CANADIAN INSURANCE POLICIES ARE GOOD

Dominion Superintendent Tells Underwriters Interesting Things Regarding Experiences and Estimates

A dissatisfied policyholder is a most unsatisfactory asset of an insurance company. In fact it is doubtful if he should not be placed upon the other side of the balance sheet altogether, said Mr. G. D. Finlayson, Dominion superintendent of insurance, discussing important phases of Canada's insurance legislation, before the Ottawa Life Underwriters' Association. Dealing with the changes made in the insurance law by the revision of the Insurance Act in 1910, he said it was then made illegal for a company or its agents to furnish estimates of profits expected to be declared on participating policies. These estimates had been permitted theretofore and had been, as is well known, quite freely used by field men in writing new business. The evils arising from the use of such estimates are well known. The policyholder, never quick to distinguish between estimates of the agent and the guarantee of the company, placed as much confidence in the one as the other. Frequently the estimate was furnished in the form of a memorandum which was carefully attached by the assured to his policy and in many cases regarded as one of his contract rights, and in the arrangement of his financial affairs he looked forward with confidence to the amount estimated being duly received. In many cases, these estimates made 15, 20 or 25 years ago were not realized and on the declaration of a dividend much below the original estimate the disappointment of the policyholder usually found vent in abuse of the company and of the agent who had furnished the estimate.

Complaints from Policyholders.

If the life insurance agents who are, in spite of the statutory prohibition still inclined to over-step the mark, could read the complaints that have been received by the department of insurance from policyholders who have been disappointed in the profits realized on their policies, there would be a speedy termination of the practice, assuming that a life insurance agent is building for the future as well as for the present, and that he has in mind the interests of the company when the dividend periods of the policies he is now writing come to mature. As a rule it is against the agent that the vituperation of the disappointed policyholder is directed. The company is for him more or less an abstraction, but in the agent he has something tangible, against which to direct his attack, and whether the agent is with the same company or with another company such a result must be greatly to his disadvantage.

What the Agent May Do.

From considerable correspondence that has reached the department there is reason to believe that some doubt exists among companies and field men generally as to what is required, what is forbidden, and what are the reasons annexed to the statutory requirement. The section forbids estimates as to future profits, but it is generally understood that the use of past results does not constitute an infringement of the section, and this is a fair interpretation of the spirit of the law. But when we say that it is permissible to use past results we must be sure what we mean. Obviously it would be an evasion of this intention to pick and choose certain dividends which had been actually declared and paid in the past, but declared and paid in respect of different policies current at different times, and to present these dividends as a continuous record of a single individual policy. Take, for instance, a quinquennial dividend policy issued in 1888 and one issued in 1893. The first dividend on policy No. 1 would be declared in 1893 and the second in 1898. The third dividend would fall due in 1903, but suppose that the company, instead of declaring a dividend in that year, used the surplus earned in the quinquennium to strengthen the company's reserves.

What the Record Should Be.

This policy would then show a blank for the third quinquennium, but the fourth dividend, falling due in 1908, and subsequent dividends, would be larger than they otherwise would have been, by reason of the increase of the interest bearing reserve made in the third quinquennium. Policy No. 2, however, issued in 1893 would show a blank in the second quinquennium and the larger dividend in the third and subsequent quinquenniums as a result of the blank in the second. If it were open to an agent in representing the results on quinquennial policies to submit dividends for the first and second quinquenniums from policy No. 1, for the third quinquennium from policy No. 2, and then go back again to policy No. 1 for the fourth and subsequent dividends, a wholly misleading representation of dividends could be made. Representations not dissimilar to this have been and are being made, in many cases, doubtless in good faith, but none the less in violation of the spirit of the act. In all of such cases brought to the attention of the department it has been made plain to the agent and the company that if a record of past results is to be used, it should be a continuous record of an individual policy actually appearing in the books of the company.

Cannot Foresee Results.

But even with such a restriction as this an entirely wrong impression can still be created. The result may be 10, 20, or 30 years old, attained under conditions differing entirely from those now existing, and in many ways possibly more favorable for large dividends. Twenty or 30 years ago guaranteed values were almost unknown, discontinuances were usually real gain and the gain went to swell the profits of the policyholders persisting. To-day with surrender values after ten years' duration practically equalling the reserves, this source of gain is cut off and justifiably so. The acquisition cost has enormously increased so that to use results without taking into account the change of conditions is to arouse expectations in the mind of a policyholder which are almost certain not to be realized. Under many plans of policies, with increased premiums and with the larger interest rates now prevailing, it is not necessary to go back to these old records, for dividends now being paid are as large, if not larger, than those of the past, but in other cases this is not so.

But even granted that an agent confines himself to actual results from an individual policy from the most recent experience of the company, is there not great danger of error if the impression is given, even unconsciously, that these results will probably be realized in the future? He may give no written estimate as to the results to be expected in the future, he may even declare that estimates are illegal, but he may so present the actual result as to give it all the weight of an estimate, if not, indeed, of a guarantee. It may be done by a gesture, by an inflection of the voice, not even a spoken word.

Interest Rates in Canada.

What reason have we to believe that the present rate of dividends will be maintained? As is well known the largest element entering into the profits earned by insurance companies on their participating policies is the element of interest, the excess of interest earned over that required for the maintenance of the company's reserves, and who is so bold as to predict with any degree of certainty what the trend of interest in Canada will be during, say the next 20 years. Nearly 20 years ago financiers and insurance companies were fully convinced that they were on the verge of an era of depressed interest rates, and this feeling was reflected in the increase of the statutory reserve basis from 4½ per cent. to 4 per cent., and ultimately to 3½ per cent. But what happened? The ink of the new legislation was scarcely dry when, largely due to the development of the west and partly to the increased industrial development and the opening up of other avenues for the employment of capital hitherto closed, an advance in the interest rate became apparent and has continued practically to the present day, but there is a feeling that the crest of the wave has been reached, and it is possible that the future will see a retrogression. It is, of course, a matter of speculation what the effect of the European war on the interest rate in Canada will be. Is the tide of capital, which has been flowing towards Canada during the last decade to swell in the future or to ebb as a result? On the answer to this question will largely depend the dividends of the future and no one can with any certainty give the answer. In the absence of certainty, or even of reasonable probability, the only safe attitude for both insurance companies and insurance agents to take is the frankly agnostic one. Let them give results if they will, but let them impress and re-impress their prospects with the fact that of the future no one knows. Much is being said to-day by insurance companies and insurance field men of the importance of fireside campaigning.

No Rebating Allowed.

Another new provision of the act of 1910 was that prohibiting rebates or discrimination between policyholders of the same class. The ill-effects of this practice are well known. Agents competed for the application by cutting the