder at the time that a policy is issued to him to make a selection of the manner in which the dividends are to be paid. At the end of the second year (when the first dividend is apportioned), the policy-holder receives notice of the amount of such dividend and is requested to indicate the manner in which he wishes it applied, *i.e.*, as a cash payment upon his next premium, as a reversionary addition or as the beginning of his semi-tontine accumulation. This, you will perceive, removes the policy-holder from any influence of the agent who might desire, for various reasons, to write semi-tontine contracts instead of annual dividend ones. The result of this method is obvious. In 1903 of all the policy-holders (whose contracts were, of course, issued in 1901), *only 768 took the semi-tontine option*. In 1904 only 579 took anything but the annual dividend method of settlement. It has become a serious question in my mind whether these results do not indicate that the semi-tontine classes are becoming too small to justify the continuance of this method of distribution. From the foregoing remarks it will be apparent to you that the company apportions *each year to each policy-holder his share of the surplus according to the rules and methods of the company*. At any point in the history of a semi-tontine contract the company can tell exactly how much surplus is standing to its credit. Its principles of distribution are, in my opinion, conservative and equitable."