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PROCEEDINGS

OF THE *Select Standing Committee on*

BANKING AND COMMERCE COMMITTEE

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OF THE

HOUSE OF COMMONS

IN CONNECTION WITH

BILL No. 97, AN ACT RESPECTING

INSURANCE

No. 1—MARCH 23, 1909

(Containing the representations and suggestions made by Mr. J. K. Macdonald, Mr. T. Hilliard, Mr. S. A. Somerville, and Mr. T. B. Macaulay.)

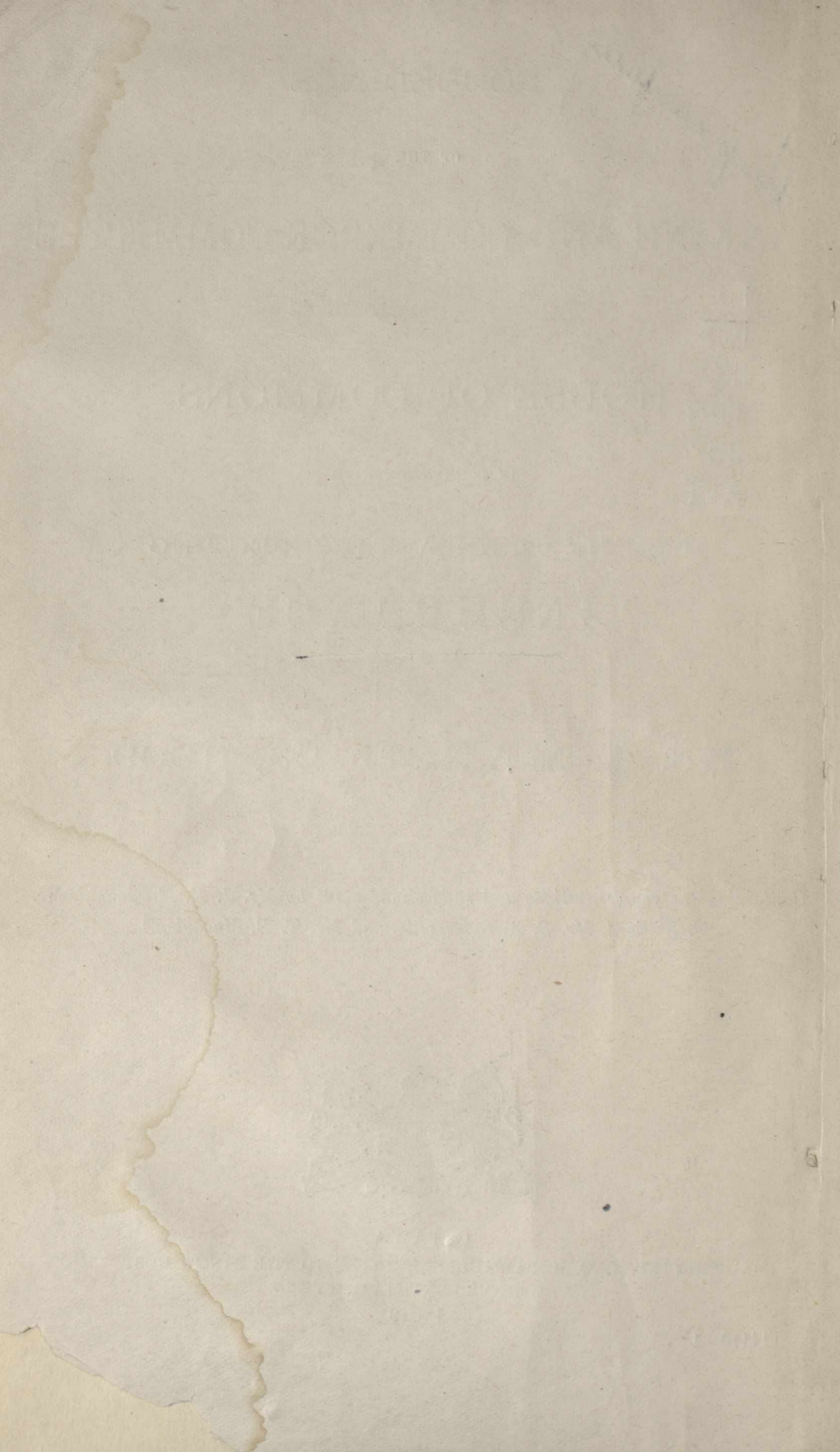
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OTTAWA

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1909



MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,

COMMITTEE ROOM, No. 62;

TUESDAY, March 23, 1909.

The Select Standing Committee on Banking and Commerce met at 10.30 a.m., the Chairman, Mr. H. H. Miller, presiding.

The CHAIRMAN.—It is moved by Mr. Harris, seconded by Mr. Clarke of Red Deer, that a report be made to the House recommending that the proceedings of the committee in connection with Bill No. 97, 'An Act respecting Insurance,' be printed from day to day during the sessions of the committee and that Rule 72 be suspended in relation thereto.

Mr. HENDERSON.—Is that intended to include a verbatim report of the speeches or addresses to be made before the committee?

The CHAIRMAN.—Yes.

Motion carried.

Hon. Mr. FIELDING.—I will be glad to have the sense of the committee with regard to the method of procedure to be adopted. While this is a government Bill and one which is in accordance with the principle of the Bill before the committee at the former session, we are most anxious to have the fullest inquiry into all its details, and I invite the help of all the members of the committee to that end. The suggestion I would venture to offer—and it is only a suggestion—is that the committee should meet from day to day for several days if necessary in order that everybody who is interested in the Bill may have an opportunity of presenting any views he may desire to put before the committee. As there are apparently a number of gentlemen who desire to address the committee we may not get through to-day, and we may require to hold several meetings for the purpose of enabling everybody to be heard. After these gentlemen have been heard then, I fancy, the sense of the committee will probably be that we should appoint, not a very large sub-committee, to take the matter up in its details. I make this suggestion, not that I have any very strong views on the subject; whatever the wishes of the committee may be in order to give the Bill the most full inquiry possible, will be entirely in accordance with my wishes. But I suggest that for the present we allow the fullest possible hearing—and perhaps it will be well if the various gentlemen present who wish to be heard will send in their names to the chairman so that we may have some idea about how long it will take, and if gentlemen present are not heard to-day we will meet to-morrow and on some other days, at the convenience of the committee, so that there will be no lack of hearing to any gentleman who has anything to present to the committee. At a later stage the members of the committee may take the Bill up and consider it.

Mr. NESBITT.—On Thursday, there is a meeting of the Railway Committee, I would not favour sitting on that day.

Hon. Mr. FIELDING.—I would not take it up that day; I do not mean that the committee shall meet every day, but that we shall fix days to suit the convenience of the committee, but I fancy we can meet to-morrow to hear any further representations that may be offered to the committee.

Mr. OWEN.—As this is a long Bill and we have not had an opportunity of considering all the clauses, I would suggest that everybody present who wants to say anything upon the Bill should say what he has to say in one sitting. I am afraid that we

will not make very much progress with the Bill if there is interruption, but I think we should give everybody a chance to say what he wants to before the committee take up the discussion of the Bill.

Mr. NESBITT.—I would suggest that those strangers that are here representing insurance companies, &c., who desire to address the committee in reference to the Bills, should, as you suggest, send in their names to the Chairman as soon as possible and that they be heard first with regard to this matter. The members of the committee may reserve their wisdom, as it were, for a short time, until we have heard the people from outside who are interested in the Bill and who would like to speak to it but I fully endorse the suggestion that they speak briefly and say all they want to at once.

The CHAIRMAN.—It has been suggested that Mr. J. K. Macdonald be heard on behalf of himself and of a number of others. If there is no objection on the part of anyone to that proposition, we will call upon Mr. Macdonald, and then, as has been suggested, others will please send in their names and they will be heard as quickly as possible.

Mr. J. K. MACDONALD.—Mr. Chairman, I am obliged to you on behalf of the Life Insurance Companies Officers' Association for the opportunity of presenting our views in connection with the Bill now before this committee. I may be permitted to say, sir, that in my own judgment, and in the judgment of my fellow officers of life insurance companies, we consider the Bill now before this committee decidedly in advance of the Bill submitted last year; and we are conceited enough to feel that the improvement in the Bill now before the House has been due to some extent to the views presented by the life insurance companies which have had some influence in the recasting of the Bill. We trust, sir, that when the companies have been heard in connection with this Bill that it may lead to some further consideration, and that the Bill will issue in a form that will be acceptable both to the government, to the parliament, to the companies and to the people as a whole. We do find, sir, that there are a great number of things to which the companies feel it necessary to take some strong exceptions. It will appear as we present our views that we are reiterating some of those objections that were taken last year and also to other clauses we find in the Bill now before the House. I may say, sir, that we regret to find some things that we think are inconsistent with the Bill itself, largely in relation to expenses and the extremely heavy load of additional labour that is placed by this Bill upon the companies that will very largely increase the expenses of carrying on the work, while the object of the Bill is supposed to limit expense. Then we think, sir, that there are some things in the Bill which are exceedingly drastic—in fact we look upon them as revolutionary, that is in the relation between the shareholders and policyholders. It seems to strike us that wherever those two interests come into a position of conflict that the election is strongly in favour of the policyholders and not in the interests of the shareholders of the company. I merely wish to make this general statement at the outset, and I think as we proceed with the discussion of the various clauses it will be found that this general statement will be fully substantiated at a later stage. Without referring further in a general way to what we wish to bring before you, I will proceed, as I understand it is the wish of yourself and of the Minister, to deal with the different clauses to which the life companies take exception and seek amendment. The first change which we propose in the Bill is in section 1, 'This Act may be cited as the Insurance Act.' We propose that you shall add to that the words, 'and shall come into effect on the first day of January, one thousand nine hundred and ten.' That, of course, is the intention of the Bill, but we propose to put it in there and that it be taken out of subsection 3 of section 42.

Hon. Mr. FIELDING.—Your suggestion is not an amendment as to the substance, but as to the form?

Mr. MACDONALD.—That is true.

Hon. Mr. FIELDING.—That is what it provides now.

Mr. MACDONALD.—Yes, that is as in sub-section 3 of section 42.

We simply, for reasons that will be explained when we come to deal with that section, ask for this amendment. In effect the amendment will be that this act coming into force in 1910 companies that may wish to take advantage of it shall have the benefit of the unexpired four years which is allowed under this subsection 3. That may be more fully dealt with later on. Under that subsection of 42 as it now stands the benefits of the deductions from the reserve would apply merely to the business of the one year. The proposal is that it shall be allowed to apply to business prior to the year 1910, within the four years, just as in the case of business four years after 1910 will have the benefit of this particular deduction.

Then in clause (h) of section 2, in line 24, we think it better to substitute the words, 'upon the life of' for the words 'in favour of' on that line. The clause would then read.

'(h) "Canadian policy" or "Policy in Canada" as regards life insurance, means a policy or an annuity contract issued by any company licensed under this Act to transact the business of life insurance in Canada, upon the life of any person or persons resident in Canada at the time when such policy was issued;'

These are very minor changes. The next change that we come to is in section 31. Subsection 2 of section 31 reads as follows:—

'(2) There shall also be prepared quarterly, as of the last days of December, March, June and September in each year, by the same officers under their oaths, and deposited in the office of the superintendent within fifteen days after the said last days of December, March, June and September in each year respectively,—'

I need not read the whole section. What we ask there is a change from 'quarterly' to 'half-yearly,' the change we asked in the Bill of last year. We do not see any good purpose to be served by means of these returns at the best, but we do feel that with the other burdens that are being laid, in the shape of returns, upon the officers of the companies, we may readily ask that the returns shall be half-yearly instead of quarterly.

The CHAIRMAN.—When you suggest half-yearly would you have any preference as to the month when the returns should be made?

Mr. MACDONALD.—We propose to substitute as follows:—

'(2) There shall also be prepared half-yearly as of the last days of December and June in each year.'

That is the amendment that we propose. I need not dwell, I think, upon that. These half-yearly returns will certainly answer every good object that is to be attained by the making of these returns. It will be seen that the increased work forced upon the companies by the requirements of the Act in the shape of returns and other work proposed will mean a large addition to the clerical staff of every company, and a large increase in the expenses. Then under subsection 3, if the recommendation which we present for half-yearly returns instead of quarterly is accepted then, in the third line of subsection 3, after the words, 'In the form A1' the word 'quarterly' would be taken out and the word 'half-yearly' inserted.

Mr. NESBITT.—That will be the case in all the sections which follow in reference to the returns.

Mr. MACDONALD.—Yes, that is the only change required to give effect to our recommendation, and these changes would take place in subsection 3, subsection 4, and again in subsection 7.

The next section that we call attention to is No. 36, which reads:—

'36. In preparing such annual statement, every life insurance company shall furnish a gain and loss exhibit, which shall show the sources of the increase and decrease in the surplus of the company during the year covered by the statement, in accordance with the requirements contained in blank forms supplied by the superintendent.'

We ask, sir, that this section be eliminated. This statement, while it affords a large amount of information, involves a large amount of work, and we think for the purposes and the use that can be made of this statement that it is hardly necessary that this additional burden should be laid upon the companies. I think that is all I need say in regard to it.

The next section we come to is section 42, subsection 2, the first part of which reads as follows:—

'2. Such valuation shall, as to policies issued on or after the first day of January, one thousand nine hundred, and bonus additions or profits declared in respect thereof, be based on the healthy males (H.m.) mortality table of the Institute of Actuaries of Great Britain, and on a rate of interest of $3\frac{1}{2}$ per cent per annum.'

What we propose is that the words in the fourth line, 'healthy males (H.m.) mortality table of the Institute of Actuaries of Great Britain,' be deleted, and the following be substituted instead: 'The British offices life table, 1893, O.m. (5).' In other words, bringing into effect what the Act is now bringing in. This is the latest table issued by the actuaries of Great Britain, and I think pronounced in the whole world as the best of the mortality tables.

Then in subsection 3:

'3. It shall be allowable for any Canadian company, in preparing its statement of liabilities, to deduct from the values of its policies, as ascertained in accordance with subsection 2 of this section an amount ascertainable in the manner following, namely, in the case of any policy issued on or after the first day of January, one thousand nine hundred and ten'—

That is the date at which it is proposed this Act shall come into force. We propose to have these words, 'issued on or after the first day of January, one thousand nine hundred and ten,' deleted—

Hon. Mr. FIELDING.—Your attention has been drawn to section 112, where it is proposed that after the first of January, 1910, to use the British officers' life table. Do you prefer that it should be used immediately? The Bill contemplates using the table at a later stage?

Mr. MACDONALD.—We thought it was just as well, if it is to be introduced in 1910, to have it go into force at once.

Hon. Mr. FIELDING.—Will you turn up section 112 and see if your point is not covered there?

Mr. MACDONALD.—Of course, it is this way, I suppose; the effect, Mr. Chairman, would be that if our proposal is carried out by inserting the British officers' life table in this section that section 112 is not necessary because it brings it into effect at once.

Hon. Mr. FIELDING.—Is there any difference between what you propose and what the Bill proposes? It is simply a difference in the form of expression, the end is the same.

Mr. MACDONALD.—The only thing is that clause 112 is not necessary if it is inserted here.

Hon. Mr. FIELDING.—And if it is not inserted in this section, section 112 is necessary.

Mr. MACDONALD.—Yes. It is only that we think it should be inserted here; I do not think we need to take any objection or waste any time with it. Then with regard to subsection 3 we recommend that in the fifth line, after the word 'policy,' the words, 'issued on or after the first day of January, one thousand nine hundred and ten' be deleted. I have already explained the reason for it. One or two of the companies would like to have the benefit which this clause offers in dealing with its liabilities in the interests of its policyholders. If this change that we propose is concurred in it will not only give the benefit on policies issued on or after the first of January, 1910, but it will give a similar relief and benefit on policies issued in the four years preced-

ng, and that is the object of striking it out here, and the reason why we ask to amend clause 1 of the Act by making it come into effect on the first of January, 1910.

Mr. HARRIS.—You would suggest then that the clause should read: 'In the case of any policy the net annual premium, &c.'

Mr. MACDONALD.—Precisely.

Mr. NESBITT.—There is nothing now to keep them from doing that if they want to date back.

Mr. MACDONALD.—Yes, this clause, if it passes as it stands, would limit the benefit which the clause is intended to give to policies issued in the year 1910, but with the amendment that we suggest that benefit, that is a certain allowance may be deducted from the reserve on the first year, but which deduction has to be made good by the time the policy has been in force for five years—there will be a certain proportion of that deduction to be made good in the second year, another proportion in the third year, and another proportion in the fourth year of the policy, and the policy in the fifth year would have to come up to the full measure of the reserve called for under subsection 2, that is the object of it.

Then we come to subsection 6,

'6. Subsections 3 and 5 of this section shall not apply to the business of industrial insurance.'

It is suggested to add, in order to make perfectly clear what is intended, the words, 'for purposes of valuation of policies' so that the section would read then:

'6. Subsections 3 and 5 of this section shall not apply to the business of industrial insurance for the purposes of valuations of policies.'

It makes it perfectly clear as to the intention.

Section 53 is the next section with which we propose to deal. This is the section dealing with the limitations of expenses. I need not hesitate to say, Mr. Chairman, that we think the provisions of this section in regard to the limitations of expenses, while they may not be such as to suit everyone, we consider them a great improvement on what was proposed in last year's Bill. Subsection 3:

'3. No such company which commences business after the passing of this Act shall, after the first day of January next following the tenth anniversary of the date upon which such company commences business, make or incur in any calendar year, and expense or permit any expense to be made or incurred on its behalf under any agreement with it except actual investment expenses (not exceeding one-fourth of one per cent of the mean invested assets, and also except taxes on real estate and other outlay exclusively in connection with real estate in excess of the aggregate amount of the actual loadings upon premiums received in such year, and the amount of the deductions from the valuation of the company's policies which may be made in pursuance of subsection 3 of section 42 of this Act.'

That is to say, that with the certain allowance made in connection with the investment expenses, the expenses of the company are limited to the loadings of premiums received during the year, plus the allowance that is made under subsection 3 of 42 that we have just been considering. I might make a few general remarks upon this. The view taken by the companies, Mr. Chairman, is that so far as expenses in connection with investments are concerned the provision here is entirely inadequate. Then there seems to be left out of view the fact that a life company has, we may say two classes of investments. On one of these the expenses are very much less than the expenses in connection with the other. For example, the expenses connected with debentures, bonds, stocks and such like are much less than the expenses in connection with mortgage investments and the Bill seems to us to fail to recognize that very evident fact. We know as a matter of fact that no loan company can manage its expenses so as to bring them within any such allowance as is provided

in this particular clause. They have to invest not wholly in mortgage securities, but many of them also invest somewhat largely in debentures and such like where the expenses connected with the investment is much less in connection with mortgages.

Mr. HENDERSON.—Do your companies not charge up the expenses in connection with a loan on mortgage to the borrower, so that the company does not really meet it?

Mr. MACDONALD.—That is merely the solicitors and the preliminary charges, but you have not done with the expenses when you have placed the mortgage on the books; you have to manage that mortgage during the years through which that mortgage runs, in addition to that, the life companies have to pay commissions for obtaining the loans.

Mr. SPROULE.—Inspection expenses.

Mr. MACDONALD.—Inspection expenses and other expenses.

Mr. HENDERSON.—I think the commission is sometimes charged to the borrower.

Mr. MACDONALD.—I may say it has never been so in any transaction in which my company is engaged and I think my experience is the experience of all the other companies. Then, sir, if it is the case that the expense in the case of the loan companies is in the neighbourhood of from $\frac{7}{100}$ of 1 per cent up to $1\frac{1}{4}$ per cent upon mortgage and other securities it is very evident that the allowance here of $\frac{1}{4}$ of 1 per cent upon the amount of the investments is wholly inadequate. We therefore propose to strike out the words, 'actual investment expenses' in line 31, and offer the following substitute for the section, beginning with the 29th line:

'Make or incur, in any calendar year, any expense or permit any expense to be made or incurred on its behalf under any agreement with it except investment expenses (namely $\frac{1}{4}$ of 1 per cent of the value of its stocks and bonds and 1 per cent of the balance of its invested assets) and also except governmental and municipal taxes and license fees, and taxes on real estate and other outlay exclusively in connection with real estate, in excess of the aggregate amount of the actual loadings upon premiums received in such year, and the amount of the initial deduction in pursuance of subsection 3 of section 42 of the Act.'

You will see then, in a word, that it is proposed that the allowance given here under this subsection of one-quarter of one per cent shall apply to investments such as debentures, bonds and stocks, and that one per cent shall be allowed for the actual investment expenses in connection with other securities. Mr. Chairman I would like to ask the manager of one of the companies who is very deeply interested in the subject to speak on this section. Mr. Hilliard would like to say a word or two, and with your permission perhaps he might be heard now.

The CHAIRMAN.—There is no objection.

Mr. THOMAS HILLIARD, President Dominion Life Insurance Company.—Mr. Macdonald has put his case so clearly that it seems like a work of supererogation for me to add anything on this point, which he has covered so well. But it is a question of great importance to some companies, to my own particularly, which invests largely in mortgages.

Mr. HENDERSON.—What company do you represent?

Mr. HILLIARD.—The Dominion Life. We do not want to put any one company forward specially, because there are a number of companies in the same boat in this matter. We find that it takes just about 1 per cent to cover the actual necessary expenses of placing money in mortgages, keeping it there, and collecting the interest. It actually requires approximately that amount; the actual expenditure may vary from $\frac{90}{100}$ of 1 per cent to over 1 per cent. If we accede to the principle of the Bill so far as the debentures, stocks and bonds are concerned we hope the committee will find no difficulty in protecting us so that we may lend freely upon mortgages, which is a very important matter, indeed. I believe that in the western country especially

life insurance companies should be permitted to freely loan our money on mortgage, under proper safeguards of course, and thus to assist in the development of the country, for the development of the country depends largely upon capital coming in.

Dr. JOHN FERGUSON.—Is that 1 per cent per annum for one year or for each year?

Mr. HILLIARD.—One per cent for one year would not do; we pay 1 per cent to place the loan; it should be 1 per cent per annum.

Mr. HENDERSON.—A mortgage runs for ten years generally. Do you want the 1 per cent to run for each year right through?

Mr. HILLIARD.—I beg pardon, my experience is that the mortgage is usually for five years, but that it runs for three years as a rule; very often it only runs for three years; that is our experience, and I have no doubt other companies here will back that up. That is the way it works out. Supposing a mortgage is for \$2,000 written, we will say, on property in Winnipeg; it is part of the condition of that mortgage that the man shall pay with every interest payment half-yearly at least \$50—that is, we advance the man \$2,000, but you will observe that he has to make a payment on the principal with each interest payment; the object of that is to prevent any depreciation in the value of the security. We are getting our money back right along. Then we give the man the privilege of paying \$200, \$300 or \$400 per annum if he is able and wishes to do so, and he often does that, and the result is that the life of the western mortgage, in our experience, is three or three and a half years; if the money has to be reinvested it will cost 1 per cent, or a little better to reinvest it as I have just stated. In addition to that we have to pay the charges of constant inspection, and looking after these properties. In the case of my own company I go west myself once every year and inspect almost every loan that we have placed during the previous year; that is a safeguard. Gentlemen will see clearly that we must have that allowance of 1 per cent if we are to continue that loan business, which is beneficial to the policyholders, giving us a much higher rate of interest, and at the same time beneficial to the people of western Canada or they would not borrow our money. In the interests of the policyholders we should be free to loan to whoever will pay us that high rate of interest with proper security.

Mr. BEATTIE.—What percentage each year do you say it costs you for expenses on that mortgage?

Mr. HILLIARD.—To place the mortgage and take care of it we require 1 per cent. to cover all the expenses in connection with the loaning.

Mr. BEATTIE.—You stated that it cost 1 per cent per year to invest money on mortgage and that generally it is a five years' investment, as a rule?

Mr. HILLIARD.—The money is back again in about three years, because the life of the mortgage is much shorter than it appears to be on the face of it.

Mr. BEATTIE.—The average mortgage is for five years.

Mr. HILLIARD.—It is written that way, but it is coming back in instalments and frequently it is paid long before it is due.

Mr. BEATTIE.—Not very often.

Mr. HILLIARD.—Very often, that is our experience.

Mr. BEATTIE.—That is not my own experience and I have been interested in mortgages for a great many years.

Mr. HILLIARD.—In order to meet the cost of placing the loan and the inspection and collection of interest we require 1 per cent for expenses.

Mr. HENDERSON.—You say you require 1 per cent yearly?

Mr. HILLIARD.—Yes, sir. To put it another way let me say that last year our company's receipts for interest were a shade better than 7 per cent, and after paying the expenses there was left for the policyholder, and carried to his credit, 6 per cent, that is the exact result of the year's operations in our company.

Mr. J. K. MACDONALD.—Will you permit me to ask a gentleman to address the

committee on this question, a gentleman who has had long experience as manager of a loan company and who is now manager of one of our life companies. I refer to Mr. Somerville, the manager of the Manufacturers Life.

Mr. SOMERVILLE.—Mr. Chairman and gentlemen, the experience of the Huron & Erie Loan Company with which I was connected for a number of years, and which was managed on a minimum of expense, we thought, was that it took about $\frac{75}{100}$ ths of 1 per cent to manage the loan business. The head office expenses are not taken into account, and then we are lending in Ontario almost exclusively. Out of 11,000,000 of investments there are only about \$200,000 outside the Province of Ontario. Now in the West it is altogether more expensive to do business, the distances are greater, the train service is not so frequent, consequently the cost of inspection is very much greater and the mortgages are for smaller amounts so that there are a greater number to look after. It is the custom of the company to charge the borrower only the actual legal expenses of having this business done; the commission and the inspection expenses are all paid by the company, and these are very heavy. In Major Beattie's company if he takes into account the head office expenses, deducting only what should be allowed for debentures and savings bank, which is very small, he will find it probably runs to 1 per cent. The life companies to-day are loaning millions in the West and I think they do well if they keep the mortgage expenses within $\frac{9}{10}$ ths of 1 per cent. I agree entirely with Mr. Hilliard's view.

Mr. BEATTIE.—You talk about the expenses of investment, but you do not tell us that you get about 50 per cent more interest in the West than you do in Ontario.

Mr. SOMERVILLE.—I could perhaps emphasize that it pays the companies—and therefore it pays the policy-holders—to lend money in the west; because of the higher net rate of interest realized, it pays us better to pay the extra expenses.

Mr. NESBITT.—The higher rate of interest does not reduce the cost of doing the business?

Mr. SOMERVILLE.—That does not reduce the cost, but the higher the return is the better for the policyholder.

Mr. MEIGHEN.—I think this committee should take that question of the loaning of money, particularly in small amounts, into account. I simply wish to point out that the smaller the loan the larger the fixed expense is going to be proportionately, and if this committee could do anything to assist the life insurance companies to make greater investments in small amounts, particularly in the west, it could not confer a greater benefit on the west. The loans that are made in that western country are largely in amounts of \$300 or \$400, but the large loaning corporations compel the farmers to pay the most exorbitant rates of interest, so that if by any latitude being given to life insurance companies in the way of investment you can enable them to go into competition with the loan companies you will be conferring a great benefit upon the western farmer.

The CHAIRMAN.—I did not want in any way to interrupt Mr. Meighen in his statement, but I think perhaps this committee will all agree that we will make much better progress by allowing the life insurance companies to present their case first, and defer the discussion until afterwards. That, I think, was the understanding arrived at.

Mr. MEIGHEN.—I did not know there had been any arrangement of that kind made.

Mr. J. K. MACDONALD.—I will proceed now, Mr. Chairman, to subsection 4 of section 53. That subsection reads as follows:—

'4. The loadings referred to in subsection 3 of this section shall be deemed to be the excess of the office premiums over the net premiums, such net premiums being calculated on the basis of the British offices life tables, 1893, Om (5), with interest at the rate of $3\frac{1}{2}$ per centum per annum; provided, however, that the excess of any such company's office premiums for tropical, sub-tropical, sub-standard or other

classes of lives assumed to be subject to extra mortality, over such company's office premiums for normal Canadian lives, shall not be considered a part of such loadings.'

We take exception to that, Mr. Chairman, and fail to see any good reason for this limitation. I would not, however, deem it necessary now to enter upon the reasons, although I felt inclined to ask if we might be favoured with the reasons that led to this limitation in regard to tropical and sub-tropical lives. We have no fault to find with regard to sub-standard lives, but with regard to the others, with the ample provisions made for mortality purposes that element could not even affect the loadings, for expenses connected with this class of foreign business. Therefore, we fail to see any good reason for the limitation. I will read what is proposed to be substituted for it, and if you will permit me, sir, after having read this, I will ask Mr. T. B. Macaulay to speak to this part of the section. I would like to call upon him, because the subject is somewhat technical, and besides that Mr. Macaulay has views which I think we would like him to present to the committee. The substitute clause we propose is as follows—Section 53, subsection 4:—

'The loadings referred to in subsection 3 of this section shall be deemed to be the excess of the office premiums over the net premiums, such net premiums for policies issued at Canadian or northern premiums to be calculated on the basis of the British offices life tables, 1893 Om (5) with interest at the rate of four and one half per centum per annum for policies issued prior to the first of January, one thousand nine hundred, and at the rate of three and one half per centum per annum for policies on and after the said first of January, one thousand nine hundred, and for policies issued at tropical premiums, such net premiums to be calculated on the basis of the American table of mortality (Jones') with interest at three and one half per centum per annum, and for policies issued at sub-tropical premiums, such net premiums to be calculated on the basis of a table of mortality formed by taking the mean rate of the mortality according to the said British offices life tables, 1893 Om (5) and the said American tropical table of mortality (Jones') with interest at the rate of three and one half per centum per annum; provided, however, that in the case of sub-standard or other classes of lives assumed to be subject to extra mortality and for which a premium is charged in excess of the company's regular premium for normal lives in the country or territory where the insured resides, a portion of the premium so charged in excess of the regular office premium shall not be considered a part of such loading; and provided further that the loading shall not be diminished by any company having guaranteed in its policy a larger surrender value than the full reserve on the basis of the British life offices table, 1893 Om (5) and interest at the rate of three and a half per centum per annum.'

I have read the clause that is proposed in order that it may be before you. I wish that time might have permitted us to have placed in your hands a copy of this, but as we only reached these matters at five o'clock yesterday afternoon it has not been possible for us to do so, but we will do it at a later date. I would like you to hear Mr. Macaulay on this question.

Mr. T. B. MACAULAY.—Mr. Chairman and gentlemen, the point involved here regarding tropical loadings is a very important one for companies doing a tropical business. In substance the situation is this: suppose for the sake of argument, that a Canadian life company charges \$25 for a certain kind of policy to a man living in the Dominion, and that for a life in the tropics of the same age and on exactly the same kind of policy it charges \$40 or \$15 extra. Now, the Bill as it at present stands provides that the company shall not have any expense allowance whatever in connection with that extra \$15, but shall have only the same expense allowance as if the premium were but \$25 that would be charged for the life if it were in Canada. The committee will, I hope, pardon me for saying so, but this would be entirely unreasonable. In the first place when a company is doing business in the tropics it must pay commission, not upon \$25 only, but upon the whole \$40. It has to pay commission upon the whole

amount of the premium, not upon part only of it, and to say that it shall only be granted an expense allowance on a part when it has to pay commission on the whole is not reasonable. In the next place the expenses in the tropics are not nearly as great as in Canada, but greater. You can easily see that an agent will not be willing to leave his home and go from Canada down to the tropics unless there is some inducement in the way of being able to make more money than he would in Canada. An agent does not go there as a philanthropist. He is going because he hopes to make a little extra money, and if he be offered only the same remuneration as he will get in Canada he will stay at home.

Mr. HENDERSON.—Suppose you employed a man who is down there already.

Mr. MACAULAY.—In practice we have not found that possible to any great extent. In dealing with the natives of Japan, China and other places where we do business we have found it necessary to send people from Canada. Business could not be done in any other way. We employ local people to a very limited extent, and chiefly as subordinates. Now in the next place we get our medical examinations made here in Canada for \$3, \$4 or \$5. Down there everywhere it is \$5, and sometimes we have to pay \$10. Eastern doctors are rather scattered and they too expect to make more money in the tropics than they could make in England or Canada. Then the cost of cabling is heavy. If anything goes wrong at our Toronto branch, for example, we can telegraph from Montreal for twenty-five cents, but if anything goes wrong in the tropics the cost will be \$10, or \$15. We have sometimes to pay \$2 or \$3 per word. Then suppose we have to send person to Toronto to straighten out a difficulty there; we can send him from Montreal, he is absent two or three days, and his expenses will amount to perhaps \$30. But suppose a difficulty should arise in the Phillipines or in Chili, where we do business, it is not a case of three days' time, but of two or three months' time, and it is not a case of \$20 or \$30 expense, but of perhaps two or three thousand dollars expense. Then business in these places has to be done not in the English language alone, but in foreign languages. The policies and everything else have to be translated and we have to have competent translators at the head office. There is also a very large amount of extra printing, and in general the business of carrying on business in the tropics is not merely as great as in Canada, proportionately, but greater. The premiums, however, are so arranged that they also contain a greater provision for expenses than in Canada. We know the expense of that business is greater and greater provision is accordingly made from the premiums for expenses. The extras added beyond the Canadian premiums for tropical business are not merely intended for the extra mortality; they are to a very large extent to cover the additional expense which we know we will incur in the tropics. We provide for the extra mortality by calculating the net premiums upon the tropical mortality table and not on the mortality table for northern lives; and we provide for the extra expense by loading the net premiums even more than we load them ordinarily. I will give an illustration. Take the actual case of a whole life policy, age 35. The Canadian gross premium is \$27.95; the net premium on the basis of the Canadian mortality table is \$20.39, leaving a margin of loading for expenses of \$7.56, or 27½ per cent of the gross. The corresponding tropical premium is \$40.30; the net premium, calculated on the tropical mortality table, and which provides for the whole tropical mortality, is \$26.89; so that the margin for expenses contained in the premium over and above that required for the entire tropical mortality is \$13.41, as against \$7.56 in Canada—pretty well on to double the amount contained in the northern premium. We have 33½ per cent of the gross premium in the tropics provided as a margin for expenses as against 27½ per cent in the northern premium. Since it is a fact that the expense in the tropics is very much greater than in Canada, and since it is also a fact that the premiums in the tropics actually paid by the tropical policyholder contain a greater provision for expenses, why should not we be allowed to expend that expense provision which the premium actually contains?

To show just how this rule would work out, take the allowance which this Bill provides for first year's expenses for Canadian and for tropical policies: The Canadian loading, as already mentioned, is \$7.56 and the deduction provided by section 42 comes to \$12.30 more, making the total expense allowance on the first premium on a whole life policy, age 35, \$19.86, equal to 71:1 per cent of that gross premium. In other words the company, up in the north, on that Canadian premium would expend 71:1 per cent of that premium if the policyholder lives in Canada. Under the terms of the Bill, with exactly the same insurance, if he lives in the tropics, we would only be allowed to expend precisely the same amount, \$19.86, which would only come to 49:3 per cent of the tropical premium. In other words, instead of being allowed to spend as much as in Canada we would not be allowed to spend anything like the same proportion. According to the Bill, instead of the allowance on the tropical business being 71 per cent we would only be allowed to spend 49 per cent. That is, we would have to do tropical business at 21:8 per cent less expense on the first year's premium that we would be permitted to expend in the north. That is simply impossible. As I have already stated, the expense on tropical business is even greater than in the north, and we require to have for the tropics not only as great an allowance but even greater.

Now, another point. The total expense allowance consists of two parts—an allowance in connection with the first year's premium, which I have already explained, and an allowance for expenses on subsequent premiums which consists of the loading in those premiums which provides for renewal expenses. On the basis of the Bill, the allowance for renewal expenses would be only 18 per cent in the tropics as against 27½ per cent on Canadian premiums. It is not possible for a company to do a tropical business under the allowance which this Act provides. What would be the effect of such restriction? The effect would be to practically kill the tropical business of the Canadian companies—unless they were to do one thing—unless they were to divert some part of the allowance which they might be able to save out of their Canadian business and spend that in the tropics, and none of you, I think, would say that that would be a desirable thing to have to do. The tropical policyholders themselves are providing in their premiums more than enough to carry on their business, and why should not we be allowed to spend that amount? If we were all to be forced to quit the tropical business, to some of the Canadian companies that would not make a great difference, but if you will pardon me for bringing in the case of our own company, to us it would be a vital matter. Forty-eight per cent of all our new premiums last year came from tropical and semi-tropical countries. This is a vital matter, gentlemen; this is a clause in the Bill which we simply must have rectified, or practically close up our business in the tropics. Last year we received in new assurances from the tropics, \$7,457,000—seven and a half millions of dollars; we had in force in the tropics over \$32,000,000 of insurance, and we received in premiums, \$1,709,000. Do you want to destroy that business? Or do you want the law so arranged that we can only continue it by using part of the expense allowance earned by our Canadian business?

Mr. AMES.—Does that money come to Canada?

Mr. MACAULAY.—It all comes to Canada, except the proportion spent locally in the tropics. As I said last year, gentlemen, if you do not put undue restrictions upon this business Canada will become an international insurance centre for a large portion of the world, comprising chiefly the British Empire and those foreign countries which have not enough companies of their own to do their own business. You play right into the hands of the American and the British companies if you restrict the tropical business of the Canadian companies. The British companies are under no such restrictions. They do not need to limit their total expenses to 48 per cent of the first year's premium—they do not do it, and they will not do it. If we are compelled to limit our expense in that way we cannot compete with them. In the tropical expense allowance of the American companies the Armstrong law makes no restriction whatever, but allows the entire excess beyond the net northern premiums to be treated as loading. The only proper way of dealing with this matter is to say that the pro-

vision for expense which is contained in the tropical premiums and which the tropical policyholders pay shall be available for the business in tropical countries, and the resolution which Mr. Macdonald has read covers that in a scientific and correct manner.

Mr. PERLEY.—Is this business in the tropics considered a safe business?

Mr. MACAULAY.—Very safe and entirely profitable. We are not the only company by any means doing business in the tropics. The Standard Life of Edinburgh, Scotland, has made a specialty of tropical business for a very long time. Most of the English companies do some of it but they do not do as much as some of your companies simply because they are not aggressive. The great American companies do a heavy business, especially the New York Life and Equitable.

Mr. NESBITT.—You load your premiums in accordance with the excess of mortality?

Mr. MACAULAY.—We base our premiums upon the tropical table of morality, which provides for the full tropical mortality.

Mr. PERLEY.—Is your company the only Canadian company which does business in the tropics?

Mr. MACAULAY.—We do more than the others, but there are the Manufacturers, the Confederation Life, the North American, the Federal and the Imperial; all these companies are doing business in the tropics and they all find it satisfactory and desirable. Canada is rapidly becoming an international centre for insurance as I have before mentioned.

Mr. ARMSTRONG.—Will you care to give the proportion of natives who take out insurance?

Mr. MACAULAY.—When we are working in the West Indies for example, the great bulk of our business is on white lives; we have been doing business there since 1879; but when we come to Asia, Japan, China and the Philippines, I suppose 90 per cent, perhaps 95 per cent of our business is with natives. While I am talking about this I hope you will permit a little digression. When you come to deal with vast numbers of people, native Chinese, Japanese, Hindoos and Philipinos, and when you talk about sending notices to these people all over the world, people who do not understand a word of English, you are up against a peculiar situation.

Mr. PERLEY.—Proxies.

Mr. MACDONALD.—There is only one point which has not been touched upon in connection with this, and in connection with the change you will observe that it is proposed to make in the substitute clause which I read, that business prior to 1900 should be on the basis of $4\frac{1}{2}$ per cent in place of $3\frac{5}{8}$ per cent. The reason for that is: You will remember in 1899, when the change was made as to the basis of valuation, it was provided that the business issued prior to the 1st of January, 1900, would for a certain number of years, be valued on the basis of $4\frac{1}{2}$ per cent, then changed to 4, and finally, at the end of 15 years, to $3\frac{1}{2}$ per cent, bringing it into uniformity with the rest of the business. But in dealing with this question as to the limitation of expenses you will see a very important element comes in, from the fact that in all the business issued, or from the most part at any rate, it is not strictly correct to say all business, because I think that in respect to some, comparatively a small part, a lower rate of interest may have been used for a few years, but for the main part the premiums were based on a rate of $4\frac{1}{2}$ per cent interest; now, if you apply this table—some would on the Institute of Actuaries table, and I think some companies have based their premiums on the Carlisle table with different rates of interest, if you come to apply the new rate of $3\frac{1}{2}$ per cent British life offices table, you will simply leave the business in force prior to 1900 practically without any loading at all to cover expenses, and hence it is proposed in the substitute clause as follows:—

‘The rate of interest which shall be employed in the computation of the above net premiums shall be for all policies issued prior to January first, 1900, $4\frac{1}{2}$ per centum, and for policies issued after January first, 1903, $3\frac{1}{2}$ per cent.’

I think you will see the reasonableness of this proposal; I just felt it necessary to call attention to that point, remembering that the companies have no power to increase the premium on these policies.

We pass on now to sub-section 7. The section reads as follows:—

‘7. The limitation as to expenses provided for in subsection 3 of this section shall from and after the first day of January, one thousand nine hundred and eleven, apply to the Canadian business of all life insurance companies which are not Canadian companies licensed under this Act.’

We propose, sir, that the provision on this section shall be made to apply, in common with the other sections of the Act, and that it shall read, in the beginning of the section, after the word ‘January’ in the second line, ‘one thousand nine hundred and ten,’ bringing it into accord with the time of the Act coming into force. Then, following on where it reads, ‘apply to the Canadian business,’ we propose that the word ‘Canadian’ shall be deleted, and that the word ‘entire’ shall be substituted. It will then read, ‘apply to the entire business of all life insurance companies which are not Canadian companies licensed under this Act.’ We see no good reason why this should not be made to apply evenly to all companies and also be made to apply to the total business of all companies. Let me explain. What we mean by this is that all British companies or American companies shall be brought under the provisions of this Act, just the same as the Canadian companies are brought under it, and that it would not be sufficient for them to show their mere expenses in Canada when they would leave out of account a proportion of the head office expenses, and for expenses which should naturally be borne to some extent by the business transacted in Canada, and we think, therefore, that it should cover the entire business of the company and should be brought into the same relationship to the limitation as to expenses with the Canadian companies. We see no reason why we should protect them against ourselves.

Mr. MACDONALD.—Would that not be regulating the business of one of the insurance companies outside of Canada without affecting Canada in the least?

Mr. MACDONALD.—No, it would not affect them. It is only that they should show their expenses. For example, if they can, by means of not coming under the operation of this Act, expend money in Canada and not account for it—because we have to put in all the managerial expense, head office expense and various other things, you can easily see what an advantage it would give to these companies—let me refer to what just occurred to me; we have two American companies in this country doing a very large industrial business; now it is not easy just to provide for the operations of that Act. Some of the American companies, for example, are doing a non-participating business at a rate of premium that is net or very near it, so that it is clear that there is not very much loading upon it. Some of the companies that do a dual business, industrial and life insurance, are doing industrial business to such an extent that it is quite possible to charge a large portion of the expense of the life business to the industrial department. While we do not know just how to reach that, yet we think it is fair that all companies, as far as possible under the operation of this Act, should bear the same relation to total cost with the home companies.

Mr. NESBITT.—Do you propose to make a company like the New York Life apply this Act to their whole business?

Mr. MACDONALD.—We do not apply that, but as a matter of fact, there is now a limitation in the State of New York, so that it is not imposing anything new on them, it is only that they should show in the expenses of Canada some fair proportion of the head office expenses which are necessary in carrying on the work in Canada.

Mr. HARRIS.—Would not that have the effect of preventing some of the British companies doing business here at all?

Mr. MACDONALD.—There have just been placed in my hand two letters, one from the Royal Insurance Company, and one from the Standard Life Insurance Company,

which the secretary, Mr. Bradshaw, thinks should be read at this stage, as it refers to the limitation of expenses. With the permission of the committee I will read them now:

ROYAL INSURANTE COMPANY LIMITED,
(of Liverpool, England),
MONTREAL, March 22, 1909.

Life Department.

ARCH. R. HOWELL, Supt.,
T. BRADSHAW, Esq.,
Secretary, Canadian Life Insurance,
Officers Association,
c.o. Russell House,
Ottawa, Ont.

Re New Insurance Bill (1909)—Limitation of Expenses (Clause 53-7).

DEAR SIR,—You will no doubt recall that, at the meeting in Toronto on Friday last, the discussion of this subsection was suspended until the representatives of foreign companies had an opportunity to consider the suggestion to include the proportion of home office expense required for the supervision of Canadian business.

We wish to place on record the strong objection which is entertained by this company against representations being made by the 'Association' to amending this clause for the purpose stated.

We would point out that the Canadian companies are given a concession, in the way of valuing their liabilities, which is not extended to foreign companies and that therefore the latter are placed at a great disadvantage in arriving at the annual trading surplus under the statutory basis of valuation. (See sec. 42-3).

With this handicap we see no good reason why the foreign companies should be further encumbered by the inclusion of a share of administration expense of home office. We trust that when the committee of the association come to consider this part of the Bill you will be kind enough to read them our views, and we beg to reiterate our very decided opposition to any change in the present Bill, which may be intended to charge us with such expenses of administration, unless the valuation allowance under sec. 42-3, is permitted to foreign companies.

Yours truly,

ARCH. R. HOWELL,
Superintendent.

The other letter is as follows:—

THE STANDARD LIFE ASSURANCE COMPANY'S OFFICE,
(Established 1825.)

157 ST. JAMES STREET, MONTREAL, March 22, 1909.

T. BRADSHAW, Esq.,

Secretary, the Canadian Life Insurance Officers' Association.

DEAR SIR,—Referring to clause 53, section 7, in the Insurance Bill, referring to limitation of expenses, I may state that we have been considering the point raised as to adding some percentage to the expenses of foreign companies on account of head office administration.

We do not consider that this would be fair, as at the present time our head office charge us with all expenses incurred in connection with the administration of this branch, and further, we are put to considerable expense in connection with the investments we are looking after on their behalf.

I shall be obliged, therefore, if you will kindly bring this view forward at the proper time.

Yours truly,

W. H. CLARK KENNEDY,
Secretary.

We simply present these letters, Mr. Chairman, as showing the other view taken, because it is very evident that the reasons given by me for this change are something which these two companies at least fear might have some ill effect upon any comparison of expenses. My own judgment is that I see no reason why there should be fears. If there is any concession that can be allowed to them, as is proposed for the Canadian companies, then I am sure the Canadian Life Officers' Association would have no objection to see the same provision made for them. I will also call attention to the fact here that one of the reasons advanced why the Standard Life should be exempt is that they are already charged with the expense in connection with investments, they should become entitled to the same allowance for investment expenses that may be allowed to Canadian companies.

Mr. PERLEY.—Even if you think that a part of the head office expenses of these English companies should be charged to the Canadian business, why should you seek to have this section amended so that it will purpose to control the whole of their business? Surely we have no control over the British companies' business in South Africa or some other foreign place.

Mr. MACDONALD.—You have not, but we only say they should show the expense; it is not that the expense is limited to Canada itself, it should be the general expenses of the company. I do not think, for my own part, that so far as the British companies are concerned, or so far as the American companies are concerned, all of whom are located in and who are doing business in the state of New York, need fear this change at all, because the expenses of the British companies are not as a rule excessive, although unfortunately within the last few years they are becoming more so. Our expenses are limited in Canada. If we go to the state of New York, for example, we must conform to the law of the state of New York; why should we allow a company from the state of New York to come into Canada with unlimited expense. If we go to Great Britain, as some of us have done, we have to conform to the British Act, and there was a new Act brought in there recently; evidently they are waking up, and we do not know what they may provide with regard to the future. I can only say that to make returns under the British Act means a very full exhibit of all information that can possibly be given in connection with the company's operations.

Hon. Mr. FIELDING.—This is not a question of information and returns, but it says, 'you shall not incur expense beyond a certain limitation.' How can you deal with the expense of a British company in South Africa over which we have no control? We can control it in Canada, but how can we control its operations in South Africa?

Mr. MACDONALD.—They can control it at the head office.

Hon. Mr. FIELDING.—If it was only a question of returns, I think there would be some force in your argument, but it is not a question of returns, it is not a question of showing the expense, but it says, 'You shall not incur expenses beyond a certain limitation,' how are we to cover that in South Africa?

Mr. MACDONALD.—What we want to cover is that so far as the Canadian business is concerned it is to be charged with a just proportion of head office expenses, that in Canada they will not be in any more favourable position than the Canadian companies themselves.

Hon. Mr. FIELDING.—But you go further in your amendment.

Mr. PERLEY.—Why do you not say in this amendment—why do you not suggest that this clause be amended to include the portion of the head office expenses, and make it plain, instead of pretending to control the company all over the world?

Mr. MACDONALD.—We have made the suggestion, Mr. Chairman, I may say this, that we have had very little time in which to consider this Bill; we spent all day on Friday, from 10.30 in the morning until 10.30 at night, and we spent some hours yesterday in trying to gather up the results of the larger meeting, and we have not had time to look as carefully into all these matters as we would desire to have done. I am presenting to you now, of course, the conclusions that we have reached in regard to it.

If I may pass on now to the next section; that section reads as follows:—

'54. No such life insurance company, nor any person, firm or corporation on its behalf, shall pay or allow to any agent, broker or other person, firm or corporation, for procuring an application for life insurance, for collecting any premium thereon, or for any other service performed in connection therewith, any compensation other than that which has been determined in advance. All bonuses, prizes and rewards, and all increased or additional commissions or compensations of any sort, based upon the volume of any new or renewal business, or upon the aggregate of policies written or paid for, are prohibited.'

As that stands, Mr. Chairman, it means a prohibition to the business, very largely, and I will venture to say that no one acquainted with the actual work of carrying on life insurance business in Canada or elsewhere would propose this clause. The life officers association ask that all the words after 'advance,' in the sixth line to the end of the clause, be struck out. That is that the words, 'All bonuses, prizes and rewards, and all increased or additional commissions or compensation of any sort, based upon the volume of any new or renewal business, or upon the aggregate of policies written or paid for, are prohibited.' This section, I think, should be read in connection with the succeeding section, 55; I think it would be better for us to take these two sections together. 55 reads:—

'55. No such life insurance company, and no person, firm or corporation on its behalf, shall make any loan or advance without adequate security, to any person, firm or corporation soliciting or undertaking to solicit applications for insurance; nor shall any such loan or advance be made upon the security of commissions or other compensation to be earned by the borrower, except advances against compensation for the first year of insurance. This section shall not apply to expenses incurred in the business of industrial insurance.'

What we ask, sir, is this, that the part of clause 54 to which I have already referred, and the whole of 55 be eliminated. If these enactments in clauses 54 and 55 become law I do not know what the outcome is going to be, so far as life insurance companies are concerned, or the work which they are proposing to do. The work of life insurance is a peculiar work, it is not a business that comes to the office of its own accord; not one per cent of the business of any life insurance company will come to it in that way. We have to seek for it. We have to send out suitable men to win it, and we have to make some provision for those men. The merchant when he sends a traveller out to sell goods which he has in his warehouse, makes an advance to that agent to pay expenses during his trip when selling the goods of his firm. But life insurance companies are not at liberty to do anything of that kind when they send out a man to try to acquire business. Now, as I have already said, an enactment of this kind is entirely incompatible with the conduct of life insurance business as it is being conducted, or as it is possible to conduct it, and for that reason we ask that the latter part of section 54 be eliminated and that the whole of 55 be eliminated. I do not think I need say more about that.

Then we would pass on to clause 56. As it reads now:

'56. No salary, compensation or emolument shall be paid to any officer, trustee or director of any such life insurance company, nor shall any salary, compensation or emolument, amounting in any year to more than \$5,000 be paid to any person, firm or corporation, unless such payment be first authorized by a vote of the Board of Directors.'

We propose the following substitute clause, which is very much the same as the original, but we think with a certain limitation as to designation which makes it more explicit:

'No salary, compensaton or emolument of any amount to any officer, director or trustee, and no salary to any employee'—

We use the word employee there.

'amounting in any year to more than five thousand dollars shall be paid by any life insurance company licensed under this Act, unless such payment be first authorized by a vote of the Board of Directors.'

Hon. Mr. FIELDING.—What do you consider is the difference between the two?

Mr. MACDONALD.—The difference between the two is that we think the substitute clause covers a case of this kind—an agent has an agreement with a company that had been, may be, earning more under the terms of his agreement than \$5,000; his commissions may amount to more than that. Now we think that our clause makes it a little clearer that the company has not to do by a vote of the directors what they have not the power to control, that is really the point. He may earn \$5,000, \$7,000 or \$10,000, under the agreement which he has entered into with the company.

Hon. Mr. FIELDING.—Should not that agreement be authorized by the Board of Directors.

Mr. MACDONALD.—It is authorized by the Board of Directors in the first instance.

Hon. Mr. FIELDING.—Then what is the necessity for this change if the agreement is to be passed by a Board of Directors?

Mr. MACDONALD.—Yes, the agreement is there, but he has, perhaps, been at work for twenty years with the company, and he may have worked up a certain interest with that company which may give him \$10,000 for the matter of that.

The words 'any person' in section 56, as drafted applies to every class of persons whom you have introduced into this section.

Mr. MACDONALD.—This brings them all under it. We now come to section 60. Perhaps I had better read the section:—

'60. Any life insurance company which derives its corporate powers, or any of them, from an Act of the Parliament of Canada, or which is within the legislative authority of the Parliament of Canada, may invest its funds or any portion thereof in the purchase of,—

'(a.) The debentures, bonds, stocks or other securities of or guaranteed by the Government of the Dominion of Canada;—'

Then we add there:—

'or of or guaranteed by the Government of any Province of Canada';

This was in the old Bill, and doubtless it is just omitted here by a slip, in all probability.

Hon. Mr. FIELDING.—Yes, that is the intention, certainly, Mr. Macdonald.

Mr. MACDONALD.—Then we pass on to say: 'or of or guaranteed by the Government of the United Kingdom, or of any Colony or Dependency thereof; or of or guaranteed by the government of any foreign country wherein the company carries on or is about to carry on business, provided the Treasury Board has signified its approval of such securities;—'

We ask that the words 'wherein the company carries on or is about to carry on business' be eliminated, because you will observe that it is the condition of investment, and that restriction is not imposed upon bonds and debentures, and we think need not be inserted here.

Hon. Mr. FOSTER.—You leave in the Treasury Board approval?

Mr. MACDONALD.—Yes, we do not touch that now. This will leave it open to the companies in this way, suppose a company is doing business in Great Britain and it might not wish to make investment of its funds in Great Britain, because that would mean a low rate of interest, but if that clause is left here it would not be able, say, for example, to enter into the United States and get the benefit of the securities which can be had there in connection with the investment of its funds.

Hon. Mr. FIELDING.—You would like to be allowed to invest in Massachusetts securities, for example, even though you were not doing business there.

Mr. MACDONALD.—Yes. I might say that the companies are very much pleased

with the changes in regard to investments, we feel that the minister and the department have met us fairly.

Mr. MACDONELL.—Do you not think you should be restricted with regard to investments in foreign countries, to investments in those foreign countries in which you are allowed to do business? And that you should not be allowed to invest in an unlimited manner in those foreign securities, and in excess of the requirements of the business in those foreign countries?

Mr. MACDONALD.—I think if you will wait we will come to that a little further on; the provisions of the Act provide that limit.

Mr. MACDONELL.—You are dealing with it here specifically in this section, and this is the section under which it should be considered.

Mr. MACDONALD.—You will see later on that a certain proposition must always be invested in Canada, and must be in Canadian securities.

Mr. MACDONELL.—That is merely as to the place where the securities shall be held.

Mr. MACDONALD.—No, it goes farther than that, it is as to the class of securities themselves, that is Canadian securities.

Mr. MACDONELL.—I do not see it here.

Mr. MACDONALD.—Well, we will come to it later. We will just ask that these words be taken out; after the words 'foreign country' down to the word 'business' before the sentence 'provided the Treasury Board has signified its approval of such securities.' Then we ask also that in the following line which reads 'or of any municipal or school corporation,' then come the words 'in Canada or elsewhere where the company is carrying on business.' We ask that the words 'in Canada or elsewhere, where the company is carrying on business' be deleted.

Hon. Mr. FIELDING.—How would the section read then?

Mr. MACDONALD.—'Provided the Treasury Board has signified its approval of such securities; or of any municipal or school corporation.'

Hon. Mr. FIELDING.—That is anywhere in the world?

Mr. MACDONALD.—Yes, anywhere in the world.

Hon. Mr. FIELDING.—That is rather broad, to limit it to any school corporation anywhere in the wide world; that is a pretty wide limit.

Hon. Mr. FOSTER.—It is not even limited to the approval of the Treasury Board.

Hon. Mr. FIELDING.—Now it is confined to any municipal or school board in Canada. I think you are asking too much there.

Mr. MACDONALD.—Has not that point been settled in regard to bonds and such like securities, and this is taken with it. I think what led to it was it was thought these were a better class of security, than those which seem to be given worldwide significance.

Hon. Mr. FOSTER.—The municipal systems of some countries are not very good.

Hon. Mr. FIELDING.—These are not confined to municipal bonds, but to school sections anywhere in the wide world; that will never do.

Mr. NESBITT.—I guess they wont want that in.

Mr. MACDONALD.—Well, sir, I must confess that I have not been able to read this carefully in order to see just how this hinges together. But I might be allowed to pass on in the meantime. We have placed before you what conclusion we have come to, if it is unwise it had better not be granted, if it is wise, then give it to us. Then passing on to subsection 11 you will find in the 3rd line, and the third word from the beginning of the line, the word 'five.' The companies have come to you again, as they did last year, and they ask that the word 'five' be changed to the word 'three.'

Then in subsection 3, in the third line, rather beyond the middle of the line, where the word 'five' is used, we have come again to ask you that you change 'five' to 'three.' Then in subsection 4, in the third line, and the third word from the beginning of the line there is the word 'seven.' We ask that the word 'seven' be deleted, and the word 'five' substituted for it. Then we come down to (c) 'Real Estate Mortgages.' I will read the clause:

(c) Ground rents or mortgages on real estate in Canada, or elsewhere where the company is carrying on its business, provided that the amount paid for any such mortgage shall in no case exceed 60 per cent of the value of the real estate covered by such mortgage.'

We ask that there be inserted before the word 'value' in the fourth line, the word 'appraised,' so that it will read:—

'Shall in no case exceed sixty per cent of the appraised value of the real estate covered by such mortgage.'

'The reason for that is that we are to judge of this at the initial stage of the transaction, not perhaps at the final. You know for various reasons, especially if a mortgage goes bad, goes behind at all, it is very rarely that the company realizes the full value of it. I have known instances myself where depreciation seems to have taken place to such an extent that thirty per cent of the value has passed away, yet thirty days after the company has made sale of the property the value has gone back to the original value. It is important for the companies to know at what date of the transaction this appraisal is to apply.

Hon. Mr. FIELDING.—That will have to be a reasonable appraisal. There is no definition there of what constitutes value.

Mr. MACDONALD.—Passing on to subsection (b) of subsection 2 of section 60, we ask a small change there. We ask that after the words 'sixty per cent of the' in the fourth line that the word 'appraised' be inserted before the words 'value of the real estate or interest therein.' What we want to know is that the duly appointed officer who makes that appraisal is the one whose appraisal fixes the value of the property.

Hon. Mr. FOSTER.—It must be fixed at the time of the purchase.

Mr. MACDONALD.—At the time of the purchase or the investment.

Then if you will pass on to subsection 4 of this section, it reads:—

'No such life company shall loan any of its funds to any director, shareholder, officer or clerk thereof.'

We suggest there that the words 'shareholder' and 'or clerk' be struck out, and 'or' be inserted before the word 'officer,' so that it will read as follows:—

'No such life company shall loan any of its funds to any director or officer thereof.'

Hon. Mr. FOSTER.—If we made it clear that you could loan on the policy itself to anybody would that serve your purpose?

Mr. MACDONALD.—No. For example, suppose a man happens to hold one share, or a hundred shares of capital stock of the company, and he wants to borrow money; is there any good reason why the company should lose the benefit of lending money to that man simply because he happens to hold some shares of stock in the company. The company lends its money under section 60 that we have just been considering, and if he borrows on satisfactory security, although he is a shareholder he is the same as an outsider to all intents and purposes.

Hon. Mr. FOSTER.—You propose to let the word 'director' stand as it is?

Mr. MACDONALD.—Yes, we propose to leave it 'director or officer.'

Mr. AMES.—Supposing the shareholder should hold a majority of the shares?

Mr. MACDONALD.—He cannot do it in my company because he is limited.

Mr. HARRIS.—He would probably be a director if he did.

Mr. MACDONALD.—If he is a director he cannot be a borrower. We leave that to stand, 'No such life company shall loan any of its funds to any director or officer thereof,' excluding the directors or officers of the company.

Mr. HENDERSON.—Does that go as far as to preclude a local agent from borrowing money on his policy?

Mr. MACDONALD.—No.

Mr. HENDERSON.—I think it would.

Mr. MACDONALD.—No, it would not preclude him. There is a section here that provides for it; it is restricted to the borrowing upon the policy in the usual way.

Mr. HENDERSON.—If one section seems to contradict the other, how are you going to define which shall govern?

Mr. MACDONALD.—Mr. Chairman, we next come to section 62 of the Act, which is as follows:—

‘62. Except for the *bona fide* purpose of protecting investments previously made by it, no such life insurance company shall, nor shall its directors or officers or any of them on its behalf, under colour of an investment of the company’s funds, in bonds, debentures or other securities, directly or indirectly be employed, concerned or interested in the promotion of any other company, or in the construction or operation of its works.’

We may be lacking, sir, in intelligence, but I have to confess that the entire representation of the company’s officers feel themselves at sea as to what the meaning of this clause is, and what it is intended to limit, and I would ask if we might have some light thrown on it, so that we would know just precisely what its meaning is.

Hon. Mr. FIELDING.—It is intended to prevent the application of the company’s funds to the formation of another company. That is the intention, but whether it is as clear as it should be, that is another thing.

Mr. MACDONALD.—Let me suggest a case of this kind, and you will see the difficulty that arises: Under this Act the companies would be permitted to invest in the stock of the Canadian Pacific Railway. Now, that is a company which is constantly going on with works that are contemplated here as a hindrance. I happen to have on my board gentlemen who are directors in that railway. Now, would it mean that we are prohibited from investing in the stock of the Canadian Pacific Railway, or that if we did our directors would have to resign?

Hon. Mr. FIELDING.—Promotion of a new company, that is the meaning of it.

Mr. MACDONALD.—With regard to that limitation, we referred it to a solicitor yesterday, and he proposes that a clause be added to the effect that it did not interfere with the privileges given under section 60.

Mr. HILLIARD.—If I might be permitted to suggest that the last portion of the clause seems to be the trouble, ‘or operation of its works.’

Hon. Mr. FIELDING.—That is covered by the previous portion of the clause. It is intended to prevent the promotion of new companies; you know what it means, it means the creation of subsidiary companies.

Mr. MACDONALD.—If that could be made clear—what we feel is this, we think we can understand what is intended, but a new king might arise that knew not Joseph, and we might have a ruling with regard to this in the future that may be exceedingly awkward, and we think there should be some ruling or definition in connection with the passage of the Act itself that would make it perfectly clear that if ever a new king might arise he would not be permitted to put an extreme construction upon it.

Hon. Mr. FIELDING.—I have told you what the meaning and the intention of this clause is.

Mr. MACDONALD.—The next section that we touch upon, sir, is 77. This, you will observe by the marginal note, is in relation to ‘voting by proxy: companies other than life.’ We think, sir, there should be a few words introduced there that would make it independent, so to speak, of its marginal note, by making it perfectly clear as follows:

‘77. The following provision shall extend and apply to every company’—

Then we would add the words:

‘other than a life insurance company,’

Which would make the meaning perfectly clear instead of depending upon the marginal note.

Hon. Mr. FOSTER.—Are we legislating here for any other than life insurance companies?

Mr. MACDONALD.—Yes, it covers ‘fire’ as well.

Then we come to section 78, which is the next one that we deal with. The clause as it stands is as follows:—

‘78. In his annual report prepared for the minister, under the provisions of paragraph (e) of section 38 of this Act, the superintendent shall allow as assets only such of the investments of the several companies as are authorized by this Act, or by their Acts of incorporation or by the general acts applicable to such investments.’

We propose the following clause in substitution:—

‘78. If in the opinion of the superintendent any investment of any company included in its returns after those for the year ending thirty-first day of December, 1910, are unauthorized by this Act, or by its Act of incorporation, or by the general Acts applicable to such investments, he may refer the matter to the Treasury Board, which after hearing the company may in its discretion allow as assets only such of the investments of the company as are thus authorized.’

In other words, the suggestion takes it out of the sole hands of the Superintendent of Insurance and allowing the matter to come before the Treasury Board.

Hon. Mr. FIELDING.—It would be a question of law, or very greatly so, whether or not these are legal assets. The Treasury Board is no better qualified to judge of that than anybody else. The Superintendent of Insurance happens to be a lawyer and all the members of the Treasury Board are not.

Hon. Mr. FOSTER.—You always have the Minister of Justice on the Treasury Board.

Hon. Mr. FIELDING.—He is not always present, but of course we always have access to him.

Mr. MACDONALD.—In reply to that, I would say that the Treasury Board would always have a lawyer before it.

Hon. Mr. FIELDING.—Not necessarily.

Mr. MACDONALD.—Well, the Superintendent of Insurance would necessarily have to go to a Court of Appeal to sustain his ruling.

Hon. Mr. FIELDING.—Not necessarily.

Mr. FITZGERALD. (Superintendent of Insurance).—The proper course of appeal would be to some court capable of dealing with it, and the Bill provides in the next clause for an appeal to the Exchequer Court. I would suggest that the suggested appeal be to the Exchequer Court.

Hon. Mr. FIELDING.—However, you propose that as an amendment to the first subsection of clause 78, do you?

Mr. MACDONALD.—Yes. Then we come to subsection 3 of the same section. There we propose, of course following up the change which we have already proposed in connection with clause 1, that the word ‘superintendent’ in the second line shall be deleted, and the words, ‘Treasury Board’ be substituted for it. Of course that section provides for an appeal to the Exchequer Court as the final court of appeal.

Hon. Mr. FIELDING.—After an appeal to the Treasury Board, do you mean?

Mr. MACDONALD.—After the Treasury Board, yes.

Mr. MACDONELL.—You want two appeals?

Hon. Mr. FOSTER.—One illegal appeal and one legal appeal.

Hon. Mr. FIELDING.—The Treasury Board would send this to the Minister of Justice, and whatever course he advised, they would adopt.

The hour of adjournment having arrived the committee adjourned until 10.30 a.m., Wednesday.

PROCEEDINGS

OF THE

BANKING AND COMMERCE COMMITTEE

OF THE

HOUSE OF COMMONS

IN CONNECTION WITH

BILL No. 97, AN ACT RESPECTING

INSURANCE

No. 2—MARCH 24, 1909

(Containing representations and suggestions of Mr. J. K. Macdonald, Mr. W. C. Macdonald, and Dr. T. F. McMahon.)



OTTAWA

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EXCELLENT MAJESTY

1909

MINUTES OF PROCEEDINGS.

HOUSE OF COMMONS, ROOM 62,
WEDNESDAY, March 24, 1909.

The Committee met at 10.30 o'clock a.m., Mr. Miller, Chairman, presiding.

The CHAIRMAN.—Mr. J. K. Macdonald was addressing the committee when we adjourned yesterday and he will resume this morning.

Mr. MACDONALD.—I think the last clause that we referred to at yesterday's meeting was 78. The next clause to which I would invite attention is 85. Before proceeding however, to the consideration of 85 we desire to ask your attention to some points that were referred to yesterday in regard to which some few changes have to be made. The first of these is to be found in section 39. This was not commented upon yesterday at all but it has been considered wise at a meeting held in the afternoon to propose a slight change there. The section reads:

The president, vice president or managing director, and the secretary, actuary or manager of every Canadian company licensed under this Act, shall prepare annually—

and so on. It appears, sir, that a difficulty has arisen in one company owing to the absence of the particular officers who are designated in this section as competent to make that return, and, therefore, it has led to the suggestion that you make the following change. Strike out the word 'or,' insert a comma after 'vice president' and then following 'managing director,' insert the following words: 'or other director appointed by the board for the purpose.' That provision is intended to cover the case of a deadlock such as that to which I have already referred.

The next we would refer to is section 53, sub-section 7, to be found on page 22. This section and the various sub-sections have caused a great deal of consideration on the part of the officers of the life companies. The object of the present reference this morning is to ask that the word 'Canadian' in the third line, which we asked yesterday should be struck out and the word 'entire' inserted in lieu of the same, be allowed to stand as it is in the Bill because we have realized the difficulty that there is in dealing with the expenses of the entire business of foreign companies. Then in connection with that the difficulty has been felt as to how best to deal with the companies that we designate as foreign, that is whose head office is outside of Canada, and yet not put them in a position that would be unfair to the Canadian companies. The matter was referred to a Special Committee yesterday and that committee has spent a very considerable amount of time in trying to bridge over the difficulty. Their deliberations have resulted in the following recommendation which has been adopted by the Life Officers this morning at a formal meeting and which is now submitted in connection with sub-section 7. It includes in part the section as it appears in the Bill (reads):

The limitation as to expenses provided for in sub-section 3 of this section shall from and after the first day of January, one thousand nine hundred and ten, apply to the Canadian business of all life insurance companies which are not Canadian companies licensed under this Act; but an addition shall be made to the Canadian expenses of an amount equal to five per cent of the Canadian premiums received by such companies as the proportion of their head office expenses; except in the case of companies which issue policies on the non-participating plan only, in which case no such additions shall be made.

This may or may not bridge over the difficulty, but it is the result of the best efforts of the Life Officers' Association to meet the case.

Then it is proposed to add another subsection, to be called subsection 8 (reads):

The provisions of this section shall not apply to the industrial business of any life company.

Mr. Chairman, I was a member of that committee, having plenty to do outside of that. I therefore desire that this matter shall be spoken to by a member of this committee, who will give you and the other members of the Banking and Commerce Committee the reasons which have led up to the proposal as it is now submitted. The members of the Life Officers' Association have asked that Col. Macdonald, who is a member of that committee, be asked to present these reasons, and with your permission, sir, I would ask that gentleman to do so.

Col. MACDONALD.—Mr. Chairman and gentlemen, I will endeavour to be brief in expressing the views of the Life Officers' Association in respect of the recommendation which they make in regard to subsection 7 of section 53. As was explained to you yesterday, we had comparatively little time to give consideration to the provisions of this Bill, and in some of the decisions that we arrived at we felt we were more or less, perhaps, immature. This section, which perhaps gave us more difficulty than any other in this Bill, was one of the sections in particular in regard to which we felt that more consideration should have been given. As the subsection at present stands it limits the expenses of foreign companies—all foreign companies, or as expressed in the Bill the expenses of companies 'other than Canadian companies,' which means British, American, or companies of any other country that might be doing business in Canada. The first provision to which we feel that some exception should be taken is that which provides that this limitation shall not apply to those companies until the 1st day of January, 1911, or one year after the provisions of this Bill in this and other respects is made applicable to Canadian companies. We do not see any good reason why the limitation should not be made to apply to foreign companies doing business in Canada at and from the same date that it does apply to our own Canadian companies. There may be some reason, but it is not apparent to us. The provisions of the Bill are limited in regard to the expenses of foreign companies to their Canadian business only. These expenses are what might be termed merely agency expenses, and do not include any provision for head office expenses, which would be included in the expenses, and subject to the limitations for expenses imposed upon Canadian companies under subsection 3.

Mr. WILSON (Laval).—If you will pardon me I would like to ask a question of the Chairman of the committee before we proceed any further. I want to ask if this Bill has been printed in French. I do not want to raise any undue question as far as the dual language is concerned, but I understand that some members of the committee are not sufficiently familiar with English to follow the discussion in that tongue. I would, therefore, suggest that if French copies of the Bill cannot be obtained further consideration of the measure should be postponed until the French-speaking members have had a chance to study its provisions in the language that they are more familiar with.

Hon. Mr. FIELDING.—If the point had been taken in the House, certainly the Bill could not have been proceeded with, but I hope my honourable friend will not press it now. The translation is being made, and the French copies will be ready before we make much progress with the Bill. There are many gentlemen present who have come from a distance to take part in these proceedings, and it would be a great misfortune if consideration of the Bill were to be stopped at the present juncture. I can assure my honourable friend that the printing of the French copies of the Bill will be pressed forward until they are placed in the hands of every member who wishes to have them. I think it would be a pity if the consideration of the Bill were stopped now.

Mr. WILSON (Laval).—I am willing to carry out the suggestion of the honourable minister. I understand that any Bill coming before the House must be printed in both languages. I will not press the objection but I hope that in the future these Bills will be promptly printed in French especially such Bills as that at present before this committee.

COL. MACDONALD.—As I was stating, in the application of this section, in so far as the foreign companies are concerned, it limits their expenses to their Canadian business. In the returns which are made to the government of their Canadian expenses, no provision or proportion is included of expenses for head office management such as would be included in similar figures and returns of the Canadian companies to which this section is applied on precisely the same basis as it is herein proposed to apply it to the foreign company. The expense to which I refer which might not be included in the returns are such as the head office salaries, salaries of the officers and head office staff, fees of the boards of directors, head office rents, a large proportion, if not perhaps all in many instances, particularly in the case of the American companies and I have no doubt as well in the British and other companies, of printing, stationery, all the incidentals which are supplied from the head office. We therefore—

Hon. Mr. FOSTER.—Would the printing of circulars and things of that kind used in Canada be printed there?

COL. MACDONALD.—I cannot say whether they print all their literature for use in Canada at the home office of the company. It is quite possible that the practice of companies may differ in that respect. I am of the opinion, subject to correction in saying so, that it will be found that all or nearly all the literature of at least the American companies is furnished direct from their home office and I think the same is pretty true in regard to the British offices. As to that, however, I am not quite so clear but I am clear with regard to the American offices. But under any circumstances the salaries of head office officials, head office employees, office rents and a very large proportion of all these other expenses are charged through the head office accounts and would not appear in the statement of the expenses pertaining to the Canadian business.

I admit that in connection with some of our large branches at outstanding points they also have, in some instances, the privilege of printing to a very limited extent, and the purchase of stationery supplied to these branches is charged through the Agency, so that, even in the case of our own offices our position in that respect would be no different from the position of other companies. In dealing with the provisions of this section there are several classes of companies which would commend themselves to different modes of treatment. We wish to recommend a provision which will be equally and fairly applicable to all, and I would, in passing, just say that in any recommendation that we make or offer, we do so with the hope and the desire that we shall be fair and just to all our competitors. We do not wish to make any recommendation which will place any undue restrictions or limitations upon our foreign competitors. But as the Act now stands we are to be restricted in our expenses, under the provisions of sub-section three, while our foreign competitors would be practically free from any such restriction, because the provisions of this section as it now stands would not in any effective way touch them; it would leave them free to expend just as much money in the prosecution of their business, as they have been doing in the past from year to year, and as it is quite clear they could do in the future. In dealing with that section, as I stated, there are several classes of companies which are affected by it. There is the first ordinary company, similar to the majority of companies in Canada, which do a level premium business on participating and non-participating plans. We have companies which are doing exclusively a non-participating business, under which, in conjunction with the business, they are doing other classes of business such as industrial business and accident business. We feel, therefore, that we cannot make any recommendation which will apply to all the several classes of companies

equitably and justly. For example, in the case of the company that is doing entirely a participating business, or largely a participating business, it has in its loadings a very much larger or wider margin for expenses than a company that is confining its business to the non-participating business only. The average loadings under the level premium business would probably approximate in the ordinary company $22\frac{1}{2}$ per cent; I think it will not be less than 20 per cent, and I doubt if it would be more than 25 per cent of the gross premium income; whereas the loadings in a company which was doing a non-participating business only would perhaps be approximately only about 10 per cent of the total premium income of that company. There is, therefore, a very considerable difference between the amount of the margins which would be available for expenses in a company doing a wholly or largely a participating business, as compared with one doing a non-participating business. We feel, therefore, that some discrimination should be made. In connection with the Armstrong law in New York State the difference between these two classes of companies was fully recognized, and the companies doing a wholly non-participating business were relieved from the limitations and restrictions imposed by that law insofar as their total business was concerned, the restriction being imposed in regard to their expenses for the first year's business only. The recommendation, therefore, which we have to make is that this section as it is now framed shall be applicable to the Canadian business of foreign companies which are doing an exclusively non-participating business. In view of the difference in the margin which they would have for expenses, that no addition, in short, should be made to their Canadian expenses to cover the proportion of their head office expenses, but in the case of companies which are doing a participating business, that an addition should be made to their Canadian expenses equal to five per cent of the premiums on their Canadian business. We recognize fully that this is an arbitrary provision; we have given it our most careful consideration, and we think that the provision is a very fair one, and we think that on investigation it will be found that the five per cent would not on the average be more than sufficient, in fact we think it would not be sufficient to cover a proportionate amount of the head office expenses of some of those companies. In discussing this matter in committee the suggestion was made that this might be covered in another way, by leaving the matter in the discretion of the Superintendent of Insurance, who, upon investigation of the affairs of the company might make such addition to the Canadian expenses to cover the head office expenses as in his judgment might be fair and reasonable. We felt, however, that this might be placing too great a responsibility upon the Superintendent of Insurance, and one which he would not care to assume, and after mature consideration we came to the decision to recommend an addition of five per cent to the premium income in Canada to cover the proportion of head office expenses.

There is one other feature in connection with this section to which I would refer and that is this: insofar as it is applicable to the business and affects the business of companies doing an industrial business. Under the provisions of this section, 53, a Canadian life company doing an industrial business is made subject to the provisions of this Act. But it is not permitted to take advantage of the provision in section 42, subsection 3, in regard to the valuation of its policies. Subsections 3 and 5 of section 42 do not apply to the business of industrial insurance, consequently the industrial companies in Canada, while they are brought under the provisions of section 53, are not allowed to take advantage in their valuations for expenses as in the case of other companies. The business of industrial insurance is a very complex one, and it is exceedingly difficult to determine upon any basis, which would be fair and reasonable, for the limitation of expenses. That was fully recognized in connection with the Armstrong law, where the business of the industrial companies was exempted from all limitations in regard to expenses. I believe that similar exceptions have been made in this connection with the laws in some of the other states where restrictions have been placed upon the expenses of companies doing a life insurance business. It was

also recognized last year in connection with the Act which was then introduced, as the business of industrial companies was specially exempted from any limitation of expenses under the provisions of the Act then introduced. I might say, furthermore, that in view of the great expenses incident to the management of the industrial business the provision that is proposed for the ordinary company would not be adequate in the case of a company doing an industrial business. It would be impossible for them to comply with the provisions of subsection 3. Our recommendation, therefore, is with regard to this class of company that it should be exempted from the provisions of this section with regard to expenses.

There is just one point I might allude to in connection with the business of certain companies who are doing a non-participating business in Canada, though I alluded to those companies who are doing in conjunction with the non-participating ordinary business an industrial or accident business, and they are enabled to—I am not saying that they do it in any way unfairly—but in view of their very large industrial or accident business they are able to distribute a very considerable portion of their expenses which would otherwise have to be borne by the ordinary branch of the business, to the industrial or, it may be, the accident branches of these companies. It places them in a very advantageous position in the competition for ordinary non-participating business in Canada.

Mr. J. K. MACDONALD.—Mr. Chairman, passing on, and yet referring to matters dealt with yesterday, we would like to ask your attention to section 60 of the Bill, subsection 4. You will remember that we proposed yesterday that that subsection † should be amended by striking out the word 'shareholder' in the second line, and inserting the word 'or' in its place, and then striking out the words 'or clerk thereof.' Another point came up in connection with this, namely, the limitation to directors. There is provision made, I came across it somewhere in the Bill, although we were unable to find it, and the minister referred to it also, I think, yesterday that there is a provision somewhere in the Bill permitting the borrowing on policies.

Hon. Mr. FIELDING.—It is not specifically so stated in the Bill, but I mentioned that it might be inserted, that it should be added there.

Mr. MACDONALD.—We ask, in further reference to this, in addition to the changes asked for yesterday, that the following be added to the clause:—

'except on the security of the companies own policies.'

That would leave it open for a director, for example, to borrow on his policy.

Hon. Mr. FIELDING.—Or for anybody else?

Mr. MACDONALD.—Or anybody else—of course, there are other provisions for this, but this is a section under which, 'no such life company shall loan any of its funds to any director or officer thereof,' except upon the security of the company's own policy, as we now propose. That is prevented by the Act as it now stands.

Hon. Mr. FIELDING.—It is not the intention—in some form or other that will be permitted.

Mr. HENDERSON.—You asked to have it amended so that any director may borrow on his policy. Why should it not read 'or officer'?

Mr. MACDONALD.—The clause, as we have asked to have it amended, will apply to the officer as well.

Hon. Mr. FIELDING.—We might put it in this way, 'Provided that this prohibition shall not apply to the loaning of money in the ordinary way upon a policy.'

Mr. MACDONALD.—That would be quite acceptable; we merely make the suggestion. Then we ask your attention to section 62. You will remember that we asked the meaning of this, and we have further considered it with a view of trying to make out just what it does mean, and what it covers, but we think that it is better it should be left with the reference already made to it, with one suggestion, that in the second last line the word 'promotion' be struck out, and the word 'formation' be substituted

therefor. It would read then, 'concerned or interested in the formation of any other company.' Then we also suggest the words, 'or in the construction or operation of its works,' be struck out. We think that this would make the purpose and object of the section, so far as we understand it, clearer.

We now, sir, come to where we left off yesterday. Referring to section 85, we suggest, or propose, that the words in the second line, 'issued or' be eliminated. It will not destroy the intention in any way, but we think that these words are scarcely necessary. I will read down to it:

85. From and after the first day of January, one thousand nine hundred and ten, every policy issued or delivered in Canada—

We propose that the words 'issued or' be struck out, and it will then read:—
—'every policy delivered in Canada—'

wherever it may be issued.

Then the next we would call your attention to is clause 86—

Hon. Mr. FOSTER.—What is your reason for that change?

Mr. MACDONALD.—We think it is broader. It is not a question merely of the issue in Canada, it may be issued in New York, Great Britain or anywhere, it covers everywhere. It is the delivery of the policy, rather than the issue which guides.

The CHAIRMAN.—By making that change you shut out policies that may be issued in Canada for delivery somewhere else.

Mr. NESBITT.—They do not notice that.

Mr. MACDONALD.—We have to deal with some matters in that respect a little later on. We come to clause 86 and we propose there to substitute a clause in its place. Perhaps I should read the original clause:

86 No officer, agent, employee or servant of such life insurance company, nor any person soliciting insurance, whether an agent of the company or not, shall be deemed to be for any purpose whatever the agent of any person insured in respect of any question arising out of the contract of insurance between such person insured and the company.

We propose the following as a substitution for that clause:

86. No person soliciting insurance for such life insurance company nor any person engaged in the business of soliciting insurance for such life insurance company and whose compensation is payable by such company, shall be deemed to be the agent of the person insured unless it can be proved to the court that there was fraudulent collusion between such agent and the person insured.

We ask that substitution for the original clause.

Hon. Mr. FIELDING.—Can you not define the difference for us, Mr. Macdonald—what will clause 86 as it now stands do that you object to.

Mr. MACDONALD.—It is that it, so to speak, places the agent too far outside of acting on behalf of the person who seeks the insurance. The clause as it stands originally puts, as it were, the company out of court; we have had cases, the most of the companies of any long experience, have had cases where there was collusion between the agent and the person insured, and no company can do more than correct cases of that kind, while it may punish as far as it is able to punish the agent who has been discovered. I might say, gentlemen, in connection with this Act that there is a tendency to make things more difficult for the companies than is absolutely necessary and we think than is absolutely fair and we think there is couched in this particular clause just an element of this kind.

Mr. HENDERSON.—Then your desire is to make an agent the agent of the company except in the case of collusion?

Mr. MACDONALD.—Precisely, that is just what we propose.

Mr. HENDERSON.—I think that is right.

Mr. MACDONALD.—The next section to which we call attention is 87 in regard to the marginal note there, we think, Mr. Chairman, that the words 'and misrepresenta-

tion' should be taken out. It implies a great deal, in fact it seems to imply a bad character on the part of the company, and we think that should be removed. The marginal note as it stands is, 'Estimates and misrepresentation forbidden.'

Hon. Mr. FIELDING.—You should leave out 'and misrepresentation,' leaving it to stand, 'Estimates forbidden.'

Mr. MACDONALD.—Yes. Then we propose that there should be added, after the word 'circulated,' that is the second word in the fourth line, the words, 'in Canada.'

Hon. Mr. FIELDING.—You want to be free to circulate them elsewhere, because, I suppose the laws of other countries may permit it, is that your reason?

Mr. MACDONALD.—I was just going to give the reason. This Bill provides for doing away with what is known as deferred dividends. Later on it will come up for discussion that the companies are not quite in line with the views expressed in the Bill itself. Furthermore, having regard to outside countries in which some of the companies are operating, it is felt on the part of those companies that a considerable disadvantage will ensue if they are prohibited from doing what other companies are doing, and therefore the limitation in connection with this proposed addition of the words 'in Canada' after the word 'circulated' in the fourth line.

May I be permitted, Mr. Chairman, to go back. There is one thing I overlooked in connection with section 53. It has no reference to any change there, but it is this; I intended to have stated with regard to the recommendation which has been presented as the outcome of that special committee that sat last night, that the British companies would like at a suitable time, to have an opportunity to say something in regard to that particular limit. They have communicated with their head offices, and they are expecting cable communications with directions at any time, and while it was proposed that they might present their views just now while this is before the committee, at their own request they preferred I should make the statement I am now making, and that they should have an opportunity to present their views when fuller instructions from the head office have been received.

Coming now to section 88 I have no hesitation in saying on the part of the companies that they hail with very great satisfaction the introduction of a clause such as this. The rebate nuisance, as we may call it, has been a real nuisance and a great menace to the best interests of life insurance in Canada, both for the companies and the policyholders themselves.

Mr. EDWARDS (Frontenac).—In what way will rebating affect the companies?

Mr. MACDONALD.—The rebate is this. The insurance companies try to fix the premiums at the cost with a margin of profit just as the merchant would ascertain the price of dry goods or anything else. It simply means that if you are going to rebate to the individual insuring his life, you are selling him goods at less than cost, so that in that way he is not paying for what he is buying. In other words the company that is practicing rebating is buying the business of insurance instead of selling it. You can easily see that if a part of the premium is given away to the individual then somebody has got to suffer. The policyholder generally may suffer, because one man may get a rebate and another man does not get a rebate. An agent does not give a rebate unless he is compelled to do it by circumstances. But the agent who has fallen into the habit of rebating is placed in this position that half a loaf is better than no bread and he reasons 'I had better give away a half of what I am allowed for securing this risk than lose the whole.' You are robbing the agent of his proper remuneration, and you are giving one man goods at one price and another man goods at a higher price, and the result must be disturbing to the real interests of the company as a whole and to the policy holders as a whole.

Mr. EDWARDS.—If I may be permitted, the situation as I understand it is that a company makes a certain arrangement with its agents whereby the agent receives 40 or 50 per cent, we will say of the first premium for getting in the business. I cannot see where it affects the company, the net result so far as the premium is concerned seems to me to be the same to the company. Here is a premium, we will say, of \$100, which the person getting insured will have to pay; of that amount \$50 goes

to the company and \$50 on a percentage basis goes to the agent. Now where does it affect the company? The net result to the company is just the same. This provision hampers the agent and forces him to make a criminal of himself, for if he violates the Act he becomes a criminal under the Act, and also it denies to the person getting insured the right to make a bargain. If it is left to the agent, and in order to write the policy he hands \$20 back to the person getting insured, surely the person who is insured gets the benefit of that rebate and the company gets the same benefit as if that \$100 were paid in full, so where does it affect the company?

Mr. NESBITT.—Unless the gentlemen have some amendment to offer I would suggest that we pass on to the consideration of the other suggestions from the other association. We can argue that out in the committee later.

Mr. MACDONALD.—We ask in regard to section 88 an amendment in the first line, it is the same amendment that we proposed last year:

88. No such life insurance company shall make or permit any distinction or discrimination in favour of individuals—”

We ask that there be inserted after the word ‘shall’ in the first line the words ‘as an inducement to insure.’

Mr. ROY (Montmagny).—Why do you ask that?

Mr. MACDONALD.—Because the rebate is given with the view of securing insurance, and it is a question whether there are certain things which a company might do in the interests of humanity and which they might not be able to do unless this were so safeguarded in connection with the initial proceedings that would act injuriously to some cases. This is very wide. Suppose, for example, that there were certain reasons, why, perhaps, through conditions of suffering on the part of some persons holding a policy a company might be willing in the interests of the individual and owing to the particular features of the case, to give, we will say, a larger surrender value than is set out in the policy itself, or that could be claimed by the applicant this clause as it now stands, without amendment of that kind would we think undoubtedly prevent the company from meeting an extraordinary case of the kind I refer to. That is the sole reason, with no other, for proposing this amendment.

Hon. Mr. FIELDING.—But if insurance has, as you say, its exact value, how can you make this distinction by giving out of your generosity a larger share than somebody else receives—that is if insurance is a science and has an absolute value.

Mr. MACDONALD.—It is at the time of the surrender that this would take place and would not enter into consideration as an inducement to insure, the policy may have been in force for ten years, and there may be circumstances of extreme poverty, accident, or various reasons of that kind why the directors, who are human beings and who have hearts that may be touched by circumstances, and who in such case may stretch the rule, by giving a larger consideration in the surrender for the policy than what they would allow if they followed the rules.

Hon. Mr. FIELDING.—The presumption is that you give under your scale exactly what you can afford, and if you give one person more than he is entitled to you are giving it at somebody else’s cost. In other words, is it your business to be charitable and generous?

Mr. MACDONALD.—We do not want to be hard hearted. Corporations are said to be heartless, but I do not think life insurance companies are. They are an exception to the rule.

Mr. NESBITT.—I think that gentleman’s argument is very bad, but at the same time it is only a suggestion and we will have to consider it.

Mr. MACDONALD.—Well, the responsibility will have to rest upon parliament.

Section 90 is as follows:—

90. Except as herein provided, every such life insurance company, in its special Act or elsewhere to the contrary notwithstanding shall provide in every participat-

ing policy, issued or delivered in Canada, on or after the first day of January, one thousand nine hundred and ten, that the proportion of the surplus accruing upon such policy shall be ascertained and distributed at intervals not greater than quinquennially.

It is proposed that this be amended—of course this brings up the particular question of the continuance or discontinuance of deferred dividend policies. I suppose it would be in order to say something about that question. I might say that there is some slight difference of opinion in regard to the deferred dividend policy, but that the weight of the views of the Life Officers Association is in favour of the continuance of that kind of insurance. That it may be wise to limit it in one way or the other is admitted, but it meets a class of insurers who would be to some extent shut out from the benefits of insurance if discontinued. And it is a kind of insurance, that, whether the result of education or otherwise I am not prepared to say—but it is the kind of insurance that is particularly popular with parties seeking insurance upon their lives. Then it would seem at least reasonable that where the company is operating in this class of business outside of Canada, where business of this kind is carried on, they should not be prohibited from entering that same field of competition on equal grounds with the other companies against which they are competing. It may be quite right that these profits shall be ascertained quinquennially and in the substitute clause which we will propose to clause 92 it will provide for the ascertaining of this surplus quinquennially—I suppose I may assume that all the members of the committee understand what is meant by deferred dividend policies—but I may perhaps, in order that there may be no misunderstanding, refer to it briefly. A deferred dividend policy is one where the surplus arising and accruing to the various policies shall only be applicable on the particular date fixed at the time the insurance is entered upon, and on condition that at that particular time the policy is duly in force. A very common deferred dividend policy is what is known as the twenty year dividend policy, and those who enter into that class of business agree that they shall share the entire surplus of their class on arriving at the particular age, and the particular day, and those who are living on that particular day shall reap the entire profits or surplus. So that in the interval you may ascertain at the end of each five years what surplus you have applicable to that class, but if you attempt to apply that to any particular policy then in existence you will see that it is only applicable to that policy contingently for the simple reason that you do not know whether or not that policy is going to be in existence and duly in force fifteen years later. Now one of the points is the ascertaining of the surplus quinquennially and allotting in the first place contingently to the various policies, but for the reason mentioned it can only be contingently and the final allotment when the fixed period has been actually reached, and only then can you make it a fixed liability. Now at present carrying forward merely as an unapplied surplus, so that if that were done it would do away with what is supposed to have been in the state of New York a source of evil, and which led to practices that brought about the changes in the law. In other words that there was a large accumulation of so-called 'surplus' out of which extravagant prices could be paid for business and that led to those changes in the law as a result of the investigations that took place in the state of New York some years ago. We therefore ask that section 90 be eliminated and that the company be free to carry on deferred dividend policies.

Mr. NESBITT.—You do, of course, allow the assured to take the quinquennial distribution if he wants to.

Mr. MACDONALD.—Oh, yes, of course that is a matter of choice. These deferred dividend policies, whether the result of education or otherwise, are exceedingly popular, and the very large majority of insurers choose that plan.

With clause 91 we have no objection. You will observe that if clause 90 were retained that clause 91 might be so read as to mean an annual distribution of profits or surplus. That I believe is not the intention, it simply, I take it, refers to each

company, or makes it obligatory on each company, to ascertain each year's results as at the end of its year. I take it that is really what 91 means. But if taken with the other it might imply annual dividends.

Section 92 reads:

92. Except in the case of a term or an industrial policy, the share of surplus so ascertained in the case of a policy issued on or after the first day of January one thousand nine hundred and ten, shall—

Now, we suggest that in the second line the words 'so ascertained in the case of' be struck out, and the following words be inserted in lieu thereof, 'allotted to any.' The section would then read:

Except in the case of a term or an industrial policy, the share of surplus allotted to any policy issued on or after—

At the close of that section, we also propose in the second last line the insertion of the following words, after the word 'shall'—perhaps to get the sense of it it is only fair that that section should be read. I will read it then as we propose to amend it:

Except in the case of a term or an industrial policy, the share of surplus allotted to any policy issued on or after the first day of January one thousand nine hundred and ten shall, at the option of the holder of the policy, be payable in cash, or be applicable to the payment of any premium or premiums upon said policy or to the purchase of a paid-up addition thereto; and in the case of a term policy shall, at the holder's option, be payable in cash, or be applicable to the payment of premiums: Provided, however, that the option of the holder of a policy once exercised shall remain in force during the whole existence of the policy.

In order to provide for a possible change if the individual policyholder desires it, and the company has no objection to it, we propose that there shall be inserted after the word 'shall' in the second last line, the words 'except with the consent of the company.' It would then read:

Provided, however, that the option of a holder of a policy once exercised shall, except with the consent of the company, remain in force during the whole existence of the policy.

Mr. HENDERSON.—You give the company the right to say, but you refuse it to the policyholder?

Mr. MACDONALD.—No, sir, just the opposite. The policyholder has the right, but this clause ties him down to the selection he makes when he first exercises his choice. So that that can never be changed. Now what we provide for is that if he wants to change, for example, suppose a policyholder says, 'I want it by way of addition to my policy,' and subsequently he wants to change that and says, 'I want to take the cash.' At present he cannot change it but this makes provision that if he wants to make the change he may, with the consent of the company, do so.

The CHAIRMAN.—You might be willing to say that it might be done by mutual agreement?

Mr. FIELDING.—As a piece of drafting the wording is not well chosen, but we may pass on.

Mr. MACDONALD.—The next clause is 93, to which we propose a substitute clause. Perhaps I should read the original clause first:—

93. Such company shall in all cases require the holder of the policy to elect in which manner the said dividends shall be applied by mailing a written notice to him at his last known residence, of the amount of the said dividends and the

options available as aforesaid; and in case the holder shall fail to notify the company in writing of his election within three months after the date of the mailing of the said notice, the surplus shall be applied by the company, in the case of a term or industrial policy, in payment of any premium or premiums upon the policy, and in the case of other policies to the purchase of a paid-up addition to the sum insured.

We propose the following substitute clause:—

Such company shall in all cases where the insured has not elected in his application in which manner the dividends shall be applied, mail to him at his last known address a written notice of the amount of the said dividends and the options available as aforesaid; and in case the holder shall fail to notify the company in writing of his election within three months after the date of the mailing of said notice, the surplus shall be applied by the company in the case of a term or industrial policy in payment of any premium or premiums upon the policy, and in the case of other policies to the purchase of a paid-up addition to the sum assured.

