

which have impelled the company to take this action. Mr. McClintock writes:—

Under the late law the limit of \$150,000,000 was prescribed for the insurance which might be paid for in any calendar year. This requirement involved a practical difficulty which was not foreseen when the law was drawn. A company can always know at any given time what policies have been issued, because they are issued at its own office. It cannot know at any given date just what policies have been paid for, because payments are made at a hundred offices in all parts of the world. As the returns for December 31 cannot be finally made up until early in January when all the branch offices have reported which policies have been paid for, a considerable margin must be allowed for safety, since otherwise the legal limitation might be exceeded. To obviate this difficulty I propose to include in the enumeration not only the policies paid for in the calendar year whenever written, as provided in the late law, but also such policies as, because they are not yet paid for, happen to be outstanding at the close of the year, the whole not to exceed \$170,000,000. As the course of business is now running, a variable amount, considerably more than \$10,000,000, but, no doubt, less than \$20,000,000, is necessarily left outstanding at the end of the year. The exact amount paid for when the Company's new limit is operative will probably be slightly more than the \$150,000,000 fixed by the late law.

AGENTS AND THE LIMITATION.

With reference to the position of agents under the limitation, Mr. McClintock writes:—

Agents of the Company may feel at first some uneasiness on hearing the announcement of the prospective limitation, even though it may be years before it can take effect. They may suppose that it will somehow affect their income, and if so, it would act as a wet blanket on their enthusiasm. It is true that the Company is as yet far short of the amount of new business contemplated, and in fact no company in the world has within recent years issued \$150,000,000. The benefits to policyholders certain to accrue in future will of course be understood and appreciated, but agents may naturally have a feeling that the system may eventually injure their personal income. This fear will not last long, because of the plain distinction which must be drawn between a limit upon the total amount issued by the Company and the limitless amount of insurance which may be issued by any one agent. Individual agents will not feel the limitation at all, but will be as free as ever to take all good business that comes in their way. The reason is that last year's agents die or resign in numbers so great that the business cannot be kept up without getting some new agents to take their place. The agents who remain in any year may therefore feel free to use all their energies the next year, the limitation of the total amount having no effect except upon the engagement of new agents, which will be somewhat curtailed.

Mr. McClintock proceeds to discuss the circumstances which led to the enactment of the law removing the limitation:—

The new law will have no effect whatever in preventing a moderate increase of annual business, but only upon those companies which seek to swell their annual increase by 12 or 15 per cent. Companies desiring to compete to that extent in regard to rapidity of growth are compelled also, in a decidedly ingenious manner, to compete in regard to economy of management, the one going hand in hand with the other automatically. In the prevention of reckless rivalry, the new provision will be effective, and it is therefore vastly better than a complete repeal would have been; but the compromise, just because it is a compromise, is seriously defective. Economy is not the only meritorious feature in the management of an expanding life insurance company. The torrent of competition may merely turn in another direction. The compromise enforces the virtue of economy in case of extreme competition, but it makes no corresponding virtue of a wise selection of risks, not to speak of the cardinal virtue of making the best dividends to policyholders.

The companies are in the unfortunate position of being compelled to make every increase in their annual business at the expense of their present policyholders. Once fairly started, a company, must always do at least enough business each year to keep up the amount of its insurance outstanding. The English companies as a class in comparison with the American have been distinguished for the conservatism of their management, averaging much smaller in size though continuing to make larger dividends to policyholders. Some of the British companies have long operated on an avowed

system of limitation. The proposition is not a new one in this Company. In 1891 the idea took noteworthy shape in the issue of an order by the then President, Mr. McCurdy, which, if continued in force might have involved consequences of great moment.....

THE LIMITATION AND DIVIDENDS.

Unless the Company's business after next year is limited as suggested, I do not think that the annual dividends after 1911, which ought to be substantially better than those of 1910, can be permanently maintained on the enlarged basis, namely, a permanent basis giving each year the same dividend as was paid the year before on a similar policy issued one year earlier. This is what is meant by continuing a certain basis of dividends, upon which naturally each policy as it gets a year older receives on the same premium a slightly larger dividend. After 1911, or possibly after 1912, the regular surplus earnings of the Company can no longer be depended upon to meet the increasing expense, both first year and renewals, of our growing business, supposing the business to increase beyond the limit heretofore fixed by law. I assume, of course, that the business conditions remain unchanged. We are apparently increasing our business from \$100,000,000 at the beginning of 1910 to perhaps \$125,000,000 at its close, which would be an increase of 25 per cent. In 1911, further increase is likely and we may possibly even reach our limit of \$150,000,000, a limit which, whenever it may be reached, we should maintain practically unchanged for all time to come, unless indeed, contrary to all present possibility, some feasible means should be found in the future to increase the annual business without cost to existing members.

After such time as the business has attained what I consider its normal magnitude, any increase of business must be at the cost of the annual dividends to policyholders, either positively, by a slight diminution in the scale of the annual dividends, or relatively, by making a smaller increase. Is not this Company bound in these circumstances to limit its business for the express purpose of making the largest possible dividends? Other companies may consider the presumed necessity of a healthy growth their paramount object, but this Company was organized on the purely mutual basis, is legally owned by the policyholders themselves, and is managed by a Board of Trustees elected by the policyholders.

POINTS OF THE PROPOSALS.

Mr. McClintock deals in some detail with various points of the proposals which he discusses under the following headings:—

1. The company does not need to fix a limit below that already fixed by the late law.
2. The greater the size of any company, the smaller must be its percentage of annual growth.
3. The oldest and strongest company in this country (the United States) and with one exception the largest in the world should take the lead in a voluntary limitation.
4. The proposed action is timely.
5. What is saved in the expense of new business goes to increase the dividends of the policyholders.
6. Increased dividends diminish lapsing, thereby causing a still further increase in dividends.
7. Under limitation the quality of risks will be improved, thus again adding to the dividends.
8. Still further economies are practicable under limitation, which will again add to the dividends.
9. Under the limitation, discord concerning the main object of the company's organization cannot arise.
10. A limitation is just because the dividends belong to the policyholders, who own the company and who are the company.

"It is said by the opponents of limitation," concludes Mr. McClintock, "that a company which stands still must go backward. Any such statement is meaningless except in this respect, that it is feared by some who disapprove the late law that if it had not been repealed the agents would lose their enthusiasm and the managers in charge