

## LIFE INSURANCE IN CANADA

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as of very high importance. Having regard to the extent of investment of life insurance funds in Canada, the enlargement of the powers of the companies in this regard will assist in the attainment of the goal of more flexibility and more efficient use of Canadian investment capital in Canada.

"The amendments also enlarged the corporate powers of the life insurance companies, including the accumulation of separate annuity funds and variable annuities. The amendments were not designed to influence companies to extremes or in any radical direction, but rather to give them sufficient scope to provide the public with the best possible pension facilities to meet all needs. I am confident that the companies will adopt good practices and moderation in exercising these powers and take precautions to ensure that policy-holders have a complete understanding of the benefits provided by their contracts.

### GOVERNMENT SUPERVISION

"One can hardly leave the subject of insurance legislation without saying a word about supervision. Naturally, we believe that each country should work out a system that is best adapted to its own needs and circumstances. On the one hand, everyone wishes to see failures of companies reduced to the minimum; on the other hand, it is obviously desirable that supervision should not interfere with the proper conduct of the business.

"At an International Congress of Actuaries in 1898, in a discussion on the question of the probable effect of supervision, European actuaries deplored the introduction of government supervision on the ground that complete freedom in the operation of the companies was absolutely necessary for the growth and development of the business. The fear was expressed that undue restriction as a result of supervision would prevent the growth of the companies. In the light of this criticism it is interesting that, in the two countries in which supervision has been most extensively developed, namely, the United States and Canada, there are the largest volumes of business in force, not only absolutely but *per capita* and also in relation to national income.

"So far as Canada is concerned, I think it must be admitted on all sides that our particular system has worked out very well indeed, whether judged by the absence of losses to policy-holders through failure of companies to carry out their contract obligations or the fact that Canada leads all countries of the world in the ratio of life insurance in force to national income. While it cannot be claimed that the great growth of business has been attributable wholly, or even in part, to government supervision, it can at least be said with truth that supervision has not prevented the healthy growth of life insurance in Canada.

### TESTS OF HISTORY

"It is a curious historical fact that the life insurance business in Canada has been submitted to six severe tests and that these have come with amazing regularity at intervals of approximately 15 years,

These years, namely 1870, 1885, 1900, 1914, 1930 and 1945, may be regarded historically as pivotal years, or, in some cases, as marking the commencement of pivotal periods, in which the future development of the business was at stake.

"In the early days of Confederation there was, around the year 1870, question not as to the success of Canadian life insurance companies but as to whether there should be any Canadian life insurance companies at all. The field at that time was fairly well occupied by well-established British and American companies and the prospect for the organization and development of native companies was not promising. The pivotal point was the attitude of many of the British and foreign companies to legislation requiring Canadian deposits. Many of the companies withdrew, and the gap left by their withdrawal was filled by newly-formed Canadian companies which secured a foothold that they have never lost.

### EARLY CONFLICT

"In 1885, the question uppermost both in this country and the United States was the conflict between the fraternal societies and the reserve-holding companies. The real question at issue was the necessity of reserves. Companies maintaining reserves were pictured as robbers of the people, and a strong appeal was made by the advocates of the new system for the recognition of current-cost contributions and for the exemption of the fraternal societies from government regulation. The issue in this case was settled when governments decided that supervision was just as necessary for fraternal societies as for reserve companies, and while the problems of the fraternal societies continued for many years, the ultimate solution was inevitable from the time the decision to supervise was reached.

"Fifteen years later the issue was the rate of interest on investments. Up to 1900 the earning power of life-insurance investments had shown a decrease of about one per cent every ten years and, in 1900, the average rate earned on the funds of the companies exceeded the valuation rate by only a very narrow margin. Had the decline continued, or had the rates then prevailing even remained level, the future of Canadian companies might have been very different from that actually experienced because valuation bases in those days, involving higher rates of interest, were relatively weaker than nowadays. The issue was solved, at that time, by an upward trend in the interest rate and consequent improvement in earnings.

"The passage of another 15 years brought the First World War, possibly the greatest test up to that time in the history of the life insurance companies. The question in the minds of everyone then was not the necessity of reserves, or the interest rate, but the very existence of the companies. Could they survive the terrible mortality losses with which they were faced? The answer to that question is common knowledge. After four years of war and a further year of the most virulent influenza epidemic, the companies emerged, on the average, stronger than before and with greatly increased prestige.

"A further lapse of 15 years saw the collapse of the investment market and the onslaught of the de-