In my own case, and in all cases I may say, the election at the very outset of the transaction is desired, and it is the practice of some companies in the application itself to ask for this decision, and in the majority of companies the man has decided when he has entered upon the transaction of the business. Then you will observe that the substitute clause provides for such cases and that communications shall be sent to those who have not so decided. In other words, there is no difference practically between the original and this.

Hon. Mr. FIELDING.—You want the election and the agreement made at the time of application.

Mr. MACDONALD.—Yes, practically that is all, and to save ourselves the trouble of sending to him every option again. I take it that in one company in all probability 75 per cent have made election on the application—is not that correct. Mr. Hilliard?

Mr. HILLIARD.—In our company every one without a single exception has decided on application.

Mr. MACDONALD.—There is an illustration; in the case of the Dominion Life it is decided in the application and hence we provide for it in the substitute clause. If the insured wants to change this afterwards he and the company can agree as provided for in that change in section 92.

Mr. HENDERSON.—Heretofore I think it has been entirely at the election of the policyholder without reference to the company?

Mr. MACDONALD.—No, sir.

Mr. HENDERSON.—In practice I think that has been the case.

Mr. MACDONALD.—That is to say at the first he has one decision in that respect as a guide for the future. I think that has been the practice of every company, of every Canadian company at any rate; I do not think that the British companies follow out that practice, but I do not think there is a single Canadian company that varies from the practice and rule.

Then we propose to add a sub-section to section 93. This proposed addition to section 93 is in relation to both section 92 and 93 and hence we propose that it shall come after 93. Bearing in mind what I have already said as to the desire of the company to be at liberty to continue the deferred dividend class of business this sub-section is proposed and it is proposed to be sub-section 2 of section 93:—

Section 92 and 93 shall not apply to deferred dividend policies.

That is the proposed sub-section. Then we come to section 94 and we propose for that a substitute clause. I suppose I will have to read the original clause first:—

94. From and after the first day of January, one thousand nine hundred and ten, every such company shall, in respect of all participating policies, issued and in force in Canada on the said first day of January one thousand nine hundred

the end of it, which provides for the distribution of surplus or profits at less frequent intervals than quinquennially, and known as deferred dividend policies, on the thirty-first day of December in each year, or so soon thereafter as may be practicable, ascertain and apportion quinquennially, reckoning from the date of the policies, to each class thereof, the share in such surplus or profit to which such class is equitably entitled, and the total sum of the shares so ascertained and apportioned shall, like the reserve or re-insurance fund, be and constitute a liability of the company, and shall be charged and carried in its accounts accordingly until the same shall have been actually distributed and paid to the policyholders entitled thereto.

The following is the substitute clause:—

94. From and after the first day of January one thousand nine hundred and ten every such company shall in respect of all participating policies issued thereafter in Canada, which provide for the distribution of surplus or profits at less frequent intervals than quinquennially, ascertain and contingently apportion at least once in each five years to each of such policies the share in such surplus or profits to which the same is contingently entitled, under the regulations of the company, but such contingent apportionment shall not constitute a liability of the company.

That is the substitute clause, and you will observe that it deals with the points that I referred to when we were discussing section 90. It asks here that this be not made a liability, only contingently set apart to the different policies in the various classes constituting the whole class of deferred dividend policies. I might, Mr. Chairman, refer to a discussion of this matter that took place last year when it was up, and when it was shown that these profits could not be absolutely set apart to any particular policy. It was then argued, 'Could it not be possible to have it in such shape that the policyholder might ascertain and know what was contingently set apart.' This provision for the setting apart would enable the companies to meet that view so that a man or woman might know contingently just what in the meantime had been set apart in their class.

Hon. Mr. FIELDING.—Mr. Macdonald, you either owe the money or you do not; which is it?

Mr. MACDONALD.—The money is owed.

Hon. Mr. FIELDING.—Then if it is owed it is a liability.

Mr. HENDERSON.—When does a debt become a liability?

Mr. MACDONALD.—To the individual it becomes a liability when it is due to him, it can only become a liability to the individual when he is entitled to receive it and he is only entitled to receive it when he has reached a particular age, in a particular month in a particular year. Here is an agreement between him and the policy that he is not entitled to anything beyond the fact that a percentage of the profits will come to him if he is living at that particular time.

Mr. NESBITT.—That applies to a deferred dividend policy?

Mr. MACDONALD.—Yes. Section 95 is one that deals with suits by policyholders against the company, it reads as follows:

95. Any suit, action or proceedings deemed necessary in the interest of the policyholders of any company licensed under this Act, or of any class of such policyholders, may with the consent of the superintendent be instituted in any court of competent jurisdiction on behalf of such policyholders, by the Attorney-General of Canada, against the company or the directors, trustees or other officers thereof, and any judgment recovered in any such suit, action or proceeding, whether for an accounting or for any sum of money, shall enure and be applied for the benefit of such policyholders or class thereof.

We propose the following substitute clause:

95. Any suit, action or proceeding deemed necessary in the interests of the policyholders of any company licensed under this Act, or of any class of such policyholders, and which may by law belong to such policyholders against the company or against the directors, or against the trustees, or other officers thereof, may with the consent of the superintendent be instituted in any court of competent jurisdiction on behalf of such policyholders by the Attorney General of Canada, against the company or the directors, trustees or other officers thereof as the case may be, and any judgment recovered in any such suit, action or proceeding, whether for an accounting or for any sum of money, shall enure and be applied for the benefit of such policyholders or class thereof: Provided, however, that the court shall not give a hearing until security for costs for such amount as the judge shall think reasonable shall be given, and until a prima facie case shall also be established to the satisfaction of the judge.

We do not hesitate to say that we think that the provisions of this clause 95 as it stands are dangerous and ought not to be placed on the statute book of the country. We know that some people are too fond of law and are ready to run into it. We therefore seek to amend this clause in such a way that there shall be a prima facie case before the superintendent shall have the right which is given him in this clause to encourage the going on with the suit. Therefore the changes that we make, as you will observe, come in after the word 'policyholder.' What we propose in the first instance in the amendment, 'and which may by law belong to such policyholders against the company or against the directors or against the trustees, or other officers thereof.'

Hon. Mr. FIELDING.—I do not quite gather the meaning of the word 'which' there. I do not see what it means.

Mr. MACDONALD.—'Any suit, action or proceeding' and then it goes on 'of such policyholders' and there we bring in our amendment.

Hon. Mr. FIELDING.—But what does 'which' mean? Does it mean the action or suit or what? You say 'which may by law belong.'

Mr. MACDONALD.—That is to say the right to bring this action.

Hon. Mr. FIELDING.—That is a question which the courts may determine—that a man has the right to bring the action.

Mr. MACDONALD.—What we provide there for is that a prima facie case may be made out.

Mr. HENDERSON.—Which is not in the Act of course?

Mr. MACDONALD.—You know it is a very dangerous thing indeed, take in the case of one company represented here with its 80,000 policyholders distributed over this country and over other countries of the world, and every other company has its thousands and tens of thousands of policyholders distributed in the same way; you know that some people do not hesitate to rush into law and it is the easiest thing in the world to bring charges and make insinuations. This clause as it stands we look upon as an encouragement to bring action that may be frivolous and vexatious. We think that while they should have the right to do so, that right should be so safeguarded that companies will be protected against mere frivolous and vexatious proceedings.

Hon. Mr. FIELDING.—You have three safeguards, first the consent of the superintendent must be obtained for any such action—he is a very reasonable man, and then after that you may have the Attorney General of Canada—these are two safeguards.

Mr. MACDONALD.—In that connection, while we value and appreciate the present Superintendent of Insurance—

Hon. Mr. FIELDING.—You cannot discuss it from that point of view; it is the office, not the man.

Mr. MACDONALD.—No, it is the office that we speak of.

Hon. Mr. FIELDING.—Certainly, it is the office, not the man.

Mr. MACDONALD.—We think it is putting too much power in the hands of the superintendent.

Hon. Mr. FIELDING.—Even then he is subject to the Attorney General of Canada.

Mr. MACDONALD.—We think that the Attorney General will act upon the advice of the superintendent.

Hon. Mr. FIELDING.—That does not follow.

Mr. MACDONALD.—It is simply that the policyholder may be able, if he has the permission of the Superintendent of Insurance to do it, bring his action.

Hon. Mr. FIELDING.—What additional check will you put on it?

Mr. MACDONALD.—The additional check is that somebody shall say that in law he has the right to bring the action.

Hon. Mr. FIELDING.—Who can say it?

Mr. MACDONALD.—The Attorney General can say it, if you put the obligation upon him to do it. Then, furthermore, we want this that after the Attorney General—this question was discussed at very considerable length last year—when an action is brought who is to pay the costs of that action? The Attorney General will, I suppose hardly take charge of the suit. He may grant a fiat and put it in the hands of some other solicitor, and you may find an action or actions brought against companies, and when you have come to trial the man who brings the action, and who ought to be made responsible for the costs is not worth the cost of the company and the company after all will have to meet that obligation although it does not belong to them to do so. I think it is only reasonable that the party bringing the action should be required to give such security for costs as the judge shall think proper and that he should be required to establish a prima facie case.

Hon. Mr. FIELDING.—Do you ask that security shall be given for costs, or that it shall be in the discretion of the court to order it, which?

Mr. MACDONALD.—We ask that it be made obligatory.

Hon. Mr. FIELDING.—But you do not leave it to the judgment of the court here

Mr. MACDONALD.—I think that might be left to the discretion of the court provided that a prima facie case shall be established to the satisfaction of the judge. If a prima facie case is established then the man has a grievance, and it would only seem reasonable that his poverty should not shut him out from his right of action in a case of that kind.

We pass on, then, to section 96, which is as follows:

96. On and after the first day of January, one thousand nine hundred and ten, no life insurance shall be issued or delivered by any company licensed under this Act until a copy of the form thereof has been filed at least thirty days with the superintendent; nor if the superintendent notifies the company within said thirty days that in his opinion the form of such policy does not agree with the requirements of this Act, or that it is on other grounds objectionable, specifying his reasons for his opinion; nor shall any policy of life insurance, except policies of industrial insurance under which the premiums are payable monthly or oftener, be so issued or delivered by any company unless it contain in substance the following provisions:—

Now, we propose a substitute clause. We think, sir, that the general trend of this bill is altogether too paternal; that the companies are not so lacking in experience or in that knowledge or information that is necessary for the conduct of their business as would seem to be implied by the provisions of this Act, and this is one of them. We propose as follows:—

96. On and after the first day of January, one thousand nine hundred and ten, no policy of life insurance shall be issued or delivered in Canada by any company licensed under this Act unless it contain in substance the following provisions:—

What we propose is that instead of submitting these things to the Insurance Department for its consideration and endorsement, a procedure which will interfere with the business of the companies, that as it is possible to safeguard every interest by the more general provisions which we propose in this substitute section, namely: That no policy of life insurance shall be issued or delivered in Canada by any company licensed under this Act unless it contains in substance the following provisions.

Hon. Mr. FIELDING.—Have you the same provisions, or do you leave it to his judgment

Mr. MACDONALD.—No, what we propose is as put in this substitute section.

Hon. Mr. FIELDING.—The policies must contain the substance of those provisions.

Mr. MACDONALD.—Yes, the substance; that they shall be in keeping in general with the substance.

Hon. Mr. FIELDING.—You take out the requirements to submit them to the superintendent, that is the essential difference?

Mr. MACDONALD.—Yes, that is the essential difference. You will observe that the Act provides that they shall be submitted to the Superintendent of Insurance, and he has thirty days in which to pass upon them before which the company may hear any thing from him. Supposing that a case arises that may be peculiar, and the company may want to deal with it immediately; till the end of thirty days the company is tied up by the provisions of this section of the Bill, while under a provision, such as we propose, that these general conditions shall be contained in the policy, every good purpose is served and the company's hands are not tied. Then at the end of subsection (b) of the same section we suggest that the word 'responsible' shall be deleted, and the words 'duly authorized' inserted in lieu thereof, so that it would read: 'engaging in military or naval service in time of war without the consent in writing of a duly authorized officer of the company.' It reads now 'non-payment of premiums and for engaging in military or naval service in time of war without the consent in writing of a responsible officer of the company;' we think, Mr. Chairman, that the word 'responsible' is altogether too indefinite, and therefore we ask that it be deleted and that there be substituted in lieu thereof the words 'duly authorized.'

Mr. PERLEY.—In this connection I would like to ask a question. This section speaks of engaging in military or naval service in time of war; now what about the Canadian militia? If we had a war with any country, a militiaman would have no time to get permission from anybody who would be able to give permission to him to engage in the war. If called out he would have to go at once.

Mr. MACDONALD.—My own company has always provided for it, and I think generally there is a provision in the policy covering a certain time, so that supposing he is called out suddenly he is protected.

Mr. PERLEY.—But it is not in this Act.

Mr. MACDONALD.—I do not know whether under this Act it is provided for or not, but I know that under the provisions of the policy he is protected for a reasonable time, and within that time he has to come to us, that is the company, because there is not the shadow of doubt that there has to be an increase in the premium paid for war service. That was done in the case of the South African war.

Mr. PERLEY.—Do you not think there ought to be something in this Act providing that in the case of a war a policyholder can go out and serve in the militia without any permission from the company? That is that there should be some provision that he should have the right to go, but that he should of course pay the increased premium. It seems to me that in the case of actual war the present provision would not answer at all.

Mr. MACDONALD.—In reply to Mr. Perley I would say that war as a rule does not come on in a day; it is usually after negotiations have taken place and after certain things have taken place. It may be a matter most likely of months, it is not a matter

of a few days, and is it not unreasonable to put the company in the position with regard to the individual policyholders which this clause puts it?

Hon. Mr. FIELDING.—The soldier may be called out suddenly. There may be negotiations in which he has no part, but there may come a moment when things begin for him, and he will have no time to go to the company and negotiate.

Mr. MACDONALD.—If he is called out, if for example we will suppose such a thing as we hope will never occur, that difficulties will arise between the United States and Canada and our militia will have to be called out. It must be anticipated that if a war of that kind should take place that not only the militiaman, but every man capable of bearing arms in the country would have to hold himself in readiness for such a struggle. But you must remember that while we honour the man who shoulders his musket or his rifle, or buckles on his sword, as they did in the case of the South African war, that these form a very small percentage of the policyholders of the company, and while we honour them as the defenders of our country's honour, we must remember our obligations to the 95 per cent of our policyholders who do not go forth to war.

Mr. NESBITT.—But in the case you have cited of trouble with the United States there would be 95 per cent who would go. You change the boot on to the other foot in that case.

Mr. MACDONALD.—You mean here in Canada?

Mr. NESBITT.—Yes, in the case we were attacked.

Mr. MACDONALD.—And where would our life insurance companies be in such case?

Mr. NESBITT.—'Bust' up most likely.

Mr. PERLEY.—It seems to me there would be no objection of course to paying a larger premium but the objection is to the policyholder being put in the position that he should have to come to you to get your permission to serve.

Mr. MACDONALD.—That is not asked for. They are allowed under our policies to serve for a certain time during which he may give notice and the company fix the extra premium to be paid.

Mr. PERLEY.—I am talking about the provisions of the Act, not your policies. There might be several weeks or months elapse during which there is talk about war, and all the militiamen in the country if they want to be prepared to answer the call would have to write to you beforehand and get your permission before they could serve at all.

Hon. Mr. FIELDING.—You say your company provides for that so that the man should not have to come to the company to get consent to military service—he might fairly be asked to pay an additional premium.

Mr. MACDONALD.—How is the company to know that a particular policyholder is going to war?

Hon. Mr. FIELDING.—He would not have to make application for your consent, but he would have to pay the money.

Mr. MACDONALD.—It is not a question of consent at all, he has the right to go; however, I am not quite sure how far we go, but with some policies it is provided that he shall not pay extra while in Canada.

Hon. Mr. FIELDING.—And Mr. Perley points out the difficulty is that it depends altogether upon your consent being obtained.

Mr. MACDONALD.—No, I do not think it should. I do not know about the policies of other companies, but I think the policies of most of the companies recognize that he is not a free agent actually, but our policy does provide that he is protected for a certain time and it is then the time comes to fix the extra premium applicable to that particular case. Let me mention this fact, take the Crimean war, with which the British companies had to deal; of course they had no statistics upon which to go and they had to grope in the matter in order to fix the extra rate commensurate with their risk which they had to run on the lives of those going out. This went from one scale to another until it eventually landed at 11 per cent upon the amount insured. So

that you see that was a very heavy charge. So far as a provision of that kind, such as referred to by Mr. Perley for inserting some suitable words to meet the case here is concerned I would not have the slightest objection to it.

Mr. PERLEY.—Is there any recognized extra premium that is supposed to be chargeable in case of war risk? Is there any such known recognized scale?

Mr. MACDONALD.—No, there is no recognized charge generally. For example what was done, if I remember rightly in the case of those going to South Africa on the Canadian contingent was, that the representatives of the various companies got together and talked the matter over and came to a conclusion as to the rate to be charged.

Mr. PERLEY.—What was the rate?

Mr. MACDONALD.—I do not remember—it varied from \$25 to \$50 per thousand.

Hon. Mr. FOSTER.—The trouble is you would not know to what country our men might be sent. They might be sent to India or to our own border.

Mr. MACDONALD.—Yes, of course there are various contingencies which the companies would have to take into consideration and which would have to be provided for in the rate fixed.

Hon. Mr. FIELDING.—A provision might be inserted that the man would get the benefit of his policy, but that he should be required to pay such extra amount as may be decided by competent authorities to be fair.

Mr. MACDONALD.—There again I think you are making a very dangerous exception. 'Competent authority' is a very doubtful individual. Who is a competent authority? It is the company that is the competent authority in that case, they gather together all the information they can obtain in relation to these matters, and they are best able to judge.

Hon. Mr. FIELDING.—If they like to do it by charging a very high rate they could freeze out a lot of people.

Mr. MACDONALD.—They could do it, but has it ever been done?

Hon. Mr. FIELDING.—That is hardly necessary.

Mr. MACDONALD.—That suggestion is made, it is an unusual one and perhaps not overly moral, because I think any action of that kind on the part of the company would be absolutely immoral. When a suggestion of that kind is made all we can say is, take the experience of 100 years on the part of life companies of Great Britain, and has it ever been done.

Hon. Mr. FOSTER.—Could a company afford to do it?

Mr. MACDONALD.—No, no company could afford to do it, therefore I take it that the companies would not object to do it, therefore I take it that the companies would not object to any reasonable provision under the Act to cover that point. It is for you to make them do it.

Mr. PERLEY.—I am told that some companies allow men to go to war without the payment of any extra premium at all.

Mr. MACDONALD.—I have stated that, Mr. Perley—when engaged in the defence of Canada.

In regard then to Clause 96, and what has been proposed, that the words 'duly authorized' be inserted in sub-section (b), the question has come up and has been discussed, 'who is an officer of the company?' A motion was brought forward in regard to this with a view to defining the term 'officer'. I think that will have to go back in the interpretation clause so as to cover what is meant by the word. What was agreed upon was that the word 'officer' means the 'manager, secretary, actuary and treasurer, together with any other persons designated as officers by or in any by-law of the company'. We felt that the term was scarcely defined, and after some discussion what I have read was adopted at the meeting yesterday afternoon.

Hon. Mr. FIELDING.—You want that inserted as a sub-section here?

Mr. MACDONALD.—No, we would prefer to have it put in the interpretation clause if it commends itself.

With regard to section 96 (c), that section reads as follows:

(c) That the policy and the endorsement thereon shall constitute the entire contract between the parties and that all statements made by the insured shall, in the absence of fraud, be deemed representations and not warranties and that no such statement shall be used in defence to a claim under the policy unless it is contained in a written application and a copy of such application shall be endorsed upon or attached to the policy when issued;

We would like to ask, is it the intention that this part of the clause, sub-section (c), shall be printed in the policy itself. We have already suggested in the first or main section of this clause that such parts of it as are material shall be included. Can you answer that question? Is it the purpose that this shall be included in the policy?

Hon. Mr. FIELDING.—The words of the clause are that it must be in substance. It does not absolutely require that these very words should go in.

Mr. MACDONALD.—Our amendments meets that.

Hon. Mr. FIELDING.—You will find that the same words are used in the bill, 'unless it contains in substance the following provisions.' It will either have to have that exact clause or the substance of it.

Mr. MACDONALD.—What we would suggest in regard to that is as follows: In the third last line, after the word 'application,' the 43rd line of the bill as it stands, we propose to have inserted there,

Or such parts thereof as are deemed material to the contract.

In other words, that anything in the application that would appear to be material should be endorsed upon or attached to the policy when issued. Of course if it is there, it would be subject to the judge's ruling as to whether it was material or not only put in what is material, or is considered material to the contract. For reasons we think it is better to have the material parts put in rather than a copy of the entire application and the medical examiner's report. Family history and various other things are entered in that report sometimes. That would read then, sir, if that were approved, beginning after the word 'warranties' 'and that no such statement shall be used in defence to a claim under the policy unless it is contained in a written application, or such parts thereof as are deemed material to the contract, and a copy of such application shall be endorsed upon or attached to the policy when issued.'

Then we come down to sub-section (e) of that same section, which is:

(e) That the policy shall participate in the surplus of the company at intervals of not greater than five years, reckoning from the date of the policy.—

Of course we ask that that be struck out in order that the Bill may be consistent with what we have already asked for with regard to the right to continue the issue of deferred dividend policies. If that is conceded then this, of necessity, requires to come out.

Then we also ask in regard to sub-section (f), which is:

(f) a complete copy of the by-laws of the company relating to surrenders values or a synopsis of the same containing all material portions thereof—

We ask that that be struck out. We can hardly think that it can be contemplated that 'by-laws' should be inserted here. Nearly every policy that is issued now contains all the information regarding surrender values and other privileges that are given, and surely it cannot be contended that it is necessary that the by-laws shall be printed upon the policy, making the policy more cumbersome certainly than is

necessary. One of the objects of the modern contract is clearness and simplicity, and we think that it is wholly unnecessary to depart from that simplicity and clearness that all the companies have been aiming at attaining, and to which they have in a very large measure attained by the exclusion or setting out upon the policies of what is proposed here. We ask that it be struck out.

Mr. NESBITT.—You say that a synopsis containing the material portions should be struck out?

Mr. MACDONALD.—Yes, that is covered by what is inserted in the policies now. Then we come to (g):

(g) The option to surrender values, paid-up insurance or extended insurance to which the policyholder is entitled in the event of default in a premium payment after three full annual premiums shall have been paid—

We are of the opinion that this is perhaps rather wide and we propose the following substitution:

Such option as to cash surrender value, or paid-up insurance or extended insurance to which the policyholder may become entitled in the event of default in a premium payment after three full annual premiums shall have been paid—

As it is in the Act it would seem to mean that a policyholder was entitled to all three. Now what we propose is that it is the particular surrender consideration to which he may become entitled under the provisions of the contract into which he has entered.

Hon. Mr. FIELDING.—The word 'or' there makes it quite clear that it is not the whole of the three, 'the options as to surrender values, paid-up insurance, or extended insurance.' That cannot mean the whole three.

Mr. MACDONALD.—Yes, but it means this, Mr. Minister, that it would mean that all of these would have to be put into the policy. It is not necessary that all this should go into every policy, because there are some policies that are restricted to one and others to two, and still another to three options. Our request meets a case of that kind.

Mr. NESBITT.—Why should not all three go in?

Mr. MACDONALD.—Because the contract does not provide for it.

Mr. NESBITT.—But why should it not?

Mr. MACDONALD.—Because the contract entered into does not provide for it. Take for example a sub-standard life, that is to say a life that is not first class.

Mr. NESBITT.—I know what you mean.

Mr. MACDONALD.—Now, why should that life become entitled to the benefits of extended insurance? We have, of necessity, to exclude that life from the benefits of extended insurance because that impaired life might come in at the end of the third year, or the fourth year and claim the benefits of extended insurance to the loss of the other policyholders who are of a class higher than that of the sub-standard.

We now come to 96 (h):

(h) That after three full annual premiums or their equivalent half-yearly or quarterly premiums have been paid on a policy the company shall loan on the sole security thereof at a rate of interest not exceeding six per cent a sum not exceeding ninety-five per cent of the surrender value of such policy less any indebtedness to the company in respect thereof; such policy being first assigned to the company by a proper and sufficient assignment executed by all proper parties: Provided, however, that such loan may at the option of the company be deferred for a period not exceeding three months from the time the policyholder applies therefor;

We propose to substitute a clause for that which is as follows:

If any loan values be stated in the policy then after payment of three full annual premiums the holder of the policy shall, upon executing a legally valid first charge or assignment thereof to the company on the company's form, and depositing the policy with the company, be entitled to borrow of the company on the security of the policy, a sum, as stated in the policy as its loan value, less any indebtedness to the company at a rate of interest not exceeding six per cent per annum which may be made payable in advance, provided that such loan may be deferred by the company for a period not exceeding six months after application therefor.

You will observe that what we ask here is first that the policy shall be deposited. We find from experience that it is very necessary for us to see the policy. If you make a loan upon a policy without the policy itself being produced it is possible that a loan may have been made by some private party on that policy before the application for a loan comes to the company. We therefore think it necessary that the policy shall be deposited. Then we think it is absolutely necessary that the assignment of the policy shall be on the company's own form. This will ensure the proper safeguarding not only of the borrower himself but the interest of all his fellow policyholders in the company and will avoid all kinds and classes of assignments that might be offered to the company in connection with loans. It is only those who have wide experience in matters of this kind who know or could know the possibilities of such agreements, supposed to affect certain things, that are sometimes offered to the companies as effective documents. Hence we ask that the assignment shall be on the company's own form, and then the company is responsible for obtaining a proper assignment of the policy.

Then again there is a further departure from the clause in the provision that is made for compound interest. You will observe that in the bill there is no provision of that kind and there are some companies, for example, whose practice is to keep the policy in force so long as there is a surrender value in the reserve, under the policy. You will see not only in that case but also in cases where that practice is not followed, that if a company makes a loan to a policyholder, that a failure to pay the interest upon that loan should call for interest upon the interest itself. In other words that the interest that becomes due and is not paid should become principal, and this is the effect of what we propose, that it become compounded annually. Then there is another departure as compared with the original clause. The original clause provides for three months, I am not quite sure but that was the suggestion of last year by the companies in connection with this matter, I am under that impression. However, it has been agreed upon to ask that the three months be made six. I need not refer, I think, for the reasons for this. In the early part of 1907 when suddenly the financial whirl struck the country the banks did not lend money as they formerly did; then the life insurance companies practically became the bankers, and we had almost a 'run', as we might term it, upon the funds of the life companies which, coupled with their investments and accruing obligations under endowment policies and claims taxed the companies to the utmost to meet them. So we think that a certain latitude should be given to the companies in regard to loans that are asked for. Ordinarily when a man brings his policy, if it is payable to the man himself, when he goes out of the company's office he goes out with a cheque in his hand; or if the policy is payable to himself and his wife, if he brings his wife with him and they execute an assignment of the policy, and they go out with the cheque. That is the ordinary everyday practice of the companies, but in case of necessity the company should have the right to defer the matter.

Hon. Mr. FIELDING.—Do you not think that if any aid is required at all three months is quite sufficient, that will be long enough to enable the companies to get over a panic; but if a man has to wait for six months it will destroy the value of his

policy for borrowing purposes. I am afraid if you make it six months you would destroy the loan value of the policy.

Mr. MACDONALD.—Mr. Bradshaw has mentioned to me that in one of the States of the Union, the State of Illinois, that limitation of six months is given.

Hon. Mr. FIELDING.—Have they a six months' limitation there?

Mr. MACDONALD.—Yes, and North Dakota State is the same, it appears.

Hon. Mr. FIELDING.—That practically destroys the loan value of the policy, a man if he is in need cannot wait six months for the loan.

Mr. MACDONALD.—If you will allow me to explain my own personal view of it I should say three months would be reasonable, but that is only my own personal view.

96. (1) This is a proposition largely in the interest of the British companies, we ask that this clause be eliminated, and substitute clauses be provided. The clause as it stands is:

(i) A table showing the figures the surrender and loan values, and the options available under the policy each year upon default in premium payments, until the end of the twentieth year at least of the policy, beginning with the year in which such values and options first become available; the surrender and loan values may be shown on the basis of \$1,000 of insurance;

Largely to meet the practice of the British companies, the following clause is asked to be substituted:

(i) A table showing in figures the surrender and loan values, or the loan value may be expressed as a percentage of the surrender value, and the options granted by the company and available under the policy each year upon default in premium payments, to the twentieth year of the policy. The values may be set forth on the basis of an assurance of \$1,000. Provided, however—
And this is the gist of it.

That this clause will not apply to the policies of any company which, in its annual return to the Government, includes a table of minimum values, if any, allowed for the surrender of policies for the whole term of life and for endowment assurances, or a statement of the method pursued in calculating such surrender values, with instances of its application to policies of different standing and taken out at various interval ages.

As I have already stated the change after the words 'provided however' is largely to meet the practice of the British companies, and the Canadian companies have no objection to what is asked by them. We therefore propose to substitute this clause that I have just read for sub-section (i) of 96.

The next clause we come to is (j): (Table of Instalments). In case the proceeds of a policy are payable in instalments or as an annuity, a table showing the amounts of the instalment and annuity payments.

We hardly understand what this means in view of the fact that a policy payable by instalments provides in itself what this instalment shall be and the period for which these instalments shall be paid, and therefore we propose that this shall be eliminated. However, there may be sufficient reason for it.

I will now come to (k), sir, which is:

(k.) A provision that the holder of a policy shall be entitled to have the policy reinstated at any time within three years from date of default, unless the cash value has been duly paid, or the extension period expired, upon the production of evidence of insurability satisfactory to the company and the amount of all overdue premiums and any other indebtedness to the company upon said policy with interest at the rate of not exceeding six per cent per annum.

We propose a substitute clause for that as follows:—

(k.) A provision that the holder of a policy shall be entitled to have the policy reinstated at any time within one year from the date of lapse, unless the cash value has been duly paid, or the policy continued under extended term insurance, upon the production of evidence of insurability satisfactory to the company and the payment of all overdue premiums and any other indebtedness to the company upon said policy with interest at the rate of not exceeding six per cent per annum from the date of lapse.

Hon. Mr. FIELDING.—If it is only for one year, then you do not need to compound it annually.

Mr. MACDONALD.—Yes, if it is compounded annually, and if it is only extended one year, there is no necessity for compounding it. That was not lost sight of, Mr. Chairman when we decided last night to include these words 'compounded annually'. I might say to you that unless by the conditions of the policy a lapsed policy has been changed automatically into some other form of insurance the companies are only too glad as a rule, subject to the statutory conditions to revive the policy. It is quite possible that after the year's lapse, we will say that it is a year and six months, or it may be two years, that the applicant comes back and says, 'I wish to reinstate my policy.' Then the reason why we wish to have these words 'compound interest' is that the interest on the premiums which have not been paid shall be compounded and included in the amount which he would be called upon to pay.

Mr. NESBITT.—He is at your mercy anyhow, he will have to accept your terms.

Mr. MACDONALD.—But you will observe that this is a statutory provision. We make a difference between one year and three because we think it is opening the door for too wide to make it obligatory upon the company at any time within three years.

Hon. Mr. FIELDING.—Are you likely, Mr. Macdonald, to finish Friday?

Mr. MACDONALD.—No, I am afraid it is impossible.

Hon. Mr. FIELDING.—Well, if you cannot finish to-day information has been conveyed to me that several medical gentlemen have been here for a couple of days and desire to address the committee. They would like to get away to-day, and if you cannot get through with your remarks before the committee rises if you have no objection we might hear these medical gentlemen now because they say it will only take them a few minutes.

Mr. MACDONALD.—I am sure that after the very great courtesy that has been extended to us we will be only too glad to concur in any suggestion which may be made to us.

Dr. T. F. McMAHON, Toronto.—Mr. Chairman and gentlemen, I represent here the medical directors of the life insurance companies of Canada who met in Toronto the other day. My status is that of medical director of one company and assistant medical referee of another. Our objection is to the section which provides that a large and important body of officers connected with the companies shall not be eligible for seats upon the Board of Directors.

Mr. NESBITT.—What clause is that?

Dr. McMAHON.—Section 99, subsection 6. I believe that the reason for excluding a large body of the officers is briefly that they are paid officers, and being under contract as servants of the company they would likely be at all times under the control of those in authority and would not be likely to be independent persons, therefore, that they might be used to exploit the monies of the company in the interest of the directors or someone else. Now, I do not intend to say anything with regard to the other officers of the company, but I shall confine my remarks exclusively to the medical referees and to the medical men generally in these companies. To those who have been at the meetings of many Boards of Directors it is quite evident that this clause will not correct any of the evils that may exist. We all know very well how things are done at meetings where Boards of Directors are elected. A certain coterie of men, perhaps two or three or four get together, and put up their slate for

the Board of Directors and it goes through—it is all done while waiting. If these men wish to get an improper control of the affairs of the company they can do so just as well whether they elect the directors outside the body of officers of the company, or whether the men they elect are the paid officers of the company, it does not make any matter, this provision will not at all correct that evil. It appears to me, therefore, that the excuse for this clause, from that standpoint, is altogether absurd. Now with regard to the rights of the medical directors—I would say that with regard to many of them they have invested their money, the law permitted them to do so, they invested their hard-earned earnings in the company and I do not think we have the right now to take away from them that which has cost them so much. The medical referee is a most necessary member of the Board of Directors; there is so much expert knowledge he possesses, that will be so useful in the consultations of that board that it is most important in the interests of the company and of the policyholders that he should occupy a seat on the board. It may be said that he can be called in and consulted when needed, but we can see no reason why he should not have the status of a director. Why should he be like a mere hired man, simply called in and asked a few questions and then go out again? We hardly think this is in keeping with the dignity of his position in the company. We feel that there has been no public demand for the exclusion of doctors from the Board of Directors; on the contrary the doctors possess the confidence of the community. We believe that the policyholders in general are quite satisfied to have the medical referee on the Board of Directors and we believe, therefore, that a change of this kind would not be popular with the people at large or be in the interests of the companies. We must remember that there are a large number of medical men other than the medical referees who are interested in this. There are the local examiners, nearly every doctor of any status in Canada examines for one or more life insurance companies. It is a very important part of the work of life insurance that these men should receive fair play at the hands of the company. We do know that occasionally medical men have betrayed the trusts which have been reposed in them by the companies, that they have recommended insurance, that they have made very awkward mistakes which were hard to explain away. On the other hand it is quite conceivable that a medical man might examine an applicant for a \$20,000 risk and may recommend that risk; three weeks afterwards that man may die and when the question comes up before the Board of Directors they might feel that that medical man had given a very bad report and feel very much like striking him off the board of examiners and putting him on the black list where it would be very difficult for him to obtain a position on any other board of examiners. Whereas, if there was a medical man on the board he might be able to point out to them, that the examiner in question was not at all in fault, it might be apparent to the medical man that the examiner's request was correct, and he might prevent a grave injustice being done to a fellow practitioner.

Hon. Mr. FIELDING.—The section to which you take exception does not prevent men being elected to the Board of Directors, but it provides that if a medical man becomes a servant of the company he shall not be a director.

Dr. McMAHON.—As a matter of fact the doctors are very poor men, there are very few of them will ever get on the board in any other capacity than as medical directors, because they have not as a rule the wealth that would enable them to do so in the usual way. I believe that the doctors of Canada will consider this exclusion to be entirely unnecessary, and inconsistent with the dignity of the profession. I think it will be a most unpopular measure in the country so far as the medical profession is concerned. We do not think any case has been made out why a man occupying the position of medical referee shall be excluded from the Board of Directors, nor do I think there has been any public demand whatever for the measure.

Hon. Mr. FIELDING.—Dr. McMahan, the principle of the clause is that a distinction shall be drawn between—if I may use the word not in any offensive sense—the

master and servant, that is the general principle; whether there is any reason in it is a question for the committee to consider. There is nothing to prevent the election of doctors to the Board of Directors, but the intention is that the paid officers of the company should not be upon the Board of Directors.

Dr. McMAHON.—That is that the medical director being in receipt of a salary might be a creature of the management?

Hon. Mr. FIELDING.—I do not exactly say that.

Dr. McMAHON.—That is exactly what is meant.

Hon. Mr. FIELDING.—We are all public servants, any man who is a servant is to that extent a creature, but there is no reason why a doctor should feel wounded at being called a servant.

Dr. McMAHON.—There is no more reason for considering him a creature than any other member of the Board of Directors.

Hon. Mr. FIELDING.—Suppose the company has a solicitor and wants to put him on the board—why should the doctor feel offended any more than the solicitor at being excluded?

Mr. HARRIS.—Why do you make an exception of the manager. Is not the manager a servant of the company?

Hon. Mr. FIELDING.—It was thought better that the manager should be on the board. There is no legislation here against the doctors, as Dr. McMahan seems to think. You can put all the doctors on the board you like, but they cannot be the officers of the company. I am not pressing the clause, but I thought I would like the committee to understand the theory on which it was placed in the bill.

Mr. E. B. OSLER.—The statement has been made that medical directors are exceedingly valuable men to have on the board. On a number of boards that I have been connected with that matter has been discussed for a long time, and very strong arguments have been brought to bear in favour of the appointment of the medical officers on the board. It has been the custom in many companies, they have been found valuable and I do not see why you should interfere with them.

The CHAIRMAN.—Mr. Osler has handed in a communication from Dr. Jas. W. Ross, chairman of a meeting of Medical Directors of Life Insurance Companies in Canada, which I will hand to the secretary to place upon the record.

(Letter filed as follows).

‘481 SHERBOURNE ST., TORONTO, March 18, 1909.

Mr. E. B. OSLER,
21 Jordan St.,
Toronto.

DEAR SIR,—A meeting was held yesterday in the Academy of Medicine, of the Medical Directors of Life Insurance Companies in Canada, to discuss the proposed clause in the Insurance Bill in which they are particularly concerned. The clause states that no agent or paid officer of the company can be a member of the board.

The life insurance companies in Canada, together with the medical directors, are enumerated below:—

Name of Company, Medical Director and Address.

Continental, H. W. Aikins, Toronto.

Crown, H. T. Machell, Toronto.

Federal, A. Wolverton, Hamilton.

Manufacturers, J. F. W. Ross, Toronto.

Monarch, E. S. Popham, Winnipeg.

National, A. A. Macdonald, Toronto.

Northern, J. D. Balfour, London.

North America, J. D. Thorburn, Toronto.

Royal Victoria, T. G. Roddick, Montreal.
 Equity, T. F. McMahan, Toronto.
 Confederation, A. F. Johnson, Toronto.
 Excelsior, Dr. Gerguson.
 Canada, Dr. Grasett.
 Canada, Dr. Scadding.
 Dominion, Dr. Necker.
 Great West, Dr. Chown, Winnipeg.
 Home, Dr. J. S. King.
 Imperial, Dr. J. L. Davison, Toronto.
 Mutual of Canada, Dr Webb, Waterloo.
 Sovereign, John Ferguson.
 Sun, Geo. Wilkins, Montreal.

It was stated that such a restriction as that proposed would be very unjust for several reasons.

1st. That medical men were promised the positions as medical directors of life insurance companies if willing to subscribe a certain amount of stock.

2nd. That for many years during the early history of the company, they worked with a very insufficient remuneration, and did much to build up those institutions and to safeguard the welfare of both policyholders and stockholders alike.

3rd. That it has been found necessary and desirable for many of them to attend regularly at board meetings to discuss many questions relating to the policies of the company from a medical directors standpoint and guide the board in the selections of risks and the passage of death claims.

4th. That no valid reason can be given why a medical man so intimately related with the business and welfare of a life insurance company should not be eligible to act as a director, especially as many of them have put nearly all their earthly possessions into the companies with which they are connected.

5. That it is more in the interests of the insuring public to have a manager, an assistant manager, an actuary, a medical director and a solicitor upon the board, than to fill up such boards with financial gourmands who are only anxious to hold such positions in order that they may control the large funds of money that must necessarily be invested from year to year.

Deputations have been chosen to wait upon the Life Officers Association, the Underwriters Association and the Honourable Mr. Fielding to present these claims. The medical men throughout the country will resent the passage of such a clause, as they feel that their interests as medical examiners can best be served by the medical directors of companies who are closely in touch with the life insurance boards. If the clause in the Bill must be passed, it should not be allowed in all fairness to affect those who are at present in office.

We look to the members of the House of Commons for assistance in this matter, and trust that if our view meets with your approval, you will do what you can to help us.

Thanking you in anticipation, I remain,

Yours very truly,

(Sgd.) JAMES W. ROSS,
Chairman."

Mr. HILLIARD.—Is it understood that the list of medical men whose names have just been read are medical directors at the present time?

Dr. McMAHON.—Yes.

Mr. HILLIARD.—Then the reference to my company is wrong, because the doctor named is medical referee and is not a director.

Dr. McMAHON.—It is not confined to the medical directors, it is the medical directors and medical referees of the companies named.

Committee adjourned.

PROCEEDINGS

OF THE

BANKING AND COMMERCE COMMITTEE

OF THE

HOUSE OF COMMONS

IN CONNECTION WITH

BILL No. 97, AN ACT RESPECTING

INSURANCE

No. 3—MARCH 25, 1909

*(Conclusion of Mr. J. K. Macdonald's address, and representations of Messrs. Howell,
Kennedy, Spence, Sutherland and Macaulay.)*



OTTAWA

PRINTED BY C. H. PARMELEE, PRINTER TO THE KING'S MOST
EXCELLENT MAJESTY

1909

PROCEEDINGS

BANKING AND COMMERCE COMMITTEE

HOUSE OF COMMONS

THE BANKING AND COMMERCE COMMITTEE

EXCHANGE

No. 8-MAY 25, 1908



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1908

1908

1908

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS.

ROOM No. 32.

THURSDAY, March 25, 1909.

The Committee met at 10.30 o'clock a.m., the Chairman, Mr. Miller, presiding.

The CHAIRMAN.—The Committee will remember that it was stated yesterday by Mr. Macdonald that the gentlemen representing the British Life Associations would like to be heard after having received a communication from their home offices. We are told this morning that they have not received any cable but desire to be heard without further waiting. If it is the pleasure and will of the Committee we will hear Mr. Howell, representing the Royal Life, Mr. B. Hal. Brown, representing the London and Lancashire and Mr. Clarke-Kennedy, representing the Standard. It has been arranged that these gentlemen will address us briefly and that then Mr. Macdonald will resume his statement.

Mr. NESBITT.—We all like to hear these insurance gentlemen talk, but I suggest that they should make their points as clearly and concisely as possible and not wander all over the field.

Mr. A. R. HOWELL, of the Royal Insurance Company.

Mr. Chairman—I appear on behalf of the Royal Insurance Company, which has its home office in Liverpool, Eng.

As soon as the present Bill was issued a copy was despatched to our home office and an expression of opinion by cable is daily expected. Therefore, I am not in a position at the present moment to offer objections which may originate at the home office.

Speaking, however, for my own part and for what I conceive will be the views of the home officials, I have no exceptions to take to the Bill as it now stands which have not already been covered by Mr. Macdonald. But I wish to place on record our protest against that amendment offered by Mr. Macdonald which seeks to add 5 per cent of the Canadian premiums to the Canadian expenses as a surcharge for home office administration.

Against this suggestion exception is taken on the following grounds: The surcharge in question is in the first place incurred outside of Canada, and in the second place it is an expense which is completely out of the control of our Canadian branch. Even if the principle of charging such home office expenses be admitted, we regard the percentage of 5 per cent which has been suggested as entirely arbitrary, unfounded upon any definite experience, so far as British offices go. I cannot suggest any other figure as a suitable percentage, for the reason that the actual expenses are undoubtedly different for different companies and undoubtedly differ from year to year in the same company. Moreover, should our home office surcharge be actually less than 5 per cent, then Mr. Macdonald's amendment makes no provision by which we can take credit for the reduced amount.

Under the proposed amendment British and American are treated alike. Yet the expenses at the home offices of British companies are undoubtedly on behalf of Canadian business less than those of American companies; because the former have

executive offices in Canada and the latter have agencies. Hence the same percentage applicable to American companies cannot be fairly applied to British companies. If the percentage happened by chance to be suitable to one class, it is practically certain that it will not apply to the others.

The CHAIRMAN.—We will now hear Mr. B. Hal Brown of the London and Lancashire.

Mr. B. Hal BROWN.—Mr. Chairman and gentlemen,—I shall follow the suggestion which has been made by the chairman and by Mr. Nesbitt respecting a very brief statement. I want to say to you, gentlemen, that the point which Mr. Howell has touched upon, viz.: that five per cent of the premium for home office supervision additional expenditure shall be added to the British and foreign offices transacting business in Canada, excepting some of them, is the main issue in which I am interested and the one to which I would like to direct your attention. Some of the foreign companies, the American particularly, are exempt entirely from the operation of this proposed burden of extra expenditure. Now, there ought to be a preference given the British as between them and foreign institutions; but all we want is ordinary British-Canadian fair play. In the transaction of our business this statement which I am about to make applies entirely to the Standard Life and Lancashire Life, which companies are the pioneer British companies transacting business in Canada. We have, as some of you know, some of you may not know, in these two companies Canadian boards of directors. We give attention to the transaction of all our Canadian business: The issuing of policies; our rate manuals; the investment of the funds; the payment of the claims and so forth. To all intents and purposes we are a head office, bear all the expenses of a head office, with the further expense of reporting all our business, and duplicating our records to the home office. It may be said by the Canadian companies that as home offices there is an expense which they must bear that the British offices in Canada do not bear, still, they will conclude, if they will take into consideration the exhaustive reports furnished and the explanations through correspondence respecting the business transactions over a wide area that our work is very heavy, which proportionally increase the expense, making an equally heavy expense with that of those who deal finally with life business as home offices. Now the American companies, some of them, will be excluded entirely from the operation of this additional limitation of expenditure; and there are none of them, as far as I know, that transact their business on the same basis as do the British offices in Canada. They have general agencies in Canada only and not branch offices; the larger executive items of expenditure are borne by the home offices. The policies are printed and issued, the investments are made, the literature is provided, and everything of that kind is done there. Consequently if five per cent is regarded as a fair additional amount to be added to the expenditure in Canada of British offices, then I think there should be a higher percentage than that placed upon the American companies; and that none of them should be excluded. But taking the British offices, these companies have worked definitely with the object in view of reducing the expense ratio; and they have succeeded in getting this expense ratio down to a fair limit; one that compares favourably with that of the other companies transacting business here. In my own company, in addition to what is shown as the operating expenditure, a charge of one per cent for imperial supervision is imposed. Now if you take our income of \$400,000 to-day and charge five per cent upon that it will increase the Canadian cost ratio which must be shown to the public \$20,000 and in the case of the Standard Life \$40,000. Now it seems to me it is not proportionately fair to add such an amount to head office supervision; and I hope that the proposal to do so, against which we earnestly protest, will receive the serious consideration of the Committee and not be permitted to become law. If we added this amount of percent to the present cost it would then, you see, place us in an invidious position compared with the other offices, and would be acting in a directly reverse ratio to the lines along which we have been

proceeding. There is one other point I want to mention about British offices, and that is that they have always endeavoured to comply fully with the requirements of the legislators and will so long as possible continue to do so. Under the present provisions, in addition to that I have told you about, the position of British offices in Canada, they are compelled to maintain the full liabilities under all the policies which are issued in Canada must be held in approved securities, and deposited with the Receiver General or held by trustees under the Act. Surely when all this is complied with it ought to be sufficient and it should be the aim of the legislators in my estimation to assist rather than to place us at a greater disadvantage than we are in at present in transacting business in this country. Gentlemen, I thank you.

By the CHAIRMAN.—It was stated yesterday by someone that with some of the out of Canada companies it is the practice to have their forms and literature printed out of Canada and that that affects the matter of expense at least to some extent.

Mr. B. HAL BROWN.—It is true, sir, as respects many of the companies, but it does not apply to the London and Lancashire Life, and in a very great degree does not apply to the other British companies.

The CHAIRMAN.—But it does to many, you say?

Mr. B. HAL BROWN.—It does to nearly all the American companies but not to the British companies, because the forms are so different they are printed in this country.

The CHAIRMAN.—Including the literature?

Mr. B. HAL BROWN.—Including the literature. We bear every cent of expenditure and in addition one per cent which our company think is a fair amount to charge for imperial supervision.

Mr. NESBITT.—I would like to ask if you keep your Life Board separate from your Fire Board?

Mr. B. HAL BROWN.—We have no fire office. The London and Lancashire Fire although for a time under the same management is now entirely separate and the Life Board stands on its own basis. There is no connection whatever between the London and Lancashire Life and the London and Lancashire Fire.

Mr. CLARKE KENNEDY.—Mr. Chairman and gentlemen,—As stated by Mr. Howell, of the Royal, we had hoped to have had to-day an expression of opinion from our head offices on the Bill as a whole. We have not, however, received this. We have gone very carefully into the Bill ourselves and as far as we can see there is nothing that we want to call attention to other than those facts which have been mentioned by Mr. Macdonald in his address. I would like, however, to most heartily endorse the expressions uttered by Mr. Howell of the Royal and also Mr. Hal Brown of the London and Lancashire on the suggestion made in connection with clause 53 subsection 7 to add 5 per cent to our expense on account of head office administration. The points which they have brought up are absolutely in accordance with our own views on the subject. I would like to add that as far as the Standard is concerned we entered this country for insurance business in 1846. We have endeavoured to conduct our business since then in the most honourable and straightforward way. I think we have met with hearty approval of the public in general and we have always endeavoured to keep our expenses down to a reasonable amount. It has been admitted—I think yesterday some gentlemen stated that they quite realized and it was an accepted fact—that the expenses of the British companies were kept down to a very reasonable limit. I feel that while we have struggled here for a great many years to keep our expenses down we should not have an extra imposition put on us on account of our head office administration. Speaking for the Standard Life our expenses now are about 17 per cent of our premium income and I don't see why we should have to go out into the field with an extra five per cent added on for our head office expenses. I cannot see how that figure 5 per cent could have been arrived at.

It is simply a conclusion, say 5 per cent, and on behalf of the Standard I would ask very earnestly that this be left out.

The CHAIRMAN.—Mr. Macdonald will now continue his address.

Mr. MACDONALD.—At yesterday's session we reached down to subsection 2 of section 29 reading as follows:—

2. Every company shall also file in the office of the superintendent copies of the forms of special provisions which it may desire to make use of from time to time and any such special provisions may after the expiration of thirty days from the filing thereof be embodied in any policy issued by the company as necessity therefor arises, unless the superintendent within said thirty days notifies the company that in his opinion such special provisions are at variance with the requirements of this Act, or are on other grounds objectionable, specifying his reasons for his opinion.

We recommend, sir, that this subsection should be eliminated. We need scarcely add to the reasons already given at a previous sitting of the committee as the ground for making this request. I may simply state that the compliance with this would hamper, to some extent at least, the operations of the company and we deem it unnecessary. We ask that the clause be eliminated.

The next section to which exception is taken by the Life Officers' Association is section 97:—

97. All such life insurance companies, notwithstanding anything to the contrary in any special Act or elsewhere, shall, after the first day of January, one thousand nine hundred and ten, keep separate and distinct accounts of participating and non-participating business.

I have to state, sir, that with the limited time at the disposal of the Life Officers' Association, this clause has not been fully or very much considered. We have, therefore, to ask that the views of the association be held in suspense and that we may be permitted to send in our proposition in connection with this section 97 when we are printing this document, which has to a limited extent only been placed in the hands of some members of the committee, as it is intended it shall be printed for use and information of all the members of the Banking and Commerce Committee. We regret that we have not now copies of this document that we can place in your hands, but a sufficient number will be printed in due course that one may be given to every member of the committee. We would, therefore, ask, that our views in regard to this particular section be allowed to be presented in the way I have indicated rather than at the present moment.

Hon. Mr. FOSTER.—I would suggest, Mr. Macdonald, that while you are printing this document it would not cost very much more to print sufficient to furnish one to each member of parliament.

Mr. MACDONALD.—We will be very happy to do so.

Hon. Mr. FOSTER.—There are a great many members who do not hear this discussion.

Mr. MACDONALD.—We will be very glad indeed to print a sufficient number of copies for that purpose. We ask to give the fullest information and your suggestion will be in line with our own wishes. The next clause to which we wish draw the attention of the committee.

Mr. Chairman, I might say to you that in their views there is not a clause in your Bill more obnoxious to the life insurance companies than this section. We look upon it as being radical, socialistic and an attempt to be too paternal. I think before discussing it I should read it so that all the members of the committee may be fully seized with what is proposed in this section:

99. The following provisions shall extend and apply to every life insurance company heretofore licensed having a capital stock, whether called by the name

of capital guarantee fund, or any other name, within the legislative authority of the Parliament of Canada.

2. The said provisions shall so extend and apply, notwithstanding anything to the contrary in any special Act relating to such life insurance companies or in any by-law or by-laws thereof.

3. At the annual meeting held in one thousand nine hundred and eleven there shall be elected by the shareholders eight directors to be known as shareholders' directors, two of whom shall retire annually in rotation and at the same meeting it shall be determined by lot which of the directors so elected shall hold office for one, two, three, or four years respectively, and the determination shall be recorded as part of the minutes of said meeting.

4. At said annual meeting there shall be elected by the participating policyholders eight directors who are not shareholders to be known as policyholders' directors, two of whom shall retire annually in rotation and at the same meeting it shall be determined by lot which of the policyholders' directors so elected shall hold office for one, two, three, or four years respectively, and the determination shall be recorded as part of the minutes of said meeting.

5. At each annual meeting held after one thousand nine hundred and eleven the shareholders shall elect two shareholders' directors and the policyholders shall elect two policyholders' directors who are not shareholders, who shall hold office for four years to fill places respectively of the retiring shareholders' and policyholders' directors.

6. The manager of the company may be a director of the company, but no agent or paid officer other than the manager shall be eligible to be elected as a director.

7. No person shall be a shareholders' director unless he holds in his own name and for his own use at least twenty-five shares of the capital stock of the company and has paid all calls due thereon and all liabilities incurred by him to the company.

8. At all general meetings of the company each shareholder present in person or represented by proxy who has paid all calls due upon his shares in the capital stock and all liabilities incurred by him to the company shall have one vote for each share held by him. Every proxy representing a shareholder must be himself a shareholder and entitled to vote.

9. Every person whose life is insured under a participating policy or participating policies of the company for \$1,000 or upwards, upon which no premiums are due, whether such person is a shareholder of the company or not, hereinafter called a participating policyholder, shall be a member of the company and be entitled to attend in person or by proxy at all general meetings of the company, but participating policyholders as such shall not be entitled to vote for the election of shareholders' directors. Every proxy representing a participating policyholder shall be a participating policyholder and entitled to vote. Every holder of a participating policy of the company for \$4,000 or upwards, exclusive of bonus additions upon which no premiums are due, who is not a shareholder, shall be eligible for election as a policyholders' director.

10. The policyholders' directors shall meet with the shareholders' directors and shall have a vote on all business matters.

11. The directors shall elect from among themselves a president and one vice-president or more.

12. At all meetings of directors for the transaction of business a majority shall be a quorum.

13. Notice of the annual meeting shall be given by printed notice to each of the shareholders and policyholders, mailed at least thirty days before the day for which the meeting is called, to the addresses of the shareholders and policyholders respectively, given in the books of the company, and in the case of the

annual meeting the notice shall state that in accordance with the provisions of the Insurance Act, shareholders and policyholders respectively may vote for and elect the number of directors to be by them respectively elected at such annual meeting.

14. No requirement of any by-law of a company that notice must be given of the intention to move any resolution at any general meeting shall be of any force or validity.

15. At the annual meeting no shareholder shall vote for more than the number of shareholders' directors to be elected, and no policyholder shall vote for more than the number of policyholders' directors to be elected.

16. A proxy shall not be valid unless executed within three months prior to the meeting at which it is to be used, and shall be used only at such meeting or any adjournment thereof and may be revoked at any time prior to such meeting.

17. In the case of any company which does not issue participating policies the foregoing provisions of this section shall be read and construed as if the word 'participating' were eliminated therefrom.'

Mr. Chairman, I think the reading of this clause and these subsections wholly bear out the opinion I have expressed as to the revolutionary and socialistic character of this proposal. I do not know who is responsible for it, and it is not necessary for me to know, or for the members of the Life Insurance Association to know—

Hon. Mr. FIELDING.—I am afraid you will have to hold me responsible; I am the guilty man. I am responsible for the whole Bill.

Mr. MACDONALD.—We know that the minister takes the responsibility for the whole Bill, but the detail in which this is set forth in these subsections—well, I will have my own opinion.

I may, sir, that this particular section is aimed, for some reason or other, at the shareholders in the different life companies. It is one-sided and it seems to be the object of the section that the shareholders of the company, who have borne the brunt and the burden and heat of the day in bringing the company into existence and setting it upon a good footing as in the majority of cases that their interests are of secondary importance. I may say of the companies that have come into existence within the last twenty years, with perhaps one or two exceptions, they have not only had to use the moneys that were paid as premiums on the capital stock in the establishment of the company, but have had to endure impairment of capital. All that is forgotten and the shareholders are treated as if they were robbers and as if they had no interest in the policyholders. In other words, that the shareholders, or the management of the company, as at present constituted are not to be trusted in the future. Now the opposition to this particular section on the part of the companies is not with regard to a reasonable representation of the policyholders on the boards of these companies. That, in some cases, is already fully provided for, but the effect of this is simply to put, as you will see, the shareholders of the company entirely at the mercy of the policyholders of the company. One of the main objects of this Bill—one of the things that really led to its being brought into existence—was the question of the expenses of the life companies, and, with the intention to restrict those expenses and bring them within reasonable limits. But this Bill, in more than one of its clauses, and in this particular clause imposes an expense upon the company that is going to add very materially to the expenses of the company. Look for example at the effect of subsection 13, which provides that notice of the annual meeting shall be printed and sent to each policyholder. One company that is affected by this Bill has 80,000 policyholders, and over 90 per cent of those policyholders are participating policyholders; and are distributed over the wide world, and yet this subsection provides that that company is bound to send notice to every one of those policyholders whether they are living in Canada, in Japan, in China, in Australia or elsewhere. Look at the postage alone in sending out these notices, look

at the printing in connection with it, look at the other work involved, and I will venture to say that you have added to that particular company I have in mind an expense of from \$10,000 to \$12,000 or \$15,000 every year, and to the expenses of the other companies in proportion. Then another aspect of it—supposing a company has, we will say, 10,000 shares of stock and every one of them represented at a particular meeting. That company we will say has 20,000 participating policyholders. Each shareholder has a vote for each share and each policyholder is to have a vote irrespective of the amount, provided that he has a minimum amount of \$1,000. You have 20,000 policyholders there to outvote or do what they please, whether it affects the interest of the shareholders or not. This Bill is framed from the beginning to the end for the protection of the policyholders, ignoring to a very large extent the interests of the shareholders. Everyone will admit that in the matter of the policyholders, interests in the companies they become large and should be safeguarded. But I do not think that anything has ever been shown either on the other side of the Atlantic or in Canada, or on the part of any company in their treatment of the policyholders by the boards of the companies, whether they be composed solely of shareholders or whether they are mixed boards, that will justify the drastic proposals of this Bill in regard to the policyholders and the shareholders.

Hon. Mr. FIELDING.—You say that you would have no objection to a reasonable representation of the policyholders on the board. Have you any suggestions to offer along this line? Have you prepared something?

Mr. MACDONALD.—We have not prepared anything.

Hon. Mr. FIELDING.—What would be your idea of reasonable representation?

Mr. MACDONALD.—Will I give you my own company as an illustration?

Hon. Mr. FIELDING.—If you like.

Mr. MACDONALD.—I looked it up to see where we were. I have twelve directors in my company and five of these are policyholders only. They have not an interest directly or indirectly in the shares. Three of them are policyholders and shareholders. I am one of these three, and my interest in my insurance is greater than my interest in my shares. We have four directors on the board who are purely shareholders.

Mr. NESBITT.—Might I ask, Mr. Macdonald, if these four policyholder directors are appointed by the policyholders or the shareholders?

Mr. MACDONALD.—In my company the policyholder is a member the same as a shareholder; we know no distinction, at the annual meeting, as between shareholders and policyholders, they are invited to come and share in the business.

Mr. NESBITT.—They are not appointed specially by the policyholders?

Hon. Mr. FIELDING.—You have, as a matter of fact, five out of twelve directors from the policyholders?

Mr. MACDONALD.—Five out of twelve.

Hon. Mr. FIELDING.—Would you regard that as a reasonable proportion?

Mr. MACDONALD.—I think that is perhaps rather more than was suggested at the discussion which took place. I have no fear of the policyholders on the board, but of course there has been objection, Mr. Chairman, to this arbitrary proposal that there should be sixteen directors.

Mr. FIELDING.—Because the number is too large.

Mr. MACDONALD.—Too large. You cannot have directors without expense. You cannot expect a gentleman whose name will be of use to the company and whose judgment will be of value in carrying on the operations of the company, to sit on the board without some adequate fee for attendance. Some of the companies have only eight or nine directors. Now you propose to add further to the expense by additional directors, as proposed in this Bill. I think we all take kindly to the proposal to have a proportion of the directors retire annually, that is to say having so many of the directors retire annually and not the whole board. Now, in many cases, in my own, and I think in the majority of the companies, there is an annual

election of the entire board. We think that the proposal in that direction is a reasonable one and possibly it would be well to adopt it. But we feel also this, sir, that the introduction of this proposal is the introduction of an element of discord. I have been asking the managers of other companies as to their experience during the years their companies have been in operation, as to whether any difficulty has arisen at any meeting in connection with the policyholders' interests as compared with the shareholders' interests, and I am answered, 'We have never experienced any difficulty whatever.' In our company we have yet to have the first difficulty of that kind arise. We have held some thirty-eight annual meetings, which ought to count for something, and we have had perfect harmony as between the policyholders and the shareholders, and the very proposal that is contained here begets in itself the suggestion that there is something antagonistic as between these two classes of interested persons in a life insurance company, and we regret that very greatly.

Hon. Mr. FIELDING.—That very system that you say is going to beget suspicion and trouble is in some of the charters to-day.

Mr. MACDONALD.—I do not know what the other charters have in them, but the provision in our own is that there must be never less than one-third and may be one-half of twelve.

Hon. Mr. FIELDING.—Yes, but there is a different provision in some charters.

Mr. MACDONALD.—That is in the Canada Life, you mean?

Hon. Mr. FIELDING.—Yes, it is in that charter.

Mr. MACDONALD.—Yes, but I may say that is a comparatively late amendment to that company's Act and it is not general. I think it stands alone as the only company that has that particular arrangement, which provides for the election, that the shareholders shall elect so many directors, and the policyholders shall elect so many directors; but it provides that the policyholders' directors may also be shareholders.

Hon. Mr. FIELDING.—Quite a number of new companies, that possibly are not yet fully organized, are adopting that same system. It is not a new system, it is a provision that is being adopted in the new charters.

Mr. MACDONALD.—The objection that we take to it is as to this proportion and the way in which it is done. You can easily see—take my own company for example, if this provision were to pass into law and 20,000 policyholders were represented at the annual meeting with 10,000 votes of shareholders, where would the shareholders be, even if every share is represented at that meeting? Then you do away with any safeguard. The intention here is to leave the matter so open that anything can be sprung at the annual meeting. There is no protection in that way at all.

Mr. SPROULE.—Does not the law provide that you must put in your notice calling the annual meeting what specific business shall be transacted at it?

Mr. MACDONALD.—Not unless it should be considered necessary for something special. For example there would be this notice given, first that the annual meeting of the company will be held at the date named for the election of directors, for receiving the annual report, it may be, and for general business; and it may be for the confirmation of by-laws, perhaps, if there are by-laws to be confirmed. Then we always put in our own notices that policyholders in the company are members and entitled to take part in the business of the meeting. I am practically giving you the notice that is issued by my company.

Mr. SPROULE.—You seem to be afraid that too many policyholders might attend and take part in and control the meeting. Do you think that the policyholders would come in large numbers without any remuneration, while the directors will be paid, which will be likely to bring a large number of them together?

Mr. MACDONALD.—I do not know what the department at Ottawa may have found in regard to the policyholders, but we have yet to find the first complaint on the part of our policyholders that will lead up to a provision of this kind. We generally have at our own company's meeting in Toronto policyholders present, we have had

sometimes a very good number of them, and at other times fewer; the attendance fluctuates. The fact of the matter is that the policyholder, like the shareholder, where everything is going along in a smooth and satisfactory way, is not disposed to attend meetings.

Mr. NESBITT.—It is only to elect the directors, it does not matter whether a million or only one attends.

Mr. MACDONALD.—And for general business.

Mr. NESBITT.—I do not see that.

Mr. MACDONALD.—‘No requirement of any by-law of a company that notice must be given of the intention to move any resolution at any general meeting shall be of any force or validity.’ Supposing that some designing agent, we will say, wants to do something with the company. There may have been sent out, as provided for here, notices of the meeting, and there are proxies—that apparently have to be executed each year, a very unusual thing, because proxies even for a bank are allowed to be held good for two years—but it is also provided that these proxies shall only be used at that meeting or an adjournment thereof, and may also be recalled. An agent may appear on the morning of the day of the annual meeting with proxies that will swamp the entire vote of the meeting, it may be revoking some of the other proxies, and there is no chance of looking at them. There is no provision that they must be filed so many days before the meeting or anything of that kind, there is no opportunity to compare the signatures of the proxies with the signatures on the original application in order to be sure that they are genuine; you are entailing a very large amount of work with no provision for security with regard to the genuineness of the proxies. That simply would mean that it would keep a large staff at work for a considerable time.

Then there is one section that we would like to refer to, and that is subsection 6. This is the section that Dr. McMahon spoke upon yesterday. I may say that while the Life Officers Association was in session in Toronto it was waited upon by a deputation from the doctors, who had also been in session, and it was, as they put it, to ask the co-operation of the Life Officers Association to have this subsection 6 struck out. The view of our own association was that we could assure them of our entire accord and sympathy in the view they expressed in regard to it. We see no reason why the limitation should be made in this way. The manager is all right, but why should you, for example, deprive the president—what are you going to do with the president supposing an allowance is made to him, it may be paid annually, quarterly or some other way; you may say it is an honorarium, but still that honorarium becomes a salary practically, and might be so construed? The manager may, under this clause, sit there, but the president, if he is in receipt of some small amount by way of honorarium or salary cannot sit there. You have lost your head. What we would like to see and what I am instructed to ask is that this entire clause 99 be eliminated.

Hon. Mr. FIELDING.—The general principle of the clause—we need not discuss it with reference to the medical men particularly—but the general principle which the clause has in view is that the officers of the company should not be its directors and controllers. Suppose you give us your thought on that principle. It may be that the language of the clause goes too far. Is it your view that there should be no restriction and that every agent could be made a director?

Mr. MACDONALD.—No, I would allow no agent of a company to be a director.

Hon. Mr. FIELDING.—But all the officers, would you allow every clerk in its office to become a director?

Mr. MACDONALD.—No, I have no objection whatever to the manager, I think the manager has a right to be on the board. I quite approve of the minister's principle, and that there should be a limitation there and that the employees of the company should not be directors of the company.

Hon. Mr. FIELDING.—But you propose to strike it out?

Mr. MACDONALD.—Substitute another clause.

Hon. Mr. FIELDING.—Have you offered a substitute?

Mr. MACDONALD.—No, we are quite prepared for some limitation, but we see no reason why the language should not be so clear that it would not prevent the president from being on the board.

Hon. Mr. FIELDING.—I do not think it could be taken as meaning that the president was excluded because he receives a salary. It speaks of eligibility as a director, and if a man be chosen as director I take it for granted that director's fees may be paid, whatever may be thought proper, there is no objection to that.

Mr. MACDONALD.—In many companies the president has a salary. The manager may be a director, there is a provision for that, but no agent—we have no objection to that, 'or paid officer other than the manager.' Now in my own company the president is practically a paid officer.

Hon. Mr. FIELDING.—Yes, but do you think it would shut out the president? You are speaking now of eligibility for election to the board of directors. The president is not then in question. As a man he may be eligible for election to the board of directors, but having been chosen as a director I take it that the president can be paid a salary I do not think it means what you suggest. I do not think it could mean that. It really means the working staff, say the clerks and officials. The question is shall the servants of the company become its controllers. That is the principle which the subsection is designed to carry out.

Mr. MACDONALD.—I might say in reply to the minister, he asked my own view on the question; some years ago during the lifetime of the late Sir William Howland—I am only expressing my own view now—he proposed to me that I should take the position of president of the company and still retain the position of manager. I absolutely refused to do so because it did not accord with my view of the principle which should govern in matters of that kind. I think while there should be some reasonable limitation in regard to the principle itself, and that no agent should be a director, it ought not be so construed that medical officers should be shut out from the board of directors.

Hon. Mr. FIELDING.—If it provided that the president, the manager and medical officer were exempted from this clause would it be satisfactory to you?

Mr. MACDONALD.—Yes—well, there is another distinction here, and that is with reference to the solicitor. There are one or two cases, I do not know how many, it does not apply to my own company, where the solicitor is a member of the board, and he is often of very great assistance as I can well imagine in connection with matters that may come up before the board for consideration. So that if it could be limited in that way that the president, if he is a salaried officer, or the manager, or the medical director or solicitor were exempted from the operation of this subsection, or if something of that kind could be done to limit it to those officers I do not see any objection. We felt that while we asked baldly to have the whole section struck out that it was probably asking too much. But it should lead to some modification in regard to this that would not impose upon the companies sixteen directors when they want to have a lesser number, or in the other possibilities of dealing with policyholders that will entail upon the companies an immense amount of work and cause a very considerable addition to the expenses, and which would, we believe, be fraught with very great danger to the internal happiness and comfort of the company.

Hon. Mr. FIELDING.—Could you give us some suggestion as to how you would deal with this reasonable representation that you say ought to be given? I do not ask you to do that now but I ask you to think it over and see what suggestion you would offer.

Mr. MACDONALD.—We will be very glad when we print our representations to put it in form and have it printed.

The CHAIRMAN.—Mr. Macdonald desires a few minutes rest, and as Mr. Spence

desires to say something to the committee with reference to section 109, perhaps the committee will hear him now.

Mr. J. K. SPENCE, President of the Canadian Guardian Life, Toronto,—Mr. Chairman and gentlemen, the company I represent was incorporated by letters patent under the Insurance Act, issued by the government for the province of Ontario in February, 1901, and continued in business from April, 1901, to May, 1905, under a provincial license, at which time we received a Dominion license.

The company by a petition to the Honourable the Minister of Finance of Canada in January of 1908, requested that our deposit be transferred from the jurisdiction of the insurance department under the Dominion government at Ottawa to the jurisdiction of the Insurance Department under the Ontario government at Toronto.

Our prayer was not granted for the reason that there was no provision in the Insurance Act to allow of the transfer of a deposit.

Under the provisions of section 109 of the new Insurance Act, we may secure this transfer of such deposit, after having our policyholders resident outside of such province re-insured in some company or companies licensed under this Act, or by securing the surrender of such policies.

This means that these policyholders who insured with the company while working under a provincial license must be lost.

In order that we may still hold such of these old policyholders as may be willing to remain with the company, I respectfully ask that subsection 2 of section 109 be amended as follows:—

‘2. The company may, with the notice mentioned in the first subsection of this section, file in the office of the superintendent a resolution of the shareholders of the company authorizing such discontinuance of business and the withdrawal of said deposit, such resolution also to be approved by the votes of four-fifths of the policyholders resident outside such province present in person or by proxy at a meeting of such policyholders duly called for the purpose of considering the same or upon the written consent signed by each of such policyholders agreeing to remain with such company under a provincial license, and upon proper and sufficient proof being filed in the office of the superintendent of the passing of such resolution or the written consent of such policyholders in manner aforesaid. The minister may release and transfer said deposit to the treasurer of such province.’

I would like to add that if in your good judgment you could see your way clear to allow the company to retain all such policyholders as were insured prior to the issue of a Dominion license without in any way disturbing them, I assure you, would be very helpful to our company.

Mr. PERLEY.—So long as you get their consent in any way.

Mr. SPENSE.—Yes. I may just state that if this subsection were amended it would leave us in the position that we could go personally to each policyholder who became a policyholder in the company under the provincial license and many of whom have now moved to Manitoba and the western provinces and some to the United States, when we go to these parties, if we can secure enough of them we can call a meeting and put the matter before them and get their consent, and we could also go to the other individual policyholders and get their written consent, which would be filed in the office of the superintendent, or in the absence of that we would offer them re-insurance in some other licensed company in the Dominion, or we could have the right to buy them out for the cash surrender value.

Hon. Mr. FIELDING.—I do not think there is any difficulty about this. This clause in a general way was designed to meet the requirements of your company, and I think it is only reasonable if it does not exactly meet the difficulty that an amendment may

be made in the form that you suggest or something of that kind. I might say to the committee that the representations made by this gentleman have impressed the Department as reasonable, and we will probably be able to reach some conclusion with regard to it at a later stage.

Mr. MACDONALD.—I am able to say that Mr. Spence brought this matter before me, and before some other members of the committee last night, and after spending some time with us, I am permitted to say on behalf of the Life Officers Association that we are very glad to hear the Minister say on behalf of the committee that he will find some way to meet the request.

Mr. MACDONALD.—The next section, Mr. Chairman, to which we wish to call attention is No. 111: 'Declaration of profits in case of existing companies.'

111. In the case of companies heretofore incorporated which have a capital stock and which are within the legislative power of the Parliament of Canada, the directors may, from time to time, set apart such portion of the net profits as they shall deem safe and proper for distribution as dividends or bonuses to shareholders and holders of participating policies, ascertaining the part thereof which has been derived from participating policies and distinguishing such part from the profits derived from other sources; and the holders of participating policies shall be entitled to share in that portion of the profits so set apart which has been distinguished as having been derived from participating policies to the extent of not less than ninety per cent thereof and shall also be entitled to a just portion of the profits arising from other sources, but no dividend or bonus shall at any time be declared on estimated profits, and the portion of such profits which remain undivided on the declaration of a dividend shall never be less than one-fifth of the dividend declared; and before fixing or arriving at the amount of divisible profits, interest on the amount of unimpaired paid-up capital stock, but not including any premiums or bonuses paid thereon or in respect thereof, and on any other sum or sums from time to time standing at the credit of the shareholders may be allowed or credited to such shareholders at the average net rate of interest earned in the preceding year, or other period under consideration, upon the total funds of the company invested and uninvested; such shareholders to be, however, charged with a fair proportion of all losses incurred upon investments or other losses of a similar character.

2. The provisions of subsection 1 of this section shall not interfere with the right of the participating policyholders of any such company to share in the profits realized from the non-participating branch of its business in any case in which such policyholders are so entitled under the Acts relating to such company in force at the time of the passing of this Act.

We propose in connection with this a somewhat considerable change. If you will look down to line 41, after the words, 'less than 90 per cent thereof,' we propose that the words following be eliminated, 'and shall also be entitled to a just proportion of the profits arising from other sources, but no dividend or bonus shall at any time be declared on estimated profits, and the portion of such profits which remain undivided on the declaration of a dividend shall never be less than one-fifth of the dividend declared.' We propose to eliminate those words. Then passing on to line 48, after the word 'stock' at the beginning of the line we also ask that the words 'but not including any premiums or bonuses paid thereon or in respect thereof' be eliminated. And then, following the last word on page 42 we ask that the words 'the total funds of the company invested and uninvested' be deleted, and that the following words be substituted therefor, 'the mean invested funds of the company.'

In regard to what we ask in connection with this section we ask, first that the following be struck out here:

'And shall also be entitled to a just proportion of the profits arising from other

sources, but no dividend or bonus shall at any time be declared on estimated profits, and the portion of such profits which remain undivided on the declaration of a dividend shall never be less than one-fifth of the dividend declared.

It is with no desire to limit the share of profits to the policyholder, the one, or rally the main point is this, in the latter clause, 'and the portion of such profits which remain undivided on the declaration of a dividend shall never be less than one-fifth of the dividend declared.' Mr. Chairman, that is the provision that entered into the charter of any company obtained in 1871. This is word for word, I think, a clause in the charter of the Confederation Life. There was good reason for it, it was our own proposition, when we sought a charter at that time, but the reason does not appertain to the present day. You will remember that the rate of interest at which reserves were calculated in those days was $4\frac{1}{2}$ per cent. At the present time the companies on new business since the first of January, 1900, are compelled to reserve on a basis of $3\frac{1}{2}$ per cent interest, and in order to provide for other provisions in the Act the companies have even gone on with the new business to a 3 per cent basis. Inasmuch as you will remember that the business up to that time (1900) was allowed for a period of ten years to assume its old rates of interest, $4\frac{1}{2}$ per cent, and then at the end of ten years to come to a 4 per cent, and after fifteen years to a $3\frac{1}{2}$ per cent rate, as set forth in the Bill for all new business issued subsequent to the 1st of January, 1900. With a very much lower rate of interest it does not appear to be necessary that there shall be held in reserve one-fifth of the surplus so ascertained, and inasmuch as the putting up of the reserves to the safer standard more or less interferes with those benefits which every company desires to give to its policyholders, it seems only reasonable that the company shall be allowed to distribute to the policyholders a larger portion of four-fifths. We think that with the safeguards under which we are working now that the limitation which must affect the interest of the policyholders should be relaxed. That is our reason for it. There is also the clause:

'Shall also be entitled to a just proportion of the profits arising from other sources.'

Mr. BRADSHAW.—It is not.

Mr. MACDONALD.—This then is new. Just what these 'other sources' are is not clear. But it is properly ascertained what the profits are, as belonging to the participating policyholders, there is no other source from which profits can be taken. Therefore we think this should be taken out as its retention might very easily lead to misunderstanding.

Mr. SPROULE.—What about your investments or earnings on capital?

Mr. MACDONALD.—That has all to be ascertained, that of course is provided for, that has all to be considered before you arrive at 'profits.' There is one thing, it is provided here, I think very properly, as to the shareholders being credited with the average rate of interest; but there might also be inserted there that any sum of money that may be standing undistributed to the credit of the policyholders is equally entitled to consideration for the average rate of interest to be added to it, as if the same were standing to the credit of the shareholders. I merely refer to that because it is not mentioned here, but that is the proper thing to do. For example, a company when it has ascertained its gross surplus, and has also ascertained its average rate of interest, or the actuarial rate of interest for the past year, and that rate of interest is credited to the shareholders' capital. There may be a fund belonging to the shareholders that is not being distributed, that fund also should be credited with the average rate of interest and both of these taken out of or debited to the gross surplus for the year. Then the funds at the credit of the policyholders should also be credited with the average rate of interest in a similar manner, so that they would have justice done to them, and then when all that has been done you have arrived at your net surplus which you can distribute.

Hon. Mr. FIELDING.—I understand that you propose to strike out the provision that the policyholder shall be entitled to a just proportion of the profits arising from 'other sources'?

Mr. MACDONALD.—Yes, for example, we cannot imagine that applies to anything else than the non-participating branch in which they have no interest whatever. I do not know what other sources there can be. If, for example, property should come into the hands of the company and it is sold at a profit, that profit will go to the aggregate profits for the year.

The CHAIRMAN.—And they will all get a share of it?

Mr. MACDONALD.—They will all get their share of it. I think that the system employed by the companies is absolutely correct and in the interests both of the shareholders and of the policyholders.

Mr. SPROULE.—Does your scheme contemplate in the case of the non-participating policyholders there is only a division once in five years, but your profit is accumulating from the commencement of the term to the close—does that contemplate that the shareholders get that?

Mr. MACDONALD.—The balance of the undistributed profits with the net rate of interest earned by the company added to it, goes to the shareholders.

Mr. SPROULE.—Every time?

Mr. MACDONALD.—Every time.

Hon. Mr. FIELDING.—Supposing a profit is made on the purchase and sale of bonds, would that go into the general fund so that the policyholders would participate?

Mr. MACDONALD.—Yes.

Hon. Mr. FIELDING.—It would almost seem from the omission of these words that you did not quite approve of that.

Mr. MACDONALD.—You have the whole transactions of the year before you, all these transactions have gone into the general account, and when you have put them all in then you find out how much belongs to one and how much belongs to the other.

Hon. Mr. FIELDING.—Why do you strike out the words 'and shall also be entitled to a just proportion of the profits arising from other sources'?

Mr. MACDONALD.—For the simple reason that as it stands there it may mean, and may be contended to mean, that they are entitled to a share of the profits in the non-participating business.

Hon. Mr. FIELDING.—Would you say the profits on the bonds is 'non-participating business'? How do you draw the line. Supposing the funds of the company are employed in the purchase of bonds, and you sell them at a profit, do you mean to say the policyholder shall share in that profit?

Mr. MACDONALD.—Certainly, and they do.

Hon. Mr. FIELDING.—Could they do so under your provision?

Mr. MACDONALD.—Yes.

Mr. FITZGERALD.—Not necessarily so.

Mr. MACDONALD.—All I can say is I have described how it would work out in our company.

Hon. Mr. FIELDING.—You mean to say that your amendment would not preclude them from sharing in those profits?

Mr. MACDONALD.—Certainly.

Hon. Mr. FIELDING.—We propose that the capital shall receive interest at the average net rate of interest earned upon the total funds of the company invested and uninvested and you strike out the word 'invested.'

Mr. MACDONALD.—Yes.

Hon. Mr. FIELDING.—Supposing one portion of the funds is earning a profit and the other is not, should not they share in the loss on the idle capital?

Mr. MACDONALD.—Both branches share in the losses there may be from idle

capital, but as a matter of fact our proposal only excludes such things as outstanding premiums and items of that kind.

The CHAIRMAN.—The profits arising from the non-participating business should exclusively belong to the shareholders?

Mr. MACDONALD.—Yes.

Hon. Mr. FIELDING.—Of course you are aware that the question has been raised in connection with some companies; in fact I would not be surprised if in the adjoining room at this moment the same question is under consideration. In the case of the Canada Life Company's Bill now before parliament it is a matter of controversy.

Mr. MACDONALD.—If I may be allowed to express an opinion, I think what is asked for in the Canada Life Company's Bill is reasonable and ought to be granted.

Hon. Mr. FIELDING.—I do not mean to cross-examine you in regard to the Canada Life Company's Bill, but I am asking you in reference to the principle.

Mr. MACDONALD.—In my judgment it is a correct principle; it is the principle under which in my company we have worked for thirty-eight years, and every other company, I think, with the exception of the Canada Life, which because of a mere oversight have been going on without realizing the fact that the amendment they got did not give them quite the power to do what they are asking for now.

Then I will just call attention to the closing words of this subsection 1 of section 111:

'Such shareholders to be, however, charged with a fair proportion of all losses of a similar character.'

It does seem, in reference to the remarks that I made earlier this morning, that the Bill appears to keep very closely in view the interests of the policyholders, losing sight, to some extent, of the interests of the shareholders who may be fortunate or unfortunate. It is quite right that such shareholders shall be, however, charged with a fair proportion of all losses incurred upon investments or other losses of a similar character, but I think it ought to go on and say that they should also be credited with the profits that may be made; you restrict here to the charging of losses against them, but you do not provide that they shall share proportionately in gain or profit that may have been made.

Hon. Mr. FIELDING.—Would not the policyholder get his gain in the higher rate of interest?

Mr. MACDONALD.—I think it is unnecessary to put it here, but as bearing upon the view that I think the policyholders' interests are cared for more largely—however, you take the responsibility for it—than the shareholder.

Hon. Mr. FIELDING.—The greatest good to the greatest number, you know.

Mr. MACDONALD.—There is another point, Mr. Chairman, to which I should make reference, namely where it excludes consideration of bonuses that may have been paid in in connection with subscription of capital stock. It seems hardly fair that a company should be prohibited when it has reached the condition of growth and position which will enable it to deal with the bonus capital, and could properly recognize that it is something calling for consideration, and hence we ask that that shall be eliminated. The words are:

'But not including any premiums or bonuses paid thereon or in respect thereof.'

We think we would like that reconsidered and that payments of this kind may in due course receive consideration

In regard to subsection 2 of this same section, we propose that the words in the last line, after the word 'force,' namely, 'at the time of the passing this act,' be deleted and that there be substituted therefor: 'when this Act comes into effect.'

Then in regard to section 112, in view of our having suggested, and if that clause should be approved, that the first clause of the Act be amended as we then proposed, it would follow that section 112 should be eliminated.

Before going on to refer to the schedule, sir, there are one or two special matters that I would refer to. If you will turn to section 15, and to section 20, subsection 2 of section 15 reads as follows:

'2. The value of such securities shall be estimated at their market value, not exceeding par at the time when they are deposited.'

On behalf of the British companies, and of the American companies as well, it is asked that these words, 'not exceeding par' should be deleted, and the reason for it is this: They may purchase securities on which they pay a premium of 13 per cent or any other percentage, and that percentage necessarily enters into the value of their securities. To cut them down to par would be to do a great injustice to these companies, and on their behalf we make the request that these words, 'not exceeding par' be eliminated.

Hon. Mr. FIELDING.—That is the present law, there is no change here, the law as it stands is the law as it has been for many years.

Mr. MACDONALD.—I know it is, but we want to bring the matter before you.

Then the next section, 20, subsection 3, in the last line of that section we ask that the words, 'and in no case greater than the par value of,' be eliminated.

Hon. Mr. FIELDING.—This is merely a deposit, you know, they are not lessening the value of these assets by taking them at par.

Mr. MACDONALD.—I am speaking on behalf of the other companies, we object to that restriction.

Hon. Mr. FIELDING.—There is a further provision that these securities that are taken at a premium are only redeemable at par, and every year, as they go on, they are in some sense reduced in value. If you buy them at a high rate and keep them until they are redeemed you only get par value for them.

Mr. MACDONALD.—Yes, but they should be written down each year, and of course the superintendent has it in his power, or he ought to have it in his power to write them down or see that it is done.

Then, Mr. Chairman, there is one matter in regard to which I have no mandate or even request to refer to, at the same time I know that a difficulty exists, and with the consent of my fellow managers I am authorized by them to refer to it. You are aware, sir, that a British company which has been operating in this country for some time—the Pelican and British Empire Life—amalgamated some time ago with the Phoenix which has been in this country as a fire insurance company for a long time, and for a time I think it did a small life business. What I want to say is entirely gratuitous in this particular, and it is that we hope the minister and the department will see some way by which the disability that has grown out of that will be overcome, and that the Phoenix may be enabled to take the place and continue the work that was formerly done by the Pelican and British Empire Life.

Hon. Mr. FIELDING.—You would allow them to do both a fire and life business?

Mr. MACDONALD.—Yes, but keep separate accounts.

Hon. Mr. FIELDING.—But you would not allow a new Canadian company to do the same thing?

Mr. MACDONALD.—No, I would not, because there are features connected with this case that would seem to justify special consideration that do not apply to a new company.

Hon. Mr. FIELDING.—That was our difficulty; we did not feel that we ought to do for that company what we would refuse to do for a Canadian company.

Mr. MACDONALD.—I want to make it perfectly clear that in making this statement I am not doing it at the request of anybody, but it was spoken of by Mr. Bradshaw and myself, and then afterwards we had a consultation with our brethren.

There is another matter I would like to refer to and that is section 53 where they deal with expenses. I received a letter this morning from Mr. Somerville, who

went home the night before last. You will remember that I asked that Mr. Somerville be permitted to address the Committee on the question of allowance for expenses on the investment branch of the business other than debentures, bonds, &c. In other words, investments connected with real estate. I have this morning received a letter from him and he gives me these particulars with reference to the expenses of some companies in that connection. The expenses of the Canada Permanent Loan & Savings Company came to 1·16 per cent of the total assets, that is the expenses of investments; the London Canadian Loan & Agency Company, 1·11 per cent; the Hamilton Provident & Loan Company, 1·93 per cent; the Canada Landed and National Investment Company, ·98 per cent; the Huron & Erie Loan & Savings Company, ·62 per cent. You will remember that Mr. Somerville explained that the Huron & Erie expenses were low because they restricted their business to Ontario.

Hon. Mr. FOSTER.—Is that investment expenses?

Mr. MACDONALD.—These are the expenses of the loan companies in connection with their investments. We have asked that the subsection of section 53 which provides for an allowance for investment expenses, without distinguishing the branches, of not exceeding one-fourth of one per cent, be amended, and that the allowance shall apply to debentures, bonds and other stocks and investments of that nature as being sufficient for the purpose, and that the companies be allowed to count in their expenses one per cent on the other investments, mortgage investments and such like. To justify our asking for that Mr. Somerville addressed the committee, giving his experience as an old manager of a loan company, and he now follows that up by actual figures in regard to the companies I have named.

Mr. Chairman, the next point that I have to refer to, and I shall endeavour to be as saving of time as possible, is the question of the schedules. These schedules begin on page 61, and I think if the members of the committee will take time to go through them they will find that they are both searching and full; they are certainly much more onerous and call for very much more work than is called for in previous legislation of this kind. I would like if time had permitted to have gone over them to some extent, but I do not know whether that is wise or not. I might say that if you will look carefully through them you will find that they have brought out every element of information that can very well be brought out, and I doubt very much if you were to put a search warrant in the hands of the sherriff that he could discover anything that is not already provided for in these schedules. Now we think that in some respects these are too minute, and as I am most anxious that we should finish, if possible, our case to-day, as we are anxious both for the committee's sake and for our own sake to bring it to an end, I would refrain from going into these various remarks in regard to them. But if the members of the committee will just take the trouble to go over these schedules for themselves they will see that information on every point of interest to the shareholder or to the policyholder or to the public has been called for by them, and in view of the fact I think we will come to the conclusion that the Life Officers Association are not going too far when they ask, as we did ask, that section 36 calling for the addition to this of a gain or loss account, shall be struck out. That account will call for a great deal of additional work with very doubtful results, that is so far as the public are concerned. That it is a matter of interest to the company is not to be gainsaid. The company might do that work, some companies do, many other companies have not done it; but at the same time to make this an obligation on the part of the company as a part of the future report to the department, in view of the extensive information already supplied through these various schedules seems to be unnecessary and a work of supererogation.

Mr. PERLEY.—Is your objection to it simply the trouble and expense or is there any other objection than that?

Mr. MACDONALD.—There is no other objection to it at all. Every intelligent person can take hold of these schedules with the result that he might, I think, learn

and know everything that he will want to know, and there is no use in laying additional burdens upon the companies already burdened, I think, fully under the schedules as they appear.

There are one or two items to which I would like to call special attention. On page 65, for example, you will find there under the heading 'expenses' in No. 10 it asks for 'cash paid for investment expenses (with details).' Now I do not know what is contemplated by this. Does that mean that we are to give a schedule setting forth all the applications that have passed into the companies' hands, with the expenses that are connected with each? It seems to me that the words 'with details' there are intended to mean something of that kind. If the expression does not mean anything then I think that those words 'with details' have no right to be there. Investment expenses could be set forth in bulk, but to furnish details—we are dealing with perhaps 500 or more individual applications for loans each year and to require the details would seem to be putting an unnecessary amount of work upon the company.

Then there is another item here that I do not quite understand but it may be, of course, that it is suggested by what may be the practice of some companies. There is also there 'head office salaries.' You will observe that everything is set forth there that anybody might want to know, whether for faultfinding or for information. Then there is a second item here, 'head office travelling expenses.' I do not know what that means. In the case of my own company, 'head office travelling expenses,' what is that to include? Would that include my expenses coming to Ottawa, for example?

Hon. Mr. FIELDING.—Why not?

Mr. MACDONALD.—Is that to be set forth here?

Hon. Mr. FIELDING.—Not the amount individually paid to you but the amount expended and charged under that heading.

Mr. MACDONALD.—That is as a total?

Hon. Mr. FIELDING.—There is no reason why that should not be shown.

Mr. MACDONALD.—In respect to the head office travelling expenses that would mean, of course I take it, but I do not know whether that would include the superintendent of our branches, I do not know whether that would be included or not—it is only as to what it really does mean here. I think in some places it means allowance for travelling expenses. Then in regard to the note down on page 65, exception is taken to the entry in detail of the salaries of the chief officers of the company unless this is asked from all companies whether home or foreign. In other words, if that is not done it places your Canadian companies at a disadvantage as compared, for example, with the British companies who are operating in this country. If it is to be asked from our Canadian companies we think it ought to be asked also on behalf of the foreign companies as well. We ask for the same treatment as the others.

I do not think it is necessary for me to detain yourself and the committee longer with these matters. I do not know whether any other members of the association desire to say anything, but I would like to take the opportunity, Mr. Chairman, to thank you, and the minister and the members of the committee, for the patient and careful attention, and for the opportunities they have afforded us for the presentation of our case.

Mr. PERLEY.—With the law as it is at present your business is on a 3½ per cent basis?

Mr. MACDONALD.—Yes.

Mr. PERLEY.—Now the money is really earning more than 3½ per cent, and what I am trying to get at is, to whom does the surplus, so-called, belong? In other words, supposing your company were to be wound up to-day, supposing the shareholders in your company were to decide to wind up the company, and it would take you a good many years, to whom does the surplus belong? Would that go to the shareholders when the company was wound up, or would it go to the policyholder?

Mr. MACDONALD.—It must go according to the relative interests. For example, I might explain, Mr. Perley, in regard to sources of profit: in a life company there are three principal sources, there may be incidental sources outside of that, but the sources of profit are, the difference in the rate of interest at which the reserves are accumulated and that obtained from the investments of the company; that is a source of profit. Then another source of profit may arise from the mortality provided for being greater than the mortality experienced, that is the second. The third source of profit may be in the loadings of the total premiums, in excess of the actual expenses. These three, if there is a surplus, form the avenues of profit, and these are simply distributed in the proportion, after you reach the net, of 90 per cent to the policyholder, not less than 90, although in my own company for over twenty years it was 95, but there must not be more than 10 per cent to the shareholders.

Mr. PERLEY.—You give 95 per cent, do you?

Mr. MACDONALD.—We do.

Mr. PERLEY.—That seems plain, but there may be a surplus over and above all liabilities to shareholders and everybody else under the statute. To whom would that belong in case the company were wound up?

Mr. MACDONALD.—I could not tell you now how that would be divided, but I take it would have to be looked into as to what that surplus arose from and we would endeavour to distribute the surplus to the sources from which it accrued, which would possibly be to the policyholders partly and partly to the shareholders. But it would have to be distributed in the same proper and rightful manner as if the profits were distributed in a going concern.

Mr. PERLEY.—Do you think that is quite so; would it not be a matter of law as to whom it would belong, the policyholders or the shareholders—is it not a doubtful question?

Mr. MACDONALD.—I am not able to answer that. As a matter of right I would say that any balance of surplus that properly belonged to the policyholder could not be taken over by the shareholder without the shareholder being held responsible for it.

Mr. NESBITT.—Mr. Perley is pre-supposing an impossible case: is it likely that a company will be winding up if there is a surplus.

Mr. MACDONALD.—There may be that. Of course Mr. Perley's question is a pertinent one.

The CHAIRMAN.—Mr. Sutherland has been waiting for some time for an opportunity to address the committee. Are there any other Canada managers who desire to be heard this morning? We will hear Mr. Sutherland in the meantime and if there are any others who desire to be heard they can come after Mr. Sutherland.

Mr. H. SUTHERLAND (Equity Life).—Mr. Chairman and gentlemen,—I am concerned in the meantime with regard to this Bill only for the reason that I may one of these days wish to do business under a Dominion license, mainly for the reason that the fact that my company is a provincial company is used by other agents to its detriment.

The CHAIRMAN.—What is the name of your company?

Mr. SUTHERLAND.—The Equity Life, working under a provincial license, chartered under letters patent. It is frequently used against my company that it could not qualify to take a Dominion license, that it is not fulfilling the requirements of the Dominion law. Our answer is that we put up in the regular way the full reserve required on a 3½ per cent basis, that we observe every legal requirement that Dominion companies are required to recognize; that the only difference between our status as a provincial company and the status we would require to have as a Dominion company is that we do not have quite as large a deposit with the government as would be required if we were operating under a Dominion license. We do not mind this because it was pointed out by us that the amount deposited by the largest companies is a small matter compared with the amount of their liabilities to the public, that

corresponding to the business that we are transacting our deposits are very much larger than the deposits of most companies, but if we were to undertake to say if this Bill becomes law that we are meeting all the requirements of the Dominion Government or the Dominion Insurance Department, we could not do so. We are doing mainly, in fact exclusively now for some years, a non-participating business. We are doing business amongst total abstainers, almost exclusively, nine-tenths of our business is done amongst total abstainers, and it is a well known fact to all those who have taken any interest in the matter that total abstainers are very high class risks. I have been personally connected with the selection of lives of total abstainers since 1890, with the exception of a couple of years, continuously. The business that has been selected by the medical referee of the company with which I have been associated and by myself, has shown a lower rate of mortality than is shown for a long period of time, so far as I can learn, by any other company anywhere. That being the case and from the fact that we continue to select with the utmost care, and during five years that we have been in business we have been able to pay all our death claims at our very low rates, lower rates than other companies, I think that we are likely to have an experience similar to what other companies have had in total abstainers' business.

Mr. SPROULE.—You do not think five years' sufficient to make a thorough test, do you?

Mr. SUTHERLAND.—Only that it corresponds with the experience of other companies over many years.

Mr. NESBITT.—Wherein does this Bill apply to your company?

Mr. SUTHERLAND.—I might say that we are doing a high class business, charging a premium that does not afford loading for expenses sufficient if we are—

Mr. HARRIS.—Might I' ask you a question, Mr. Sutherland? You are working under a provincial charter?

Mr. SUTHERLAND.—Yes.

Mr. HARRIS.—Do you make any returns to the Dominion government?

Mr. SUTHERLAND.—Not at the present time.

Mr. NESBITT.—Where do you come in under this Bill, then?

Mr. SUTHERLAND.—Only that I do not want it so that a provincial company shall be excluded from getting a Dominion license when it seeks it. I do not want to see any company that may be organized as a non-participating company, barred from getting a charter or being permitted to engage in business.

Mr. HARRIS.—Inasmuch as Mr. Sutherland's company is not under the jurisdiction of the Dominion government, but under the jurisdiction entirely of the provincial government, because he makes no returns to the Dominion government, I do not think he should take up the time of this committee.

The CHAIRMAN.—If there is any particular section of this Act which Mr. Sutherland thinks will interfere with what he purposes doing shortly he should point it out.

Mr. SUTHERLAND.—The section with regard to the limitation of expenses, the loading of the premiums, section 53 provides that no company can use more than the loading on its premiums, whatever that may be for expeness. Now the loading of premiums differs very widely. It differs from practically nothing, or nothing in the case of my own company and many British companies that are doing a non-participating business, to 10 per cent which is the general rate amongst Canadian companies for loading in an non-participating business. The loadings of participating business, as you were told here, varies away up to 30 or more per cent, and it will have the effect, if this is made law, of preventing any company carrying on aggressively business on the non-participating plan. It must simply force the companies into doing a participating business. I think that gentlemen who are managers of other companies will agree with me that it would be impossible to carry on aggressive work in a non-participating business under this Act as it stands with the limita-

tion of expenses. I would make the suggestion that in the non-participating business as pointed out by Mr. Macdonald the profits do not belong to the policyholders—I can show you this opinion of Mr. Kane, as it was secured by Mr. Macaulay in 1906, that there is no reason why the limitation of expenses of non-participating business should be confined to the loadings in the premiums. He points out there that the loadings are very small in all companies for non-participating business, and that there is no loading in many companies. The fact is that all the surplus arising from the saving in mortality and the surplus interest earnings belong to the policyholder at the present time, according to the interpretation of the association, according to Mr. Macdonald's explanation and according to the understanding of all men who are connected with the business. If the surplus belongs to the shareholders of the company it should be legitimately and legally used for expenses by the company for any purpose in connection with the carrying on of its business. I think every person is agreed that under the law any company holding in Canada the reserve required by law and keeping up its capital, is in an absolutely safe position to meet the requirements of all its contracts. If that be the case then the company that can most reduce its expenses by its methods of business and can most reduce its premiums in the company, that can do the greatest good to the greatest number, as suggested by the minister was his purpose in framing the Bill. The greatest good can be done to the greatest number by giving the largest value for their money, and the company that gives the people the largest value for their money is the company that reduces the premiums to the smallest possible point and that spends the least possible amount of money in expenses. Now the stockholders of the company carrying on this business at a very low rate of premium will be anxious not to involve themselves by using any money in such manner that it will put them into bankruptcy.

Mr. NESBITT.—If this gentleman has any amendment to suggest to the Bill I think the committee will be glad to hear it, but I do not think this is the place to advertise any man's company. If we allow them to do that we will be here until next year. I would like the gentleman to get down to his point—get down to business.

Mr. SUTHERLAND.—The main point I wish to make, if I may be permitted to repeat it, is that if the companies doing a participating and non-participating business have both to confine themselves for expenses to the loadings of their premiums, that the money left after the expense fund is consumed is precisely the same in the company that pays profits as in the company that does not pay profits. If that is understood and if I have relief in that matter that is all I ask.

Mr. PERLEY.—What is your suggestion for an amendment?

Mr. SUTHERLAND.—My suggestion is that the profits accruing on non-participating business are legitimately the property of the shareholders of non-participating companies, they are not promised to the policyholders under any circumstances.

Mr. PERLEY.—You want to be allowed to use them?

Mr. SUTHERLAND.—I want to be allowed to use whatever money the company may have on hand over and above the legal reserve for the purpose of pushing business as other companies doing a participating business use their profits.

Mr. PERLEY.—You want to exempt the companies doing simply a non-participating business from that clause?

Mr. SUTHERLAND.—Yes, if that is granted I shall be satisfied. I can comply with every other requirement.

Mr. PERLEY.—I understand there is an American company doing a business of that kind. What do they say about it?

Mr. SUTHERLAND.—That company is doing a different kind of business altogether from what we are doing.

Mr. PERLEY.—But doing an entirely non-participating business?

Mr. SUTHERLAND.—Yes.

Mr. PERLEY.—How do they stand, can they comply with the Act?

Mr. SUTHERLAND.—They charge a considerably higher rate of premium than we charge.

Mr. PERLEY.—Are they able to comply with this Act?

Mr. SUTHERLAND.—I have not looked into their side of the question, and they have other sources of income, from accident business, and other business that we have not got. We do a purely life insurance business and we are doing it on a basis that the other company is not doing it on.

Mr. PERLEY.—I think the point that you want to make is that the companies doing a non-participating business cannot comply with this Act in regard to the limitation of their expenses to the loading. Is that the fact with respect to all the companies or only your own?

Mr. SUTHERLAND.—I am sure of this that it will prevent the possibility of a Canadian company being organized for a purely non-participating business. I state that as my deliberate opinion after careful consideration of the matter. I do not think it is possible for a Canadian company to be organized to do business on that line.

Mr. HARRIS.—You are speaking now of clause 53, have you an amendment to suggest?

Mr. SUTHERLAND.—All I ask is that the limitation to the non-participating business in reference to expenses be struck out.

Mr. HARRIS.—Why not put your amendment in writing?

Mr. SUTHERLAND.—I can put it in writing.

Mr. HARRIS.—It would be much easier for the members of the committee to deal with it if you put your suggestion in writing so that it can be incorporated in the minutes?

Mr. SUTHERLAND.—I will be very glad to do that.

Mr. T. B. MACAULAY.—Mr. Chairman and gentlemen, many sections of this Bill are so very important that I hope we will be pardoned if naturally we wish to make our points very clear. Possibly I may be allowed to refer briefly to the point Mr. Sutherland has made. All our companies admit that a company doing an exclusively non-participating business can hardly expect to live within the expense limitations of this Bill, as proposed. We admit that. In regard to the outside companies referred to by Mr. Perley we have already recommended that a certain amount of relief be given to them, that relief taking the form of no amount being charged for head office expenses. This allowance we consider in the case of the American companies to be in the neighborhood of five per cent. So that we actually have proposed in the case of companies from the United States doing an exclusively non-participating business that a substantial relief be given. There is another point to remember in connection with these outside companies—not one of them is doing an exclusively non-participating business on the ordinary plan. One of them in addition to its life business is doing a large accident business and the others have very large industrial departments. Now, by uniting non-participating branches with these other branches they are able to put so much of their expenses on to those other branches that I think the allowance we propose is quite sufficient for them. But we admit that in the case of a new Canadian company some further allowance ought to be made.

Hon. Mr. FOSTER.—Doing a non-participating business?

Mr. MACAULEY.—Yes, a new Canadian company doing an exclusively non-participating business. The feeling of the sub-committee of the companies that threshed this out was that while we entirely sympathized with Mr. Sutherland's view, the Bill also provides that no Canadian company is to come under this provision of the Act until it is 15 years old. In other words Mr. Sutherland's company, which is five years old, would not come under the restrictions of the Act for ten years, and we thought that before the ten years had passed there would be an opportunity to ask for the change.

Mr. PERLEY.—I suppose you expect to see the Act revised again within ten years?

Mr. MACAULEY.—We thought it is exceedingly likely that some further revision of the Act will be found necessary within ten years, and that there could be time then to discuss Mr. Sutherland's case. It is not that we do not sympathize with his view, but we do not think any action an actual necessity at the present time.

Mr. NESBITT.—Is there any provision for a company doing business as Mr. Sutherland's company is doing it now?

Mr. MACAULEY.—When fifteen years come around it will be entirely reasonable for that company to ask that some special provision be made.

Mr. NESBITT.—But supposing it registered this this year what effect would it have?

Mr. MACAULEY.—It will have ten years of entire freedom still. If you choose to put a clause in to the effect that any Canadian life insurance company doing an exclusively non-participating business, and not doing any accident or industrial business or having any other branch of insurance be exempt from the limitations of the Act with regard to expenses, that would be satisfactory.

Hon. M. FIELDING.—Not exempt from the Act in general, but from this particular section?

Mr. MACAULEY.—Yes; that is to say if it be a Canadian company doing an exclusively non-participating business, and not having any other branch, accident or industrial, for example. If you choose to put that we will all be thoroughly satisfied.

With your permission, Mr. Chairman, I would like to make a few remarks on this section that Mr. Macdonald has just been speaking about, the representation of policyholders. This is a very, very important point, and while Mr. Macdonald dealt with it in a very able manner, I hope you will pardon us on account of its extreme importance, if we elaborate a little. There is of course the general objection to any radical legislation of this kind, which would entirely upset the foundations of the companies' business and change the command and control of the companies into something entirely at variance with their charters, that it is an interference with vested rights. I do not wish to press that point too far, but legislation of such a character as here proposed, would I understand, be entirely unconstitutional in the United States, and I certainly think that we should realize that it is wise to go a little slowly in doing things in Canada which would be unconstitutional in the United States.

There is, sir, however, a great deal to be said in favour of giving policyholders some representation in the control of life insurance companies. The real question is just how far that representation can reasonably and safely be given. It must be remembered that the shareholders formed the company. As Mr. Macdonald said, the shareholders put their money behind the policyholders, they guaranteed and still guarantee all the contracts of the policyholders, and in a great many cases the shareholders have even lost much of their money and, to that extent, have saved the policyholders from loss. A considerable number of these companies would not even be in existence to-day but for the fact that the shareholders put their money behind the policy contracts. Every dollar of the shareholders' money must be lost before the policyholders can lose one cent. The money put in by the stockholders is therefore on an entirely different basis from that put in by the policyholders. Therefore I think there is a limit beyond which the rights of the shareholders should not be unduly interfered with. What does the Bill propose? How far does it go? Sub-section 9 of section 99 says:

'Every person whose life is insured under a participating policy or participating policies of the company for \$1,000 or upwards—— shall be a member of the company and be entitled to attend in person or by proxy at all general meetings of the company.'

Now, I take it, that means that he is not merely a member and entitled to attend at such meetings, but entitled to vote just as if he were a stockholder, with one soli-

tary restriction, that he shall not have the right to vote for shareholder directors. That is absolutely the only restriction proposed in the Bill. He can vote on every other question brought before any meeting. Let us see how that would work in the case of our own company. Our company has 7,000 shares of stock, and every share has a vote; that is that the shareholders, if every one of them should be present or represented by proxy, would have 7,000 votes. We have 80,000 policyholders, and about 70,000 of those would be entitled to vote. There would thus be 70,000 policyholder votes against 7,000 shareholder votes—ten policyholder votes for every shareholder vote. If this Bill passes as it stands, then if all our participating policyholders and all our stockholders were represented at a meeting called under the Act, the policyholders could outvote the shareholders ten to one, and pass any resolution or motion that they might choose. Moreover, gentlemen, our 7,000 share votes are not increasing, while the policyholders' votes are increasing every year, and if it is 10 to 1 now it will not be very long before it will be 20 to 1. I think, sir, you can see the great danger there is of almost absolute confiscation of the shareholders' vested rights granted to them under the charters of the companies.

Supposing for instance that a motion should be introduced cutting down the proportion of profits to be paid to the shareholders from 10 per cent as allowed under the Act, to $2\frac{1}{2}$ or even 1 per cent; suppose that such a motion should be introduced by one of the policyholders, and that all the policyholders should be represented in person or by proxy; they could put it through by 10 to 1, and the shareholders would have no recourse. It is true that the Bill provides that policyholders cannot vote for shareholder directors, but I think in the absence of any express provision to the contrary, the directors, whether elected by the policyholders or by the shareholders, would have to obey the instructions of the general meeting, and if the general meeting were to cut down the profits of the shareholders, or were to pass any other definite resolution, the directors would have no option but to do as they were ordered.

This is a most dangerous situation. I think the least you should do would be to insert a clause either in section 99 or in section 111, absolutely taking away from the policyholders the right to vote on any question which would further affect the vested privileges of the shareholders. Our own company has voluntarily increased the proportion of the policyholders' profits to ninety-five per cent, but I don't think the policyholders should have the right to compel any increase beyond the proportion guaranteed to them by section 111 of the Bill. I would suggest the addition of the following sentence at the end of section 99, subsection 9:—'Policyholders shall have no vote on any motion to increase the proportion of profits accruing to participating policyholders under section 111 of the Act, or to otherwise interfere with the vested interests of the shareholders.'

Now as to the directors themselves. The Bill provides that there shall be eight policyholders' directors and eight shareholders' directors, sixteen in all. Our objection to that is twofold. In the first place we object to sixteen as forming too large a board. Our own board at the present time is nine. If you made the board 16, and required, as provided by the Bill, that a majority be necessary for a quorum, that would mean that you would have to have nine of those directors present at each meeting. That would make the holding of meetings difficult. The board would be too cumbersome. I will tell you exactly how it would work out in practice. A board of nine, like ours, meets every week, every Tuesday. The entire board of directors sits each week, and we have a very full attendance, frequently without a single absence. If you make the board of directors as large as 16, however, you would have by the very force of circumstances, to fall into the American system of having meetings of directors once in three months, and having these directors then appoint special committees, so that practically the whole work of the company would be done, not by the full board, but by the finance committee, the executive committee, and other committees of that kind. By increasing the number of directors, instead of making for efficiency you simply

make it impossible to carry on the business of the companies by frequent meetings of the whole board, and you also make it possible for little cliques to control the affairs of the companies.

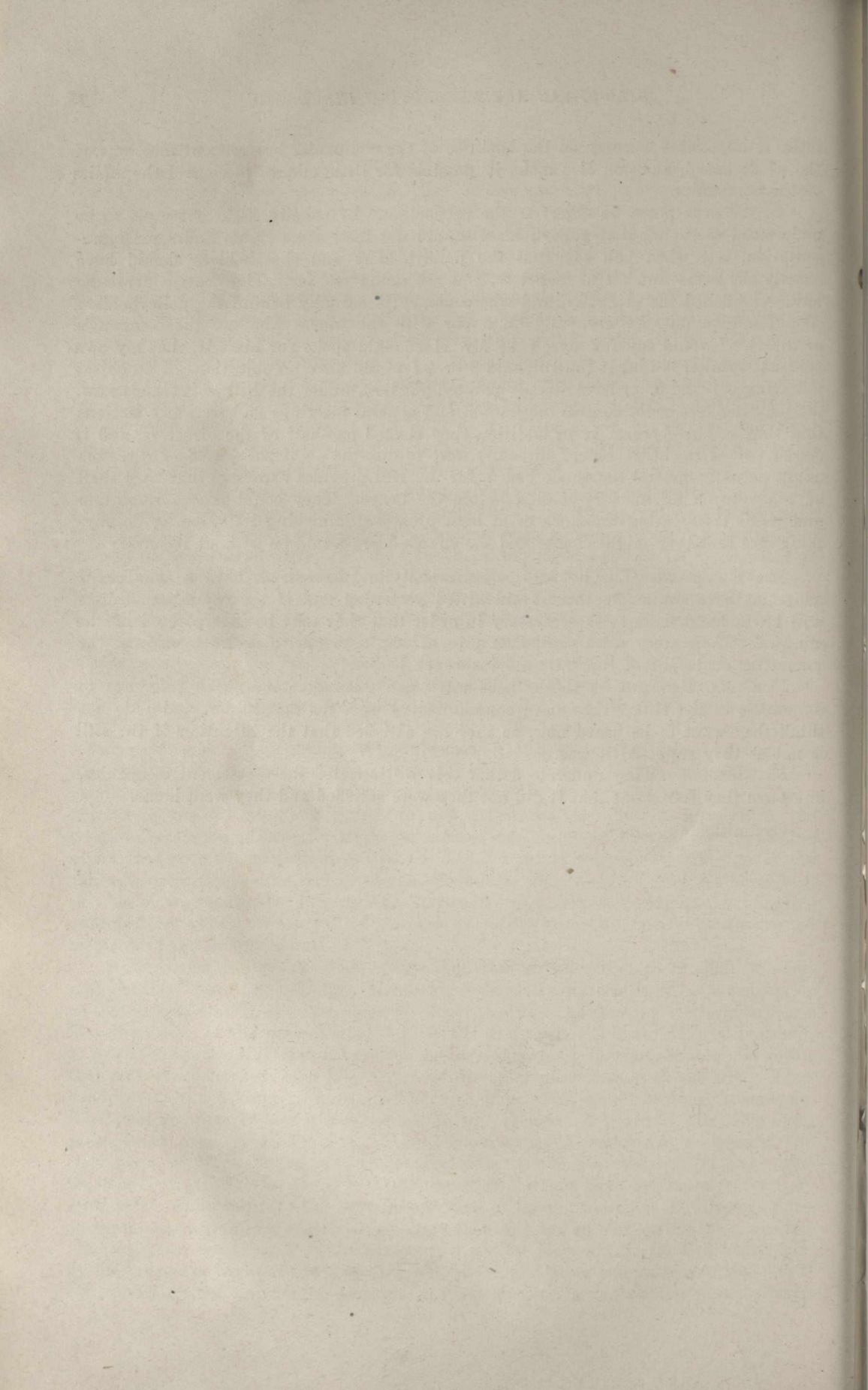
In the next place we object to the proportion. Personally, I do not want to be understood as saying that policyholders should not have some rights and some representation, but when you say that the policyholders and shareholders should have exactly the same number of directors, you are going too far. The shareholders who have established the company, and whose money is actually behind the policyholders, should not be put, we say, only on a par with the others who are the company's creditors. I would say for myself, as Mr. Macdonald spoke for himself, that my own personal opinion is that if the Bill said 8 or 4 I would have no objection. I do object to having it 8 and 8. I have already pointed out how, under the Bill as it stands now, the policyholders could control the annual and general meetings and pass any motions that they might choose. If in addition they elected one-half of the directors, and if one or two of the shareholders' directors were to die, the eight policyholders' directors might actually control the whole board, for the Bill provides expressly that they shall have a vote on all matters coming before the board. They could pass a resolution practically confiscating the stock or at least greatly diminishing its value, or do anything else that they might choose and the shareholders would be without recourse.

The CHAIRMAN.—The hour of adjournment has arrived. I have a number of telegrams here similar to those I submitted yesterday and if the committee thinks well I will hand them to the secretary in order that they may be incorporated in the minutes. There were some gentlemen present who expressed a desire to address the committee on behalf of the fraternal insurance bodies.

Hon. Mr. FIELDING.—I think there was some misunderstanding in reference to something in the Bill. They have communicated with the department and I do not think they want to be heard now, as they are satisfied that the intention of the Bill is not as they supposed it was.

Mr. SPROULE.—They understood that this Bill affected the assessment companies, but when they found out that it did not they were satisfied and they went home.

Committee adjourned.



PROCEEDINGS

OF THE

BANKING AND COMMERCE COMMITTEE

OF THE

HOUSE OF COMMONS

IN CONNECTION WITH

BILL No. 97, AN ACT RESPECTING

INSURANCE

No. 4—MARCH 26, 1909

(Containing the continuation of Mr. Macaulay's address, and the representations and suggestions of Mr. J. E. Kavanagh and Mr. J. H. Brock.)



OTTAWA

PRINTED BY C. H. PARMELEE, PRINTER TO THE KING'S MOST
EXCELLENT MAJESTY

1909

PROCEEDINGS

OF THE

SENATE AND HOUSE OF REPRESENTATIVES

OF THE

STATE OF CONNECTICUT

IN SENATE

REPORT

OF THE

COMMISSIONERS OF THE LAND OFFICE

IN ANSWER TO A RESOLUTION PASSED BY THE SENATE AND HOUSE OF REPRESENTATIVES, MARCH 26, 1869.



1869

PRINTED BY THE STATE PRINTING OFFICE, HARTFORD, CONNECTICUT.

1869

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,

ROOM No. 32,

FRIDAY, March 26, 1909.

The Committee met at 10.30 o'clock, a.m., Mr. Miller, Chairman, presiding.

The CHAIRMAN.—When we adjourned yesterday Mr. Macaulay had the floor. It is proposed that Mr. Kavanagh of the Metropolitan Life, New York, should take the floor first this morning and speak to us shortly in reference to something affecting his own company.

Mr. J. E. KAVANAGH (New York).—Mr. Chairman and Gentlemen: Some objections to the Bill have already been presented to the Canadian Life Officers' Association. I would like to refer to others. Section 15, sub-section 2. It is suggested the words in the second line of this sub-section reading 'not exceeding par' be eliminated and the words in section 20, sub-section 3, and occurring in the last line, reading 'and in no case greater than the par value thereof' be also eliminated.

A security may be worth in the open market considerably more than its par value and it ought to be accepted at a fair valuation. This is particularly true as the government enters into a kind of partnership with the companies, and as it prescribes the character of securities that shall be deposited, it ought to accept them at such a valuation as the government itself would have to pay for them if it was prescribed that it should be the purchasing agent.

Section 20, sub-section 2. It is suggested that the following be added, 'or in one person resident in Canada, jointly with the trust company such as above described.'

Sub-section 4 of this same section 20, we would like amended by replacing it by the following words:—

'Hereafter trustees must be either a trust company such as above described, or a trust company jointly with a person resident in Canada, both such as above described.'

We would also like to have sub-section 3 of section 31 made to read 'half yearly instead of quarterly.'

Section 42, sub-section 4.—We suggest that the following be added after the word 'off' in the third line, viz.: the word 'immediate.' We also suggest that there be added to this section 'that the valuation of deferred annuities there shall be used in the tables of mortality upon which the premium rates have been computed.'

Section 52, sub-section 3.—In the case of a proposed sale or transfer of a company's business, notice must be given to every policy holder (other than industrial policy holders) at least 30 days before the dates appointed for the hearing of the application. In all such cases it is essential that the business be transacted expeditiously before the agents of companies generally become aware that such agreement has been entered into. The consent of the Treasury Board ought to be sufficient to put into effect such an agreement. The Treasury Board would be a better judge of the relative benefit to policyholders by any proposed amalgamation of re-insurance than the policyholders themselves. They have authority to enquire into all the details of such a transaction and to adequately protect the interests of policyholders and, having that power and that information, the consent of the board ought to be all sufficient.

Section 53.—The limitation of expenses. The section as it now stands would drive out of Canada all the companies doing a strictly non-participating business

and would prevent the formation of any Canadian non-participating companies. The suggested amendment to this section made by the Canadian Life Officers' Association if incorporated in the Bill might possibly give a sufficiently large margin for non-participating companies. We would like, however, to have the privilege of submitting our objections to this section, either in writing or directly before the committee should it meet again, if we find that this suggested amendment would not be liberal enough.

Section 89 governing the rebating. We would like the following words inserted after the word 'policy', in the place where the word 'policy' occurs for the first time. 'except that any life insurance company doing business in Canada may issue policies of Life or Endowment Insurance with or without annuities with special rates of premiums less than the usual rates of premiums for such policies to members of labour organizations, lodges, beneficial societies or similar organizations, or employees of one employer, who through their secretary, or employer, may take out insurance in an aggregate of not less than one hundred members, and pay their premiums through such secretary or employer.' I might say that there are several States on the other side where the Insurance Act is being managed, or efforts are being made to have their Acts amended, along this line so that insurance can be virtually sold by wholesale to labour or the fraternal organizations or to employers having a large number of employees. Those are the objections I wished to lay before you

Mr. T. B. MACAULAY.—Mr. Chairman and Gentlemen; Yesterday I began to speak on the question of the representation of policyholders in the management of the companies. I pointed out that this was a very serious interference with the vested rights of the shareholders. On the other hand I admitted frankly that it was perhaps not undesirable that the policyholders should have some voice in the control of the company, but that very great care indeed would have to be exercised in enacting such legislation or grave injustice would be done. I objected to the size of the Board, 16, which is proposed by section 99 of the bill, as being too large. I would like to emphasize what I then said by calling attention to the fact that the bill provides that a majority of the Board shall be a quorum. In other words, nine would have to be present or you could not have a meeting of the Board at all. Such an arrangement would simply have the effect of driving all the companies into working by committees. I heard just lately of one company that had such trouble in getting a quorum of its directors that it only succeeded after a great deal of drumming up in getting enough directors from different parts of the country to come to their Head Office. The only effect however of getting that quorum was that the Board of Directors then assembled simply approved formally of the actions of the various committees extending over the greater part of a year. To have a large Board, and particularly to have a large quorum, would simply make for inefficiency and lack of supervision on the part of the Board as a whole. I suggested that in my personal judgment a Board of eight shareholders' and four policyholders' directors would be much more reasonable, but I would like to say that even if you had a Board of only twelve, the provision (section 99, subsection 12) which requires that a majority be present to form a quorum would call for the presence of seven directors and even that is too large a number. Many directors reside outside the city in which the Head Office is located, the practice of electing outside directors will become more common as time goes on if policyholders control the elections for policyholders will naturally prefer persons with whom they are acquainted locally; and on account of the long distances a quorum of seven, even if you limit the Board to twelve, will be too large. Five is abundantly large enough,

I have already pointed out the dangers that would arise from giving the policyholders with the shareholders an equal voice at annual and special meetings. In our own company the policyholders already outnumber the shareholders ten to one, and they could pass any kind of mandatory resolution and the directors would probably have no option but to comply. An honourable gentleman said to me yesterday that he did not think the shareholders' proportion of the profits would in reality ever be reduced by

action of the policyholders. If you will, however, turn, gentlemen, to section 111 you will find that the wording there is very carefully drawn to define and make clear that the minimum proportion of profits which may be paid to the policyholders shall be 90 per cent, but there is not one solitary word that says that the shareholders are to get the 10 per cent that remains, or that protects the vested interests of the shareholders in any way whatever. The policyholders are absolutely entrenched under section 111; nothing can be done to interfere with their rights; but the shareholders are left without any protection whatever under that clause. The policyholders must not get less than 90 per cent, but the proportion coming to the shareholders is left indefinite and may be anything from 10 per cent to nothing. Then this clause which I have just been referring to, No. 99, specially provides that the policyholders shall be given such control of the companies by their overwhelmingly large vote that they can, if they choose, take away the rights of the shareholders, already defenceless. And if you will pardon my saying so, section 95 then provides the machinery by which the directors and companies can be brought to time, if they do not carry out the behests of the policyholders as contained in the resolutions which may be carried at the general meetings.

Another kind of resolution which you can easily imagine being passed by such a general meeting, is one by which the policyholders could say that a larger proportion of the entire profits should be distributed and that the directors should not retain as large an amount of undivided surplus as a rest or contingency fund, as the directors might, for purposes of safety, consider absolutely necessary. In fact, it is hard to imagine any kind of resolution that could not be passed at such a general meeting of combined policyholders and stockholders. The policyholders as the majority might pass a resolution ordering the directors to do anything at all, and they in fact control the whole policy of the company. I know that was never intended and I do not think that the far-reaching effect of the clause has been realized, but that is exactly how it would work out.

I can, however, imagine some gentleman saying, 'That may be all right in theory, but in practice it will never happen. The policyholders would not take things into their own hands and deal so harshly with the shareholders as you have been picturing.' Under the terms of the bill it is certainly possible that they could do so, but I grant that the statement is correct that it is not very likely that they would actually do so. But why is that so? Simply because the management exercises a certain control, a certain influence, over the agents, and the agents in their turn are able to exercise influence with the policyholders, and would thus usually be able to prevent them from going to extremes. But here is the point: Is it right, or just, or wise that practically the sole safeguard of the interests of the stockholders in a company like this should be the power of the management to usually control the agents, and through the agents' influence the policyholders, and thus prevent them from going to extremes, and doing what under the law they would be fully authorized and entitled to do? It is not right that the stockholders' interests should depend for their safety merely upon the good will of the management, and that all legal safeguards should be practically swept away. Suppose that a manager should become dissatisfied and should want to have some radical changes made which would have the effect of taking away the rights of the stockholders. He could do this in the easiest possible manner. If he were but to throw his influence over to the side of the agents and the stockholders he could get a general meeting to vote anything that he might desire, no matter how confiscatory. Gentlemen, is this right?

Is it right that the stockholders should have no safeguard, no defence, against the practical confiscation of their interests but the good will of the manager? The relations between a large stockholder and the manager may not always be particularly cordial. The interests of the stockholders and the interests of the managers are frequently, in fact usually, far from identical.

But, gentlemen, we now come to what I consider a still more important feature of this section. I think we will all agree, that whether the policyholders should be

given any control in the management of the companies or not, that control should be exercised in an open and above board manner and should be calm and deliberate. I think you will all agree with me that snap judgments, surprises, springing resolutions on meetings that are not expected and that are possibly backed merely by a small minority of policyholders under the control of some one agent or ex-agent or other individual, are things that are for the good of nobody. Yet, gentlemen, section 99 would appear to have been framed with the express purpose of making it possible to spring all kinds of surprises. Take this as an illustration of what might actually happen: Suppose that in Japan, where we do a very large business, our agent or an ex-agent should be dissatisfied for some reason or other or be very ambitious. What is there to prevent him setting to work to get a thousand proxies or a few thousands of proxies. If he was in alliance with some other agents in other sections of the world, that little group could collect an enormous number of proxies. The head office officials would not even know probably that this agent or these agents, were collecting proxies. We would not know what was being done among our policyholders who speak the Japanese language, or Filipino, or Chinese or Hindoo, to say nothing of Spanish, and we do business in all these languages. A man could get together a great bunch of proxies running up into many thousands, come over here to Montreal and at our annual meeting just say 'Here are 5,000 or 10,000 proxies.' He could control that meeting absolutely and we would simply have to submit. We might delay the final vote long enough to check up the proxies and to compare the signatures with those on the applications and so on, but the vote would be there and he would control absolutely that meeting, and could put himself and an associate on the board and pass any resolutions he might introduce and commit the company to any particular policy that he might favour. But you say that under the provisions of the bill this man could only control the policyholders' directors who would be elected at that particular meeting. That is true, but he could control those two and if two very objectionable men were to be put on the Board they would be there for four years before you could get rid of them. That might be very undesirable. If it were the deliberate wish of the majority of the policyholders to put those men on the Board, it would not be so objectionable but what I am arguing against is the possibility of surprises, the possibility of some such action by some ambitious or dissatisfied agents—because we must realize the fact that the policyholders will always be to a large extent controlled by agents. What do people thousands of miles away know about us in Montreal? They do know practically nothing at all. But the local agent is known and if he were to say 'I would like to get proxies' he could usually get all he wanted; they would give him proxies for anything and everything, and anything he might ask for he could as a rule get.

There is furthermore no provision in the Bill requiring that directors who are proposed shall even be nominated. The directors and officers would not even know until the meeting was in actual progress whose names would be brought forward. Sub-section 14 says:—

'No requirement of any bylaw of the company that notice must be given of the intention to move any resolution at any general meeting shall be of any force or validity.'

That extends, I take it, also to the nomination of directors. The Bill is specially framed to encourage the springing of surprises and to permit control of the meetings by individuals or cliques who could keep their actions and intentions quiet until the very day the meeting would be held. I think the very least that should be done is not merely to expunge the regulation that no notice need be given, (sub-section 14), but that a clause to the exact opposite effect should be put in its stead. From thirty to sixty days notice should positively be required of the names of persons whom it is intended to nominate, and an equally long notice also of any resolutions which it may be proposed to introduce. For a company doing exclusively Canadian business thirty days would be long enough, but for a company doing a foreign business, sixty days would be necessary in order to give time to communicate with distant agencies

and get replies. I look on this particular clause as most dangerous and one of those that is most in need of being guarded against. I, myself think that if there were a clause requiring that 30 or 60 days' notice* (as the company may by law decide) before the date of any annual or special meeting, any persons whose names are proposed to be submitted for election as directors should have to be nominated, to the head office and thereafter advertised, that would do away with a great deal of the objection. I think that in the same way 30 or 60 days' notice ought to be required of any motion which it is proposed to introduce, in order to prevent surprises from being sprung.

Hon. Mr. FIELDING.—What do you mean when you say 'and advertised'?

Mr. MACAULAY.—I think, Mr. Fielding, that an arrangement very similar to what is in the Canada Life's Act is very desirable. I have not got the details of the Canada Life's Act with me but if I understand aright they have 6 directors elected by the policyholders and 9 by the stockholders, but the thirty days' notice of all has to be given. The nominations are sent into the company and are then advertised in the *Canada Gazette*, and possibly in a few other papers. Every person then knows what is proposed to be done, and there is not so much chance for schemers, or for surprises being sprung. The same requirement exactly should be applied to resolutions. I may say right here, Mr. Chairman, that like Mr. Macdonald, I have no fear of the policyholders provided they are not given too great a control and provided proper conditions are inserted in the Bill so as to prevent agents, ex-agents I should perhaps say as being more likely, or ambitious or dissatisfied people springing surprises. My suggestion would be to require sufficient notice of nominations and resolutions.

Hon. Mr. FIELDING.—That would apply to the shareholders as well?

Mr. MACAULAY.—Yes, sir; I would make it apply all around. Then another point. Proxies are specially limited to three months. They are not good for more than three months. This takes away another safeguard of the management. My own idea is that proxies should be good for 2 years in exact accordance with the Banking Act. If that were so, there would again be few chances of surprises. If the canvassing for proxies has to be confined to those three months, then it is all the more possible for canvassing to be carried on without the knowledge of the head office, especially at distant agencies. I see no reason why life insurance proxies should be treated differently from those of banks. If two years is a sufficient safeguard in the case of banks it is surely also a sufficient safeguard in the case of life companies.

If you will allow me now to go back for a moment to this other point of the nominations. The safeguard which that would provide is thus: If some undesirable person or undesirable motion were to be given notice of, then the other parties—the management, directors and so on, would have 30 days or 60 days in which to go out and get proxies, and a chance would be given for the real wishes of the policyholders to be shown by proxies being secured by one person, or set of persons, or from one section of the country, but from the general body of policyholders of the company. On the other hand if no objectionable person or motion were proposed, the directors and management would inaugurate a special and very active campaign for proxies they would otherwise have to do each year merely as a precaution against surprises.

Then, Gentlemen, we come to another clause which I consider very objectionable indeed. I refer to sub-section 6 of section 99:

'The manager of the company may be a director of the company, but no agent or paid officer other than the manager shall be eligible to be elected as a director.' Gentlemen, there has, so far as I know, been no evil influence, that I can recollect at any rate, arising from the management being represented on the Boards of any com-

*Since returning to Montreal, this point has been discussed with our directors, who feel strongly that in view of our widely scattered business thirty days is entirely too short for notice of nominations and resolutions, and that sixty days' notice should be required. The whole of thirty days would be consumed in even reaching many of our policyholders by mail.

panies. In the United States, in the investigations there, an evil of exactly the opposite character was very manifest. The evil which was there manifest was that of the unduly large representation on boards of outside financiers, people who had no particular interest in the business of the companies as such, but who wished to exploit them for outside purposes. That was a great evil revealed in the United States, the evil of letting the management get out of the hands of those identified with the companies and with the success of the institutions into the hands of outsiders with outside interests.

Personally I consider that it is in every way very much better that the persons who are identified with the company and in Canada these persons are usually those who actually founded the companies, who brought them into existence and who have brought them to their present positions of size and in most cases of prosperity, those who actually think and breathe so to speak the company with which they are connected, those who consider their company and its interests part of themselves, should be represented on the Boards rather than outside financiers who have no direct interest whatever in the company. I think myself, and it is admitted in the bill that the manager should have a seat on the Board and I also think that the assistant manager of a large company should be considered equally eligible. Every one who knows anything about the business will admit that the actuary is an officer whose presence on the board of any company has almost invariably made for good wherever he has been appointed. Then we have here the case of the medical referee. There are twelve or thirteen companies in Canada whose medical referees are members of the boards, and other companies are considering the desirability of following their example and having the chief medical officer on the board. But this question cannot be settled by naming a mere list of officers. Different companies lay different duties on different officers. In some companies the president is the chief executive officer; in others he is merely the chairman of the board. In some companies the vice-president is an executive officer, while the president is not. In some companies the real manager is not called by that title at all, but is known as the secretary, or, as the actuary. In Great Britain the manager is rarely called by that title, being usually called the actuary, or, less frequently, the secretary. Who are the chief officers of any company, and what titles they possess, depends on the custom of each company, and also largely on the character and capacity of the men themselves. You cannot define by title what men are most suited for election to the board, for there are many special circumstances to consider in each special case, and no general rule can be laid down that will apply to all.

Another aspect of the matter is if there be sixteen directors, then to limit the management to one representative out of sixteen is unreasonable. I think that is an altogether too small a proportion. It leaves the control altogether too much in the hands of persons who are not specially identified with the companies' interests.

Now, if you will pardon me, I will give one or two actual cases which I think teach a lesson. I will refer to the case of the late Israel C. Pierson of New York, a man whom I considered it a privilege to be able to say was one of my friends. He was the actuary of the Washington Life. There were some things done in the Washington Life that were not satisfactory. Mr. Pierson, again and again, to my personal knowledge, made representations to the directors and managers that such and such things were undesirable and would bring trouble, but he was told almost in so many words, 'You are the actuary of the company; you are the servant of the company; mind your own affairs and keep to your own department.' That company got into trouble afterwards from having disregarded the very points that this gentleman drew attention to. Will any person tell me that it was desirable to let outside financiers control that company and that the interests of the company and of its policyholders were served by keeping off the board, a man whose very reputation was at stake and whose living was involved simply because he was an officer? If they had had Mr. Pierson and a few others like him on the board the history of that company might have been very different.

Hon. Mr. FIELDING.—Your argument goes for the abolition of boards altogether.

Mr. MACAULAY.—No, I do not say that.

Hon. Mr. FIELDING.—You simply want the management to control.

Mr. MACAULAY.—No, I do not go as far as that by any means. I do not believe in the control of the companies by the management alone, but I believe in a fair representation of the management upon every board. But there has never been a case in Canada of the management filling the seats on a board or even a very large proportion of such seats. If there are a number of outside men, and there should be, these outside members are really a committee to consult with the management; men who have the power of veto and who have to be consulted. The ideal arrangement is one that is neither controlled too much by the management, nor yet the outsiders. If you will pardon me, Mr. Fielding, I will follow Mr. Pierson's case a little further. The Washington Life illustrates another class of evil. Its stock was controlled by one man or one group of men. That man, or that group, sold the control of the stock of that company to another man down in New York, and as soon as the control of the stock passed what happened? The old officers were all turned out, including Mr. Pierson, a man who stood at the top of his profession, who had been president of the Actuarial Society of America, and who had been specially honoured by being elected president of the great International Congress of Actuaries which met in New York. A man whose character was recognized as of the very highest—this man after faithful service for something like thirty years was turned out in his old age simply because the stock control had passed. Later on, the stock control changed again and even the new management were then turned out.

Hon. Mr. FIELDING.—That was done by the shareholders, I understand?

Mr. MACAULAY.—Yes, by the new shareholders.

Hon. Mr. FIELDING.—That was not done by the policyholders, but by the shareholders?

Mr. MACAULAY.—Yes, that is quite right, Mr. Fielding, but the same thing could happen with companies controlled by policyholders, who in their turn are controlled by agents. Mr. Pierson is dead now; he died in comparative poverty of a broken heart. We have heard of the desirability of the principle of master and servant being made to apply to insurance companies. Do you mean to tell me it was desirable to have that principle carried so far that a man like Mr. Pierson should be prohibited from having a seat on the board of his company? Or that it was to the advantage of the policyholders that he should be deprived of a voice in the management of his company and prevented from protecting their interests? Or that he himself should be prevented from having the little extra stability of office that would come from being a director? The real master in a case like this is the owner of the stock, just as young Hyde controlled the stock of the Equitable. Is it right or wise to permit the owner or owners of the stock to control all the shareholders' directors and have the executive officers limited to one seat out of sixteen, so that could be turned out as servants at any time by this master?

Hon. Mr. FIELDING.—Can that not be done to-day by the Sun Life with any of its officers if you want to do it?

Mr. MACAULAY.—The shareholders could turn out any officers who are not directors.

Hon. Mr. FIELDING.—Where then does it touch the merits of this Bill?

Mr. MACAULAY.—It touches it right here—at present the two officers of the Sun Life are to a certain extent protected by that fact, and why should the Act make any change in these existing conditions?

I will refer to another company, the Provident Savings Life of New York. That is another company that has changed hands. I know the actuary of that, who is one of the finest fellows in the profession. I know too he has had to get out of that company in order to have peace and security. Not long ago, gentlemen, another actuary told me personally, 'Mr. Macaulay, there is one danger in connection with my company that is never absent from my mind, day or night. I am afraid that the control

of the stock of my company may pass into other hands, those others being people connected with some other company, and then I will lose my position right at once.' For the good of that company and for the good of its policyholders, the Act should assist such a man to make his position a little more permanent and not leave him entirely at the mercy of the controller of the stock, who in that case is not even a director of the company. Gentlemen, I think you will agree with me that to carry this principle so far that the person who happens to control the stock—I am speaking of stock just for the moment—shall have the absolute right, acting as master, so to speak, of dominating everything and that the management shall not have the little sense of stability and security that would come from having more than one single seat on the board is wrong. It is very undesirable. If Mr. Pierson had been a director for a four years' term it would have been for the benefit of the policyholders for he would have been kept on the board, and it would also incidentally have given him that little sense of stability which he had a proper right to expect. I grant at once, Mr. Fielding, that a limited representation of policyholders on the board has the good feature that it tends to lessen the danger of absolute control of the stock by one man or one little group of men. Do not counteract that good result by making the hold of the management on the company too weak.

Please do not run away with the idea that policyholders as a body take such a deep interest in a company that they are not themselves subject to control by the agents. Take the case of the Penn Mutual Life of Philadelphia. That company at that time had voting without proxies. Years ago one of their agents in alliance, I rather think, with one other person, persuaded a whole lot of policyholders to run down to the annual meeting in special trains, and he thus got control and simply turned the old management out. The fact is, gentlemen, when you talk about master and servant with insurance companies you are talking about what really hardly applies.

Hon. Mr. FIELDING.—That special train of people could not capture the meeting under this Bill, you know?

Mr. MACAULAY.—No, sir, because proxies are allowed—

Hon. Mr. FIELDING.—They could only turn out a small number of directors at a time. In the case you spoke of you say they turned out the whole management; they could not do that here.

Mr. MACAULAY.—I agree with you; but they could elect the two policyholders' directors retiring that year, and they might put in two very objectionable people, perhaps two ex-agents and these people would be put on the board for four years. That is a pretty long time to have thorns in your side. The four year term acts both ways.

Hon. Mr. FIELDING.—There are some people here that are thorns in our sides but we have to submit to them.

Mr. MACAULAY.—That is quite right, Mr. Fielding, but the elections which send those thorns here are not held in holes and corners and without giving you notice.

Hon. Mr. FIELDING.—Some people say they are.

Mr. SPROULE.—You want to have at least the president, the manager, the actuary and the medical referee on that Board. Now supposing you elect two outside of those then you would have six directors. Then take the number that would be given to the policyholders whether large or small. Would that not just do what you are asking should be done?

Mr. MACAULAY.—Dr. Sproule, I am not asking that these men should be elected, I am just asking that they be not disqualified. There is no company that I know of, in this country, that has done anything approaching what you have said. All I am saying is that they should not be disqualified.

Mr. SPROULE.—I understood you were arguing on the great importance of having them on the board.

Mr. MACAULAY.—I think that a certain number of them, I don't say, all, should be on every board. There is another aspect of the matter. We talk about them as being master and servant. As a matter of fact, any officer who is a stockholder in his

company is a master to that extent, he is a proprietor to that extent, and whether we like it or not, he does occupy the dual position of being a stockholder and an employee at the same time, and we are doing no more than saying that the mere fact shall not disqualify him. I have been arguing along the line that it is not wise to disfranchise these people or disqualify them so that they cannot be elected. The stockholders should be permitted to elect whom they choose. They know who are most suitable, and it is not fair to put restrictions on their choice.

Hon. Mr. FIELDING.—Would you amend that section or strike it out altogether? Mr. Macdonald rather suggested a modification, but I take it, you think it should go out altogether?

Mr. MACAULAY.—In regard to the ordinary head office officials of the company I have no doubt whatever in my mind that the proper thing is to eliminate it altogether. When it comes to dealing with agents I would rather say nothing at all but leave that to the discretion of the committee. I am convinced in my own mind that nothing but harm can come from disqualifying the management and making it weak and at the mercy on the one hand of outside financiers who may control the stock, and on the other hand of agents who are able to control the proxies of the policyholders. A fairly strong management is really very necessary; a weak management is a temptation to people to try and get control and to drive the management out. Now, gentlemen, if you will pardon my making a reference to our own company, I think I will bring it right home. You asked, Mr. Fielding, how this would apply to our own company. Here is how it would apply: At the present time we have 9 directors. Two of these directors are officers of the company, my honoured father the president of the company, and myself. There are no others: What would be the effect of this Bill? Either my father or myself would have to resign from the board.

Hon. Mr. FIELDING.—Not necessarily. Mr. Robertson Macaulay is the president.

Mr. MACAULAY.—He is the president but he is a paid official of the company.

Hon. Mr. FIELDING.—I think we all agree that the president would hardly be in the same position as a subordinate officer. At all events I would have no objection to the president being a salaried officer.

Mr. MACAULAY.—Thank you, that is another important concession. But as it stands now I do not think the Bill would permit that. I do not wish to say anything that is too personal about our own company but the circumstances make it almost necessary. My father took hold of the company in 1874 when it had total assets of about \$100,000—now it has thirty millions; when it had about a million and a half of insurance in force—now it has 120 millions. The company has been created and made by my father, latterly with my assistance. When we talk about master and servant in a case like that the parallel does not apply at all. Such a thing as my father looking upon the Sun Life Assurance Company as the master never has entered his mind, I am safe in saying.

Hon. Mr. FIELDING.—But he is the master.

Mr. MACAULAY.—He has looked upon the Sun Life Assurance Company as a sort of ward that it was his duty and his pleasure to make grow and develop and protect and look after the interests of in every possible way.

Hon. Mr. FIELDING.—All good masters have the same thought.

Mr. MACAULAY.—He has now been with the company for 35 years. He cannot think apart from the Sun Life; it is part of himself; and that illustrates what I say that instead of trying to lessen the already very moderate control that the managements of most of the Canadian companies have, and putting them at the mercy of the controllers of the stock, who are frequently outside financiers, or of agents who control proxies, the true policy should be within limits to strengthen those managements, because the managements are really the bulwarks, the safeguards, of the interests of the policyholders. My father, I can speak of him, has always put the interests of the policyholders first, even ahead of his own interests, and anything

which would have the effect of disqualifying him and causing him to resign will be a great injury to him and a great injury to the company and to the policyholders. Then, too, take my own case, It is only within the last few months that I have been given the title of manager. Prior to that I held the title of secretary only, and yet for many years I have been a director of the company. Was that wrong? Was it objectionable? Why should all future secretaries be prohibited from acting as directors? This illustrates what I have already said that you cannot legislate in a matter of this kind without doing injustice somewhere. There has been no evil hitherto, but this Bill would create evils. Every company must decide these problems for itself, being guided largely by the characteristics of the men who hold the various offices. I earnestly hope, Mr. Chairman, that you will eliminate that clause entirely, at least in regard to the executive officers of the companies.

Hon. Mr. FIELDING.—You have no objection to our hitting the agents if we want to?

Mr. MACAULAY.—The agent is an outsider. He occupies the same kind of position in the way of controlling proxies that the dominating stockholder does. I would like to emphasize right here the particular case of our own company; neither my father nor myself control the stock of our company. The Sun Life is not a one-man company. My father's interest is only about 10 or 12 per cent of the stock, I don't remember exactly, and mine added to it would only make it about 20 per cent. So that there is about 80 per cent of the stock in the hands of other people. The 'masters' of the officials of the Sun Life Company, therefore, are the owners of that 80 per cent of stock, and certainly not either my father or myself.

Mr. SPROULE.—Have you an executive committee or is your company managed through the board?

Mr. MACAULAY.—Our company is managed by the whole board of nine directors, meeting every week. If, however, the board were made to consist of even twelve members I am sure we would have to resort to the committee system.

Now another point, subsection 13 says:—

'Notice of the annual meeting shall be given by printed notice to each of the shareholders and policyholders, mailed at least thirty days before the day for which the meeting is called, to the addresses of the shareholders and policyholders respectively.'

Gentlemen, in our company we have 80,000 policyholders scattered all over the world; policyholders who speak not merely the English language, but French, Spanish and half a dozen other languages. You have no conception of the expense, time and trouble, that would be involved in carrying out that clause. Many thousands of our policyholders are in the tropics, for example, where we have \$32,000,000 of insurance in force. These policyholders live in the West Indies, Mexico, Central America, Peru, Chili, the Hawaiian Islands, the Philippine Islands, Japan, China, Straits Settlements, Siam, India, Burmah, Egypt and other such places, to say nothing of the United States, Great Britain, France, Belgium and Holland. A large proportion of these people do not understand English, and would not understand the notices we sent out to them. Some of them would hardly be considered and practically none of them have any desire to vote, while the expense of sending out notices to them all would be tremendous. The expense of elections of one company in New York under the Armstrong Law, was, if I remember aright, from \$150,000 to \$200,000.

Hon. Mr. FIELDING.—We are not proposing that here.

Mr. MACAULAY.—No, but sending these notices out in the different languages, to all parts of the world would alone involve the employment of a large staff. To send out 80,000 circulars, every one of them addressed separately, is a big item and the expense will run up into thousands of dollars every year, and this would be an expenditure for which there is absolutely no reason.

There is another point. We do not even know the addresses of a large proportion of our policyholders. The addresses given in the applications are frequently rather

general, and for the foreign agencies in particular we make no attempt to keep track of the addresses, using our agents as the channel of communication entirely. My suggestion is that we should adopt the principle laid down in the Canada Life Act, which I think is a very good one, and that instead of sending out circular notices we should advertise in certain papers. Otherwise you would subject the company to many thousand dollars of additional expense for no purpose whatever, only to trouble and possibly even alarm our distant policyholders. I think that is a very unwise clause.

Returning to the question of proxies, Mr. Chairman, I think I made it clear that proxies should be valid for two years the same as under the Bank Act. If a limit of two years is a sufficient protection to the stockholders in our banks I think it is also sufficient protection to the policyholders and stockholders of life insurance companies.

Hon. Mr. FIELDING.—Where is the harm in the provision as it stands in the Bill? That if a man gives a proxy and forgets all about it that the proxy should lapse after a reasonable time?

Mr. MACAULAY.—Yes, after a reasonable time; but I think three months is altogether too short. We are quite willing to agree to two years as in the Banking Act. We agree to the principle but it is in regard to what is a reasonable time that we differ. It would be inconvenient to have a campaign every year among the shareholders and policyholders for proxies.

Mr. SPROULE.—Is not that done now in regard to companies generally?

Mr. MACAULAY.—No, it is not done every year except in a very perfunctory manner. We have had no canvass for proxies in our own company for twenty years. This Bill would necessitate a very active campaign every year, simply as a measure of precaution against surprises.

Mr. NESBITT.—Why should proxies extend over the annual meeting?

Mr. MACAULAY.—For the sole reason that it is difficult to get them within three months, especially from distant agencies.

Mr. NESBITT.—Oh, that is easily done, if you deserve them you can get them.

Mr. MACAULAY.—If this clause goes into effect we will have to make a campaign every year.

Mr. BOYCE.—What will be the object of extending the proxies to two years?

Mr. MACAULAY.—It would make it more difficult for agents who might be actually making their plans quietly in advance, at some distant agency perhaps, getting proxies together and springing a surprise. The longer the time before the annual meeting that the collecting of proxies begins, the more likely we are to learn of the intentions of any agent, or group of agents, or other persons, and the less likely to be taken by surprise.

Mr. BOYCE.—If the proxy is for the annual meeting why should it be extended over that?

Mr. MACAULAY.—Well, it is not usually given for the annual meeting, but on a general form in favour of some person in whom the stockholder or policyholder has confidence. The great point is that everything possible should be done to prevent an agent from secretly collecting proxies during the few weeks before the annual meeting and then coming in at the last moment with a whole lot of proxies and thus controlling the meeting, electing such directors as he likes and passing resolutions settling the policy of the company.

You referred, Mr. Fielding, to the fact that particular companies have allowed their policyholders to have the power of voting or even to have representation on the boards. That is perfectly right, but you will find that they have safeguards. The Canada elects nine shareholders' directors and six policyholders' directors, but notice of nominations and of resolutions is required. On the other hand the Confederation and some other companies permit policyholders to vote but only if they attend in person. As soon as you introduce the proxy element you introduce an element of danger. That is why some companies are willing to give a vote to individual policyholders

just the same as if he were a stockholder, but do not allow such a person to give a proxy.

Hon. Mr. FIELDING.—There is no fear of the vote of the policyholder with the condition that he must go to Toronto and cast it personally; you need have no fear at all in that event because there will be a very small percentage who will go there to vote by proxy.

Mr. MACAULAY.—There is some truth in that. I am not myself advocating this particular plan.

There is a clause which does not affect most of the companies, but which I may be permitted to make reference to, in passing, and that is subsection 17 of section 99.

‘In the case of any company which does not issue participating policies the foregoing provisions of this section shall be read and construed as if the word “participating” were eliminated therefrom.’

Personally I fail to see the reason for giving votes to persons who have no interests in the profits and who are mere creditors. It does not concern us, however.

Now, Mr. Chairman, with your consent I will leave that subject altogether and turn to investments, section 59. The first point to notice is that there is in this section—

Mr. NESBITT.—I would like to suggest that as the Life Officers Association have placed their case before us that this gentleman in speaking take up new matter and not go over ground that has been already covered.

Mr. MACAULAY.—I do not propose to go over the same ground in any way, but there are some matters to which I desire to refer that have not been touched upon at all.

Mr. HARRIS.—You will not introduce anything but new matter?

Mr. MACAULAY.—I will try not to do so, unless it be something that has not been made quite clear, as I certainly do not desire to take up more of the time of the committee than is absolutely necessary. If you will refer to section 59, the first point to notice is that there is no date named when the section shall take effect. In the absence of any such date, I take it that that particular section would go into force the moment the Bill becomes law. What would be the effect of that? It would mean that the companies would be stopped right there in making certain investments to which they might be already committed, investments which are legal under the Act as it now stands, but which will be illegal under the new Act. For example, if you will turn to section 60b, you will find that the debentures or other evidences of indebtedness of any company are limited to those of companies which have been in operation for five years. Under the present Act there is no such limitation. The present Act is wide open on that point. I am speaking now of bonds not secured by mortgage, commonly known as debentures. Therefore, any company which may have committed itself to taking debentures which are legal under the Act as it at present stands, but which would be illegal under this new clause, would be affected.

Hon. Mr. FIELDING.—That is, they would not be allowed to keep on doing it

Mr. MACAULAY.—They would have to stop even if committed to it.

Hon. Mr. FIELDING.—If they have these in their possession there is a clause which provides that they shall have five years to get rid of them, but they must not go out and get any more.

Mr. MACAULAY.—That is exactly so, but the introduction of the new rules would be entirely too sudden and too sharp. The companies should be given a reasonable time to adjust themselves to the new law and to carry out such engagements as they are committed to. If you make the new clause apply immediately you may work very great hardship. This is a very important point. The next subsection, subsection b iii, deals with preferred stocks, and the following one with common stocks. There are restrictions in the Bill on both of these classes of investments which do not apply to them under the existing law. Then, too, under the present law companies operating outside of Canada, but having Canadian charters, like the Sao

Paulo and Mexican companies, count as Canadian securities, while under the new law this will not be the case. Take the case of our own company: we have agreed to take securities of considerable amount, which are to be paid for in instalments during the whole of the balance of this year, and which are legal under the terms of the Act as it at present stands, but which these new restrictions would make illegal.

Hon. Mr. FIELDING.—You have purchased them?

Mr. MACAULAY.—We have agreed to purchase them.

Hon. Mr. FIELDING.—If you actually have purchased them providing they shall be paid for in instalments, I take it that you own them subject to these payments.

Mr. MACAULAY.—Perhaps in one sense we may be considered to own them but I am by no means clear on that point. Not having paid for them yet we have not got them in our possession yet.

Hon. Mr. FIELDING.—If you have purchased these securities then the provision is that you can hold them and dispose of them in five years. If you are only contemplating the purchase then this Act would stop you.

Mr. MACAULAY.—We have definitely agreed to make the purchases and in some cases we have already made some payments. We have taken up some blocks of the securities and not yet taken up others.

Hon. Mr. FIELDING.—I would say in that case that you have purchased them. Wherever you have made a payment that is a purchase.

Mr. MACAULAY.—I am afraid, however, that is a point where we would get into trouble. The question is what will the superintendent say; and what will the courts say? What does the Act say? If a company shall purchase anything which is illegal under the terms of this new Act those securities shall be dropped out of the assets of the company altogether and it shall not be given credit for them at all. That is a terrible penalty. Furthermore if a difference of opinion shall arise as to whether they are legal or not, as for example on this identical point which you have mentioned, whether securities agreed to be purchased but not yet paid for when the Act comes into force, are to be considered as coming under the present Act or under the new Act, the ruling of the superintendent of insurance is practically final and goes into effect until it is reversed by the Exchequer Court. The suggestion of the United companies is that these new investment clauses shall not take effect and become binding on the companies until January 1 next year. That would give us time to readjust all our arrangements and would remove the great danger of complications and disputes with the superintendent and possibly with the Exchequer Court. I think it is only fair. Any other course will assuredly give rise to most serious complications. If you will provide that these investment clauses shall not take effect until January 1 next year, then so far as that goes we will be satisfied. But, Mr. Chairman, the Managers' Association suggested that the matter could be simplified by making the whole Act come into effect on January 1 next. That was Mr. Macdonald's suggestion. There are a whole lot of clauses which this would simplify. Instead of having all these separate clauses go into effect at that time, why not just make the whole Act apply on January 1 and thus simplify the whole question? If, however, you do not see your way to do that then at least provide that this particular section (59) shall only take effect on January 1 next. Take the question of rebating and many other clauses. It is desirable that a little time be allowed to educate agents to the seriousness of rebating under the new Act. There are, moreover, a number of other clauses that it is desirable should not take effect at once. The simplest plan is make the whole Act only apply after January 1 next.

Just a word, Mr. Chairman, in the way of emphasizing the great importance of not restricting any further than is necessary subsections bii, biii and biv of section 60. At the present time there are no restrictions on Canadian securities of these three classes in the present Act. No great evils have arisen so far as I know in regard to the kind of investments companies have made although the classes of investments authorized under the Act have been rather wide. Even if you make eligible debentures of companies which been in existence three years as asked by the companies

instead of five years as proposed in the Bill; the preferred stocks of companies which have been paying dividends for three years instead of five years, as we suggest—in each of these cases you will be imposing a restriction of three years more than the present Act, which provides no such restriction at all and even if you provide that common stock shall have paid dividends for five years as we suggest instead of seven years proposed in the Bill that five years will be five years more than under the present Act. Even with these modifications you will be imposing new and great safeguards. Remember the pitifully small market for Canadian securities that we have in Canada. Take the preferred stocks on the Montreal Stock Exchange. With the exception of a few that are hardly dealt in, the Ogilvie flour mills is practically the only preferred stock listed on the Montreal Exchange that is eligible under this Act. The Bell Telephone preferred is also eligible but is not listed. Then the Canadian common stocks are practically limited, under the terms of the Act, to the Montreal Street Railway, the Toronto Street Railway, the Montreal Light, Heat & Power Company, the Bell Telephone Company and the Canadian Pacific Railway. Now suppose that what was talked about some time ago should actually come to pass, that an amalgamation should take effect between the Montreal Street Railway and Montreal Light, Heat and Power Company; that would at once eliminate two out of the 5, and as the thing stands now we would not for the following seven years have a single common stock of Montreal worth talking about that would be eligible to us except those of the Canadian Pacific Railway and of the Bell Telephone Company.

Hon. Mr. FIELDING.—Each one of these two you mentioned would then be excluded because they would form a new company?

Mr. MACAULAY.—Yes, sir. We are not asking, Mr. Fielding, for anything that is extreme, but just pointing out, in view of the pitifully small and narrow Canadian market for stocks and bonds, that these restrictions should not be made too severe.

Mr. HARRIS.—You seem to have left the impression that the Act as proposed is more restrictive than the present Act?

Mr. MACAULAY.—On that point it is.

Mr. HARRIS.—Your power to invest in stocks, as a matter of fact, under the new Act is much wider than it has been.

Mr. MACAULAY.—It is wider in some points and more narrow in other points, Mr. Harris. On this particular point, the Bill is much more stringent.

Mr. HARRIS.—You mean as to these common stocks?

Mr. MACAULAY.—Yes. The Act as it now stands is that the common stocks of a long list of many kinds of Canadian corporations mentioned in the Act, including practically all that any life company wishes to invest in, are eligible without any restriction whatever.

Mr. HARRIS.—For instance, at the present time the companies are not allowed to invest in Canadian Pacific Railway stock.

Mr. MACAULAY.—I beg your pardon, that is true. There is a special restriction against steam railroads. I was forgetting that, and I will correct my statement in that regard. The Act as it at present stands makes special discrimination against steam railroads, but of every class of corporations mentioned in the Act that is the only one that is restricted.

In regard to preferred stocks again, with the exception of the steam railroads there is no restriction at all in the present Act on investments in either Canada or the United States. Under the Bill it is proposed that that it shall not be legal to invest in these securities unless they have paid dividends for five years—we say that the limit should be three years. The Bill is wider, however, in regard to steam railroads, as you point out, and also in reference to investments outside the Dominion, but in regard to practically all other classes of security it is much more stringent. We think the changes we have suggested in subsections b ii, b iii and b iv of section 60 are very reasonable and we hope they will be granted.

Now, Mr. Chairman, we come to a clause, No. 62, which I look upon as one of the

most important and far-reaching in this Bill. The managers had much difficulty in knowing just exactly what was meant by this section and what was aimed at.

Mr. PERLEY.—Was not this clause fully discussed already?

Mr. MACAULAY.—It was discussed but not fully. In view of the fact that it is of such vital importance, I hope the members will pardon me if I refer to it. The first point to remember is this. The bonds that are issued, and the stocks that are issued, by corporations of every description are, in at least three cases out of four, issued for new construction of some kind. Bonds that are issued for mere renewals of old bonds can almost be left out of consideration, because in the first place they are not numerous, and in the second place they are usually taken up, to a very large extent, by persons who hold the old bonds that are being renewed. Therefore, when talking about bonds and stocks you must recognize that the vast majority of them are for extension works of some kind, either of old corporations or of new corporations. Now, when a corporation decides to issue new bonds it naturally wishes to sell those bonds on as good terms as possible, and it can only do so by being able to sell bonds which carry first mortgage. Most of the existing first mortgage bonds, however, contain a clause that those bonds shall be a mortgage, not only upon the property of the company existing at the time those bonds were issued, but also upon all property which the company might hereafter acquire. Therefore, if the company were to purchase new property, or to extend its line, or add to its plant or works in any way, the existing issue of old bonds outstanding at the time would be a first mortgage upon the whole of such extensions, and the company therefore could not give a first mortgage upon the new work. The common way of getting around that is to incorporate a new company, and to have the additional property bought or the additional work done in the name of the new company. That new company issues its own first mortgage bonds, which are a first mortgage upon the new property, but which also have the security of the old company given to them by the guarantee of the old company endorsed on the bonds. The old company generally owns all the stock of the new company. In this way it is possible to issue bonds which are a first mortgage upon the extension but which also have the security and guarantee of the old company behind them. In fact, notwithstanding that the work is done in the name of a new company, and the bonds issued nominally by a new company, the property is really owned by the old company, the work is really done by the old company, and the bonds are really the bonds of the old company, and not of a new company at all.

This section as it stands says:—

‘62. Except for the bona fide purpose of protecting investments previously made by it no such life insurance company shall, nor shall its directors or officers or any of them on its behalf, under colour of an investment of the company’s funds, in bonds, debentures or other securities, directly or indirectly be employed, concerned or interested in the promotion of any other company, or in the construction or operation of its works.’

What we fear is that if any corporation should undertake to construct an extension of its works, and should issue bonds or other securities for that purpose, in the name of some new company, in the manner I have already explained, or even for that matter, if it should issue further bonds or preferred stock of its own and in its own name, for some new construction or extension, then it will be claimed that if a life company purchases any of such securities it violates this section of the Act. If the proceeds of the bonds or securities purchased goes to the construction of new work, and as I have already said, the proceeds of practically all the bonds purchased by life companies does go in this way to new construction, then it will be claimed that that fact alone is sufficient proof that we are violating this section, and this will be particularly the case if the new work be done nominally in the name of a new company. It will be claimed that we are ‘directly or indirectly, employed, concerned or interested in the promotion of that other company, or in the construction or opera-

tion of its works.' The word 'promotion' is very far-reaching. I turned up the Standard dictionary and the definition given was 'contributing to the development, establishment, increase or influence of, as the promotion of a business enterprise.' You will notice that the word can be interpreted to include not merely new enterprises but enterprises in any stage of their existence, and also to include anything that contributes to the development of such a company, young or old, and of course, all money lent or advanced to any company is supposed to contribute to its development. The word 'promotion' is entirely too broad, too vague, too far-reaching. I will give you an illustration of an actual case in point. The Montreal Light, Heat and Power Company wished to develop their power at the Soulanges Canal and to bring that power to Montreal. They could not give first mortgage bonds upon that extension for the reason I have mentioned, because their outstanding first mortgage bonds would have been a first charge upon it if done in their own name, and they could only do the work through a new company. Therefore, they incorporated the Provincial Light, Heat and Power Company and did the work in the name of that company. Every dollar, however, that was needed for the promotion of that company and for the construction of its works, was found by the sale of bonds of that new company, though those bonds were guaranteed both as to interest and principal by the parent company, and it was only for the purpose of getting around the law and being able to give a first mortgage upon that extension, that the new company was incorporated or promoted at all. We do not want to have any trouble as to the interpretation of this new law, and we therefore ask that this section be made clear so that it can not be construed as prohibiting investments like that. We have had trouble in the past with the Insurance Department and with the Justice Department about the interpretation of the law and do not want any more. We ask that there shall be no ambiguity of any kind in this section. I am sure that it is not your intention to prohibit an investment such as I have mentioned, but you will certainly have to make it clear. No other legislature in the world, so far as I am aware, has inserted such a clause in its insurance act. Mr. Fielding said the intention is to stop the formation of subsidiary companies—all right, we are quite in harmony with that idea, but if that is the idea make it clear and say that it is. I think, myself, that the prohibition to purchase more than twenty per cent of the common stock of any company contained in subsection b iv of section 60, is pretty effectual in preventing the formation of subsidiary companies.

Mr. NESBITT.—I guess the idea is to keep you fellows from using the funds.

Mr. MACAULAY.—That is all right. The Bill already provides that the officers of the company shall be precluded from borrowing. We are quite agreeable to a provision that no insurance company shall loan any of its moneys to the officers. We are quite satisfied with that. No director of our company has ever got a dollar of the company's funds.

Mr. SPROULE.—What about the operations of the Canada Life in that regard; that has been pretty extensively worked.

Mr. MACAULAY.—What we suggested is that 62 shall read:

'Except for the bona fide purpose of protecting investments previously made by it no such life insurance company shall, nor shall its directors, or officers or any of them on its behalf.'

We would then leave out—

'Under colour of an investment of the company's funds, in bonds, debentures or other securities.'

And then we propose that the remainder of the clause shall read:—

'Directly or indirectly be employed, concerned or interested in the formation of any other company.'

Hon. Mr. FIELDING.—'Formation'?

Mr. MACAULAY.—Yes, sir; we think 'formation' is a much better word. 'Promotion' goes entirely too far.

If any life insurance company makes an advance or purchases bonds, the proceeds of which it is intended shall be applied to new construction, surely we should be at liberty to see that the money is actually devoted to the purpose to which it should go. As Mr. Foster pointed out in this committee last year, this clause would absolutely preclude us from taking any steps to see that the money is properly applied to the purpose for which it is given. We ask that it be made very clear that it shall not apply in such a way as to prohibit companies from taking bonds and securities even if the proceeds are intended to be applied for the construction of extension work, either of existing companies or of new companies which are practically parts or divisions of old companies, because their securities are guaranteed by the old company. This clause is one which, if it passes, will be terribly far-reaching in its effects, if not very carefully safeguarded. The very least that should be done is to make clear that this clause shall not be construed to prohibit investments, otherwise legal under the Act, in the securities of companies which are not new, which have been in existence say for a year or more, or which even if they be the securities of new companies are guaranteed by old companies. By far the simplest and most satisfactory plan, however, would be to adopt the phrasology recommended by the united managers. Now, gentlemen, I would like to turn to section 78, which deals with disputes concerning the interpretation of the law with regard to investments. The first clause of 78 provides: that 'the superintendent shall allow as assets only such of the investments of the several companies as are authorized by this Act, or by their Acts of incorporation or by the general Acts applicable to such investments.'

Mr. HARRIS.—Mr. Macdonald offered a substitute amendment to that.

Mr. MACAULAY.—Yes, I am just going to enlarge a little upon it; I will not take more than a minute or two. That is a terrible penalty, gentleman. Suppose that we should invest in a security which our lawyers may have told us was perfectly legal under the Act but which the Superintendent of Insurance may consider illegal—just exactly the same kind of question as arose in regard to the Sao Paulo Company a few years ago, or as could arise in regard to investments made during the balance of this year as we discussed a little while ago, or just for example as could arise in regard to the interpretation of the clause about the preferred stock of the Dominion Coal Company—is that preferred stock legal now or is it not? That company has been paying dividends upon its preferred stock but it recalled that old stock and issued a larger amount of new stock instead. Now is that one continuous stock or must the new stock date from the time it was issued? There are a hundred and one different kinds of disputes that may arise and the penalty is a terrible one. If a company, for example, should have \$500,000 invested in a security which the Superintendent of Insurance may decide to be illegal, what is the result. It is simply dropped right out of the assets and the company is made to appear \$500,000 poorer; it is not to be given any credit. Now our point is this: that before applying such a terrible penalty, the companies ought to have some little chance of appealing not merely to the law, but to the minister or the Treasury Board as men. Even supposing that the Minister of Finance or the Treasury Board should consider, after looking into the matter, that the Superintendent of Insurance was right in his legal interpretation, they might say, 'still it is a case in regard to which there is room for differences of opinion; we will not apply the strict letter of the law but will allow a certain length of time to dispose of those securities,' or something of that kind, and not deal with the case absolutely in so final and drastic a manner. Our opinion is that first of all there should be an appeal to the minister or to the Treasury Board just on a business basis, as man to man, and not merely for the interpretation of the law. That would usually settle the matter because if the Treasury Board or the minister were to say 'We agree with the

superintendent and think you ought to do this or that,' then of course the companies would almost invariably comply cheerfully.

Hon. Mr. FIELDING.—You mean that instead of the class of investment being defined by the law you should leave the whole matter to the judgment of the Treasury Board?

Mr. MACAULAY.—Only when there is a dispute, and only as a first appeal.

Hon. Mr. FIELDING.—That is your argument?

Mr. MACAULAY.—Only when there is a dispute about things of that kind. It is very important that we have some right of appeal from the decision of the superintendent and it ought to be a sort of double appeal, first of all to the minister or the Treasury Board to see whether they back up the superintendent in his decision, and then if they do back him up, the companies would either have to at once fall into line with the decision as they of course usually would, or if they choose to carry it to the extreme they could then refer the matter to the Exchequer Court but not until the question had first been threshed out in a friendly spirit between the Finance Minister or the Treasury Board and the company.

Hon. Mr. FIELDING.—You said a moment ago that you wanted an appeal to the Treasury Board not on the question of law but on the question of the merits of this stock.

Mr. MACAULAY.—No, sir, you misunderstood me. What I meant was as to whether it was a case where that terribly drastic penalty should be put into force or not. The Treasury Board or the minister might say 'We don't think this is a thing that should be pressed.' That would end it. Or they might say, 'This is a point where we think the superintendent's decision is well taken but we do not want to force it to an issue right off. We will make such and such a ruling about getting rid of that stock.'

Hon. Mr. FIELDING.—That is leaving it to the judgment of the Treasury Board instead of defining it by the Act.

Mr. MACAULAY.—Rather than having the security at once thrown out of the company's assets.

Hon. Mr. FIELDING.—It could not be thrown out until after the whole matter had been threshed out.

Mr. MACAULAY.—I beg your pardon, sir; excuse me.

Hon. Mr. FIELDING.—I don't think so.

Mr. MACAULAY.—Subsection 4 provides:

For the purposes of such appeal the superintendent shall at the request of the company interested give a certificate in writing setting forth the ruling appealing from and the reasons therefor, which ruling shall, however, be binding upon the company unless and until reversed or modified by the said court.

Hon. Mr. FIELDING.—That is you could not keep on getting others.

Mr. MACAULAY.—No, sir, I beg your pardon for making the contradiction——

Hon. Mr. FIELDING.—That is all right.

Mr. MACAULAY.—My interpretation of that is——

Hon. Mr. FIELDING.—I think if we grant you an appeal to the court we should await the court's decision.

Mr. MACAULAY.—That is all right. If you do that we will be satisfied.

Hon. Mr. FIELDING.—If we allow you an appeal we should reserve judgment until that appeal is settled.

Mr. MACAULAY.—All right; I accept that, Mr. Fielding.

Hon. Mr. FIELDING.—That will be all right.

Mr. MACAULAY.—Thank you.

Hon. Mr. FIELDING.—We will have to be sure that you hasten the appeal; it would have to be pushed right on.

Mr. MACAULAY.—As quick as you like, we don't mind.

Hon. Mr. FIELDING.—I mean to say it could not be allowed to drag along. If the appeal was going to be held off a long time that would not do. However, we will think over that without committing ourselves to details.

Mr. MACAULAY.—Thank you. Now, Mr. Chairman, turning to section 53. Mr. Macdonald dwelt at considerable length on this and I will not take up the points that he spoke about. However, I would be glad to have you turn to the clause in brackets 'Not exceeding one-fourth of one per cent, out of the mean invested assets in subsection 3. The point I would like to emphasise there is not the question of the sufficiency or otherwise of that allowance for investment expenses because that has been dealt with at length already. I would however strongly emphasize the necessity of that allowance being made a fixed amount; that the words 'Not exceeding' should be scored out and the word 'namely,' or some equivalent word put in so as to make it a fixed and definite amount. If you do not do that there will be friction and differences of opinion to a certainty. For example if you turn to page 65 you will find that the very returns are so framed as to imply that investment expenses are a minor matter, and do not include any of the head office salaries or other general expenses of the company. For instance, on page 65 item 10 'cash paid for investments expenses' is an item by itself, entirely independent of item 11 which is headed 'general expenses' and includes head office salaries, travelling expenses and all other expenses of the company, except taxes and licenses, showing that the intention in that clause is to exclude from investment expenses, all salaries and other head office charges. Moreover, details are asked in regard to investment expenses. Such details cannot really be given. It is impossible to separate salaries, travelling expenses, rents and so on, with absolute definiteness between the insurance departments and the investments departments for the same officer frequently has duties in both departments. A life insurance company consists of two parts; it is an insurance company proper and it is at the same time a large investment company; and you can no more manage the investment part of the business without the proportion of the head office salaries than you could manage a loan and investment company without head office salaries. No loan company could be expected to conduct its operations for only one quarter of one per cent of its invested assets. That would be out of the question. No life company should be expected to manage its investment department under restrictions which no loan or investment company could live under. That aspect of the matter has, however, already been made clear and the point I want to make now is merely that the allowance to be granted should be made very definite. It is possible to even interpret the clause as it at present stands as being nothing more than the commissions paid on mortgages for securing them and such like small items. I beg Mr. Fitzgerald's pardon if I make a reference here. In a letter from the superintendent just a little while ago, a very nice letter with which I am finding no fault whatever, he himself defined investment expenses as being commissions paid on loans and other such small items which are usually charged against interest account. I wrote back and asked whether any proportion of head office salaries and expenditures of that kind could be considered investment expenses, and while he replied very nicely and cordially to the other parts of the letter he ignored that part. I mention this merely to show that if you do not make it clear, you will leave the door open for extreme differences of opinion, and, gentlemen, we want to get on cordially with our Insurance Department, and to have no more differences. And the way to have cordial relations is to make everything quite clear; do not leave room for difference of opinion and on this point the present Bill does do this. My argument is that you make the clause definite, and that you fix the investment expense allowance at the exact one-quarter per cent for bonds and stocks, and at one per cent for other securities, in the way proposed by Mr. Macdonald.

Mr. Macdonald, in dealing with section 53, subsection 4, read another clause as a recommendation of the united managers to the effect that the loadings applicable for expenses should not be considered to be diminished because of any company having in its policies promised larger surrender values than the reserves provided for by this Act. He did not speak to this point; that was part of what he called upon me to speak on. I did not at the time so understand, and therefore said

nothing on it. The position on that point is this. The Act provides, as you know, a definite reserve value or liability on policies, according to a definite basis. Some companies have, however, thought it a wise measure of precaution to assume a lower rate of interest than $3\frac{1}{2}$ per cent, as provided in the Act. They have reasoned that they ought to have a difference of a half of one per cent between the rate assumed by themselves and the rate laid down in the Act as the bare requirement of solvency. Instead of a $3\frac{1}{2}$ per cent reserve, they have therefore assumed a 3 per cent reserve, and have given their policyholders the benefit of that larger reserve by guaranteeing larger surrender values in their policies than those based on the ordinary reserve. Other companies have dealt specially with the question of reserves on deferred profit policies. If we take a group of policies with profits deferred for twenty years we know that the mortality among such of these policies as will continue after the end of the twenty years will be greater than normal. If, for example, you take a thousand persons who insure under whole life or twenty payment life policies with profits deferred to the end of twenty years, then at the end of those twenty years they will all have the option of surrendering their policies for the full cash values, including all accrued profits, and we know from experience that somewhere about 50 per cent of them will take those cash values, and that only the remaining 50 per cent will continue. Every one who, during the twenty years has developed heart disease, kidney disease, paralysis or any other chronic trouble, every one who is an inferior risk—every one of those is going to continue his policy. None of these will drop out. The 500 out of the thousand who will drop out will be the best lives the company has. The mortality among the whole thousand while they are insured in the company is fully provided for by the table named in the Act. The mortality of the 500, however, who will remain in after the 500 good ones will have gone out, will not be sufficiently provided for by that normal table. We know that the mortality among the continuing 500, after the expiration of the twenty years, will be heavy, and the managements of some of the companies have taken what they conceive to be the prudent, conservative course of setting aside the extra reserves on these policies which we know the extra mortality after the end of the twenty years will assuredly require. In my judgment, this is the only safe and proper course, and it has been followed by several companies, our own among others. After doing this, however, we have gone one step further. We said to ourselves that if we were going to set aside those larger reserves which we considered necessary to providing for that extra mortality, then we should also let our policyholders benefit by that decision in the meantime by guaranteeing to them in their policies larger surrender values, which would be based upon those larger reserves. Now, here is the difficulty when it comes to calculating the loadings contained in the premiums, the technical loadings are reduced by the fact that we have set aside those heavier reserves. In calculating our expense allowance under section 53, the amount of our loadings contained in all these premiums would be greatly reduced, solely because of our having promised those larger surrender values, even though the policies were written on exactly the same plans of assurance and called for exactly the same premiums to the very cent as companies which have not been granting those larger surrender values. As a matter of fact, for years back most of the Canadian companies have charged to a cent the same premiums for the same kinds of insurance, and the larger surrender values have not, in the case of our company, for example, been in any way offset by any increase in the premiums. I will explain how the loadings are affected. Supposing the reserve at the end of twenty years is \$400; on some special policy, if the mortality be assumed to be quite normal and not excessive, as is assumed by the mortality table named in the Act. Assume, however, that in order to provide for the extra mortality expected to prevail among those policies that continue after the twenty years, \$450 is the amount that has actually been set aside. The extra \$50 has to come from somewhere, and has to be made up by instalments spread over the twenty years. These annual instalments of in such a case perhaps \$2 per year are taken out of the loadings, and the loadings are technically supposed to be correspondingly reduced. In following this course of

strengthening the company by setting aside these larger but necessary reserves, we have been acting prudently and conservatively. On the other hand, in giving the larger surrender values, we have been acting generously to our policyholders. We never dreamed of the possibility of our actions being made a reason for the limitation of our expenses in years to come. We never had such an idea for a moment. Now, we say it is not fair that those companies which have been more conservative than their fellows in this respect, and which at the same time have been more liberal to their policyholders than the others, should be punished by not being allowed to spend as much in all these future years, as long as any of these existing policies continue on our books, than those companies which were less liberal and less conservative.

The clause that we ask is this: That no company shall have the amount of its loadings diminished by reason of having given these extra surrender values, but that the loadings will be calculated as if the surrender values had been based on the normal reserves. The exact phraseology you will find set forth in the recommendation by the united managers. It would not be fair or right to these companies that have treated their policyholders generously, and to reward those that did the reverse. The amount involved in this is very large; it is a very important clause. In the case of our company it means that we would be penalized to the extent of, approximately, \$83,000 per year.

If you should decide to limit the relief which we ask to policies already existing, that of course would remove most of the objection, but I think it is in the public interest that you should grant the full relief we ask, for all time, just as we have asked it. If you only make the relief apply to existing policies, then if a company continues to give these larger surrender values in the future they do so with the knowledge that they will be punished therefor, that their loadings will be reduced and their expenses limited in consequence. But it is not fair to make a new regulation like this retroactive and to penalize a company because of what it has done in the past. Do not apply it to policies existing at the present time in any case, but if you choose make it apply to the future, and if the companies knowing that do not reduce the amount of the surrender values, then it is all right.

There is one other little point I would like to refer to and I hope the minister will allow me to ask a question in a goodnatured and rather bantering way. Does the government propose to keep the expenses of the Annuity Department within the limits laid down here?

Hon. Mr. FIELDING.—You will have to give notice of that question in writing.

Mr. MACAULAY.—Because I would like to explain a point there. In that case there are absolutely no loadings on these annuity premiums, not one copper of allowance for expenses.

Hon. Mr. FIELDING.—The government is a benevolent institution. We do not expect insurance companies to be the same.

Mr. MACAULAY.—I do not think myself, Mr. Chairman, that this clause 53 should apply to annuities at all. As a matter of fact there is no loading on annuity premiums of any kind. I may mention in passing that the change in the basis for the valuation of annuities laid down in section 42, subsection 4, increases the reserves or liabilities on the annuity contracts of our own company or by just about \$150,000. We make no objection, however, to this change. The rates charged by the company, however, are about one and a quarter per cent less than the net rates on the new basis provided for in this Bill. We cannot increase those premiums sufficiently to provide any loading at all. If we were to increase the premiums sufficiently to provide any loadings on annuity premiums we would simply lose the business. One reason why we cannot raise our rates is because the Canadian government rates are about $2\frac{1}{2}$ per cent lower than the rates we are charging even now. We cannot increase our premiums to provide any loading whatever, and I think this section should not apply to annuity premiums at all. There ought to be a clause exempting annuity premiums entirely from its operation. Very few of our annuities come from Canada in any case. Our company gets

about half a million yearly from annuities but nearly 98 per cent of this comes from outside Canada.

Mr. PERLEY.—What clause is that?

Mr. MACAULAY.—Clause 53. Annuities are included in this. My point, Mr. Perley, is that we receive about half a million dollars of annuity premiums yearly almost exclusively from Europe. Those annuity premiums do not provide one solitary copper of loading for expenses. They cost us an average of perhaps $3\frac{1}{2}$ per cent in commissions and expenses and there is about $1\frac{1}{2}$ per cent of further deficiency on this new basis, so that we are about $4\frac{1}{2}$ per cent out of pocket on this allowance for every annuity we issue. The business is good. The business is profitable with the high rates of interest we can get and yet unless the annuity business be excluded by the addition of a clause to section 53 as for example that 'The restrictions of this section shall not apply to annuity premiums or to expenses directly connected therewith'—if a clause like that were inserted then the annuity business would not be hampered but otherwise all the expense on the annuity business we would have to take out of the allowance for insurance expenses.

Now, Mr. Chairman, we will go to the last part of section 54. I would like to explain the operation this half of that section:—

'All bonuses, prizes and rewards, and all increased or additional commissions or compensation of any sort based upon the volume of any new or renewal business, or upon the aggregate of policies written or paid for, are prohibited.'

Suppose a new agent comes to our company and after consideration we agree to give him a trial. Well, a common form of contract is one like this, we say:—'We will engage you at certain rates of commission.' 'Well,' he replies, 'I am a married man; I need a certain minimum amount to live on.' 'Well, then we will guarantee you a minimum amount, \$1,000 a year perhaps, with the proviso that if you make good you will get the entire excess of commissions beyond that \$1,000. We will guarantee you \$1,000 and give you as much more as you can earn.' Gentlemen, that is a reasonable and proper contract; it is fair to both sides, but it would be prohibited by this clause.

Mr. NESBITT.—Where it is determined in advance?

Mr. MACAULAY.—Yes, sir; whether determined in advance or not. Under that part of clause 54, "All bonuses, prizes and rewards, and all increased or additional commissions or compensations of any sort based upon the volume of any new or renewal business," &c., it would be prohibited. There is additional compensation beyond the salary of \$1,000 based upon the volume of the business that man gets.

Mr. NESBITT.—That agreement would be determined in advance.

Mr. MACAULAY.—But, Mr. Nesbitt, this clause has nothing to do with that. You are referring to the first half of clause 54, but the last half of the clause would absolutely prohibit such a contract.

Mr. J. W. BROCK.—And clause 55 does also.

Mr. MACAULAY.—Yes, clause 55 would also prohibit it because it is a loan or advance. It would be prohibited under both those sections, and yet it is a desirable form of contract.

Mr. NESBITT.—You agree to give the man so much commission to start with and you guarantee him so much. That is all, and that is determined in advance. There is no question about that in my mind.

Mr. MACAULAY.—Yes, it is in advance.

Mr. NESBITT.—It is not additional commission, it is what you agreed to give him in the first place.

Mr. MACAULAY.—But, Mr. Nesbitt, under clause 55 we are prohibited from giving any advance, and then under the last half of clause 54 we are also prohibited from giving any additional remuneration based on the increased volume of business. We would guarantee that man \$1,000 as a minimum, and if he could earn \$1,500, we would give him the extra \$500. That extra \$500 would be an extra amount paid to him because of the increased volume of business and would, therefore, be absolutely illegal

under the terms of clause 54. I think that to prohibit contracts like that is utterly unreasonable. Our recommendation, therefore, is that the last half of clause 54 should be eliminated.

Hon. Mr. EMMERSON.—There is no incentive to action in that case.

Mr. MACAULAY.—That point is well taken. We hold that out as an inducement, because if a man only gets \$1,000, whether he secures much or little business, he is not going to work as hard as if he has the inducement of being able to get an extra amount. It is a proper, fair and reasonable agreement, and should not be prohibited.

Then, in the next place, all bonuses are not bad. Some bonuses are admirable. For example, here is a bonus that our company itself offers and some other companies offer. We hold out to a district manager this proposition: if you can reduce the lapse ratio of your policies in your district so that a larger proportion of them will be renewed than last year, we will give you so much extra. Is not that desirable? It is highly desirable, but it would be prohibited under this section. Then we hold out this kind of inducement also. We say: 'Take your agency as a whole, if you can reduce the expense ratio by paring off here and economizing in the next place and making sure you get the best out of the agents under your management,—if you can reduce the expense ratio of your agency so much, we will give you another bonus.' The fellows work very hard to get those bonuses, and they are desirable. I claim that bonuses of that kind are not only justifiable, but desirable, and should be encouraged.

Then, there is another reason why this part of section 54 should be eliminated. They have a similar clause in the state of New York and what has been the result? A broad clause like that has been interpreted in the various states in a very broad and very arbitrary way, and I wish you could see all those rulings. There is a book published giving the rulings of the American Commissioners of Insurance, interpreting a lot of those clauses. All the arbitrary and unreasonable interpretations made of that identical clause in the United States would surprise you. We don't want a clause like that in our law, which would be a temptation to our Superintendent of Insurance to put some arbitrary and entirely unforeseen interpretation on it—and such a course would be all the more likely to appeal to him when he would have before him these unique interpretations from the United States.

We therefore strongly urge that the last half of section 54 be entirely eliminated, and also that No. 55 be entirely eliminated, as unreasonable from the fact that it prevents any security being taken against renewals for advances. It is in the interests of the company and it is in the interests of the policyholders that that clause also should be eliminated.

With respect to No. 56 we ask a change, but it is only in the way of making it clear, and simplifying it. Now we come to another one, No. 58, that has worked up the agents throughout the country very much, and one, I understand, they want to speak specially about when their turn comes.

Mr. HARRIS.—Do you not think you had better let them speak for themselves?

Mr. MACAULAY.—I will just tell you what our objection is and then they can speak for themselves. We are interested in it also, as managers.

Mr. NESBITT.—You speak from your own standpoint?

Mr. MACAULAY.—I will speak on it from our standpoint:—

'58. No such life insurance company shall make any contract with any director, trustee, officer, employee or servant of the company, save such agents as are employed to solicit insurance, to pay any compensation or reward whatever by way of commissions in respect of the business of the company or any portion thereof.'

The point is this: There are two classes of agents employed by the companies; one is strictly a canvassing agent and the other is a supervising agent who has charge of a whole district. That district manager has dual functions. He is supposed to do a certain amount of canvassing himself, but he is also supposed to manage the agents

in the district under his charge. Now you can easily understand that in a small district the amount of personal canvassing done by such an agent is great. If he has only two, three, or half a dozen agents to look after he has a lot of time on his hands and can do a great deal of personal canvassing. On the other hand, the man who has a very large district with a number of men under him is kept busy looking after the agents under his charge, and has very little time for personal canvassing, and the possibilities of some of them doing much personal canvassing, are very slight. With regard to the man who does practically no canvassing personally, or very little, this clause might be interpreted that such a man was not employed as an agent, to solicit insurance properly speaking, but rather as an agency supervisor.

Mr. NESBITT.—It might be, but is it likely to be interpreted that way?

Mr. MACAULAY.—The agents throughout the country think it would be.

Mr. PERLEY.—All he would have to do would be to solicit one risk.

Mr. NESBITT.—He could talk to himself.

Mr. MACAULAY.—No, but wait. The point is this: Supposing that an agent is employed by a company to solicit applications and to supervise and manage agents, the question comes up is that agent really employed to solicit insurance? The question is, what are that man's real duties? If nineteen-twentieths of his time is given to superintending agents and not to canvassing, is there not great likelihood that the Superintendent of Insurance or a lawyer would say: 'That man is a superintendent and not an agent employed to solicit insurance,' and any agreement by which he will be paid by an overriding commission would be rendered void. We want to have the right to employ an agent on salary to supervise this business if we choose, or we want to have the right to say, 'Instead of paying you a salary we will give you a small overriding commission on all business done by agents in your district, and we will pay you also a commission on what you originate yourself.' We want to be sure there is nothing in this clause that will prevent that. The agents think it will, and if there is a grave doubt about it, as there seems to be, it ought to be made clear.

I understand, Mr. Chairman, that Mr. Brock, of the Great West Company, has to leave to-night for Winnipeg, and would like to speak on some points, and with your permission I will defer the remainder of my remarks on the Bill until he has been heard.

The CHAIRMAN.—Are you through?

Mr. MACAULAY.—I am not through, but I am through for to-night if it is the will of the committee to hear Mr. Brock.

The CHAIRMAN.—Is it the will of the committee to hear Mr. Brock? We will hear Mr. Brock.

Mr. J. H. BROCK, Chief Agent and Managing Director, the Great-West Life Assurance Company:—Mr. Chairman and members of the Committee, I do not intend to take up much of your time or go very much into the details, but there are one or two points I would like to bring to your attention before returning to Winnipeg, as I have come this distance in order to have an opportunity of knowing what this Committee is doing in connection with insurance companies. I would like to call your attention to a particularly obnoxious section, 53, which deals with limitation of expenses. I might call attention in the first instance to the fact that it has been clearly shown to the Committee that this clause could not properly be applied to industrial insurance or non-participating insurance, that it could not properly be applied to annuity premiums, that it could be properly applied to companies giving excess guarantees, that it could not be properly applied to the British companies, that it could not be properly applied to companies doing a combined business of life insurance with accident insurance or industrial insurance. I would like to add one other class of companies that it could not properly be applied to. Mr. Macaulay in his argument has dealt with the matter in a little different way. He has shown that companies giving excess guarantees have their loading for expenses reduced by having higher premium and reserve. Now there are companies, Mr. Chairman, that

the Minister has explained the Act is intended most particularly to develop, in the interests of the majority, companies charging lower premiums. This Act especially hits them, and hits them hard, and as soon as a similar act went into force in the United States it was so strong that it induced that old company, the Mutual Life of New York, to increase its premiums so that it might have additional loadings to enable it to compete with its rivals in the insurance business. While it may seem an anomaly we could have our expenses both for our business and renewals at exactly the same rate, without any change at all, still by writing more new business, our expenses as they are defined under this Act, would be so increased that we would not be able to keep within the limit provided.

You probably are well aware that our renewal business gives us the same loading as our new business; in other words that the loading is put on the premium uniformly every year and gives the same amount of loading as long as the premium is paid. After the first year that loading is for the purpose of allowing for the investments of the general conduct of the business. But in the first year we have to pay the agent's commission, the medical examination fee, and many other expenses, consequently it costs us very much more than the loading the first year and less than the loading in future. So that a company conducting its business entirely within the allowance or well within the allowance that this Act would give, if it would do a vigorous business—which I do not think our Canadian Parliament wants to prevent Canadian companies from doing—it then will find itself hampered by this Act. In other words you ask life insurance companies to step out and at the same time you tie their legs. It does not mean any increased expense at all doing a larger business. One company with 100 to 150 millions of old business in force and the loadings to assist it may very properly do a business of 10, 15 or 20 millions, whereas another company getting its business just as cheaply in every respect and having 20, 30 or 40 millions of business in force is limited and not allowed to vigorously conduct its business so that this class of companies cannot comply with the Act without suffering serious injustice.

Mr. HARRIS.—Had you not better mention the companies that that would leave the Act apply to?

Mr. BROCK.—That would leave just one class of companies, that is the class of companies that have a sufficient loading. In other words that charge high enough premium. You see you have fixed a basis as net cost and anything that is charged over that is loading for the purpose of expenses. Now if a company is able to do its business at a low premium rate and charges a lower premium rate you cut down the item with which they will be able to pay their canvassers and meet their other expenses. You put an arbitrary cost on insurance fixed by the Act. The cost of insurance depends upon the rate of interest earned by the company, not the rate of interest named in the Act; that is purely an assumption. If our business costs us exactly what it is named in the Act we would not practically be dealing with the question of participating policies at all because there would be no surplus to divide. It is because the cost of insurance is less than fixed in the Act that there is a surplus and that we are dealing with the question of participating policyholders. Some companies for instance may be actually fixing their rates on a 4 per cent. rate of interest. The Act compels us to consider a $3\frac{1}{2}$ per cent rate of interest. Yet when the Government adopt a system of deferred annuities, a system they are advertising as in the interest of the country and that we appreciate because we consider it is a good thing for them to do, they find it absolutely impracticable to follow the law they are insisting upon for the insurance companies, and the consequence is they have fixed their rates upon a 4 per cent basis. Many of you do not know that, but it is a fact that they have fixed their deferred annuities on the 4 per cent basis. At the same time they are passing an Act which prevents insurance companies from doing so. We must fix our rates upon a $3\frac{1}{2}$ per cent basis and enter into competition with the government that charges nothing whatsoever for the expense. That practically takes the business away from us altogether. I just wanted to show you how this thing affects the life

companies. I do not want to dwell upon the question any more. It seems to me absolutely clear that the attempt to limit the expenses of a company is interfering with the conduct of business in a way that no business can stand. If in the whole boot and shoe business you come in and limit their expenses in an impracticable manner what are you going to do? Destroy the business probably. The same in every other line of business.

I just want to say a few words as to why the companies should not be interfered with in these details and I think it only fair that representation of the case should be made to this Committee. The reason is this: in the first place we are putting up a reserve that absolutely guarantees the face of the policy. The Insurance authorities will tell you that the reserve we put up is absolutely sufficient to do this in case of the companies earning the lowest rate of interest and therefore much in excess of what is required from the companies earning a much higher rate of interest. In other words putting up to reserve liability an amount on the average far more than sufficient to guarantee the face of the policy. In the next place the capital stock of the company stands between the policyholder and any loss, not simply the paid up capital but also what has not yet been called in. If for any reason there has been any catastrophe the whole capital stock of the company must be paid in and applied on account of the policyholders. In the next place the policyholders and shareholders of a company cannot make any profits unless the expenses are kept down so that a profit may be made. Now this Act comes in and says the participating policyholders shall receive at least 90 per cent of these profits. No company objects to that. That is a model and satisfactory thing. We are entirely in accord with it because it makes it to the interest of the shareholders to see that there is a profit earned and that is an ideal thing. When the natural consequence of the law is to make it in the interest of the parties to evade it, then it is a very bad law. I am entirely in accord with the proposition that shareholders must have a reasonable interest in the profits; and I consider that the serious trouble that occurred with the Equitable of New York was that the Legislature tied them down to an insufficient interest on the capital invested. That had largely in my opinion to do with it. Now then the shareholders do not ask that there shall be no greater proportion of the profit given to the shareholders but that they be restricted in that respect; but they do ask that they be not tied up with policyholders' directors who have no knowledge of the business. It is not because a man is a policyholder that he has any more interest in the other policyholders but he may in fact be a shareholder in a competing company. So the point I wish to make is that having provided for all the restrictions that are necessary to make it absolutely necessary for the company to make a profit and having fixed the amount that the then shareholders may take of this, the shareholders of the company should be held responsible through the directors that they appoint for the management of the affairs of the company. We contend that any interference with their management of the company can be productive of nothing but harm and increased cost. Every little interference here adds to our expense in one shape or another. You cannot manage two companies exactly in the same way, the conditions are different, and yet you want to tie us up and then tell us to make good progress. We cannot do it with so many shackles.

I will say a few words in regard to the deferred dividends. If you interfere with our right to issue policies with deferred dividends you will cut off 25 per cent of the life insurance business, and you will prevent 25 per cent of the class of people who are now insured from making any such provision. It will give them an excuse for not making any provision for the future. In that way the insurance business will be seriously affected and the cost of all our other business will be increased. The effect of restrictions in the United States has already had that effect and the business of the large companies has dropped one-half. They have been doing a cheap business, a term business very largely, such as is not in the interest of the people of Canada nor in our interest to follow, because term insurance means an increasing cost as our

productive capacity decreases. That is a very poor style of business to force the people of Canada into.

I have said a few words about policyholders' directors and it seems to me that the idea of increasing the number of our directors, increasing our expenses by putting in an equal number of policyholders' directors, is not going to be of very much advantage. They are not going to be more honest men because they happen to have a policy in the company, they are not going to be more interested in all the other body of policyholders than the shareholders' directors are because they have no interest in the company at all. Consequently the appointment of policyholders' directors does not in any way secure better management than through the election of shareholders' directors alone. If the Act makes it necessary for that company to make a profit in order that its shareholders should make some money out of their investment, and then secures 90 per cent at least of that profit for the policyholders they are doing all that can possibly be asked of them, and anything else is an injury to the policyholder. Why we are following the American system of legislation is very hard to understand when in the United Kingdom they have an insurance act that has been tried for many years, it was introduced I think in 1870, the act has now been in force for nearly forty years, and it has accomplished the several purposes that are sought to be accomplished by this complicated act that we are introducing here. The Act that Great Britain has now in force, and which has been in operation for so many years, meets the requirements of the best insurance authorities, it meets the requirements of the companies, and it meets the requirements of the policyholders. And I believe that today even though we have followed a wrong course to a certain extent we should, rather than go farther along the line of American legislation, return to the position taken by British legislation and not restrict the companies in connection with matters on which they are the best judges, and in order that the companies may make a profit on their investment, they must manage the business satisfactorily and in the interests of the policyholders.

Mr. NESBITT.—In other words, it is left to competition.

Mr. BROCK.—Leave it to competition, and then with that competition it must leave a profit, and to leave a profit the business must be economically managed and the great mistake is that it is assumed incorrectly when a company is doing a large new business it is necessarily extravagant as compared with the company doing a small business. The company doing a large new business may be getting both new business and attending to old business at less cost than the company doing a small business, and yet to make up an average statement of cost of the business the expense of the company on such an improper basis would appear too high.

Hon. Mr. FIELDING.—The English Act, as you are aware, makes no restriction or limitation whatever, that is the main feature, and you would adopt the policy here that there is no need of legislation with regard to investments.

Mr. BROCK.—They have legislation about investments, but the details of their business are left to them, and they cannot get a license if their business is not properly conducted.

Hon. Mr. FIELDING.—The directors are free to invest as they like?

Mr. BROCK.—No.

Hon. Mr. FIELDING.—Pretty largely; that is the main difference between the English Act and our Act, and they have a great deal of freedom.

Mr. BROCK.—Freedom.

Hon. Mr. FIELDING.—Would you recommend the English Act in that respect, that there be no restrictions upon investments?

Mr. BROCK.—Very largely, if the companies are investing their own money. I may say that you do not go into every detail with the loan companies in regard to the manner in which they loan their money.

Hon. Mr. FIELDING.—We do have restrictions about them.

Mr. BROCK.—But if you provided all sorts of embarrassing conditions and interfered with their freedom in investments you would make stocks of the loan com-

panies worth a great deal less than they are today. The companies guarantee the policyholders investments with their own capital, and they will get no return upon their capital if they do not make a profit on their investments. Nobody will want to hold life insurance company stocks if they are simply to be allowed the average interest. No one will invest money in any business unless he gets some profit out of it. Those who invest their money in a life insurance company will get no profit at all unless the business is managed economically. With the competition we have—with three times as many companies in proportion to population in Canada as there are in the United States or Great Britain, you will see we have great competition. Some of our companies have lost large amounts of their own capital, because of the competition, some of them have had to reinsure in other companies and have lost everything they put up. If in the face of competition a company's business is successful it must be because of the economical management; and because the shareholders have put in a Board who are competent to manage the business. The Government does not guarantee these policyholders, they are guaranteed by the share capital of the company. Yet the Government comes in and is seeking by this bill to interfere with the details of the management which I think is most improper.

Mr. PERLEY.—Please do not talk so much about the Government.

Mr. BROCK.—Well, I suppose the Government must always represent the majority in Parliament and the majority decides these questions.

Mr. PERLEY.—With regard to section 53, 'Limitation of Expenses' which you object to, I notice you have just said that some of the new companies have had to impair their capital. Is not that occasioned by their having abnormal expenses? I understand it has been shown that some of the companies have had very abnormal expenses in connection with their business. Have you any suggestion to make to prevent that?

Mr. BROCK.—Yes, if you will. 'Give them a little more brains,' there is no other way. After all it is the shareholders who are investing their own money, and if they lose they are losing their own money. With regard to abnormal expenses that is not altogether correct. The assumption that the first year's premium is sufficient to pay agents' commissions, medical examinations and the other expense is not correct. The time the company buys its first lead pencil its capital is impaired, it has to charge that as an expense of business, and its first year's premium is not sufficient to pay expenses. So that we have an impairment of capital by Government regulations, and then the Government comes in with an act and says to the shareholder whose capital is guaranteeing the policyholder that if he makes an investment for the purpose of securing that guarantee that he is not to be allowed any interest upon such capital because it is impaired; that cannot be avoided under the government regulations. Again, in order to get over the difficulty arising from the necessary impairment of capital, the shareholders take stock at a premium so that the company may have money at hand out of which to provide the first year's reserve and to meet the demands during the early years of the company's operations. What is the result? By this bill you say to the shareholder, 'Although you have subscribed your stock at a premium, and have put our money in it, you are not to be allowed an interest upon it.' I have never heard of such a ridiculous enactment in my life; I do not know who suggested it, but if they suggested such a thing in connection with the Banking Act or with any other business, I do not think they would be able to get it through—it might not get through the Banking Committee and I hope this will not get through here either. Mr. Macaulay has told you that Canada is the centre of a very large foreign insurance business that affords opportunities to the young man who wants to be something and who wants to do something. It is bringing in a lot of money into the country and we do not want that business interfered with so that it will be no longer possible to go abroad, as our companies have been doing, and bring money into the company. The company I represent has been doing business in North Dakota, and we have been thinking seriously of going into some other states to do business, but if this new law passes we will be deprived of that new business, although we can get it at a satisfactory ex-

pense and can make money out of it, because we cannot spend more than a certain amount of money during the year. Anything that is good, in the way of legislation, we will hold up both hands for, that some requirement is necessary there is no doubt at all, but at the same time, after careful examination of the methods and workings of the British companies and of the operations of the British Act, after spending some time in Great Britain last year, and after consulting some of the most eminent actuaries in the world, I have come to the conclusion that if Canada wants to be progressive in insurance and some other things, they had better follow the English laws, and not follow the American. I think it is about time that we should do a little thinking for ourselves and follow out the experience of the Canadian and British people rather than the kind of legislation that is jumped into by the American people without reasonable consideration and that all intelligent people in the State of New York know now to be a mistake.

Hon. Mr. FIELDING.—How is it if all the intelligent people in the state of New York know it to be a mistake that the Act remains in force?

Mr. BROCK.—All the companies' actuaries and all the independent actuaries have condemned it and it will surely be repealed.

Hon. Mr. FIELDING.—And all the other people of the State are not intelligent?

Mr. BROCK.—They do not understand the business of insurance.

Mr. BICKERDIKE.—The fire insurance people have very few grievances but there are one or two clauses in reference to which they would like to make some amendments, and they are anxious to know on what day next week the Committee will get down to the fire insurance business. I thought it was useless to bring them all here every day as the life insurance men seem to be pretty long-winded.

The CHAIRMAN.—At the next meeting of the Committee Mr. Macaulay will want a short time to complete the presentation of his case. Then some life insurance agents desire to be heard and some of the fire insurance men including Mr. Van Norman of the Equity who has handed in his card this morning. I do not know whether we can complete our work on Tuesday morning or not, if not we will adjourn until the following day. Therefore, if the fire insurance men are here on Tuesday their case may be taken up then and if impossible to reach it they will be given a hearing the following morning.

Mr. BICKERDIKE.—Why not fix Wednesday for fire insurance if that is satisfactory to the Committee? It would be a pity to bring people from Winnipeg, Montreal and other places and then to keep them waiting for three or four days if we can accommodate them by fixing a certain date?

The CHAIRMAN.—It might be possible to hear them on Tuesday.

Mr. NESBITT.—Why not adjourn until Monday?

Mr. AMES.—It will only be possible to give the fire insurance men the latter end of the first morning's sitting which will not enable them to complete their representations. Why not devote Wednesday to the fire insurance representatives?

The CHAIRMAN.—There are some life insurance agents who have been here waiting for two or three days.

Mr. BICKERDIKE.—Why not hear them on Tuesday?

The CHAIRMAN.—It may not be possible to get through on Tuesday but I think the fire insurance men would be safe in coming here on Wednesday.

Hon. Mr. EMMERSON.—Would it not be possible to have a sitting on Monday? Quite a number of Members of this Committee are Members of the Railway Committee and so cannot be here when that Committee is sitting. I cannot possibly attend both committees and there is some very important work before the Railway Committee.

The CHAIRMAN.—I do not think anybody will object to meeting on Monday if all the Members are here.

Hon. Mr. EMMERSON.—They will be all here on Monday.

Hon. Mr. FIELDING.—My experience is that it is very hard to get a meeting on Monday.

Mr. NESBITT.—I move that the Committee adjourn until Monday?

The CHAIRMAN.—Then we will adjourn until Monday at half past ten. In that case the fire insurance men will be safe in coming on Wednesday.

Mr. BICKERDIKE.—I move that Tuesday or Wednesday be fixed for the fire insurance people?

Mr. NESBITT.—Make it Tuesday?

Mr. BICKERDIKE.—I have no objection to Tuesday if satisfactory to the chairman.

Hon. Mr. FIELDING.—I have no objection excepting that when we fix particular times it sometimes works injustice to others who have been waiting day after day.

Mr. BICKERDIKE.—They can come here on Tuesday and if the life insurance men are not through they can be heard on Wednesday.

Hon. Mr. FIELDING.—I think they will be safe in coming on Tuesday.

Mr. NESBITT.—I move that we adjourn until Monday and that the fire insurance men be heard on Tuesday.

Motion agreed to.

Committee adjourned.

PROCEEDINGS

OF THE

BANKING AND COMMERCE COMMITTEE

OF THE

HOUSE OF COMMONS

IN CONNECTION WITH

BILL No. 97, AN ACT RESPECTING

INSURANCE

No. 5—MARCH 29, 1909

(Containing conclusion of Mr. Macaulay's address, and the representations and suggestions made by Mr. B. Hal Brown, Mr. Evans, Mr. Hoover, and Mr. Wright (actuary of Boston).)



OTTAWA

PRINTED BY C. H. PARMELEE, PRINTER TO THE KING'S MOST
EXCELLENT MAJESTY

1909

PROCEEDINGS

OF THE

PARLIAMENTARY AND COMMISSIONERS COMMISSIONERS

OF THE

HOUSE OF COMMONS

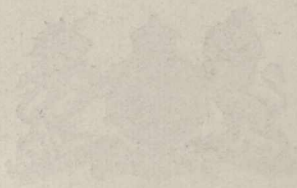
IN PARLIAMENT ASSEMBLED

IN WITNESS WHEREOF

THE SPEAKER

NO. 5-MARION 29, 1900

Printed and Published by the Stationery Office, London.



1900

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1900

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS.

COMMITTEE ROOM, No. 32.

MONDAY, March 29, 1909.

The committee met at 10.30 o'clock a.m., the chairman, Mr. H. H. Miller, presiding.

Mr. T. B. MACAULAY.—Mr. Chairman, there is not one point in this Bill that has hardly been touched on yet and which is of really vital importance. I refer to the regulations regarding deferred profit policies, §§ sections 90 and 94 in particular. The deferred profit question divides itself naturally into two parts, the past and the future—the part that relates to existing policies on that plan, and the question of what will be done in the future in regard to policies on that plan. Now, section 94 deals with the first half of the question, the old policies, the existing policies, and it deals with it by declaring that the companies shall on and after the 1st of January next ascertain and apportion the surplus accrued on such policies and convert it into a definite legal liability. I will read this section:—

'94. From and after the first day of January one thousand nine hundred and ten, every such company shall, in respect of all participating policies issued and in force in Canada on the said first day of January one thousand nine hundred and ten, which provide for the distribution of surplus or profits at less frequent intervals than quinquennially and known as deferred dividend policies, on the 31st day of December in each year, or so soon thereafter as may be practicable, ascertain and apportion quinquennially reckoning from the date of the policies, to each class thereof, the share in such surplus or profits to which such class is equitably entitled, and the total sum of the shares so ascertained and apportioned shall, like the reserve or reinsurance fund, be and constitute a liability of the company, and shall be charged and carried in its accounts accordingly until the same shall have been actually distributed and paid to the policyholders entitled thereto.'

The substance of that is that the surplus earned by the existing policies shall be ascertained and allotted to the various groups of policyholders, and that the amounts so set aside shall thereafter constitute a liability of the company in exactly the same way as the legal reserve on the policies. Remember that the reserves are a legal liability, and if a company does not have its legal reserves on hand it becomes insolvent. It is proposed to convert the existing surplus into that kind of a liability. Now the question was asked by Hon. Mr. Fielding: 'Is that surplus really a liability? Do the companies owe that money?' Now that question can only be settled by a reference to the contracts themselves, and I will read you the phraseology of our own deferred profit policies:—

'This policy is issued on the Reserve Dividend plan—' that is another name for the deferred profit plan, 'a condition of which is as follows:—

'That the reserve dividend period for this policy shall expire on the first day of _____' (twenty years hence this date will usually be):—

'That no dividend shall be considered to have accrued, or shall be apportioned or payable on this policy prior to the expiration of the above Reserve Dividend period, and then only if the assured be at that time alive, and this policy be then in force.'

Mr. HENDERSON.—Suppose he dies at the end of the 19th year, where does that money go?

Mr. MACAULAY.—It remains in the company, and at the end of twenty years whatever profit there may be on hand will be divided among the policyholders.

Mr. HENDERSON.—I cannot see then that it is not a liability.

Mr. MACAULAY.—It is not, because it is not a liability until it is ascertained and distributed, and the policy distinctly states that it shall not be considered to have accrued or be apportioned or become a liability until the end of the term. It is in exactly the same position as all the other surplus of the company which is not divided. It is simply a part of the undivided surplus which belongs to the company as a whole, if you choose. It is part of the company's margin of safety, held unalotted and undivided.

Hon. Mr. EMERSON.—Is it not simply a profit belonging to everyone who is in that class? It is true individuals may drop out, but the survivors of that class would be entitled to a division of it.

Mr. MACAULAY.—It is a fund which, like the whole of the company's funds, belongs in certain proportions to the shareholders and to the policyholders, but it is not a liability.

Hon. Mr. EMMERSON.—I am only asking for information.

Mr. MACAULAY.—That is right, and I want to make the matter clear. It is exactly the same position as the rest, or surplus of the Bank of Montreal. That belongs collectively to the shareholders, but it is not a liability; it is undivided surplus over and above the amounts that they owe.

Hon. Mr. EMMERSON.—Well, is not that a playing on words? Is it not the idea to separate the fund which may or may not be a liability, to deal with it as a trust fund?

Mr. MACAULAY.—I am not denying that it is in a sense a trust fund, but if it is to be considered a legal liability then every dollar the company owns is a liability, every dollar of the company's assets is a liability in exactly the same manner, for every dollar of the company's funds will belong, in its ultimate disposition, to the policyholders and the shareholders.

The CHAIRMAN.—It is something maturing and which when due you will have to pay?

Mr. MACAULAY.—Provided at the end of twenty years we have some surplus on hand.

Mr. FITZGERALD.—That is provided they do not all die in the meantime?

Mr. MACAULAY.—If they all died in the meantime there would be no surplus, for the death claims would not only wipe out the surplus but bankrupt the company. The surplus is payable at the end of the 20 years, but only providing there is then a surplus on hand, and not otherwise. According to the terms of the policies the whole period of twenty years is to be considered as a unit and no surplus is to be apportioned, much less made a legal liability, until the whole twenty years shall have expired. Any excessive losses of any kind occurring in even the nineteenth or twentieth years, can properly be placed against the accumulations of the previous years. It would be absolutely contrary to the conditions of the contract to require that the profits at the end of five, ten, and fifteen years shall be taken out of the surplus account and made a legal liability, for the policies provide that the twenty years shall be treated as an undivided term, so that the entire losses of the entire twenty years shall be placed against the entire profits for the entire twenty years, and the allotment made for the twenty year period as a whole. If any great earthquake should occur, for example, and cause heavy claims on the company through loss of life or heavy losses to the company through the collapse of buildings on which it might have mortgages, or even if there should be a heavy shrinkage in the value of securities as the result of a panic, the company would be in a bad position if its surplus had been allotted and converted into a legal liability.

Hon. Mr. EMMERSON.—Is not this merely identifying the fund, and even if it has never to be paid for the particular purpose for which it was intended because of some calamity, it might go to another purpose. Would you not for that purpose believe in having that fund kept intact?

Mr. MACAULAY.—No, sir.

Mr. HENDERSON.—Put it this way, supposing that in this great calamity you speak of, all the policyholders of that class were wiped out except one; would not the whole fund belong to that one?

Mr. MACAULAY.—There would be no fund left in that case.

Mr. HENDERSON.—It could not be paid until they had reached the tontine period.

Mr. MACAULAY.—There would be no fund left because there would be such losses in the last year that there would be no surplus for any person, and the company itself would not exist. This particular fund is in exactly the same position as all other surplus funds of the company. In our company 95 per cent of the total surplus funds, in the end, belong to the shareholders, but that does not make these funds a liability. If it did, then it would be impossible for a company to have any surplus at all.

Now, under the terms of the policies, this surplus cannot be allotted and cannot be made a liability except by a clear interference with and ignoring of the terms of the contracts themselves. That would be another case of legislation, if you will pardon me for saying so, of legislative interference with contract rights, which, in the United States, would be unconstitutional and illegal. This is a very serious point.

Now the question arises how have they dealt with this identical matter in the United States? What they have done there is, to just require that all profits accruing on such policies up to the time of the passing of the Armstrong law shall not be interfered with at all, not made a liability, but the amount of such funds must be reported each year. The deferred profit surplus has not been made a liability in the United States in any way at all. That is exactly the plan that we propose. We ask that we shall have the same sort of accounting, but we protest against any conversion of surplus into a liability. If you make it a liability, then if any trouble comes along and the companies do not have the amount of those liabilities on hand, there would be the danger of their being put into bankruptcy.

Mr. NESBITT.—You object to its being made a liability?

Mr. MACAULAY.—We object to its being made a liability—the point will be made more clear as I proceed.

Mr. NESBITT.—I think it is clear enough already.

Mr. MACAULAY.—What would be the result of its being made a liability? Every company must have a certain margin of safety for contingencies in conducting its business. If a company were to conduct its business on the basis of having no rest, no margin, no surplus, some calamity might come along, it might have losses on investments, or one hundred and one other things might arise, and if the company had only \$1,000 of assets on hand for every \$1,000 of liability it would have no provision for contingencies and it would go straight into insolvency.

Take the case of what did happen in the largest company in the world last year, 1909, the Mutual Life Insurance Company of New York. At the end of 1906 that company had a surplus of about \$65,000,000 accrued on its deferred profit policies. Under the New York Law that surplus was not made a liability in any way and was therefore available for contingencies. However, besides that \$65,000,000 it had over \$16,000,000 of unallotted surplus from other sources available for contingencies. 1907 was the year of the depression. What happened? At the end of the year 1907 that \$16,000,000 was wiped clean out and roughly speaking \$9,500,000 of the \$65,000,000 was wiped out also.

Hon. Mr. EMMERSON.—By depreciation?

Mr. MACAULAY.—By depreciation in the value of their securities. What would have been the position of the Mutual Life of New York if a law exactly similar to

that proposed in this Bill had been passed in that state? Suppose that sixty-five millions had been made a liability so that the available surplus of the company would then have been reduced to but sixteen millions. That sixteen millions was wiped clean out by depreciation of securities and nine and a half millions more required. If the sixty-five millions had been made a liability it could not have been drawn upon; the company would have been upon the rocks and application might have been made for a receiver. Gentlemen, this is a point of tremendous importance. I don't think you have any right to expect that Canadian companies can comply with a law which would have the effect of imperilling the very existence of the largest company in the world. It is a point of tremendous importance.

Mr. NESBITT.—You think it could not be a shrinking liability?

Mr. MACAULAY.—No, sir.

Mr. HENDERSON.—Suppose these assets should recover in a few years?

Mr. MACAULAY.—Then it is all right. In the case of the Mutual those assets have largely recovered. It was in that one year the company needed the help that came from having a large undivided surplus. The hope that in one, two or three years the market value of the securities might recover would hardly have been sufficient to keep the company out of insolvency in the meantime. Under the system of reporting in the United States and Canada we have to take the market values as they actually exist from year to year and if the values go down and there is nothing to make the deficiency good, we are on the rocks.

Hon. Mr. EMMERSON.—Then your margin of safety disappears.

Mr. MACAULAY.—Exactly. Gentlemen, in the past the companies that have been doing a deferred profit business have been able to keep themselves safe and strong by the mere fact that they have had on hand this unallotted surplus, unallotted and unascertained and available for any contingency that might arise unexpectedly. But if that is to be wiped out then the companies will have no such surplus on hand as a margin of safety, and they would have no alternative but to at once start afresh and bend all their energies to establishing new margins of safety. Take the case of our own company and you will see how it works. Our own company at the present time has a surplus of about \$2,600,000. Of that amount about two millions was contributed by policies on the deferred profit plan. Now if these two millions were constituted a legal liability under this new law, or if even any large proportion of it were made a liability, as proposed in this Bill, what would happen to us. The balance remaining of \$600,000 would be utterly inadequate as a margin for a company with thirty millions of assets. We would feel that we had no option but to set to work at once to establish new margins, and there is only one possible way in which new margins can be established and that is by cutting down the profits which we would pay to our policyholders. There is no other possible way that I know of.

Mr. NESBITT.—What about raising your premiums?

Mr. MACAULAY.—That would apply to the future. We would have to raise our premiums too but that would not apply to the past. We could not raise the premiums on old policies and it would take many years before we would get any material advantage from raising the premiums on new policies. We would have to establish a new margin for contingencies at once; we could not wait for years for it. We would have to make a terrible cut in the profits of our policyholders, and we would deeply regret the necessity for doing this, but, gentlemen, the safety of the companies would have to be considered before anything else. It is true that we would make our policyholders tremendously dissatisfied, but we could not help it. If we were placed in such a position we would simply have to say 'safety first.' It is true that this provision in the law would be artificial and unnatural, and as I have already said, in the United States it would be unconstitutional, but, gentlemen, ships could be wrecked on artificial rocks, just as well as on natural rocks, if any government were unwise enough to build artificial rocks out at sea; and the same is true of companies. We could

not afford to run any risks. If such a law were enacted we would simply have to begin at once to accumulate new margins and, as I say, there is only one way we could do it and that is by cutting down the profits of the policyholders.

How have matters of policyholders worked in the State of New York? There the old surplus on deferred profit policies was not interfered with at all, but companies were prohibited from issuing new policies on that plan. It follows therefore that as there are hardly any of these policies issued for longer periods than 20 years, at the end of that time the whole of the old profit funds of the American companies would be paid out, and the managers of the companies therefore could not but realize that while they at present have those funds on hand as margins for contingencies those funds will soon begin to diminish and before long will disappear, and that they therefore must set to work to establish fresh margins to take the place of those which will in course of time be paid out. They are protected at the present time, but they must look to the future also. In view of this future need, the actuary of one of the largest American companies, speaking at the actuarial Society of America, urged all the companies to reduce the profits payable to their policyholders by twenty five per cent and to apply that twenty-five per cent to the establishment of new contingency funds. In other words, simply because the issuing of new policies on the deferred profit plan is prohibited, the profits of all policyholders of the company have to be reduced by 25 per cent, so that for every \$4 really earned by them, only \$3 will be paid to them, the extra one quarter being set aside by the company as a fund towards establishing new margins for its safety, and that 25 per cent, gentlemen, will be lost to the policyholder forever and absolutely, for it will be retained as a contingency fund for the benefit of the company as a whole for all time to come. But, gentlemen, if a New York company like that finds it necessary, simply because in the course of 20 years their existing margins on old deferred profit policies will be wiped out, to reduce their profits by 25 per cent, what would be the position of our Canadian companies which would not merely have the issue of new deferred profit policies prohibited as in New York but in addition would have their existing surplus on their old deferred profit policies transferred into liability—a handicap from which the New York companies do not suffer? Why, gentlemen, if a 25 per cent cut in profits is necessary in the United States, 50 per cent at least would be necessary in Canada. Gentlemen, this proposed legislation is so far reaching in its effects that you have no conception of where it is going to land you and the policyholders of this country.

I would like to make a parallel here if I may. This clause in the Bill, I am speaking now of section 94, bears a very close resemblance to the retroactive feature of the Insurance Act of 1899. That Act made the basis for the valuation of new policies $3\frac{1}{2}$ per cent. That was all right. It however also made that new basis apply to all the policies already existing which was all wrong. The basis of valuation on old policies was changed from $4\frac{1}{2}$ per cent as previously provided in the law, to $3\frac{1}{2}$ per cent. That was retroactive and was unnecessary and dangerous. The results were exactly what some of us at that time prophesied in this very room. Still that is now a matter of the past. But here we are now facing precisely the same kind of problem in regard to deferred profit policies. Retroactive legislation is again proposed, and retroactive legislation which has even less justification than the legislation of 1899 had. Deal as you like with the future, gentlemen, but pass no retroactive legislation. Nothing but harm can come from disregarding this principle.

Section 94 deals with the past and would turn surplus into liability in exactly the same way as was done in 1899. What happened as a result of that Act of 1899? We all know that the companies in order to comply with the law had to make a very severe cut in their profits. We all know the howl of discontent and protest that went up from the policyholders of this country as the results of that cut in profits which the law had made necessary. And, gentlemen, I venture to say that if this Bill goes through you will have another howl from the policyholders such as will astonish you. No other country in the world followed our example in passing the retroactive legislation of 1899, and no other country in the world has passed legislation such as is

proposed in this section 94 in the way of making accrued deferred profit surplus a liability. I implore you to think seriously before you pass any more retroactive legislation. We have had a lot of trouble in the past; we are having a lot of trouble with policyholders today; and I think that we ought to learn a lesson from the experience we have had and not bring about any more trouble. If you pass this clause I prophesy that you are sowing the seed of trouble such as you do not realize. You will endanger the position of the companies; you will bring about such dissatisfaction among policyholders as will astonish you.

We have had enough trouble with these things, gentlemen.

Mr. MONK.—Is there any restrictive legislation along that line in England?

Mr. MACAULAY.—No, sir.

Mr. MONK.—Isn't that where it is taken from?

Mr. MACAULAY.—This clause, so far as making accrued surplus a liability is concerned, is absolutely original, that is so far as I know. It was first proposed, I think, by our Royal Commission. There is no country, no legislature in the entire world, as far as I am aware, that, has passed such legislation, and, as I say, if it were in the United States such legislation would be unconstitutional.

Hon. Mr. FIELDING.—You are arguing very forcibly that it should not be declared to be a liability, but you have not touched the main question that if it is a liability it should be so stated. Your argument is not that it is not a liability, but that it is very unwise to say it is such. Supposing you show it to be a liability? If it is not a liability what is it?

Mr. MACAULAY.—My main point is that it most emphatically is not a liability, that it simply is not a liability and that it cannot possibly be construed into being a liability except by absolutely ignoring the terms of the contract. It is no more a liability than the surplus of the Bank of Montreal, or of any other financial concern, is a liability. I cannot emphasize that too strongly, that it is only by ignoring the terms of the contracts and changing everything that you can by any possibility construe it as a liability.

Hon. Mr. EMERSON.—It is really in practice not a liability now?

Mr. MACAULAY.—No, sir, it is not a liability now, and the only liability that ever will exist in connection with it is this, that when the twenty years are up, such profits as may then exist shall be divided, but in the meantime there is no liability, and we do not know until the end of the twenty years whether there will be any surplus. To make it a liability now would be simply to court disaster. If you take the case of our own company we are accumulating the funds until the end of twenty years, keeping each group by itself, so that at the end of twenty years all the surplus that may be on hand, at that time, after setting aside all the charges of every kind that may arise during the twenty years, will then be ascertained and distributed. The schedules appended to the Bill call for a statement showing the exact plan on which every company distributes its profits, and that is very desirable.

Now, in regard to the future. I have been dealing with the past, but we now have to deal with the future. Section 90 would prohibit this plan for the future also. That is, of course, entirely separate from the question as to how you should deal with the past.

I do not propose to take up your time by referring to the advantage of this plan, because I dwelt upon this subject at considerable length a year ago. I will say, however, that I consider the deferred profit plan to be by far the finest plan from the standpoint of the policyholder, as well as from the standpoint of the company, that is in existence. It is the plan that I have nearly all my own insurance upon, and it is the plan that I recommend to all my friends as the best. It enables a man to readjust his insurance at the end of twenty years to suit his circumstances as they may then be. He does not know what his health will then be, or what his financial position, or what his family needs may be. At the end of twenty years he can readjust his assurance to meet his needs as they may then exist. It is also a very popular

form of insurance. Seventy per cent of the policies issued by our company are on that plan, although it makes not one cent difference to the agent in commission. It is the plan the public want. It has resulted in a vast increase in the volume of business written throughout the country and to that extent has extended the blessings of life insurance very greatly. It is the only plan which is suitable for companies which are extending their business rapidly. If we were to be content with the slow rate of progress which is satisfactory to British companies, for example, or to a company like the Connecticut Mutual in the United States, the quinquennial plan might suit us all right, but Canada needs more progressive companies, Canada is growing; it is expanding rapidly; and our life insurance companies ought to be allowed to write insurance on some plan that will enable them to keep up with the growth of our own country, with the growth of our Northwest, and there is no plan that will permit this without injustice to old policyholders, except this deferred profits plan. Then it brings in the best class of lives to the company, lives that have a very low mortality and which to that extent increase the profits to the policyholders; it reduces the lapses; it makes the companies safe and strong; it permits the companies to divide their profits more closely and thus enables them to pay larger profits to all their policyholders. I consider it the best plan in existence. At any rate there is no desire to make the plan compulsory; all we ask is that the public be permitted to choose for themselves whether they want it or not. In my judgment to prohibit the plan for the future would be a very great mistake.

I don't want you to think from this, however, gentlemen, that we are opposed to legislation of any kind dealing with the deferred profit business, for the managers themselves have made a recommendation calling for an accounting. We recommend that this fund be not made a liability, but that the companies be required to furnish details in their returns each year showing how it is progressing, and explaining the basis of accounting and allotting followed by them, so as to give the public as much information as possible about these matters, but that very emphatically it should not be made a liability.

Now the recommendation of the companies was that the clause suggested by them should apply to new business only, and that nothing at all be done with the old business. I am not authorized to speak for the united companies any further than that, but I think I would be safe in saying that if it were decided to extend the clause as recommended by the managers not merely to new business but to all business we would have no objection. But if I may now be allowed to speak for myself alone, with the clear understanding that I am committing no other company, I myself would be satisfied, personally, with the following compromise. The vital difference between clause 94 in the Bill and the clause recommended by the insurance companies, is practically just this—we say, 'account for the fund and show what it is but do not make it a liability.' The Bill says, 'account for the fund and make it a liability.' Now, I have put as strongly as I could possibly do in words the reasons why we should not interfere with the past. My suggestion would be to just accept the recommendation of the insurance companies but make it apply to all past business. Be satisfied with an accounting in regard to the past, but do not make it a liability. Any new rule you make should apply to the future only and the companies can then make their plans accordingly and not be taken by surprise. If you choose to make it a liability in regard to future policies I have no serious objection. In other words, apply the companies' recommendation in regard to the old policies, and allow clause 94 in the bill to stand but limit it to new policies. If you do this, you will come pretty close to the mark.

There is one other very important point that I omitted to refer to in my comparison between the present Bill and the Act of 1899. I do not like to bring in the name of any particular company, but perhaps I may be pardoned if I say that the Canada Life was rightly or wrongly criticised very freely for having cut its profits sufficiently to enable it set aside the extra reserves called for by that Act at once, although the

law allowed them fifteen years in which to complete the change. I do not wish to be understood as saying one word of criticism in this connection. I am merely drawing attention to the fact because of its bearing on the present situation. The Act of 1899 was retroactive, like section 94 of this Bill, but it allowed fifteen years for the companies to set aside that extra reserve. What time does this Bill allow? It says, 'From and after the first day of January, 1910, this surplus must be turned into liability. In other words, we have the same retroactive legislation, the same compulsory changing of surplus into liability, with the added condition that instead of fifteen years being allowed to make the change, the change must be made next January—nine months hence.

Mr. NESBITT.—You propose to carry that forward for the old policyholders?

Mr. MACAULAY.—As a surplus, not as a liability, but stating exactly in the returns of each year, how much there is for each group of policies.

Mr. NESBITT.—Just call it surplus to policyholders.

Mr. MACAULAY.—Surplus to policyholders but sub-dividing it into these groups. If, however, you take my suggestion and make clause 94 apply to future business only, there are still one or two points in connection with it that I think ought to be dealt with. The clause there says that you shall apportion to the classes such amounts as they may be equitably entitled to. That is too vague. 'Equitably entitled to' is capable to a hundred different interpretations. One gentleman would say it meant one thing, another gentleman another, and if you leave in the Act such vague expressions as that there is no saying how it will be interpreted or what disputes or lawsuits it may give rise to.

Hon. Mr. EMMERSON.—Who is to interpret the law?

Mr. MACAULAY.—In the past it has always been left to the companies to decide how and what profits are to be distributed. My recommendation is, therefore, that you add after the words 'equitably entitled to,' these further words, 'according to the regulations by the company.' The schedules in the Bill provide that the company shall have to declare what these regulations are. I think specimen figures should be added showing exactly how these regulations work out in actual practice in regard to policies of various ages and durations and on various plans. The public would then know exactly what is being done and what the regulations are. Gentlemen, you cannot take the management of the companies out of the hands of their managers and directors and leave it to such interpretations as may be put on such a vague phrase as 'equitably entitled to.' Make it clear what you mean and the only way you can do that is by saying 'according to the regulations of the company.'

If you accept such suggestions in regard to deferred profit policies, you will of course have to eliminate section 90, and sub-section (e) of 96. You would also have to limit item 3 on page 63 to new policies only, and you would have to limit the scope of sections 92 and 93 to policies not on the deferred profit plan, as the arrangements about bonus additions are inapplicable. Personally I think that there is no reason whatever for such minute and cast iron regulations. There are absolutely unnecessary and simply put the companies into ruts and prevent any variation or further developments. They resemble too much the rules of a grandmother in a kindergarten. There is absolutely no need of them and they should be eliminated. They are practically copied from the notorious Armstrong law of New York and are out of place on British soil.

Gentlemen, that is all I have to say as to the deferred profit plan. My last word is, don't make the terrible mistake of passing any more retroactive legislation.

Now, gentlemen, I wish to draw your attention for a moment to section 89. This is one which has not been referred to at all. I do not think it is the intention that the penalties in both sub-section 1 and sub-section 2 of section 89, should be applicable to an officer of a company who should happen to break the terms of section 88. Yet that is so. Any agent who may give a rebate or break any other of the con-

ditions of section 88 will be liable to a penalty which the Bill defines as being double the amount of the annual premium in respect of which the offence was committed. But the second clause provides as a further penalty that if any director or officer of a company shall violate section 88 he shall be liable to a penalty of \$1,000. If you will examine the phraseology you will see that such an officer would clearly be liable under both clauses and therefore liable for both penalties.

Speaking of rebating, as a manager I do not care how strong you make the clause on this point. I am not going to do any rebating. But this clause 88 goes a great deal further than dealing with mere rebating. It is very much more far reaching than that. Let us thus consider as an illustration one of the many kinds of transactions that would be affected by it. The penalties provided for any violation of the terms of this section (88) are so exceedingly severe, especially upon directors and officers, that we should examine carefully the character of the offences for which the penalties are to be imposed. As you all I have no doubt know it has been a very common practice in the past for life insurance companies to get life insurance in connection with loans they make on mortgage. Many English companies make a specialty of that, and some of them, including some of the most progressive, get a very large proportion of their business in that way. In order to make the matter personal to ourselves, we will suppose that Mr. Barker here, or any person else, applies to our company for a mortgage of \$10,000 upon property of ample security and in every way satisfactory. He asks 'what is the rate of interest'? We say '6 per cent', He says 'Well, Mr. Macaulay, I am willing to take out a policy of \$10,000 in connection with this loan and assign it to you as additional security. What rate of interest will you charge me if I do that'? Perhaps forgetting all about the law, not thinking of it for a moment, the manager replies 'if you do that we will make it $5\frac{1}{2}$ per cent.' He knows that it is a good proposition to secure a policy of \$10,000 with a premium of say \$500, by merely making the rate of interest $5\frac{1}{2}$. But by making that arrangement he has broken the law. Some person hears of it and knows that under sub-section 3 of 89, he will get half of all the penalties. If the board of directors as a whole agrees to this arrangement, and the minute book could be called for to prove that they did so, then each of the directors also would be liable for the penalty of \$1,000 and in addition a fine equal to double the premium, half of all the amounts recovered to go to this informer. The law would be invoked and that manager and those directors would be liable.

Hon. Mr. FIELDING.—It is only that you had charged a half per cent too much in the beginning, that is all.

Mr. MACAULAY.—Here is what the Bill says:

Nor shall any such company or officer, agent, solicitor or representative thereof pay, allow or give, or offer to pay, allow or give, directly or indirectly, as inducement to insure any valuable consideration or inducement whatever not specified in the contract of insurance.'

Such a case as I have described would I think certainly come under the terms of such a law. Suppose that the premium was \$500; the manager would be immediately made liable for double that sum under the first sub-section of 89. Then under sub-section 2 there would be another \$1,000 because the person who had violated the law was the manager, which would make \$2,000 altogether, one-half of which would go to the informer. The directors also, each of them, would be liable for a similar fine if the case had been passed upon by them at one of their board meetings. I mention this merely to show you the exceedingly slippery places in which the managers and directors are being put under the terms of this Bill,—how easy it will be for them to thoughtlessly or ignorantly violate the terms of section 88, and how terribly severe are the penalties imposed by section 89.

Mr. NESBITT.—Under the Bill could you not advertise or arrange in advance that

borrowers who do not take insurance will pay six per cent, while those who take insurance will pay five and a-half per cent.

Mr. MACAULAY.—The mere statement of such an offer would make a manager liable immediately for the whole amount. The Bill prohibits officers from even offering any inducement to insure.

Mr. NESBITT.—I don't believe that.

Mr. MACAULAY.—That would be offering him a valuable consideration or inducement not specified in the contract of insurance. A difference of a half per cent is certainly a valuable consideration.

Mr. BARKER.—Not if he made such a proposition bona fide.

Mr. MACAULAY.—Yes, I think so.

Hon. Mr. FIELDING.—Not if the arrangement made to reduce the rate of interest was an honest one, and not merely a colourable transaction.

Mr. MACAULAY.—Suppose we were to do what Mr. Nesbitt says and make the rate of interest to persons taking insurance $5\frac{1}{2}$ per cent, and to persons not taking insurance, 6 per cent. An arrangement of that kind under this clause would be liable to a penalty of \$1,000, and double the premium.

The CHAIRMAN.—You are offering one rate of interest on one security and another rate of interest on another security?

Mr. NESBITT.—I should think that would be right.

Mr. MACAULAY.—I assure you that I do not think that any court in this country would take that view of the case.

Hon. Mr. FIELDING.—How would you remedy that, have you any suggestion to make?

Mr. MACAULAY.—Yes, sir, I have. I could give you many other illustrations showing how exceedingly difficult it would be for the managers and the directors too, to not run up against the terms of section 88 in some way or other. We would have to keep our eyes very wide open all the time, and to be on our guard at every turn, otherwise we would be inadvertently violating some provision of this clause.

The CHAIRMAN.—I suppose that is what the clause is there for, to make you sit up.

Mr. MACAULAY.—If you will pardon me, Mr. Chairman, I think it will make some other people also sit up as well as the managers. Do you realize that if such a bargain as I have described were made, Mr. Barker also for example would have to pay a \$1,000 fine? I hope Mr. Barker will pardon me for making use of his name but I want to make a personal application. Section 88 does not merely prohibit any violation of its terms by an agent or a company; there is another provision: 'Nor shall any person knowingly receive as such inducement any such rebate of premium or other such special favour, advantage, benefit, consideration or inducement.' Well a reduction in the rate of interest is certainly some kind of a special favour, advantage, benefit, consideration or inducement. Any violation of the terms of section 88, therefore, renders not merely the giver but the receiver liable to a penalty equal to double the amount of the premium, and if the premium were \$500 that would mean a penalty of \$1,000 imposed on the person receiving the advantage of the reduction in the rate of interest, one-half of the fine to go to the informer. This brings the question right home to yourselves, gentlemen.

I would like to draw attention to another point. While the provisions of the Bill are exceedingly severe on the managers and directors of Canadian companies, the managers and directors of companies located in the United States can make all such bargains as I have described to their hearts' content and be absolutely free because our law of course cannot reach them.

Now, my first suggestion is that the penalty of \$1,000 in addition to the other penalties is entirely too severe upon officers and directors. They should not be thus discriminated against. I assure you that the managers are not going to give rebates; I am not afraid of that. Most of us when we looked at this Bill at first, thought of

the special \$1,000 fine as a penalty on rebating and we were inclined to say that we did not care how heavy the penalty was made. But when we find that it applies to a multitude of other contingencies of which the one I have spoken of is merely an illustration, and when we realize how exceedingly careful we will have to be in regard to every detail of the business or we find ourselves in difficulties, this terribly severe penalty takes on a different aspect entirely. My first suggestion, therefore, is that the discrimination against the managers and directors be done away with, and that subsections 1 and 2 of section 89 be combined, by inserting after the words 'preceding section' in the second line of the first clause of section 89, practically the whole of the second sub-section as follows:—

'And each and every director or manager or other officer of any life insurance company within the legislative jurisdiction of the Parliament of Canada or licensed under the Insurance Act to carry on the business of life insurance who knowingly consents to or permits such violation by any agent, officer, employee or servant of the company.'

And then go on with the balance of the first sub-section, 'shall for a first offence, &c.' The effect of that would be to let the penalties which are applied to the agents apply to the managers or to the directors if they do the same as the agent, or if they knowingly consent to any such violation, and that I think is all that can with any reasonableness whatever, be asked of the managers or directors.

Even, however, if you remove the special discrimination against directors and managers, I think most of you will consider that it would be unjust to make directors and officers liable for even the penalties imposed by sub-section one, for no greater offence than making a reasonable reduction in the rate of interest because of life insurance being given in connection with a loan. The best way that I can suggest of dealing with the matter is to eliminate the clause 'not specified in the contract of insurance' in the second line of page 33, and to substitute therefor the words 'intended to be in the nature of a rebate of premium.' My object is to so frame the clause as to limit its operation to cases that are really rebates of premium, or mere attempts to get around the law, and I think the phrase I have suggested would probably do this. The object to be kept in mind in framing any words that would be inserted at this point would have to be of limiting the operation of the clause rather than extending its scope, for there are ten difficulties that will arise from extending its scope for every one that will arise from limiting it.

If we now turn to the first five lines of section 88, we will find that discrimination is prohibited in regard to four things—premiums, any return of premiums, dividends, other benefits payable on the policy. The prohibition in regard to discrimination as to premiums and to dividends is unquestionably sound and proper. The extension of the prohibition to the other point is, however, apt to give rise to difficulties. The phrase 'Return of premiums,' is intended to cover, I presume, surrender values principally. Suppose that one of you gentlemen has a policy of \$2,000 on his life, and is not quite satisfied with the plan of insurance, and desires to increase the amount to \$10,000, and to change the plan. It is the usual practice of insurance companies to not allow the full reserve on a policy as surrender value. We usually deduct a percentage as a penalty for dropping out, and to make up for the loss his retirement would cause the company. In such a case as I have mentioned, however, we would consider it entirely proper to not deduct the charge in question but to allow the full reserve on the old policy as a credit against the new policy, and not to do so would in fact be an injustice to the policyholder. Nevertheless such a proceeding on our part would I think be a clear violation of the prohibition that we shall not discriminate in regard to any return of premiums, or, in other words, in regard to any surrender value. It would, I think, be held that as we would only give, we will say, 75 per cent of the reserve, for the cancellation of an exactly similar policy, held by that man's neighbour, to give the latter the full reserve was discrimination. If we

were to reply that this full reserve was being given because the man was taking out a new policy, that would only get us into deeper trouble, for that might be construed as a case of giving a special inducement to insure. Then, too, there is the question of whether we would not be violating this provision by the mere fact that we are compelled by law to calculate our surrender values on our Michigan policies in a slightly different manner from that which we adopt in Canada and elsewhere. For example, the surrender value payable to a man living in Detroit would legally have to be somewhat different from that given to a man with a similar policy living in Windsor. Would not that be considered as discrimination in regard to surrender values, or, as it is termed in the clause, in regard to any return of premiums? This reference to surrender values is absolutely unnecessary in my judgment, because it is already the custom of most companies, and under the terms of the bill will hereafter be universal, to insert in every policy a table showing exactly what surrender value the company gives on each particular insurance. Such a thing as a man being deceived, or not getting his rights, is therefore impossible, and the clause is unnecessary. Much the same remarks could be made in regard to the phrase 'other benefits payable on the policy.' I will not, however, detain you. I would strongly urge that the words 'or in any return of premiums' and the words 'or other benefits payable on the policy' in the 4th and 5th lines of section 88, be expunged. The first five lines of section 88 cover offences which can be committed by companies and officers only, and are entirely separate and distinct from the question of rebating. The phrases I have objected to are entirely unnecessary, and would only act as traps in which the directors and managers might be caught inadvertently.

I may here point out that although they have a somewhat similar clause in the Armstrong law of New York, the penalty there is merely that any officer violating the law would be guilty of a misdemeanor. No court would I think convict an officer of committing a misdemeanor in such cases as I have mentioned, and the officers, therefore run practically no risk. Under our Bill, however, matters would be very different, for with us it is proposed to impose a money penalty, and let one-half of the amount go to the informer. There would thus be a direct inducement under the Canadian regulations for persons to give officers trouble.

I would also urge that the phraseology be qualified by adding after the words 'the same class' in the third line of section 88, the additional words 'year of issue'. Companies usually fix their basis for the division of profits by calendar years, and the profit on a policy whose anniversary is in January may not necessarily be the same as on a corresponding policy taken one month earlier, in December. It can at least do no harm to add the clause in question, and it is I think very desirable in removing a possible ground of dispute.

My next point is in connection with section 96. You will notice that the first paragraph says that no policy of life insurance shall be issued or delivered by any company on and after the first of January, 1910, until a copy of the form thereof has been filed at least thirty days with the superintendent; nor if the superintendent notifies the company within the said thirty days that in his opinion the form of such policy does not comply with the requirements of this Act, or that it is on other grounds objectionable, specifying his reasons for his opinion.'

Our objections to that clause are twofold. In the first place you will notice that it calls for a delay of at least thirty days for every new form of contract. Now it is of course true that the vast majority of policy contracts can be written on the regular forms, but there are a great many forms of policy continually coming up which are entirely different, and more or less special. I have brought here a number of specimens of special forms of policy. I will not delay you by referring to them all, but will just show you some samples of what we are called upon to write. I could bring 100 easily, but here is an actual policy which we had to agree to, a re-insurance from one of the leading British companies, an insurance issued in connection with an entailed estate in the old country. The amount payable in every year of that contract

was different; the amount payable in case one life died after another was different; there was an annuity in connection with it, there was a privilege of further insurance, later on, in case one died before the other, the annuity itself increased. It was an exceedingly special case designed to meet the requirements of persons lending money upon the security of an entailed estate where every kind of contingency arising out of that specially entailed property had to be met. We issued that policy, and to show you the extent of the business the premium we received in one cheque for this single insurance was about \$105,000. Supposing we had had to say, 'We cannot do anything with this until we have filed the form with the superintendent of insurance and must wait at least thirty days after that before we can do anything.' We would not have got that insurance at all. A delay like that would be simply prohibitory. And that is what the Bill calls for, a delay of at least thirty days after the form gets into the hands of the superintendent of insurance. In the large proportion of such cases as I have mentioned, that would simply prohibit our getting the business at all. Now, I have here a lot of different forms of policy, but I do not think I will bother you with them, although some of them are very interesting in the way of showing how different people want their insurance applied and what very special provisions are necessary in connection with requirements arising out of wills and otherwise. There is no limit to the number and variety of the requirements arising from such causes. There are great numbers of cases that could not be brought properly into any one kind of form, and if you require thirty days' delay before we can issue one of these policies, and as it is chiefly from England that we are getting this business, there would be ten days or two weeks further delay in the mails—it will not be possible for us to do the business. We do not want to have the business pass by us into the hands of the companies which are subject to such restrictions. It is a very profitable business and it is mostly in large amount.

Mr. BARKER.—Would it meet your difficulty if the superintendent was allowed within thirty days to approve? I see he is allowed thirty days within which to reject, but if he is allowed to approve it within the first week, or any other time, would that meet your difficulty?

Mr. MACAULAY.—We have no objection whatever to filling all the forms. For instance in a case like this we would not have the slightest objection to filing the form at once with the superintendent, but we do not want any more delay than can possibly be helped, because sometimes these cases have to be settled even by cablegram. We do not want any delay at all. You will notice that in our proposed substitute amendment we will provide that 'no policy shall be issued unless it contains in substance the following clauses—'

Hon. Mr. FIELDING.—You want to be at liberty to issue the policy without reference to the superintendent? That is your point?

Mr. MACAULAY.—Precisely.

Hon. Mr. FIELDING.—Do you think that the volume of business such as you have described is large enough to justify any special provision to meet your objection? Do you think the number of cases is large enough to require a change in the clause?

Mr. MACAULAY.—Yes, certainly. Take that case I have spoken of. In that one instance there was the very large premium of \$105,000 paid. We do not want to be prohibited from taking a case like that.

We already file with the superintendent copies of the forms of policies used by us.

There is another point also in that clause of section 96, to which I would draw your attention. You will notice that the power given to the superintendent is very wide. It does not merely provide that policies may be objected to by the superintendent because the forms of such policies do not comply with the requirements of the Act but that he can object to such policies for reasons outside the Act altogether, merely stating that the form is 'on other grounds objectionable,' specifying his reasons for his

opinion. In other words under that clause it is not merely necessary that we shall have our policies conform to these special requirements. The Superintendent of Insurance would have the right to annul them, to prohibit them, even if they do conform to these clauses, if in his judgment they are objectionable on other grounds. In the United States they have had a great deal of trouble over these clauses already. The interpretation of these and other clauses by the different insurance departments has been in some cases arbitrary and unreasonable. Some interpreted the clauses in one way and some in another. I do not wish in any way whatever to imply that our Insurance department would be an arbitrary or as unreasonable but we have the fact before us that in the United States that has been the case and we do not like the idea of leaving such important matters entirely to the judgment of the superintendent and giving him the power not merely to prohibit a form because it is not in accordance with the clauses in the Act but also if for some other reason in his judgment it is objectionable. We think it ought to be enough if our policies conform to the law. I am sure there is not a company in the country that would not immediately give the most serious and earnest consideration to any representation that the superintendent might make to any form, without its being necessary to give him such wide and arbitrary powers. I think that the phrase, 'or that it is on other grounds objectionable, specifying his reasons for his opinion,' should be eliminated. In any case there should be an appeal from the decision of the superintendent. In Michigan, the commissioner ruled in one way, and one of the American companies took the matter to the courts, and the decision of the commissioner was overruled. The clause in our Bill would give the superintendent much wider powers. Possibly section 78 could be extended so as to include appeals from the decisions of the superintendent on other points besides investments.

Hon. Mr. FIELDING.—Would it meet the case if, in such instances as you have described, you were to grant the policies and afterwards they were to be shown to the Superintendent of Insurance and if in his judgment they were not satisfactory you would not issue any more of them?

Mr. MACAULAY.—That would be entirely satisfactory, but I think there should be a right of appeal.

Hon. Mr. FIELDING.—If the volume of that business is of an exceptional character, is large enough to require that liberty, that would be one way of dealing with it.

Mr. MACAULAY.—That solution would be entirely satisfactory, Mr. Fielding. You will notice that sub-section 2 of 26 is also objected to on the same grounds.

But now we come to one special sub-section of 96 in which we are particularly interested. I refer to sub-section 'K'. The question of how to deal with policies that lapse, possibly in many cases entirely inadvertently, without the intention of the policyholders, is one that the companies have been for some years dealing with very earnestly. We realize that a man may be away from home or may be ill or may be in financial difficulties, or some other things of that kind may have arisen when his premium falls due and without intending it his policy may get into arrears. The companies want to meet that difficulty. There have been two ways of dealing with it. In the United States they have adopted what they call the extended term assurance plan, by which the policy is practically surrendered for a new assurance on the temporary or term plan of the same amount as the original assurance and extending for such a length of time as the proportion of the reserve mentioned in the policy will purchase. For example if 80 per cent of the reserve be allowed what will be the length of time that will carry the assurance for the whole amount on that life? Perhaps it may be for one year, perhaps two years, perhaps three years and five months or five years. That plan, however, in the judgment of some of our companies, including our own, is not the most satisfactory way of dealing with it. We have argued that instead of doing that it was far better to keep the policy in force and to automati-

cally advance the premiums as they became due on the security of the policy as long as the value of the policy is sufficient for that purpose. That has two advantages over the American plan. In the first place the man may be in very bad health when his policy lapses; in fact I have known of cases where the lapse was absolutely due to the fact that the man was in bad health and was lying on a bed of mortal illness and unable to attend to business when his premiums became due. Exactly such a case arose at Farnham, Quebec, just two days ago. Now, under the American plan, which is the plan assumed to exist by this sub-section, such a policy could not be revived after the lapse, except by the production of a medical certificate of health, which a man suffering from consumption, heart disease or liver disease of course could not produce. Then unless he happened to die within the length of time for which his assurance had been extended on the term plan his assurance would be lost altogether.

Mr. NESBITT.—You mean that under that plan his policy is taken up and he is given a term policy?

Mr. MACAULAY.—Not taken up; but automatically extended as a temporary insurance in the manner I have described.

Mr. NESBITT.—They require a medical examination?

Mr. MACAULAY.—Yes, to revive it and put it on its old basis.

Mr. NESBITT.—At the end of the term?

Mr. MACAULAY.—No, before the end of the term—even one day after default in the payment of premiums, a medical examination is required in order to revive the policy. I will give an illustration. Supposing a man has a policy which lapses. It has been long enough in force to entitle it to be continued for, we will say, one year and four months. He, however, is in bad health, suffering from consumption. Now the 30 days, of course, have expired. He, or his wife, or his friends say, 'We would like to revive that policy and pay the premium'. Well the company says, 'You cannot pay that premium until you furnish us with evidence of good health'. They cannot furnish such evidence and the company then say they cannot revive the policy. If the man dies within one year and four months his heirs will get the \$1,000, but if he lives beyond that period they get nothing. Under our arrangement the policy does not lapse, the man can come in and pay the premium at any time.

Mr. NESBITT.—Within the period?

Mr. MACAULAY.—At any time as long as the reserve has not been exhausted.

Mr. NESBITT.—Yes, exactly.

Mr. MACAULAY.—And without any medical evidence as to health. More than that, the policyholder in that way gets the benefits of the profits that will be earned on his policy. Our plan is to keep the policy itself in force.

Mr. MACAULAY.—We will continue to advance the premiums, the advances amount to the whole of the reserve on the policy, if necessary.

Mr. NESBITT.—In case he wants to receive the policy he has to repay you with interest?

Mr. MACAULAY.—That is it exactly, we are coming to the point. That is our plan. Now you can see that there is one danger in connection with this plan. If we were to say to our policyholders in our policies 'this policy will be held good and we will pay the premiums if you allow them to get into default, and you can pay us the premiums at your own convenience in one, two or three years, it does not matter how long, without even furnishing us any medical evidence of health and we will only charge you interest at 6 per cent' the man will be very apt to say 'the money is worth 6 per cent; I think I will just let my policy run along.' The one and only danger in the entire scheme is that there might arise among policyholders a feeling of indifference and laxity about the payment of their premiums, causing them to think that it did not matter whether their premiums were paid promptly or not. There is a company located at Barbadoes in the West Indies which adopted many years ago a plan similar to this and charged only 6 per cent interest. The result has been

if I remember aright, that something like 5 per cent of the entire assets of that company now consist of these non-forfeiture debts. This illustrates the great danger of fixing a rate of interest so low as to encourage laxity among policyholders.

This plan practically started in Australia, and it is sometimes called the Australian Non-forfeiture Plan. The companies there however got competing and cut the rate of interest down to 7 per cent., and one of the Australian managers wrote me that in his opinion it has now become the curse of Australian life insurance. The policyholders realize on that provision and too many of them allow their premiums to run into arrear, since there is no heavier penalty than 7 per cent. Our company has looked at the thing from this standpoint—we have said we wish to hold the policyholder and against any oversight or negligence. We do not, however, wish to encourage him to let his policy get into arrears, and we will do this; first of all we give him thirty days' grace for payment of his premiums; during which time every policy is held good in any case and without any interest; then in the next place we say, 'If you will deposit your policy and sign a loan contract we will give you all the money required to keep the assurance in force at 6 per cent interest. If, however, you are going to be careless, or indifferent, and let things slip, we will charge you extra, over and above the interest, as a penalty for carelessness.' As a matter of fact the way the policy reads is 6 per cent interest and 4 per cent for expenses, until the man pays up. Now that charge for expense is partly to discourage persons from taking things too easily, partly to compensate us for waiving the rights to exact a medical examination, and partly for extra expenses, to which the company is put. Do you know that we have in our company, just to keep track of these policies, a staff of eight clerks doing nothing else but just looking after the loans? The average amount of those non-forfeiture loans last year was but \$495,000, and yet to look after that amount we had to have those eight clerks who did nothing else. An investment of half a million in an issue of bonds would take but three or four entries in our books by one clerk each year.

A man can stop the interest at the high rate at any moment by coming in and signing a loan contract, and thereafter will pay but 6 per cent interest.

Hon. Mr. FIELDING.—How long do you give him that privilege?

Mr. MACAULAY.—Until the whole of the reserve is exhausted, even if it is fifty years; as long as the policy is running there is no restriction.

Hon. Mr. FIELDING.—And as a rule to what time does that go under the ordinary policy? Of course it will depend upon the length of time that the premiums have been paid? But for how long does it usually go on before he pays up?

Mr. MACAULAY.—A large number pay up one month after it is overdue; others will pay up at two months, and some others still will run up to three years.

Hon. Mr. FIELDING.—I am impressed with the reasonableness of that view. It seems to me that this demand by some companies for a new medical examination may deprive a man of his insurance, as it is impossible for him to get a medical certificate. That he ought to pay some penalty for his neglect there is no doubt, because he has in a manner inconvenienced that company by his neglect. It seems to me that your argument is a very strong one.

Mr. MACAULAY.—Supposing for instance that the premium is \$30, and a man lets it run for six months, or even for a whole year, 4 per cent on that is only \$1.20, which is only 10 cents per month.

Hon. Mr. FIELDING.—Just enough to induce him not to neglect it.

Mr. MACAULAY.—And to pay for that extra expense, and for our waiving medical examination.

Hon. Mr. FIELDING.—In other words he cannot make any money by doing that, but he loses money, and therefore there is no inducement to him to neglect it.

Mr. MACAULAY.—You have caught the point exactly. In order to show the exceedingly great importance of this provision, I will give you some figures. We adopted that clause in 1894, September, and to the end of last year we had kept in

force under that provision 24,446 policies; we had advanced to those persons in premiums \$2,382,000; 11,582 of those persons had paid back their whole indebtedness and righted their policies; 56 more had righted them by applying cash bonuses, and 312 by signing policy loan forms, making 11,950 who had righted and reinstated their policies in some way. Then 318 of them became death claims and \$535,555 of such death claims have been paid, just deducting the indebtedness. These are policies which would otherwise have been considered lapsed. Then 65 policies for \$104,588 have matured as endowments and been paid; all of these policies would have been lost but for our non-forfeiture arrangement. Only 25 per cent, or 1 in 4, of the policies which we have thus kept alive, has in the end been forfeited and then only after the whole reserve has been exhausted. To-day we are keeping 5,221 policies alive by this plan, assuring \$7,322,062. In my judgment that is a plan that ought to be encouraged.

Hon. Mr. FIELDING.—Mr. Macdonald suggested a slight change in the clause. I think your proposal goes farther. Have you provided anything that you suggest as a substitute for 'k'?

Mr. MACAULAY.—Yes, sir. I may say that this clause is copied from an American statute and applies to American conditions. I do not think we should copy the American non-forfeiture system when we have something that is better. I am quite willing that any company should be allowed to adopt the American system if it so chooses, but we should not adopt a clause like 96 'k,' which would limit us to that system.

Our suggestion is that there should be a provision that the policyholder should be entitled to have the policy reinstated at any time within one year—personally I do not care whether it is one year or three years, or any number of years so far as that goes—from the date of lapse, changing the word 'default' to 'lapse' because in our company the policy can never lapse, so long as there is any reserve left, upon production of evidence of insurability satisfactory to the company and payment of the overdue premiums and accrued since the date of lapse—not default—with interest at a rate not exceeding six per cent per annum.

In other words my proposal is this: as long as we keep the policy in force, and give the man the right to pay up all his overdue premiums without medical examination, there should be no limit put upon the amount which we may charge him as a combined charge for interest, expense and for waiving medical examination.

Hon. Mr. FIELDING.—When you say that there should be no limit that may be an extreme way of putting it; there should be a reasonable limit of time within which he may remedy his neglect.

Mr. MACAULAY.—We say one or three years after lapse; I am indifferent on this point. We are not on the risk after lapse, and can usually well afford to revive such a policy, for with us the reserve would be exhausted and we would get evidence of health and all overdue premiums and interest. If the reserve were not exhausted it would be different. The recommendation of the united companies is that the time be fixed at one year.

Hon. Mr. FIELDING.—And you say the rate of interest is six and four per cent.

Mr. MACAULAY.—That is what we charge.

Hon. Mr. FIELDING.—You would not want to change more than that?

Mr. MACAULAY.—A limit to six and four per cent during the time we hold the policy good would be satisfactory; and a limit of six per cent after the time the policy lapses, as we would not be on the risk and would get evidence of health.

Mr. FITZGERALD.—He has already paid his premium, do you want it paid over again? You say after paying up overdue premiums.

Mr. MACAULAY.—I will read our actual non-forfeiture clause as it is contained in our policies, if you will permit me. It is as follows:—

'At the time of the non-payment of any premium on this policy, after it has been two years in force, if the reserve on it as shown in the table of guaranteed

values attached hereto, or the balance of said reserve after deducting any indebtedness to the company and the interest and expense and revival charge accrued and accruing thereon to the end of the period covered by the premium then being advanced, shall exceed the amount of such premium the policy *shall not lapse*. Should, however, said balance be insufficient to cover such premium and accessories, as above, the policy shall thereupon become void unless said premium be paid within the thirty days grace.'

Now, all that I want is that, some way or other, clause 96k be so arranged that this non-forfeiture system which is working so well shall not be prohibited.

Hon. Mr. FIELDING.—Of course the reserve is paying his premiums during the time you have been carrying the policy.

Mr. MACAULAY.—I beg your pardon, Mr. Fielding. The reserve is not paying the premiums. The reserve is merely the limit named in the policy as the amount up to which we are willing to continue to advance the premiums, that is not exactly the same thing.

Hon. Mr. FIELDING.—But you are using his money to pay it.

Mr. MACAULAY.—No, we are merely lending money against the security of the policy up to the amount of the reserve if necessary. The reserve is larger than the ordinary surrender value and we grant the extra concession that we will advance the premiums not merely up to the amount of the ordinary surrender value, but up to the amount of the full reserve.

That is the limit that we can advance as a loan. Then we go on and explain that these loans shall be made automatically. The next clause makes this quite clear:

The amount of such premium shall be advanced as a loan by said company, without any action by the assured, and shall be a first lien upon the policy in favour of the company, and shall bear interest at six per cent per annum from the date such premium became due, and compounded yearly on the thirty-first day of December in each year, if unpaid.

The company shall also be entitled to make a special charge for expenses and for the privilege of having the policy kept automatically in force and of thus being permitted to fully reinstate the same without medical examination at any time during the term from which the policy shall be held good, in accordance with the conditions of this privilege. This expense and revival charge shall amount to four per cent per annum on the accumulated indebtedness outstanding under this agreement and shall be payable annually on the thirty-first day of December. If not paid on that date it will be added to the indebtedness under this section and shall thereafter bear interest as aforesaid.

Mr. NESBITT.—I thought you said a while ago that a man would have to hand over the policy to you if he wanted that to come into force? Under the clause you have just read it goes into force automatically.

Mr. MACAULAY.—It is absolutely automatic. The man may be on his deathbed and quite incapable of attending to business and yet we hold him good. He may be in England or elsewhere and we hold him good without any action whatever on his part. On the other hand we notify him several times each year and keep him constantly informed of his position. If he will but take the trouble of signing a loan contract and depositing his policy in the regular way, the rate of interest is immediately reduced to 6 per cent. If he pays anything more than 6 per cent, it is merely because he lets things slide. The extra amount is a mere penalty for carelessness.

Mr. NESBITT.—That 4 per cent is the interest charged in case he does not deposit his policy?

Mr. MACAULAY.—That is it, and only for the short time that he allows his premiums to drift—either pays the debt off or deposits the policy and loan paper for the amount.

Hon. Mr. FIELDING.—Did you say you were going to draft the additions you wish to make in this section?

Mr. MACAULAY.—Yes, sir. The phraseology I would suggest is as follow:—

‘A provision that the holder of a policy shall be entitled to have the policy reinstated at any time within three years from the date of lapse (not date of default—there is a great difference between the meaning of the two words in this instance), unless the cash value has been duly paid, or the policy surrendered for paid-up insurance, upon the production of evidence of insurability satisfactory to the company, and the payment of all overdue premiums, and any other indebtedness to the company upon said policy, with interest at the rate of not exceeding six per cent per annum, compounded yearly.’

This is exactly the same as the clause in the bill, except for the change of the word ‘default’ to *lapse*; the insertion of the words ‘or the policy surrendered for paid-up insurance;’ the elimination of the words ‘or the extension period expired;’ the change of the word ‘amount’ to *payment*, which is probably a printer’s error, and the addition of the words ‘compounded yearly.’

If a paid-up policy be given in exchange for an old insurance, it is not reasonable to allow that old insurance to be subsequently revived, either with or without medical examination. On the other hand, the phrase ‘or the extension period expired,’ is unnecessary. It is merely taken from an American clause, and applies to American conditions, where the granting of extended term insurance is common. Even if the extended term insurance should have been granted by any company, and that term should then have expired, there would be no great hardship to a company in being required to revive the policy with medical examination, and payment of the overdue premiums and interest. The company would not have been on the risk after the expiration of the extension term. On the other hand, there might be large accumulated profits on the policy, which are not taken into account in deciding the length of the term extension period, and on account of them a policyholder might wish to revive his insurance. I see no objection whatever to eliminating entirely the phrase ‘or the extension period expired.’

The foregoing changes would not, however, be sufficient to protect our non-forfeiture system. I think it would be necessary to add an additional sentence or paragraph, such as the following:

‘Any policy which provides that overdue premiums will be automatically advanced by the company on the security of the policy, subject to such limitations and on such conditions as may be set forth in the policy, may also provide that an additional charge shall be made beyond the rate of interest as aforesaid, covering such time as the policy shall be thus automatically kept in force, provided that during such time said policy may be reinstated without evidence of insurability, on payment of the overdue premiums and other indebtedness to the company upon said policy, with interest, and such extra charge, as aforesaid.’

This is a rather long clause but I at present do not see how it can be shortened without opening the door to ambiguity.

There is one other point I wish to refer to. If you will turn for a moment to section 111, I would like to emphasize what Mr. Macdonald said about the necessity of eliminating the phrase ‘and shall also be entitled to a just proportion of the profits arising from other sources.’ Such other sources could only be the non-participating and the annuity branches of the company. There is no other source that I can think of in the case of an ordinary life company, though if you take companies which have industrial or accident branches, the term could be extended to include them. I know of no other source unless you were to include the interest earned by the investment of the shareholders’ capital, as is now being discussed in the case of the Canada Life. We consider that if we give the participating policyholders their share—90 or 95 per cent as the case may be—of the entire profits earned by the participating branch—that is of the entire profits earned by their own policies—we are doing everything that can

possibly be required of us. Mr. Fielding asked whether, if a company earned a large profit from investments for example would the policyholders receive their proper share of such profit? What happens in a case like that is this: If the company makes such profits those profits are clearly earned by the investment of the company's funds and the only way in which they can properly be divided between various branches is in proportion to the amount of funds at the credit of each branch in the company's books in exactly the same way that interest would be distributed. If the funds of the participating policyholders are, for example, 90 per cent as they may be, of the entire assets of the company, then 90 per cent of all profits made by the investment of the company's funds would necessarily go to them. Any profits of that kind in our company, and I believe in any other company, have been divided just exactly as the interest would be divided, in proportion to the funds. That clause if left in would moreover be so terribly vague that law suits would be a certainty. The clause is not necessary; It would not even be right or just. If the participating policyholders get all their share of all the profits earned by their own policies what more can they ask? Would it be right to give them a share of the profits earned by the shareholders? That clause ought certainly to be eliminated because it would be unfair to give them any share in the money earned by other people.

Then take the next clause of that section:—

'But no dividend or bonus shall at any time be declared on estimated profits.'

I know of no reason whatever for this clause being put in. I can, however, see where it would seriously affect our own company and other companies whether it was so intended or not. It is the custom in our company, when November comes around, for the actuary and other officers to have a consultation when we examine and make a very close estimate of what the surplus of the company is likely to be on the 31st December following. Then in the course of that month of November we settle what shall be the basis for the distribution of profits for the following year, always trying to act in a conservative manner and within safe limit. You may say, 'Why should we do that in advance'? Because policyholders whose premiums fall due in January and February, expect the company to allot to them the profits on their policies falling due to them at that time. The man who has a premium of \$100 due on the 1st January may be entitled to profits of \$50 or \$60 and he wants to place that amount against his \$100 premium. If the company were to say, 'Oh no; we want you to pay the \$100 now, in January and then sometime in March we will be able to tell you what your profits are', he would reply, 'But I have to pay my premium now and I want my profits now. By the terms of my policy the profits are payable on each fifth anniversary of the policy' (as this Bill itself provides). 'The quinquennium of my policy runs out on the 1st January, not in March. It is not convenient for me to pay you the \$100 now, and then get \$50 or \$60 back from you in March. I only want to pay \$40 or \$50 and not \$100'. In order to meet just such contingencies we have been in the habit, and other companies have been in the habit, of making a very close estimate in November and then settling the basis for distribution for the following year. I see no sound reason whatever why we should not continue that practice. I think this clause would prohibit such a practice for it says, 'But no dividend or bonus shall at any time be declared on estimated profits'. The Bill already requires (section 91) that profits shall be ascertained yearly. What more is necessary? I am not at all sure that the practice I have described was intended to be hit by this clause. I am very uncertain as to that. However, it is the only application I have been able to make of it.

Then I would say that in the 48th line the words, 'but not' should certainly be eliminated, but as that point has already been referred to by other speakers I will not dwell upon it.

Then as to the first line on page 43 of the same clause the expression 'total funds

of the company, invested and uninvested' is perhaps unfortunate. If it is intended only to apply to the funds actually on hand, whether invested or in the bank, the phrase should be so worded. But as it stands now it might and probably would be considered as including such items as outstanding unpaid premiums, deferred premiums, outstanding instalments of interest, agents' balances, and a great many other assets of that kind. If you change the words 'total funds' to 'total ledger assets' and then score out the words 'invested and uninvested,' it would simplify the matter.

Gentlemen, there are several other points that I would like to enlarge on but if you will very kindly give me permission to add a few memoranda in regard to them, I will not take up your time now. I think you very sincerely for the great courtesy with which you have listened to me. If this Bill should be referred to a sub-committee, as has been suggested, they will probably not require much further explanation in regard to points that we have already dealt with here, but a danger that I foresee is this: supposing that some clause opposed by us or suggested by us should not meet with the views altogether of the sub-committee, they might set to work to frame a compromise clause which they might think would be satisfactory. I beg your pardon if I venture to suggest that it is with these compromise clauses that trouble is most likely to arise. You can easily say yes or no to any of our requests, but I would like to be permitted to express the hope that if you come to framing compromise clauses or new clauses different in principal perhaps from what has been proposed either in the Bill or by us, you will kindly give us a chance to say a word or two on such new clauses, before the sub-committee.

Hon. Mr. FIELDING. The Bill would have to come back to this committee and you would have the same opportunity of speech subject to time and limitation.

Mr. CLARKE-KENNEDY.—Mr. Chairman and gentlemen, last week when we spoke we informed you that we had not received an expression of opinion from our home offices. I am glad to say that the representatives of our companies got together in London last Saturday, and we received a cable yesterday afternoon. We immediately got together in Montreal and looked up the two points to which they referred, and in order not to take up your time we decided it would be best for one of the representatives of the British companies to touch on those two points. I will, therefore, ask you to allow Mr. B. Hal Brown on behalf of the British companies, to speak for two or three minutes with regard to the points raised by the British offices.

Mr. B. HAL BROWN.—Mr. Chairman and gentlemen; an explanation is due to you, and to the honourable members of this committee for my reappearance before you which I will endeavour to make in a very few words. As Mr. Clarke-Kennedy has stated a meeting was held in Montreal, at which were formulated certain replies to present to you respecting the cable which we received, and I have extended my remarks in manuscript so that I will not wander from the subject, and will direct your attention as quickly as possible to the points in the Act which we desire you to consider. Primarily I wish to say that I have been asked to represent the British offices, but if those gentlemen also representing British offices who are here find that in my remarks I have not fully covered their views I presume it will be in order for them to speak to you, and I should like very much that they be given that privilege.

There are British companies not actively competing for new business, with large interests in Canada from an investment point of view; some with considerable life insurance in force, and whose policy, looking favourably upon the Canadian field, has been so framed that more active operations at the proper time may be undertaken. Others but not all of the British companies are members of the Life Officers Association. Those who are not members, have had no representation before this committee, while those which are members, although appreciating what has been so well presented by that body through their president and concurring in much of it, have arrived at

certain conclusions which it is desirable to bring before you for themselves as concisely and forcefully as possible.

When in England where I spent some time, returning here about a fortnight ago, many references to the proposed legislation of last year, and the pending legislation of this year, were made to me by the chief officials of leading British Insurance Companies. In many quarters, the feeling was expressed, and which I took every opportunity of fostering, that the Parliament of Canada would frame a just Act; that the honourable Minister of Finance was anxious to introduce—was in fact determined—that only a fair and workable measure would be enacted.

That measure has since been framed and is before us. It has been submitted to the home offices of the British companies. It is not altogether what was expected. It is not as practical as it should be and requires change in several important particulars or the business of life assurance will suffer exceedingly.

It will be remembered that the Canadian Life Insurance Officers' Association have, through their president, Mr. J. K. Macdonald, represented to the Banking and Commerce Committee, the desire of the British companies to be heard upon the views which are held by their home offices, on parts of the Bill which particularly affect the British life insurance companies in Canada. It will be understood that some time had to elapse before copies of the Bill could reach the home offices of those companies and be given the consideration involved in the important Act which the Parliament of Canada is now considering. On Saturday last, we received from the officials of the British companies a cablegram from a special meeting held in London. The companies represented at that meeting have investments in Canada amounting to the large sum of \$25,000,000, and it is on behalf of these large interests that we appear before this committee.

Some doubt has arisen as to the exact meaning of a phrase which appears frequently in the Bill 'within the legislative power of the Parliament of Canada.' I would direct attention to section 8, page 5; where the phrase is first used.

'Provided that any life insurance company within the legislative authority of the Parliament of Canada, and any other life insurance company licensed under this Act.'

It occurs again in section 51, page 19; section 52, sub-section page 19; section 60, page 24; section 65 and 68, page 26; section 77, page 29; section 99, page 37. There are other places where the phrase is used in the Bill, but these references will sufficiently mark the phrase for the purpose in mind.

We presume that the only Canadian companies are meant to be included as *within the legislative powers of the Parliament of Canada*, wherever the phrase occurs throughout the Bill; but our head offices ask that the meaning of the phrase be clearly established and defined under section 2 of the Bill. If you turn to section 2 of the Bill on the first page you will find a number of definitions given there, and we would ask that this phrase be clearly defined among the definitions. At present some of the active British officers in Canada have boards of directors, numbering five or six in some cases directly responsible to the home office and we think that it was the intention to exclude British offices from the operations of the Act in this respect, and if so that can easily be made clear, because it does seem unnecessary under the circumstances—vide section 99—to have non-participating policyholders elected on the boards of directors.

Hon. Mr. FIELDING.—Take particular clauses, if you please, Mr. Brown, and indicate wherein the difficulty arises. We all know what the words mean generally, we can only legislate for companies within the legislative authority of Canada. If we were to attempt to do so with regard to any that are not within the legislative authority of Canada we could not do it.

Mr. B. HAL BROWN.—Well, section 99 reads:—

'The following provisions shall extend and apply to every life insurance com-

pany heretofore licensed having a capital stock, whether called by the name of capital stock, guarantee fund or any other name, within the legislative authority of the Parliament of Canada.'

Then it says, in sub-section 5 of section 99:—

At each annual meeting held after one thousand nine hundred and ten the shareholders shall elect two shareholders' directors—'

Hon. Mr. FIELDING.—I think it is clear there, we can only mean Canadian companies in that case, and no other company.

Mr. B. HAL BROWN.—No other companies than Canadian?

Hon. Mr. FIELDING.—Yes, I do not think there can be any doubt about that. We cannot determine how English companies shall elect their directors, they are governed by their own charters.

Mr. BARKER.—Sub-section (d) of section 2 on the first page defines 'Canadian companies'.

Hon. Mr. FIELDING.—For certain purposes British companies might be within the legislative authority of the Parliament of Canada. I do not go so far as to say that we cannot legislate concerning them at all, but certainly we cannot in respect to the holding of annual meetings and everything of that sort.

Mr. B. HAL BROWN.—That is what we think.

Mr. B. HAL BROWN.—That is why we thought the phrase—

Mr. NESBITT.—But for the purpose of their Canadian business they may be within the legislative authority of the Parliament of Canada.

Mr. B. HAL BROWN.—That would be quite satisfactory.

Mr. FITZGERALD.—The terms under which you do business in Canada.

Mr. B. HAL BROWN.—The terms under which we do business in Canada, yes.

Then in regard to detail 1, Form 'A', page 63, statement of actuarial liabilities the home offices of British companies could only supply the information which is required by this statement insofar as it relates to their Canadian business. It would be impossible to supply the information for the companies' entire business which is spread, in some cases, over the whole world and which is only investigated, grouped, and detailed at quinquennial intervals.

Then section 36, page 14, Gain and Loss Exhibits. There is apprehension lest this exhibit should also apply to the entire business of the British companies. If that fear be well-founded, then the same objection will hold which we have just applied and we are instructed to say that compliance with this requirement of a Gain and Loss Exhibit of the entire business is so impossible without breaching the principles of the actuarial practices followed, that it would involve a serious consideration as to whether any British Company could continue to do business in Canada. The words used in the cablegram are as follows: 'Unanimous feeling that enforcement of section 36 as proposed involved consideration of withdrawal of all British companies from Canada.' Surely it is not the intention of the Parliament, or the government of Canada, to compel British offices to retire from this country which would undoubtedly result if these requirements become law. British offices are the pioneers in life insurance; their methods are universally respected and have been most favourably commented upon by the Canadian Insurance Commission. They have, furthermore, vested interests in the country acquired during the long years that they have been transacting business here and during which time they have fully complied with all statutory requirements.

Section 53, Limitation of Expenses. Foreign companies are required to conform to the Limitation of Expenses as defined in section 53, sub-section 3. Apart from actual investment expenses, the allowance for general expenses of Canadian companies consists of two parts: Firstly, the actual loading on net premiums, and secondly, the allowance which is described in section 42, sub-section 3. But this latter part

will, on referring to that portion of the Bill, be found to be allowable to Canadian companies only. The language is 'it shall be lawful for any *Canadian company*, &c. Hence it would seem that British and foreign companies are restricted far more than Canadian companies in the matter of expenses; while it may be the intention that both classes of companies should be treated alike in this respect, our solicitors inform us there is very great doubt on the point, in view of the word Canadian appearing in the first line of section 42, sub-section 3.

The Life Insurance Officers' Association have recommended in regard to 42-3 that in line 38 the words 'issued on or after January, 1910' should be removed, in which suggestion we fully concur; because there are certain British companies which are licensed but which have not been pressing for business in Canada. A British company, for instance, recommencing business in Canada, would be at a serious disadvantage in the matter of expenses by having to comply with the limitations of expenses without having that period of exemption which is allowable to a Canadian company.

Section 91, page 33. Annual Ascertainment of Surplus. It is presumed that the surplus to be ascertained is that of the Canadian business only and as far as British companies are concerned to be covered in the form of report to government shown on page 62 and following pages of Returns of the Bill. If otherwise, then the same objection which have been recited in respect to the total business of the company would hold here. If our presumption is correct, the information furnished will be similar to that which has been called for in the past and should there be any difference in the surplus shown in our returns to the government and that ascertained by the superintendent as provided for in section 42 of the Bill the same can be adjusted.

Section 94.—Quinquennial Apportionment of Profits to Deferred Dividend Policies. In British companies the surplus of all policies, whether in the quinquennial or deferred classes is ascertained at the same time and, therefore, British companies could not conform to the literal requirements of this section without violating their established principle of valuation. Therefore, it is suggested that in line 25 of section 94, after the word 'apportion' there should be inserted the words 'not greater than,' and that the words 'reckoning from date of policy' be struck out. In this way there would be a simultaneous apportionment of profits under both classes.

Section 99, page 37. I have already referred to this section and we have heard from the Hon. the Finance Minister, that it does not apply to British companies but the wording is not clear and we desire to direct special attention thereto in order that language may be used about which there can be doubt.

I stated at the opening of my remarks that confidence had been expressed in the Honourable, the Minister of Finance, and in the Government of Canada, that a fair and workable measure would result. The time given to hearing, and the close attention paid to, the various representations submitted leaves us and those whom I have the honour to represent to believe that our confidence has not been misplaced.

The Insurance Act of Great Britain has been cited as a model one for Canada. Conditions, however, are different from those in Great Britain, vastly so. They doubtless are appreciated by the Government and certain restrictions and limitations owing to the different conditions are necessary to regulate the conduct of business here that are not necessary there. That we are willing to admit. Personally I would like to emphasize the difference that exists in the method of dealing with Deferred Dividend Policies. What is voluntarily done there the Canadian Government thinks, and wisely so in my estimation, should be made compulsory here, viz., that the amount of the dividends applicable to this class of business should be ascertained at regular intervals and liabilities assumed therefor. If this were done I am satisfied that the axe would be laid at the root of the greatest existing evils in the business of life insurance to-day. The Deferred Dividend plan can be properly conducted and should not be prohibited. That is, I mean the deferred periods for dividends should not be limited to five years. You admit the principle in the Bill that the dividends may be deferred, they must be deferred for one, two, three, four or five years, but you make the

limit five, I think that should not be done. The plan as operated by the leading companies is for reasons that have been adduced by others who have addressed you, one of the best in vogue both for the policyholders and the companies. I would request that you do not legislate arbitrarily against its continuance, but restrict the companies in operating it so that the abuses and the attendant train of evils will cease. The British companies are not opposed to all necessary reforms; they will loyally comply with all reasonable statutory requirements. If the requirements are unreasonable and impossible, they will then reluctantly be compelled to withdraw, but they will do so as honourably as they entered the field, and as honourably as they have endeavoured to conduct their business during all the time that they have operated under their licenses in this country. Before closing I wish to say that the insurance investigation disclosed certain evil methods that were said to be practised; it also vindicated certain companies as well, and among them the British Offices; not one word of censure was visited upon them, but on the contrary, their methods were commended.

Mr. MACAULAY.—They were not examined.

Mr. B. HAL BROWN.—Our records and business methods were examined—for a period covering fifteen years—and Mr. Shepley, I believe with other gentleman went to the Head Offices of the companies in Great Britain and certainly he must have had something on which to base his remarks in the report of the Royal Commission on Life Insurance.

There is no question that these companies will continue as in the past, increasing their interests in this country; they have large funds invested here and the prospects are that under proper conditions the investments will largely increase, and we believe that it is your intention to encourage them. They have not been offenders in the past; none of the evils that have disturbed communities are traceable to them, and consequently they do not think that greater limitation or restriction than has been referred to is necessary in their case. They will aid, in every way in their power, in carrying into effect measures calculated to improve the business which can reasonably be complied with. I do not know that I have any further remarks to make, or suggestions to submit to the Committee at present.

Hon. Mr. FIELDING.—On one important point you and Mr. Macaulay have differed. You have heard his statement on the question of showing deferred dividends as a liability. I understand you to say that the English companies do that voluntarily.

Mr. B. HAL BROWN.—They do, voluntarily.

Hon. Mr. FIELDING.—Mr Macaulay represents it as a very, very serious objection.

Mr. B. HAL BROWN.—From my point of view an insurance company should ascertain its condition after a given period of three or five years, you say five years, that is a reasonable period. Now if there be only two classes of policyholder, and if during the period over which the examination extends, \$100,000, we will say, has been ascertained as a surplus to divide, and assuming for purposes of simplicity, an equal number of policyholders of the two classes *Ordinary* and *Deferred Dividend*, \$50,000 of that devisable surplus goes out immediately, liability is assumed for it by handing it over in the form of bonus certificate to the policyholders. The other \$50,000 is just as much the property of the class of deferred dividend policyholders as the \$50,000 they have paid out to the individuals of the ordinary class; the only difference is that the time at which the dividend vests or has been deferred. I understood Mr. Macaulay to say—he will put me right if I am mistaken—that it will be possible for a company, contingently, to assume their liability and issue certificates therefor to the policyholder for his interest, contingently, in that fund. That is to say, if alive at the end of five years, will he the policyholder be alive at the end of the next fifteen or twenty years? The actuarial tables will show how many who are living at the time the devisable surplus is ascertained for that period will be alive when the dividend is actually payable. That amount of money which has been ascertained as the

possible surplus at the end of any given period, whether it is immediately passed over to the policyholders, or whether it is held for those who are living at the end of the period, is equally, in my opinion, a liability.

Mr. NESBITT.—Of course it is a liability, but will it be wise to make it appear as a liability the same as the reserve?

Mr. B. HAL. BROWN.—If not, then it leaves it open to abuse.

Mr. NESBITT.—Everything is open to abuse.

Mr. B. HAL. BROWN.—The money is held in trust just exactly the same as the premiums that are received by the company are held in trust. There is no difference, only they are regarded as a sort of endowment. That amount of money must be set apart and invested as prescribed in the Act. If the company holding it is not to exonerate from any loss that may occur in connection with that fund, the companies will take good care that it is kept intact and properly invested, that is my view.

Hon. Mr. FIELDING.—It is due to somebody.

Mr. B. HAL. BROWN.—It is due to somebody, it is not the company's

The CHAIRMAN.—Can it be considered an asset of the company inasmuch as in certain contingencies it may possibly be available to pay death claims.

Mr. B. HAL. BROWN.—It should not be available to pay death claims, nor for any other purpose except for the use of the policyholder who survives the period of his insurance.

The CHAIRMAN.—In the case of an epidemic or an unprecedented death rate would it be improper to use these funds for paying death claims?

Mr. B. HAL. BROWN.—Undoubtedly, because in my opinion the company could not recover any part of the money after it had been declared as profits and paid away to certain other of the policyholders or the shareholders portion of the surplus actually divided. Those who have received their profits could not be expected for the future successful conduct of the company to refund any portion that the company has paid them. Why, then, should the deferred dividend policyholder be called upon to do so or to be subject to any diminution of the funds which it has been ascertained properly belong to that class?

Mr. T. B. MACAULAY.—May I be allowed to make a remark on this one point?

The CHAIRMAN.—Make it very short.

Mr. MACAULAY.—I will make it very short. Mr. Chairman, the conditions in Great Britain and in Canada are utterly different. In Great Britain they have no legal standards for the valuation of either a company's assets or of its liabilities; there is no law at all requiring the companies to give even the names of the securities owned by them, to say nothing of their market values. They are not required to write those values up or down with the fluctuations of the stock markets, as we have to. They do not even have a legal standard of solvency. Their conditions are absolutely different from ours. A company there could change its basis for the valuation of its liabilities every year, or every five years as it might choose. It is also left entirely to itself in the valuation of its securities, and the companies certainly do not always value them according to their current market values. Most of them would never even think of doing so for one moment. One of the most important points I have been making about the deferred profit plan is that if that accrued surplus be made a liability in Canada it becomes a legal liability, and we would have to have that amount on hand at all times or be declared insolvent. We would be situated very differently from the English companies. We would not be at liberty like them to value our securities according to our own ideas, and to choose our own basis of the valuation of our liabilities. We have to assume only the market value of our securities as on December 31 of each year, even if it be a time of panic, while the British companies would not need to do so and would not do so. Mr. Brown is asking that the Canadian companies be put under restrictions which do not exist in Great Britain and which no British manager would tolerate for one moment if applied to his company. We would not object to coming

under such laws as they have in Great Britain, but those British laws are utterly and radically different from what Mr. Brown is recommending you to impose on the Canadian companies.

Mr. NESBITT.—Do they not have a standard reserve?

Mr. MACAULAY.—No, sir, the companies value their liabilities on their own basis. The companies choose their own basis for the valuation of their liabilities and they choose their own basis for the valuation of their securities. There is not one word in the British law covering such a point as Mr. Brown has referred to. Every company is left as free as the wind and makes its own law. The British companies are exceedingly generous, if you will pardon my saying so, in giving advice as to how Canadian business should be done, but if any provision in our Bill touches even the fringe of their coat tails, I think you will have noticed that, they protest and ask exemption on the ground that it would interfere with some of their established practices.

ADDITIONAL NOTES: MR. MACAULAY.

Section 59, Subsection 1.

In addition to the reasons already given why the investment clauses of the Act at least should not take effect until January 1 next, and not immediately upon the passage of the Act, as at present provided, there is another reason of great practical importance. Section 61 provides that every company shall at all times retain in Canada assets equal to the amount of its total liabilities in Canada, and that of such assets an amount at least equal to two-thirds of such liabilities shall consist of investments in Canadian securities. This is the clause which regulates the amount of investments which any company may make in securities outside of the Dominion, and that amount is made to depend upon the amount of the company's liabilities in Canada, which of course consist chiefly of the reserves on the company's policies in Canada. The amount of such reserves is only calculated at the close of each year. No attempt is ever made by any company to value its policies at any intermediate date, and the amount of the reserves on the Canadian policies of any company at any intermediate date during the course of any year, is never exactly known. If, for example, the Bill were to take effect, for the sake of argument, on June 13, 1909, then, on June 13 the company would have to make a special balance sheet, classifying its investments into Canadian securities and outside securities. It would also have to make a special valuation of all its Canadian policies as at June 13, and to make a special calculation of all its other liabilities in Canada at that date. The reason for this is that under section 78, subsection 1, any overinvestments in non-Canadian securities, or in any outside securities, like the Mexican companies, even if they have Canadian charters, would be not merely illegal, but would be dropped out of the company's assets entirely, and the company would be given no credit for them whatever. This new rule in clause 78 would of course take effect on the date of the approval of the Act, say June 13, and would apply to all securities purchased after that date. On the other hand, the terms of section 78 would not apply to securities purchased by the company prior to June 13, and by the terms of subsection 2, section 59, the companies are authorized to hold such other securities for five years. The making of a definite balance sheet, and of a special valuation of the policies and other liabilities, as at June 13, would therefore be an absolute necessity in the case of any company affected by subsection 2 of section 59. It would be only in this way that the company or the superintendent could decide what amount of outside securities it was really entitled to hold. This difficulty would not merely apply to the one year, but would apply for all the remaining five years. As I have already pointed out, it would be an act of great harshness, and would do very great injustice to some companies if the new investment clauses, and in particular the frightful penalty imposed by section 78, were to go into immediate operation, without reasonable notice, and on that account I urged that January 1 next be fixed as the date on which the new clauses should take effect. The other point which I have just made shows that even if there

were no injustice in making the Bill take effect immediately, it could not in practice be applied at any date during the course of a year without the immense amount of trouble and expense involved in valuing for that special date all the Canadian policies of the company. This latter consideration appears to me to be a conclusive and unanswerable argument in favour of making the new investment clauses take effect at the end of a year only, and not in the course of any year.

Decidedly the most satisfactory way of dealing with this difficulty is to make the whole Act take effect on January 1 next, as proposed by the managers.

Section 52.—The various provisions of this section are, on the whole, admirably adapted to cases of amalgamations or reassurances of companies where the business to be transferred is on Canadian lives. These provisions are not, however, all of them, suitable to the case of a transfer of the business of a company which does no business whatever in Canada. For example, there has been a little talk of the possibility of our own company taking over the business of a small foreign company located in the tropics which has a first-class body of policyholders who are almost exclusively natives. I do not know whether anything will come of the negotiations or not—in fact the probabilities are against it. I do not even feel free to mention the name of the company or to go into any details. It seems to me, however, that it is clear that the provisions of section 52 should not apply to the case of the reassurance of such a foreign company by a Canadian company like ours. It is not reasonable to expect such a foreign company, which has nothing in the world to do with Canada, to advertise in our official *Gazette* and to submit all the details of the arrangement to the consideration of our treasury board. Our government naturally and properly desires to see that the interests of the policyholders in any Canadian company that is being absorbed by another company are properly looked after, but I think that it is quite enough if our parliament legislates for the benefit of such policyholders when they are Canadians, without legislating for the benefit of persons who live thousands of miles away. Any attempt by our Canadian parliament to regulate the actions of foreign companies, that have not even an agency in Canada, would be unwise. Moreover, in the case in question, the lives assured are almost exclusively natives, and such statements as are mentioned in subsection 4 would be like so much Greek to them, and would probably have little other effect than to alarm them and cause heavy lapsing. If a Canadian company had to comply with all the formalities of this section before being able to reassure the business of even a small outside company—formalities which no American company would have to comply with before consummating such a reassurance—then, naturally, our Canadian companies will have little chance of securing such business in competition with their unfettered rivals.

I would therefore recommend that the following clause be added at the end of section 52, as subsection 10 thereof:—

‘10. Subsections 3, 4, 5, 6 and 9 of this section shall not apply to the reinsurance by a Canadian company of the business of a company which is not and never has been licenced to transact business in Canada.’

Section 56.—The reason for the change of phraseology suggested by the managers is that it is impossible to know definitely what any agent employed on commission will receive. The amount of his remuneration depends upon his success. With exactly the same kind of contract one man may make \$200 per annum and another man \$10,000. The companies moreover cannot tell, even at the end of the year, what such a man has made, for they do not know how much of his commissions he has had to pay to subagents working under him. The managers, therefore, suggest that the clause be changed so as to apply to all salaries or remuneration of any kind, or of any amount, which may be paid to any director or officer; and all salaries which may be paid to any employee, whether the amount would be \$5,000 or over. The object of this change is to remove the necessity of submitting every agent's contract to the board of directors. As a matter of fact, large numbers of our agents are not appointed by the board or by the head office at all, but by a superintendent or manager in some

distant foreign field. We have perhaps 1,000 agents in our company, scattered over the entire world, and it would be impracticable to submit all their contracts to the board. The delay of such a proceeding would be prohibitory in many cases, and yet it would be necessary, for we do not know which of these agents will earn \$5,000, and even at the end of the year we do not know which ones of them have made that amount. The only way that we could properly protect ourselves in regard to agents on commission would be by submitting all such contracts to the board. Some of the companies have no objection to submitting all contracts to the board, but these are companies which do a comparatively small business. The larger a company gets, the more difficult will it be to comply with this section as at present phrased. We think the clause, so far as agents are concerned, should be limited to those receiving salary or other fixed remuneration. Another objection is that the clause calls for submission of all such contracts to the board of directors. I doubt greatly if this section would be considered to be complied with by a mere submission of the salaries to a committee of the board, and not to the full board itself. The Act says that, 'No such payment shall be made until first authorized by a vote of the board of directors.' Many of the companies already work by means of committees of directors, the whole board meeting but four times a year, and sometimes perhaps only one, two or three times. If the board of directors be increased to sixteen, as proposed by section 99, or even to twelve, practically all the companies will have to work by committees, and this difficulty will then become even more pronounced.

Section 86.—The phrasology of this section is emphatically less fair and less satisfactory, than that of the corresponding section in the New York law, after which it has been largely modelled. The New York phrasology is as follows:—

'No corporation issuing policies . . . shall, after this section shall take effect, provide in any application, policy or certificate of insurance, that the person soliciting such insurance, or any person who is engaged in the business of soliciting insurance for the company issuing such policy or certificate, and whose compensation is either paid by said company, or is contingent upon the issuing of such policy, is the agent of the person insured under said policy or certificate, or shall insert in said policy or certificate any provision to make the acts or representations of such person binding upon the person so insured under said policy or certificate.'

This is decidedly fairer than clause 86. Our Bill provides that no person soliciting the insurance, whether an agent of the company or not, shall be deemed to be for any purpose whatever the agent of the person insured in respect of any question arising out of the contract of insurance. I remember the time, now many years ago, when a number of very bad risks were put upon our own and other companies in a certain Canadian city by a small group of conspirators. One practice was get hold of a man who was a mere tramp, and fearfully addicted to the use of liquor, to sober him up for a few weeks, until his appearance improved, perhaps by keeping him in the country, then getting him insured, and subsequently getting an assignment of the policies, on one excuse or another, in favour of some member of the original group. It has been stated that thereafter such a man was sometimes given the right to get all the liquor he desired at certain saloons. I mention this bit of ancient history because of its bearing on this section 86. Those conspirators were the persons who solicited the insurance, though they were not agents of the company, and received no commission. Our Bill provides that no person soliciting insurance, whether an agent of the company or not, shall be deemed to be for any purpose whatever, the agent (or representative) of the person insured in respect of any question arising out of the insurance. Is this fair or right? We have no objection whatever to a clause which would state that persons who are agents of the companies or whose remuneration depends upon the securing of the risk, shall not be deemed to be agents of the insured, but to say that no such person shall be deemed to be an agent of the insured, whether he be an agent of the company or not, is going too

far. My personal opinion is that it would be a vast improvement upon our section 86, if practically the phrasology of the New York section were substituted.

If, however, the committee do not wish to adopt the American phrasology, then I would strongly urge the adoption of the phrasology recommended by the managers, as follows:—

‘No person soliciting insurance for such life insurance company, nor any person engaged in the business of soliciting insurance for such life insurance company, and whose compensation is payable by such company, shall be deemed to be the agent of the person insured, unless it can be proved to the satisfaction of the company that there was fraudulent collusion between such agent and the person insured.’

Either the New York phrasology or this phrasology would be satisfactory.

A somewhat similar question is involved in section 96, subsection (c). In this case, however, there is no objection to the principles which the clause endeavours to lay down. We are quite willing that the policy and the written application therefor, shall constitute the entire contract, and that the statements made by the insured shall, in the absence of fraud, be deemed representations and not warranties, and that no such statement shall be used in defence to a claim under the policy, unless contained in the written application, copy of which shall be endorsed upon or attached to the policy. Personally, however, I object strongly to such a provision being incorporated as a part of section 96. In its present setting that clause requires that such a provision must be printed in every policy form. We would have no objection to the insertion of a clause of this description as a subdivision of section 85, for example. If inserted in connection with 85, it would be made the law of the land, but the companies would not be required to insert this phrasology in their policy contracts, and that is the real objection. We consider that it is highly desirable that our policy contract be as brief and as simple and uncomplicated as possible, and every additional piece of phrasology which we are compelled to insert, tends to make them more lengthy and cumbersome. The longer the policy contract is made, and the greater the amount of phrasology the companies are compelled to insert in it, the less likelihood will there be that the ordinary average policyholder will understand what he is getting. Simplicity and brevity are highly desirable. Our point, therefore is, that the object intended to be attained by subsection (c) of section 96, should be attained by eliminating that particular clause, and inserting in lieu thereof a new subdivision of section 85 to much the same effect, if that be considered necessary. It will be observed that section 85 already stipulates that the policy shall be deemed to contain the whole contract, and that the application (a copy of the application is of course meant) must be endorsed upon or attached to the policy. It would be entirely satisfactory if a further clause were added to 85, that all statements made by the insured shall in the absence of fraud be deemed representations, and not warranties, and that no such statement shall be used in defence to a claim under the policy, unless it is contained in the written application thus endorsed upon or attached to the policy. As a subdivision of 85, such a clause would be unobjectionable, but as a compulsory clause to be printed in every policy, as provided by 96, it is objectionable, and almost goes so far as to invite frauds by emphasizing the statements therein made, and by drawing them to the attention of every person who sees one of our policies.

Section 96, Subsection (F).—I cannot refrain from adding a word as to the entire absence of any necessity for this subsection. The other subsections call for very full details as to the exact surrender values and other options given by a company, and to require that the bylaws shall also be printed on the policy is simply to burden the contract with a lot of useless phrasology, which will tend to make it look like a railroad bill of lading. The policyholder is not in any way interested in the general rules of the company, but only in knowing what he himself will get on his particular policy, and the exact figures for his particular policy are set forth in the schedules. There is no excuse whatever for allowing subsection F to remain in.

Subsection (J) of the same section is another one that is absolutely useless. If the proceeds on a policy are payable, for example, in twenty instalments of \$50 or \$60 each, surely it is sufficient to make a statement in the policy that the amount shall be payable in twenty instalments of, say, \$60 each, without the necessity of adding a table showing the amounts as here called for. There is nothing to be gained from burdening either the Act or policies with useless phraseology, and this subsection should certainly be eliminated.

Section 99.—The recommendations which I would make in this connection are as follows:—

Subsection 4.—That instead of eight policyholders' directors, there should be four policyholders' directors, one retiring each year.

Subsection 5.—That 'two policyholders' directors' be changed to *one* policyholders' director.

Subsection 6.—That this be eliminated.

Subsection 10.—That this be eliminated.

Subsection 12.—That five, or at the outside six, be made a quorum.

Subsection 13.—That this be eliminated, and replaced by a requirement to advertise the meeting in the official *Gazette*, or in some other paper or papers in Canada.

Subsection 14.—That this be eliminated, and replaced by a section requiring that all nominations of directors, and notices of motions, must be sent to the head office of the company at least either thirty or sixty days prior to the date of the general meeting, as the directors may by bylaw decide, the intention being to allow companies which do an extended business to name sixty days, while companies doing a business only in Canada and the neighbouring States may require thirty days.

Subsection 16.—That 'three months' be changed to 'two years,' and that the requirement that a proxy shall be used only at one meeting, or any adjournment thereof, be eliminated.

Subsection 17.—That this be eliminated.

That a new subsection be added, specifically stating that policyholders and policyholders' directors shall have no vote on any question affecting the rights or interests of the shareholders.

Section 111, subsection 2.—This section reads as follows:—

'The provisions of subsection 1, of this section, shall not interfere with the right of the participating policyholders of any such company to share in the profits realized from the non-participating branch of its business in any case in which such policyholders are so entitled under the Acts relating to such company in force at the time of the passing of this Act.'

This subsection guarantees to participating policyholders their right to share merely in the profits (and not in the losses) earned by this non-participating business. The clause assumes that there will be profits always, and not losses. Suppose, however, that there are no profit. This is not an unreasonable supposition, for in practice few, if any, companies make any profit out of non-participating policies until those policies are from seven to ten years in force. Thereafter there will probably be a yearly surplus, such surplus consisting chiefly of the excess of interest which the company is able to earn beyond the $3\frac{1}{2}$ per cent assumed in calculating the reserves. In the first ten years of the history of any company, therefore, the non-participating business as a whole is almost certain to show a deficiency, and even in older companies the question whether there will be a deficiency or not will depend largely upon the proportion of new policies to old policies. If, therefore, there should be an actual deficiency in the non-participating branch at the time profits are divided to participating policyholders could this deficiency on the non-participating business be taken into account at all when determining the profits to be paid to the participating policyholders? As the clause at present reads, I doubt exceedingly if this could be done. It looks extremely like a "Heads, I win; tails, you lose," arrangement.

Section 97 provides that every company shall keep separate and distinct accounts of its participating and non-participating business. In practice this will present many difficulties. On what basis will a company like ours be expected to separate its existing business? We have been issuing participating and non-participating policies since 1871—thirty-eight years. Will we be expected to go back to the foundation of our company, and to separate all the participating and non-participating premiums from each other; to ascertain what amount of commissions were paid on each of those premiums, and to separate such commissions from the general account; to make such division as we would be able to between the proportions of head office expenses fairly chargeable to the one branch, and to the other branch; and to separate the accumulations of the two branches year by year for thirty-eight years? I do not say that this is impossible, but I do say that it would be a herculean task, and would require a staff of accountants to be kept working at it for a long time. Even at best most items of general expense would have to be divided between the two branches in an arbitrary manner. If an agent, ten, fifteen or twenty years ago was employed on salary, how are we to divide that salary between the two branches? Every person of whom I have asked the question—will we be expected to go back to the foundation of our company, and to try to make this separation from the commencement—has replied, ‘Certainly not, that would be unreasonable.’ But if not, then on what basis are we to make the separation? If clause 97 is to take effect, I would certainly wish to avoid the huge amount of labour involved in a separation of the branches from the beginning, and yet on the other hand I am afraid to assume any arbitrary basis. I cannot forget that one of the large companies of the United States, the Union Central Life, at this very moment has a gigantic lawsuit pending, arising out of this identical point.

Another point that should certainly be settled is, how non-participating policies granted in exchange for surrendered participating policies should be treated. In regard to this there are radical differences of opinion. It is claimed by some that such policies, even though non-participating, should be left in the participating branch. It is claimed by others that as they are non-participating, they should be put into the non-participating branch, and that the non-participating branch should be kept right by having an amount transferred to it equal to the net reserve on such policies. When the profits of the non-participating branch go to the shareholders, this becomes a very important point—and it is not by any means a mere theoretical question. It is one which has threatened to break out into lawsuits of tremendous importance in connection with one American company. If our Act is to require the companies to keep independent records of their two branches, then I think it should settle just what should be done in regard to this matter. My personal opinion is that non-participating policies, issued in exchange for surrendered participating policies, should continue in the participating branch, so that participating policyholders shall receive any profits which those policies may thereafter earn.

Schedules, Page 63.—The word ‘deducted,’ at the beginning of the eleventh line of item 1, should be eliminated. To leave it in is to imply that such a deduction is the normal thing for every company, whereas the intention is to make this only a special deduction for such companies as chose to avail themselves of the privilege. Section 42, subsection 3, clearly says that it is merely a matter of option. Those companies that wish to take advantage of it can do so without the word ‘deducted,’ since the words ‘less allowance,’ two lines further on, are ample.

Schedules, Page 65.—The note attached to this schedule required that a statement of the remuneration of every officer be given, where the amount is equal to or in excess of \$4,000.

It is the unanimous opinion of the managers that this clause should be eliminated. My own views on this point were fully expressed last year, so that I need not now refer to the question again at length. I may say, however, that we all feel that it would be a great hardship and injustice to Canadian companies to require such de-

tails from them, and not to require similar details from their British and American rivals. To require such details from the Canadian branches of these outside companies would go but a very short way in rectifying the injustice. The local managers of these outside companies are the managers merely of the business in Canada, or, even in some cases only of one province or part of a province, and to publish the salaries paid to such branch office officials without giving also the corresponding figures paid to their head office men, would simply be to cause misunderstandings and to lay the Canadian companies open to improper comparisons with their rivals. It would be in the highest degree unfair to compare the salaries paid to the head office officials of Canadian companies doing perhaps a world-wide business, with the salaries paid to mere branch office officials of outside companies, without giving any statement of the salaries paid to the head office officials of those other companies. We held last year, and we hold still, that this is emphatically a case where full information should be published in regard to all companies, or published in regard to none. It is not a case of our attempting to manage the affairs of any company outside of Canada. We merely ask that you require such information in regard to their head office salaries as you ask in regard to the head office salaries of our own companies, in order to permit fair comparisons. If publicity is a good thing for Canadian companies it is surely equally good for the British and American companies. We hold very strongly that this requirement should apply to all or to none, and, so far as we could judge, this opinion certainly seemed to be shared by the members of the Banking and Commerce Committee last year.

Our Insurance Department does not ask British and American companies to supply information in the Canadian blanks in regard to their total business; though why this special concession should be made to outside companies, I am utterly unable to say. When a Canadian company goes to Great Britain it has to supply full details on the British blanks in regard to its total business. When it goes to the United States it has in like manner to supply full information in regard to its total business on the blanks prepared for that purpose by each state. And this is but right and proper. If it is desirable that Canadian policyholders should be informed as to the exact financial standing of the companies in which they are insured, then it is just as desirable to give them that information in regard to British and American companies as in regard to Canadian companies. What do we know about the securities owned by the British companies? Are they worth what they are valued at by the companies? Who knows? Who has ever seen even a list of these securities? Our Insurance Department contents itself with publishing a mere summary of the exceedingly meagre information contained in the returns made to the British Board of Trade, and which give very few details indeed in regard to the assets of the companies. In like manner, a mere summary of the American returns from the American blue books is inserted. Canada is the only country or state in the world which is so wonderfully considerate of outside companies. As the British and American companies are not required to supply returns for their whole business on the Canadian forms, the insertion of the requirement regarding salaries, on page 65, in these forms, and not in the body of the Act, is as effectual a discrimination against Canadian companies, and in favour of outside companies, as if a clause had been inserted in the body of the Act with the words added, 'This information shall be required from Canadian companies only.' I do not believe that the committee desire to do this injustice to our own companies. We have no objection to giving the information to the superintendent of insurance, whether other companies give it or not, but we do most emphatically object to such information being published, unless corresponding information be also published for all companies.

There is no clause in the Bill dealing with this matter at all. The only reference to it anywhere is in the note appended to the schedule on page 65, to which I have referred. If there were any clause in the Bill dealing with it, I would recommend some addition to that clause, but as matters stand, I presume that any modification

would have to be in the schedule. I would therefore ask that an additional sentence be added at the end of the note on page 65, as follows:—

‘These details will not be published for Canadian companies, unless corresponding details are published for the entire business of companies located outside of Canada.’

Schedules, Page 70, Details 3.—This schedule should be rearranged, for what is wanted is not the details in question in regard to the policies which may be in force at the end of any particular year, but in regard to the policies on which premiums were received during the year.

In passing I may add that all these new schedules involve a tremendous amount of additional labour, and will certainly necessitate the employment of many new hands, and the payment of much extra expense.

Schedules, Page 71.—The second item, which calls for the present value of the loading contained in the future office premiums collectable on policies in force, is of absolutely no value to us in Canada. It is a clause taken from the British returns, and is of value there in the way of giving the actuaries of other companies a chance to decide just how large a margin any particular company is retaining for future expenses, especially in the case of a company which does not value upon the net premium basis. All Canadian companies are required to value their policies on the net premium basis, by the express terms of the Act, and the schedule in question is therefore entirely inapplicable. It would involve an immense amount of work, and when the information was secured no person would care to even look at it, or pay the slightest attention to it. This clause would impose a large amount of extra trouble upon the management, of extra expense upon the policyholders, and all for what purpose? Absolutely nothing. The clause should be eliminated.

The CHAIRMAN.—We will now hear Mr. Evans, representing the industrial Life Insurance companies.

Mr. EVANS.—Mr. Chairman, I have only one or two points that I wish to touch on, particularly in reference to the limitation of expenses as it affects industrial business, sections No. 53 and 55. In section 55 this sentence occurs: ‘This section shall not apply to expenses incurred in the business of industrial insurance.’ It seems to me that sentence should come after clause 53. It is not at all clear that coming in section 55 the intention of the Bill has been carried out. It is a question whether industrial insurance companies could keep their business within the loadings of the policies if certain surplus gains were not taken into account. For instance, as an illustration of that take the business at the close of any year. Now the commissions payable on industrial insurance are all paid in advance, that is long before the premiums come in. For instance, take the business of the last five weeks of the year where the commissions paid out in advance are considerably more than the premiums received. Supposing that for the last five weeks of the year there were \$1,000 of weekly premiums put on the company’s books it would cost about \$15,000 to pay for that. All the company would receive during those last five weeks would be about \$3,000. We have paid out \$15,000 and yet we are restricted by the Act to the loadings or 42 per cent of the \$3,000 we would receive notwithstanding the fact that we have paid out the amount stated. But worse than that. The next year we cannot make the loss good because we are still restricted to 42 per cent of the premiums that come in on that business the following year. The thing is practically unworkable because you pay out the premiums you have received without any possibility of recouping yourself. We ask that the whole section with regard to the limitation of expenses be cut out insofar as it relates to industrial insurance companies or to the industrial insurance branch. I have been away for some time and have not had the opportunity of going into the Bill as I would liked to have done but I am of opinion

that it would bear very hard on the business of industrial insurance. I might point out in elaboration of what I have said as to the extreme injustice which would be involved. That a large number of the policies that come in at the end of the year lapse in the first three or the first six months of the succeeding year. Now it costs directly as I have pointed out, about 15 or 18 times the premiums to put the business on the books of the company. We receive on lapsed business only eight premiums so that there is a loss there approximately of 10 weeks' premiums. That should be paid anybody will admit by the policyholders, who come in and allow their policies to lapse. That is to say if a policyholder came in in December and allowed his policy to lapse at the end of February, the whole of the premiums during January and February that are paid should be devoted to the expense of introducing the policy in the company. But we would be prohibited from doing that under the Bill. We can only keep the amount of the loadings on those premiums which would be 42 per cent and the result would be that the funds of the other policyholders or shareholders would have to be drawn on to a prodigious extent to make up the deficit incurred by the introduction of new policyholders.

Mr. NESBITT.—Do not your industrial policies run for a term of years?

Mr. EVANS.—Do you mean are they issued for a term of years? No, they are whole life policies.

Mr. NESBITT.—That is a term is it not?

Mr. EVANS.—I thought you meant a fixed term.

Mr. NESBITT.—Well this 42 per cent applies for the term?

Mr. EVANS.—But supposing the policy lapses in the second or third month, the company cannot retain or use the premiums that have been paid in by the lapsed policyholders. For the cost of putting that policyholder on the books you can only use the loading on that premium and the result will be a premium loss to the company of nearly \$2 on every policyholder introduced. I have one more suggestion and then I am through.

Section 99. Now in respect to the business of my company this is a matter in which it is practically the only company that is vitally interested. Sub-section 17 of this section looks as though it had been put in after the clause itself had been drafted without perhaps considering the effect. For instance take my own company we issue exclusively non-participating business. We do a small ordinary business in connection with our industrial branch. Probably 15 per cent of our business is ordinary insurance which is all non-participating; we have never issued a participating policy. The result of this section if it became law would be to put the control of the company—that is eight policyholders' directors might irrevocably control the company—in the hands of policyholders representing in the aggregate voting strength only 15 per cent of the total because of course the industrial policies being a small amount and more or less a transient form of insurance would not under the Bill have any voting right.

Mr. NESBITT.—To what clause of the Bill are you referring?

Mr. EVANS.—Section 17, clause 99. It is a strange thing that with companies transacting both a participating and a non-participating business, the non-participating policyholders of participating companies should have no vote, or representation, but when it comes to a company transacting non-participating insurance the situation is reversed, and non-participating policyholders according to this sub-section 17 are given the right to vote in the affairs of the company and as respects my company, the policyholders in the ordinary branch representing only 15 per cent of the business, would have the right to elect eight directors. Consider the possible effects of that? There is nothing to prevent the representatives of this 15 per cent of the business through the policyholders' directors, from controlling the company. What is to prevent these directors from deciding to do away with the industrial branch altogether? They can easily do so by voting either at the annual meeting or through the repre-

sentation which this Bill, if passed, would give them. They could abolish the industrial branch of the company and the shareholders who have paid in in cash \$700,000, and the remaining 85 per cent of the business have no vote at all. On one side 85 per cent of our business representing 84,000 policyholders and \$700,000 of shareholders' money, and on the other side only 15 per cent of our business represented by eight directors. It is a gross anomaly. It is nothing short of grotesque, the effect a provision of that kind would have in its operation with respect to our company, and I strongly ask that consideration be given to the total elimination of that clause. We are the only company that would be effected by it and it would undoubtedly operate in the most extraordinary manner against us.

Mr. NESBITT.—Is your industrial business participating?

Mr. EVANS.—No, sir, non-participating. A strange feature of it, Mr. Chairman, is this, why should a non-participating policyholder in a mixed company be given the right to vote? The non-participating policyholder has no more rights than are given to him under his contract—why should that policyholder be given the right to vote in affairs of the company to which he does not contribute any extra premium for that right?

Now there is another point in section 99 in relation to that I suggest that the words in sub-section 9 in the second line of that subsection, for participating policies' be struck out for this reason: in the industrial business it may be that a person will insure for \$250, say and the next weeks he will insure for another \$200 and so on until he will gradually accumulate policies aggregating possibly \$1,000. Under the construction of that section our industrial policyholders who have been taking out one policy after another and have gradually secured a line of insurance up to \$1,000 or over would have a vote in the company, which is clearly a feature that I would think was not intended by the framers of the Bill, because it would be very difficult, and sometimes impossible to carry into effect—a man may have \$1,000 today, and may lapse \$250 of it next week, and then take \$300 the week following—so that it would be very hard to keep track of the industrial policies in that way. In the same connection I draw attention to section 13, which provides for notice of the annual meeting. Assuming from this subsection 9 that the industrial policyholder who had policies aggregating \$1,000—because we do not issue any industrial policy for \$1,000—then it would be incumbent upon the company to notify him by mail. Now in the first place in an industrial company the address of the policyholder is not known at the head office. It would be an absolute impossibility for the company to notify the policyholders because we do not know their addresses. It would be an impossible section to comply with, and I take the liberty of suggesting that this subsection be amended. If the industrial companies are not exempted from the operation of the whole clause then they ask that these two subsections should be amended.

Hon. Mr. FIELDING.—Surely the company has the address somewhere of its policyholders?

Mr. EVANS.—The address is on the original application, but the industrial policyholder sometimes changes his address four or five times a year. We have one address, on the application; the other addresses are contained in the agents' collection books, and in the various branch offices all over the country; they are constantly changing and we have no way of keeping track of them. I trust that consideration will be given to these two points. It is, I assure you, very vital to the interests of our company, and I think it is very unreasonable to exact the industrial companies to be brought within the same restrictions as are incumbent upon the ordinary companies. As far as the policyholders' directors are concerned, I most strongly urge that the consideration be given because in our company it might produce very extraordinary conditions.

Hon. Mr. FIELDING.—Are there many of your policyholders who take out small policies which in the aggregate amount to more than \$1,000?

Mr. EVANS.—There are not many.

Hon. Mr. FIELDING.—Then if there are not many a good deal of your argument is gone, because it is only those who hold over \$1,000 would vote.

Mr. EVANS.—Yes, but they are constantly increasing in numbers. A man may have a \$500 policy to-day, and next week he may increase it to \$750 and three months afterwards he may have \$1,050.

Hon. Mr. FIELDING.—But it is not the rule—is it not the exception and not the rule that the aggregate will exceed \$1,000.

Mr. EVANS.—Yes, but we have a large number of that class among the 80,000 policyholders we have in this country, and if these sub-stations are adopted we will have to conform to the provisions of the Bill whether the number is small or great.

Hon. Mr. FIELDING.—Yes, the trouble might be a very serious one if the whole of them came within that class, but it would not be so serious if the number was small. Can you give any idea how many of the policyholders in the 80,000 that you have hold policies for over \$1,000?

Mr. EVANS.—No, I cannot give you that.

Mr. A. H. HOOVER (Sovereign Life).—Mr. Chairman and gentlemen of the committee; I told Mr. Fitzgerald this morning I would not keep you five minutes and I am going to keep my word, and I think you will be glad to hear the announcement as it is now nearly one o'clock. The Sovereign Life Assurance Company is not here to oppose the passage of this Bill, it is in sympathy with it. The principle involved, we think, to be right, and we had already prepared and adopted plans early in the year that are in harmony with the Bill, in keeping expenses for new business within the loadings upon the first year's premiums. There are but one or two things I wish to speak of that are objectionable, but they are very few. The rate of interest was so ably spoken upon by Mr. Macaulay this morning that I am not going over that except to say that the rate of interest, with the competition among the companies, will adjust itself. With reference to policyholders' directors there is a decided objection to a large board of directors because it is unwieldy. Sixteen men are too many. It is impossible to get them together at all times. You must have a majority for a quorum and a large board is unwieldy; it is unworkable. The number should be reduced to eleven, perhaps nine would be enough for the purpose, and but one-third of them should be policyholders' directors, not one-half. The shareholder has his money invested, he risked that money in the organization of the company, he has waited a period of years for the company to develop, he is responsible for its success, he can't very well withdraw except at a loss. The policyholder has nothing at stake except his policy, he is protected in his policy because of the security afforded by the company's deposit with the government which protects that policy, and his security is supreme, he has nothing at stake except the demands of his premiums, and if he becomes dissatisfied he can step up to the office after three years and cash in. The shareholder cannot do that, hence it is not fair to the shareholders of the company if the policy holders are liable.

Hon. Mr. FIELDING.—Cannot the shareholder sell his stock as a rule?

Mr. HOOVER.—Sell his stock?

Hon. Mr. FIELDING.—The shareholder can sell his shares.

Mr. HOOVER.—Have you ever purchased stock in a life assurance company?

Hon. Mr. FIELDING.—No, but I have known many people who were anxious to do it.

Mr. HOOVER.—To purchase it voluntarily?

Hon. Mr. FIELDING.—Yes.

Mr. HOOVER.—After the stock has become valuable, not before.

Hon. Mr. FIELDING.—You are making the picture too dark for the shareholder, I am afraid.

Mr. HOOVER.—I maintain that the shareholder is required to wait for a period of years before his stock becomes dividend paying, and it is not fair, in my judgment, to

have the board equally divided. However, we are in sympathy with the principle involved in this Bill to keep the expenses in connection with new business within the loadings of the premiums.

Now I have an amendment to offer recognizing the scientific method of loading life assurance premiums for expenses and I will ask our consulting actuary, Mr. Walter C. Wright, of Boston, whom you all know by reputation, to say a few words in its favour. This is the amendment, or at least it comprises subsections 3 and 4 of section 53 with the proposed amendment:

3. No such company which shall commence business after the passage of this Act shall after the first day of January next following the tenth anniversary of the date upon which such company shall commence business, make or incur, in any calendar year, any expense or permit any expense to be made or incurred on its behalf under any agreement with it except actual investment expenses (not exceeding one-fourth of one per cent of the mean invested assets), and also except taxes on real estate and other outlay exclusively in connection with real estate in excess of the aggregate amount of the actual loadings upon premiums received in such year; or in excess of such fixed and equal percentages for participating and non-participating policies respectively, of the individual and aggregate amounts for the year of death risks or net costs of insurance under all outstanding policies issued upon the plan herein defined, according to the company's combined mortality interest and expense valuation assumptions, established as to mortality and interest in accordance with section 3 of this Act, which percentages are intended to provide equitably or proportionally for insurance expense and to limit the same throughout the duration of every such policy, by the established net valuation processes and formulæ for computing premiums and reserves, whether any such reserve may be for future expense, or other future policy liabilities; and the amount of the deduction from the valuation of the company's policies which may be made in pursuance of subsection 3 of section 42 of this Act.

4. Except as to policies issued on the plan defined in the next to the last clause of subsection 3 of this section, the loadings referred to therein shall be deemed to be the excess of the office premiums over the net premiums, such net premiums being calculated on the basis of the British Offices Life Tables, 1893 O.N. (5), with interest at the rate of three and one-half per centum per annum; Provided, however, that the excess of any such company's office premiums for tropical, sub-tropical, sub-standard or other classes of lives assumed to be subject to extra mortality, over such company's office premiums for normal Canadian lives, shall not be considered a part of such loading.

I would now ask for a hearing for Mr. Wright, who is well versed in the technical part of life assurance.

The CHAIRMAN.—Will the Committee hear Mr. Wright for a few moments?

Mr. W. C. WRIGHT, Boston.—Mr. Chairman and Gentlemen,—I am sorry to have to address you at this late hour, when you are all doubtless fatigued, because this is a novel matter. This is a reform which has had to fight its way for 20 years and is now meeting with success. Mr. Hoover has had his hopes rise and fall. He has been frightened by the mistaken opposition of his agents, but after three or four years' discussion he has become convinced that this is a right thing. What we ask, gentlemen, is to have the change recognized in the Bill, so that companies may not only be allowed to go on following the old method of loading for expense—the old and false method—but may also, and especially the Sovereign Life, be free to go on following the new and right method, r-i-g-h-t. I noticed that there was a smile going around among my brethern of the actuarial profession at the announcement of this amendment, but let me assure these brethern that we don't ask them to follow in our footsteps. If they can get along and not follow us, with a man with the energies of Mr. Hoover to introduce these plans, well and good, let them go on if they can on the wrong method. Now, gentlemen, 200 or so years ago in England, which is the birthplace of most of the science of life insurance, the question of loading premiums for expenses had not arisen at all. The Equitable Life of London, if I do not mistake the name of the

company, started business on net premiums and got along very well because their net premiums were based on the Northampton Table which exaggerated the death rate, and consequently they had all the revenue they needed for expenses especially with their very economical methods. But after competition began, and after several companies had been formed and were competing for business, without giving the full and thorough attention to the subject which they should have given it, the actuaries jumped to the conclusion that they should load their net premium with a percentage of themselves, forgetting—for they did not stop to analyse as they should—that the natural annual premium for insurance is an increasing premium, increasing with the risk of death, owing to advancing age. They took no account of the fund of excess money in the early years of the policy which would accumulate and form what is now called a reserve, thereby making their level premiums sufficient by diminishing the risks which they carried. Thus, suppose a claim occurs on an old policy when there is a reserve of half the face amount of the policy, that reserve pays half the amount of the claim, the risk the company carried at the time when the death occurred being only the balance.

Mr. Hoover sent an early copy of the Bill to me, which seems to have been changed only in the numbers of the sections. This I carefully studied and examined with reference to its fitness for what we are doing. We did not expect to find these great errors in the administration of life insurance in the past, which had not been brought to your attention, recognized in it. Of course, you were not technically educated on these points; but we found that the spirit of the Bill was entirely in accord with our purpose; and, therefore, as Mr. Hoover has said to you, we are here in hearty support in general of the Bill, and have only a few critical comments to make on it. The spirit of the Bill is to distinguish between insurance risk and investment, or money simply invested and accumulated out of the policyholder's excess payments, for his benefit in paying his death claim or in paying his surrender value; which latter amounts must be stated in the policy under your Bill, a desirable feature.

Now, in short, what was the mistake that was made by the old actuaries? They loaded the level net premiums instead of the table of mortality. It is a rule of science that true principles are determined by extreme cases. Let me place this (handing document to chairman) before the eyes of the chairman, it is a ten year endowment insurance policy. The mistake here made was to load the net premium to determine the provision for expenses, instead of loading the table of mortality.

FIRST EXAMPLE.

Mutual Life Insurance Company.

Endowment Insurance; 10 years; Amount, \$10,000; Annual premium, \$1,077; Age of issue, 35.

Policy Year.	Initial Reserve.	Annual Expense Charge	Death Cost of Insurance.	Terminal Reserve.
	\$ cts.	\$ cts.	\$ cts.	\$ cts.
1.....	893 01	183 99	81 97	837 83
2.....	1,730 84	183 99	75 38	1,707 39
3.....	2,600 40	183 99	68 24	2,610 17
4.....	3,503 18	183 99	60 71	3,547 56
5.....	4,440 57	183 99	52 53	4,521 26
6.....	5,414 27	183 99	43 77	5,532 93
7.....	6,425 94	183 99	34 19	6,584 53
8.....	7,477 54	183 99	23 82	7,678 05
9.....	8,571 03	183 99	12 46	8,815 73
10.....	9,708 74	183 99	.....	10,000 00
Totals	50,765 55	1,839 90	453 07	51,835 45

SECOND EXAMPLE.

Showing the figures of a Company operating on scientific plans.

Endowment Insurance; 10 years; Amount, \$10,000; Annual premium, \$902.01; Age of issue, 35.

Policy Year.	Initial Reserve.	—	Death and Expense Cost of Insurance.	Terminal Reserve.
	\$ cts.		\$ cts.	\$ cts.
1.....	902 01	The expense cost is 40 p.c. of each sum in the next column.	137 19	796 39
2.....	1,698 40		126 76	1,631 08
3.....	2,533 09		115 35	2,506 40
4.....	3,408 41		103 08	3,424 62
5.....	4,326 63		89 63	4,388 43
6.....	5,290 44		75 07	5,400 53
7.....	6,302 54		59 00	6,464 13
8.....	7,366 14		41 32	7,582 63
9.....	8,484 64		11 77	8,759 63
10.....	9,661 84		.....	10,000 00
Totals	49,974 14	.....	769 17	50,954 04

Little comment seems necessary on figures so conspicuously different. With an annual premium of only \$902.01, while guaranteeing the accumulation of the reserve fund at $3\frac{1}{2}$ per cent compound interest, the company making scientific charges provides for paying \$10,000 in case the policyholder may survive the period of ten years, and \$10,000 in case of previous death, for the gross cost of carrying which risk the company only provides a gross charge of \$769.17; while the mutual charges an annual premium of \$1,077 for promising precisely the same benefits, which is allowing no less than \$2,292.97 for the insurance benefit, of which no less than \$1,839.90,

or more than four-fifths of this entire charge, is for expenses. So far as the difference in premiums charges is due to the fact that the mutual promises to accumulate the reserve fund at the rate of only 3 per cent compound interest, no criticism of the greater charge by the company is called for, as it is fair to suppose that a proportionately larger amount of surplus interest may be returned by the company. But when it is considered that the other company has provided fully 40 per cent of the total charge on account of insurance for operating expenses, which would certainly seem an ample charge, no reason appears why the mutual should charge 80 per cent, or more than four times the death risk, instead of only one and two-thirds time that amount. It may be freely admitted that a ten-year endowment insurance policy, as a life insurance contract, is a somewhat extreme case, or one in which the investment feature bears a high proportion to the risk, or strictly insurance feature, but it is a well-established scientific rule that the truth can be best studied and shown by means of exceptional cases.

Now, had these old actuaries simply taken the table of mortality—I have a specimen portion of such a table—and beg to hand it in:—

OM TABLE AND OM TABLE PLUS 66⅓ PER CENT.

Age.	Living.	Dying.	Death Rate Per 1000.	Remaining.	Decrement.	Decrement Rate Per 1000.
10	100,000	338	3.38	100,000	563	5.63
11	99,662	340	3.41	99,437	565	5.68
12	99,322	343	3.45	98,872	569	5.75
13	98,979	346	3.50	98,303	573	5.83
14	98,633	349	3.54	97,730	577	5.90
15	98,284	354	3.60	97,153	583	6.00
16	97,930	359	3.67	96,570	591	6.12
17	97,571	366	3.75	95,979	600	6.25
18	97,205	372	3.83	95,379	609	6.38
19	96,833	380	3.92	94,770	619	6.53
20	96,453	390	4.04	94,151	634	6.73
21	96,063	400	4.16	93,517	648	6.93
22	95,663	412	4.31	92,869	667	7.18
23	95,251	425	4.46	92,202	685	7.45
24	94,826	439	4.63	91,517	696	7.72
25	94,387	454	4.81	90,811	728	8.02
26	93,933	470	5.00	90,083	751	8.33
27	93,463	489	5.23	89,332	779	8.72
28	92,974	506	5.44	88,553	803	9.07
29	92,468	526	5.69	87,750	832	9.48
30	91,942	547	5.95	86,918	862	9.92
31	91,395	567	6.20	86,056	889	10.33
32	90,828	589	6.48	85,167	920	10.80
33	90,239	611	6.77	84,247	951	11.28
34	89,628	633	7.06	83,296	980	11.77
35	88,995	657	7.38	82,316	1,012	12.30
36	88,338	681	7.71	81,304	1,045	12.85
37	87,657	705	8.04	80,259	1,075	13.40
38	86,952	729	8.38	79,184	1,106	13.97
39	86,223	756	8.77	78,078	1,141	14.62
40	85,467	882	9.15	78,937	1,173	15.25
41	84,685	810	9.56	75,764	1,207	15.93
42	83,875	840	10.01	74,557	1,244	16.68
43	83,035	870	10.48	73,313	1,281	17.47
44	82,165	903	10.99	72,032	1,319	18.32
45	81,262	937	11.53	70,713	1,359	19.22

According to this table out of 100,000 living at age 10 so many will die the first year, so many the second year, so many at the next age, and so on. Had these gentlemen simply taken a table like this and loaded it with fixed percentage instead of computing their loading on the net premiums, they would have discovered that they had secured provision for insurance expense just in proportion to the value of risk

BANKING AND COMMERCE COMMITTEE

carried, the provision for investment expense being a percentage of the interest earned on investments themselves. Your Bill rightly provides for investment expense in this way, although I think, as one gentleman said last week, the percentage is put a little too low, it is one quarter of one per cent, outside of certain real estate expenses. I would suggest that as the companies have no disposition to exaggerate their expenses on investments—they generally understate instead of overstate them—that about one-half of one per cent would be a better limit than one quarter of one per cent. I think that this limit would be agreeable to everyone, and it would be satisfactory to the Sovereign Life.

You see here (referring to the figures placed before the chairman) the consequence of the wrong method of providing for insurance expenses. These are the figures for a ten year endowment insurance policy for \$10,000, and the premium given here is the premium of the Mutual Life Insurance Company of New York. It is \$1,077 a year. The net premium or initial reserve the first year is \$893, and therefore the loading for expenses on this premium is \$184. The original method or general custom of loading was simply by a percentage of the net premium, which was found so extremely gross that it was abandoned years ago, and most of the companies nowadays load by a percentage of the net premium, plus a fixed amount, making a lower amount on these endowment policies particularly, a lower amount than they would otherwise get—

Mr. NESBITT.—I do not want to interrupt the gentleman, but it is one o'clock and he is going into an argument on life insurance principles apparently. I would suggest that the gentleman put his arguments in writing and lay them before the committee and we will take them up that way.

The CHAIRMAN.—About how long would it take you to make your argument?

Mr. WRIGHT.—Really I am sorry to ask you to wait at this hour. I would much prefer an adjournment and I will take great pleasure to put my remarks in writing, but I would prefer if you could hear me for a few minutes more.

The CHAIRMAN.—The committee has been sitting morning after morning and might perhaps sit a little longer if you could get through in ten minutes. Otherwise perhaps you will remain until Wednesday morning.

Mr. WRIGHT.—I would prefer to do that.

Committee adjourned until 10.30 to-morrow morning.

PROCEEDINGS
OF THE
BANKING AND COMMERCE COMMITTEE
OF THE
HOUSE OF COMMONS
IN CONNECTION WITH
BILL No. 97, AN ACT RESPECTING
INSURANCE

No. 6—MARCH 30, 1909

(Containing representations of Fire Insurance Underwriters).



OTTAWA
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EXCELLENT MAJESTY

1909

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,

Room No. 32,

TUESDAY, March 30, 1909.

The Committee met at 10.30 o'clock a.m., the Chairman, Mr. Miller, presiding.

The CHAIRMAN.—There are evidently a large number of persons who desire to be heard this morning, and as no order has been arranged for, perhaps the gentlemen desiring to be heard will give us their names and then we can reach some method of hearing them in the order in which they arrive.

Mr. W. F. MACLEAN.—I would like to make a suggestion. This Bill will involve a lot of discussion, and probably the government have agreed upon some policy which, if announced beforehand, may save considerable talk. I do not know if such is the case but if it were it would certainly shorten the proceedings.

The CHAIRMAN.—Mr. Fielding informed me last night that he would not be able to be here all the time this morning. I should think that as the committee has met to hear the representations of those interested in the Bill and as then it is proposed to send the measure to a sub-committee, the government could hardly be expected to express any policy in regard to it beforehand.

Mr. BICKERDIKE.—I don't think the government have any policy except to carry out the will of the people.

Mr. W. F. MACLEAN.—That is good doctrine, very good doctrine.

Mr. NESBITT.—As this is a new branch of the subject to be taken up this morning I may say that the procedure so far adopted has been to ask the speakers to confine themselves to the points they want to make without rambling over the whole field. The members of the committee have decided that they would not speak at all, but would listen to the representations desired to be made, occasionally putting questions to elucidate points that might seem doubtful. I think that if we continue that course we will greatly shorten the proceedings.

The CHAIRMAN.—Of course, the members of the committee will be free to ask questions. It was thought better that the outsiders, if I might use the term, should be heard first. Having heard the views of the insurance men, any members of the committee who wish to speak and express their views will have ample opportunity of doing so before we get down to a consideration of the Bill. Now perhaps those gentlemen who wish to address the committee this morning will be kind enough to give me their names.

Mr. BICKERDIKE.—I would suggest that Mr. Morrissey, who is the Chairman of the Fire Insurance Association of the Province of Quebec, be heard first while the other gentlemen who desire to be heard are handing in their names.

The CHAIRMAN.—Then if it is the view of the committee, Mr. Morrissey of Montreal will first address the committee, and perhaps while he is speaking other gentlemen who wish to make representations will hand in their names.

Mr. T. L. MORRISSEY.—Canadian Fire Underwriters' Association.—Mr. Chairman and Gentlemen: Mr. Bickerdike said that I would address the meeting as chairman of the C.F.U.A. I would like to address you, sir, in another capacity which, I think, should appeal with even greater force to the members of this committee and to the representatives of the people in parliament—I am a Canadian, born and bred, and I happen to be engaged in the business of fire insurance. Parliament in its wisdom,

has seen fit to pass what is called the Insurance Act. The Insurance Act places certain obligations and restrictions upon companies desirous of doing the business of fire insurance in Canada. We who are legitimately engaged in the business of fire insurance in Canada accept, as we must, what parliament has imposed upon us. We say that your law, whatever it may be, is no doubt a law that is in the interests of the public, and that being so there is every reason why we should respect that law in its entirety, and, I may say, if we showed the slightest inclination to disregard that law the Superintendent of Insurance would very speedily bring us up with a round turn. Now, when the matter was before the committee last year I had the honour to present to the committee and I urged then, that certain amendments be made to the Act. The object of those amendments was mainly to make the Act more effective; that it should accomplish the object of those who framed and passed the law, and with that object in view we recommended amongst other things that where you prohibit the performance of certain acts through an agent that you extend that prohibition to the principal. We also wish to make the law go further than it did then, and in fact further than it is now, and say that the person who inspects a risk, or who adjusts a loss for an unlicensed company is guilty of breaking the law. Now we contend that is nothing new, that the law as it exists was intended to cover that, but so as to remove any possibility of doubt we say, express it plainly so that there may be no doubt but that a man who is performing that act for an unlicensed company may know that he is doing it in violation of the laws of the country. We went further than that, as I say, and we said, 'Make it an offence for the person who effects insurance'—I see that the government in its new Bill which has been brought down has adopted one part of our suggestion which goes a long way—so far that these gentlemen who are opposed to what we advocate see in that a reason to come forward and call upon their supporters throughout the country to oppose the introduction of this clause that we have recommended be placed in the Bill.

Mr. OWEN.—What is the number of that clause

Mr. MORRISSEY.—Clause 7. Now, all I have to say in support of what we are advocating is that it will make the law effective, and no exception should be taken to that. The whole purport of this clause and indeed of the Act is to prevent people insuring with unlicensed companies. If it is not that I would like to know what it does mean. It is clearly the object and intention of parliament that a company, before it can do business with the Canadian public must show that it has the right to do business, and it shows that by conforming to the requirements of this Act. We say, what is the use of the Act unless it is so, unless it clearly shows that people who assume to do business are qualified under the Act to do business? That is our reason for advocating the change that we have advocated in this amendment.

We also last year pointed out to the committee that the Act as it stood then was unfair to the public. Now it may seem strange that we as underwriters should come to you and tell you what is not fair to the public, if the general estimation of us as expressed in the press and otherwise is correct; but we in addition to being underwriters are business men, we are good loyal citizens and patriotic Canadians and we say that the business of Canada should not be hampered, as it would be hampered if this clause of the Act were allowed to stand as it is, whereby a man who had property and desiring the protection of insurance beyond what could be secured from companies licensed to do business in the country could not get it. We say that the law should not be allowed to stand that way, because if the man goes outside and secures insurance he is doing it contrary to law and you are making a criminal, if not of the man certainly of the agent who has procured or is securing that insurance. For that reason we suggest an amendment whereby the person who could not secure sufficient insurance in the country could, upon complying with your regulations, get that insurance where he may. With your permission I will read the amendment that we suggest: That section 71 be amended by substituting therefor the following:—

'71. Except as hereinafter provided, every person who (a) enters into any contract of insurance in respect to property located in Canada.'

Mr. NESBITT.—That is in the last line of the clause?

Mr. MORRISSEY.—No, at the commencement. After the figures 71 the clause as it stands reads:—'Every person who——' I would place before those words the words, 'Except as hereinafter provided,' and then I would insert this new clause (a) that I have just read. Now, it may seem to some of you gentlemen that is very drastic, but I ask you what is your law as it is to-day? The object of the law as it is to-day is to prevent people from doing that very thing. It may be said that we are asking too much of parliament to prevent a man from making a contract outside of Canada which is beyond the powers of parliament. We say that being so we cannot do the impossible, neither can parliament but if parliament will do what we ask it to do it will prevent him making a contract in Canada contrary to the law, that is all we seek to do. That will, of course, necessitate making the subsections of the clause take different letters, but that will follow as a matter of course.

Then I would suggest that after the concluding words of section 71 the following proviso be added:

'Provided, however, that where it is found impossible to secure insurance, or sufficient insurance with licensed companies, such insurance or shortage of insurance, may be effected with unlicensed companies, but in such cases the person effecting such insurance shall forthwith, or within the period of ten days from the effecting of such insurance, file with the superintendent an affidavit setting forth that having after diligent effort failed to secure the necessary insurance in licensed companies, he has effected such insurance with unlicensed companies, and specifying the date, the name of the company, person, partnership or association with whom such insurance has been effected, the amount of such insurance, the premium paid and the location of the property insured; and upon the receipt of such affidavit it shall be the duty of the superintendent, within ten days from the receipt of such affidavit, to publish the particulars therein contained in the *Canada Gazette*. The provisions of this section with regard to the penalty to be inflicted for any infringement of the preceding provisions thereof to be applicable to any infringement of this proviso.'

Now, Mr. Chairman, that is the amendment that we ask you to make in section 71 of this Bill. I would like to draw the attention of the committee to the views taken by some other interests. I have here a circular issued by the Canadian Manufacturers Association drawing the attention of the members of that Association to the clauses that have been inserted in the new Bill that were not there last year, and they point out that if the amendment becomes law it would shut out from Canada the New England mutuels, and other unregistered companies, with whom many of the manufacturers have found it advantageous and necessary to insure. No surplus lines are permitted in the proposed Bill.'

If you adopt our amendment provision will be made for surplus lines, so that objection of the manufacturers is met. Let us consider the objection as expressed in this circular. Suppose it does shut out from Canada the New England mutuels, Canada can get along; but if it does not necessarily shut out from Canada the New England mutuels. If the New England mutuels choose to comply with the laws of Canada they can come into Canada in the regular way. That is as it should be. It may be said that they find it very advantageous to use these New England mutuels. Possibly, but I would just like to say that the underwriters of Canada are prepared to give to the insuring public of Canada just as good service as can be obtained from the New England mutuels or any other qualified company.

Mr. GORDON (Nipissing).—At the same rate of insurance?

Mr. MORRISSEY.—Practically the same rate of insurance. I would say this much that our system of insurance differs from the mutuels, inasmuch as once we make a rate that fixes it, be it too high or too low, I do not deny that the stock companies are in business for profit, but judging from the results they have not had much op-

portunity of making that profit, on the whole they have not succeeded to any great extent. There is not any industry I know of but if it went through a period equal to the time covered by the statistics and could not show a better return on the risk run, but would not come to parliament saying: 'You must give us protection or we must shut up shop.' But the insurance companies will pursue their course as they have right along, always hoping for a turn of the tide.

Mr. GORDON (Nipissing).—Is it not a fact that the mutual companies give much lower rates than the stock companies?

Mr. MORRISEY.—It is certainly necessary to consider the difference between the two systems. The mutual company will issue a policy, the man who takes the policy becomes an insurer as well as the insured; he takes the risk, and if the experience is unfavourable he has got to stand it. If the experience is favourable he gets the benefit, there is no dispute about that. It may be urged upon this committee that the manufacturing community of Canada will suffer some great hardship if what we wish is passed into law. I deny that. I say it is not so. A member asked me about rates. I will tell you. It is possible there may be a lower rate, but I will tell you now, if you will point out to me any standard sprinkler risk in Canada I will undertake to provide all the insurance that is required on that risk at the rate of 15 cents a hundred. It is possible that you may have held up to you, and I have no doubt it is true, that considering the rebate that is paid on the mutual policy the cost has been less than that, but suppose it has been less? I do not know that it would be a serious matter, it would not interfere with the dividends of those companies at all.

Mr. LALOR.—You are not accepting risks to-day at 15 cents?

Mr. MORRISEY.—Yes, we are, but I will say this much, that many of the manufacturers' best risks are not coming to us; if we had the whole of the business of Canada we would be better equipped to handle that business than we are to-day, and we might bring the cost down, because the volume of business has an important bearing upon the cost of doing that business. But from the fact that a great portion of that business is placed in these New England mutual concerns is one reason why we are not enabled to give as cheap rates as other companies can.

Mr. ARMSTRONG.—Can you give us any idea of the number of manufacturers in the Dominion of Canada that are insuring in these mutuals?

Mr. MORRISEY.—Well, no, I could not. I think possibly that the manufacturers might, but if they know it they have not disclosed it to us. Furthermore they say here, and I marvel at it they with so little compunction state the fact that their members will be prevented from placing insurance in 'other unregistered companies.' It is simply astounding to me to think that a business body like the Canadian Manufacturers Association should practically come out with the public announcement and say. 'If this Bill becomes law it will prevent us from evading the law as we have been doing up to the present time.' That is the position these gentlemen place themselves in.

Mr. BICKERDIKE.—Will you tell the committee whether the mutuals can do business at a lower rate than you can? Is it because they do not pay any taxes in the country, or what is the reason?

Mr. MORRISEY.—That is one reason, they do not pay taxes, they are not subject to the imposts that companies coming into the country and becoming regularly established are subject to. That is one reason, but to what extent that would operate I would not pretend to say. But I say the reasons that the manufacturers give to this house when they come and urge that protection be placed upon their products, because the money will be kept in the country applies with equal force to the business of fire insurance. If it is a desirable thing that the manufacturing of those goods be done in Canada even at an enhanced cost it certainly applies with equal force to the insurance business.

Mr. PERLEY.—Do I understand you to say that the manufacturers have been evading the law up to the present?

Mr. MORRISEY.—If I read this circular aright I think that the inference is quite clear. I will read it again:

‘If this proposed Bill become a law it would shut out from Canada the New England mutuals and other unregistered insurance companies, with whom many of our manufacturers have found it advantageous and necessary to insure.’

Now, if there is anything in the law of Canada that permits the manufacturer or any other citizen of Canada to insure in an unregistered company, no matter whether it be a New England mutual or any other company, I would like to have that section of the law pointed out to me.

Mr. PERLEY.—At the present time there is no section of the law which forbids it.

Hon. Mr. FIELDING.—It does in general terms. The new Bill put a little more clearly than the old law what is in the law now. The law forbids doing business of that character.

Mr. OWEN.—Mr. Chairman, what was the object of placing this clause in the Bill?

Hon. Mr. FIELDING.—It makes the existing law a little more clear. I am quite aware it is a very contentious clause. The policy of parliament has been to forbid doing that business in unlicensed companies, that is the provision of section 60 of the present law, but this makes it a little more clear and more rigid.

Mr. OWEN.—Why do you object to doing business with outside companies?

Hon. Mr. FIELDING.—It is a large question. Why do we object to doing business with outside companies that come into competition with the manufacturers, and even go to the extent of making regulations requiring manufacture in Canada? However, I am not arguing the point.

Mr. PERLEY.—As I understand it, under the existing law an outside company cannot have an office in Canada doing business here, but is there anything in the present Act to prevent any manufacturer from insuring in a New York company by letter without the solicitation of any agent?

Hon. Mr. FIELDING.—It is rather a legal question, I think, the purpose and intention of the law is that, but it is a legal question, and I am not going to give judgment on legal questions.

Mr. GORDON (Nipissing).—The purpose in passing this, as I understand it, is to shut the other companies out.

Hon. Mr. FIELDING.—No, the present law shuts them out, but this is rather barring the gate a little.

Mr. OWEN.—But what I want to get at is what they have to do to comply with the law? If it is to be registered, what would it cost them to become licensed under the Act? Is it a question of cost only?

Hon. Mr. FIELDING.—I don't think it is that, they do not want to establish an organization in Canada.

Mr. MORRISEY.—The Act is perfectly clear, it lays down what is required of a company in order to obtain a license in Canada. Among other things it has to put up \$100,000 for the security of its policyholders in Canada, that is what the Bill says. Some people tell us that it is not an onerous thing at all, that the \$100,000 is still ours after we have put it up, that we get interest on it. We say, ‘All right, gentlemen, we concede that, but let the other people put up the \$100,000 too.’

Mr. MONK.—If I am in order, I would like to point out to the committee this clause 71 is going to work a great hardship upon us in Montreal, and I hope the committee will strike it out, because apart from the consideration of other reasons, it interferes absolutely with the freedom of contract. In the city of Montreal we are in a rather peculiar position. The underwriters there have, and properly I think, exacted from the city the execution of certain improvements before they put down their rates to what we should consider to be fair rates. As far as I am aware the city has to a certain extent, but not fully, complied with those requirements, and in the meantime those who are obliged to insure there under this section will be forced

to insure with a set of underwriters who have themselves, without any appeal whatever, the right to fix the rates. There is no appeal. We have been struggling in parliament for ten years to have an outside authority to fix the rates of railways. We have urged this point until we have obtained an outside authority with the very best results to control the rates of telephones and public utilities generally, and are we going to enact this clause now placing people who wish to be insured entirely under the control of and without any appeal whatever from the underwriters? Why, it is interfering with the freedom of contract which belongs to individuals to make a contract with any man or company (never mind where the company is situated or who that man is who satisfies him) for indemnity in case of fire. Why are you going to do so? That is to my mind the real question. I understand that our insurance law is so framed as to give guarantees to the policyholders, also to make it sure that any companies offering foreign insurance, or companies doing business outside the country, will provide sufficient guarantee as required by the Dominion law, but there is no authority to decide whether the rate asked me for insuring my house is a fair rate; I think it is not, and I find insurance elsewhere at what I consider the usual rate, and these gentlemen underwriters are going to say, 'Why there is a provision in the law that obliges you to insure with us and there is no appeal.' It is virtually sanctioning a combine. I have nothing to say against insurance companies, but I say we have no right to impose upon the public at large that condition unless you are prepared to say that we can appeal from their decision as to the rate to some outside and independent authority. I think that is a most unfair position and I will fight it as far as I can, and I hope parliament will not sanction it.

Mr. MORRISSEY.—I have listened with a great deal of interest to the remarks that have just been made by Mr. Monk, and I suppose that if that gentleman is satisfied he is going upon entirely false premises then he will withdraw his objection and support the amendment which I have asked. Mr. Monk stated that the association in Montreal names the rates, and it is impossible for anyone to get insurance outside of those rates. I want to say to Mr. Monk and to you gentlemen of the committee that that is not the case, that one of the things we suffer from perhaps more than anything else is the competition from companies that are not members of our association.

Mr. GERVAIS.—Are all those companies not members of your association?

Mr. MORRISSEY.—There are some companies doing business there which are not.

Mr. GERVAIS.—How Many insurance companies in Montreal are outside of your association?

Mr. MORRISSEY.—I do not like to say offhand, because they are cropping up every little while, but I say there are lots of companies, and Canadian companies too, many provincial companies other than those licensed by the Dominion—but I fancy there are not less than fifteen or twenty.

Mr. GERVAIS.—But holding provincial charters?

Mr. MORRISSEY.—Some of them have provincial charters and some of them have Dominion licenses.

Mr. GERVAIS.—The Mount Royal is the only company that is not under charter.

Mr. MORRISSEY.—That is not the only company, there are many.

Mr. GERVAIS.—Is it not a fact that if you are refused by one of the companies of the combine you are refused at once by all the members of the combine?

Mr. MORRISSEY.—No, it is not so.

Mr. PERLEY.—I think it will be fair to tell us what percentage of the business is done by the companies licensed in Canada who are members of the Underwriters Association. I think that will be a fair way to put it.

Mr. GERVAIS.—I will give you an illustration of how it works. Last fall I had a case where a company was going to be wound up, and I tried myself, I went and begged in the office of a large insurance company in Montreal for a certain quotation on rates for the reinsurance of the building, but the ex-manager had quarrelled with the manager of one of the insurance companies in Montreal and everybody was at

war against him, and I had to go to some New York company to get a temporary policy of insurance for six months. Is it not a fact that if you go to war with any one of the insurance managers in Montreal you are at war with the world?

Mr. MORRISSEY.—Most assuredly and emphatically, no.

Mr. NESBITT.—Are we not drifting a little now? We have had good order, and many of the gentlemen on the committee will have the opportunity to argue these points after these people have gone away.

Mr. BARKER.—If we are going to get on at all the better way is to let this gentleman put his case without interruption, unless some question is necessary to elucidate the points. There will be other gentlemen heard on the opposite side. I presume, and we can hear all that is to be said on one side and all that is to be said on the other.

The CHAIRMAN.—We had better adhere to that understanding which was arrived at when we first took up the consideration of this Bill and let the gentleman representing the different interests place their case before the committee and the members can argue the merits afterwards.

Mr. PERLEY.—I would simply like an answer to my question. What percentage of business done in Canada is done by the members of the Underwriters' Association?

Mr. MORRISSEY.—I will state frankly that I have never looked it up, but I think that information is available to any member of this committee who wishes to take the trouble because it is all on record in the blue books. So far as the Dominion companies are concerned the reports of the Superintendent of Insurance will show what is in one class of company and what is in another. But in addition to that there are numerous provincial companies who make no returns whatever to the Dominion authorities, and who are doing business quite freely in all the provinces of the Dominion. What percentage of business they have I am not in a position to state, but I can look it up and offer that information to the committee if desirable.

Mr. GERVAIS.—These provincial companies are mutual companies, are they?

Mr. MORRISSEY.—No, they are not necessarily so.

Mr. GERVAIS.—As a matter of fact is there one single provincial company in the province of Quebec not a mutual company?

Mr. MORRISSEY.—I think there are some. There are companies that started as mutual companies and which have, through some process, become stock companies.

Mr. GERVAIS.—The Montreal Canada is one that procured a charter.

Mr. MORRISSEY.—The Montreal Canada is one of that class of companies you have mentioned.

The CHAIRMAN.—Perhaps the committee will allow Mr. Morrissey to complete his statement of the case.

Mr. MORRISSEY.—Perhaps we might now consider what objection has been raised by an important commercial body, the Montreal Board of Trade. They were good enough to publish the resolution which they passed at a meeting held yesterday, and I will read it. They say:

'Whereas section 71 of Bill 97 'An Act respecting insurance' now before Parliament will have the effect of creating a monopoly and combine of the fire insurance business of Canada.'

That is a false premises. They are starting off with an entirely erroneous conception of the facts of the case. As I have already said there are a number of companies in Canada now which are outside the combine, and there are some companies which have come into Canada recently which have not joined what is called the combine—we deny that there is a combine. We say it is to the interest of the public that we should charge adequate rates. On the one hand gentlemen here talk of being compelled to go to weak companies; what produces weak companies? It is the writing of insurance at too low rates. Why a body such as the Montreal Board of Trade should set themselves in opposition to insurance companies is more than I can understand. It must be apparent to these gentlemen who have paid any attention to what

has transpired in the past that those very companies they are so ready to condemn have stood between the public and financial ruin on more than one occasion. Take the great fire of St. John as well as all the conflagrations that have taken place since, and those companies stood the brunt of the fray, and met their obligations and paid the losses in a manner which nobody could find fault with. Why then a great commercial body such as the Montreal Board of Trade should make an assertion and should send a large deputation to parliament to prevent the passage of this Bill is something beyond my comprehension altogether. I do not know why such an idea as that conveyed in this clause of the resolution should prevail at all. The resolution proceeds:

‘Whereas it is admitted even by the Fire Underwriters Association that companies licensed in Canada cannot handle the total fire insurance of the country.’

I do not know that it is admitted, but if it is admitted I submit to you gentlemen that you make a way whereby it will be possible to have the insurance business in this country placed in accordance with the laws of the country. They also say:

‘Whereas the assured should have the right to purchase insurance in the cheapest market.’

I do not want to elaborate that question at all as to the right of people to purchase insurance in the cheapest market. It may be that what these gentlemen desire to do is best to do, but if it is desirable for them to do it it is best for all. Why should you say that one class of the community should be given a privilege not accorded to all classes? If it is a desirable thing to make insurance free to one class of the community make it free to everybody. Why is this Bill being passed? We are not asking for the Bill, it is not for the protection of the insurance companies but for the protection of the public, and if you in your wisdom say that we must have it as a law on the statute books of the country for the protection of the public, then in all fairness apply it to all alike, and make every company that comes into Canada to do business with the public conform to all the laws.

Mr. BICKERDIKE.—According to the way I read it you simply ask that every one who wants to effect insurance in Canada will give the preference to the home companies?

Mr. MORRISEY.—In effect that is it, and if he cannot get it here he can go outside and can do it legitimately.

Mr. ARMSTRONG.—Is there any limit at the present in the amount of insurance you can take on any one risk?

Mr. MORRISEY.—Of course it will depend upon the risk. If you will point out to me a risk of standard construction under sprinkler protection, and not exposed to any danger from other hazards, I would say practically there is no limit to the amount that can be placed in Canada. But what is more, if the business is kept for companies in Canada, it will make those companies who want to get the Canadian business come in here under the Canadian laws.

Mr. OWEN.—Is 15 cents on the dollar the lowest rate you would give?

Mr. MORRISEY.—I would not say it is the lowest, I would say that there might be even a lower rate than 15 cents; but I would say that I think it is unreasonable for the company to assume these very large liabilities unless the companies feel sure that the premium is commensurate with the risk, they would not do so unless they had the disposition to meet the public, and where it is found that we can reasonably take on this liability without jeopardizing the interests entrusted to us, we will give the lowest rate consistent with the risk run.

Mr. OWEN.—What is the lowest rate of the mutuals?

Mr. MORRISEY.—The mutuals have practically no fixed rates.

Mr. GERVAIS.—Do you dare to say there are no fixed rates.

Mr. MORRISEY.—I dare to say that they have no fixed rates, and that is the strong point they hold out to the assured that ‘We charge you just what the business costs, and we credit you with any surplus you may have paid us.’

Mr. GERVAIS.—What is the average rate paid to the mutuals.

Mr. MORRISEY.—I cannot tell you what it is.

Mr. GERVAIS.—As a matter of fact is it not true that one can get his property insured in the mutuals for one-third what you are charging in your company?

Mr. MORRISEY.—I do not think so.

Mr. GERVAIS.—Is it not the case?

Mr. MORRISEY.—I will not deny what I have no knowledge of, but what I will say is I do not believe it.

Mr. GERVAIS.—Have you ever tried to get property insured?

Mr. MORRISEY.—To get property insured? Yes.

Mr. GERVAIS.—By the mutuals?

Mr. MORRISEY.—No, not by the mutuals—I observe the law.

Mr. GERVAIS.—Is it not true that you can get your property insured in the mutuals for one-fifth what you charge?

Mr. MORRISEY.—If I have told you that I do not know that you can get it for one-third and that I do not believe it, I can tell you with equal truth that I do not know that you can get it for one-fifth, but I certainly do not believe it.

Mr. GERVAIS.—You do not believe it, but you do not deny that it is true.

Mr. MORRISEY.—I am not in a position to deny it, I have no knowledge of it, I certainly do not believe it.

Mr. NESBITT.—Is it a fact, or is it not a fact that the New England mutuals make all firms or persons who insure with them put their premises in a certain condition before they will insure them at all?

Mr. MORRISEY.—That is the fact, there is no question about it, that the mutual companies have a system of inspection and upon the risk being kept up to a standard which enables them to give these very low rates. It must be conceded and recognized that the insurance is carried at a very low rate because the insured first spends his own money to get his property up to the mark so that it will not burn. But we could employ the same men as the New England mutuals, if need be, and we might say to the insured that you must do the same as the mutuals require you to do; but unfortunately when the stock companies go to a man and say, 'Put your risk in a good condition so that it will not burn,' the man is likely to say, 'If you don't want it other companies will take it.'

Mr. NESBITT.—If the stock companies can do in Canada what is now done by the mutual companies in the United States, as you say they can, why do you not do it and get the business?

Mr. MORRISEY.—That is what we want to do. I do not think there is any need of the mutuals at all.

Mr. HARRIS.—What would be the average rate charged by the stock companies?

Mr. MORRISEY.—The average rate? That is very misleading, but I think the blue book will show that it varies probably all the way between 1:40 and 1:60.

Mr. HARRIS.—You stated there is no risk in Canada that the companies cannot write to-day, no standard risk?

Mr. MORRISEY.—I stated that as my belief.

Mr. HARRIS.—Would they be able to write that without reinsuring in companies that are not registered in Canada.

Mr. MORRISEY.—I would say there is nothing in the law that prevents a company complying with the law from making reinsurance arrangements. I can elucidate that if it needs it. What I was about to say when I was interrupted was this, that there is nothing in the Insurance Act of Canada that prevents a company that has complied with the laws from making reinsurance arrangements with any company outside of Canada. But I say further that a licensed company in Canada is obliged under the law to put up with the Government of Canada every cent of reinsurance reserve that it has collected from the public in Canada as a security that it will live up to its obligations. If you say it is a desirable thing that that privilege be cut off

from the companies the companies will not raise a word of objection, because if you are going to do that you are going to create a condition which, if these companies are what you seem to think they are, will give them the opportunity of their lives. Because you ought to know there is nothing that will conduce to higher prices more than a shortage, and if there are not sufficient facilities in the country to handle the insurance of the country then the companies that are here to do it will have it all their own way.

List of Companies' Members of the Canadian Fire Underwriters' Association, as submitted by the Secretary of the Association.

Ætna Insurance Company of Hartford, Connecticut.
 Alliance Assurance Company, Limited, of London, England.
 Atlas Assurance Company, Limited, London England.
 Acadia Fire Insurance Company, Halifax, N.S.
 British America Assurance Company of Toronto, Ontario.
 Caledonian Insurance Company of Edinburgh, Scotland.
 Commercial Union Assurance Company, Limited, of London, England.
 Connecticut Fire Insurance Company of Hartford, Connecticut.
 Canadian Fire Insurance Company of Winnipeg, Manitoba.
 German American Insurance Company of New York, New York.
 Guardian Assurance Company, Limited, of London, England.
 General Accident, Fire and Life Assurance Corporation of Perth, Scotland.
 Hartford Fire Insurance Company of Hartford, Connecticut.
 Home Insurance Company of New York, New York.
 Insurance Company of North America, Philadelphia, Pennsylvania.
 Law Union & Crown Insurance Company of London, England.
 Liverpool & London & Globe Insurance Company of Liverpool, England.
 London & Lancashire Fire Insurance Company of Liverpool, England.
 London Assurance Corporation of London, England.
 Manitoba Assurance Company of Montreal, Quebec.
 Merchantile Fire Insurance Company of Waterloo, Ontario.
 New York Underwriters' Agency of New York, New York.
 North British & Mercantile Insurance Company of Edinburgh & London.
 Northern Assurance Company of Aberdeen & London.
 Norwich Union Fire Insurance Society of Norwich, England.
 Nova Scotia Fire Insurance Company of Halifax, N.S.
 Occidental Fire Insurance Company of Wawamesa, Manitoba.
 Pacific Coast Fire Insurance Company of Vancouver, B. C.
 Phenix Insurance Company of Brooklyn, New York.
 Phoenix Insurance Company of Hartford, Connecticut.
 Phoenix Assurance Company of London, England.
 Quebec Fire Assurance Company of Quebec, Quebec.
 Queen Insurance Company of America, New York.
 Richmond & Drummond Fire Insurance Company of Richmond, Quebec.
 Rochester German Insurance Company of Rochester, New York.
 Royal Insurance Company of Liverpool, England.
 Springfield Fire & Marine Insurance Company of Springfield, Mass.
 Scottish Union & National Insurance Company of Edinburgh, Scotland.
 Sovereign Fire Assurance Company of Toronto, Ontario.
 Sun Insurance Office of London, England.
 Union Assurance Society of London, England.
 Waterloo Mutual Fire Insurance Company of Waterloo, Ontario.
 Western Assurance Company of Toronto, Ontario.
 Yorkshire Insurance Company of York, England.

Mr. B. LAIDLAW.—I would support generally the presentation of the case by Mr. Morrissey, and I think it is not necessary to take up your time further than to suggest that it is quite fair that when we have an insurance law which the Canadian companies are bound to observe no one else should be permitted to come in and write insurance without also complying with those regulations. Under the law it is free to any and all companies who desire to comply with the regulations of the Insurance Department to come here, make their deposit, be licensed, and do business in a legitimate and lawful way. Now, in regard to the number of companies I can emphasize again what Mr. Morrissey has pointed out, that more than one-half of the companies doing business in the country are not members of the Canada Fire Underwriters' Association, and secondly, that we have right here in Canada a very, very active force that will always tend towards the regulation of insurance rates, and even if this regulation is passed as we have asked for it and that the law be made clear that the insured shall not be permitted to import insurance from outside companies, that the companies licensed are subject to competition here which will regulate the prices. Further the fact that insurance is controlled and limited to companies doing business in Canada will probably, as Mr. Morrissey has stated, induce other companies to come in. One gentleman has stated that in the city of Montreal he was in a certain position with regard to rates, and that although the city of Montreal had made certain improvements in fire appliances still the insurance companies compelled him to pay certain rates for that deficient protection. That is exactly what the fire insurance companies do. They try to deal fairly with all. Their whole policy and scheme is to deal fairly and honourably not only with a favourite class, but with all classes of the community. We rate all cities under a certain schedule, by which if a city has poor appliances they have to pay a higher rate than those cities which are better equipped. And if a man puts up a poorly constructed business premises he does and should pay a higher rate than the man who has a well built and properly protected establishment. We are here to do business with all the country and with all classes of the community and we are charging rates that range, as has been stated, all the way from fifteen cents on some risks to 10 per cent on others. The whole principal of our business, as I stated, is dealing fairly and equitably between one class of the community and the other. As has been stated, parliament has been trying for years to prevent the railway companies differentiating between one class of shipper and the other; to get the telephone companies to charge equitable rates; that is exactly what the fire companies have been doing and are doing. Our whole scheme to-day is to deal fairly and equitably between one class of the community and the other. And what the manufacturers are trying in connection with their insurance and, I say it frankly, that what the manufacturers have tried for years, is to get advantages from the insurance companies over and above certain of their competitors, in the way of insurance. I do not hesitate to say that if they had been made to comply with the law and insure their property in Canada, and if they are made now to insure their property in Canada, the companies are prepared to give them insurance protection on the risks which they say they wish to place and to give them very low rates.

Mr. ARMSTRONG.—Equally as low as the mutuals?

Mr. LAIDLAW.—Equally as low, considering the difference in the mutual and the stock principle.

Mr. ARMSTRONG.—What is the difference between the mutual and the stock principle?

Mr. LAIDLAW.—There is very little difference; when you get to fifteen cents there is not more than one or two cents, perhaps three or four cents difference; and on \$100,000 you can figure for yourself how much difference that makes. It is very small, a mere bagatelle.

Mr. ARMSTRONG.—There is no question in your mind but what the companies operating in Canada would be quite able to undertake all these risks. My reason for asking this is that I know of one company which in a letter this morning states that

they had a \$800,000 risk in the United States companies. Will you men take it for a similar rate and deal as liberally with it?

Mr. LAIDLAW.—We will deal liberally with it, but I would not say at what rate until we had looked into the risk. But we will deal equitably with this and every other risk in the country, and furthermore, if we could not handle the risk the amendment that we suggest would enable him to get that insurance with any company outside Canada.

Mr. LALOR.—What is the difference made in the rate between a sprinkler and a non-sprinkler application on the same property?

Mr. LAIDLAW.—In some cases one-fifth the rate, in others one-tenth and in some cases on-half; it depends upon the nature of the sprinkler protection or the hazardous nature of the risk and the construction of the building.

Mr. REID (Grenville).—What is the difference between the rate charged by the mutuals in New England and your rates, that is on risks that the mutuals take?

Mr. LAIDLAW.—The difference on the risk that the senior mutuals in New England would accept and what we would ask would probably be three or four cents at the outside.

Mr. LAIDLAW.—That is not correct.

Mr. ARMSTRONG.—Is it not the case that a number of large companies, such as lumber companies, have applied for insurance in companies such as you represent, and that they have been unable to obtain it?

Mr. LAIDLAW.—I do not know of any, but if there are such the amendment that we suggest clearly provides that if there is not sufficient underwriting capital in the country they are free to go outside.

Mr. ARMSTRONG.—Do you know that there are some in Ottawa that are in that position?

Mr. LAIDLAW.—There may be, I do not know, but if there are any the amendment we propose provides for it.

Now there is another question I would like to present to the committee and that is in regard to the matter of advantages to the manufacturers themselves and to the public generally in the placing of the insurance in the country. Our expenses in doing business are frequently cavilled at and they say, 'Your expenses amount to 30 per cent of your income, that is unreasonable.' Sir, I can say in regard to that that if it is unreasonable we can justify it so far that it is less by five per cent than any other civilized country in the world, and it is more than five per cent less than in the United States or Great Britain. Whatever the expenses may be, whether it is 25 or 40 per cent, all of that money that is paid out for expenses is distributed in this country, every cent of it is paid out in Canada. About one-half of it is paid in commissions to agents and it is distributed among citizens of our country in the purchase of clothing, boots and everything else manufactured by Canadians in Canada. The other half is expended for office expenses and inspection expenses and is also spent in Canada, and the companies also pay taxes here. Whereas for very \$1,000 premium that goes out of this country to the companies of United States and other countries there is not one cent spent in Canada. Is it not a very fair proposition when we come forward to the manufacturers and say to them, 'Buy goods made in Canada; buy insurance made in Canada, and have 30 per cent expended in doing that business in Canada, rather than buy insurance made in the United States and have 30 per cent expenses distributed in Philadelphia, New York or in England and other countries.' I say it is unfair.

Further than that, if they will insure here it will put us in a very much better position to handle these large risks. We have, at very considerable expense, equipped ourselves to handle these large risks by employing experienced men. We have three inspectors in Montreal and three in Toronto, and we will have five or perhaps ten may be necessary if we had all the business. We will increase them as the business increases. Many of the manufacturers have recognized the fairness of our position

and are insuring with us, and I think we are insuring more than one half of the manufacturers' sprinkled risks in Canada to-day. It is our regret that a large number of them do not take that stand apparently. In my own personal experience I know of a case where for the matter of \$25 or \$50 a year, a manufacturer will place his entire insurance out of the country.

Mr. A. E. KEMP.—As you increase your facilities you increase your insurance of manufacturers' risks in Canada?

Mr. LAIDLAW.—Yes, they are insuring more and more with us, and I want to point out that we are in a position to deal with this class of insurance which the manufacturers advocate should be allowed to go out of the country.

Mr. OWEN.—You are asking that the manufacturers shall insure in Canadian companies, that they shall buy home-made goods manufactured in Canada. If I mistake not, you have on this morning a suit of clothes made from imported cloth.

Mr. LAIDLAW.—That may be, I do not know where the cloth was bought, but the suit was made in Canada. If the cloth was not made in Canada it paid a duty to the government. I am quite content, sir, to let the manufacturer insure out of the country if the government will put the same tax upon the insurance policies imported that they do upon my clothing. If the government will tax the premiums of the companies that come into Canada and take this insurance at 35 per cent of the premiums, all right, that is only fair.

Mr. KEMP.—You want to tax them 100 per cent.

Mr. LAIDLAW.—No, I would not.

Mr. LALOR.—The underwriters name an arbitrary rate, if that is altogether too high what recourse has the insured?

Mr. LAIDLAW.—With one half of the companies in Canada not within the Association, and inasmuch as further than that there is competition amongst ourselves, I do not think there is any fear. We are reasonable people, we comply with the law, and I think there has never been a case where we have not dealt fairly with the public.

Mr. LALOR.—I can give you one and a very striking instance.

Mr. LAIDLAW.—I will defy anyone to show an instance where the companies have arranged things in Canada to hold up the insurer because the risk was a large one. On the contrary, the policy of the companies has always been to give lower rates on the larger risks.

Mr. LALOR.—I am speaking of smaller risks.

Mr. LAIDLAW.—Then there is ample competition, there are sufficient companies outside the Association to write up to \$100,000 on any risk at all.

Mr. BLAIN.—You have made comparisons between the rates of stock companies and mutual companies; can you give us a comparison between the rates in the mutual companies in the United States and the mutual companies in Canada?

Mr. LAIDLAW.—The mutual companies in Canada do not attempt to handle the same class of risks as the mutual companies that you refer to in the United States. There are mutual companies in the United States, however, that operate along the lines of the mutual companies in Canada. But the mutual companies that you have in mind, the New England mutuals, write only the highest class of mills and sprinkled properties. The manufacturers will come forward probably, and with truth will say, that the best rate I could get was 75 cents or \$1.00 on my property, and so I went away to the United States. I admit that probably that was quite true five years ago, but it is not true to-day. Conditions are entirely changed as compared with five years ago, and whereas it might have been a good argument then that the insurance companies are asking that the law be amended to prevent a man doing something which the companies here cannot do, I say freely that we are now amply able to cope with the situation, and I believe if the law was passed as we suggest that ample satisfaction would be given to all the manufacturers in the country.

Mr. KEMP.—You admit it could not have been done five years ago?

Mr. LAIDLAW.—Five years ago it was different. We had not the organization

then that we have to-day, but we have the organization now and have had it for some time.

Mr. GERVAIS.—Have you any statistics showing the rates you have charged on what you call the sprinkler business for the last five years?

Mr. LAIDLAW.—I do not quite understand what you mean.

Mr. GERVAIS.—You say the New England insurance companies are doing a similar line of business with manufacturies which have been supplied with sprinklers.

Mr. LAIDLAW.—Do you mean that you want me to tell you what is the average rate?

Mr. GERVAIS.—What is the amount of the reduction in rates that you have been making for the last five years in the case of factories supplied with sprinklers?

Mr. LAIDLAW.—We have made the greatest reduction.

Mr. GERVAIS.—What do you mean by 'greatest'?

Mr. LAIDLAW.—There are reductions where the rate has been $2\frac{1}{2}$, and it has been reduced to 25 cents. Is that big enough reduction?

Mr. GERVAIS.—Have you any statistics to show it?

Mr. LAIDLAW.—If you come into my office I can show you the individual risks.

Mr. LALOR.—There are no average rates applied to each risk?

Mr. LAIDLAW.—Each risk is treated on its merits.

Mr. GERVAIS.—Have you any statistics showing the amount of losses the Canadian companies have suffered on factories equipped with the sprinkler system for the last five years?

Mr. LAIDLAW.—No.

Mr. GERVAIS.—Is it not a fact that in the factories which have been provided with sprinklers and which have been burned down the insurance companies have not lost more than ten per cent?

Mr. LAIDLAW.—It is more than that, I am sure.

Mr. GERVAIS.—Have you any statistics on the point?

Mr. LAIDLAW.—I have no general statistics but I have my own statistics which show the loss ratio has been very much greater than that.

Mr. GERVAIS.—Have you the statistics to show the loss ratio within such and such dates?

Mr. LAIDLAW.—No, I have not.

Mr. PERLEY.—Let me ask a question. Supposing this Bill becomes law and if a manufacturing concern in Canada has to have a million dollars insurance and I go to the underwriters with it, and supposing the underwriters wanted to make them pay twice as much as they had been paying previously in these outside companies, what recourse would they have against that exorbitant rate?

Mr. LAIDLAW.—I don't believe we would in the first place do any such thing.

Mr. REID (Grenville).—That is not the question, supposing you did.

Hon. Mr. FIELDING.—The manufacturer charges a higher price for the article than it can be bought outside.

Mr. PERLEY.—There is no competition among underwriters.

Mr. LAIDLAW.—That is a great mistake. It is entirely a mistake to imagine that the fire underwriters do anything to increase the rates. We have, as a matter of fact, this year reduced the rates not only in Toronto, but in Winnipeg, Chatham, Woodstock, Hamilton, and we can show, sir, if you follow it up, no such case as you refer to which indicates that we have deliberately held a man up and charged him unreasonable rates. Furthermore I say that if we charge him a fair rate, the rate that is charged all others in the same country, he has no ground for complaint. We are evidently doing what you would compel the railway companies, the telephone companies and the express companies to do. If we charge the same rate for the same risk to all is not that the whole principle on which the present legislation for the regulation of corporations is going? This is what we have done for years voluntarily through our association. We have rules in our association that our agents

shall not divide their commission with the insured so that no man can get an advantage over the other.

Mr. PERLEY.—I was not suggesting that the underwriting had not been quite uniform in all cases. If I had a risk and I came to you and got your rate and I go to another agent and I get exactly the same quotation, there is no competition between them whatever. But supposing that a manufacturer was asked to pay twice as much as he has been paying, in your opinion would he have any recourse at all other than in competition, what would he do?

Mr. LAIDLAW.—He would have the privilege of insuring with any of the fifty companies that are not members of our association.

Mr. LALOR.—Are they mutuals or stock companies?

Mr. LAIDLAW.—They comply with the laws and some of them are very large. There is one company that has recently entered Canada with a very large capital, the St. Paul, they have not come into our association.

Mr. KEMP.—Will they come in?

Mr. LAIDLAW.—We invited them to but they said they preferred not to join, that is quite right, they are quite free not to join if they do not want to. We might say we invited them to join, or made tentative proposals. We said we would let them come in. But there is nothing to prevent any company that is in from withdrawing.

Mr. RIVET.—But eventually they might all join the association?

Mr. LAIDLAW.—The whole trend of the association is to deal fairly, and the record shows that they have dealt fairly, and where the risk is a good one they are all eager to get it.

The CHAIRMAN.—What was the object of forming the Underwriters' Association?

Mr. LAIDLAW.—It was to equalize, to make equitable rates and to make regulations to prevent improper practices. Before it was simply a condition where a man who had a large risk to place, and who could bring special pressure to bear would get a low rate at the expense of the general policyholders of the company. If the rates were too high we would have made a great deal of money which we have not; whereas on the other hand the companies who have charged a lower rate than that we thought was fair have lost a lot of their capital.

The CHAIRMAN.—Do you co-operate with the municipalities to have a standard method of fire protection?

Mr. LAIDLAW.—We have a standard, yes. We maintain an efficient hydraulic engineer who goes from town to town, inspects the waterworks and reports upon them. I may say that in the United States, President Roosevelt, following the conflagrations of Baltimore and San Francisco appointed a commission of eminent engineers for the government staff and invited the co-operation of leading fire insurance engineers to make reports upon the towns and cities in the United States, such as we have been giving to the public for years at our own expense. Further than that we have maintained a system of electrical inspection, we have a man travelling about the country trying to keep the electrical installations up to the point, no matter whether the individual is insured with us or not—they are all treated alike. There is no public body in Canada that has done more or is doing more in the public interest and the conversation of property in Canada than we are doing to-day. We are doing everything we can to induce people to adopt proper regulations to prevent fire loss. If you allow in the city of Ottawa a planing mill to be established in the congested business centre of the city, you not only increase the risk on the mill property itself but on all the adjoining property, and so we induce the cities and towns to fix fire limits to keep such out. When the sprinkler system is put in it not only brings down the insurance rate on that property, but on the neighbouring property also. If you confine it to Ontario alone I will guarantee that the rate of fire insurance in Ontario to-day is fifty per cent less than it was ten years ago.

Mr. HANCE J. LOGAN.—There are a large number of firms and corporations represented here today, and knowing the very limited amount of time that must

be given to the consideration of this matter these business men and manufacturers have asked the following gentlemen to represent to this Committee their views: Mr. George S. Cains, representing the Montreal Board of Trade; Mr. T. A. Russell, Mr. A. E. Kemp, Mr. George Caverhill and Mr. Geoffrion, K.C., and myself. The firms which are represented here today are: The E. B. Eddy Company, Laing Packing Company, Starke-Seybold Limited, L. Gnaedinger Son & Company, Dominion Textile Co., Montreal Board of Trade, Henry Morgan & Co., Limited, Belding Paul Co. Ltd., Caverhill Learmont Co., Montreal Rolling Mills Co., Canada Cycle & Motor Co. Ltd., Massey, Harris & Co., Standard Silver Co., John McPherson Co., Montreal Cotton Company, Gutta Percha & Rubber Mfg. Co., Hodgson, Surmer & Co., Ltd., Dominion Bridge Company Ltd., Mark Fisher Sons & Co., P. P. Martin & Co., The Wire & Cable Co., Canada Consolidated Rubber Co. Ltd., Frost & Wood Co. Ltd., Gunn, Langlois & Co., The Hamilton Steel & Iron Co., Canadian Office & School Furniture Co., Maritime Coal, Railway & Power Company, and the Meriden Britannia Co.

I have had enough experience in this Committee and other committees of this House to know that you appreciate brevity and I shall ask the other gentlemen who are going to speak after me to be brief, and will set them a good example myself. Mr. Morrissey has spoken very eloquently, but sometimes a little harshly, I think, in reference to the Manufacturers' Association and to the Board of Trade of Montreal. The corns of these gentlemen must have been heavily trodden upon before they would make such a reference as they have to the United States companies. If you take the conditions as they exist today, as they are given to me that there is between \$90,000,000 and \$100,000,000 of insurance placed in companies which are not registered in Canada. The question has arisen: can the companies registered in Canada take care of the business. I can give you a good deal of authority on that point, but I will only give you the authority of Mr. Morrissey himself who last year when appearing before this Committee, made the statement, as recorded on page 192 of the report of this Committee:

'If you ask me if there is any risk in Canada that could not be protected by the licensed companies, I would have to say that I doubt very much if they could take care of all the business.'

That is the admission of Mr. Morrissey himself made before this committee last year. I submit, Mr. Chairman, that there has been no addition to the facilities for insurance, to amount to anything, during the past twelve months. Now, Mr. Morrissey comes before the committee to-day, representing the Fire Underwriters, and we would almost imagine from his remarks that this was a W.C.T.U. association, and was one of the most innocent bodies in the world. I do not want to make an attack upon the association except to say that it is probably one of the most vicious combines in Canada. If anybody doubts that it is a combine I would like him to read this little bible of theirs, the Toronto Committee Rules of the Underwriters' Association, or to read the reports in the press of the fines they have imposed upon their members who have dared to give a better rate than these men, sitting around a round table; have decided shall be paid. If a man desires to place insurance with any particular company why should not that man be allowed to buy the insurance wherever he likes? Why should the combine, because this is a combine, say, that you must not go out of Canada? Why should the law say that you must not go out of Canada, if my friends of the association cannot insure it in Canada, and Mr. Morrissey admits that they cannot take care of it? Then what are you going to do about it. The facts of the matter are that the larger insurers of this country, I represent two or three concerns, are protesting in the strongest way against this legislation, which means in many cases, almost the paralysis of their business. It is all very fine for the insurance men to laugh, but if you have to pay, where men are placing one or two million dollars of insurance, in certain cases have been asked to pay 500 per cent more than the same insurance could be written by the New England

companies, it will mean ruin, if the profits are very small. Take the woollen industry for instance, and we all know that the profits of that business are almost of an infinitesimal character. I speak of one woollen industry, and I tell you that if the rates were increased to the rates laid down by the Canadian Fire Underwriters' Association that the company would be going behind and probably would be forced into liquidation. This is a very serious matter to every man owning property in Canada who desires to get insurance wherever he can get it the cheapest. My friends are not satisfied with the Bill as it stands, but they propose to put in the Bill a proviso that no man shall insure property in Canada except with these precious companies which, after all, are in most cases not Canadian companies. There are very few Canadian companies, and they are not large. It is nearly all foreign capital in licensed companies doing business in Canada. But my friend, Mr. Morrissey, suggests an amendment, and he says what these people should do—if the manufacturer cannot get his insurance in Canada, then he may have the right to go outside and subsequently file an affidavit with the department. Let us see where that manufacturer or merchant would be. If he desired insurance he would have to go in the first place to every insurance company in Canada, he would have to go around begging for insurance from every insurance company in the Dominion before he would be prepared to state that he could not secure the insurance in Canada; then he can go abroad. But what would be the result? What would Lloyds say to him if he went to them? They would say, 'You come here after you have tried every Canadian company; we think there must be something wrong with that risk or some of the Canadian companies would have taken it.' They would look upon the risk with suspicion.

Mr. NESBITT.—Did you ever try to place insurance with Lloyds?

Mr. LOGAN.—No, I have not.

Mr. NESBITT.—You should not say that then if you have not.

Mr. LOGAN.—There are others who have.

Mr. NESBITT.—That is not what they will say at all.

Mr. LOGAN.—My friend Mr. Nesbitt must consider what they are going to say if the law is amended as has been proposed. I am speaking of what they would say if the new law was on the statute book.

Mr. NESBITT.—I am talking about what they would say under existing conditions.

Mr. LOGAN.—I am talking about what they would say if this law should be put in the statute book. It would be almost as difficult under those circumstances for a man to get insurance on his property abroad as it would be to get an Act through parliament. An objection that I have to make against the filing of an affidavit is that it discloses a man's private business. We simply ask the privilege of getting insurance where it can be got on the most advantageous terms. It is no use Mr. Morrissey and his associates trying to convince this committee of business men that the Underwriters' Association is for the general advantage of the insurers of Canada, because you know as well as I do that there are very, very many cases where they did get a hold and they exercised it not in a very mild degree. I know of a concern in my own constituency, a very large firm, the largest concern in the constituency which was at one time absolutely living without insurance—the most hazardous condition they could possibly be in—and why? Because they could not get a decent rate, what they considered a rate low enough from the Canadian companies, and they had to go abroad. They went abroad and there they secured that rate which they thought was fair and they have that insurance placed abroad today, unless the Canadian companies have come down to their rates. I submit that if you pass this law you make a man depend absolutely upon the Canadian companies which it has been admitted today by their chief executive officer are unable to handle the insurance business of the country. Not only you cannot get here the insurance, but what you do get you are going to get from the combines. Parliament should allow a man to go abroad and secure his insurance where he pleases. There should be some protec-

tion to the small policyholder; do not let that man who does not know as much as the kings of the trade to get that insurance that will be disastrous to him; I do not deny that there should be some safeguards thrown around foreign insurance. I would suggest that every policy of insurance got from an unlicensed company should have stamped across the face of the policy the fact that that company has not any assets in Canada. The principle that a man should be allowed to get insurance where he pleases is one that should be recognized, and you must only regulate that by the protection that I suggest. There should be freedom to insure anywhere you please, and, secondly, there should be some protection thrown around the man who does not know these foreign companies in order to show him exactly in what class of company he is insuring. I started out by saying that I would not occupy the attention of the committee for any length of time and I will now give way to the other gentlemen who are with me. Mr. George S. Cains of Greenshields & Company, one of the largest drygoods concerns in Canada, will address you and he will be followed by Mr. T. A. Russell, Mr. A. E. Kemp, and Mr. Geoffrion, K.C.

Mr. LAIDLAW.—Are you advocating free trade in this matter?

Mr. LOGAN.—No, I am not a free trader, but when I find that protection causes a combine I say, 'Let us have free trade.'

Mr. LAIDLAW.—May I ask the name of the woollen mills you referred to where the companies asked 500 per cent?

Mr. LOGAN.—500 per cent more than they got it for—it was not a woollen mill.

Mr. GEORGE S. CAINS.—I am asked by the deputation of the Board of Trade of Montreal to present this resolution. It has been referred to somewhat by one of the speakers. However, I will read it, it is very brief. It is a resolution adopted by the Council of the Montreal Board of Trade on the 29th of March, 1909, as follows:

'Whereas section 71 of Bill 97, 'An Act respecting insurance' now before parliament will have the effect of creating a monopoly and combine of the fire insurance business of Canada.'

In reference to this I think the regulations of the Underwriters' Association that I hold in my hand here will prove that contention:

'And then only in strict conformity with the tariff rates and regulations.'

That is that no policy must be issued by any underwriter, only if he gets the rate they ask. That is why we object strongly to leave it in the hands of any company to say what rates we will pay. Human nature, I suppose, is the same all over; if they can get \$2 they are not going to take \$1 for it. The resolution continues:

'Whereas it is admitted even by the Fire Underwriters' Association that companies licensed in Canada cannot handle the total fire insurance business of the country.'

I have a letter here from our own company, giving the dates, which I will read to the committee in reference to the time we had to re-insure. Starting in 1900 we had to place over \$100,000 in mutuals in the United States because the companies could not take the amount here. As late as last October we had to place a small amount abroad not because it was a case of rate, but because the underwriters could not write that amount, notwithstanding that they class our risk as the best, an absolutely fireproof building, and complying with all their requirements (letter filed as follows):

MONTREAL, March 29, 1909.

The Chairman,
Insurance Committee,
Board of Trade,
Montreal.

DEAR SIR:

Re Fire Insurance.

In 1900, a new building erected for us, corner of Victoria Square and Craig street, was completed. It is a fireproof building, equipped throughout with sprinklers, and is in every way a first-class risk. The insurance companies quoting us their rates insisted upon an 80 per cent co-insurance clause, but in 1902 they were unable to give us the 80 per cent that they themselves asked for, and as a consequence we were forced to place the balance outside of Canada. Several times since that date we have been compelled to increase the amount thus carried, in order to fulfil the requirements imposed upon us by the line companies.

Since the arrangements were made in 1900, we have added a large extra warehouse on Craig street, adjoining our buildings, of similar fireproof construction, and equipped with a sprinkler system and with a tank. This building also meets with all the requirements of the fire underwriters.

About a year ago we were again obliged to increase our outside insurance, as on occupying our new building, the insurance companies required a 90 per cent co-insurance clause as a condition of their policies. So far as we know at the present time, among all the companies licensed to do business in Canada, and represented in Montreal, we can only get between fifty (50 per cent) and sixty (60 per cent) of the amount we require.

As insurance is an absolute necessity in conducting any business, we trust that nothing will be done to interfere with the liberty that people who are in business should have in placing their fire insurance where they think most advisable.

Yours truly,

GREENSHIELDS LIMITED,
(Sgd.) E. B. Greenshields, President.

Mr. Chairman, I will now proceed with the resolution, which continues:

'Whereas the assured should have the right to purchase insurance in the cheapest market, therefore resolved that the Council of the Montreal Board of Trade places itself on record as strongly opposing the provisions of the above mentioned section No. 71, and argues that nothing shall be incorporated in the new insurance Act which will restrict freedom in obtaining insurance, or prevent the placing of such insurance outside of Canada either directly or through brokers resident in Canada.'

Certified a true copy,

(Sgd.) GEORGE HADRILL,
Secretary.

I have also a telegram from the Dry Goods Association of Montreal as follows:

'Dry Goods Association unanimously endorse resolutions of Board of Trade protesting against section 71 of Insurance Act. One or more representatives leaving for Ottawa to-night.'

(Sgd.) J. STANLEY COOK.'

I also have a similar resolution to that of the Montreal Board of Trade, which it is not necessary to read, signed by the C. P. R. I do not think it necessary to take up the time of this committee further than to say in conclusion that one of the strongest points affecting us as merchants is that before we can go outside, if this

section passes we will have to go to the underwriters here and say: We want half a million insurance, or a million as the case may be—we carry considerably over a million. They will say to us: ‘Gentlemen, we can only take a half a million.’ Then we have to go to the Government Inspector, or the man appointed for the purpose and say to him: ‘We have exhausted all our means with the line companies—

Hon. Mr. FIELDING.—You are speaking now of the proposed amendment, of course.

Mr. CAINS.—Yes, sir. And I might say that we would like to be the judge of the line companies with which we do business. There are some of the companies that we might consider perfectly suitable for taking a large risk. We are in a position today of having nearly 50 per cent of our insurance in the United States because we could not get it in Canada.

Mr. BLAIN.—Might I ask, are the rates higher on the insurance that you have in the United States than what you have in Canada?

Mr. CAINS.—Well the mutuals would give, I would say, to put it very mildly, in some cases one third, very much less than what we pay to the line companies. But furthermore I might say, in justice to ourselves, we were compelled by the line companies to go over to the United States. We did not go there voluntarily. There was just one other point I would like to make. Some years ago—this is to show you how important it is to have insurance placed quickly—on a Saturday morning, as usual when we make up for the week, we found that we were in a deficit, \$100,000 short. We telephoned our agents, and of course it was lucky we did. That night there was a very large and destructive fire and we had a loss of \$100,000. If we could not have placed that insurance within almost a minute’s notice, because it was after business hours, after one o’clock on Saturday—

Mr. MORRISEY.—Was that the fire of ’98?

Mr. CAINS.—Yes, it was the big fire—if we could not have placed that insurance at a minutes notice we would not have had time to place it with the outside companies.

Mr. LEWIS.—It was not all placed with outside companies?

Mr. CAINS.—No, I merely pointed out that when we have a limited amount of time if we were hampered by your amendment it would be impossible to have secured the insurance as we did in this case.

Mr. OTTY.—Mr. Chairman and Gentlemen,—I will begin by saying what all other speakers have said, that I will be very brief, and I hope I will keep a little closer to my text than some of them have. I know that this committee must be pretty well tired of this discussion of insurance matters, and what has been said from the point of view of the underwriters has been so well and forcibly said by the chairman of the C. F. U. A. that I do not intend at all to cover the ground that he had taken. But I wish to draw the attention of this committee to just one phase of the subject. I wish to emphasize that it is a mistaken assumption on the part of the Manufacturer’s Association to say or to suppose that the insurance companies want an insurance Act at all. We do not care about the Insurance Act, we do not ask for it, we do not want it. The Insurance Act has been passed by parliament for the protection of the public, that is what it has been passed for, and for no other purpose. Not only in Canada but in every country of the world where they have an Insurance Act, or where there is insurance legislation, it has been enacted to protect the public. Now then, what do we say? All we say to you is: ‘There is your law, see that everybody observes the law. That is, I do not pretend, I am not going to be led aside into a discussion of free trade or protection, it does not seem to me that is a question altogether germane to the subject. But if it is to be considered I would urge that the insurance people have just about the same right to protection as the manufacturers, we all pay taxes and we all help to build up the country. Talk about prohibition. You prohibit them coming into the country to get insurance or to make any contracts. Does parliament do anything of the kind in the Bill that the government has submitted? Do they say to anybody you cannot make a contract in London? Why, the government is not so absurd as to put such a thing as that in

its Bill; and if it did put it in the Bill, and if it was passed you could not enforce it. These people, however, may go from Jerusalem to Jericho and may put all the insurance they like outside of Canada, but if they come into Canada let that contract be made in accordance with the laws of Canada. That is all we say. You say these people cannot come into Canada to do business—they cannot come into Canada unless they obey the laws of the country. We do not ask any favours or ask the government to give us protection, all that we ask is, give us a fair field and no favour; that is all we want. We are quite satisfied if you repeal that Insurance Act to-morrow, that the companies are more than able to hold their own. We go a little further and we say that after you have passed the Insurance Bill in the interests of the public why do you insist upon the strong companies, the companies against which the public needs no protection, why do you insist upon us obeying the law? We say make the other companies, some of whom may be good and some bad, also obey the law. No mortal man can tell what the other companies are, whether good or bad, there are no returns made in Canada with respect to these companies, who can tell about those companies in what position they are? Some may be good, some bad, and some may be worse than bad, they may be no good at all; we do not know anything about them, but we know that the insurance law has not been complied with by them, and nobody can tell anything about them. Is it a fair, just or reasonable proposition? And I will put it to the committee in that way; you pass an act in the interests of the public, not in the interests of the insurance companies, we do not ask for the Act, we do not want you to put it on the statute book, but you are doing it in the interests of the public. Why then should you tie us down and compel us to observe all the regulations and restrictions, and leave the field open to the company that flaunts parliament and snaps its fingers in the face of your Act and does not pretend to obey or regard the law in any way at all.

Mr. T. A. RUSSELL.—Mr. Chairman and gentlemen of the committee: I have not come forward to make any attack upon the Canadian Fire Underwriters' Association, but to give a simple statement of the attitude of the manufacturer who for several years past has felt that in his own interests and in the interests of his business he was compelled to go to the New England mutual fire insurance companies for protection. We have been accused of disloyalty, and of inconsistency, because we ask that Canadians should buy goods made in Canada, and we have not been willing to buy the commodity of insurance made in Canada. Now, gentlemen, the insurance men know that is not a fair statement of the case. The very existence of the mutual fire insurance companies is due to the mistaken notion on the part of the stock companies, a mistaken notion which the stock companies of to-day recognize and regret. Their policy to-day is gradually shaping to a very different one from what it was for the past generation, when so many of us have been compelled to go to the mutual fire insurance companies of the United States for protection. When I left my position as secretary of the Manufacturers' Association, in which I advocated the purchase of goods made in Canada, I found that our company was insured in the New England mutual companies. I said, 'It does not seem right,' and I asked that a rate should be given by the Canadian companies. After a little figuring it was intimated that perhaps I might get a rate of about fifty cents. Gentlemen, our insurance was costing us then about seven cents, and it has continued to cost us about seven cents, or adding interest on the total premium would bring it to about ten or eleven cents. Now, that was the difference. Have I ever been approached since? Not until within the last few days after this agitation to put this clause in the Act began. I have been asked would a proposition of twenty cents, or double what it costs us at present, be considered. So you see when this is the case it is not fair to say that the manufacturers of this country have been disloyal to the insurance companies of Canada. Now that is the frank statement of the case.

The mutual insurance companies originated because the stock companies absolutely failed to recognize the proper principles of insurance and to differentiate their rates

according to protection. Seventy-five years ago the New England mutual companies started because one of the manufacturers made many improvements in his risk and asked the companies to give him a lower rate in consequence. But they refused. He got several other manufacturers interested and they started an association not to pay losses, but to study fire prevention, they got together a group and they said, 'We will inspect each other's risks, but let each man pay a share of the loss if a loss is incurred. They were successful in their operations and the combination resulted in an organization which represents \$2,000,000,000 of insurance. They have an organization with an engineering staff to study fire inspection; they have a staff of thirty inspectors who come around at regular intervals and inspect our risks, and there is not one of us in the New England companies to-day who would not pay all the premiums that we do pay for the inspection alone and altogether outside of the insurance. We are told that we are asking protection to our own goods, and are refusing it on our insurance. When I used to come to the Finance Minister to ask for protection, he would immediately enquire, 'Are these goods made in Canada in sufficient quantities to meet the demand?' If they were not, I did not get much encouragement from him. Now, gentlemen, we have not yet reached that stage that we can carry on insurance as they do in the United States mutuals. We are reaching it, and I will be glad when our companies do reach it.

The CHAIRMAN.—Are you willing to help to reach it, Mr. Russell?

Mr. RUSSELL.—We are willing to help. If the fire insurance companies of Canada will name a rate of 15 or 20 cents, I submit they do not require an Act of Parliament to get the manufacturers of Canada to accept it.

Hon. Mr. FIELDING.—You may apply that to the general argument of protection, that if you name reasonable prices you would not need any protection, and you would not expect it.

Mr. RUSSELL.—That is not quite the case. If I am not satisfied with the tinware that Mr. Kemp is willing to sell me I can import from Germany; but I do not have to say to the German manufacturer, 'You have to put up a deposit of \$100,000 before you can do business here, and open a branch office.

Hon. Mr. FIELDING.—But you pay duty.

Mr. RUSSELL.—Yes, I also pay duty.

Hon. Mr. FIELDING.—That is all we want.

Mr. RUSSELL.—No, I submit it is not, if the proposition was that those of us who thought we should go out of Canada for insurance, were asked to pay some percentage on the premiums. I do not know what objection our manufacturers would raise. But that is not our proposition. You say, 'You must open a branch office here and you must deposit money.' Suppose I was not satisfied with the goods that some manufacturers sold at the price, and I purchase from another manufacturer outside. I would under such a system have to persuade that man, under this Act, not only to sell me the goods and to pay a little duty on them, but to establish a branch in Canada, and to put up a deposit.

Hon. Mr. FIELDING.—Have you any idea of the amount of insurance of this class that is placed outside of Canada? I am commencing to think of the revenue that might be obtained with 35 per cent on the premium; have you any idea of the gross premiums paid?

Mr. RUSSELL.—No, I have not. The companies with which I insure make a charge of three-quarters of one per cent and our rebate for a term of ten years has averaged 91½ per cent, so that our insurance has cost us a little less than 7 cents plus the interest of about 67½ cents, which brings the rate up to about 10 cents. You would think from the discussion of this Act that all sorts of companies are free to come to Canada and do an insurance business, and that we are asking for it. That is not the situation. The mutual insurance companies are under the present Act not allowed to come into Canada and write a policy, or solicit business. All that they are able to do is to come into Canada to inspect our property and to adjust losses. That has been

the situation in the past and that is the situation to-day, but this Bill says that a man shall not come in to inspect the property or to adjust the losses. Those of us who are insured in the New England companies do not ask that it be thrown open for these companies to come in and solicit business, but we need their inspection. The underwriters say that they are working out a system of inspection, and as that system proves satisfactory they will get more and more of the business. Mr. Laidlaw says they are already getting it. If they are willing to offer a 15 cent rate to protected standard risks I think they can get the insurance. But the clause which you are putting upon the statute book of the country says that no man can place any insurance outside of Canada, or at least he cannot have it inspected. This means that when he goes out of Canada he has to go to some company that is willing to take it without being able to inspect it, or without being able, in the case of loss, to send a man in to adjust the claim. But Mr. Laidlaw says, if you cannot get the insurance in Canada, file an affidavit with the Insurance Department, and then you can go out and get it. That would be a fair and reasonable provision if there was any reasonably decent method to decide whether you could get it in Canada or not. It may be possible but at a premium of unreasonable percentage, say 10 per cent. There is no competition in Canada, because the companies outside of the Underwriters' Association are not in competition when it comes to considering large risks; they are not able to begin to handle them. They offer a 15 cents rate, or Mr. Laidlaw says, three or four cents higher than the New England mutuels. If they can do that, if they can guarantee us a rate at two or three cents higher than we can get it outside, at 5 or 10 per cent higher than other reputable companies outside will give it, we would give it, we would not object. But to leave this whole field arbitrarily in the hands of a single body will place the industries of this country in such a position that they have to depend upon what one body of men say they shall pay, with no appeal from that decision. Failing a fair adjustment of rates with the Fire Underwriters' Association the manufacturers will have to go outside of Canada and place it under conditions which forbid the companies sending in a man to see what kind of risk it is they are asked to take or in case of a loss to send in a man to adjust it.

Mr. HUGHES (Victoria).—Do the New England companies take insurance in the United States at a lower rate than in Canada?

Mr. RUSSELL.—No, sir.

Mr. LALOR.—Do the New England companies carry anything but first class risks?

Mr. RUSSELL.—No, they have to be sprinkler risks.

Mr. LALOR.—And standard construction buildings?

Mr. RUSSELL.—Yes, although they do not insist on the latest types of mill construction they insist upon reasonable requirements and a sprinkler system.

Mr. HUGHES.—Will you please tell me how you know that their rates in New England are the same as the rates in Canada, risk for risk?

Mr. RUSSELL.—Simply from conversations that I have had with the president and vice-president of the company who carry our risks.

The CHAIRMAN.—What is the financial standing of the New England mutuels?

Mr. RUSSELL.—They run on this simple basis that they do not do business for profit; they only insure at what it costs; the amount of insurance carried by one of these companies in the United States runs from \$100,000,000 to \$200,000,000 upon which they collect say one per cent. That gives \$1,000,000 to \$2,000,000 in hand, and the company carries that in hand all the time. At the end of each month they have an adjustment; they take the expenses, which generally run about one-twentieth of one per cent, and the fire losses which have run about the same, and that makes about one tenth of one per cent, and 90 per cent is returned to the manufacturers. I am not pleading for the stock companies who come into this country and make money out of it, but these New England companies are not anything like those; they are composed of men such as we are, men like the Kemp Manufacturing Company, the Massey-Harris Company and others, and they study fire prevention and employ a staff for inspection and adjustment of losses.

Mr. LALOR.—The insured runs a part of the risk all the time himself, it is hardly fair therefore to ask the stock companies to give the same rates as the mutuals?

Mr. RUSSELL.—No.

Hon. Mr. FIELDING.—What has been the experience with regard to the mutual companies, in the case of a great fire, have they always been able to respond to the demands made on them?

Mr. RUSSELL.—Yes, you see there are roughly speaking twenty companies and they have always on hand from \$1,000,000 to \$2,000,000 in each company.

Hon. Mr. FIELDING.—They have always been able to meet their obligations?

Mr. RUSSELL.—Yes, and during the whole of their history they have always been able to settle losses without lawsuits. The time will come when the companies in Canada will be able to handle the insurance required in the Dominion, and if there is anything we can do to help towards the attainment of that position we will do it. But at the present time we cannot get the insurance in Canada that we require, and we cannot get insurance at one half the rate at which we get it in the mutuals.

The CHAIRMAN.—The New England mutual companies have practically no paid-up capital?

Mr. RUSSELL.—No paid-up capital, and they pay no dividends to stockholders, and no commission to anybody for the risks they get. They are simply a body of manufacturers who band together for mutual protection.

Mr. J. T. GNAEDINGER.—The table of available assets for 1908 show that the New England mutuals have a capital of \$89,000,000.

Mr. RUSSELL.—That is simply the premiums in hand.

Mr. PERLEY.—Have you a reserve fund at all?

Mr. RUSSELL.—Three or four of the companies have. It came about in some way back twenty-five years, or longer, at the time of the war when there was some shuffle about gold and the insurance companies had a quantity of it at that time which they disposed of advantageously, and they have retained it as a reserve, but it does not amount to anything. It is not a part of their principle, it is outside of that principle upon which the New England mutual companies are operated. Each one of them returns to the manufacturers each year all that was not required to pay the losses and the expenses of administration.

Mr. NESBITT.—Mr. Lalor asked you if you insured anything but standard sprinkler risks, and you said that they did not necessarily have to be standard, so long as they were fitted up in accordance with the instructions of the inspector. If they are not standard do the New England mutuals charge a higher rate?

Mr. RUSSELL.—There are variations in the rate, as I understand it there is a basis, and the rate varies from about 70 cents to a dollar, and the dividend applied against that.

Mr. NESBITT.—That is in proportion?

Mr. RUSSELL.—In proportion.

Mr. GNAEDINGER.—Do the New England companies go into the congested part of Montreal and write a \$25,000 or \$50,000 risk?

Mr. RUSSELL.—No, I think not.

Mr. GNAEDINGER.—Then they do not carry the burden of the liability of the country on their shoulders?

Mr. RUSSELL.—No.

Mr. REID (Grenville).—At the time of that fire in Toronto, Kilgour Bros. were insured in the New England mutuals and that was in the congested district.

Mr. W. K. GEORGE.—My factory is an old factory, not of standard construction, and in a congested part of the city of Toronto, and it is insured in the New England mutuals. I might also say in reference to the question of protection that I believe as Mr. Russell believes, and I tried to keep this business at home. I offered the Toronto underwriters fifty per cent advance on the rate at which I could get it in the United

States rather than let it go to the United States, and I had to go out of Canada to get it.

Mr. REID (Grenville).—Mr. Kilgour told me that he had \$100,000 insurance in the New England mutuels at the time of the great fire in Toronto, and that it was the first loss paid. It was paid within a few days after the fire and the risk was located right in the central part of the city.

Mr. A. E. KEMP.—Mr. Russell and I are here representing a class of insurance known as the New England Factory Mutuels, we are not here representing other classes of insurance which is done outside of the country, and which I take it the underwriters are making complaint about. Those of us who are partially or altogether insured in the New England mutuels are rather startled, because when this matter was introduced a year ago, I then had the honour of being a member of the Banking and Commerce Committee, and it did not seem to me from the very cool reception which this proposition got that it would not become law and that no more attention need be paid to it. But to our surprise within the last few days it has been drawn to our attention that the amendment as indicated by subsection (c) of section 71 is of a character which destroys the insurance which we have, in this sense, that we cannot in the future continue to do our business in the way in which we have done in the past. The New England mutuels, to which Mr. Russell has referred, are carrying in this country upwards of \$100,000,000 of insurance. If this section becomes law that insurance cannot be carried with the mutuels which are a very conservative body of people who have never gone out of the States of Rhode Island and Massachusetts to do business, then we will be unable to do any business with them whatever, because we are informed that they will not deviate from the rule which they have adopted in the past of not opening up branch offices in other places outside these states. They have taught the people of the United States and of this country how to prevent conflagration, and if there are risks in this country which are sprinkled, which are standard risks, and which the underwriters are willing to accept, it is because of the educative work which has been carried on by the manufacturers on the one hand and by the New England mutuels on the other. It has been admitted by Mr. Laidlaw that within the last five years the stock companies have so improved their facilities—I think he might have made that term a little shorter, but at any rate we will take him at his word—that they are ready to handle the business. There are a great many of us who had to go outside of the country in order to get insurance, before there was any attempt on the part of the stock companies represented by the Underwriters to give insurance on large manufacturing plants. The firm with which I am connected having received a letter from one of these companies stating that we were manufacturers of a character which they could not insure, and were forced to go outside the country for insurance. It is a fact, as admitted, that this class of insurance is growing with the stock companies, and it is going to grow. A concern with which I am connected is insured partly in the New England mutuels, but a new branch was established some time ago equipped to the standard required and it is insured in the stock companies. The New England mutuels competed for this, but we preferred to give it to the stock companies in Canada because of the facilities which they recently afforded. It has been attempted here today to show that if outside insurance was prohibited, these stock companies could take care of all of it. The amendment proposed is similar to the one proposed last year. Senator Jones, when this matter came up, then said in answer to Mr. Morrissey:—

You would place a man in this position, he would have to exhaust every effort in Canada to get all the insurance he could upon his plant without reference to what the price might be, although not necessarily as to that. There might be some limit placed by the government but they would probably hardly like to arbitrate between you and me as to what I should pay you for insurance. But presuming they did and I paid all you asked. Then I took the balance of my insurance, say to an insurance company in London or New York or elsewhere and said, 'Now, gentleman, I want a million dollars of insurance more than anybody in Canada can give me. I have given the companies

there all that they can take, and I want you to take the balance from me. What will you do it for me for? Is any business man going to be put in that position?

Mr. MORRISEY.—What was the answer to that?

Mr. KEMP.—Your answer was this, Mr. Morrisey: 'I do not see what different position that would be placing a business man in than if he went to his underwriter, or body of underwriters' in London and said: 'Instead of placing all that I can place in Canada I have the whole of it to place in New York or in London,' except that he occupies a competitive position in one case and he does not in the other."

This it appears is an admission by the stock companies that they cannot handle the business. Then the discussion went on. I will not take up the time of the committee by reading any further. Now there is a very peculiar proposition suggested here, that after a man has secured all he can he is to make certain reports to the Superintendent of Insurance that he is not able to get the insurance in Canada that he requires. All I ask the underwriters to do is to continue increasing their facilities as they are doing and they will get more and more of the business and they ought to be satisfied with the increase of business which they say they are satisfied they will get, based on the progress they have made during the last four or five years, they will in the near future get all the business they care to handle.

There are three kinds of risks, to my mind, in connection with insurance; there is the kind of risk where a man sets fire to his own property for the purpose of making money. There is the kind of risk where a man does not set fire to it, but does what is equally as bad, he does not take the necessary precautions after he has insured his place, and knows it is liable to burn and could prevent it, but does not take necessary precautions; he is almost as great a criminal as the man I have named first. Then there is the third class, representing the hundreds of mills and factories insured in the New England mutuals, the class of insurance where the proprietors cannot afford to burn up. A manufacturer cannot afford to have a fire if he has an expensive plant, because if his plant is destroyed he loses his business and his connection, he cannot get started again in a year, whereas the merchant is in a different position altogether, he can go out and buy a new stock and be in business again within a month or a short time. It is in connection with this third class of insurance that I want you to consider what our real position is. It has been the policy and the whole principle of the New England mutual companies, and they have rendered a great service to this country, to study how to prevent conflagrations. Just think of the tremendous loss by fires—\$215,000,000 per year in the United States, equal to \$2.30 per capita in that great country, and the same conditions naturally apply to Canada. On the European continent the per capita loss by fire is about 33 cents per head instead of \$2.30. In a few months in Boston last year the fire loss amounted to \$5,000,000 and in the city of Rome, Italy, the loss was \$50,000 in the whole year. In Great Britain the fire loss was \$3,785,000 in 1907, and in Canada it was \$8,445,041 in the same year. Those of us who have gone to the expense, who have set the example to everyone in this country under the instruction and under the direction of these companies by improving our risks have brought about a better condition of affairs in this country. We are willing to insure in this country, and we recognize the argument put forward by the various underwriters to-day, I am not going to make any reflection on the underwriters. Personally they are just as good as anyone else, and perhaps better, for all I know, but I do not think their methods are of a character to have inspired confidence that if this \$100,000,000 of insurance were thrown upon this market, we would get fair treatment. I will make that appeal to the government and say that we do not desire to be brought within the conflagration zone, so to speak, or the class of insurance representing these great losses.

The question of protection has been brought up here, and I do not want to evade it. I would rather pay a protection on the cost of my insurance of 35 per cent than have this law enacted as it stands to-day. If the Minister of Finance thinks that the time has come that we can reasonably proceed along those lines of fees or the levying

of a tax, I am not one of those who will offer any objection to such a course. There are two things in this country, of a financial character, of which we have not sufficient, and which we have to get outside; one is money and the other is insurance. According to a very high authority, the Quarterly Review published some little time ago, it is stated that we have invested in this country \$1,209,120,000, that is what we owe Great Britain. This sum is more than one-half of what Great Britain has invested in the United States, showing that that great country to the south of us has a greater sufficiency of capital to run their affairs than we have. Now if the proposition were made here in this committee that all money borrowed in this country should be borrowed through the chartered banks and the loan companies, what a row you would have. What a remarkable proposition this would be considered to be, and yet what difference is there between such a proposition and that which is embodied in this Bill? The amount of insurance at stake in this country is far more than the loans that we have in Great Britain, and very little of it is carried by companies who have their home offices here and who are chartered by this government. The total insurance carried in this country by companies which are licensed and registered here is \$1,614,703,526, and of that amount only \$412,019,532 is carried by companies chartered by this government and of that, \$412,019,532, there is in the reinsurance which these companies makes with companies in the United States—the gentlemen here present representing the Fire Underwriters, if I make any incorrect statement, will, I hope, correct me—but of the \$412,000,000 a very large portion is reinsured in outside countries, in Australia, Germany, France and other countries, therefore, as far as Canada is concerned the facilities for insurance are practically upon the same basis as we find them when we come to provide money for the government, for the railway corporations and other great corporations, it cannot be had here. On what terms do these gentlemen want us to give them the business? I suggest to them that they proceed a little more liberally with the manufactures and they will attain their object. I would say to them do not ask the government to do this sort of thing, do not penalize the inspector who comes here to inspect the risk on insurance which cannot be had in this country. What we do not want to be drawn into is this zone of conflagration. If we go to expense in controlling our risks to prevent fires, we do not want to pay the losses of people who do not take such precautions; we ask the stock companies to so enlarge and improve their facilities that there will be in time in this country sufficient facilities to carry all the insurance needed, but at the present time we are no more able to carry all our insurance within this country than we are to supply the capital necessary for running the government of this country or the great railway corporations and other corporations. It is just as unreasonable to say that we shall do all this insurance in Canada as it would be for the banks and loan companies of this country to say, 'If you want to borrow money you must borrow it through us,' you must not go to England independent and negotiate loans.' I wish to be distinctly understood that I am not antagonizing the arguments made by the representatives of the Underwriters' Association, there is a great deal in what they say, but this, to my mind is not the way to right it. I repeat what I have already said, that if you want to charge a fee or a tax on what insurance costs if secured outside, for the purpose of or for assisting in defraying the expenses of the department, or for any other purpose, do that, but do not attempt to force those who are obliged to go elsewhere for insurance to get it of or through a course which cannot as is admitted supply the full volume. So far as the New England mutuels are concerned they will not work with the other companies, neither will they come to this country. If the law is enacted it takes the biggest plants in the country and throws them out where they cannot get insurance in a way satisfactory to them. I would be perfectly willing to file a statement, if the government wants me to, and I think every manufacturer will agree with me, that if the government wants a statement filed giving the full particulars of our insurance, we will do so, and we will pay revenue to them if they like. But so far as the New England mutuels are concerned I do hope it will be recognized that they have not been here looking for business in this country, they did not come here looking for business, and do not wish to, we went to them and asked

them to accept our risks. The improvement in the insurance conditions in this country so far as the manufacturers are concerned, as the result of the operations of these mutual insurance companies, has been tremendous, but even with the improved facilities which the Underwriters tell us they have at the present time we are unable to get insurance of a character satisfactory to us in the quantities required, and we can get it in no other way than by the assistance of these mutual companies. We hope that the government will see fit to modify this clause in some way so as to meet the approval of all concerned.

The CHAIRMAN.—You and the other manufacturers appear to have very great confidence in the New England mutuals warranted, no doubt, by your experience with them. Can you suggest any amendment to the Act as proposed here, or any other provision, that will permit the New England mutuals in which you have been insured to do business in Canada, and which would at the same time keep out the various other companies in which you haven't that confidence and which do not deserve that you should have, so that they shall be kept out of the country.

Mr. KEMP.—I do not make any observations in respect to any other insurance companies than the New England mutuals. I can say this that so far as the New England mutuals, of which I am speaking are concerned, I would be very glad to assist in framing a resolution which I think might assist you.

The CHAIRMAN.—Perhaps you may draft a resolution and submit it after this meeting is over.

Mr. KEMP.—Later on we will be very glad to do so, Mr. Chairman.

Mr. BICKERDIKE.—I want to make a suggestion that I think might solve the difficulty. There seems to me, listening to the argument on both sides, very little difference of opinion. The manufacturers say, we do not want to go to New England mutuals if we can get our insurance done in Canada. The underwriters say: We do not want to hold you here if we cannot cover your insurance. I was going to suggest that these gentlemen get together this afternoon, a committee from each side, and agree on some clause that will be of mutual advantage to both of them. It is only a suggestion, I do not know how it will meet the views of the parties themselves. Like you, Mr. Chairman, I am always a peacemaker, and if we can succeed in making peace between the different factions I think it will be better.

Mr. NESBITT.—This day was set apart for the fire companies, and, as you know, Mr. Chairman, it has been largely taken up by their opponents. I would like to know from the fire companies if they want to continue so that you can make arrangements accordingly.

The CHAIRMAN.—I was going to suggest that I thought perhaps we would have got through in time to allow Mr. Morrissey to reply this morning. But we have the names of one or two others who wish to address the committee, Mr. Geoffrion, K.C., and another gentleman whose name I did not get.

Mr. CAVERHILL (Montreal).—Since coming into the room I have been asked to make a few remarks on behalf of the very large and important part of Canada who have been overlooked in this matter, and that is the merchants. We have too, a few hundred million dollars of insurance, and we have to insure it outside of Canada. The merchant class do not go to the New England mutuals but to another class of American insurance companies, the Reciprocal Underwriters. Between two and three years ago there was unfortunately a number of fires in Montreal in what is called the congested district. There were 18 line companies represented in Canada and our insurance was so reduced that we had either to go out of business or go out of Canada for business. We went out of Canada for our insurance and we are glad we did go out of Canada for it because we have learned a great deal on a great many points; we have been educated how to take care of our establishments. And in doing so we have not cheated the country of any revenue, because we have spent many thousands of dollars in putting our establishments in better order. We have been thought the sprinkler system, and to put watchmen on. Before the fire the insurance companies

never forced us to make improvement, in fact they did not care whether we did so or not. I have been told by the late president of the Underwriters' Association of Montreal that it was not their business to teach us how to protect ourselves from fire, that the rates would go up if we did not protect ourselves from fire. That was the answer he made. We went to the New York Reciprocal Underwriters, and they told us: If you do not keep your business right, if you do not keep your establishments clean, and your tanks in perfect order, then gentlemen, we will not insure you. As regards the security, the security we have is more in dollars and cents, and a better class of security than we can get from the underwriters that represent our companies in this country, which is saying a great deal. But there are 250 of the first merchants of the United States and Canada, we pool all our expenses, we pay all our losses, and we are each responsible to the other, and these reciprocal companies are in about the same category with the companies with whom the manufacturers are dealing; companies who would not come into Canada and conform to our laws and pay the deposit, they are companies that do not wish to come in because it would make it very much expensive to come in here and open up an office. If they did they would have to hire men such as the companies have here who do a half day's work and deserve a full day's pay. That is what makes things so expensive, in my opinion.

The committee adjourned.

PROCEEDINGS
OF THE
BANKING AND COMMERCE COMMITTEE
OF THE
HOUSE OF COMMONS
IN CONNECTION WITH
BILL No. 97, AN ACT RESPECTING
INSURANCE

No. 7—MARCH 31, 1909

(Conclusion of representations and suggestions of Fire Insurance Underwriters and others.—Conclusion of Mr. Wright's address.—Communications on fire insurance features of the Bill.)



OTTAWA
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EXCELLENT MAJESTY

1909

REPORTS

OF THE

BAKING AND COMMERCE COMMITTEE

OF THE

HOUSE OF COMMONS

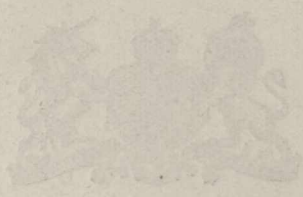
IN PARLIAMENT ASSEMBLED

PRINTED BY W. CLAY AND COMPANY, BUNGAY, SUFFOLK

INSURANCE

No. 7-MAR 31, 1909

Continued by resolutions and amendments of the Insurance Committee and
others—Continuation of the Report of the Insurance Committee on
the Insurance Industry of the Kingdom



PRINTED BY C. H. FARRER, ST. MARTIN'S LANE, LONDON, W.1
1909

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS.

ROOM No. 62.

WEDNESDAY, March 31, 1909.

The committee met at 10.30 o'clock a.m., the chairman, Mr. Miller, presiding.

Mr. BICKERDIKE—I suggest that we continue from where we left off yesterday and that there should be a full and fair discussion. For that purpose I propose that Mr. Geoffrion be heard.

Mr. AIME GEOFFRION, K.C., Montreal.—Mr. Chairman and gentlemen, I appear on behalf of a separate group of interested parties known as the Reciprocal or Individual Underwriters. These gentlemen are business men of Montreal and other cities who have adopted a certain insurance system in conjunction with certain American business men. They are chiefly merchants, although there are some manufacturers among them. This system of insurance is one which bears considerable analogy, although it is not identical to mutual insurance. I will give the committee an idea of some of the gentlemen that I represent. There are about 30 or 40 in Canada, chiefly large firms, people with exceptionally good risks who insure each other. The names of the firms to which I refer as being subscribers to this system are:—

Quebec.

Chinic Hardware Co.
Garneau Limited.
Holt, Renferw & Co.

The Paquet Co., Ltd. (Retail Division).
Whitehead & Turner.

Montreal.

Samuel Carsley.
Hodgson, Sumner & Co., Ltd.
Henry Morgan & Co.
Caverhill, Learmont & Co.
Davies Limited.
Finley, Smith & Co.
Mark Fisher, Sons & Co.
L. Gnaedinger, Son & Co.

Greenshields Limited.
P. P. Martin & Cie.
A. Racine & Cie.
Starke, Seybold, Ltd.
Boulter, Waugh & Co.
Henry Birks & Sons, Ltd.
Laing Packing and Provision Co.

Toronto.

The Wm. Davies Co., Ltd.
T. Eaton Co., Ltd.
A. A. Allan & Co.
Beardmore & Co.

Nisbet & Auld.
John Northway & Son, Ltd.
Robert Simpson Co., Ltd.

Hamilton, Ont.

W. E. Sanford Mfg. Co.

Stanley Mills & Co.

London.

Robinson, Little & Co., Ltd.

Winnipeg.

Robinson & Co., Ltd.
R. J. Whitla & Co.

T. Eaton Co., Ltd.

Ottawa.

The C. Ross Co., Ltd.

John M. Garland, Son & Co.

Vancouver.

McLennan, McFeely & Co., Ltd.

These gentlemen belong to what is known as the Reciprocal or Individual Underwriters. The system briefly stated, I will not go into details, is this: there is no company, no stock, no association. Each member of the club, if I may call it so, or group is insured separately and individually by every other member and is an insurer for every other member. The individuality of the transaction is carried to this extent that if a member of one of these clubs, composed say of 100 members asks for \$100,000 insurance he will have \$1,000 of insurance from each individual member and he will insure each other member for one hundredth of the insurance that other member obtains. The distinction between this and the mutual system is that if anyone of these men is unable to pay this \$1,000 the others will not be called upon. Apart from that distinction it considerably resembles, the mutual system of insurance. Apart from that distinction and the fact that there is no company, no association, or partnership—in fact there is only one agent residing in the United States who acts for all the members in the transaction to simplify the dealings—the position is about the same as the mutual. Very severe tests have been fulfilled in order to become a member. When a man desires to join he must be accepted by the unanimous decision of the advisory committee and of every existing member of the association who lives in the same town. Furthermore there are constant inspections and requirements to be complied with under pain of cancellation of insurance. The result is that these gentlemen on account of the very high class of risk that they accept and the very careful inspection made keep their losses down to a very low figure and the insurance is very cheap. Until quite recently the insurance given to them for 10 or 15 years was on the average about one-fifth of what the regular companies would charge them. They paid in advance as in the case of the regular companies' premiums at the beginning of the year and at the end of the 12 months there was a return to them of about 80 per cent, so that 20 per cent covers expenses and losses generally speaking. Of course within a few days the Underwriters have begun to make all sorts of tempting offers but the people whom I represent are naturally suspicious of these offers and are afraid that when you pass this Act which virtually gives the Underwriters a monopoly, their offers of cheap insurance may not last very long. I must deal with this question from a slightly different point of view from that taken by those who have preceded me. On that account I shall have to speak at greater length than I would otherwise have done. One important question that arises is whether this Parliament has the power to pass many of the clauses embodied in this Bill. Under the terms of this measure Parliament purports to say that no one, no individual, can insure another individual, whether reciprocally, mutually or otherwise, without first getting the permission of the Federal authorities and making a deposit with them. Now the fact is that insurance is not in any way among the contracts which are assigned to the Federal Parliament. Insurance is no more spoken of in the British North America Act than is the sale of land or any other contract; and I look in vain for the provision which justifies the exercise of this jurisdiction by the Federal Parliament. The only provision in that Act which can be considered as giving to the Federal Parliament any jurisdiction whatever as regards insurance—I am not speaking with respect to the incorporation of insurance companies because the Federal Parliament can always incorporate such companies just as it can any other companies which, companies, however, must submit to the provincial laws in order to do business in a province—the only thing which can be considered as authorizing the Parliament of Canada to interfere with the right of individuals in a province to insure each other would be the general clause which says that Parliament may regulate trade and commerce. It is doubtful if that clause applies. However, there are two answers to that clause as far as my people are concerned. The regulation of trade and commerce can only apply to the people who trade in insurance. Mutual companies who do

not do such trading, and especially individuals who insure each other reciprocally and without any profits but simply for mutual protection, are clearly not traders. They do not do the business of insurance. Now it is a question of course of jurisdiction. I would respectfully and earnestly ask the committee to consider under what authority they can go on and say to individuals who are not trading in insurance, but who are simply insuring each other. 'You shall not insure each other.' I submit that there is no power whatever in the British North America Act, and therefore that such an Act would be absolutely void. What is more, in the Province of Quebec that very same question came before the legislature last year, and I am instructed that after considering the matter the legislature decided to allow individual insuring to continue. Assuming that Quebec is not the only constitutional judge on the matter as to Quebec—that in other words the provinces are not the only constitutional judges upon this matter of insurance by individuals, and especially individuals who are not trading, there is the further point that this is an unwarranted interference with provincial rights. Why should the Federal parliament enter into a matter which is so exclusively local as for instance insurance among individuals? Why should parliament undertake to reverse the decision of the provincial legislatures by enacting legislation which is such an interference with provincial rights, an interference which this parliament as a matter of policy has always guarded against.

Leaving the question aside I come to the merits of the Bill, assuming that it would be constitutional. There are three objections, two of which I need not dwell upon. I intend only to dwell on the third which is more serious. It has been urged that this is only making the previous law clear, that it was ambiguous. In the second place it has been suggested that the underwriters are entitled to this as a protection such as the manufacturers have by means of duties, and in the third place that the law should be the same for all, and if some of the companies are required to take out a license the others should be. I want to be perfectly frank, and I will say that the third seems to me to be the debateable ground that requires discussion. I need not discuss the first two, except to say that nobody suggested when parliament required the fire underwriters to make a deposit it was for the purpose of protecting the Canadian underwriters; the only question was to protect the public and the question is whether this additional amendment is required to protect the public. As to the argument that the law was the same previously, and that this amendment is only making it clear, in the first place I join issue with that statement and I will point out to the committee that a reference to paragraph 4 of the Act will show distinctly that it did not forbid the insuring of property in Canada, but only applied to contracts made in Canada. It is said now that what was in the mind of those who made the law, that is a possibility, but if the parties whom this proposed amendment hurts were not clearly informed that such was the intention—if the language was not such as to make it clear—then they have not been given the opportunity to urge their objection. Therefore they now, for the first time have the opportunity of coming before this committee to state their objections and what they ask is that the matter should be treated as open. It having been now clearly stated in the amended Bill what the intention of parliament is we claim that we have the right to come before this committee and make our objections as if the matter were still open. We could not come and complain before because the law up to the present time has not been such that we could raise objections; we could not complain about what was not clearly set forth in the law. As to the claim that this amendment is to protect Canadian underwriters, the answer to that has been made by those who spoke before me. 'You are not protecting, you are establishing prohibition in our case, particularly as to the 25 or 30 members in Canada.' There are 300 or 400 or 500 members in the United States and these gentlemen far from looking for business, on the contrary are rather hard to please before they will accept business. The Canadian business is to them a very secondary matter. I wish to state that I am not sent here by the

advisory board of the association, these people are not interested in the Bill at all; but I am sent here by the Canadian members of the association alone because those members are convinced that that association would rather drop them and get out of Canada than comply with this rule, for the simple reason that they have never been called upon to do it. An attempt was made once in the State of Texas to force them to make a deposit before they could do business, but they fought it and it was thrown out by the legislature. In two or three other states having laws analagous to this their men were arrested, but on trial they were acquitted, and these gentlemen have always insisted that theirs was an individual assurance by which each man was assured by the other men in the association, and that their should be no interference with them in any way. Even in the State of New York the legislation does not interfere with the business of this association, because it is a private matter. Now that being the case that they have been left free in every state of the union, surely they will not for the purpose of keeping the infinitesimal part of their business which they hold in Canada, and as to the retention of which they are not at all anxious, they will not comply with this law, and create a precedent that will be used against them everywhere else. The result is that you are depriving the members of that association who are in Canada from that form of insurance, and there are not enough of them in the Dominion to form an association of that kind. Then in addition to their being unable to make the saving on their insurance they have been making heretofore they would probably not be able to get all the insurance they want in Canada. The only serious argument that I can think of that has been urged in favour of this Bill is that the law should apply to everyone and not to one rather than to the other. The law is there for the purpose of protecting the public, not for protecting the insurers, it is passed to protect the public who are careless with respect to their insurance sometimes. In other words the ordinary public who are canvassed for insurance are not as likely to inquire into the solvency of the company soliciting their insurance, and so the law exacts a deposit in order that the man who innocently insures against fire should have some guarantee against his own carelessness, and that he may be sure that the company in which he insures is a solvent company that will pay the indemnity when it becomes due. This law is perfectly reasonable where such protection is needed. I can quite understand that you should make this law applicable to all companies that go out canvassing for business, that have offices in Canada, that have agents in Canada, and that advertise their business. But here is a mutual organization or company which ignores Canada entirely, which stays at home in a foreign country, which has not any office or agent here, which is not soliciting any business here; the general public of Canada does not know of their existence even, and with which the people could not get insurance if they sought it, except those people who have complied with their requirements and who have gone to them to get the insurance. While there is good reason that you should protect the ordinary citizen in the case of the companies which are soliciting his insurance, and that you should require those companies to make a deposit and to comply with other requirements of the law for the protection of the persons from whom they are soliciting business, why should you protect these wideawake gentlemen who are going to a foreign country for their insurance, why should you protect them against themselves. These gentlemen are not canvassed to place their insurance with this reciprocal association, but they go out themselves and find this company, after surveying the whole field. If they knew enough to look after their own interest to that extent, they should surely be able to protect themselves. They do not need that protection; they are not in the same position as the ordinary insurer, and you are doing them incalculable damage because you are depriving them of that insurance which they consider they could not get anywhere else nearly as cheaply. I respectfully submit that however much parliament may desire to regulate the insurance business and to prevent abuses it should not interfere with individual insurance; it is, I think, beyond its power, because this insurance is a civil contract, and when there is no

trading parliament cannot interfere. In the second place, I think it is an invasion of provincial rights; I am instructed that it is practically reversing the decision arrived at last year by the legislature to allow the insurance to continue. Lastly, the only reason why this law is required is to prevent people being induced to deal carelessly with insolvent companies. This class of protection may be needed with companies that have offices here, and have agents who canvass here, but it is not and cannot be needed for companies who stay at home minding their own business, and who are only discovered by men wideawake enough to find them, because they want that class of insurance. Those companies only take such business as seems reasonable to them, and which applies to them. There is no danger of the public being induced to apply to them for insurance. By passing this law you are practically excluding this organization from Canada, and you are depriving those men who are now obtaining their insurance through it from that protection which they enjoy. It is an exceedingly serious matter for those gentlemen who would, in a very short time, have to pay much more than they are now paying when the monopoly here is well organized, and furthermore they will not then get the insurance they want.

I respectfully submit, therefore, that as to foreign institutions which make contracts out of Canada, which do not have any agencies or offices in Canada, which do not employ any agents in Canada, and which do not advertise or canvass here, but which stay away and allow Canadians to come to them and apply for insurance when they want it, they should be allowed to carry on that business. The reciprocal institutions which I represent are institutions that do not solicit business, that do not have agencies or representatives or offices here, and therefore they should not be made subject to the law.

Mr. BLAIN.—Do the men you represent carry all their insurance in this way or do they have some additional insurance?

Mr. GEOFFRION.—I am instructed that many of them, if not all, carry some insurance in Canada, but these insurance men who are present can tell you better than I can. But they carry part of their business, I am instructed, with the regular underwriters—some of them may and others perhaps may not.

Mr. NESBITT.—You think if this clause passes it would apply to your people?

Mr. GEOFFRION.—It would apply to our people even worse than to any other, because we could not take out a license, we are not a company.

Mr. NESBITT.—Part of the time you seem to think that the Act was ultra vires, and part of the time you did not think it was ultra vires but that it would apply to your people. You say your people have never found it applied in any state, and you seemed very anxious to know whether it would apply or not.

Mr. GEOFFRION.—If you will allow me to explain what I was trying to point out was that the old law did not apply to the reciprocal association. This Act will apply to it if it is intra vires; I say, first, that it is ultra vires of the federal parliament, and then I proceeded to argue that should it be held to be intra vires that certain amendments should be made to the Bill as it now stands for the reasons I have given.

Mr. W. H. ROWLEY, President E. B. Eddy Company, Hull, P.Q.

Mr. Chairman and Gentlemen,—I have been asked by a number of the merchants and manufacturers of Canada to say a few words from the point of view of those who are doing a large business in Canada and who need large amounts of insurance. I am glad indeed that the Honourable the Minister of Finance is here to-day, I was afraid that perhaps his other duties might not allow him to come here, because I would just like to appeal to him. I want to draw his attention to this fact that there are a great many merchants and manufacturers, of which the company I represent is both, having large interests in manufacturing here, or rather in the province of Quebec, and having numerous branches and depots and sales places throughout the Dominion of Canada, who require heavy insurance as do other people in the same lines of business as we are in and in other lines of business—we are both merchants

and manufacturers—and on behalf of both classes I am speaking to-day, but I shall deal more particularly with our own business, because I feel it is a fair sample of a large business, and is the one I know most about, although I think my remarks will be fairly applicable to every large business. We require at times, almost all of us, to borrow large sums of money, and some of us require to sell bonds. All incorporated companies, of course, have shareholders. In our particular case, although I only speak for one of a few manufacturers and merchants, we are doing millions of dollars worth of business in this country, all practically in this country exclusively and we require a good deal of insurance. We are unable to get this in Canada, absolutely unable to, and have been so for years. Personally I have been trying for more than thirty years past to get sufficient insurance to cover the properties of which I am now in charge.

Hon. Mr. FIELDING.—You cannot obtain it at all? Or you cannot obtain it at the prices you think fair?

Mr. ROWLEY.—We cannot obtain it at all.

Hon. Mr. FIELDING.—It is not a question of price?

Mr. ROWLEY.—No, sir, we have not been able to obtain it; there are others, I am told, who are in the same position. To give you an illustration of how it is our case—

Mr. SPROULE.—You can obtain it either in or out of the country?

Mr. ROWLEY.—We cannot get it in Canada, but we can obtain it out of Canada.

Hon. Mr. FIELDING.—You mean that you cannot obtain it through companies licensed in Canada?

Mr. ROWLEY.—Yes, that is it. We require over \$2,000,000 insurance on our property, and I suppose other people who do as great a business as we do, and some who are actually doing larger, require proportionately as large amounts of insurance. Mr. Chairman, I want to call attention, if I may, to the restrictions of this Bill; I want to direct particular attention to them because our bondholders would be prejudiced, our bankers would be prejudiced, our shareholders would be prejudiced, and our whole business and interests would be jeopardized if we could not get insurance. We had to go to companies which are unlicensed in Canada, knowing full well that they were unlicensed; they have not come and sought us, we have gone to seek them. I have travelled thousands of miles to get insurance, I have gone thousands of miles to lay the position of our business and of our insurance before people who were not seeking business in Canada, people who did not, as a rule, underwrite in Canada, people who did not advertise in Canada, and who did not in any way solicit the business. We have succeeded fairly in getting the insurance that we want, and we are pleading to be allowed to keep it fairly well covered.

When I speak of unlicensed companies, I do not want to be understood as speaking exclusively of United States companies, although it is only right to say that the bulk of our insurance is in what are known as the New England mutuals, but we have policies from England, from Ireland, from Australia, from Germany, and from other foreign countries besides the United States. I have not come here to say a word against the Canadian Fire Underwriters' Association. I think they know well, those of them who have been some time in Canada in the position of managers and agents, they know pretty well the efforts I have put forward on our behalf to get insurance. But I am bound to say, also, that we have effected our insurance now at such rates that the difference between what we now pay and what it cost us before, when we could not get all we wanted, is almost incredible. Of course, we have improved our risks. But these are the facts, that is the situation, and I would therefore like to ask that no legislation be effected here that will prevent the merchants and manufacturers of this country, who are in a large way of business, and who require vast sums of insurance, from being able to cover their properties.

Mr. SPROULE.—Or small sums either, not only large amounts.

Mr. ROWLEY.—Oh, yes, or small sums either; it should not be confined to the large amounts.

I would just like to touch upon the responsibility of these outside companies, and the fact that the Canadian companies ought to be protected. I am a protectionist; strong, stronger probably than the government—stronger probably than most members of parliament. I believe in protecting everything in Canada, particularly the forests and the waters and the mines and the minerals, and our people—although most of our people are able to protect themselves pretty well—but there are other things that want to be protected. I am in favour of protection, and I want it understood that we never buy a dollar's worth of goods out of Canada that can be bought in it. We never deal in any way with any foreign countries until we are forced to do so through, as in the case of insurance, the goods not being obtainable in this country, or as in the case of some materials we use, not being able to buy them here. The rates of insurance paid these mutual companies are so low that I do not wonder some people who are not well informed thinking we are not getting good insurance. We have had one or two fires in our property in years past, and with one single exception—and that was a company about which we were not well pleased or well satisfied when we took the risk—we recovered the whole of our insurance from outside companies. The reason we took that company was because our contract was to keep up a certain percentage of insurance in proportion to the value of the property, and we took this policy with the intention of cancelling it as soon as we possibly could and placing it in another company that would be prepared very shortly afterwards to increase their line.

Our base rates are one per cent, that is what we pay down, and we get regularly various rebates, ranging from 75 per cent to 90 to 94 per cent, or a little less than the rates some one, I think it was Mr. Russell, spoke of obtaining yesterday. This being the case, and many of the large merchants and manufacturers of Canada having found it impossible so far to get insurance in Canada, I hope nothing will be done by this Act or by any other Act that will prevent us continuing to get our insurance on the same satisfactory terms. Some one has suggested that in order to protect the ordinary person who does not have to look so fully and closely into insurance matters as the owner of large properties and concerns, there should be some protective clauses provided. So far as the large merchants and large manufacturers are concerned, all that I have spoken to and all that have asked me to lay this matter before you, are quite willing that anything that is desired by the Insurance Department in the way of returns, all sorts of information as to names, amounts, terms and conditions of every policy that we carry shall be reported to the department. We have no objection whatever to the department making it a law that there shall be printed across the face of each policy, as has been suggested, stamped or written in red ink letters not less than a quarter of an inch in height, words to the effect. 'This insurance is effected with a company that has no office and no deposit in Canada,' or any words that you like although we are not afraid for ourselves as we are able to look after our business in insurance as we are in other matters. So far as putting a tax upon the net premiums on the policies that are brought in I do not think insurance ought to be taxed any more than money ought to be taxed. But still if it is made the law that we should pay ten, fifteen, twenty, twenty-five or thirty-five per cent—although I cannot get any such protection as 35 per cent for our stuff and do not want it—but if it is considered that foreign insurance companies shall be taxed to the limit I do not object.

Hon. Mr. FIELDING.—You used to have 25 per cent.

Mr. ROWLEY.—How was that, sir?

Hon. Mr. FIELDING.—I will not tell you how if you don't know

Mr. ROWLEY.—Twenty-five per cent on what?

Hon. Mr. FIELDING.—On paper?

Mr. ROWLEY.—Yes, I know about that, that was because we were accused of being in a combination—it wasn't true though, sir.

Mr. SPROULE.—You get a rebate of from 75 to 92 per cent?

Mr. ROWLEY.—Off the dollar.

Mr. SPROULE.—At the end of the year when they have ascertained the loss that is returned to you? You have that rebate, I take it?

Mr. ROWLEY.—Yes.

If I might give one illustration to show the conditions and the value and the numbers of the mutual companies that do this business. Here is a return covering 32 mutual insurance companies which has been given to me—I was not told that it was confidential, so I am going to read part of it, if you will allow me—these are 32 mutual insurance companies among those who are writing insurance for the different manufacturers in Canada, outside companies, they carried \$2,064,000,000 worth of insurance last year.

Mr. SPROULE.—In Canada?

Mr. ROWLEY.—No, not all in Canada. The premium on that insurance was \$16,465,000. Now the expense of doing all that business was under \$839,000; the income from their investments was \$703,000. The returned premiums that they paid amounted to \$13,765,000. Their total net assets in December 1908 at the market value was \$17,896,000—but the point I want to make about it is that out of their investments they paid all their expenses to within \$136,000, so you can see how carefully these companies do their business and how cheaply they did it.

Mr. SPROULE.—It did not cost 1 per cent.

Mr. ROWLEY.—It does not cost us on the average 12½ cents on 100. We pay on a base rate of 1 per cent, and at the end of the twelve months they gave us back between 70 and 94 odd per cent of the amount.

Hon. Mr. FIELDING.—That has been your experience extending over a number of years? What period, roughly?

Mr. ROWLEY.—Yes, about 12½.

Hon. Mr. FIELDING.—It would be very unequal, would it not?

Mr. ROWLEY.—No, approximately there is not 2 per cent difference between one year and another. Our insurance has latterly seldom cost us more than 12½, and often it costs us nearer 10.

Hon. Mr. FIELDING.—What amount would the line companies charge on the same risk?

Mr. ROWLEY.—I would not like to say here, I have not the figures, but it was somewhere in the neighbourhood of 2 per cent.

Mr. NESBITT.—What did you say that you paid in the mutuals?

Mr. ROWLEY.—I said that we paid 1 per cent, and of that we got a rebate of from 70 to 90 cents on the dollar.

Mr. NESBITT.—Perhaps you did not intend to say so, but you did say that it cost you 10 mills.

Mr. ROWLEY.—Put it another way, we pay \$1 to the mutuals as against what we would formerly pay \$2.25 to \$3.50.

Mr. NESBITT.—I think you only want to be fair—you were not sprinkled then?

Mr. ROWLEY.—Not fully. Then, we got a rebate of from 70 to 92 per cent of that \$1; that was returned to us.

Mr. SPROULE.—If you say 8-100ths, perhaps that would express it better.

Mr. ROWLEY.—Yes.

Mr. A. E. KEMP.—Did you ever get a rebate on the \$2 rate?

Mr. ROWLEY.—Never.

The CHAIRMAN.—What changes did you make in your risk from the time of getting the stock companies quotations and the time you insured in the mutuals?

Mr. ROWLEY.—Well, before the conflagration, when we were burnt down, we were told by the insurance managers who came to see us that we had the best equipped risk of its kind that they knew of. We made every improvement, alteration and suggestion that they wanted. They never were in a right position, and I do not know

now that they are in a position to take sprinkled risks and give sprinkler rates, but they may be now.

The CHAIRMAN.—So that the factory that you insure in the mutual companies now is an entirely new factory?

Mr. ROWLEY.—That is during the last seven years? ,

The CHAIRMAN.—That is before you made your improvements?

Mr. ROWLEY.—No, before that we were in the mutuals.

Hon. Mr. FIELDING.—What is your experience with the line insurance companies now? Have you any insurance with them now?

Mr. ROWLEY.—We cannot get any.

Mr. FIELDING.—They will not give it to you at all?

Mr. ROWLEY.—No—at least they have not. We paid approximately on what is known as our general loss, that is the factory and plant, approximately \$1.66, about the end of the last century, about 1899, I think it was.

The CHAIRMAN.—Were your present premises ever insured with the licensed companies?

Mr. ROWLEY.—Oh, yes, partly.

The CHAIRMAN.—Your present premise?

Mr. ROWLEY.—Oh, yes, some of them were—those that were not burned down in 1900 were.

Hon. Mr. FIELDING.—My question was this, that as between the present conditions in your factory and the past conditions, you could not make that comparison?

Mr. ROWLEY.—I could not make it, because we have never had sprinkler insurance from the licensed companies.

The CHAIRMAN.—Have you ever sought for it?

Mr. ROWLEY.—Yes, I have been asking for it for fifteen years.

The CHAIRMAN.—What rates are you quoted now?

Mr. ROWLEY.—I have not been quoted any.

The CHAIRMAN.—Do they refuse to quote rates?

Mr. ROWLEY.—I do not know; they do not quote them.

Hon. Mr. FIELDING.—I would like to have that point cleared up. Mr. Morrissey, that is a very interesting statement by Mr. Rowley; what have you to say about it?

Mr. MORRISSEY.—I have listened with a great deal of interest to the statements that have been made, but I do not wish to inflict any more speeches upon the committee than are absolutely necessary. I would suggest that if there are any more gentlemen who have anything to say against our companies that they should do so, and then, as the Chairman has suggested, I will reply to them afterwards.

Mr. LANSING LEWIS, manager Caledonia Insurance Co., Montreal.—Mr. Chairman and Gentlemen: I am not going to take up the different points that were brought before you yesterday, and I am only going to speak a few minutes by the clock.

Mr. Monk delivered a somewhat telling speech yesterday by painting the tariff offices in a very objectionable light—and on this point alone I wish to say a word. A just cause is often hampered by misrepresentation. Don't call the insurance men who obey the laws—boycott no one—pay your annually huge fire losses—don't call these men members of a combine unless you can prove it—if you can I will immediately resign my position; can I say more than that. We certainly have a tariff of rates, the result of constant work and investigation, and it is constantly changing according to the experience of the business. If any other set of companies doing a general business can handle insurance cheaper and better than we do, there is no law of this land that will keep them out. I have been in the hardware business, and I have many friends in the grocery and drug and other lines of trade. I know some of the rules and regulations they have, and the Toronto courts showed they are infinitely more drastic than any we have, yet we do not call them untruthful names. I believe the rules the manufacturers have made are not with a view either to oppress or rob

the people, but an honest effort to prevent, as far as possible, the curse of cut-throat competition and the sale of goods below their cost. The man who sells goods at less than cost defrauds some one, and the trouble is that through our defective mode of education the people don't realize it. We insurance men are not monopolists, and we are not such fools as to expect for one moment that parliament would grant any set of men the monopoly of such a trade necessity as insurance. We ask for no law that will restrict the public or compel the public to insure with us—or through us—although we have incurred the expense of providing a splendid system of inspection and rating on the merits of each risk. Get your insurance where and how you please, only, as Mr. Otty concisely put it to you yesterday, comply with the law. Don't break the law even if it pays you to do so. The Bill is the government's, made for the people, not for either the manufacturers or the underwriters. The underwriters are prepared to obey this law, as we have all the others, but respectfully expect the government to mete out that justice to us to which we are as much entitled as any other citizens.

Tear up all Acts and return us our money and we will take our chances with every and all kinds of competition. Pass an insurance law and make every one toe the mark, and again we will take our chances with the rest.

We have no right to ask for, and you have no right to give us any favours. We want none. But I put it to every Britisher here—give us fair play.

Will any manufacturer tell me why my company should be called upon to put up \$250,000 with the government; pay its share of what it costs the government to maintain its Insurance Department; pay three sets of taxes in Montreal and Quebec; pay \$100 and \$200 registration fees and a percentage of its income to every province of the Dominion; and keep a set of books for government inspection? Whilst, as far as I know, Lloyds and all the undergrounders do none of these. If you say it is fair, then I reply, 'Tis such abuses bred the curse of socialism.' If there are not more non-tariff competitors in Montreal it is because they died prematurely, the result of misspent lives. There are more funerals in sight. Remaining cut-rate companies are not sufficient to afford relief from the 'extortion' practised by myself and friends. Then the whole world is before you, bring them all in. If we have such a soft snap, others ought to come into the game. The more there are, the more competition there will be. Has that a good monopolistic ring about it? Mr. Caverhill said yesterday that he got better protection outside of Canada than in it; then he wisely took the first train to get out of town. It is our business to tell people how to improve their risks, and there are hundreds of agents and inspectors doing that 313 days in the year.

It was quite proper for Mr. Kemp to express the opinion that the sprinkled business and the A 1 business should not be saddled with the cost of carrying the other more or less dangerous stuff, and I beg to say it isn't. It is tabulated by itself. I thank Mr. Russell and Mr. Kemp for the kind of speeches they made yesterday. Mr. Chairman, there is no more reason why we should go to war with one another than that William of Germany should try to punch his Uncle Edward.

Mr. BLAIN.—What is the difference between the tariff prices in insurance and the combine?

Mr. LEWIS.—That is so big a question that you haven't time to listen to an explanation this morning, and I refer you to the manufacturers, who have their tariffs just as we have ours.

Mr. MORRISSEY.—Mr. Chairman and gentlemen—

Mr. SPROULE.—This gentleman said: 'We value our risks individually according to their character.' Is it not a fact that you take a row of buildings, they may be in one block, but built by several parties, is it not a fact that the rate of insurance you strike in that whole block is the rate that covers the poorest risk in it? As an illustration, a large portion of the block is brick, with fireproof covering, and the

other is a wooden building, and your rate is struck for the whole block at the rate it would be for the wooden building?

Mr. MORRISEY.—Do you mean that it is all rated at the price of the wooden building—let me ask you? Are the brick bulidings separated by brick walls from the wooden building?

Mr. SPROULE.—Yes.

Mr. MORRISEY.—One frame building with brick walls on either side of the frame building?

Mr. SPROULE.—Yes.

Mr. MORRISEY.—No, sir, the rates are not the same for all the buildings.

Mr. SPROULE.—I would say that they are, I have been charged it and I am paying it.

Mr. MORRISEY.—I would say that you must be under some misapprehension, if you say that the rate are applicable to a framè building in between two brick buildings, with brick walls separating, is the same for both classes of buildings. The rates are made according to a schedule, and the construction of the building is taken into account, the exposure is taken into account, other facts are taken into account in making the rate which are too numerous to take up the time of the committee in explaining. I have no hesitation in answering your question in the negative.

Mr. SPROULE.—There are several different lines of business in that block, drugs in one, dry goods in another and different classes of business in another. Is it not a fact that you strike the rate from the class of business that is charged the highest rates in the whole block?

Mr. MORRISEY.—Would there be brick fire walls between the different occupancies?

Mr. SPROULE.—Yes.

Mr. MORRISEY.—If there are, the rates are not the same, not necessarily.

Mr. SPROULE.—Your agents then mislead the people because they said positively they were.

Mr. MORRISEY.—In my experience, and it has extended over a great many years, I have never found that.

Mr. SPROULE.—I am speaking of personal knowledge.

Mr. MORRISEY.—If you will submit the facts to me I will go into it and endeavour to make an explanation which I think will satisfy you.

Mr. Chairman, I would not have remained over had it not been for the suggestion made by the Chairman yesterday that various interests that would speak in opposition to what we propose in regard to this Bill would be heard to-day and that practically I would be expected to speak after all those who had anything to say in opposition to what we have proposed had spoken. That is my only excuse for again coming before you in regard to this matter. I suppose that as I have been asked, it is expected of me to endeavour to answer the various points that have been raised by the several speakers. We are first met by a statement made by Mr. Logan, of Cumberland county, who spoke for a number of manufacturers. I do not know why they selected Mr. Logan to present their case, because after I listened to the statements he had made I could not see that it was germane to the question before you at all. Mr. Logan accused the Canadian Fire Underwriters' Association of being the most vicious combine in Canada. I think the extravagance of that statement is sufficient refutation. It seems to be an absurd statement for any gentleman to make. It is true that he dramatically held up a little book and said: 'If you do not believe it there is their bible.' He did not tell us what the bible contained. It so happens I know that bible from cover to cover, and there is nothing in that bible, nothing that Mr. Logan or any other gentleman can point to, that will afford the slightest justification for the absurd charge he made here yesterday. I say it is utterly absurd. Perhaps before leaving the subject of combines it might be well for me to say—

Mr. LOGAN.—I have here in my hand the 'bible,' so-called, of the underwriters, and I read in it the following:—

'No member of this committee (that is Toronto) shall effect or accept any insurance or re-insurance with or from any fire insurance company licensed to do business in Canada, not a member of the Canadian Fire Underwriters' Association, except in instances where all tariff companies should be full or not open for insurance, and then only in strict conformity with tariff rates and regulations. This rule prohibits the acceptance or transaction of business through the agents of non-tariff offices, whether with or without any consideration. Immediate written notice must be given to the secretary on a form to be provided by him of any insurances which, in accordance with the foregoing paragraph, are placed with non-tariff offices, and particulars of the same shall be communicated to the members at the next regular meeting and embodied in the minutes.'

I turn over a little farther in this 'bible,' and I find that if a man violates that rule he is subject to certain penalties, and I find in the newspaper reports that fines of \$25 to \$100 have been inflicted upon men who have violated the rule of this close corporation. Is not that a combine?

Mr. MORRISEY.—You speak of the Toronto rules; I do not know that there is anything in the Toronto rules to-day that will call for any penalty to be inflicted upon a member for violating the rules. I do not know what papers you are quoting from.

Mr. LOGAN.—Here are the rules of the Toronto committee of the Canadian Fire Underwriters' Association. Here is the penalty clause:

'Should it be shown to the satisfaction of the secretary that any of the officials, agents or employees of a company, a member of this committee, has violated any of the agency or commission rules or regulations, the offender shall be fined 5 per cent of the correct premium involved in the transaction, but not less than \$25, and each company shall be responsible for due payment by its agent of any and all fines imposed under this rule.'

Mr. MORRISEY.—What is the date of that, may I ask?

Mr. LOGAN.—I do not know.

Mr. MORRISEY.—My answer to that is that whatever rules there were amongst any of the organizations of the underwriters in Canada calling for the infliction of penalties have been removed, because it was considered objectionable.

Mr. HUGHES.—How long since?

Mr. MORRISEY.—About three years; I would not be positive as to the date?

Mr. LOGAN.—This 'bible' I am quoting from bears the date '1907.'

Mr. MORRISEY.—I will ask a member of the Toronto board if I am not correct in my statement.

Mr. LAIDLAW.—There are no such rules to-day, but at any rate any such fines as between members of the association have nothing to do with the insured, he is absolutely free in every way.

Mr. MORRISEY.—It is provided that if a member will place insurance with companies outside the membership of the association they will agree to pay the same rates. That may be the rule, that is not only to support the rules the Fire Underwriters' Association, but it is also a rule that is intended and calculated to benefit the public interest. We have heard speakers say that they did not want to take the policies of some of the licensed companies. Why was it they did not want to take the policies of these companies? It was because they did not consider them safe. They considered it may be money wasted to pay premiums to such companies. We say that the reason those companies got themselves in that position that the public did not have confidence in them was because they did not charge premium enough.

The object of our association is to see that the companies got adequate rates. We cannot go to the public and say: 'We will give you insurance that is unquestioned,' unless we charge adequate rates, and yet we will have members stand up here in the first place: 'We don't want to deal with a certain class of company because they cannot

give us security.' Then they will stand up and say: 'We object to your association because you insist upon charging the same rates.' Is it any hardship upon the public to say that the rates will be the same? On the contrary if the rates are fair and equitable, and that is the aim of the association, it is an advantage to the public to know that whatever one man pays for insurance his neighbour pays the same for the same risk. And I say that the association of which we form a part is intended not only to see that the companies get adequate rates for the risks they run but is intended as a benefit to the public. We are told that we are a combine, but, I deny that we are a combine in the objectionable sense that has been raised here. If we are combined for the purpose of employing inspectors and hydraulic engineers to travel from one end of this country to the other testing electric appliances and various hazards that are liable to result in fires, that is not a combine in restraint of trade, or a combine that is injurious to any one; it is a combine that is supporting what you gentlemen say should be one of the first considerations of the people of Canada and that is the conservation of the wealth of the country. Subsequent to Mr. Cains' address we had a very pleasing discourse from Mr. Russell. I was very glad to hear that gentleman he showed that he had a thorough knowledge of the subject. He gave us a very interesting history of mutual fire insurance as applied to factories and special hazards. He went to the very genesis of things, and all I have to say is it would be a most interesting discourse for us to listen to at any other place than here; I don't see that it is altogether applicable to the question under discussion. We all admit the value of that system of insurance. We all admit that it has taught the underwriters of to-day how that business may be done. We don't deny it, we are not above learning. We have been told that is the way all the business should be done. We accept it and say we are doing so and we are prepared to do it for the people of Canada and that we as Canadians are entitled to that business.

Mr. SPROULE.—At the same rates?

Mr. MORRISEY.—At rates that would be commensurate with the hazards. I cannot tell what these rates are. I went into that fully yesterday. Mr. Cains, of the board of trade, presented a number of letters from important concerns in Montreal, but those letters were written in the belief that the Bill would be passed into law as it had been printed. Well, sir, the answer to the objection raised by Mr. Cains is that we provide that those gentlemen who say that they cannot get sufficient cover in Canada may get it. That is one of the things we urged upon you, the proviso in your Bill to provide that any concern that cannot get sufficient protection in the country shall get it outside.

Hon. Mr. FOSTER.—It is a point that troubles me. What is your practical way in which that could be worked out without damage to the insurer?

Mr. MORRISEY.—Well, the proviso has been drafted carefully; I don't know but what it might be improved. But as I understand it all that would be necessary would be for the person requiring the insurance to make affidavit that after diligent effort to secure it he has failed. Then he is at liberty to go outside the country.

Hon. Mr. FIELDING.—Supposing he is able to get insurance of 2 per cent, but can obtain in the New England Mutual what is practically a quarter of 1 per cent, what then?

Mr. MORRISEY.—You will pardon me, sir, but you are supposing something that I think is reasonable.

Hon. Mr. FIELDING.—I am taking Mr. Rowley's statement.

Mr. MORRISEY.—I will answer Mr. Rowley's statement when I come to it. I say that is—I don't wish to be considered offensive at all—such an absurd proposition that there is no use in considering it; it is not fair.

Hon. Mr. FIELDING.—Very well, we will reach it later.

Mr. MORRISEY.—As I say, that man who cannot get insurance will be required to file his affidavit; then he is free to do it. The only check we have on it is that the affidavit, or the particulars of it, would be published in the *Canada Gazette*. Then

I may look it over, and if there is any risk there that I am open for and find the man is not making a statement that is in accordance with the facts, I will have my remedy. But I take it that no business man is going to do anything of the kind but that he will, supposing he has a surplus of insurance unprovided for, place it in accordance with the law.

Mr. PERLEY.—I do not quite see how you would be able to prove whether you had taken every means to try and find this insurance?

Mr. MORRISEY.—Possibly there might be some difficulty. I can appreciate the point you have raised.

Mr. PERLEY.—Supposing it was such a case as that spoken of yesterday by a gentleman from Montreal, who had the want of \$100,000 of insurance on Saturday and needed it right away, but was burned out on Monday.

Mr. MORRISEY.—I will say in answer to that, that the gentleman who made the statement was burned out on Monday and the company which I represent did not have a dollar of insurance on his plant. He must have had a mighty peculiar broker if he thought he could not get more insurance in Canada for here was a company that was wondering why it was not on that risk after the loss.

Mr. PERLEY.—Yes, but in a case of that kind what could the man who wanted the insurance immediately do to prove that he could not get it, that is the practical difficulty that I see.

Mr. SPROULE.—Why put him to the trouble to do such a thing?

Mr. PERLEY.—In practice what could that man do to prove he could not get the insurance?

Mr. MORRISEY.—I will tell you how in practice that is done. Supposing he has a big concern. Every insurance broker is familiar with the state of the market and he knows from his knowledge acquired from going around amongst the companies whether they are open for that line or not. Let us suppose an extreme case such as you mention. No doubt the brokers would be furnished with the name of this firm. They would get a telephone message from Mr. Cains who made the statement: 'We want \$100,000 of insurance.' Suppose it was Saturday afternoon, the broker would know perfectly well whether the company I represented was open for this line or not and would get me by telephone and so bind the company. He would do the same all around and if left with a surplus Mr. Cains would send that affidavit to the department and bind the risk wherever he could even if he had to go to London or New York.

The CHAIRMAN.—If a man wants \$100,000 of insurance could he place his risk incidentally with the New England companies without having had any previous communication with them at all?

Mr. MORRISEY.—These things are placed by brokers. They are I presume in touch with brokers.

The CHAIRMAN.—Could a man do that without first having had terms exchanged with the New England Mutual?

Mr. MORRISEY.—I don't think so, not at all. Mind you I am not speaking of my knowledge of the New England Mutuals, I don't know anything about them except what I am told; and I say that you gentlemen do not know anything about them except what you are told. The other companies we know all about because everything is exposed in Mr. Fitzgerald's reports. I am told that is the practice but they conduct their business so carefully that I do not doubt for a moment they would not bind any risk until they knew all about the risk.

Mr. AIME GEOFFRION.—I can answer that question as to our own reciprocal, because when a man is already a member of the association he can by mere telegram or telephone be covered for any additional amount without losing an instant.

Mr. MORRISEY.—I was pleased to hear the speech delivered by Mr. Kemp yesterday. I must admit that I had a little prejudice against Mr. Kemp because I understood that he was one of those who placed his business outside of Canadian companies. I differ on that point. I do not think that it is right that a Canadian industry should favour

foreign companies over Canadian companies. But I was very pleased to notice the breadth of view as expressed in Mr. Kemp's speech. At the same time I would like to assure that gentleman that while he appreciates the fact that Canadian underwriters should move along and get in a better position to handle this business, they are in a position to handle it to-day. What is necessary to handle this business? It is only necessary to have the companies behind us say they will take the risks. We have the companies behind us and they are ready to take the risks and it is only necessary to give the inspection. We have the inspectors and if we have not enough of them we will employ enough to do the business of Canada cost what it may. We will get the best men available and it can be relied upon that Canadian underwriters will do their part towards keeping Canadian business in Canada. There was another speaker yesterday, Mr. Caverhill, who made the statement that he was very glad that he had gone to companies outside of Canada and his reason for that was that they told him how to protect his risk. Well I have a very distinct recollection of sitting in committee meetings day after day listening to the reports of our inspectors on that very risk and that that risk was protected under the supervision of the Canadian Fire Underwriters' Association and when that risk was protected Mr. Caverhill would have had no difficulty whatever in getting all the covering he required in Canada. I will admit that in the congested part of the city of Montreal for the past two years there has been a difficulty in getting protection, but it was not the fault of the Canadian Underwriters. Mr. Caverhill, as a good citizen of Montreal, should have seen that the protection afforded by the city of Montreal was not what it should be. At one time we had an actual water famine. As one who was looking after the interests of his company I was not prepared to risk its funds unduly at such a time, it is the duty of citizens to see that those who are elected to office will keep the fire appliances of the city in such condition that there will be no difficulty in getting the protection that the citizens require. What is the result to-day; after two years, we find that shortage of water is made up in the city of Montreal, a better feeling prevails, and the result is that there is no difficulty whatever in getting all the protection that is required in the city.

To-day the discussion took a new phase, and it is with some fear and trepidation that I attempt to reply to Mr. Geoffrion. Mr. Geoffrion stated that he appeared for 30 or 35 of the large merchants throughout the various cities of Canada. These gentlemen are doing a big business. Apparently this business has been to a large extent at least placed in unlicensed concerns. That is one point I would like to impress upon the members of this committee; that those who object to the Bill are those who have been going along breaking the law, carrying that business in concerns that have not conformed to our laws.

Mr. Geoffrion, and it is with still greater fear and trepidation I venture on this point, has said that in his opinion it would be *ultra vires* of parliament to pass such a law. Far be it from me to say one word in opposition to Mr. Geoffrion's opinion on that subject. But Mr. Geoffrion said, in the course of his remarks, that he could not find insurance that had been assigned to the Dominion. This from Mr. Geoffrion. Does he not know that under the British North America Act nothing is assigned to the Dominion, but certain things are assigned to the provinces.

Mr. GEOFFRION.—There are a number of matters assigned to the Dominion.

Mr. MORRISSEY.—I said it was with fear and trepidation I ventured on the subject, but again, I would say that under the British North America Act there are certain things assigned to the provinces and everything else rests with the Dominion. That statement I make here, and while I would not set up my statement against such an eminent authority as Mr. Geoffrion, at the same time I think I can get an equally eminent authority to back the view that I express. Mr. Geoffrion used a very specious argument, he certainly pleaded his cause well and with eloquence, but it is a pretty cold blooded proposition to put forward here that these gentlemen shall be permitted to do something that the rest of the people shall not be allowed to do. Why should they be permitted to come here and say, 'We know the law is against what we want, but let

as do it, do not stand in the way.' If you are going to play with principle, let everyone do it, we are agreeable to that.

Mr. Rowley made the statement that he has \$2,000,000 of insurance, and he cannot get it in Canada; he doesn't get it in the United States, but he has to go to England, and Ireland, France and other countries to get it. In reply to that I have just this to say, that if Mr. Rowley will give us his order for \$2,000,000, if he will present me with that application, within two hours I will present him with policies for every dollar of it, and it will be all placed in licensed companies in Canada.

Mr. ROWLEY.—Might I say in answer to that that I could not think of doing it, because the last time I had a transaction of that sort I had to threaten suit in order to get what was due us, and that was in Mr. Morrisey's company.

Mr. MORRISEY.—I do not like to introduce anything personal in this matter, but since Mr. Rowley has made that statement I would just say there are always two sides to every case, and that particular case to which he has referred was never fought out in the courts; I venture to say that if it had been Mr. Rowley would have been found to be in the wrong. The position was that there was some small damage done to matches here in Ottawa and Mr. Rowley claimed a total loss on those matches, although I could go and take those matches out of the box and strike them on the seat of my pants; those were the matches that Mr. Rowley said were totally destroyed.

Mr. Chairman, there is one thing I would like to inform that gentleman, and that is that if he wants to be the sole arbitrator of his own case it will not work with the New England mutuals, what is more I will say that Mr. Rowley can show a living example of those gentlemen of whom Mr. Geoffrion spoke, as being well qualified to look after their own business. Mr. Rowley said he was well satisfied that he was able to look after his own business, and instanced the case of the great fire in Ottawa. I will say that a few weeks before the great fire at Ottawa the question of the insurance of the Eddy works was up for discussion before the underwriters who had carried the risk all those years and who had paid the losses that had occurred on it up to that time. Mr. Rowley, who was acting for the Eddy Company, came to us and said, 'We want a policy of this description, \$100,000 to cover everything, will you give it to us?' I may say that the licensed companies had a policy covering \$1,000,000 under specific form and Mr. Rowley said we cannot lose more than \$100,000 on that property, why don't you name a rate. I said, 'What is the premium you are paying now,' and he said \$10,000 to \$11,000, I said, 'the premium would be \$10,000 to \$11,000. 'What,' cried Mr. Rowley, 'Charge me the same for \$100,000 that I now pay for a million.' I replied to him, 'You tell me you cannot lose more than \$100,000.' Mr. Rowley did get such a contract, but if he had stuck to the companies with their specific form of policy the Eddy Company would have been at least half a million dollars better off.

Mr. GORDON (Nipissing).—I would like to ask Mr. Morrisey this question: Supposing this legislation had the effect of excluding the companies in question, would the companies in Canada that you represent be in a position to accept all the insurance that these other companies would have to forego at rates say from 5 to 10 per cent more than they are getting at present?

Mr. MORRISEY.—That is a question. It was held up against me yesterday that last year I said that I would have to admit that possibly insurers could not get all the insurance they wanted in Canada. I know that since last year there have been some additions to the underwriting capital of this country and I am inclined to think that for any risk in Canada that might be presented to the companies we would be able to provide the cover. It is for that reason I have suggested the proviso so that if by any chance they are not able to get the cover then they could get it outside. I say that in that business as in every other business, the disposition of underwriters in Canada is to keep the rates down as low as they can consistently with the hazards they run.

Mr. GORDON (Nipissing).—Would that apply to this case?

Mr. MORRISEY.—If you will submit to me a list and show what it has cost in the mutuals then I can answer you. I am not going to answer a question here on

things that I am not positive about. This is a serious business with me and I don't want to say offhand that we can. I would like to be sure of the risk. You would have to show what it cost, and then I will tell you whether we can do it within 5 or 10 per cent.

Mr. GORDON (Nipissing).—I think perhaps I can give you one, Mr. Morrissey. I received a letter this morning from a party and perhaps the committee will bear with me while I read it. It is an Ottawa firm and I don't want to mention the names unless it is wanted. The letter is as follows:—

GEO. GORDON, Esq., M.P.,
House of Commons, Ottawa.

DEAR SIR,—As a member of the Committee on Banking and Insurance, we beg to draw your attention to a portion of the Insurance Bill, which greatly concerns us as a firm, viz., section 71.

It is perfectly apparent that this section has been put in with the object of crushing out competition by the mutual companies in the United States. Ten years ago, we occupied a very inferior building to what we do to-day, and the insurance rate on our stock was 50 cents per cent; to-day the line companies have fixed our rate at \$1.90. As the tremendous increase in our rate seemed to us unfair, we have been carrying for some years, a large amount of our insurance in the United States. To-day, it is approximately \$137,000. We did this after placing all that we possibly could with the so called non-tariff Canadian companies and a small amount with the line companies. Should this clause not be removed from the proposed Bill, many wholesale merchants, like ourselves, and large retail merchants, will be completely at the mercy of the line companies, as they cannot possibly get enough insurance in the non-tariff companies, even if the latter are not forced into what is, practically, a combine.

We think that this clause should be entirely removed or else modified by something like the following:

'Nothing in this Act shall be construed as applying to the operations and transactions of individuals, co-partnerships and corporations who reciprocally insure the property of each other against loss or damage by fire and lighting, under the plan known as 'inter-insurance,' whereby the participants reciprocally and specifically exchange contracts of insurance with each other, either directly or through the intermediary of a duly authorized attorney-in-fact.'

We may say that since we went in for reciprocal insurance, the cost has only been about one third of what it would have been had we been compelled to pay the Canadian tariff.

We think that you will agree with us that it would be extremely unjust to force people who are making a saving of this amount, to pay exactly what the Canadian Underwriters desire to charge them.

Feeling sure that you will give this matter your careful attention, we are,

Yours truly,

Now that is a specific risk.

Mr. MORRISSEY.—It does not give much information. The only information I got from this statement by someone is that a risk some years ago, a very much worse risk than his risks to-day, was written at 50 cents and the rate to-day is \$1.50. I say that is so hard to believe that I think the gentleman who made that statement must be under some misapprehension.

Mr. GORDON (Nipissing).—I think if I would give you the name of the gentleman in question you would not say that because he is a good business man living in the City of Ottawa and there is no doubt that this thing is just exactly as he represents it. If I gave you his name you would say so too.

Mr. MORRISSEY.—Well on the statement of fact as presented I cannot answer the gentleman's question.

Hon. Mr. FIELDING.—Then there is the case mentioned by Mr. Rowley. If it is only a question of what might be called ordinary protection and it costs us more for that than we pay for the foreign article, pretty nearly everybody is willing to pay a little higher for a thing at home. In this case with only a small difference between your rates and the foreign rates I think there would be a disposition probably to concede your view, but the difference as stated by Mr. Rowley is enormous.

Mr. MORRISEY.—It is not a fact.

Hon. Mr. FIELDING.—The simple denial does not help us, we ought to have the matter thrashed out.

Mr. MORRISEY.—Mr. Rowley admitted it to you when you asked the question did he ever get a quotation on his risk as it is to-day. Mr. Rowley evidently does not want to deal with the Canadian companies. I don't know what the reason is but there is the fact. We have never given him the opportunity of naming the risks.

Mr. ROWLEY.—That is a mistake, Mr. Morrison.

Mr. MORRISEY.—Morrisey is the name, sir.

Mr. ROWLEY.—Mr. Morrisey is mistaken; we have tried and have failed to get it. Mr. Morrisey's statement a little while ago about the application the company made for a blanket policy to cover all our property loss anywhere at any time or any place was also incorrectly stated. I am not going to enter into a personal colloquy with him but I say that was also wrongly stated. As to my statement I will send copies of the documents bearing on it to the committee if the chairman wishes it. I will prove everything I said if I am asked to do so by the chairman or by the committee.

Mr. MORRISEY.—I would like to reiterate, Mr. Chairman, that what I said with regard to that blanket policy covering everything was correct in every essential detail. There are gentlemen here who were present at that meeting. I have never discussed the matter with them and they can bear me out.

Hon. Mr. FIELDING.—A very important point is that Mr. Rowley tells you what he can get insured for now. He gets it he says for about a quarter of one per cent.

Mr. ROWLEY.—Less than that.

Hon. Mr. FIELDING.—At about what rate do you mean to say you would take the \$2,000,000 for, at or about that rate?

Mr. MORRISEY.—So far as the sprinkler risks are concerned we could take it at or about that rate.

Hon. Mr. FIELDING.—He is talking about the sprinkler risks.

Mr. MORRISEY.—If it is good and comes up to our standard of excellence. We are not going to take what the inspection of some other body gives us, we will have to take that risk inspected by ourselves and satisfy ourselves that it is right and entitled to the lowest possible rate before we will name a rate. But I will say that if the risk is of standard construction and is under sprinkler equipment he will get a rate of approximately 25 cents.

Hon. Mr. FIELDING.—Would not the inspection of the New England Mutuals be as thorough and efficient as your own, they have the same object?

Mr. MORRISEY.—I can only answer in a general way, I suppose so. We are told by the gentlemen who recommend this system of insurance that their inspections are most thorough, so I have not the slightest doubt in my own mind but of my own knowledge I cannot speak.

Mr. BLAIN.—Have you any insurance in force now as low as that in Canada?

Mr. MORRISEY.—Yes, sir, and lower.

Mr. OWEN.—What kind is it?

Mr. MORRISEY.—Factories of various kinds.

The CHAIRMAN.—Have you had any Canadian business transferred from the New England Mutuals to your companies?

Mr. MORRISEY.—Yes, we have recovered some. It has been suggested to me that if Mr. Rowley will express his willingness to the Canadian companies to allow them to inspect his risk we will have a thorough inspection made.

Mr. ROWLEY.—Is our risk not rated now?

Mr. MORRISEY.—No, sir.

Mr. ROWLEY.—Has our risk not been inspected by the Canadian Fire Underwriters' Association.

Mr. MORRISEY.—I know it has not been inspected by the Canadian Fire Underwriters' Association. It is not our practice to inspect such risks where we are not interested, we are kept busy enough inspecting those we are interested in.

Mr. SPROULE.—Do you not make a risk something in this line—a, b, c and dependent upon what water supply and protection there is in the town or village or city, and then the risks are all rated along those lines.

Mr. MORRISEY.—Yes, that is an important factor in making rates of insurance. That does not come into the question so much in case of sprinkler risks because though it may not be in a city where there is water protection, it may have its own protection independent of the municipal system.

Mr. SPROULE.—I am speaking with reference to how you generally make the risk.

Mr. MORRISEY.—The rates are made in accordance with the schedule, generally speaking that is affected by the protection afforded by the municipality, that necessarily is a factor in arriving at a rate.

Mr. SPROULE.—And it is the rule that you generally follow in your practice. You say your rating is made with respect to the water supply and the measure of fire protection afforded by the municipality.

Mr. MORRISEY.—In smaller places where there is no schedule rating, that is to say where there is not sufficient variety of risks, where they are practically all the same, they are rated under the minimum tariff, the E. & F. tariff, that is, I imagine, what you have in mind.

Mr. McINTYRE (Perth).—I have a letter from a large firm in Toronto which I received this morning objecting to section 71 of the Bill, in which this clause appears:

'When building our large packing plant at this point, we went into all details of construction with the Toronto Board of Fire Underwriters, and received their sanction of our plans, and were quoted by them a rate of 50c. to apply on plant and contents. We built the plant entirely in accordance with their suggestions, consulting them frequently during erection. We had only got the plant in operation a few months when they advanced our rate 50 per cent without notice. There was absolutely no reason for this, for in every respect the protection was as good, or better, than when the rate was quoted. We found the English Lloyds and some other English and American companies willing to take the risk at the old figure, and immediately transferred the business to them. We carry insurance here averaging \$500,000. If the proposed law is passed, we will be at once compelled to pay the higher rate imposed by the Canadian combine.

We understand the Bill has been referred to a special committee of Banking and Commerce, and that the fire portion of the Act will be discussed on Tuesday morning.

We rely upon you to see that the interests of the merchants of Canada are duly protected, and will appreciate your efforts in this direction.'

That seems to be applicable to the discussion.

Mr. MORRISEY.—I do not know what risk it refers to, and of course I cannot speak as to the statement that is made. If information was furnished to me identifying the risk, if I did not have personal knowledge of it I would enquire and get it, but as I do not know the circumstances in that case I cannot answer. Unless there are other questions to be asked I will just close, and in doing so I would merely say that in a matter of this kind there can be no compromise on principle. It seems to me you either have to adopt one alternative or the other. If you think that an Act is necessary for the protection of the public of Canada, if you come to that decision, then surely it follows as a necessary consequence that you must make that law so it will be

respected. That is the only object that we have in view in making these recommendations. It is a mistaken idea to say that we are asking for protection, we are simply asking for fair play and to be placed on an equal footing. Do not admit an argument such as has been pressed here to-day, that if a company does not come into the country it should receive favourable treatment as against companies that do come in and establish themselves here, that keep up their agency plants and their staffs of clerks, their offices and everything else. To say that a company that does not do that should get favourable treatment as against those companies which do comply with the law and who in every manner possibly assist to keep up Canadian institutions is too ridiculous to be entertained for a moment. You either have to adopt a law and say that it is necessary for the protection of the public of Canada and make that law so that it will be observed, or else do as they do in England, and it is a pretty good thing to follow England, if we have insurance as they have it in England we would be saved a lot of trouble, their law is so simple. The question was referred to a Committee of the House of Lords over there and their finding was that publicity is the great safeguard, they have no law regulating insurance, but they insist that the companies publish their statements and that is all they consider necessary for the protection of the public. I say, gentlemen, that if you decide that you want a law have it; if that is what you decide upon, we accept it. But we beg of you that if you have a law that you see that it is made equally applicable to everyone, even as against this foreigner, who comes in with his beneficence and his low rate to do a good turn to the Canadian, as well as to these pirates of Canadians who are represented as wanting to get something from the public that they are not entitled to.

Mr. RIVET.—Can you tell me how many members there are in the Association?

Mr. MORRISEY.—I should say about 35.

Mr. RIVET.—That includes all the companies?

Mr. MORRISEY.—Does it? Never.

Mr. RIVET.—Yes, most of them, I think.

Mr. MORRISEY.—Not by any means. I think there are now more companies, one way and another, outside the Association, than there are in the Association.

Mr. RIVET.—Can you name the members of the Association?

Mr. MORRISEY.—It would be rather a tax on my memory, but if it will serve any useful purpose I will endeavour to do so.

Mr. RIVET.—Can you furnish the list?

Mr. MORRISEY.—Yes, I think it is in the 'bible.'

Mr. ARMSTRONG.—Can you give any definite knowledge as to the amount of capital of these line companies in your Association?

Mr. MORRISEY.—Roughly speaking, I had occasion to make it up once, I think it was between \$400,000,000 and \$500,000,000, that was the total assets of the companies forming the Association, and every dollar of these assets is available to pay fire losses in Canada.

Mr. ARMSTRONG.—You are speaking of assets, I mean capital.

Mr. MORRISEY.—Well, the capital is very misleading because there are some of those companies that are a couple of hundred years old, they may have had very little capital but they have accumulated large sums, and these are ready to be called upon to pay the losses to policyholders whenever required. This is a list of the members of the Association. (producing document.)

The CHAIRMAN.—Will you file it?

Mr. MORRISEY.—I would not be sure this list is up to date. If you require a complete list I will send you one.

Hon. Mr. FIELDING.—If the list you have is not up to date you had better not file it.

Mr. MORRISEY.—Shall I send you a list that is up to date?

The CHAIRMAN.—Yes. I have a note which has been handed to me by one of the manufacturers present in which he says: 'We have a suggestion to make which will

help to a settlement, as the insurance men have said they will not oppose it.' I may say that if anyone present has a suggestion of that kind to make we will be very glad to have it. Will Mr. Russell kindly make that suggestion?

Mr. NESBITT.—Before Mr. Russell speaks, some of the Fire Underwriters say they think there may possibly be some explanation of that letter which has been read by Mr. McIntyre if they know who the firm was.

Mr. MCINTYRE.—There is no secrecy imposed upon me by the letter; I cannot vouch for the accuracy of the information except that it is a strong reputable firm, the letter is from Gunn's Limited, their factory is located in the western part of the city. I have no reason in any way to doubt the accuracy of their statement.

Mr. JOHN B. LAIDLAW.—May I answer in regard to that. The factory of Gunn's Limited is built in Toronto Junction. Now, after they had built their factory the town of Toronto Junction grew very rapidly, the water service of that town is supplied by pumps located on the lake shore two and a half miles away and situated 350 feet below the level of the town. The water was supplied through a single main, with the result that in many parts of Toronto Junction the pressure fell to 10 or 15 lbs. to the square inch—a very inadequate protection, but it was thought that the protection would be improved. When the plant was completed representations were made to Gunn's Limited that they were in a very perilous position indeed and that they had not enough water to maintain a fight against a fire for half an hour. The protection was confined solely to a tank containing about 10,000 gallons raised above their plant.

They were asked to put in a pump and construct an underground reservoir so that if a fire broke out they could fight it even for half an hour and make some effort to preserve their property. Unfortunately they could not see their way to do it. The offer made to them was that if they would provide that underground reservoir the greater part of the extra would be removed. For a very small amount of money they could have increased their protection and remained in the company. We felt that in justice to other insurers it was not fair to quote such a very hazardous risk at the same time without the precautions we thought were necessary. In doing that we are only doing the same as the New England Mutuals are with all their clients.

Mr. SPROULE.—Did your inspector not know these facts when he gave the quotation at first?

Mr. LAIDLAW.—Yes, sir.

Mr. SPROULE.—Did he not take that into consideration when he gave the rate to the company at the time they were buliding?

Mr. LAIDLAW.—When they were starting to build, the waterworks system of Toronto Junction was not in the condition in which it was at the time they finished the structure. There were so many demands on the water protection supplied by Toronto Junction that their plant proved to be entirely inadequate to cope with them. But the condition when that building was finished was entirely different. Would you imagine that if in the city of Ottawa we were to quote a rate and such a thing was to happen as that there would be no protection whatever, that we would be tied by that rate? Would it not be fair to go to the men and say: 'The conditions are very much different to-day from what they were when we gave you that rate and if you cannot modify these conditions so as to put yourself practically in the same position that we think you ought to be we shall have to name a higher rate.' Is not that fair?

Mr. MCINTYRE (South Perth).—The gentleman may have been perfectly justified in all he did but the point is that insurance could be got from outside companies who were willing to take the risk at the former rate. Can you explain how that would happen?

Mr. LAIDLAW.—What kind of security did they get, was the security equal? We do not pretend, sir, that with our deposit and with our names and assets we can sell goods that we are not prepared to pay for. If we sell a policy we are prepared to pay for the goods we sell and we have got millions of assets to make it good. There is the old story of the man who was content to take a large amount of risk for a long time.

After awhile he changed his mind and some one asked him why he did so. His reply was 'I had no money then but now I have some.' Many of these companies are quite content to quote inadequate rates but we cannot compete with them. We offer good security and the conditions are different. I do say that we can compete with any respectable company.

The CHAIRMAN.—We will now hear Mr. Russell.

Mr. A. T. RUSSELL.—Mr. Chairman and Gentlemen,—I have not come to make a second speech on this subject but am acting on the suggestion thrown out by a member of the House yesterday that we should try to get together and see if it was not possible to solve this apparent difficulty. The manufacturers particularly have tried to do so and we have discussed the subject with some of the insurance men. Perhaps I put it too forcibly in saying that the insurance men will not object to what I have to suggest. Some of them, however, have intimated that they will not. We found in trying to arrive at a settlement that there were two or three different objects which it was desired to obtain. The first was that the Insurance Department should be advised of the insurance in force in this country, the conditions under which it was given and all the information pertaining to it, so that they would have full information on that subject. Secondly it was considered right that companies doing business in this country, whether seeking the business or not, pay something towards the maintenance of that Insurance Department. Thirdly, there seemed to be the desire that all companies doing business in Canada, whether mutual companies or not, should pay something for the privilege and in so paying constitute a preference that would operate in favour of Canadian companies and assist in placing insurance as far as possible in Canada. Now the manufacturers sympathize with this object and I am able to say for them as well as for the merchants that we are willing to supply, (as we manufacturers supply many other kinds of information to the departments of the government) information as to the insurance that we carry whether in Canada or outside of it. We are prepared to furnish to your department information as to the quantity of it, the premiums which we pay, if mutual insurance the dividends that we receive back, and all such information. But there were some points which we felt that we had to stand on as absolutely necessary to the safe conduct of this important end of the business and they were these: We are not yet able to get in Canada the class of insurance that we want in the quantity that we want. That point is disputed but the very fact that it is open to dispute shows the position is not as it should be. It is beyond dispute that many manufacturers and merchants have until the most recent date, been unable to get insurance of the quality or quantity we want. The second point is this: The amendment as suggested by Mr. Morrissey states that if we were unable to place insurance after exercising all due diligence in Canada then after filing an affidavit as to our efforts, we should be permitted to go outside. Now that is not a safe position to place the great mercantile interests of this country in. It means that we have to exercise our efforts in a line where there is substantially no competition because when all is said and done it is a recognized fact that at least 80 per cent of the insurance in this country is under the control of the companies that are banded together under the title of a Canadian Underwriters' Association. Now it may be the fault of the Canadian Fire Underwriters' Association always that we cannot agree upon a risk. Sometimes some of us may be more cantankerous than others, it is not always possible for two men to agree upon a fair bargain; but if that were made the law it would mean that we are absolutely debarred from getting any insurance at all if we cannot agree with that one organization; because all the other insurers that are not in the Canadian Fire Underwriters' Association are absolutely incapable of handling even such a small risk as mine, let alone the risks of the E. B. Eddy Company and the Massey-Harris Company. Just to show the very awkward position that a firm would be placed in and how wrong it is that their position should be absolutely established by one organization comes up the case of Gunn Bros., of West Toronto.

Mr. KEMP.—That is the one that was referred to?

Mr. RUSSELL.—The one that was referred to by Mr. McIntyre. Now Gunn's factory is a neighbour of ours and is nearer the town. It is more favourably situated than ours because it has a 12 inch main leading up near to it while ours has only an 8 inch main. And yet the companies that I am insuring with did not find it necessary owing to the growth of Toronto Junction to increase my rate.

Mr. LAIDLAW.—Have you a pump?

Mr. RUSSELL.—We have a pump.

Mr. LAIDLAW.—That was the reason why the New England mutual wouldn't take the Gunn's.

Mr. RUSSELL.—That has nothing to do with the point I am endeavouring to make which is that our rate was established with the New England mutuals, and the New England mutuals did not find it necessary to increase our rate. Gunn's Limited had built their plant, they got their rate, the town of Toronto Junction grew, and their rate increased. Perhaps the fire underwriters were warranted in increasing their rate, and perhaps my people were wrong but it shows that you are placing us in a very wrong position when you say that all insurance is dependent upon one organization for the fixing of its rates. What we have to suggest is this, establish this principle that these companies who do not take out licenses or make a deposit shall not have the right to solicit insurance in Canada. I want to make that plain, but we feel it imperative that their men should be allowed to come into Canada to inspect the character of the risk they are asked to take, and to see that we keep them up to the proper standard; and if unfortunately there should be any loss that they be also willing to furnish to your Department all the information they may require as to the insurance that we carry, the rates we pay and all that appertains to it. And if you think it desirable that we should assist further than that we are willing to do so. If you decide that insurance is one of the industries that should be protected, if you think it right and proper that we should pay to the government of this country a fee or a tax levied upon the money we are paying out of this country for the commodity of insurance we are willing to pay it. I think that is a proper solution of the problem. It prevents the soliciting of business in Canada by companies that are not licensed and it prevents wildcatting, which should be prevented; and it increases the cost of outside insurance, even of New England insurance, and to that extent it is going to help the gradual turning over of that insurance to the members of the Canadian Fire Underwriters' Association, and it will result in turning it all over to the Canadian companies just about as rapidly as they are conveniently able to handle it. That is our position and I think it is a sound position from the standpoint of the Canadian people. On behalf of the manufacturers, I have discussed it with Mr. Kemp, with Mr. Candee, of the Gutta Percha Company, with Mr. Rowley, and with Senator Jones. We will pay whatever fee the Government in Council thinks should be levied on any premiums which we pay out of Canada for this insurance that we buy. I think that is a fair position and I think it is all that the Fire Underwriters Association as they are at present organized, are entitled to ask.

Mr. WALTER C. WRIGHT.—Resuming my testimony where it was interrupted on Monday, I call attention to the little table of figures which I then placed before the Chairman, and will state that I wish to make this a part of my testimony, including the explanations printed. I think that anyone who carefully examines this statement cannot fail to perceive that the method of loading net premiums for insurance expense leads to most anomalous results. If I should substitute for the figures of the Mutual Life, those for a participating policy of a company distinguished for the lowness of its premium charges, the loading shown in the table would still be \$115.99 annually. The company I have in mind is the Provident Life and Trust company, of Philadelphia, Penn., a very successful company distinguished for economy and good management, and I think the president of that company would bear me out in acknowledging that

even the charges of his company for a ten year endowment insurance policy without returns of surplus make the policy an absurdly poor bargain for the purchaser.

Under the system of providing for insurance expense by loading the net premiums in one way or another, expenses are provided for, invited and incurred, in reverse proportion to the value or power of different common or standard forms of policies to furnish insurance, which has a very wasteful and demoralizing effect in every way. I have sheets before me analyzing several of these common kinds, copies of which I will submit later as part of my testimony and the footings of which I will briefly quote figures in support of my foregoing statement.

If the method of providing for expense which the Sovereign Life has decided to adopt for new business, or the method of loading the table of mortality used, by a uniform percentage for insurance expenses, and then determining premiums by means of the modified table, is employed, the effect is to distribute expenses exactly in proportion to the value of the business, and make every policy sold an equally good bargain, according to its terms. Whether the agent is honest or not, he cannot then mislead a policyholder, and if compensated as the Sovereign Life intends, in proportion to the insurance value of any policy obtained by him, he will have every motive to see that every applicant may apply for all the insurance he ought to have, both as to amount and duration. Considering the net premium in their possible duration and what they may possibly earn, \$10,000, of the commissions are equal to a value of \$379,653, invested for one year and the insurance risk carried, without any provision for expense, amounts to \$15,779. With the loading, and here note the economy of this system of loading, the amount of investment made is equal to \$343,127 invested for a year and the total provision for expenses and for paying the claims is \$17,618. A 20 payment life policy, the most popular form of all policies, carries \$454,505 as an investment for one year and \$9,592 cost of insurance. When loaded for expenses \$415.51, for investment and \$9,820 cost of insurance. Now here is a policy for the longest term that the Sovereign Life proposes to write because a whole life policy carries insurance away beyond the insurable state where it becomes a speculation and of no earthly use to the holder. These are all for the age of issue, 35. This is a policy of endowment insurance maturing at the age of 75 or for a 40 years' term. Here the investment obtained by the company amounts in the aggregate to \$170,290 and the cost of carrying the risk \$4,194. With provision for expenses, \$176,528 investment and \$6,912 cost of insurance. The next sheet is for a 30 year endowment policy, 10 years shorter, \$129,091 investment and cost of insurance \$2,207. Note how the figures are decreasing. Loaded for expenses, \$129,408 investment and \$3,727 cost of insurance, having a rational relation to the death cost of the insurance. The next policy is a 20 year endowment insurance policy. They are popular also with young men until they learn their large premium cost. This represents \$91,505 investment and \$1,077 cost of insurance. Properly loaded for expenses \$90,954 investment and \$1,823 cost of insurance. Fifteen year endowment policy \$71,767 investment and \$700 insurance. Properly loaded for expense \$71,416 investment and \$1,181 cost of insurance of \$10,000 for 15 years. Now we come to our 10 year endowment policy and we find only \$50,845 possible investment during the whole term and \$401 cost of insurance. Properly loaded \$50,724 investment and \$674 cost of insurance. In the figures I have submitted to the committee, even in the case of the Provident Life, quite a large company, the cost of insurance would be from twelve to fourteen hundred dollars. Those figures, gentlemen, tell a very important story.

As I understand, the Bill now under consideration is the latest product of the thorough investigation involving no inconsiderable expense, of the recent Royal Commission, and the principal fruits of that investigation was that Life Insurance though being prosecuted with great energy and success in this Dominion, had fallen into wasteful and extravagant modes of operation, and needed some reasonable means of 'Limitation of Expenses,' and I note that this is the title of section 53 to which on

behalf of the Sovereign Life, I have framed and proposed the amendment already in the hands of the Committee.

If, after studying my evidence this Committee is impressed, as many influential, learned and experienced insurance and business men have been impressed, that the change of method in loading which I have endeavoured to explain is needed, it certainly seems to me that the purpose of the Royal Commission will be advanced by passing this Bill, including the said amendment. While it does not invite any hasty or revolutionary change in practice on the part of life insurance companies of Canada, it will do the public the inestimably valuable service of defining in the statutes, and authorizing the adoption and following of a correct method. When such a method is thus defined and placed on record, a great stimulus will be given to all companies to make their practice demonstrably unobjectionable, whether they may adopt or follow exactly the proposed practice of the Sovereign Life, or not. As section 53 sets apart, and correctly defines the limits and character of investment expense, it would place the Parliament in a poor attitude to go on and limit and define insurance expenses, which is the only remaining expense a life insurance company can legitimately incur under any circumstances by the sole words 'In excess of the aggregate amount of the actual loadings upon premiums received in such year,' knowing that this is virtually making a second tax for expense upon money practically received exclusively for investment, and forming no part of that which is legitimately and exclusively used for carrying insurance risk. The centre column shows the insurance risk in all these analyses submitted by me.

I would like to call the attention of the Committee to the fact that the Sovereign Life, like the Sun Life, has adopted the Australian mutual plan of providing extended insurance, a plan which in my judgment cannot be improved upon, and for its suitable execution, would like to charge a small penalty, in the form of additional interest charge, to prevent negligence in making premium payments. The differential rate of interest proposed for this purpose in the new policies of the Sovereign Life is one and three tenths per cent, making the total rate charged in cases of lapse without previous notice to or arrangement with the company, seven and three-tenths per cent, as against six per cent charged when loans are applied for.

Finally, I wish to refer with unqualified approval to Section 36 of the Act. This Section has been unfavourably commented on by others, but in my judgment 'the gain and loss exhibit' is a most potent preventive of decay and rottenness in life insurance administration. With such an exhibit, it is possible to learn the standing and tendencies of a life insurance company, almost as readily as one can count the fingers on his right hand.

Mr. NESBITT.—Does that apply to any clause in the Bill as at present framed?

Mr. WRIGHT.—Yes, to section 36. Mr. Macdonald's testimony on this point makes me almost suspect that in his prejudice against the gain and loss exhibit he did not make as much use of it as would have been beneficial to him. Here is the Chicago Life dying from excessive expense through the preliminary term plan, furnishing insurance for two and seven tenth times its tabular value and at a saving of 29 per cent. In the statement for another year, I think it was 1883, the Columbia and National Life had a death rate of 48 per cent. If it was not for that fine death rate there would not be anything that looked like a funeral in the whole statement. I offer as part of my testimony some sheets selected at random from among those of an annual publication of my own based on such exhibits and you can readily see by examining these sheets that the probability of vitality gain in the case of a new company, instead of being a menace to the prospects of such company, as Mr. Macdonald testified last week, is one of the chief aids to their success. A reasonable basis of average is secured by a life insurance company as soon as 500 or 1,000 policies have been secured; and whatever causes may have led to the failure of life insurance companies in the past, a heavy death rate is almost never the cause. On the other hand, failure is almost always due to bad calculations, bad system and unwarranted expense.

Hon. Mr. FIELDING.—You strongly support the clause regarding the gain and loss exhibit?

Mr. WRIGHT.—Without qualification.

TABLE showing analytically the generation from year to year of Reserve or Investment and Provision for Death Claims or Cost of Insurance, arising from the Premium Payments for various standard Forms of Life Insurance Policies ; both in net or without, and with provision for Insurance Expense in proportion to annual death costs, or scientific provision for such expenses.

Year.	LIFE.						Years.
	AGE 35.			AMOUNT \$10,000.			
	Initial Reserve.	Cost of Insurance.	Terminal Reserve.	Initial Reserve.	Cost of Insurance, including Expense.	Terminal Reserve.	
	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.	
1	211 62	72 47	145 50	284 01	120 83	171 70	1
2	357 12	74 86	292 97	455 71	124 09	345 29	2
3	504 59	77 02	442 71	629 30	126 95	521 23	3
4	654 33	78 90	595 06	805 24	129 91	699 49	4
5	806 68	80 85	750 03	983 50	133 27	879 73	5
6	961 65	83 23	907 27	1,163 74	136 26	1,062 39	6
7	1,118 89	85 38	1,067 08	1,346 40	139 43	1,247 36	7
8	1,278 70	87 98	1,229 08	1,531 37	142 92	1,434 39	8
9	1,440 70	90 38	1,393 54	1,718 40	146 35	1,623 60	9
10	1,605 16	92 51	1,560 80	1,907 61	149 88	1,814 96	10
11	1,772 42	95 57	1,730 02	2,098 97	153 58	2,008 36	11
12	1,941 64	98 02	1,901 87	2,292 37	157 61	2,203 53	12
13	2,113 49	101 06	2,075 83	2,487 54	161 71	2,400 46	13
14	2,287 45	104 32	2,251 75	2,684 47	165 92	2,599 08	14
15	2,463 37	107 83	2,429 44	2,883 09	170 67	2,798 91	15
16	2,641 06	111 20	2,609 09	3,082 92	175 46	2,999 95	16
17	2,820 71	114 83	2,790 50	3,283 96	180 71	3,201 77	17
18	3,002 12	118 77	2,973 41	3,485 78	186 13	3,404 22	18
19	3,185 03	123 06	3,157 52	3,688 23	191 66	3,607 22	19
20	3,369 14	127 75	3,342 46	3,891 23	197 86	3,810 11	20
21	3,554 08	132 41	3,528 29	4,094 12	204 00	4,012 94	21
22	3,739 91	137 51	3,714 60	4,296 05	210 59	4,215 27	22
23	3,926 22	142 62	3,901 39	4,499 28	217 61	4,416 65	23
24	4,113 01	147 74	4,088 66	4,700 66	224 77	4,616 91	24
25	4,300 28	153 95	4,275 34	4,900 92	232 39	4,815 56	25
26	4,486 96	159 95	4,461 62	5,099 57	239 94	5,012 62	26
27	4,673 24	166 27	4,647 17	5,296 63	248 02	5,207 51	27
28	4,858 79	172 78	4,831 77	5,491 52	256 39	5,399 88	28
29	5,043 39	179 61	5,015 08	5,683 89	264 79	5,589 61	29
30	5,226 70	186 66	5,196 84	5,873 62	273 54	5,776 29	30
31	5,408 46	194 02	5,376 69	6,060 30	282 55	5,959 56	31
32	5,588 31	201 40	5,554 56	6,243 57	291 64	6,139 24	32
33	5,766 18	209 23	5,729 94	6,423 25	300 99	6,314 96	33
34	5,941 56	217 14	5,902 67	6,598 97	310 23	6,486 71	34
35	6,114 29	225 22	6,072 50	6,770 72	319 80	6,654 04	35
36	6,284 12	233 48	6,239 16	6,938 05	329 28	6,816 91	36
37	6,450 78	241 83	6,402 47	7,100 92	338 89	6,975 06	37
38	6,614 09	250 27	6,562 24	7,259 07	348 50	7,128 34	38
39	6,773 86	258 94	6,718 14	7,412 35	358 26	7,276 46	39
40	6,929 76	267 65	6,870 00	7,560 47	367 62	7,419 66	40
41	7,081 62	276 28	7,017 79	7,703 67	377 15	7,557 63	41
42	7,229 41	285 01	7,161 28	7,841 64	386 73	7,690 16	42
43	7,372 90	293 76	7,300 33	7,974 17	395 74	7,817 65	43
44	7,511 95	302 56	7,434 75	8,101 66	405 15	7,939 56	44
45	7,646 37	311 32	7,564 44	8,223 57	414 08	8,056 19	45
46	7,776 06	319 90	7,689 44	8,340 20	422 52	8,167 89	46
47	7,901 06	328 69	7,809 40	8,451 90	431 87	8,273 59	47

TABLE showing analytically the generation from year to year of Reserve or Investment and Provision for Death Claims or Cost of Insurance, arising from the Premium Payments for various standard Forms of Life Insurance Policies; both in net or without, and with provision for Insurance Expense in proportion to annual death costs, or scientific provision for such expenses—Continued.

LIFE.							
Year.	AGE 35.			AMOUNT \$10,000.			Year.
	Initial Reserve.	Cost of Insurance.	Terminal Reserve.	Initial Reserve.	Cost of Insurance, including Expense.	Terminal Reserve.	
	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.	
48	8,021 02	336 92	7,924 73	8,557 60	440 32	8,374 01	48
49	8,136 35	345 29	8,035 15	8,658 02	447 73	8,470 03	49
50	8,246 77	353 52	8,140 65	8,754 04	456 25	8,560 41	50
51	8,352 27	361 80	8,241 04	8,844 42	463 49	8,646 26	51
52	8,452 66	369 49	8,336 75	8,930 27	470 58	8,727 60	52
53	8,548 37	377 43	8,427 39	9,011 61	476 42	8,805 54	53
54	8,639 01	384 88	8,513 30	9,089 55	483 64	8,878 60	54
55	8,724 92	391 77	8,594 90	9,162 61	492 20	8,945 29	55
56	8,806 52	399 62	8,671 10	9,229 30	493 81	9,012 37	56
57	8,882 72	405 12	8,744 08	9,296 38	481 35	9,093 92	57
58	8,955 70	413 77	8,810 60	9,377 93	511 09	9,148 18	58
59	9,022 22	417 44	8,875 45	9,432 19	569 68	9,145 47	59
60	9,087 07	426 81	8,932 87	9,429 48	287 63	9,424 73	60
61	9,144 49	429 10	8,989 72	9,708 74	.....	10,000 00	61
62	9,201 34	441 53	9,035 85	.....	.....	.....	62
63	9,247 47	443 39	9,081 50	.....	.....	.....	63
64	9,293 12	428 11	9,143 80	.....	.....	.....	64
65	9,355 42	415 95	9,220 13	.....	.....	.....	65
66	9,431 75	380 13	9,334 57	.....	.....	.....	66
67	9,546 19	335 46	9,497 12	.....	.....	.....	67
68	9,708 74	.....	10,000 00	.....	.....	.....	68
Totals.	379,653 35	15,779 72	375,263 19	343,127 62	17,618 43	335,803 01	Totals

The totals show the relative importance of each form of policy, both as to investment (first column) and insurance (second column); and therefore the relative expense which each sort will properly bear.

TABLE showing analytically the generation from year to year of Reserve or Investment and Provision for Death Claims or Cost of Insurance, arising from the Premium Payments for various standard Forms of Life Insurance Policies; both in net or without, and with provision for Insurance Expense in proportion to annual death costs, or scientific provision for such expenses.

LIFE—20 ANNUAL PREMIUMS.							
Year.	AGE 35.			AMOUNT, \$10,000.			Year.
	Initial Reserve.	Cost of Insurance.	Terminal Reserve.	Initial Reserve.	Cost of Insurance including expense	Terminal Reserve.	
	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.	
1	297 89	71 75	235 08	368 30	119 73	259 62	1
2	532 97	73 46	475 50	627 92	121 78	524 98	2
3	773 39	74 76	721 83	893 28	123 27	796 81	3
4	1,019 72	75 72	974 59	1,165 11	124 66	1,075 40	4
5	1,272 48	76 61	1,234 04	1,443 70	126 24	1,360 77	5
6	1,531 93	77 82	1,500 07	1,729 07	127 25	1,653 69	6
7	1,797 96	78 61	1,773 29	2,021 99	128 17	1,954 48	7
8	2,071 18	79 73	2,053 59	2,322 78	129 09	2,263 27	8
9	2,351 48	80 42	2,341 60	2,631 67	129 63	2,580 99	9
10	2,639 49	80 70	2,637 97	2,949 29	129 86	2,907 91	10
11	2,935 86	81 56	2,942 38	3,276 21	129 84	3,244 66	11
12	3,240 27	81 64	3,255 84	3,612 96	129 54	3,591 81	12
13	3,553 73	81 90	3,578 44	3,960 11	128 74	3,950 17	13
14	3,876 33	81 99	3,910 63	4,318 47	127 32	4,320 70	14
15	4,208 52	81 86	4,252 92	4,689 00	125 52	4,704 15	15
16	4,550 81	81 15	4,606 18	5,072 45	122 78	5,101 85	16
17	4,904 07	80 10	4,971 09	5,470 15	119 22	5,515 03	17
18	5,268 98	78 63	5,348 42	5,883 33	114 43	5,945 40	18
19	5,646 31	76 63	5,739 07	6,313 70	108 08	6,395 03	19
20	6,036 96	74 00	6,144 07	6,763 33	100 17	6,866 06	20
21	6,444 07	76 69	6,251 70	6,866 06	103 29	7,968 75	21
22	6,251 70	79 64	6,359 61	6,968 75	106 62	7,071 19	22
23	6,359 61	82 60	6,467 80	7,071 19	110 17	7,173 15	23
24	6,467 80	85 57	6,576 26	7,173 15	113 80	7,274 54	24
25	6,576 26	89 17	6,684 38	7,274 54	117 66	7,375 12	25
26	6,684 38	92 64	6,792 27	7,375 12	121 48	7,474 89	26
27	6,792 27	96 30	6,899 74	7,474 89	125 57	7,573 56	27
28	6,899 74	100 07	7,006 66	7,573 56	129 81	7,670 96	28
29	7,006 66	104 04	7,112 82	7,670 96	134 07	7,767 02	29
30	7,112 82	108 11	7,218 09	7,767 02	138 50	7,861 53	30
31	7,218 09	112 37	7,322 26	7,861 53	143 06	7,954 32	31
32	7,322 26	116 65	7,425 28	7,954 32	147 65	8,045 30	32
33	7,425 28	121 18	7,526 86	8,045 30	152 39	8,134 27	33
34	7,526 86	125 77	7,626 90	8,134 27	157 08	8,221 22	34
35	7,626 90	130 44	7,725 27	8,221 22	161 92	8,305 94	35
36	7,725 27	135 24	7,821 79	8,305 94	166 72	8,388 40	36
37	7,821 79	140 06	7,916 38	8,388 40	171 57	8,468 47	37
38	7,916 38	144 96	8,008 91	8,468 47	176 44	8,546 08	38
39	8,008 91	149 97	8,099 21	8,546 08	181 39	8,621 07	39
40	8,099 21	155 03	8,187 16	8,621 07	186 12	8,693 58	40
41	8,187 16	160 01	8,272 76	8,693 58	190 96	8,763 43	41
42	8,272 76	165 03	8,355 86	8,763 43	195 80	8,830 53	42
43	8,355 85	170 14	8,436 40	8,830 53	200 38	8,895 07	43
44	8,436 40	175 24	8,514 25	8,895 07	205 12	8,956 80	44
45	8,514 25	180 31	8,589 37	8,956 80	209 65	9,015 85	45
46	8,589 37	185 29	8,661 76	9,015 85	213 92	9,072 40	46
47	8,661 76	190 37	8,731 24	9,072 40	218 65	9,125 92	47
48	8,731 24	195 14	8,798 04	9,125 92	222 94	9,176 76	48
49	8,798 04	199 99	8,861 99	9,176 76	226 68	9,225 38	49
50	8,861 99	204 75	8,923 10	9,225 38	231 00	9,271 14	50
51	8,923 10	209 55	8,981 24	9,271 14	234 67	9,314 60	51
52	8,981 24	214 00	9,036 68	9,314 60	238 26	9,355 78	52
53	0,036 68	218 60	9,089 18	9,355 78	241 21	9,395 24	53

TABLE showing analytically the generation from year to year of Reserve or Investment and Provision for Death Claims or Cost of Insurance, arising from the Premium Payments for various standard Forms of Life Insurance Policies; both in net or without, and with provision for Insurance Expenses in proportion to annual death costs, or scientific provision for such expenses—*Continued.*

LIFE—20 ANNUAL PREMIUMS.							
Year.	AGE 35.			AMOUNT, \$10,000.			Year.
	Initial Reserve.	Cost of Insurance.	Terminal Reserve.	Initial Reserve.	Cost of Insurance including expenses.	Terminal Reserve.	
	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.	
54	9,089 18	222 93	9,138 93	9,395 24	244 87	9,432 23	54
55	9,138 93	226 91	9,186 19	9,432 23	249 20	9,466 00	55
56	9,186 19	231 45	9,230 33	9,466 00	250 02	9,499 96	56
57	9,230 33	234 64	9,272 60	9,499 96	243 71	9,541 25	57
58	9,272 60	239 66	9,311 12	9,541 25	258 77	9,568 72	58
59	9,311 12	241 77	9,348 68	9,568 72	288 43	9,567 35	59
60	9,348 68	247 20	9,381 94	9,567 35	145 63	9,708 74	60
61	9,381 94	248 54	9,414 86	9,708 74		10,000 00	61
62	9,414 86	256 73	9,441 58	.....		.....	.....
63	9,441 58	255 81	7,468 02	.....		.....	.....
64	9,468 02	247 96	9,504 10	.....		.....	.....
65	9,504 10	240 91	9,548 31	.....		.....	.....
66	6,548 31	220 16	9,614 60	.....		.....	.....
67	9,614 60	194 30	9,708 74	.....		.....	.....
68	9,708 74	.....	10,000 00	.....		.....	.....
Totals	454,505 62	9,592 98	458,547 82	415 151 39	9,820 50	417,785 39	Totals.

The totals show the relative importance of each form of policy, both as to investment (first column) and insurance (second column); and therefore the relative expense which each sort will properly bear.

TABLE showing analytically the generation from year to year of Reserve or Investment and Provision for Death Claims or Cost of Insurance, arising from the Premium Payments for various Standard Forms of Life Insurance Policies; both in net or without, and with provision for Insurance Expense in proportion to annual death costs, or scientific provisions for such expenses.

ENDOWMENT INSURANCE, 40 YEARS; AGE, 35; AMOUNT, \$10,000.

Year.	Initial Reserve.	Cost of Insurance.	Terminal Reserve.	Initial Reserve.	Cost of Insurance, including Expense.	Terminal Reserve.	Year.
	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.	
1	227 14	72 63	161 32	290 41	120 75	178 37	1
2	388 46	74 57	325 54	468 78	123 92	358 92	2
3	552 68	76 47	492 79	649 33	126 68	542 13	3
4	719 93	78 27	663 26	832 54	129 52	728 00	4
5	890 40	80 34	836 77	1,018 41	132 75	916 21	5
6	1,063 91	82 23	1,013 60	1,206 62	135 59	1,107 23	6
7	1,240 74	84 22	1,193 74	1,397 64	138 58	1,300 99	7
8	1,420 88	86 37	1,377 14	1,591 40	141 88	1,497 26	8
9	1,604 28	88 38	1,564 03	1,787 67	145 10	1,696 20	9
10	1,791 17	90 63	1,754 28	1,986 61	148 36	1,897 85	10
11	1,981 42	92 84	1,948 02	2,188 26	151 79	2,102 12	11
12	2,175 16	95 24	2,145 17	2,392 53	155 49	2,308 82	12
13	2,372 31	97 71	2,345 77	2,599 23	159 23	2,517 98	13
14	2,572 91	100 24	2,549 86	2,808 39	162 99	2,729 65	14
15	2,777 00	102 99	2,757 32	3,020 06	167 26	2,943 40	15
16	2,984 46	105 77	2,968 22	3,233 81	171 46	3,159 36	16
17	3,195 36	108 75	3,182 47	3,449 77	176 06	3,377 20	17
18	3,409 61	111 72	3,400 18	3,667 61	180 71	3,596 93	18
19	3,627 32	114 75	3,621 39	3,887 34	185 32	3,818 64	19
20	3,848 53	118 03	3,845 96	4,109 05	190 45	4,041 87	20
21	4,073 10	121 19	4,074 10	4,332 28	195 36	4,266 89	21
22	4,301 24	124 37	4,305 91	4,557 30	200 47	4,493 55	22
23	4,533 05	127 60	4,541 44	4,783 96	205 72	4,721 76	23
24	4,768 58	130 74	4,780 90	5,012 17	210 79	4,951 74	24
25	5,008 04	133 77	5,024 51	5,242 15	215 91	5,183 50	25
26	5,251 65	136 47	5,272 73	5,473 91	220 45	5,417 68	26
27	5,499 87	138 94	5,525 93	5,708 09	224 90	5,654 43	27
28	5,753 07	140 94	5,784 72	5,944 84	228 83	5,894 35	28
29	6,011 86	142 32	6,049 90	6,184 76	231 85	6,138 45	29
30	6,277 04	142 92	6,322 43	6,428 86	233 95	6,387 77	30
31	6,549 57	142 52	6,603 54	6,678 18	234 69	6,643 83	31
32	6,830 68	140 72	6,894 88	6,934 24	233 52	6,908 75	32
33	7,122 02	137 27	7,198 41	7,195 16	229 91	7,185 22	33
34	7,425 55	131 59	7,516 73	7,475 63	222 78	7,477 12	34
35	7,743 87	123 13	7,853 06	7,767 53	211 32	7,789 24	35
36	8,080 20	111 01	8,211 60	8,079 65	193 61	8,128 43	36
37	8,438 74	94 28	8,597 62	8,418 84	167 63	8,503 77	37
38	8,824 76	71 49	9,018 01	8,794 18	130 11	8,927 89	38
39	9,245 15	40 90	9,481 60	9,218 30	76 52	9,418 33	39
40	9,708 74	.....	10,000 00	9,708 74	.....	10,000 00	40
Totals.	170,290 45	4,194 32	171,204 85	176,528 23	6,912 21	174,911 83	

TABLE showing analytically the generation from year to year of Reserve or Investment and provision for Death Claims or Cost of Insurance, arising from the premium Payments for various standard Forms of Life Insurance Policies; both in net or without, and with provision for Insurance Expense in proportion to annual death costs, or scientific provision for such expense.

ENDOWMENT INSURANCE, 20 YEARS; AGE, 35; AMOUNT, \$10,000.

Year.	Initial Reserve.	Cost of Insurance.	Terminal Reserve.	Initial Reserve.	Cost of Insurance, including Expense.	Terminal Reserve.	Year.
	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.	
1	277 81	71 96	214 18	328 17	120 26	217 75	1
2	491 99	73 79	432 96	545 92	122 89	439 41	2
3	710 77	75 30	656 80	767 58	125 04	665 52	3
4	934 61	76 46	886 19	993 74	127 15	896 40	4
5	1,164 00	77 61	1,121 31	1,224 57	129 61	1,131 70	5
6	1,399 12	79 07	1,362 02	1,459 87	131 53	1,372 13	6
7	1,639 83	80 19	1,608 83	1,700 30	133 55	1,617 76	7
8	1,886 64	81 65	1,861 59	1,945 93	135 68	1,868 63	8
9	2,139 40	82 74	2,120 84	2,196 80	137 60	2,125 10	9
10	2,398 65	83 45	2,387 16	2,453 27	139 40	2,387 47	10
11	2,664 97	84 83	2,660 09	2,715 64	141 14	2,655 97	11
12	2,937 90	85 46	2,940 58	2,984 14	142 91	2,930 75	12
13	3,218 39	86 36	3,228 58	3,258 92	144 45	3,212 24	13
14	3,506 39	87 19	3,524 39	3,540 41	145 71	3,500 92	14
15	3,802 20	87 91	3,828 36	3,829 09	147 03	3,796 93	15
16	4,106 17	88 15	4,141 21	4,125 10	147 86	4,100 99	16
17	4,419 02	88 19	4,463 40	4,429 16	148 50	4,413 53	17
18	4,741 21	87 98	4,795 47	4,741 70	148 58	4,735 37	18
19	5,073 28	87 45	5,138 03	5,063 54	147 89	5,067 56	19
20	5,415 84	86 52	5,491 80	5,395 73	146 69	5,410 91	20
21	5,769 61	84 74	5,857 96	5,739 08	144 23	5,767 02	21
22	6,135 77	82 31	6,237 53	6,095 19	140 62	6,137 42	22
23	6,515 34	78 77	6,632 03	6,465 59	135 48	6,524 08	23
24	6,909 84	73 90	7,043 24	6,852 25	128 21	6,929 61	24
25	7,321 05	67 96	7,472 72	7,257 78	118 48	7,357 03	25
26	7,750 53	59 97	7,923 06	7,685 20	105 34	7,810 42	26
27	8,200 87	49 79	8,397 11	8,138 59	88 27	8,294 48	27
28	8,674 92	36 83	8,898 34	8,622 65	66 04	8,815 29	28
29	9,176 15	20 50	9,430 93	9,143 46	37 19	9,380 57	29
30	9,708 74	.....	10,000 00	9,708 74	.....	10,000 00	30
Totals.	129,091 01	2,207 03	130,756 71	129,408 11	3,727 33	129,563 01	

See remark at foot of previous sheets.

TABLE showing analytically the generation from year to year of Reserve or Investment and Provision for Death Claims or Cost of Insurance, arising from the Premium Payments for various standard Forms of Life Insurance Policies; both in net or without, and with provision for Insurance Expense in proportion to annual death costs, or scientific provision for such expense.

ENDOWMENT INSURANCE, 20 YEARS; AGE, 35; AMOUNT, \$10,000.00.

Year.	Initial Reserve.	Cost of Insurance.	Terminal Reserve.	Initial Reserve.	Cost of Insurance including expense.	Terminal Reserve.	Year.
	\$ cts.	% cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.	
1.....	416 64	70 91	358 23	454 74	118 64	349 74	.... 1
2.....	774 87	71 53	726 59	804 43	119 41	709 20	.... 2
3.....	1,143 23	71 69	1,105 84	1,163 94	119 48	1,079 38	.... 3
4.....	1,522 48	71 33	1,496 82	1,534 12	119 27	1,460 87	.... 4
5.....	1,913 46	70 80	1,900 06	1,915 61	119 04	1,854 04	.... 5
6.....	2,316 70	70 35	2,315 85	2,308 78	118 00	2,260 04	.... 6
7.....	2,732 49	69 33	2,745 13	2,714 78	116 61	2,679 61	.... 7
8.....	3,161 77	68 34	3,188 28	3,134 35	114 91	3,113 47	.... 8
9.....	3,604 92	66 73	3,646 34	3,568 21	112 48	3,562 78	.... 9
10.....	4,062 98	64 46	4,120 41	4,017 52	109 34	4,028 71	....10
11.....	4,537 05	62 28	4,610 88	4,483 45	105 46	4,512 49	....11
12.....	5,027 52	59 09	5,119 26	4,967 23	100 77	5,015 48	....12
13.....	5,535 90	55 53	5,646 45	5,470 22	94 92	5,539 41	....13
14.....	6,063 09	51 25	6,193 73	5,994 15	87 73	6,086 24	....14
15.....	6,610 37	46 14	6,762 56	6,540 98	79 22	6,657 99	....15
16.....	7,179 20	39 81	7,354 77	7,112 73	68 74	7,257 37	....16
17.....	7,771 41	32 30	7,972 25	7,712 11	56 15	7,887 32	....17
18.....	8,388 89	23 38	8,617 18	8,342 06	40 88	8,551 44	....18
19.....	9,033 82	12 73	9,292 10	9,006 18	22 37	9,254 00	....19
20.....	9,708 74	.....	10,000 00	9,708 74	.....	10,000 00	....20
Totals	91,505 53	1,077 98	93,172 73	90,954 38	1,823 42	91,859 58	

TABLE showing analytically the generation from year to year of Reserve or Investment and Provision for Death Claims or Cost of Insurance, arising from the Premium Payments for various standard Forms of Life Insurance Policies; both in net or without, and with provision for Insurance Expense in proportion to annual death costs, or scientific provision for such expense.

ENDOWMENT INSURANCE, 15 YEARS; AGE, 35; AMOUNT, \$10,000.00.

Year.	Initial Reserve.	Cost of Insurance.	Terminal Reserve.	Initial Reserve.	Cost of Insurance including expense.	Terminal Reserve.	Year.
	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.	
1.....	569 81	69 74	517 16	602 59	116 75	503 92	.... 1
2.....	1,086 97	69 02	1,050 56	1,106 51	115 36	1,024 35	.... 2
3.....	1,620 37	67 68	1,601 30	1,626 94	113 01	1,562 74	.... 3
4.....	2,171 11	65 69	2,170 55	2,165 33	110 06	2,120 23	.... 4
5.....	2,740 36	63 28	2,759 29	2,722 82	106 70	2,697 80	.... 5
6.....	3,329 10	60 71	3,364 26	3,300 39	102 18	3,297 22	.... 6
7.....	3,938 07	57 35	3,998 86	3,899 51	96 86	3,919 94	.... 7
8.....	4,568 67	53 65	4,652 08	4,522 53	90 64	4,567 57	.... 8
9.....	5,221 89	49 05	5,329 50	5,170 16	83 13	5,242 13	.... 9
10.....	5,899 31	43 50	6,032 79	5,844 72	74 23	5,945 83	....10
11.....	6,602 60	37 40	6,763 28	6,548 42	63 78	6,681 09	....11
12.....	7,333 09	29 98	7,523 10	7,283 68	51 53	7,450 66	....12
13.....	8,092 91	21 51	8,314 19	8,053 25	37 08	8,257 78	....13
14.....	8,840 00	11 59	9,138 93	8,860 37	20 03	9,106 15	....14
15.....	9,708 74	.....	10,000 00	9,708 74	.....	10,000 00	....15
Totals	71,767 00	700 15	73,219 85	71,416 26	1,181 34	72,377 41	

TABLE showing analytically the generation from year to year of Reserve or Investment and Provision for Death Claims or Cost of Insurance, arising from the Premium Payments for various standard Forms of Life Insurance Policies; both in net or without, and with provision for Insurance Expense in proportion to annual death costs, or scientific provision for such expense.

ENDOWMENT INSURANCE, 10 YEARS; AGE, 35; AMOUNT, \$10,000.00.

Year.	Initial Reserve.	Cost of Insurance.	Terminal Reserve.	Initial Reserve.	Cost of Insurance including expense.	Terminal Reserve.	Year.
	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.	
1.....	887 57	67 33	846 87	915 26	112 75	829 97	.... 1
2.....	1,734 44	63 84	1,722 63	1,745 23	106 80	1,690 79	.... 2
3.	2,610 20	59 40	2,629 11	2,606 05	99 31	2,584 92	.... 3
4.....	3,516 68	53 97	3,568 21	3,500 18	90 53	3,514 60	.... 4
5.....	4,455 78	47 71	4,541 74	4,429 86	80 64	4,482 11	.... 5
6.....	5,429 31	40 73	5,551 46	5,397 37	68 75	5,490 54	.... 6
7.....	6,439 03	32 50	6,599 70	6,405 80	55 07	6,542 90	.... 7
8.....	7,487 27	23 19	7,688 70	7,458 16	39 33	7,642 57	.... 8
9.....	8,576 27	12 39	8,821 17	8,557 83	21 08	8,793 48	.... 9
10.....	9,708 74	.....	10,000 00	9,708 74	.....	10,000 00	....10
Totals	50,845 29	401 06	51,969 59	50,724 48	674 31	51,571 88	

The totals show the relative importance of each form of policy, both as to investment (first column) and insurance (second column); and therefore the relative expense which each sort will properly bear.

Mr. E. D. DUFFIELD, General Solicitor of the Prudential Life Insurance Company of America.

Mr. Chairman and Gentlemen.—I thank you for the courtesy of being afforded an opportunity to appear before you and I will endeavour to show my appreciation of that courtesy by not occupying more of your time than is absolutely necessary. Having been only recently admitted to Canada you will think we have no reason to make suggestions. The only reason I am here to-day is the fact that our very recent admission to Canada has created a condition which will, under the Bill, be extremely hard upon the company I represent. Subsection 7 of section 53 provides as follows:

‘The limitation as to expenses provided for in subsection 3 of this section shall from and after the first day of January, one thousand nine hundred and eleven, apply to the Canadian business of all life insurance companies which are not Canadian companies licensed under this Act.’

Now, in framing this section the drafters have not taken into consideration the fact that a company starting in business will require a certain period of time in order to comply with the expense limitation, and they have made this distinction with reference to Canadian companies, they have provided first that companies licensed prior to the first of January, 1905, shall have until the first of January, 1910, and next that any company that commenced business subsequent to the first day of January, 1885, shall after the first day of January next following the fifteenth anniversary of the date on which it commenced business, and any company that commenced business after the passing of this Act, shall have ten years in which to bring its expenses up to the limit provided by the Act. I say that it is easy to see that necessarily the same extension of time ought to be applied to a company coming in here and commencing business. We have not old Canadian business which we can utilize for the purposes of our expense account, but we are confronted with practically the same conditions as any new company starting in business in Canada, and therefore we do earnestly suggest that the

same provision be made, with respect to a company coming into Canada to start business that is made for a Canadian Company, and that the date should not be fixed definitely at one year as it is in the Bill. If the law were enacted in the present shape, we will probably be the last company admitted into Canada, and we would have of course until 1911 to comply with the law. But supposing there was a new company coming in, at once, it would be sufficient to meet expenses. Just one word more. If we had been here longer, and if I felt free to discuss the whole question of the application of this section to a non-participating company such as the Prudential is, I would be obliged to go into it fully and take up the time of the committee, because I feel very strongly that the expense limitation ought not to be applied to a non-participating company. But leaving that out of consideration I think you will all agree that the expense limitation based on the loading does apply with more harshness to the non-participating than to the participating companies. The loading in the non-participating companies business is very much smaller than in the participating companies' business, so that in coming here we are confronted with this proposition, that we must make up in two years, before this law goes into effect, and the expenses of the company must be cut down from the very fact that it is a non-participating company. I merely suggest the purpose of this expense limitation is to secure with due regard to safety the lowest rate which can be placed on business written in this country. That being so, it surely will not be the purpose to compel us to do this within a short space of time, and from the fact that we are a non-participating company, to at once increase our loadings in order to comply with the law. The decision of the Prudential Life to come into Canada was only taken after deliberation. We are not only looking to an increase of business in Canada by writing insurance, but to bring money into Canada for the purpose of investment, we have secured from the legislature of the State of New Jersey, after some difficulty, a broadening of the powers of investment in order to enable us to invest in Canadian securities. We hope that you will so regulate and fix that one section that it will be possible for us to remain here and carry on business here which we believe from the expression of opinion of your people is not only a gratification to us but a satisfaction to the people of Canada as well.

Mr. WM. A. HUTCHISON, Mutual Life Insurance Company,—Mr. Chairman and Gentlemen, I appear on behalf of the Mutual Life Insurance Company of New York, and I do not appear in opposition to anything in the Bill, but there are one or two points in the Bill that I would like to refer to. The first one is in section 36, 'Gain and Loss Exhibit.' We already furnish a gain and loss exhibit to all the States in America, and the only suggestion I make is that the gain and loss exhibit should show what happens to the surplus. The gain and loss exhibit at present shows the surplus earned, but it does not show what disposition is made of it. Every commercial business shows what disposition it makes of a surplus and I think it will be an improvement in the Act if such a provision is added here. In that connection there is another section 91, it says, that on the 31st day of December in each year or so soon thereafter as may be practicable, every such company shall ascertain the surplus earned during the said year. It does not state anything about the distribution of the surplus, once it has been earned. It seems to me that clause will be improved by an addition making such provision. Then going back to section 42 the Canadian Companies are allowed to make a reduction from their reserve liabilities for policies. As it reads now the American companies are not allowed to make such a reduction. In other words you are permitting the Canadian company to be less secure than the American. I don't know whether that was the intention or not.

In section 53, regarding the limitation of expenses, the limitation proposed will not affect us one way or the other, so we are quite indifferent to it. But I understand that an amendment has been suggested by the Canadian companies and that proposes in effect to cut down the amount which the American companies in Canada

expend by a sum equal to 5 per cent of the premiums on Canadian business. In the statement at page 65 item 11, 'General Expenses,' is divided into head office salaries, head office travelling expenses, directors' fees, auditors' fees, &c., and then miscellaneous expenses in detail forms the last item. Now these head office expenses in the case of the Mutual of New York amount to about 2½ per cent of our total premium income and I cannot see, therefore, why in the report to Canada in connection with our Canadian business we should be charged with 5 per cent of our Canadian premiums when we do the whole of our business at 2½ per cent. I would, therefore, suggest that if the amendment of the Canadian companies is agreed to, the percentage instead of being 5 per cent be altered to such percentage as the whole of the head office expenses bear to the whole of the premiums of the company. The information can be obtained from the returns which the American companies make to Canada every year.

Then on page 34 there are provisions regarding rebating. I am glad to see that the policyholder who takes the rebate is mulcted equally liable with the agent who gives it with a penalty.

Section 92.—The second line says, 'That a surplus so ascertained.' I cannot find that the method of ascertainment is referred to previously.

Section 94, I think, is objectionable. That section states that in the case of deferred dividend policies which have been heretofore issued the company shall at the end of the five year period ascertain the surplus applicable to these policies and consider a surplus as a liability. Our policies, which are legal contracts when issued and according to the law at that time, provide that no attributions of surplus shall be made to the policies until the end of the dividend. We have always considered such a law, in the United States at any rate, would be unconstitutional, and at any rate I do not think that any good purpose is served by considering such a surplus as a liability. I do not think, however, that useful information can be elicited on that point.

Now take 'Detail 2,' page 70. A statement is required for each class of policy separately, the year of issue and the deferred dividend period. For each of these divisions we are required in this section to state the number of policies in force and the amount awaiting apportionment. That would require a great amount of work in the case of a company such as mine—I mean a great amount of clerical work and filling out the schedules to be sent up here. We don't object to doing it but I do not think it means anything. What the policyholder wants to know, I have found, is what has been added to that deferred dividend fund in the year. Instead of the details asked for here I would suggest that a statement be required, if any legislation on that point is desired, showing the amount of the deferred dividend fund at the end of one year, let us say at the end of 1908 for example, the additions that have been made to that fund by way of interest and contributions to the fund, the amount which has been taken out of that fund during the year, and showing the balance which is held on hand at the end of the year. The policyholder would then know what had been added to the fund. If it is information for the policyholder that is wanted such a statement would be much more intelligible than a simple statement of the amount held.

Now, at page 63, which gives the statement of liabilities. In the reports which we have to make to the various states in the union we are required to show the amount of funds which had been set aside at the end of the year for distribution amongst the policyholders in the following year. I think that such an addition to this statement would be useful.

Section 96, division H.—This is regarding the form of policy that may be issued in this country. There is a provision here that a policy must provide for a loan of an amount not exceeding 95 per cent of its surrender value. I cannot see why a loan of the full 100 per cent of the surrender value of the policy cannot be granted, provided interest for the loan is deducted in advance. In the same section, subsection K, the policy has to provide for its renewal within three years of lapse subject

to satisfactory evidence of insurability and to payment of the overdue premiums and indebtedness to the company with interest thereon. This same provision is in the Massachusetts law on this point, and we had a considerable amount of trouble with the insurance authorities there because we wanted to provide in our policy that instead of the loan being repaid the loan be reinstated. I would suggest that an amendment to this effect be inserted in subsection K.

Section 97 provides for life insurance companies keeping separate accounts for the participating and the non-participating business. The reason I presume for this position is to show whether the non-participating business is being conducted at cost to the participating policyholders or not. Complaint used to be made by companies which issued only non-participating policies at less than cost. I think in such cases it is advisable to show whether that is so or not because it seems almost unfair competition. But in the case of a company which no longer issues non-participating insurance I can see no reason why a separate statement for the participating and non-participating business should be required.

Mr. NESBITT.—You say you do not issue non-participating policies.

Mr. HUTCHINSON.—Well, the Mutual Life at one time issued participating and non-participating business, it does not issue non-participating now. Since the commencement of the year 1907 the New York laws require the companies to issue either participating or non-participating business, and the Mutual Company discontinued issuing non-participating. I would suggest, however, the addition of two or three words at the end of that clause providing that such statements be required only from such companies as issue both participating and non-participating at this time.

Mr. NESBITT.—These are very excellent suggestions, but they could all be put in writing and save considerable time.

Mr. HUTCHINSON.—Gentlemen, I thank you for your hearing, I think I have covered all the points that I wished to refer to.

Committee adjourned.

LETTERS, MEMORIALS, ETC.

The CHAIRMAN.—The following communications bearing on the fire insurance features of the Bill have been received. I think they had better appear in the printed report of the proceedings:

HAMILTON, CANADA, March 27, 1909.

Chairman of Committee on Banking and Insurance,
Ottawa.

DEAR SIR,—

We would call your attention to the enclosed circular letter which we have received from John R. Waters of New York, who acts as attorney for subscribers at the New York Reciprocal Underwriters in which we are interested as Reciprocal Insurers. We also, enclose a list of firms, some of whom are Canadians, who do business under the same Reciprocal Insurance plan with the same company.

We shall be glad if you will explain to us the meaning of clause 'C' of section 7 of the proposed Insurance Bill and if, in your opinion, this proposed legislation would, in any way, interfere with Reciprocal Fire Insurance as carried on under the Mutual or Inter-insurance method. We can assure you that this method has proved entirely satisfactory to those business firms which have entered into it and it also serves to hold in check the premium rates of all Fire Insurance companies doing business in this country.

We shall be glad to hear from you as to the actual application of the clause proposed.

Awaiting your reply, we remain,

Yours truly,
STANLEY MILLS & CO., LIMITED.

NEW YORK, March 25, 1909.

To Correspondents in Canada:—

We have just received advices that there is an insurance Bill now before the Canadian Parliament, section 7 of which reads in part as follows:—

‘71. Every person who,—

(c.) Inspects any risk or adjusts any loss or carries on any business of insurance on behalf of any individual underwriter or underwriters, or on behalf of any insurance company, without the license provided for by this Act in that behalf, or after such license has been revoked or suspended, and shall on summary conviction, etc.—penalty—’

We have not yet seen the full text of this Bill but the above is sufficient to warrant us in asking you to write immediately to the members of the committee on Banking and Insurance at Ottawa, either to kill this measure or take the sting out of it by inserting the following clause in the Bill:

‘Nothing in this Act shall be construed as applying to the operations and transactions of individuals, co-partnerships and corporations who reciprocally insure the property of each other against loss or damage by fire and lightning under the plan known as inter-insurance, whereby the participants reciprocally and specifically exchange contracts of insurance with each other either directly or through the intermediary of a duly authorized attorney-in-fact.’

It will be well to write similarly to your individual representatives in parliament.

For twenty-five years this office has operated reciprocal insurances without feeling or demonstrating in any way the necessity of governmental interference or supervision. *This Bill is a device of stock company agency interests to destroy your usages of inter-insurance and should be combatted by all the resources at your command.*

Your prompt and diligent action in this matter is earnestly asked for by your Advisory Committees and by the undersigned.

Not only should hostile legislation be defeated but *the reciprocal principle should be acknowledged by law and exempted from future interference.*

If the proposed legislation should be enacted *the stock fire insurance companies will have the monopoly of the business and you can look in the immediate future for a substantial increase in your rates of premium and at the same time the supply of insurance at your command will be very much curtailed.*

Yours faithfully,

JOHN R. WATERS,
*Attorney-in-fact for Subscribers
at Individual Underwriters, and at
New York Reciprocal Underwriters.*

TORONTO, ONT., March 27, 1909.

H. H. MILLER, M.P.,
House of Commons,
Ottawa, Ont.

DEAR SIR,—Agreeable to promise, I am enclosing herewith a copy of the clause, which is to be substituted for 140 of the proposed Act. We discussed it thoroughly with Mr. Fitzgerald whose approval has been given to it.

Our objections to the clause, proposed in the new Act are:—

(1.) That the object sought for, viz., the establishing of a conflagration fund would never be accomplished.

(2.) That the weaker companies would never be able to declare a 15 per cent dividend and consequently would not have anything to place into this fund.

(3.) That if the conflagration fund were to be carried as a liability, it would eventually cripple the most successful companies to provide sufficient assets to take care of the reserve and losses, and this fund would crush them out of existence in time.

Our substitute insures the establishment of such a fund, inasmuch as it makes it compulsory for every company to set aside 25 per cent of its profits annually for that purpose, and after this is done the declaration of a dividend can safely be left to that company.

Nor should that fund be carried as a liability, as there is no valid reason why, after setting it apart, a company should have it charged as a liability for something which has not occurred to create such liability.

Mr. Fitzgerald has expressed himself to the effect that the substitute is a better clause than the original, and we are firmly convinced that it will result in a conflagration fund in every company from and after the first year, after taking effect and without imposing a hardship on any one.

Trusting to receive your co-operation in replacing 140 with the inclosed, and thanking you in advance for this and previous assistance as well, believe me,

Yours truly,

D. WEISMILLER,
Managing Director.

P.S.—We find that 140 was the number of the clause under the previous Bill, but that now it has been changed to 139.—D.W.

Memo. for Superintendent of Insurance.

In place of section 140, the following section is suggested:—

140. In this section the word 'surplus' means the excess of assets over the paid-up capital of the company and all liabilities of the company, including the reserve for unearned premiums.

2. Subject to the payment of preferential dividends, as provided in subsection 4, section 136, until the surplus of a Canadian fire insurance company under the legislative power of the parliament of Canada shall equal or exceed the reserve of unearned premiums, computed as provided in section 135 on all outstanding unexpired policies in Canada not re-insured, such company shall at the end of each year, commencing with the year 1910, appropriate towards the surplus of such company at least 25 per cent of the profits of the company for the year last past.

TORONTO, CANADA, March 27, 1909.

Mr. H. H. MILLER, M.P.,

Chairman Committee of Banking and Commerce,
Parliament Buildings, Ottawa, Ont.

DEAR SIR,—We understand that section No. 7 of the Insurance Bill, which we believe is now being considered by parliament, reads as follows:—

'71. Every person who,—

'(c) inspects or adjusts any loss or carries on any business of insurance on behalf of any individual underwriter or underwriters or on behalf of any insurance company, without the license provided for by this Act in that behalf, or after such license has been revoked or suspended, and shall on summary conviction, &c.,—penalty.'

We are subscribers of the Individual Underwriters of New York, and if this clause goes into force we will be compelled to withdraw from this association and thereby would lose a considerable amount each year by being forced to give our insurance to the stock fire insurance companies, whose rates are now very much higher than the rate we are paying.

The Individual Underwriters have for twenty-five years operated reciprocal insurance without feeling or demonstrating in any way the necessity of governmental interference or supervision, and we believe this Bill is a device of the stock insurance agency interests to destroy our usage of inter-insurance, and we therefore believe that this measure should either be taken out of the Bill or the sting removed by inserting the following clause in the Act:—

‘Nothing in this Act shall be construed as applying to operations and transactions of individuals, co-partnerships and corporations who reciprocally insure the property of each other against loss or damage by fire and lightning under the plan known as inter-insurance, whereby the participants reciprocally and specifically exchange contracts of insurance with each other directly or through the intermediary of a duly authorized attorney-in-fact.’

We trust that you will see the fairness of our contention and endeavour to have this legislation amended in such a way that it will not affect the privileges we now enjoy.

Thanking you in anticipation of your efforts, we are,

Yours very truly,

H. P. ECKHARDT & CO.

MONTREAL, March 27, 1909.

THE CHAIRMAN,

Committee on Banking and Insurance,
House of Commons.

DEAR SIR,—It has been brought to our notice that an Insurance Bill is before parliament, which is likely to prove exceedingly detrimental to all holders of fire insurance policies. We are assured that its aim is to interfere with the business of reciprocal insurance with which we have been connected for many years with entire satisfaction.

We respectfully suggest that such a course would reduce competition to a minimum, thus enabling the stock companies to substantially increase their rates of premium. We therefore earnestly trust that you will use your best efforts to combat this Bill, or so modify it by the following clause as to make it ineffective against inter-insurance—the undoubted right of all individuals—

‘Nothing in this Act shall be construed as applying to the operation and transactions of individuals, co-partnerships and corporations who reciprocally insure the property of each other against loss or damage by fire or lightning under the plan known as inter-insurance, whereby the participants reciprocally and specifically exchange contracts with each other either directly or through the intermediary of a duly authorized attorney-in-fact.’

Respectfully yours,

JAMES MORGAN AND COLIN D. MORGAN.

R. A. NIXON,
Secretary.

OTTAWA, March 30, 1909.

THE CHAIRMAN,
The Banking and Commerce Committee,
House of Commons, Ottawa.

DEAR SIR,—On behalf of the Western Assurance Company and the British America Assurance Company, I have the honour to submit herewith a memorandum as to certain suggested amendments to the Insurance Bill which have been discussed with the Superintendent of Insurance, and we desire to see the same carried into the Act.

Yours respectfully,

JOHN H. HUNTER,
Solicitor for the Companies.

Re Bill No. 97, 'An Act respecting Insurance.'

The Western Assurance Company and British America Assurance Company beg to submit the following statement as to the proposed new Insurance Act:—

Section 13 requires separate contracts to be issued for each class of insurance which a company is licensed to transact. The Western is licensed to do fire, inland marine and inland transportation insurance and does a large business in insuring shipments of wheat and flour from the Canadian Northwest to England. Shippers desire a simple, comprehensive policy covering all risks from the local elevator to destination which they can attach to their bills of lading and deposit with a bank to obtain advances. Our most serious competitors for this business are ocean marine companies, who are not required to take out a license for ocean marine and who treat the risk from interior places to the port on the seaboard as an incident to their ocean risk and add it to their policies.

An analysis of the different risks involved in covering, say a summer shipment of wheat from Winnipeg to Liverpool shows the following classes of insurance involved, having regard to the definitions in the Bill:—

1. Fire insurance while in elevator at Winnipeg.
2. Inland transportation while in elevator at Fort William.
3. Fire insurance while in elevator at Fort William.
4. Inland marine insurance while being carried by water from Fort William to Depot Harbour.
5. Fire insurance in elevator at Depot Harbour.
6. Inland transportation while on rail to Montreal.
7. Fire insurance in elevator in Montreal.
8. Ocean marine, Montreal to Liverpool.

We fear that 'section 13' will require us to issue a separate contract for each of the above risks, thus putting us at a hopeless disadvantage with our unlicensed ocean marine competitors. We, therefore, submit that an exception should be made in favour of fire, inland marine and inland transportation contracts, so as to allow them to be covered in one policy, by making the section read as follows:

13. 'Contracts of accident and sickness insurance or contracts of fire, inland marine and inland transportation insurance may be included in one policy, but in all other cases contracts of insurance for each class which a company is licensed to transact shall be in separate and distinct policies.'

Section 59 provides that two-thirds of the deposits made by foreign companies with Canadian trustees must be in Canadian securities. Deposits not in compliance with this requirement must be replaced within five years (subsection 3).

The Western and British America do a large business throughout the United States, and in compliance with the laws of New York have made large deposits with

trustees in that state for the protection of policyholders. Of these deposits over a million and a half dollars, par value, are in Canadian government and municipal securities and the stock and debentures of Canadian companies.

On February 3, 1909, the New York Superintendent of Insurance wrote us as follows:—

‘In examining the capital statement of the United States branch of your company we find that you have therein a quantity of Canadian government and other Canadian securities. If you can evidence to us that the laws of Canada allow our companies to deposit with the government of Canada or to hold on account of Canadian liabilities deposited with the trustees United States government securities or the securities of any state or municipality of the United States, we will allow as assets like Canadian securities.’

In reply, it was pointed out that the last Dominion blue-book showed the following American securities on deposit in Canada by American companies:—

American Securities Deposited in Canada.

Ætna Life—		
United States government bonds.. . . .		\$100,000
American and Foreign Marine—		
United States 4 per cent bonds.. . . .		25,000
Equitable Life—		
	Par value.	
New York 4 per cent debentures.. . . .	\$3,000,000	
Lake Shore Coll. 3½ per cent.. . . .	4,100,000	
	<hr/>	7,100,000
Fidelity and Casualty Co—		
Massachusetts 3½ per cent bonds.. . . .		90,000
Hartford Steam Boiler—		
Massachusetts 3 per cent bonds.. . . .		45,000
Home Insurance Co.—		
United States 4 per cent bonds.. . . .	200,000	
District of Columbia, 3:65 per cent bonds.. . . .	50,000	
	<hr/>	250,000
International Fidelity—		
United States 2 per cent consols		5,000
Mutual Life—		
Cleveland and Pittsburg 4 per cent stock.. . . .	650,000	
New York Central, 3½ per cent bonds.. . . .	4,800,000	
	<hr/>	5,450,000
New York Life—		
Massachusetts 3 per cent bonds.. . . .	835,000	
West Shore 4 per cent bonds.. . . .	720,000	
Chicago Northwestern 3½ per cent bonds.. . . .	1,000,000	
Union Pacific 1st 4's.. . . .	600,000	
Chicago, Milwaukee and St. Paul 3½'s.. . . .	660,000	
Massachusetts bonds.. . . .	675,000	
	<hr/>	4,490,000
Northwestern Mutual Life—		
United States 4 per cent bonds.. . . .		100,000
Phoenix of Brooklyn—		
District of Columbia 3:65 per cent bonds.. . . .		100,000
Travelers' Insurance Co.—		
Laramie Co., Wyo., 4 per cent.. . . .		50,000
	<hr/>	
Total.. . . .		\$17,755,000

It is evident that if parliament requires two-thirds of this very large amount of American securities to be replaced within five years by Canadian securities that New York state will at once insist on the substitution by us of American securities for our deposit. This, we fear, will occasion us a very serious loss, as the market for so large an amount of Canadian bonds and stocks is limited. Owing to the wide connection with Canadian enterprises of our directors, we are enabled to invest in Canadian securities to make a much better return than we could get from investment in American issues. We submit that Canadian interests will be better served by the enactment of a conditional retaliatory clause as to deposits, and suggest the following amendment to section 59:—

Investments.

59. The powers of lending and investment prescribed by this Act shall be the powers of lending and investment of all companies licensed to carry on the business of life insurance in Canada, and which are within the legislative authority of parliament. With respect to companies incorporated or legally formed elsewhere than within Canada, and licensed to carry on such business in Canada, all assets and investments which under section 20 of this Act may be vested in trust for the company for the purposes of this Act in two or more persons resident in Canada, or in a Canadian trust company, shall be of the classes of investment permitted by this Act; provided, however, that if the foreign state or country in which any such company is incorporated or legally formed refuses to accept from Canadian companies, Canadian securities for the purposes of the deposits or assets in the hands of trustees for the security of policyholders in such state or country, then no insurance company of such foreign state or country shall be given credit under section 20 of this Act for any assets vested in trust for such company for the purposes of this Act in two or more persons resident in Canada or in a Canadian trust company, other than investments in or loans upon Canadian securities.

Any provision contained in any Special Act or elsewhere conferring upon any company within the legislative authority of Parliament any other or wider powers of loaning and investment is hereby repealed.

Section 2 of section 64 allows Canadian fire companies to make deposits abroad of such amounts as are 'necessary' for the maintenance of foreign branches. The similar section as to life companies (section 61) allows deposits of such funds as are 'necessary or desirable.' In order to obtain desirable business in the United States it is imperative that a fire company should maintain deposits which show some surplus over the bare amount required by the insurance law, and we submit that the words 'or desirable' should also be added after 'necessary' in subsection 2 of section 64.

Section 135 fixing the liability for unearned premiums does not make it clear that a company is entitled to credit for reinsurances effected by it in reduction of its liability. We submit that the words 'not reinsured' should be added after 'outstanding unmaturing policies' in line 14, and after 'outstanding unmaturing policies in Canada' in line 15. Otherwise a company doing a large business may have to put up as a reserve an amount greater than the net premiums retained.

Section 136 introduces into the law a new provision as to payment of dividend, which it is submitted will work a hardship on the preferred shareholders in these companies if brought into force at once.

Under the present law a Canadian company in making up the annual statement of its financial affairs for publication in the Blue Book, is required to show the full pro rata unearned premiums as a liability, but for the purposes of its shareholders' statement of profit or loss on the year's business it is allowed to set aside as a reserve such portion of the total unearned premiums as the management consider a fair estimate of the amount likely to be required to meet future claims under the policies. The rates collected on the policies are based on an expectation of a sixty per cent loss

ratio, the balance being designed to provide about thirty-five per cent for agents' commissions, office and inspection expenses, and five per cent underwriting profit. Heretofore in preparing their shareholders' statements the Western and British America have accordingly employed this 60 per cent standard, which is in conformity with the practice of most of the English companies, such as the 'Royal,' 'Sun,' 'Union,' 'Alliance,' 'Atlas,' 'Liverpool and London and Globe,' 'London and Lancashire,' and 'North British and Mercantile.' The present Act requires us to adopt a higher standard, namely eighty per cent of the unearned premiums and prohibits the payment of any dividend on our preferred capital while our preferred capital is impaired on the eighty per cent basis of reserve.

We submit that the application of this section to our preferred stock should be postponed for a reasonable time. In the year 1904 the Western and British America sustained heavy losses in the conflagration at Baltimore and Toronto. The year 1905 proved prosperous and the companies made very satisfactory gains, but in 1906 the disaster of San Francisco inflicted on insurance companies the greatest losses in the history of the business. Both the Western and British America had maintained extensive agencies on the Coast for many years and their losses were therefore, very severe, amounting together to almost three million dollars. To enable the companies to continue in business it was imperative that new capital should be secured. Being unable to get subscriptions to a new issue of common shares, as the existing stock was impaired, the directors determined to issue preferred stock. As the Western under its charter could issue only \$1,000,000 of the preferred stock and the British America only \$550,000, it was found that to provide the required funds, the preferred stock must be subscribed at a premium of twenty-five per cent. The stock was made to carry a 7 per cent preferential dividend on its par value, thus returning less than 6 per cent on the investment and was made redeemable at the option of the company. Upon these terms a number of our directors and of other gentlemen who had interested themselves in the companies, subscribed for the stock and paid in cash \$1,935,000. Under the present law, the company fixing its reserve at sixty per cent of the unearned premiums, the preferred stock is intact with some surplus, so that during the present year any profits earned can be applied to pay the preferential dividend. The higher standard required by the proposed Act will render the preferred stock impaired so that it will probably be several years before the company can apparently carry out its bargain with the preferred shareholders, and pay the interest agreed upon. The holders of the preferred stock having subscribed very large amounts on the faith of the present law it is submitted that, say, five years should be allowed these companies to increase their reserves to the 80 per cent standard imposed by the present Bill. We submit that the following clause should be added to subsection 4 of section 136:—

'Provided, however, that in the case of any such company the reserve liability for the purposes of this section may with the approval of the Treasury Board be calculated until the first day of January, 1915, upon the basis of a reserve liability of not less than 60 per cent of the unearned premiums mentioned in the next preceding section.'

TORONTO, ONT., March 29, 1909.

H. H. MILLER, M.P.,
House of Commons
Ottawa, Ont.

DEAR SIR,—We have been advised that the Banking and Finance Committee is prepared to receive deputations to-morrow on behalf of the Fire Insurance Companies in connection with the new Insurance Act. In view of the fact that the C.F.U.A. companies are not affected by the clause, concerning which the writer had an interview with your good self, we have deemed it advisable to send Mr. W. H. Hunter, of

the firm of Hunter & Hunter, to represent the London Mutual, as the clause in question affects Canadian companies only.

The writer is prevented from going to Ottawa tonight on account of a subpoena to attend the Assizes at Brampton tomorrow, and if you will be good enough to grant an interview to Mr. Hunter, we shall deem it a great favour.

Yours truly,

D.W.
L.L.

D. WEISMILLER,
Managing Director.

TORONTO, ONT., March 29, 1909.

H. H. MILLER, Esq., M.P.,
Chairman of the Banking and Commerce Committee,
House of Commons, Ottawa.

DEAR SIR,—It being impossible for me to attend the meeting of your committee on Tuesday the 30th, I venture to make a few remarks concerning the Insurance Bill as it affects fire insurance. Having organized the first joint stock company to operate independently of tariff associations, and having organized also the first company in Ontario known as Cash Mutual and Stock, I may be supposed to be representative of a considerable insurance section which includes nearly all the Canadian fire insurance companies. Many of these are not operating under a Dominion charter at present. It may be found desirable, from many points of view, that others should measure up to the requirements of your insurance department.

I have no fault to find with what the Bill contains, and as meeting to some extent a crying evil, not only non-tariff but tariff companies, registered and licensed in this country, will heartily approve of the clause placing strictures upon inspection by men who really aim at securing business for non-admitted companies, in defiance of law. It is pleasing to note the object of the Bill in this particular. The next point is to make it thoroughly effective. Not only do Canadian companies require protection in this regard, but there is an element of revenue to the government involved; and in this connection the laws of many States of the Union in respect to surplus insurance are worthy of careful consideration. The Province of Ontario requires a license fee of \$2 from an agent which gives him the liberty to place a risk in an unlicensed company, it making no difference in license fee, whether the amount is \$1,000 or \$1,000,000. This regulation is usually observed in its violation, and insurance agents hesitate to act as informants and incur the everlasting ill-will of the assured. It is plain to be seen how unjust it is that millions of insurance should pass out of the country, and away from the companies which are under much expense in Canada, and which are subjected to taxation from one end of the country to the other. As the right of the individual may be involved, it would be proper to have under terms a way provided for men or firms to place such of their insurance elsewhere as cannot be placed among licensed companies. That could be done by the Insurance Department selecting in each of the chief centres in Canada, an insurance agent or broker to whom a *declaration would* be presented by the assured, to the effect that *the accommodation is not obtainable in licensed companies*. The premiums would pass through his hands to the agent for the risk, and he would deduct therefrom a commission of say, 3 per cent for the government and 3 per cent for himself.

It would be a remarkable thing in this country, committed to the principle of protection, in the interests especially of manufacturers, who are preaching loyalty to Canadian institutions and urging Canadian people to buy only that which is labelled 'Manufactured in Canada,' were any of these longer permitted to seek insurance in foreign companies, which contribute nothing to the country, and partly on that account are in a position to give competition rates of insurance. It is needless to say that the New England Mutuals, and some other American and British companies, by

reason of the larger insurance field in which they operate, are able to secure a class of risks in sufficient number, at rates which it is quite impossible to Canadian companies in the lesser field, to quote. The same relation between income and expenditure cannot be maintained by Canadian companies. This is an admission, but on the grounds of Canadianism and protection, we claim the highly protected, and superior manufacturing and other risks of this country, should support the insurance institutions of this country as well as that they themselves receive support.

I desire to point out also that through the methods of insurance companies in this country, Canadian companies are deprived of considerable volume of business. Foreign companies, especially British companies, not only take the premiums on the business which they wish to retain for their own particular licensed company, but they take out of this country over \$4,000,000 annually of premiums, and through the process of re-insurance, distribute it among other foreign companies not licensed to do business in this country. Why should the government not receive a commission of 3 per cent upon this business? What with the business stolen out of the country, and the business taken out of the country by the companies themselves, there seems to be opportunity enough to protect to some extent the insurance companies of our own country.

I desire to support the idea of insurance being particularly a matter of Dominion jurisdiction. The United States offers an illustration of the hodge-podge condition in which the insurance business is placed through state regulation, rather than through federal. We have not quite the same difficulty here, but inasmuch as fire insurance has become a necessary adjunct to trade and commerce at every point, quite as much as banks and railroads, furnishing security to banks and railroads themselves, to merchantmen, all financial institutions, and the articles of transportation. In fact, standing, as it does, at the back of the business credit of the country, it should, in my estimation, be under as full jurisdiction and consideration of the Dominion government as the trade and commerce of the country.

If that is true, I would urge for legislation that will put into all policies of insurance uniform conditions, with such variations as would perhaps eliminate conflict with some special provincial rights.

If possible, insurance men it is certain would like to see some uniform method devised which will take hold of the moral side of insurance. This country is probably paying annually through its insurance companies \$5,000,000 to \$6,000,000 for other than accidental fires. The insurance business, and the honest people of the country are suffering through the immorality connected with the origin of fires and the settlement of losses, which will never be removed to any appreciable extent until uniform policy conditions prevail, and through which a coach and four may not be driven.

Insurance regulations in Germany afford useful hints. The time may not have yet arrived, but the insurance business is so full of problems, is so unsatisfactory in so many particulars, that there is room for Insurance Commissioners as well as for Railway Commissioners.

The taxation of companies by provinces and municipalities is becoming a serious burden, which, of course, the people in the end must pay, and I would point out that it is neither to the advantage of the public, nor to Canadian insurance companies, that this excessive taxation should continue. I am aware of the difficulty, to mend matters by reason of provincial rights, and therefore merely point out a tendency which is becoming a hardship, and which your government some day may be asked to consider.

The Canadian companies suffered severely last year through conflagrations. We cannot, of course, expect protection against the use of that fact in competition by world-business companies operating in Canada, but if the public interest is served by *land* and *money grants* to transportation companies, and if the government can send money to help the people of San Francisco, Sicily and of other places, and which action we heartily approve, we see no reason why it would not be to the credit and to

the advantage of this country to at least give some properly guarded temporary security to Canadian institutions that likewise suffer, and which are serving public interests. Fortunately Canadian companies so far have been able to hold their own, but these extraordinary occurrences, effecting as they do in an unusual way, the security upon which trade and commerce rests, might well cause the government to consider future possibilities and the maintenance of such through a partial guarantee.

Many of these things referred to, you will probably not deal with in connection with the Bill, but while the matter is up it will serve to indicate that the Bill, good as far as it goes, but partially covers the ground.

Yours sincerely,

WM. GREENWOOD BROWN,
General Manager.

MONTREAL, March 31, 1909.

THE CHAIRMAN,
Banking and Commerce Committee,
House of Commons, Ottawa.

We protest emphatically against any measure that would prevent our insuring with Factory Mutuals and reciprocal underwriters in the United States.

LYMANS LIMITED.

11.35 a.m.

VANCOUVER, B.C., March 29, 1909.

R. SMITH,
Parliament Buildings, Ottawa.

Most strongly oppose section 71, Insurance Bill, and request that action on Bill be deferred until all provisions can be thoroughly considered and understood.

2.38 p.m.

B. C. PACKERS' ASSOCIATION.

THE MARITIME NAVAL CO., LIMITED,

St. JOHN, N.B., March 26, 1909.

MY DEAR SIR,—We wish to call your attention to the proposed legislation *re* fire insurance, which comes under section 71, subsection C, of the new Insurance Bill, and prohibits any company not registered in Canada inspecting any risk or adjusting any loss, and reads as follows:—

71. Every person who,—

(c) inspects any risk or adjusts any loss or carries on any business of insurance on behalf of any individual underwriter or underwriters or on behalf of the insurance company without the license provided for by this Act in that behalf or after such license has been revoked or suspended; and shall on summary conviction, &c.—(penalty).

If this proposed Bill becomes law, it will shut out from Canada all mutual insurance companies and English Lloyds, with whom many of our manufacturers have found it advantageous and necessary to insure. No surplus lines are permitted in the proposed Bill.

You, no doubt, are well aware what conditions are existing with the present tariff companies. They are, practically, a combination in restraint of trade, for the reason that they have a regular board, and meet and fix rates at each place, and it is impossible to get any insurance at any different price, as they are not competing.

As a rule, the non-tariff companies are not strong in Canada, and any concern carrying a large line of insurance would not dare to trust more than a small portion of a line to these non-tariff companies.

Then, many of the non-tariff companies do not insure what is called hazardous risks, such as ours, and we are forced at times to look otherwise for our insurance than in Canada.

This would practically prohibit it, and would be very detrimental to the general interests in Canada except for the insurance companies that are registered in Canada.

To the above, we kindly commend your attention.

We are sorry to have to trouble you in this matter. It seems that there cannot be a legislature without some fanatic stirring up trouble, such as these two instances, to which we have had to call your attention lately.

Yours truly,

THE MARITIME NAIL CO., LTD.,

S. E. ELKIN,
General Manager.

MR. J. W. DANIEL, M.P.,
Ottawa, Ont.

LYMANS, LIMITED,

ST. PAUL ST., MONTREAL, March 30, 1909.

THE CHAIRMAN,

Committee on Banking and Commerce,
House of Commons, Ottawa.

DEAR SIR,—We most respectfully protest against the passage of any Act regulating insurance matters that would shut the door upon the competition from the United States of the factory mutual insurance companies and also of the underwriters carrying on reciprocal or inter-insurance, under which a large number of firms insure each other through an attorney-in-fact, as any such action would be a great injustice to merchants and manufacturers, in handing us over, bound hand and foot, to the tender mercies of the Canadian insurance combine, which, in the opinion of many merchants, levies unnecessarily high rates upon the business and manufacturing community.

Trusting that you will throw out any section which would so tend to create a monopoly in Canadian insurance,

We are, yours respectfully,

LYMANS LIMITED,

HENRY H. LYMAN,
President.

The Mantler Mail Co. Ltd. is a company limited by shares, and is incorporated in England. The registered office of the company is at the offices of the company, 10, Abchurch Lane, London, E.C. 4. The company is authorized to issue shares of £100 each, and has issued shares of £100 each, and has received the sum of £100,000. The company is authorized to borrow money, and has borrowed the sum of £100,000. The company is authorized to invest its funds, and has invested its funds in the purchase of land, and in the purchase of shares in other companies. The company is authorized to do all such things as are necessary for the carrying out of its objects.

Yours truly,

THE MANTLER MAIL CO. LTD.
 R. E. TAYLOR,
 General Manager.

10, Abchurch Lane,
 London, E.C. 4.

Printed and Published by
 The Mantler Mail Co. Ltd.,
 10, Abchurch Lane, London, E.C. 4.

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THE MANTLER MAIL CO. LTD.
 R. E. TAYLOR,
 General Manager.

10, Abchurch Lane,
 London, E.C. 4.

PROCEEDINGS
OF THE
BANKING AND COMMERCE COMMITTEE

OF THE
HOUSE OF COMMONS

IN CONNECTION WITH
BILL No. 97, AN ACT RESPECTING
INSURANCE

No. 8—APRIL 1, 1909

(Containing the representations of Messrs. Reid, Weston, Craig and Tory (Dominion Life Agents' Association), and of Mr. B. Hal. Brown.)



OTTAWA
PRINTED BY C. H. PARMELEE, PRINTER TO THE KING'S MOST
EXCELLENT MAJESTY

1909

REPORTING

OF THE

MAKING AND COMMITTEE

OF THE

HOUSE OF COMMONS

IN CONNECTION WITH

THE BILL FOR AN ACT RESPECTING

INSURANCE

No. 8—APRIL 1, 1908

(Printed by the Queen's Printer, Ottawa, Ontario, Canada, at the Government Printing Office, Ottawa, Ontario, Canada, in 1908.)



OTTAWA

PRINTED BY THE QUEEN'S PRINTER, OTTAWA, ONTARIO, CANADA

1908

1908

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,

ROOM No. 34,

THURSDAY, April 1, 1909.

The Committee met at 10.30 o'clock a.m., the Chairman, Mr. Miller, presiding.

The CHAIRMAN.—We will hear this morning the members of the Life Agents' Association. If there are any other gentlemen present who desire to be heard I will be very pleased if they will send up their names to me. We will first hear Mr. Reid, president of the association.

Mr. J. R. REID.—As the chairman has indicated, my status is that of president of the Dominion Life Agents' Association, an organization started a few years ago and now having a branch at each central point extending from the Atlantic to the Pacific. I am accompanied by a delegation of members: Mr. Weston, Secretary of the Association, Mr. Craig who specially represents the Toronto Underwriters' Association, and Mr. J. C. Tory, of Montreal, specially delegated to represent the association of the metropolis. When, two or three days previous to this matter being relegated to the committee, we ascertained it was to be so handled, we called an emergency meeting at Toronto, as the most central point at which to convene such a gathering. I had the pleasure of presiding over an attendance of about 20 leaders of the movement and was pleased with the spirit of unanimity and the intelligent practical way in which the gentlemen who were present dealt with this important question. To give you some idea of the importance of the organization that we represent, I may say to you that there are in Canada now *about* 3,000—my confreres tell me *over* 3,000—men actually engaged in the work of soliciting. It goes without saying that the most intense interest is taken in the proposed Bill, especially as it affects the operations of the large army of field men. At the outset I wish to express, on behalf of the association, our satisfaction at the modified aspect of this Bill as compared with the one presented last session. We were apprehensive at one time that a certain procedure would be taken. When the folks on the other side of the line were worked up into a panicky condition, influenced by the yellow press, and when a portion of the press and people of Canada were clamoring to have this matter handled in the same way as in the country to the south, we were afraid it would be relegated to a committee of parliament for enquiry. Whether right or wrong we felt as citizens, apart from our connection with the business, that this would have been a mistake and that the handling which the question would have received in a committee of that kind would have been prejudicial to the vast interests at stake. How vast these interests are we can gauge in some degree when I say that before the end of 1909 there will be fully 800 millions of insurance carried by the people of Canada, and they tell us there is only about 443 millions deposited in the savings banks of the country. By a comparison you will understand what vast interests this Bill proposes to deal with. Now we are specially concerned in, as I say, the matters that affect us and we thought, having regard to the economy of time as well as the fitness of things, that it would be well that we should confine what we have to say to the sections of the Bill more particularly coming within the purview of the field men, leaving matters of a company nature to be dealt with, as they have been very ably, by the Life Officers' Association.

The limitation of expenses is, of course, the matter that affects us most. Referring to section 53, I would say that while we note with satisfaction the modification

in regard to this and other aspects of the proposed legislation, and while we feel like commending the Minister of Finance and the department for the policy adopted in making haste slowly in regard to a matter which we believe is the most important that will come before this eleventh parliament of Canada and a committee such as this, disposed to give consideration to all its special features, we are under the necessity, by unanimous decision, of reaffirming the position we assumed as an organization when this matter was up before the Banking and Commerce Committee last session, viz., our opposition to clauses 53 to 58, and a request for their elimination. We felt then, and we feel more strongly now, that the conditions do not warrant or call for legislation limiting expenses. At that time we indicated what, having regard to the average commission paid to agents, the earnings of the average agent would be. We contended then and we contend now, that having regard to his work and worth and comparing the life insurance agent with men in other professions and callings, he is not over-paid. Taking the total expense ratio of the several companies we think it is quite apparent that the cost of conducting these large institutions, all things considered, is not excessive. Competition, which you have been told is very sharp in this country, and which is certainly very sharp in our business, naturally has the effect of causing a keen rivalry among and between companies in regard to every branch of the business, expenses included. These remarks may strike you as somewhat general. I will be specific and say that the effect of this clause will be to retard the progress of life assurance, something which the Finance Minister very truly says is not desirable.

It will reduce the remuneration of the business-getter, the agent—the indispensable factor in life assurance.

This will cause many valuable men—good producers—to leave this for some other calling. Witness the effect of the Armstrong law in New York state. This will mean that less insurance will be written, and it will likely mean in addition that to meet the altered conditions under the new law, the companies will have to increase premium rates. What does all this spell out? Hampering and restricting the business.

Now, speaking specifically to the points that we object to, I would refer first in clause 53, to what we consider an injustice to companies operating in the tropics and sub-tropics. Some of us on this delegation are not so much interested in that, inasmuch as we are working in the home field, but from the agents' standpoint we have to refer to this, and, as a delegation, we are charged to refer to it. The limitation of subsection 3 provides in brief that the expenses in any calendar year (excluding investment expenses calculated at the rate of $\frac{1}{4}$ of 1 per cent on the mean investment assets and taxes or other outlay on real estate) cannot be greater than the loadings on the actual premiums received in that year, together with the deduction from the valuation allowed under section 42. Now, the loadings are deemed to be the excess of office or gross premiums over net premiums, calculated on the British Offices Life Tables, 1893, with interest at 3 $\frac{1}{2}$. Subsection 4, however, makes the very unfair provision that companies operating in tropical and sub-tropical countries will not be allowed any loadings on their premiums used therein beyond those of their Canadian rates. This assumes that the additional loadings given to tropical premiums is meant entirely for mortality, which is apart altogether from the fact. I do not intend at this stage to do more than introduce the question. We have a gentleman on the deputation who has control of a district which is practically tropical and sub-tropical, and who will point out the effect which the operation of this clause will have in his territory.

The point we come to now is the discrimination in favour of foreign companies. I am sorry to have to introduce this element into the discussion. Our brethren of the foreign companies and ourselves get along very well together, most harmoniously. We meet on the ground of common membership in a common association for the promotion of a common cause, but this is a Canadian law we are considering, and from the very nature of the case we must look at it from a Canadian standpoint.

Subsection 7 of section 53 provides that the limitation of subsection 3 shall apply to the Canadian business of foreign companies. The evident intention of this subsection is to bring home and foreign companies under the same regulation, but does it? An analysis of what constitutes the 'expenses' of these two classes of companies will prove that the regulation favours the foreign class. I am satisfied that it is not intended to legislate that way. The expenses of an outside company are almost wholly of an agency nature, while those of a home company are of a head office as well as of an agency nature. Consequently in the case of the Canadian company it would be necessary in terms of section 53, to deduct the head office expenses from the amount available for agency expenses. This, as stated, would discriminate in favour of the foreign company whose head office being in a foreign country, would not come within the scope of the proposed Canadian law. That is a matter which should receive the serious attention of the government, and we feel that it will because we are satisfied that it is not the intention to so treat the Canadian companies. The intention of this Act, we take it, is to safeguard the policyholder's interest, but we desire to submit that insofar as this section is concerned it is opposed to the policyholder's best interest. The large army of field men are all policyholders. They occupy the dual position of policyholders and life insurance men. So far as the speaker individually is concerned, I desire to state that practically all my estate is in life insurance, with the exception of a little home I have here. I have no quarrel with the intention of this Bill, and wish to say that to the extent that it makes for the protection of the policyholder, and works out that way, I have no objection to it. Why should I? We all believe that safety is the first consideration; it is, and it ought to be the paramount consideration, but whilst this great and sacred trust should be made safe it must at the same time be made profitable and we submit that within reasonable limits, the directors of a company ought to be allowed to spell out the word success. Personally I like the way this great question of trusteeship is handled in the motherland. We can take a great many leaves out of their book. There the directors are allowed freest latitude, along with the fullest publicity, and if we take their motto, 'The minimum of legislation with the maximum of publicity,' competition will do the rest.

This clause may have the effect of increasing the premium rates to new insurers in order to give the companies sufficient funds to conduct their agency operations without exceeding the prescribed margin. This is not a good thing for policyholders. Why should it be necessary to take an action having within itself the possibility I have indicated, when the Canadian companies without this limitation have lower rates than most of the foreign companies operating in Canada, are paying profits better than those of any foreign company doing business in our midst, and when they can point to a record unmarred by the failure of a single Canadian company? It is well that we should ask this question seriously.

I do not think it is the intention of this parliament to place a penalty upon thrift, but I submit that section 54 will have that effect. It refers to bonuses, prizes and awards, and I want to ask what good reason exists for the stricture which this clause places upon energy and ambition. The incentive to excel by reason of reward is common to every department of human activity. Why should the field of life insurance be singled out for a special penalty in this regard? Bonuses, prizes and rewards when based upon a satisfactory volume of paid-for business, while benefiting the agent, do no harm to the company or its policyholders. I want to say as a life insurance man with a full knowledge of what I am saying, that these additional rewards are all framed with a view of keeping down the company's expense ratio, and this has been the result in practice. We believe that this section has not been well thought out. We cannot see why life insurance should be singled out and have rules applied to it which not only do not apply to any other business, but which are the very reverse of what obtains in regard to other interests. Encouragement in one form or another is the practice in practically every branch of business, and such a

practice works out well. It has produced splendid results in our calling. I have been nearly two decades in life assurance work and in that time I have watched with interest the beneficial effects of many a bonus competition in an agency staff. I have in my mind's eye a competition of the nature I have referred to where a couple of hundred dollars given in bonuses produced greater results, in the concluding months of the year, than as many thousands spent in advances. Let me add, too, that the condition of all such contests is that business must be either paid for outright or else 50 per cent of the premium in cash. By such means, which we claim are at once legitimate and honest, thousands upon thousands of stayable business has been placed on the books of our companies. The great desideratum in life assurance, as the superintendent of insurance will admit, is to add to the business in force and increase the premium income, and where this can be done, as it certainly can, by a well planned system of bonuses or prizes such as I have outlined, then the desired end is attained with a due regard to the economy of expense and in this connection it is only fair to say that the several companies are vieing with each other in keeping down their expense ratio. We who have to do with the agency department think sometimes that this disposition to reduce expenses is carried to too great length.

With regard to estimates; in section 87 estimates of anticipated results are prohibited. We contend that these should be allowed. If written illustrations of estimated results on policies are prohibited, the canvassing agent is bound (if asked for them and he is sure to be), to give figures verbally, that is to make verbal representations of probable results. Now in the very nature of the case these verbal statements will not be as reliable as if they were furnished by the actuarial department of his company and in the absence of these he is apt, at times, especially in the case of a new agent, to draw on his imagination.

Mr. NESBITT.—Are not a good many of them liable to do that anyhow?

Mr. REID.—Well, the man who wants to play the game fairly will not, Mr. Nesbit.

Mr. NESBITT.—That is a different thing, but I may say to you that I have known a man to sell a ten year term policy, or a ten year endowment policy, to tell the poor duffer that was buying from him that it would realize him \$1,500 at the end of the term. In my humble judgment, without expressing any opinion against agents in general, the agent who made such a representation as that should be put in jail.

Mr. REID.—I quite agree with Mr. Nesbitt. The agent should be allowed to submit his business proposition in writing—I agree with Mr. Nesbitt entirely as to the low-down unprincipled disposition of any man who would do what has been stated.

Mr. OWEN.—I might say a few words here in regard to life insurance. I have a man in my town that was induced 38 years ago to throw up his policy in the Confederation Life, to take a policy in the Federal which has its head office in Hamilton. The inducement held out to him was that they would carry \$1,000 life insurance for \$13 a year. He did not know any better, he was misled by the agent, and he threw up his policy in the Confederation Life and insured with the Federal. They carried him two or three years for \$13 and some odd cents per year and then it began to increase. He asked for an explanation and they told him it could come back again. This year his premium is \$62.10. A couple of years ago he wrote to the company asking what they would give him if he surrendered the policy and they wrote back and told him they would not give him one cent. I claim that any company doing business in that style is robbing the people and their charter should be taken away from them.

Mr. NESBITT.—That was not the company, it was the agent.

Mr. OWEN.—They are simply trying to freeze that old man out.

Mr. REID.—With regard to the principle raised as to the action of the agent, my own idea, stated publicly at meetings of the Life Underwriters' Association that I have attended is that the miserable business of 'switching' or 'digging out' is one that is not honest. No agent can induce a man who is insured in one regular company to lapse that policy and transplant him into another company without the man losing by the operation. It is not an honest transaction and that has been the result.

I am glad Mr. Owen raised the point in order to give me an opportunity to put myself on record in regard to the dishonest practice of 'switching.' Such also is the attitude of our association.

Actual results of matured contracts can and will be used in the work of soliciting by the older companies and we can see no harm that will come from the use of estimate illustrations, based upon actual results and framed with due regard to the contingencies of the future, and therefore conservatively constricted. Besides, the question of estimates a quarter of a century ago and now are two entirely different propositions. Then life assurance was in its early years, and with the untried future before it. Now it has reached a point where it can and in fact has benefitted by the experience of the past and the estimates of results anticipated are being placed before intending assurers, couched in such safe figures as to be if anything within the mark. Every line of business is allowed to present anticipated results in regard to its propositions and we cannot see why life assurance companies should be prohibited from following a business policy of this nature so long as the figures submitted are reasonably conservative, and that can easily be regulated.

Mr. NESBITT.—I presume your argument is that they are more liable to be regulated by the company than by the agent.

Mr. REID.—Yes, they are more likely to be correct when the actuary of the company prepares these figures and gives them to the agent.

We were charged specially to speak on the question of profits as outlined in section 90 to 94, and that particularly with respect to the question of deferred dividends. There is no one question outside of that of expenses which affects us more than this very question, and from all over the country, verbally and by correspondence have I been urged to have our executive earnestly request the government not to prohibit deferred dividend policies. We regard with disfavour the prohibition of deferred dividend policies. Nothing has so popularized the business as this feature, and it is a question with many of us who have been in the business for many years, whether a large proportion of the life insurance carried by the companies would be in existence today had there been no deferred dividend system to attract insurers. I have heard it stated that there is an element of gambling about it. In all contracts carrying this feature the assured makes his selection at the start, there is nothing compulsory about it. He is quite aware that in the event of death during the currency of the policy, his heirs will receive simply the face of the policy, but he is equally aware that if he survives he will receive greater results because of the reserve dividend terms of his policy, and its special feature of profit earning, in the very nature of the case extraordinary. I want to make this very plain. Now, considering that the assured goes into a contract of this nature with the full understanding of its terms, he is in the very nature of the case a self-selected risk. This works out in practice, and the majority of such insurers prove persistent lives. We know there is a disposition to measure Canadian oats in the half bushel of some other people, but we submit that such an attitude is unfair. Even if Canadian companies were disposed to take advantage of the funds accumulated as the result of deferred profits, which we deny, the provision of the new law calling for a periodical ascertainment and setting aside of surplus will amply safeguard policyholders' interests. Speaking from personal experience, on the first of October last year I received the results on one of these policies that had run its course for twenty years, and because of my selection of that deferred dividend plan I received in the neighbourhood of \$100 more than I would have received if profits had been distributed under the quinquennial plan.

Mr. NESBITT.—Do you mind giving the name of the company?

Mr. REID.—I did not want to introduce the name of the company, because it was the Sun Life, which I represent. Just here let me remark that if this privilege is refused what does it mean? It means that parliament is denying to the individual the right to purchase what he wants. I desire to add too that there has always been

a certain amount of elasticity in regard to this feature, even where the assured elects at the start to take a policy on the reserved dividend plan. Even when he has so decided, if he advises the company before the end of the first quinquennial period he can have his contract changed from the reserved dividend to the five yearly distribution. I can see no good reason for government abrogation of this feature, on the contrary I believe it ought to be left in the hands of the companies to continue it as a matter of business policy if they are so minded. The intending insurer can apply the deferred dividend feature to his contract or not just as he desires, and, as I said before, even if he selects it when making application he has the privilege of changing to a quinquennial distribution period if he makes that request before the end of the first five years. Such is the practice of the company I represent and I presume it obtains in the others. Speaking as a man of affairs I am firmly convinced it would be a mistake for the government to legislate out of existence a system of profit distribution which has proved such a potent factor in the development of life assurance in Canada.

One other feature I am charged to speak about and that is where the Act requires publication of all those in receipt of \$4,000 and upwards. The feeling in the organization is that this is carrying publicity a little too far and that it will lead to difficulty. I refer to that merely, it will be touched on by another gentleman who will speak. And now having had by force of circumstances to indulge in some adverse comment, although I hope my language has been courteous as well as fair, it is a great pleasure to be able to end up with a little bit of favourable criticism, and that is in regard to the anti-rebate portion of the law, and so far as that affects the agents we are in hearty accord with it, because as we interpret it, it penalizes equally the man who receives with the man who gives. I want to thank the committee on behalf of the association for the privilege which has been afforded us, I want personally to thank the chairman of this committee for his extreme courtesy in providing us with copies of the Bill and any other matter we could possibly require to facilitate the consideration of it by our organization. I have said in the meetings of local associations that I have confidence in my fellows and in this government, and in this parliament; I believe that they desire, with us, to place on the statute books of this country the best insurance law possibly anywhere in the world. We have a splendid banking law, and we can have an equally good and even better insurance law. I believe the Finance Minister is giving the greatest consideration to all the important matters laid before this committee, and I shall continue to trust, until I am convinced to the contrary, that when this proposed measure shall be finally crystallized into law that we shall have such an Insurance Act as will be satisfactory to all, and a credit to the parliament of Canada.

Mr. J. F. WESTON, Manufacturers' Life Insurance Co., Toronto. Mr. Chairman and Gentlemen, I shall be brief because the agency branch of the business and the views held by the agents have been gone into with considerable fullness. I just wish to make some general observations upon a few points which bear directly upon the interest of the agents and the interests which they represent in respect to companies and in respect to the people. Section 53 of this Bill has a very important bearing upon all. After very full consideration of the provisions of this section, we are forced to the conclusion that, if they are enacted into law to govern the operation of life insurance here, they will give rise to practices from which we have been free in this country, practices which have worked to the detriment of the people of that one country, and one country only, where a law somewhat similar to this, similar in that it is based on the same principle, has been in operation. It is still an experiment there but already there is evidence to show that it has not worked out to the good of the people it was intended to serve. We have then to consider what bearing this limitation of expenses to the loading has on the actual cost to the insured, and upon the value he receives. This loading is any amount you choose to add to the net premium. By confining the total expense to this loading,

you combine the interest of the management and agents and impose upon them the necessity of devising and selling those plans of insurance which contain whatever they need for expenses, and which calls for the minimum accounting to the people. This is exactly what has happened in New York under the operation of this law. Since the adoption of the Armstrong Law, there has been more of this class of insurance sold than ever before in the history of the business. This is a fact known well to the insurance men of that state, and a fact greatly regretted by the able, bright, honest men in the business who have its interest at heart. The plan which has received a great stimulus under the operation of this law is the term plan, which contains the largest percentage of loading and which calls for little reserve because of the little prospective value it contains. It is the plan which twenty or thirty years ago we had an experience of in this country. It was introduced here under the name of the Homan's plan. It was pushed aggressively by the Provident Savings, and became so popular that our companies began to write business on similar plans. That plan has worked more disastrously to the permanent interests of insurance in this country than any other ever sold by level premium companies. It had a temporary advantage but in the long run it has inflicted greater loss on the people than all other irregularities which ever crept into the business. It is this plan to which Mr. Owen referred as having been taken by the man who 28 years ago exchanged his endowment for it, and who now finds the premium such a heavy burden to carry. When it was found that this form of insurance could not be permanently profitable, although its initial loading was very large, the companies discouraged its sale by reducing the commission from 60 to 20 per cent. The same was done by most of the companies in the State of New York, and until the adoption of the Armstrong Law they were paying only 15 and 20 per cent. Immediately that law passed the commissions were advanced until today 50 and 60 per cent is being paid in order to force this insurance on the American people so as to keep up a normal production and to hold field organization together. It is for you to say whether you will force your Canadian institutions to encourage the sale of that form of insurance.

Mr. OWEN.—Do I understand you to say you are not using this kind of policy at the present time?

Mr. WESTON.—We are not selling in that form of insurance one per cent of the gross amount of insurance sold. The agent cannot sell it at a profit because he only gets from 20 to 25 per cent, but it will permit the companies granting 65 per cent, which will allow the agents to live and get their business on a cheaper plan. The encouragement is there. We have the power under that plan, and in order to keep the organization together it will be absolutely impossible to avoid encouraging that form of insurance because it is the only form on which the company can allow such commission as to keep the agency force at work. In a small country like ourselves, the scope of operation of the agents and the average amount of his production in the year must necessarily be less than it is in the larger centres of greater wealth.

Mr. OWEN.—Do you think it right to sell that kind of policy to a man who knows nothing about it?

Mr. WESTON.—I certainly think it is one of the most unprofitable forms to the insured in general that has ever been issued.

Mr. OWEN.—It should be stopped by law.

Mr. WESTON.—No, not exactly, sir, and I will tell you why—You see an agent cannot force it because he only gets a very small commission on it. But take a contractor, for instance, who has a large contract; he is going to risk all the money he possesses to complete that work, and he needs insurance, say, for five years, and wants it at a minimum cost. Insurance with him is the whole thing. He doesn't care about anything else because at the end of five years his contract will be completed and he will receive the proceeds so that his family are free from the former risk and he may lapse the policy.

Mr. OWEN.—Why not confine it to the contractor then?

Mr. WESTON.—Well, in practice it is really insurance that there is no inducement to anyone else to take, except for similar reasons and for a short time.

Mr. OWEN.—You will admit that once in a while the lamb wanders into the wrong fold.

Mr. WESTON.—I will admit that in every occupation of life there are unscrupulous men, and that in no occupation can there be forced upon people greater ills than in life insurance, and if you encourage this sort of thing by necessitating the selling of insurance on which it can collect the largest amount from the people to cover expenses you give an incentive to that very sort of thing, that is all. By this law you will have made it absolutely necessary to sell insurance that bears in the premium the largest proportion for expenses.

Mr. OWEN.—You can see the injustice to that man I spoke of, he is 68 years of age, and he has to drop his policy because he cannot afford to carry it, and he cannot get insurance anywhere else.

Mr. WESTON.—We do not want our companies forced to sell this or similar forms of insurance, or have this incentive furnished to sacrifice future profit by the necessity for immediate collection for expenses. We admit that some of our companies could live under the limitation, but their ability to expand as they should in order to serve the best interest of all has already been curtailed by previous enactment. Twenty years ago our premiums bore a very small loading which will be drawn upon to pay the increased reserve we are compelled to put up after 1910. They will be still further reduced by the increased reserve of 1915. This will leave very little of this original loading in that class of business so it is only on policies written at the premiums in use since 1900 that we will have any material loading, and this is less than what our American competitors will have because our premiums are so much lower while our reserve is higher. A few of our companies with long established agencies may contract their operations and live within the loading. The majority cannot so a general stagnation would set in. On the whole, no companies would be capable of establishing satisfactory new agencies in the West, and so could not serve the needs of the people or take advantage of the development going on in this country. To keep anything like a normal production will require all that it is here proposed to allow for expenses, so the investment of assets must be kept as nearly as possible to the quarter of 1 per cent allowed for that purpose. This in effect separates the two branches of the business, and sets up within the company a loaning institution. It is limited in the scope of its operations and in the amount which may be used for expenses as no independent loan company is. What can follow under these conditions? The loaning department must necessarily be subject to the competition which prevails among companies that loan money. If it is found that the expenses incident to its work are greater than the percentage allowed, or if the cost of placing loans increases beyond that amount, then there is nothing left to the company but to let up to some degree in its inspection. That is all there is left them to do, and a tendency will develop to encourage agents to place loans. I believe that the life insurance men as a whole are as honourable and upright men as you can possibly find among the citizens of Canada, but I submit that the loaning of the companies' funds should not as a practice be placed in the hands of the agents who are associated with the company because of the incentive, perhaps unconscious, which the securing of a large amount of insurance with its commission may give to prejudice them in offering loans which are undesirable to companies. The principle of this law is wrong as it applies to both branches of the business, and must necessarily work to the detriment of the people of Canada.

The next point has already been touched upon, and it is this: Premiums must increase. We in Canada have worked in exactly the opposite direction to that which it is proposed and shall in future, owing to the operation of this law. We have charged the lowest premium that has been charged in any country of like population and resources. We have been away below the premiums of our largest com-

peditors, notwithstanding which fact we have demonstrated our ability to pay all claims as they fall due, and on all maturing policies to-day we are paying results which compare favourably with the results attained in any other part of the world. Now, we believe that we are doing well. We have accomplished this by taking advantage of the higher rate of interest prevailing in this country, and the lower mortality which we experience here. And, let me say on behalf of the agents, also because of the lower cost of obtaining business, for we have always received lower commissions than have been paid to our competitors. With these results in the lower cost to the Canadian people for the protection they have received, we can see no reason why you should impose upon us the absolute necessity of increasing our loadings, which must necessarily increase our premiums to the highest point which competition permits. Our past experience tells us that we have a group of Canadian companies which are in a position to secure a share of the Canadian business in face of any reasonable foreign competition. Now, the fact exists that our strongest competitors are charging an average of \$1.50 per thousand higher premiums to-day than we are. But, even if we collected the same amounts, we haven't the same loadings to assist the companies, we hold a higher reserve; our tables are different. Now, I submit sir, that the time is ripe for the Canadian companies to increase these premiums to the highest point, if necessary, to that charged by our foreign competitors, but I do not believe that any evidence that exists as to the facts justifies the companies in imposing that rate upon those people. But, at the same time, if this section becomes law, there is nothing else left for them to do. They must have that amount of money in order to be able to meet competition and to carry on their business in the manner here proposed. The people have been well satisfied under the old practice of low premiums, and the application of the expense to the general profit. They have voiced their satisfaction in the constantly increasing amounts of business shown by the reports to your department. This proposal says that the practice was all wrong and we must collect the maximum premiums. It is for you to decide whether you will impose this increased tax upon the people who need the protection we have to offer.

It has been pointed out and the reasons shown—I will not go into them at all—that great discrimination must necessarily creep in under the operations of this law because of the dissimilar organization and character of our companies as between each other and compared with our foreign competitors. I submit that any law which discriminates as between classes cannot possibly work for the good of the whole. Here we have a few small companies that have grown to the position they now occupy in the face of tremendous opposition working over a wide field with a scattered population and very little resources. We have accomplished what I have already told you, and here you have outside companies which may come in with exemption from the accounting for certain things for which we have to account, with lower values to account for, therefore curtailing our loading or the amount which we can use for expenses. You will open this Canadian field absolutely to the encroachment of our foreign competitors. If this is desirable in the interests of the people, then it is your duty to do it, there is no question about that. If you have found that conditions are so dissimilar here from those which prevail in other countries, that the companies on this Canadian ground cannot serve and conserve the best interests of those who insure, then in the interests of the people legislate against your own Canadian companies. It is said that conditions are dissimilar here from those which exist elsewhere. It is said that the liberality which applies to companies in Great Britain, and under which they have grown great, would serve the people here. If the freedom under which they operate would not be safe to allow under Canadian conditions, surely you have made ample provision for meeting the difference in conditions by the very high standard of solvency and the security which you have set up in Canada, and to which we have been able to conform. If, however, this is not sufficient, then it follows we have not the integrity and the intelligence amongst our citizens to place in positions

to manage our own insurance affairs. That is the only thing I can see in it, and if we have not these two qualities in the management you cannot possibly make for success in any business, and under the operation of this law, hampering on the one hand the business producing section of the company and on the other hand the investing branch of the company. You would simply place fetters upon the operation of intelligent management which would destroy its efficiency and prevent it holding its own in competition and against the advance that is being made by foreign companies. Therefore, if we have not in the management of our companies intelligence, and if we cannot trust their integrity, we are not fit to manage this business. It will be better for the Canadian people that you place the most restrictive legislation against our companies in order that business will pass to the companies of that country which is fortunate enough to hold citizens who are accredited with the possession of these qualities.

Now, in regard to the operation of a few of the sections touched on briefly but which affect more particularly the operations and the practice of companies in regard to estimates: I think it has been already dealt with pretty thoroughly. I refer to it again because it seems to me the people can better be safeguarded by having the agents in possession of accurate information as to what has been paid and what probably may be paid than to leave it to the imagination of every individual. You cannot get rid of these questions being asked the agent when he goes to solicit insurance.

Mr. HARRIS.—Does this proposed clause cover that sufficiently?

Mr. WESTON.—No, it eliminates estimates, it prohibits estimates absolutely.

Mr. HARRIS.—That would not be amiss, would it?

Mr. WESTON.—It can be so construed. An estimate would necessarily be based on actual results in the case of an old company, but with a new company it would be based upon probable results.

Mr. HARRIS.—You could not prevent anybody showing a statement of actual results, could you?

Mr. WESTON.—Well, actual results would be an estimate as applied to a new company, and it would not be to the interests of that company to advertise one that had secured actual results.

Mr. PERLEY.—If you show the actual results then it would not be an estimate at all, and it would not come within that clause, surely?

Mr. WESTON.—It depends upon how far you read this. When asked to make a statement what the profit is liable to be it is better for the agent to be in a position to base his statement upon actual results.

Mr. HARRIS.—A statement of actual results could not possibly be taken as an estimate.

Mr. REID (Sun Life).—‘Estimates’ is an insurance term and it is the intention of the Act to prohibit estimates. The section as drawn would prohibit an agent from using actual results in any form, because in doing so he is laying before a person anticipated results.

Mr. HARRIS.—The clause reads: ‘Any estimate, illustration or statement of the dividends or shares of surplus expected to be received in respect of any policy issued by it.’

Mr. REID (Sun Life).—Yes, I think it would apply that way, Mr. Harris, you see it uses the word ‘illustration’ and he uses it by way of comparison or illustration.

Mr. HARRIS.—What would you suggest?

Mr. WESTON.—I simply suggest that it be allowed to the companies to issue an estimate based on the reasonable division of the profits in accordance with the practice of the company. Now the actuary at the present time prepares certain estimates with which the agent is furnished, and he goes to the people and talks about the probable results which will accrue under a certain policy. That information is obtained from the head office of the company, and for it the officers of the company are responsible. That is the practice at the present but if you eliminate that, and the com-

panies are no longer allowed to issue illustrations or estimates, it is simply left to the imagination of the agent as to what answer the public will get to the question which is sure to be asked.

Mr. HARRIS.—I think that is what is intended by the Bill. Did you not wish, Mr. Fitzgerald, to eliminate these estimates which are issued by the companies?

Hon. Mr. FIELDING.—Sure, yes. Estimates are sometimes mistaken by the policyholders for a promise to pay and when it is not realized the policyholder complains that he has been deceived.

Mr. WESTON.—I think he will complain more bitterly if he has to depend upon the statement of the perhaps uninformed man who is selling him insurance.

The CHAIRMAN.—I was going to suggest a clause that might meet the difficulty. I remember one particular case where an agent, I am sure not with the consent or knowledge of his company, secured a considerable amount of life insurance. I will not say whether it was due to misrepresentation or failure to understand on the part of the insured, but he received a number of applications for twenty year deferred dividend policies, where the parties making the application believed they were getting twenty year endowments, and there were a number of other cases which were for twenty year endowment when the people thought they were getting twenty year life policies instead of endowment. I have thought that if on every application for insurance that is not an application for an endowment policy, the words should appear in large coloured letters above the applicant's signature 'This is not an application for an endowment policy'—I would like to ask whether in your opinion the practice to which I have alluded is sufficiently general to make it worth while inserting such a proviso.

Mr. WESTON.—If it is possible to eliminate that practice which has occurred sometimes in the history of the business, I believe that, if there are only a few cases and if that will accomplish what you desire, it should be done.

The CHAIRMAN.—Do you think that would be of any value, or that it would accomplish the object?

Mr. WESTON.—I think it would perhaps. Of course, technically it might be a little incorrect, but I think in the practice it might accomplish what you desire.

The CHAIRMAN.—How could it be incorrect?

Mr. WESTON.—That is merely an actuarial question.

The CHAIRMAN.—Well, the policy itself will show. It is either an endowment policy or it is not, I should think?

Mr. WESTON.—I think we will admit that for practical purposes, and therefore, your suggestion might be a safeguard against that practice.

Mr. B. HAL. BROWN.—If I might just say a word—every policy, excepting a term policy, has the endowment element in it technically, in the ordinary whole life policy there is the insurance and an amount of reserve, which at the end of a number of years will be returned in cash to the policyholder, and that proportion of the premium constitutes the endowment element.

The CHAIRMAN.—That is true, the endowment element may be in many, many policies, but those policies are not what the general public understand as endowment policies?

Mr. BROWN.—No, they are not.

The CHAIRMAN.—What do you think as to the value of the suggestion I make, as to the necessity for it; or would it lead to any wrong?

Mr. BROWN.—I do not consider it would lead to any hardship or wrong, and on the other hand it might do a great deal of good. But, as Mr. Weston has pointed out, the question is if it can be used and considered technically correct; I do not think it can be used that way.

The CHAIRMAN.—Would it be practically correct?

Mr. BROWN.—As the term 'endowment policy' is understood, it would be, yes.

Mr. WESTON.—There is one other thing, there is a policy called 'semi-endow-

ment' which guarantees one-half endowment. Of course, it might conflict there a little, but I believe that anything that can make it clear should be adopted. And that leads me to what I would like to say just here, which I believe will accomplish more for the good of the business in this country, will save expenses to the people of the country, and which I believe is absolutely necessary and the only practical safeguard which can be placed upon the business in this country, and that is that you enlarge to the fullest extent the scope of your publicity of any facts concerning the transactions of life insurance companies. I believe that it will stop every evil practice and injustice which can crop up and avoid practices which would creep in under the operation of this proposed law. Let all the interdependent branches in the business work together for the advantage of the whole. Publish the results attained under policies. The public have a right to this knowledge, and we are ready to conform to it by furnishing the information to the department. Do anything that will place the public in possession of the facts, and set up amongst the companies a profitable rivalry to win the largest degree of public confidence. Place upon those who direct the companies the responsibility of managing them. Continue the present high standard of solvency, but if you place restrictions upon intelligent management, preventing them from taking advantage of methods which spring up in our modern systems of business, then you will destroy the usefulness of our companies and inflict great loss upon the Canadian people.

Mr. JAMES CRAIG, Excelsior Life, Toronto.—Mr. Chairman and gentlemen, before I attempt to proceed along the line of thought that I have in my mind, I thought it might be well for me to refer to one or two points which have been taken up by the previous speaker and which have appealed to me as being of some importance. A question was asked regarding term insurance, and the speaker indicated that generally speaking that form of insurance was used for the purpose of covering temporary contingencies. I might say that the thought occurred to me that there is another contingency in which that form of insurance has occasionally been used or adopted, and that is in connection with a case where a man has decided in his mind to take out good insurance at a later date and the agent approaches him in the ordinary way and finds he is not ready to pay the regular premium immediately. When he finds the man is contemplating insurance he suggests the term policy, as it will give the greatest protection at the least cost; he can carry it for one or two years, and at the end of that time, by paying the difference in premium for the back years, it makes his insurance the same as if he had taken it out at the original date. It protects the age and it guarantees the insurer that he can insure, and leave it beyond the possibility of doubt that that agent and that company have the business. That is one of the things that often comes into the life insurance man's work, he uses it for that purpose, and the man himself is only too anxious to change it because there is no advantage in carrying cheap insurance when he wants some form of investment.

Another point before I proceed further in regard to estimates and that is—what the chairman has suggested appeals to me as very reasonable provided the suggestion is applied to the application as well as to the policy. If an agent goes out to solicit insurance he makes representations to the applicant and secures his application. If the applicant were possessed of the information at the time he canvassed that he will become possessed of later on it would make it impossible for the agent to deceive him. The agent goes on writing applications and sending them to the head office and the policies are afterwards issued and sent forward, and the applicant does not know until he gets his policy just what that policy contains, and then it is probably the duty of the superintendent or the agent, or some other officer of the company, to go out and settle the dispute which has arisen because of the misunderstanding between the applicant and the agent.

The CHAIRMAN.—I suggested having it in both the application and the policy.

Mr. CRAIG.—I think it is a very good suggestion, and one that will be of value if practicable.

I appear in the interests of the Life Underwriters' Association of Toronto. I have been connected with life insurance myself for over twenty years, and have had some experience during that time. I want to say at the outset that there is one essential that must be recognized in connection with a discussion of this kind, and that is that life insurance is not now, nor never has been, in the history of this country, purchased as other commodities. It has been sold to the public by that class of men called life insurance agents by an indomitable perseverance that some of you know something about. In the face of that fact, it is quite natural to suppose that in some cases great pressure would be put upon the representations or efforts that were made by life underwriters in order to procure business, and I think that is one of the reasons why in so many cases there has been unfavourable criticism passed upon men who are engaged in the business. Probably if some of the gentlemen constituting this committee would just step into the position of a man who has charge of the agency staff of some of the companies in Canada he would be able to fully appreciate the difficulties that we have to contend with. It is one thing to talk about a matter from a theoretical knowledge of the facts; it is another thing to talk about it from a practical standpoint and I do not question in my mind today but that the gentlemen who have been responsible for the measures before us are just as anxious to conserve the best interests of the public of this country as are the men who are engaged in life insurance business. But the difficulty and the reason why we cannot see eye to eye is because of the fact that we cannot see it from the same standpoint; we have not passed through the same experience. I will appeal to any business man sitting on this committee as to whether that is reasonable or not. Would I presume to talk to a man running a large industry where I have never had an opportunity of getting a knowledge and understanding of the details of that business? Not on any account, I would not dare criticise the minute details of that man's business and of the profit question which enters into the operation of that business. I particularly want to call attention to the fact that we are in touch with the practical side of our business. I do not think there is any department of the life insurance business that I am not familiar with, from the head office down to the local agent, and I know what I am saying, and I say this, gentlemen, that if some of the sections that come before you for consideration today become law, it will necessarily put one-third of the companies in Canada out of business, and as an evidence of what I say I have taken a company for illustration and will refer you to clauses 42 and 53, both of which I have grouped because they refer to the entire loading that is provided for in the Bill for all companies doing business in Canada. My figures are only approximate as unless we have all the policies before us we could not speak in positive terms, but our comparison is for the purpose of seeing how the limitations for expenses will work out. The company I have selected have received from renewals in 1908, \$281,000. The approximate allowance for loading on that amount would be \$56,283. The premiums on new business during the same year were \$85,000 and the allowance we set aside as an approximate figure to cover the expenses on this item at say 25 per cent would be \$21,324. There is a provision under clause 42 which is an allowance, you will understand, provided for by proposed legislation and we accept 30 per cent as the basis under this appropriation which for the purpose of our illustration will amount to \$25,500 in this particular case, and the one quarter of one per cent. for investments provided for amounts to \$3,125 making in all \$106,532 in round figures providing for the volume of business on the basis of that written in 1908. This is the full provision named in the clauses provided for under the Bill now before the House. The company above referred to paid out in expenses in 1908 \$154,000 which would mean if they had been under the limitations named a shortage of \$48,000.

Mr. PERLEY.—I think, Mr. Craig, you ought to keep the questions of agents' expenses and of investment expenses separate, they are two different questions and it is very hard to understand them when mixed in that way.

Mr. CRAIG.—The clause referred to covers the entire expenses.

Mr. PERLEY.—Yes, I understand that but we might keep the investment part of it separate from the other, they are two different ideas altogether.

Mr. CRAIG.—Well, it is very difficult for me to separate the Head Office expenses from the other expenses, because I am simply discussing the entire expenses of that company for that year including the Head Office, as the provision in the Bill does not necessitate a division, therefore I have taken the total expense of that company as the basis for my remarks. That division could be made, but at this moment I would not separate them for the reason that I do not know exactly what advantage can be gained as I simply referred to it for the purpose of pointing out to the gentlemen here that that company on the basis of the 1908 business would under those two sections be out of business, and there are nine or ten other companies that would be in just as bad a position if they were confined to the limitations named. I know this, gentlemen, that there has been the greatest interest on the part of the men managing the affairs of that company to keep expenses down. There have been sleepless nights spent in order to conceive of some method that would reduce the cost of the business, and I tell you today that under the conditions that we have passed through it seems to have been absolutely impossible—a few thousand dollars may be lopped off if the clause regarding advances becomes law, but we with the best judgment at our disposal say ‘We think that a man has a fighting chance to succeed and we will try him for a month and give him a guaranteed advance.’ We take him out of some business where he has been a success and we give him a chance, we watch him as carefully as we can, because we know that it is the trust funds of the people that we are guarding. That man, it may be, falls down at the end of two months, and that money is temporarily lost, notwithstanding the fact, in some cases we nurse the man and in five or six months he has made good and eventually we turn him out a good producer. That is what is done by every company, and if we have to stop doing that it will take off some of the expense but it will reduce the volume of business we write, and if this is done it will place limitations on all companies. I have been with this company for 18 years and know something of what all companies have to pass through. We have been spending money to get new business and we cannot have the old business from which we get our profit unless we get the new business first.

Mr. OWEN.—What company is that?

Mr. CRAIG.—The Excelsior Life of Toronto, a company which is 19 years old, and a company that is just at the point where probably this limitation hits hardest because we are past the 15 year limit, yet we have not the business that a company of 50 or 60 years would have. I want to say it is the hardest thing in the world to make a law that will apply equally and fairly to old and new companies. We stand today, and I ask you to allow me to refer to ourselves, we stand in that position where we are not as favourably suited as some of the older companies for the reason that we have not as much old business and if we use the provision named in clause 42, it leaves us subject to the criticism of older companies, as there is also the corresponding provision that publicity must follow any particular amount that has been appropriated for that purpose. That means that companies not forced to use the provision to the same extent would use the greatest weapon in order to place themselves in a better position than the younger company. They could take advantage of clause 42 and at the same time the young company may have more money for every dollar of liability than the old company, but the difficulty is that the old company has paid for its business in the past while the new company has a less number of years of old business to offset the cost on the new business. That difficulty constantly appears when you are taking new companies into consideration. I think myself that this is probably the most important phase of the Bill in so far as the future of life insurance in this country is concerned.

Mr. PERLEY.—Were those figures you gave us the figures of your own company?

Mr. CRAIG.—Yes. There is another clause here I will refer to; I was going to refer to a clause respecting advances on account of renewals. Now we happen to be in

this position that every man we have employed in the Province of Quebec, outside the offices, is on commission. This is a thing we are desirous of doing everywhere, if we could only accomplish it but we have difficulty in getting men in that Province to accept renewal contracts. We are trying to get them to accept small first year commissions and no renewals. We had a man who got a fairly large commission and no renewals, we saw fit to discontinue his services and at the end of the year we replaced him by another agent. The business done by that man was scattered over a large territory, and was subject to heavy lapse. The man who followed him got five per cent on renewals. At the same time the policyholders were notified in a certain district that their premiums would fall due on a certain date but they paid no attention to it. We asked the man under the new arrangement to call and see them for the purpose of collecting their renewals, he wrote us that it was twenty miles from his place, and that he could not afford to go there for the five per cent. Now it would pay us better to pay him the full loading on these second renewals rather than have the business lapse, because if a policy lapses we have to get another risk to take its place. But according to this Bill, clause 54, we could not do that unless the larger renewal was arranged previously. We must lose that business because we cannot cover an emergency of this kind. No man can say that it would be wise for a company to make a contract calling for 20 per cent on renewals unless a change in the basis of First Year's commissions were accepted and it is only in cases of expediency that arrangements of this kind are made, and we think that every company should be permitted to use their own judgment in matters of this kind instead of being hampered by legislation.

The fundamental principle governing every line of business will indicate the necessity of a full practical knowledge of all the influences that enter into that business before any form of legislation can be conceived that will benefit the great mass of people interested. When I speak in defence of the agency staff, when I refer to the Underwriters' Association, I am only pressing for the conservation of the best interests of the whole country because we represent this country just as much as any other class of men. If we are conserving the interests of the policyholders we are conserving our own interests and the interests of our respective companies.

In conclusion—I want to say that if the gentlemen who are responsible for the measures which are before us will simply consider the fact that we are just as anxious to safeguard the people's interests, as any class of men today, they will, I am sure, see the seriousness of any hasty conclusion as to legislation that can be interpreted as antagonistic to life companies no matter what class the company may occupy in this country and I will leave the matter with you believing that in your final actions the best interests of life insurance in this country will be conserved.

Mr. JAMES C. TORY.—Sun Life Assurance Company of Canada. Mr. Chairman and Gentlemen, it has been suggested that I come before the Committee under a great disadvantage on account of my name, I hope, however, that will not unduly prejudice me in your eyes. It has been further suggested that I should explain my politics but that I dare not do just at the present moment. I also wish to say that I am placed a little awkwardly in being the very last word in regard to this Bill. After you have listened to the gentlemen who have spoken during the past fortnight, to come in at the end requires really a great deal of nerve, almost more nerve than I possess. I wish to confess in the first place to a change of heart in regard to the Bill. I came here, I acknowledge, with the conviction that certain sections in that Bill, although adverse perhaps to the agents' interests in some particulars, would be in the interests of the business as a whole. Now I must frankly admit that after hearing the arguments pro and con, after giving most intense thought to the subject I have reached the profound conviction that those particular sections which I thought would be an advantage must work unfairly to the companies, and to the disadvantage of the business generally. If you will permit me I will try to analyze briefly the Bill so as to get its general bearing. We have been discussing the individual sections of the

bill, and in the great confusion of sections it has been very difficult to me at least to understand what were the fundamental principles of the Bill, or what would be the general or bulk effect of the bill upon the interests involved. I wish to say just here that I represent in my own person three interests affected. I am a policyholder, I am an agency manager and I am also a stockholder, so that I can speak from personal feeling.

The sections of the Bill may be grouped in three groups. The first group is that group of sections which relates to the organization of companies and the specific conditions under which they may begin to operate, and begins with the first section and goes on to section 36. These sections all taken together represent the first step in the evolution of insurance law and about which I have nothing to say at the present moment. The second group of sections refers to an entirely different matter, namely: the superintendent and his duties (Sec. 37), the valuation of policy contracts (Sec. 42), the assets necessary to maintain solvency on the basis of valuation established (Sec. 41) and other cognate matters, as for example, investments (Sec. 59.) This group of sections represents the principles involved in the second stage, historically considered, of the evolution of insurance law and involves what is popularly known as the standard of solvency. I have nothing to say particularly about this second group of sections of the bill, except this, that I recognize one or two rather important changes. First, the promotion of the Superintendent and his office to greater dignity which I believe is in keeping with the trend of the insurance business. I desire to say also in regard to the office of the Superintendent, that I believe there has been no factor in the whole business of Canadian life assurance that has made for the best interests of the business to any greater extent than the Department of Insurance with the superintendent at its head. I do not believe that we really appreciated in this country the full significance and bearing of that office upon the business of life insurance. It is only a man who goes into the foreign field, and who has come to learn to depend upon the value of that Department who can fully appreciate it. Second, I consider that sub-section 3 of Section 42, whereby the mortality gains from new business may be deducted from the reserve valuations, a valuable change, and third, section 52 providing for amalgamations also important. That represents then the two groups of sections in the bill representing really what was our old insurance law plus such amendments as were thought necessary. Now in all points where the old law has been amended so far, I believe it has been amended in such a manner as to advance the interest of the insurance business and the interests of the policyholders.

But we come to another group of sections which involves an entirely different question. We have dealt on the one hand with the law as it affects the beginnings of the companies, and on the other hand with the law dealing with the solvency of the companies, but here, in this new group of sections, is raised a new standard involving new and untried principles, a standard which, for want of a better name, I shall call a standard of excellence. Almost all the controversy over this bill has raged, if I may so put it, around this attempt to fix an arbitrary standard of excellence. I admit that I am heartily in sympathy with the purposes of this group of sections though I am no longer in sympathy with the method. You can hardly realize unless you have been in the foreign field and have been in competition with the great American and English Companies, how necessary it is that your national system of insurance be the best in existence and that the character of your company be above reproach. In Canada here where the companies are all known it is really a different matter, because the people have confidence in the Insurance Department, they know a good deal about the companies and about the men who manage them, but when you go abroad it is necessary that you have in your heart the conviction that the company you represent is an absolutely first class company, that the system is a first class system and the superintendent a man free from political influence, appointed for life under the Civil Service Act as is the case with our Superintendents. And therefore I conceived it as desirable that any other thing which could be added should be added to the law to establish more firmly the conviction in the minds of the companies' representa-

tives that the Canadian national system of insurance is the best on earth, just as we believe the Canadian banking system to be the best on earth. That is the reason why I said when I began that I had hoped that under this group of sections in the bill we could possibly see some way of arbitrarily fixing a standard of excellence that would work for the common interest of both the companies and Canada. But I have reached after the most careful consideration, the conclusion that these sections, which attempt to arbitrarily set up this standard of excellence by confining the operations of the companies within certain fixed limits in the matter of expenses (Sec. 52); by preventing the use of reserve dividend policies and estimates (Sec. 87-90); by prohibiting bonuses, prizes and advances (Sec. 54 & 55); and by arbitrarily confiscating the proprietary interests of shareholders without regard to charter rights (Sec. 99 & 111), are inimical to the business as a whole and also to the interests of Canada. I desire to say a word or two as to the reasons which have led me to this conclusion.

In the first place it has been abundantly shown, that to introduce to-day this standard of excellence, if I may so use that term, will work unfairly among the different companies which operate in Canada. We have seen that we have young companies and old companies, we have low premium companies and companies with high premiums, companies issuing non-participating policies, and companies issuing participating policies, also companies just entering Canada. It has become apparent that it is impossible to apply this standard to such unlike conditions without working unfairly to some, so much so that it is proposed to exempt some of these companies from the operation of some of these sections of the Bill, as for example, young companies and companies doing non-participating business.

The second reason for my opposition to these sections of the Bill is that they bring about discrimination against our own Canadian companies in favour of foreign companies. The Honourable the Minister of Finance has admitted that it is impossible to apply this standard to the foreign companies. Is it fair to make a law which cannot be enforced against foreign companies? Is it right that we should adopt such a law restricting the home companies who are doing business in their own country when we cannot compel the companies which come in here to do business in competition with them to be governed by the same restrictions? What have the Canadian companies asked in the past? As a matter of fact the Canadian life insurance companies have asked nothing, all that these companies have desired is that they be allowed to go on and do business without interference. Almost all other great Canadian interests have come to this parliament to ask for protection or some other advantage. Never have the Canadian life insurance companies asked for any advantage. You have allowed the big American companies and the big English companies to come in here on the same terms as our own companies, you have allowed them to come in and compete in the most vigorous manner; what protection have our own companies had? None whatever. We do not ask protection. But we ask that you shall not pass a law which in its bulk effect will discriminate against our own companies as this Bill does. As you know the Bill provides in section 53 for a general limitation of expenses of Canadian companies, but when you come to apply this section to foreign companies, you do not apply it to their general expenses but to their branch office expenses. You ask in the schedules, page 65, for the most searching analysis of the whole business of Canadian companies, but when it comes to foreign companies you again apply your standard to the Canadian business of foreign companies. Of what value can such information possibly be when comparing a home and foreign company? You ask that a Canadian company shall hand over 90 per cent of its profits to its policyholders, but what do you ask in this matter when it comes to foreign companies? Nothing. Surely if it is seriously contended that this standard of excellence is necessary in connection with the \$60,000,000 of business annually done by Canadian companies, including their foreign business, it is necessary in connection with the \$28,000,000 done in Canada by foreign companies.

The next reason for my conclusion against the Bill is that it operates specifi-

cally against foreign business and why a paragraph to that effect should have been incorporated in clause 53 of the Bill, I cannot understand. If you will turn to that section you will find in sub-section 4 the paragraph to which I refer. 'Provided, however, that the excess of any such company's office premium for tropical, sub-tropical, sub-standard or other classes of lives assumed to be subject to extra mortality, over such company's office premiums for normal Canadian lives, shall not be considered a part of such loadings.' Why this should have been put in the Bill and who instigated it is more than I can conceive. Why a direct disadvantage should be placed on foreign business when it is a most profitable business for the home companies, I cannot understand. But not only does this special section apply to foreign business, but the introduction in the Bill of that whole section 53, together with section 87 and section 90, relating to estimates and deferred dividend policies, also sections 54 and 55, specifically, every one of them in their bulk effect hits directly at foreign business. The six Canadian companies doing foreign business last year did \$22,000,000 of new business. We brought into the country over \$5,000,000 in premiums, and that is only the beginning. It will not be many years before \$50,000,000 will be brought into this country by our Canadian companies if we are not restricted by the Act. Do you think such restriction wise? I will give you an illustration of my own actual experience. Eight years ago—you will pardon me referring to my own business, I only do it to point a—

The CHAIRMAN.—Point a moral?

Mr. TORY.—Point a moral, if you will. Eight years ago I began the organization of a section of foreign territory in which we had previously done some business, but in which the premium income was less when I began than it had been three years previously. By close application to business and the adoption of skillful methods the production from that territory has steadily increased until last year the premium income was over \$479,000 hard cash from that one organization alone. Do you wonder if I feel keenly when the bill proposes with one stroke of the pen to destroy that business?

Hon. Mr. FIELDING.—Where is the clause that destroys it?

Mr. TORY.—I mean the sub-section of 53 commencing just down below line 40, Mr. Fielding.

The CHAIRMAN.—Sub-section 4.

Mr. TORY.—That part of the Sub-section that I have just read preventing us from using the loading for tropical and sub-tropical business which has been provided for in the premiums of that business. The point there is this that on tropical business we know there is a heavier expense. I will not elaborate that argument because Mr. Macaulay a few days ago elaborated it very fully, showing the heavier cost of tropical business. But I will say that in the premium for tropical and sub-tropical business there are two elements provided for, first, an excess of mortality, and secondly, an excess of expenses. We have specifically provided for these two elements in the premiums, we pay commission on the basis of the tropical premium, not on the Canadian premium, and you will limit us in our expenses specifically to the allowance on the Canadian premium, although we are doing business in the tropical country which has in the premium itself the element of loading necessary to cover the expense. I may say that as far as the tropical business of the companies is concerned it is a vital matter that that special limitation should be eliminated, and that the sections which prohibit estimates, deferred dividend policies, prizes, advances, &c., should also be eliminated.

Sections 54 and 55 specifically apply to prizes, bonuses, advances to agents, and other special inducements. I want to say to you that if the giving of prizes is a sin in life insurance business, then I am the chief of sinners. If you look into the history of the world you will find that the principle of special inducement runs through all departments of life. Take the British Empire: why are all our statesmen striving so hard to accomplish great things? Is it not because they hope that King Edward or

some other monarch will reward their efforts by some special recognition? This principle is applied in our great universities, in our academies, in our day schools and in our Sunday schools, and surely what is good in all those departments of human activity is not wrong in life assurance. Three principles lie at the foundation of successful agency work. First, organization, the getting together of the necessary forces; second, inspiration, which means filling your men with a large conceptions and noble purposes, third, stimulation, by which the latent energies of men may have developed and used for their own benefit and for the benefit of the business in which they are engaged. To this end I have found nothing so effective as the creating of competitions by the offering of prizes. I know of no other way that you can do it so effectively, economically and so satisfactorily. We have found that by this method we have been able to develop power which we could not possibly develop in any other way.

Mr. NESBITT.—May I ask you, how do you find you retain that specially inspired business?

Mr. TORY.—The specially inspired business, as you call it, is like anything else, it requires specific treatment. I have adopted a system whereby the foreign business in my department has been reduced in its lapse ratio until it is practically on a par with our home business. And the way I have done it is this; first, I have written a letter to all the local agents in my territory telling them that it was a fallacy for the agents to believe that the company desired a policy to lapse. That fallacy has long ago been exploded, and I instruct the agents accordingly, enlisting their co-operation to keep the business in force. The next thing which has been done is that we have adopted a non-forfeiture system by which after two years no policy can lapse until it has exhausted the entire reserve. In addition to this I have organized a system in my office by which every policyholder whose policy lapses, is written to specifically, after the agent has exhausted his efforts, and special arguments are used to get him to keep his policy in force. Since the adoption of this system I have been able to place the foreign business on practically the same plane as our home business.

The next reason for my conclusion in regard to the Bill is that it operates unfairly against stockholders. I speak now, of course, not from the standpoint of the agent but from the standpoint of the stockholder. I speak very feelingly on this point. I have personally looked over the field of investment, and have asked myself, 'What investment can I put my money into that will be absolutely safe from the investor's point of view; that will give me a reasonable return, and that will be a generally satisfactory investment, increasing in value as the years go by?' I looked over the bank stock and the various other stock, and I picked out the stock of a life insurance company and put a portion of my savings into that stock. What is proposed in sections 99 and 111 of the Bill? Why practically confiscation of my property. The company in which I have invested my money has an absolutely free and open charter, a company that under that charter has done absolutely nothing against the interests of its policyholders. The utmost fairness that can possibly be conceived has always characterized that company in its division of profits between the policyholders and the shareholders. Now, what the Bill proposes is that the proprietary right which I have in this investment be taken away from me and handed over to another class interested. Again in section 111 the division of profits, which is provided under charters when the charters are granted, has been ignored and altered, and while there is no provision as to what shall be paid to the stockholders, the Bill provides that there shall be 90 per cent of the profits paid to the policyholders, leaving no protection whatever for the stockholders, assuming that the policyholders are made members of the company, as provided in section 99. I consider that to be absolutely unfair. If the two sections were not together then the effect would not be the same, but when you give to the policyholders such voting power as to control the company, and when you say they must have so much of the profits, and the stockholders shall have absolutely no protection, then you open the door to absolute confiscation of the stockholders' property. There are over \$4,400,000 invested by 4,453

stockholders in this country, who have invested their money, in good faith, in the stock of our Canadian life assurance companies; and with the exception of a few, who are in touch with the management of the companies, these stockholders know nothing about the nature of this proposed legislation, and are entirely innocent of any wrong doing. It seems to me impossible that such legislation can be seriously contemplated, when you see its true bearings. What has been the earning power of these \$4,465,104.01 for the last year? I have looked into the matter and find that the amount earned on the total capital invested last year was \$272,933, which is just 3 per cent on the investment, without taking into account the premiums which were paid into the companies on this stock by the stockholders. Some of the companies have paid more than that, but some have paid less, the average of all being 6 per cent. It cannot be demonstrated that any wrong has been done, as between policyholder and stockholder, yet you propose to pass legislation that will permit absolute confiscation of the shareholder's property. Really, I cannot think this can be seriously contemplated.

I now desire to refer specifically to one or two sections of the Bill and then I shall be finished. First I wish to refer to section 58. There has been a difference of opinion as to the interpretation of this section, and what I have to say in this regard depends a great deal on the interpretation which is placed upon the section reading as follows:—

58. No such life insurance company shall make any contract with any director, trustee, officer, employee or servant of the company, save such agents as are employed to solicit insurance, to pay any compensation or reward whatever by way of commissions in respect of the business of the company or any portion thereof: Provided however, that this sub-section shall not apply to insurance personally solicited and secured outside of office hours by any employee or servant not being a director, trustee or officer of the company.

Now, gentlemen, it depends entirely upon what you mean by that. If the purpose of that section is what the managers thought it to be, namely: that no company shall pay any of its chief officers, that is Head Office officials and clerks at the Head Office, a commission, I have nothing to say about the section whatever. That is a matter for the managers to deal with. If they have approved of it after having interpreted it this way, I have no comment to make, except that it should be made specifically clear as to what is meant by 'save such agents as are employed to solicit insurance.' If that is not intended to include agency managers and general agents, then the section becomes a serious hardship and will affect the companies, the agents and agency managers adversely. A new company, for example, can now employ a general or managing agent on commission, but if agency managers are not understood as being included in the term 'save such agents as are employed to solicit insurance' then every company must employ its managing agent on salary. If that is the case it can only result in a higher expense ratio and be a great hardship especially in the case of young companies. If the interpretation of the managers is correct, and I presume it is, then there should added after the words 'save such agents as are employed to solicit insurance' the words, 'including agency managers and general agents' and such other words as you may think fit to make it quite clear. You might add also the words, 'not being directors, officers or trustees of the company.'

The next section to which I wish to specifically refer is section 94. I look upon the principle contained in that section as one of the most serious in the bill, and I will tell you why. In 1899 we passed retroactive legislation, the effect of which was to force a lot of the surplus which had accumulated to the policyholders, out of the surplus and into the reserve. Part of that law goes into effect next year, 1910, and the remainder in 1915. Only eleven out of the twenty-two Canadian companies have so far complied with the provisions of the law, therefore the balance of them will have to make provision to meet that increased liability in 1910 and five years later in 1915 the balance of the reserve will have to be put up. This brings about a most anoma-

lous situation. It is a case where by actually strengthening a company, you technically weaken a company—a paradoxical statement but one which is absolutely true. Because every dollar you take away from the surplus of a company and put into the reserve strengthens it as a fact, but technically it is endangered and weakened. The question of a technical reserve must be borne in mind when you come to section 94. What does this section propose? It proposes, in addition to the law of 1899, to take all the reserve dividend surplus, which is a large portion of the present surplus of the companies and place it into the reserve fund making it a liability instead of a surplus. The companies will therefore not only have to bear the unnecessary burden of the law of 1899 but their very existence will be jeopardized by this section 94. Above everything there should be security in the Canadian companies. These companies have written on the pages of life insurance history the finest chapters that have ever been written in any country in the world. They have written it in the face of difficulties almost insurmountable; they have written it unaided and in the face of the fiercest competition, and they stand today a solid body without the loss of a company. Since 1847 we have been doing business, and I most earnestly implore that nothing be done to damage the character of the companies in Canada. If you pass that section 94 in its present form on top of the law of 1899 you may depend upon it you are sowing the seed for a crop of insolvencies that will make your hair turn grey. Mark what I say in this regard.

I have pointed out the danger of the section, but I have said nothing about the problem that this section proposes to treat or to solve, which is how to deal with the Reserve Dividend surplus, and I would just like to add a word or two on that point. First, do not make the section retroactive. If Reserve Dividend Policies are going to be permitted, and I most sincerely hope they are, I believe, in the interests of the business, something should be done with the future Reserve Dividend Surplus, so that the companies cannot make any improper use of it. Nothing should be done in regard to the surplus already accumulated, further than that it should be clearly shown in the returns with as many details as possible. Life insurance companies deal with transactions which run over a long series of years, and any retroactive legislation is vicious unless under the most imperative necessity. I would suggest that section 94 be so changed as not to effect the surplus already accumulated, but that future surplus on Reserve Dividend Policies be accounted for by the company every five years, and that it then should form a liability to the class to which it belongs, in the same manner as the surplus on ordinary five year distribution policies form a liability to the individual policyholder. If that is done each series will have credited to it the surplus which properly belongs to it. By so doing you will prevent in the future any improper use of the money which belongs to this class of policies, and you will not endanger the solvency and the standing of the companies.

Mr. NESBITT.—Would not your suggestion be just the same as a five year distribution plus the reversionary interests?

Mr. TORY.—It would not be the same because under the contracts of five year distribution policies the profits accrue absolutely to the individual policyholder, and become his property, and if the profits have been used to purchase additions to the policy and the policyholder dies, the additions are paid to his heirs with the amount of the policy. Either he has taken the profits in cash, used them to pay premiums, or they have been used to purchase a bonus addition to the policy, so they accrue absolutely to the individual policyholder. But in the case of a deferred dividend policy they cannot so accrue, because you cannot tell who the individual is that is to receive these profits until the end of the term. You can only credit this surplus to a class.

Mr. NESBITT.—You want to treat it as a whole?

Mr. TORY.—Yes, but credit the classes to which the whole would belong. Supposing a thousand men insure with us to-day, they form a class, we will call it class A, and if you wish credit every five years to class A, the dividends which have accumulated during that time, and make it a liability to that class. There then can arise

no bad effects from its accumulation. This method of dealing with the reserve dividend surplus will then permit the use of reserve policies, which I consider of the greatest importance in doing business in a foreign field. In my own agency the average new premium last year was \$60.80 for every new assurance we received, and you can see, dealing with premiums of that character, how important it is that we should be able to offer the most attractive policy possible. You can readily see that if you are dealing with a premium which, as in the case of the 20 year endowment, amounts to \$1,200 in the twenty years, it is much more difficult to make the policy attractive as an investment, than with a lower premium. By permitting us to issue reserve dividend policies and by dealing with the surplus in the manner previously stated, you do nobody any harm, and at the same time you do the business an enormous amount of good by enabling the companies to increase their volume of foreign and home business.

The next section to which I wish to refer specifically is section 53 which refers to the general limitation of expenses. The full effect of this general limitation of expenses is only understood when you have come to know that the section provides roughly, that the company shall spend, according to the figures of the Royal Commission, \$1,500,000 (less the mortality gains in section 42, subsection 3), less in 1910 than in 1909. You know perfectly well, as far as the fixed charges are concerned, that there can be very little reduction in them. I cannot imagine the managers accepting less salary or the directors less fees. The head office clerks cannot be paid less than they are now, because they are paid about the least amount possible, and the whole cut will necessarily be taken out of the pockets of the agents.

Mr. HARRIS.—Can't you soak the doctors some?

Mr. TORY.—I am afraid not, they are more likely to soak us because they are increasing their charge for examinations.

Mr. HARRIS.—Your business is almost all foreign?

Mr. TORY.—Yes.

Mr. HARRIS.—Have you had any experience with the doctors increasing their fees?

Mr. TORY.—No, because in my department they are almost exclusively five dollars, they are now at the maximum fee. The English doctor in the West Indies has fixed his fee at a guinea, and that is all there is to it. You cannot cut it down, the fee has been fixed for years at five dollars for a medical examination. Therefore there are only two directions in which the saving can be made, first you may be able to squeeze the agent, or second, you can curtail the business. The men who in this whole Dominion will suffer most in either case are the agents, very few of whom are getting more than a living out of life insurance. You simply cannot tell me how the companies can squeeze a million and a half dollars (less the provision under section 42, which will perhaps leave it a little less than a million) out of the agents. Do you know of any device by which you can squeeze this amount out of these men? I may frankly tell you that it cannot be done. The only other alternative is to reduce the new business, and, if you pass the Bill as it stands, it means a reduction of some \$25,000,000 annually in future business. While a little extra profit for the policyholders may be made possible, will it pay? It will not pay. Therefore these sections that tend to curtail the business and to restrict and hamper the companies should be eliminated. The chief advantage, in my opinion, in this Bill is the voluminous information for which you have called in the schedules. I believe this will have a most salutary effect upon the business of the companies. If the preparation of this Bill accomplished nothing more than the bringing out of that information from these returns you will be able to ascertain exactly what each company is doing with the policyholders' money. As you now know if the Bill had gone into effect as it was first drafted, the business of life assurance would have been smashed into smithereens. Don't take the risk involved in the present Bill. Give the Canadian companies a chance under the operation of the principle of publicity and I believe you will be surprised to see how they will strive to comply with the spirit of the law.

Mr. PERLEY.—You said that last year your expenses were a million dollars over the loadings, I would like to ask where that million dollars came from?

Mr. TORY.—From our other sources of revenue.

Mr. PERLEY.—What are they?

Mr. TORY.—The other sources of revenue are savings from mortality, excess of interest earned above the rate calculated, which is a very important item, as an excess of interest of one or two per cent on a large amount of assets produces a very large profit. Then there are some gains occasionally from surrender values, these are the various sources of revenue.

Mr. PERLEY.—And capital?

Mr. TORY.—And capital, in some instances that is the source of revenue. I was going on to say that the schedules provided for the minutest details of information and I believe that you should give the Canadian companies a chance. They stand at the top now, and they are doing everything in their power to conform to the spirit of the law; do not pass drastic legislation upon them that will affect them so vitally and that will reduce to such a great extent the future operation of the companies.

In conclusion and in view of what I have said I most earnestly ask,

First, for the entire elimination of section 53, together with all subsections attached thereto.

Second, I ask for the elimination of sections 54 and 55 as they unduly interfere with the details of management and as they are an altogether unnecessary and harmful restriction.

Third, I ask for the amendment of section 58, as before intimated.

Fourth, I ask for the elimination of sections 87 and 90, relating to estimates and reserve dividend policies.

Fifth, I urge the amendment of section 94 so as to avoid the danger to our companies which it produces, and also so as to provide for proper treatment of future reserve dividend surplus.

Sixth, I urge the elimination of section 99, or that it be so amended that policyholders will not be made members of the company, as that involves another legal question which cannot be gone into here. But if policyholders be given the right to vote, their voting shall be confined to voting for directors only, and the policyholders' directors shall not be equal to those of the shareholders.

If section 99 is eliminated, section 111 becomes less harmful, but it still interferes with the charter rights of the companies. With section 99 eliminated or changed in the manner mentioned, the division of profits as provided in section 111 would perhaps be satisfactory to the stockholders of the older and larger companies, although it must be admitted that it would be a great hardship to the stockholders of some of the young companies who as yet have not received any dividends. With section 99 eliminated, section 111 would be satisfactory as far as my personal investment is concerned, as 10 p. c. of the profits would likely provide a reasonable dividend. But there is no doubt that even with section 99 eliminated, 10 p. c. as provided in section 111 would not provide much dividends for years to come in the case of young companies and especially with those with impaired capital for such an investment.

I thank you very much, gentlemen, for having listened to me.

Mr. WESTON.—We have omitted to refer to Clause 57, which reads:

'57. No such life insurance company shall make any agreement with any of its officers, trustees or salaried employees to pay for any services, rendered or to be rendered, any salary, compensation or emolument extending beyond a period of five years from the date of such agreement.'

Is this meant to apply to general agents' contracts? Can it be made to apply to contracts giving part salary and part commission and commissions on renewals, and does it call for the termination of such contracts at the end of five years? If it does, then it touches upon the means by which the companies have secured the most profit-

able business which has ever come to them. The reason is simply here, you start a new agency. It is absolutely necessary that you experiment with your men until you find you have the correct one. He must be a man of considerable intelligence, capable of securing and managing men under him in order that he may secure the best results. Now, in the initial stages of the contract you may have to pay a salary or part salary, but the man who possesses sufficient confidence in himself, and is big enough for the position will be attracted by the prospective profit to be derived from a successful transaction of business over a long time. Such a man would not be attracted by any salary a company could offer him before he was tried, and if his contract would terminate by law at the end of five years there would be too great uncertainty in that for him to take the risk of undertaking it. The men who have done most in the building of our companies have worked under contracts which this law if made to apply to them would prevent our making in future. These large agencies are producing business at the cheapest rate while the companies are relieved of the supervision over large sections of territory where supervision would add greatly to the cost. The head office cannot possibly be in as close touch with the business as these men are who are in the midst of the field. The prospective profit has brought these men to the companies and so has reduced the initial cost, and the interest they now hold reduces the cost to the companies for supervision, and furnishes better supervision than could otherwise be had. These men are specially qualified to perform these duties. They have made and now retain their positions because they have executive ability, the ability to hold men together and to produce the best results. By this law you would simply throw upon the companies the responsibility and expense of retaining at the head offices more people to supervise wider fields instead of having these centres of supervision which exist in general agencies. You cannot do it at the same expense.

In order that you may understand what the life agents are receiving for their work, and whether their commissions are excessive we will furnish you with exact information. The life agent receives a commission on a schedule allowing different commissions for different classes of policies. There are actuaries of the companies here who will vouch for the accuracy of my statement that the average commission does not exceed 50 per cent in the first year and 5 and 6 per cent on renewals. I know of some agencies where only 1 per cent is paid on renewals, but the average paid by all companies is 5 per cent. The total paid in ten years is 95 per cent. Compare this with what a fire insurance agent receives. He gets 15 per cent every year, so in ten years he would receive 150 per cent. If the life agent goes out of the business at the end of ten years all his interest reverts to the company. If the fire agent wishes to go out of the business the fire insurance company recognizes his right to sell his renewal interest, and will appoint the purchaser to carry on the business. This shows the comparative commission cost in the life and fire business.

The commissions paid by accident insurance companies over the same period would be more than in fire. Life insurance business is not easier to procure than these other classes, nor can the life agents live on less than they now receive.

Mr. B. HAL BROWN.—Attention has been called to section 36, and in compliance with a cablegram received on Saturday last from the head offices of the British Life Insurance companies, I would therefore, in continuation of the recommendation submitted on Monday last, and acting upon a suggestion received, respectfully submit for your consideration that the clause should have added to it another sentence. The clause would then read as follows:

‘In preparing such annual statement, every life insurance company shall furnish a gain and loss exhibit which shall show the sources of the increase and decrease in the surplus of the company during the year covered by the statement, in accordance with the requirements contained in blank forms supplied by the superintendent. British and foreign companies may, however, in lieu of the foregoing, furnish copy of such details of their business as they may be required to furnish to the government of the country in which their home office is situated. Such copy to be duly attested in the same manner as the original returns.’

The CHAIRMAN.—Is there anyone else who would like to say anything in regard to the Bill? If so we will be glad to hear them?

Mr. JOHN R. REID.—As president of the Life Underwriters' Association I desire to express my very great appreciation of the courtesy which has been extended to our representatives. We appreciate very much the opportunity which has been afforded us to express our views upon the Bill from the managers' point of view.

Hon. Mr. FIELDING.—If no other gentlemen wish to make any remarks in reference to the Bill we may lay it aside for a little while and in the meantime the members of the committee will have an opportunity of thinking it over and the officers of the Insurance Department will give consideration to all that has been said. At a later stage the consideration of the Bill can be taken up by the committee.

The committee adjourned.

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ADDENDUM.

TELEGRAMS, LETTERS AND MEMORIALS SUBMITTED TO COMMITTEE ON BANKING AND COMMERCE IN REFERENCE TO BILL No. 97, AN ACT RESPECTING INSURANCE, SO FAR AS SAID BILL APPLIES TO LIFE INSURANCE COMPANIES.

The CHAIRMAN.—Telegrams and letters have been received from Underwriters' Associations and others in reference to proposed amendments to the Bill as follows:—

STRATFORD, ONT., March 24th, 1909.

H. H. MILLER,
Chairman Banking & Commerce Co., Ottawa.

Huron Life Underwriters Association favour Elimination of sections 53 to 58 Anti-rebate clause be approved in its entirety continue deferred dividend policies and estimates.

R. J. STEVENSON,
Secretary.

KINGSTON, ONT., March 23rd, 1909.

H. H. MILLER,
Chairman Committee Banking & Commerce, Ottawa.

Life Underwriters Association of Kingston and district, twenty two members reaffirm their position taken last session viz., the elimination of sections fifty three to fifty-eight of the insurance bill now before your committee, that estimated results be allowed and deferred dividend policies be issued, that salaries be not published. We approve of the anti-rebate clause.

J. O. HUTTON,
Secretary.

BRANTFORD, ONT., March 23rd, 1909.

H. H. MILLER,
Chairman Banking & Commerce Committee, Ottawa.

We urge total elimination of sections fifty-three to fifty eight proposed insurance bill.

Brantford Life Underwriters Association.

SHERBROOKE, QUE., March 24, 1909.

H. H. MILLER,
Chairman Banking & Commerce Com, H. of C. Ottawa.

Life Underwriters Association of eastern townships earnestly ask elimination of sections fifty three to fifty eight inclusive insurance bill.

DOUGLAS T. TAYLOR,
Secretary.

BELLEVILLE, ONT., March 23, 1909.

H. H. MILLER, Esq.,
Banking & Commerce Committee, Ottawa.

The Bay of Quinte Life Underwriters desire strongly the eliminating of section fifty three and fifty eight of insurance.

J. RABBITTS,
Secretary.

GUELPH, STATION, ONT., March 23, 1909.

H. H. MILLER,
Chairman Banking & Commerce Committee Ottawa.

The Life Underwriters Association of Guelph firmly and unanimously—are opposed to any limitation of expense as provided by insurance bill strongly advises that taker of rebate be made equally responsible with giver and calls attention to possibility of unscrupulous agents giving estimates in proportion to their imagination if publication of same by companies were prohibited.

(Sgd.) G. POWELL, Hamilton.

LONDON, ONT., March 24, 1909.

Mr. H. H. MILLER,
House of Commons, Ottawa, Ont.

Life Underwriters Association of London in session unanimously urge firstly, That the limitation of expenses as per clauses 53 to 58 of the Insurance bill now before parliament, on account of its injurious effect on some of the Canadian Companies and its discrimination in favour of foreign companies, be eliminated.

Secondly.—That the abolition of estimates of dividends will work harm to the business of soliciting as insurers will be furnished verbal estimates by agents which cannot be as reliable as those furnished by the companies, and young companies will be discriminated against on account of their having no actual results to show intending insurers.

Thirdly.—That if at all possible the deferred dividend policy be continued as this method of taking profits has done much to popularize insurance and is still a very popular form of policy.

Fourthly.—That the publication of the income of agents receiving over \$4,000 is unwarranted, and must lead to much difficulty and inconvenience.

Lastly.—That the anti-rebate clause be approved in its entirety as it makes both the giver and receiver of a rebate equally liable.

Yours respectfully,

(Sgd.) FRED H. HEATH, *President.*
ISRAEL TAYLOR, *Secretary.*

CHARLOTTETOWN, P.E.I., Mar. 24.

H. H. MILLER,
Chairman Banking and Commerce Committee,
Ottawa.

Prince Edward Island association strongly urge elimination sections fifty-three to fifty-eight Insurance Bill.

(Sgd.) J. E. MATHEWS,
Secretary.

' ST. JOHN, N.N., Mar. 24, '09

H. H. MILLER, Esq.,
Chairman Banking and Commerce Committee,
Ottawa, Ont.

Life Underwriters' Association of New Brunswick strongly urge elimination from Insurance Bill, paragraphs 53 to 58, inclusive, are opposed to prohibiting profit estimates and publishing agents' incomes in favour continuing issue of deferred dividend policies and of rebate clause. Writing more fully.

(Sgd.) J. W. V. LAWLER,
Secretary.

' CALGARY, Alb., Mar. 24-25, '09

H. H. MILLER,
Chairman Banking and Commerce Comte.,
Ottawa.

Life Underwriters' of Alberta strongly protest against sections fifty-three to fifty-eight of Insurance Bill now before the House, as opposed to best interests of life insurance.

(Sgd.) J. P. ROSS,
President.
G. E. BUCK,
Secretary.

' REGINA, SASK., Mar. 24-25, '09

H. H. MILLER,
Chairman Banking and Commerce Comte.,
Ottawa.

Life Underwriters' Association of Saskatchewan urge elimination clauses fifty-three to fifty-eight, Insurance Bill. Expense limitation believe will necessitate cancellation western agency contracts which would be unjust. Section fifty-four interferes best organization between general and local agent.

(Sgd.) J. H. H. YOUNG,
President.
W. D. McBRIDE,
Vice-Pres.

' WINNIPEG, MAN., Mar. 24, '09.

H. H. MILLER,
Chairman Banking and Commerce Comte.,
House of Commons, Ottawa.

The Manitoba Life Underwriters' Association respectfully submit that in their judgment sections fifty-three to fifty-eight inclusive of new Insurance Bill are not conducive to successful development of life insurance in Canada, particularly western provinces, and should be eliminated the fuller publicity called for in Bill thoroughly safeguards public interests.

(Sgd.) T. F. CONRAB,
Vice President.

‘QUEBEC, Q., Mar. 24, '09

H. H. MILLER, Esq.,
Chairman of the Banking and Commerce Comte.,
House of Commons, Ottawa.

Our local association passed at a meeting held today strong resolutions against Clauses Nos. 53 to 58 and 88 of Insurance Bill now before your committee, copies of said resolution mailed and their consideration urgently requested.

(Sgd.)

The Quebec City Life Ass'n. Agents Association.

J. B. MORRISETTE,
Chairman.
FRANK GLASS,
Secretary.'

‘HALIFAX, N.S., Mar. 24, '09

H. H. MILLER,
Chairman Banking and Commerce Comte.,
Ottawa.

The Nova Scotia Life Underwriters' Ass'n. in session convened, urge upon your honourable committee the necessity of eliminating sections fifty-three to fifty-eight of Insurance Bill in the interest of policyholders and field men.

(Sgd.) W. J. MARQUAND,
President.
H. S. CROSBY,
Secretary.'

‘MONTREAL, March 29th, 1909.

To the Chairman and Members of the Committee on Banking and Commerce,
Ottawa, Ont.

Gentlemen:—

We, the undersigned, Merchants, Manufacturers, and others, would respectfully ask your special consideration of Section No. 71 of the Insurance Bill now before Parliament:—

1.—That the said section in its present form will have the effect of creating a monopoly and combine of the insurance business of Canada.

2.—That it is admitted, even by the Fire Underwriters Association, that Companies licensed to do business in Canada cannot handle the total fire insurance business of the country.

3.—That the insured should have the right to purchase insurance in the cheapest market.

We, therefore, humbly ask that nothing shall be incorporated in the new Insurance Act which shall restrict freedom in obtaining insurance outside Canada either directly or through Brokers resident in Canada.

The Canadian Pacific Rly. Co., T. Shaughnessy, President.

H. & A. Allan.

Jas. McCready Co., Ltd.

Dominion Park Co., Per W. A. Ross, Director.

Montreal Street Rly. Co., Per W. A. Ross, Man. Director.

Montreal Light, Heat & Power Company, H. F. Holt, President.

The Merchants Bank of Canada, Per H. Montagu Allan, President.
 The Grand Trunk Railway Co. (Sgd.) Chas. M. Hays, 2nd Vice President.
 The Canada Paper Co., Limited, Per H. Montagu Allan, Vice President.
 The J. C. Wilson & Co., Ltd., Per F. H. Wilson, President.
 Gunn, Langlois & Co., Limited, Per J. H. Gunn, Director
 John P. Black & Company, Limited, Thos. J. Rodger, Director.
 The Dominion Textile Co., Ltd, Charles B. Gordon, 2nd Vice President.
 Montreal Rolling Mills Co., Per W. McMaster, Vice President.

'STRATFORD, ONT., March 24th,-09.

H. H. MILLER,
 Chairman Banking & Commerce Co.,
 Ottawa.

Huron Life Underwriters Association favour elimination of sections 53 to 58 anti-rebate clause be approved in its entirety continue deferred dividend policies and estimates.

R. J. STEVENSON,
Secretary.'

KINGSTON, ONT., March 23-09.

H. H. MILLER,
 Chairman Committee Banking & Commerce,
 Ottawa.

Life Underwriters Association of Kingston and district, twenty two members re-affirm their position taken last session viz., the elimination of sections fifty three to fifty eight of the insurance bill now before your committee, that estimated results be allowed and deferred dividend policies be issued, that salaries be not published. We approve of the anti-rebate clause.

J. O. HUTTON,
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'BRANTFORD, ONT., March 23rd-09.

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 Ottawa.

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Brantford Life Underwriters Association.'

'SHERBROOKE, Q., March 24, 09.

H. H. MILLER,
 Chairman Banking & Commerce Com, H. of C.,
 Ottawa.

Life Underwriters Association of eastern townships earnestly ask elimination of sections fifty three to fifty eight inclusive insurance bill.

DOUGLAS T. TAYLOR,
Secretary.'

'BELLEVILLE, ONT., March 23, 1909.

H. H. MILLER, Esq.,
Banking & Commerce Committee,
Ottawa.

The Bay of Quinte Life Underwriters desire strongly the eliminating of section fifty three and fifty eight of insurance.

J. RABBITTS,
Secretary.

'HAMILTON, ONT., March 23, 1909.

H. H. MILLER,
Chairman Banking & Commerce Com.
Ottawa, Ont.

Hamilton Life Underwriters Association strongly urge elimination of sections fifty three to fifty eight of the proposed insurance bill.

H. W. LINTON,
Secretary.

'GUELPH STATION, ONT., March 23.

H. H. MILLER,
Chairman Banking & Commerce Committee,
Ottawa.

The Life Underwriters Association of Guelph firmly and unanimously—are opposed to any limitation of 'expense as provided by insurance bill strongly advises that taker of rebate be made equally responsible with giver and calls attention to possibility of unscrupulous agents giving estimates in proportion to their imagination if publication of same by companies were prohibited.

(Sgd.) G. POWELL HAMILTON,

'LONDON, ONT., March 24th-09.

Mr. H. H. MILLER,
House of Commons,
Ottawa, Ont.

Life Underwriter's Association of London in session unanimously urge firstly, That the limitation of expenses as per clauses 53 to 58 of the Insurance bill now before parliament, on account of its injurious effects on some of the Canadian companies and its discrimination in favour of foreign companies, be eliminated.

Secondly.—That the abolition of estimates of dividends will work harm to the business of soliciting as insurers will be furnished verbal estimates by agents which cannot be as reliable as those furnished by the companies, and young companies will be discriminated against on account of their having no actual results to show intending insurers.

Thirdly.—That if at all possible the deferred dividend policy be continued as this method of taking profits has done much to popularize insurance and is still a very popular form of policy.

Fourthly.—That the publication of the income of agents receiving over \$4,000.00 is unwarranted, and must lead to much difficulty and inconvenience.

'Lastly.—That the anti-rebate clause be approved in its entirety as it makes both the giver and receiver of a rebate equally liable.

Yours respectfully,
(Sgd.) FRED H. HEATH, *President.*
ISRAEL TAYLOR, *Secretary.*

' CHARLOTTETOWN, P.E.I., Mar. 24.

H. H. MILLER,
Chairman Banking and Commerce Committee,
Ottawa.

Prince Edward Island Association strongly urge elimination sections fifty-three to fifty-eight, Insurance Bill.

(Sgd.) J. E. MATHEWS,
Secretary.

' ST. JOHN, N.B., Mar. 24, '09.

H. H. MILLER, Esq.,
Chairman Banking and Commerce Committee,
Ottawa, Ont.

Life Underwriters' Association of New Brunswick strongly urge elimination from Insurance Bill paragraphs 53 to 58 inclusive, are opposed to prohibiting profit estimates and publishing agents incomes in favour continuing issue of deferred dividend policies and of rebate clause. Writing more fully.

(Sgd.) J. W. V. LAWLER,
Secretary.'

' CALGARY, ALB., Mar. 24-25, '09.

H. H. MILLER,
Chairman Banking and Commerce Committee,
Ottawa.

Life Underwriters of Alberta strongly protest against sections fifty-three to fifty-eight of Insurance Bill now before the House as opposed to best interests of life insurance.

(Sgd.) J. P. ROSS,
President.
G. E. BUCK,
Secretary.'

' REGINA, SASK., Mar. 24-25, '09

H. H. MILLER,
Chairman Banking and Commerce Committee,
Ottawa.

Life Underwriters' Association of Saskatchewan, urge elimination clauses fifty-three to fifty-eight, Insurance Bill. Expense limitation believe will necessitate cancellation western agency contracts which would be unjust. Section fifty-four interferes best organization between general and local agent.

(Sgd.) J. H. H. YOUNG,
President.
W. D. McBRIDE,
Vice-president.

'WINNIPEG, Man., Mar. 24, '09.

H. H. MILLER,
Chairman Banking and Commerce Committee,
House of Commons, Ottawa.

The Manitoba Life Underwriters' Association respectfully submit that in their judgment sections fifty-three to fifty-eight, inclusive of new Insurance Bill are not conducive to successful development of life insurance in Canada, particularly western provinces, and should be eliminated the fuller publicity called for in Bill thoroughly safeguards public interests.

(Sgd.) T. F. CONRAB,
Vice-president.'

'QUEBEC, Q., Mar. 24, '09.

H. H. MILLER, Esq.,
Chairman of the Banking and Commerce Comte.,
House of Commons, Ottawa.

Our local association passed at a meeting held today strong resolutions against Clauses Nos. 53 to 58 and 88 of Insurance Bill now before your committee, copies of said resolutions mailed you and their consideration urgently requested.

(Sgd.)

The Quebec City Life Ass'n. Agents' Association.

J. B. MORRISETTE,
Chairman.
FRANK GLASS,
Secretary.'

'HALIFAX, N.S., March 24, 1909.

H. H. MILLER,
Chairman Banking & Commerce Committee,
Ottawa.

The Nova Scotia Life Underwriters Association in session convened urge upon your honourable committee the necessity of eliminating sections fifty three to fifty eight of Insurance Bill in the interest of policyholders and field men.

(Sgd.) W. J. MARQUAND, *President.*
H. S. CROSBY, *Secretary.*

'TORONTO, ONT., March 25th, 1909.

H. H. MILLER, M.P.,
Chairman Banking and Co., Committee,
Ottawa.

Life Underwriters' Association of Toronto see strong to feature of clause 53 of Insurance Bill discriminating in favour of foreign companies also think clauses 54 to 58 inclusive should be eliminated antirebate provision commended.

W. E. NUGENT, *Secretary, T.L.U.A.'*

MONTREAL, Q., March 26, 1909.

H. H. MILLER, M.P.,
Chairman Banking Committee, H. of C.,
Ottawa.

Arguments advanced by British Life Companies against five per cent extra expense charge applies equally to American Companies would suggest giving them a hearing before final action is taken.

E. S. CLOUSTON,
Trustee New York Life & Mutual Life Insurance Companies.

MONTREAL, March 29th, 1909.

To the Chairman and Members of the Committee on Banking and Commerce,
Ottawa, Ont.

Gentlemen:—

We, the undersigned, Merchants, Manufacturers, and others, would respectfully ask your special consideration of Section No. 71 of the Insurance Bill now before Parliament:—

1.—That the said section in its present form will have the effect of creating a monopoly and combine of the insurance business of Canada.

2.—That it is admitted, even by the Fire Underwriters Association, that Companies licensed to do business in Canada cannot handle the total fire Insurance business of the country.

3.—That the insured should have the right to purchase insurance in the cheapest market.

We, therefore, humbly ask that nothing shall be incorporated in the new Insurance Act which shall restrict freedom in obtaining insurance outside Canada either directly or through Brokers resident in Canada.

The Canadian Pacific Rly. Co., T. Shaughnessy, President.

H. & A. Allan.

Jas. McCready Co., Ltd.

Dominion Park Co., Per W. A. Ross, Man. Director.

Montreal Street Rly. Co., Per W. A. Ross, Man. Director.

Montreal Light, Heat & Power Company, H. F. Holt, President.

The Merchants Bank of Canada, Per H. Montagu Allan, President.

The Grand Trunk Railway Co., (Sgd.) Chas. M. Hays, 2nd Vice President.

The Canada Paper Co., Limited, Per H. Montagu Allan, Vice President.

The J. C. Wilson & Co., Limited, Per F. H. Wilson, President.

Gunn, Langlois & Co., Limited, Per J. H. Gunn, Director.

John P. Black & Company, Limited, Thos. J. Rodger, Director.

The Dominion Textile Co., Ltd., Charles B. Gordon, 2nd Vice President.

Montreal Rolling Mills Co., Per W. McMaster, Vice President.

The Thos. Davidson Mfg. Co., Limited, Per J. Davidson, President.

The Alaska Feather & Down Co., Limited, Per J. H. Sherrard, President and
Manager.

The Wm. Rutherford & Sons Co., Limited, Per S. F. Rutherford, Director.

Ames-Holder Limited, Per W. A. Macley, Secretary.

The Ogilvie Flour Mills Co., Limited.

The Dominion Furniture Mfg. Co., Limited, Chas. Langlois, Secretary.

Chas. F. Smith.

Henry Joseph.

WINNIPEG AGENCY, March 22, 1909.

H. H. MILLER, Esq., M.P.,
House of Commons,
Ottawa, Ont.

MY DEAR SIR,—I understand there is a clause in the Insurance Bill providing that no life insurance medical director can occupy a seat upon the board of directors of his company. (This is a most unjust provision in so far as the medical profession is concerned, but more than that, it is an injustice to the policyholders and to the companies. There is no man who has so great an opportunity to protect the interests of the policyholders as the medical director. There is no man upon whom the future success or non-success of a company more largely depends than the man who passes upon the risks that the company should insure. He of all men should have it open to him to know all that is going on.

Moreover, many of the medical directors are stock holders in their companies. In our own case there is no man more largely interested in the company financially, and no man outside of the regular salaried officers who gives so much time or so much earnest consideration to the affairs of the company in general, outside the limits of his own official position, than our medical director. This provision in the Bill is one which protects nobody and at the same time strikes at the interests of everyone whom the Bill purports to protect.

May I ask you to use your influence in having this clause eliminated. Thanking you in anticipation.

Yours very truly,

E. G. MILLER,
Manager for Manitoba Manufacturers' Life,
President Manitoba Life Underwriters' Association.

OTTAWA, March 23, 1909.

Hon. W. S. FIELDING, M.P.,
Finance Minister of Canada.

Memo *re* section 99, subsection 6 and section 149, subsection 'F' of the proposed insurance Bill.

The medical directors of the Canadian Life insurance companies respectfully submit their objections to the subsections herein mentioned as follows:—

1. Many of us were induced to become shareholders in various life insurance companies and to take a seat upon the boards of directors; this was permitted by the law of the country. It is now proposed to take this privilege from us if we receive any remuneration as a medical officer of the company.

2. Many of us are now, and have been for many years, directors as well as medical officers, and would feel it a great hardship to leave the boards of these companies with which we have been so closely associated.

3. The shareholders and policyholders may be safely trusted to look after their own interests in the selection of those who shall govern the affairs of the company. When they re-elect a medical officer to a seat on the board of directors year after year, it is ample proof that they wish his advice on all matters pertaining to the management of their affairs.

4. As medical officers of the Canadian life insurance companies, we protest against legislation which in effect states that because we receive some emolument from our companies for services we may render these companies, we cannot be trusted in the future as we have been in the past, and allowed the right of being elected to the board of directors if our fellow shareholders or policyholders deem it in their interests to have us there.

5. We feel it to be unfair that we should be classed as ineligible because of any remuneration we receive, when the manager is not so treated.

6. In no instance in the history of Canadian Life Insurance can it be shown that any medical officer of a company who was also a director, used his influence in any other way than for the best interests of the company he was identified with, or that he used his position as a director to secure any improper advantage or undue remuneration for his services. The fact is that the medical officers of all the companies are among the poorest paid of all in their employ.

7. Nearly every established physician examines for one or more Life companies, and they feel that the presence of medical men on the Board of Directors is necessary in order that the companies will continue to pay fees for examinations in keeping with the importance of the work, and in order that questions affecting the medical aspects of life insurance, the various Boards may have the advantage of consultation with and advice from men whose expert knowledge made them sound and safe advisers. As a rule doctors are comparatively poor men and not interested in corporations whose interests it is to exploit life insurance moneys. On the contrary they are the reverse—a check on such tendency to exploitation as the history of life insurance in this country amply shows.

8. All local examiners feel that it is of the utmost importance that the chief medical officers should be in very close touch with the management of the companies for which they examine, namely, on the board of directors. There are so many issues arising in connection with the acceptance and inspection of risks, and the payment of claims as they arise which no one can so safely pass judgment upon as the chief medical officers, that it becomes quite apparent that the interests of the companies will be best served by linking the examiners to the company through the chief medical officers. The local examiners feel that none but a medical man can form a just judgment on the character of their work, and that a board of lay directors would be liable to censure them unjustly and even deprive them of their appointments and place them on the black list should a death occur soon after an applicant has been examined. The medical directors of the Canadian Companies feel assured that the two classes objected to in the Bill would be exceedingly unpopular with the medical profession throughout the country.

The medical officers of the Canadian companies ask you to remove from the Act before it becomes law, the two subsections referred to in this memo. These subsections interfere with the rights of shareholders, policyholders, and the medical officers of the companies; and further cast a stigma upon the medical officers which should not be placed upon them.

Signed in behalf of the medical directors and medical officers of the Canadian Life Insurance Companies.

JOHN FERGUSON.

T. F. McMAHON.

SAINT JOHN, N.B., March 24, 1909.

H. H. MILLER, Esq.,
Chairman of Banking and Commerce Committee,
Ottawa, Can.

DEAR SIR,—At a meeting of the executive of the New Brunswick Life Underwriter's Association held to-day to consider the provisions of the Insurance Bill which will affect the field men, I was instructed to telegraph our opinion with regard to these matters and did so stating that I would write you more fully.

First, we asked for the elimination of sections 53 to 58 inclusive. We consider that these sections are unnecessary and injurious to the business. Unnecessary, because all that professes to be done by these sections can be secured by publicity; and

injurious to the Canadian Companies because of the discrimination in favour of foreign companies.

Secondly, we are opposed to the prohibition of dividend estimates for reasons stated in our communication to you of last year, viz. that harm will be done to the business by this. The public will ask for estimates of possible results on their policies and agents will most assuredly furnish verbal ones, which would not be as likely to be correct as if furnished by the companies themselves. In the older companies the results on policies many years in force would be quoted. Young companies which have not yet had actual results to show would be discriminated against.

Thirdly, we do not see any possible benefit that can accrue to the policy holders from the publication of the income of agents receiving over \$4,000 per year. We think such a requirement to be an unwarranted interference with our individual rights and privileges and must lead to difficulty and inconvenience; and which would misrepresent the actual condition of affairs so far as general agents are concerned, since their income is necessarily sub-divided by payments to the sub-agents.

Fourthly, we are in favour of the retention of the Deferred Dividend Plan of Insurance. We believe that this plan has done much to popularize insurance and that this form of policy should be continued. We think that its withdrawal would be a detriment to all concerned, policy holders, companies and agents alike.

Lastly, we are strongly in favour of the rebate clause in its entirety since both the receiver and giver of the rebate are penalized.

Yours very truly,

F. S. BUNNELL,
Vice-President.

THE LIFE UNDERWRITERS' ASSOCIATION OF OTTAWA,
SECRETARY'S OFFICE, OTTAWA, ONT., Mar. 25, 1909.

H. H. MILLER, Esq.,
Chairman, Banking and Commerce Committee,
House of Commons, Ottawa, Ont.

DEAR SIR,—At a meeting of the Life Underwriters' Association of Ottawa, it was unanimously decided that this association re-affirm the position taken when this Bill was before parliament last session, viz., entire opposition to the limitation of expenses as contained in clauses 53 to 58 of the proposed Bill.

We also ask for the permission to use estimates as at present. We further submit that this system of deferred profits should be continued as this method of insurance appeals strongly to the average assurer, in as much as the form of contract covers nearly every possible contingent in a man's life. By it he has the option at the expiration of dividend period of taking all cash, or part cash and part paid-up assurance, or all paid-up assurance.

We desire to express our hearty approval of the anti-rebate portion of the Act as it makes liable both the receiver and the giver of rebates.

Signed on behalf of the Life Underwriters' Association of Ottawa.

J. W. MOONEY,
Secretary.

THE MANUFACTURER'S LIFE INSURANCE COMPANY,
TORONTO, CANADA, March 26, 1909.

H. H. MILLER, Esq.,
Chairman, Banking and Commerce Committee,
House of Commons, Ottawa, Ont.

DEAR SIR,—I beg to enclose herewith a copy of a letter which I am today sending to the Hon. W. S. Fielding, Minister of Finance.

Yours truly,

JAMES F. W. ROSS,
per J.B.M.

March 26th, 1909.

Hon. W. S. FIELDING,
Minister of Finance,
House of Commons,
Ottawa, Ont.

DEAR SIR,—As Chairman of the meeting of Medical Directors of Canadian Life Insurance Companies recently held in Toronto, I desire to write to you in order to correct a misapprehension which has apparently arisen in connection with a reference made in my previous letter addressed to you in regard to certain points in the new Insurance Bill.

I have been informed that exception was taken to the use of the term 'Medical Director.' In my letter, the words 'Medical Director' and 'Medical Referee' were used as if they were synonymous. I might point out that there is an Association in the United States composed of the Medical men employed at the Head Offices of the Life Insurance Companies of that country. This Association is called the 'Association of Life Insurance Medical Directors.'

What I wish to point out is that the use of the term 'Medical Director' in referring to a Medical officer of a company does not necessarily mean that such officer is on the Board of Directors. There was no intention in my letter of conveying the idea that the Medical officers of all the companies were members of the Boards of Directors. As a matter of fact, nine out of the twenty-one Medical Directors of Canadian companies are not on the Boards of their Companies, while the remaining twelve occupy the dual position of Medical Director and Director.

I am sending a copy of this letter to Mr. H. H. Miller, Chairman of the Banking and Commerce Committee.

Yours very truly,

(Sgd.) JAMES F. W. ROSS.

MONTREAL, March 27th, 1909.

H. H. MILLER, Esq., M.P.,
Chairman, Banking and Commerce Committee,
Parliament Buildings,
Ottawa, Ont.

Re Insurance Bill Section 20-2-4.

DEAR SIR,—On Friday, Mr. Kavanagh of the Metropolitan Life Insurance Company proposed an amendment to the above sections of the Bill respecting foreign trusteeships.

Under the old Insurance Act, an Insurance Company was permitted to have individuals act as trustees. This has been found not to be entirely satisfactory to the

Department, and it is now proposed to go to the opposite extreme of confining foreign companies to have Trust companies alone as Trustees.

The amendment introduced by Mr. Kavanagh would give the companies the option to have a Trust Company act or a Trust Company in conjunction with an individual as co-trustee.

You will recollect that during the recent panic in the States, several officials of Trust Companies made away with the funds confided to them. The writer recollects a very hard case in San Francisco where the President and Manager of a Trust Company disposed of hundreds of thousands of dollars, for which they, as the officials of the Trust Company, were joint Trustees.

While our Trust Companies to-day are as a whole well managed, it is possible that what has happened in the States might happen here, and it seems to us therefore, that the amendment as proposed by Mr. Kavanagh should be adopted.

Yours very truly,

CLAXTON & KER.

TORONTO, March 27th, 1909.

Mr. H. H. MILLER, M.P.,
Ottawa,

DEAR SIRS.—I am sending you a copy of my letter to Mr. Fielding. I trust you will give it your careful attention, I am sure it is not the intention of the government to do Canadian Insurance Companies any harm, but the proposed would do so in a very large measure.

Yours truly,

J. FERGUSON.

TORONTO, March 27, 1909.

Hon. W. S. FIELDING, M.P.,
Minister of Finance, &c.,
Ottawa, Ont.

HON. AND DEAR SIR,—I am taking the liberty of making a few suggestions on the proposed Life Insurance Bill. I have had a long and extensive experience in the management of Life Insurance offices. I have been on the boards of several, and have acted as medical director for several. At present I am on the board of the Excelsior Life and also its medical director, a position which I have held for nineteen years. I am also medical director of the Sovereign Life, both with head offices in Toronto. Taking the Bill by sections, I wish to remark as follows.—

31. (2) (3) I think this is quite unnecessary. The superintendents' powers might be enlarged to safeguard all interests. The reporting of investments every quarter does not make these investments safe. It might have a slight tendency to prevent companies buying prohibited securities but the inspection will do this, if inspection is any good.

36. This will involve a very heavy expense and accomplish no good. It will require at least a person in the smaller companies devoting his whole time to get it out properly. In large companies it would call for a number of persons for this work. All this means money from the policyholders and shareholders. The ordinary annual report can furnish all needed information.

51 (c) In this section and subsections it should be made clear that 'Member' does not mean 'Policyholders.' Should it do so it might become quite impossible to change a head office of such company as has policyholders all over the country, or the world. See subsection 9 of section 99, where policyholder and member mean the same

word. See subsection 9 of section 99, where policyholder and member mean the same person.

53. I think there is a serious danger in this. Investment expenses are limited to one-fourth of one per cent. Many companies invest in mortgages in various places at rates as high as 6 to 9 per cent. If one per cent were paid to get the loan 5 to 8 per cent would be left for first year, and better thereafter. If a company cannot give more than one-fourth of one per cent it would be compelled to invest in debentures, bonds, &c., where it is often very hard to secure more than an average of 4 to 4½. In this matter I have some rather extensive experience, investing trust funds of large amounts. There should be no tying down the companies here too tightly. Further, this will discriminate against the farmers as a class, and put them largely at the mercy of the loaning and mortgage companies.

The attempt to limit expenses is very praiseworthy but it must be looked into with very great care. Business that was written on a premium non-profit plan based on the Hm with interest at 4½ per cent would give in many instances negative values when compared with the Om5 with 3½ per cent interest net. That is the non-profit premium with its loading on the Hm at 4½ per cent would fall below the Om5 at 3½ per cent net, or without loading. This would show an impairment, rather than leaving any margin for working expenses. Foreign and British companies should be required to add in a portion of their head office expenses, otherwise they may appear to be doing business more cheaply than they really are and more cheaply than the Canadian companies. This could, and would be used against the Canadian companies in competing for business. The Act should guard against this. Canadian companies collect premiums here and reinvest them here. The foreign companies take much of the money away to other countries.

With regard to tropical and substandard business it must be remembered that the net rate is higher to begin with than the Om5 at 3½ interest. This higher net rate is the basis upon which the loading is added for working expenses. The way this is worded in the Bill in subsection 4 will not do. A special table for the net rate must be selected. On this is placed the loading for working expenses. It is this that must be allowed for expenses. You will see that both elements are higher than in the case of the Om5 with loading. The net rate is higher to meet the higher mortality and a higher loading to meet the greater cost of working the business in the tropics. The amendment suggested by the Life Insurance Managers' Association is absolutely necessary.

54. This will prevent a company saying to an agent, 'Your salary will be \$100 a month, but if at the end of the year you have written so much, the company will give you a bonus of \$200.' All attempts to tie a company too tightly only do harm and lead to efforts to evade the law. When the expenses are limited on the total business done, there is no good reason for limiting in such details as this. It is unworthy of any great Bill.

58. Why should a director be prevented taking a commission in the event of his inducing a person to take a policy in his company? His directors' fees are payments for another service. If he can influence a certain party to give his insurance to his company he should try to do so, but the fact that he is a director prevents his receiving any commission. He is, therefore, encouraged to place the policy in another company. This will work out very badly in practice, no matter what the theorists may say to the contrary. It can lead to no corruption as the applicant must go through the usual process of examination, &c. Further, a director is just the person who would wish to see good business on the books of his own company.

90 and 94. This will call for annual distribution of profits to policyholders. Profits are to be allotted every five years of the policy; but they must be appraised for the other policies at the same time. This will bring about practically an annual distribution of profits. If this is to become law it should be so said. It would not

be equitable to take a certain sum every five years for each group of policies, then entitled to profits, and repeat this arbitrary plan next year for those then entitled to profits. It will be seen at a glance this section means annual allotment of profits, and this is not a good plan as it is very expensive, and might be impossible for young companies.

96. This strikes me as a most remarkable section. The words at line 15, 'Nor shall any policy of life insurance, except policies of industrial insurance under which the premiums are payable monthly or oftener, be so issued or delivered by any such company unless it contain in substance the following provisions.' Then come a long list of subsections which must go into the policy. Just imagine subsection (c) being printed in a policy.

Subsection (H) of this section will not work in practice. The limit of 6 per cent is therein laid down. Companies easily, in the west, secure 7, 8 and 9 per cent on mortgages. They will be unwilling to be compelled to take 6 per cent and may then say if they do not wish to loan on a policy, that they cannot do it for three months. This would be of no use to a small borrower who needs the money at once. It is, on the other hand, absolutely necessary that companies should have the time option provided here. In 1907, when money was very hard to secure, there was a run on some companies. A life company might be made insolvent if it had no legal protection, but the rate of interest should not be mentioned for the reason just given.

99. This section completely demoralizes life insurance in this country.

(1) In the first place it will make it impossible to organize new companies as capitalists will not put their money into a company under such conditions regarding policyholders' directors.

(2) It will open the way to foreign companies not burdened with these conditions of policyholders' directors.

(3) If a company elects a troublesome director it will be cursed with him in the board for four years. As things are now, a company can elect useful men again and drop useless men in a year; but by the proposed Bill an obstructionist is on for four years. Suppose a manager is a director and the board discontinues his services as manager, he may be on the board for some years to cause endless trouble. The four year system will lead to many complications and in some instances to positive disaster; further, the Bill need not go into the details of such company routine.

(4) The proportion of policyholders' directors is too large. One in each 5 would be ample.

(5) It is not necessary to fix the number at 16. This should be left to the company to determine so long as the Act said 5, 10 or 15. These figures are merely given as examples of how there might be some latitude allowed.

(6) There is no possibility of the routine of the company being done by a committee. There must be board meetings and a quorum. This will mean frequent and large meetings and be quite ruinous to the company and do harm to both policyholders and shareholders. While the object of the Bill is to curtail expenses, this feature of the Bill would greatly increase them, and delay business.

(7) No paid officer may be a director. This cuts out the president if he receives any remuneration and the medical director, if these are regarded as officers. (*See also* 149 F). These are two of the most necessary to have on the board. There is no need for all this restriction. These officers have never been known to use their influence for a selfish purpose nor for graft. If they did the company can easily drop them. I think it is very poor policy to try to regulate every detail of internal economy. It will cause much friction.

(8) Such regulations will make companies register under the laws of the provinces, and comply with the requirements of the other provinces as they have to do now anyway to do business in any province other than the one where their head offices are located. The Chinese foot does not grow because of the tight boot. The rigid Armstrong law has been found to do far more harm than good. Subsection 3 of sec-

tion 3 will not prevent a company doing business all over the Dominion though incorporated by provincial charter. It can comply with laws of other provinces without coming under this Act.

109. What has just been said applies here. A company may incorporate in Ontario. It may then, with the statutes, operate in Quebec. In this way the whole Dominion may be covered. This regulation will certainly force companies to operate under provincial rights, and I wish to utter a word of warning. It is very easy to go too far. It will be quite impossible to secure the consent of the policyholders in the event of the conditions foreshadowed in 110 (2).

110. Discusses valuations and the interest to be used. It states that any standard table of mortality may be employed. This does not tally with 42 (2) where Hm table is laid down, nor with (3) and (4) of section 53 where the Om5 table is taken as the basis on which the loading is to be computed for the purposes of calculating the expenses.

111. I have no hesitation in saying that this section is unworkable. It is so complicated that it cannot be made effective. It is beyond the wit of man to allocate the various share of profits and losses that should go each way as is here attempted.

113. *Et seq.*, dealing with assessment companies, I am strongly of the opinion in the main are very wise; but I am equally strong in my opinion that a clause should be inserted permitting an assessment company to become incorporated after the passing of the Act, provided it agrees to maintain on all its ordinary life policies the reserve as per, say the Om5 table. This much should surely, and could very safely, be conceded to the purely mutual co-operative spirit of the age. The regular, all life net premium on Om5 table could be selected and divided up into monthly or quarterly portions and collected as assessments. This would meet death claims and lay by the proper reserve. The working expenses could be secured from an extra charge or capitation. Such a company would be under inspection and would be just as safe as say the Mutual of Canada, which is exactly what I am now indicating, the loading in such a company as the Mutual of Canada taking the place of the capitation for working expenses. This would be scientific assessmentism and absolutely sound should any body of men wish to operate it. Why shut it out?

148. Seems to me to be very uncalled for. Subsection 6 regulates method of paying for shares. Why prevent a person, or all the shareholders paying in more rapidly than as laid down? I think it is a very foolish restriction.

Why subsection (9) is here dealing with reinsurance in the section dealing with the organization or promotion of a company, I am at a loss to know.

Let me now offer a few general comments:—

1. I see many fine features in your Bill. You will, therefore, believe that when I speak frankly I am in earnest and honest. I am not a cavilous but a friendly critic. I wish you every success in your efforts to give the country a good insurance Bill. I am asking you not to make it too rigid and thereby make it unworkable. Please be careful that in loading the Bill with so many requirements of keeping profits in classes, allotting profits annually, gain and loss statement, large boards, quarterly returns, &c., the operations of the head offices are not made so expensive, that, with the limitations now placed upon the total expenses, there would not be sufficient for the field work. It may then become impossible to do business at all.

2. If the Act imposes too many restrictions it may invite failures. This is a very serious aspect of the situation. Then, again, the growth of the companies may be seriously retarded. In the state of New York during the past four years the total amount of business in force in the large companies has enormously decreased.

3. Life insurance is now one of the largest and most important of all the financial institutions in this country. It is a valuable education in methods of economy among the people, while the funds of the companies have been used for the upbuilding of the country.

4. There have been no failures in this country and very few instances of any

personal mistakes, and I think practically none of any personal wrong-doing. Paternalism may be carried too far in legislation.

5. But it must be borne in mind that the effect of this sort of legislation will prove harmful in another way. Under the stringent provisions of the Bill, the companies will be compelled to place a loading upon their premiums; or, in other words, raise their office premiums. This will greatly increase the cost ultimately to the insuring public and lessen the benefits of insurance without bringing any compensating gain. It will tend to force the insuring public to secure protection in less sound organizations than our regular life insurance companies. The ultimate result of this would be very bad. The only way to escape it would be to operate under provincial charters.

5. Take a company of medium size, with \$12,000,000 to \$15,000,000 business on its books. The extra clerical help to carry out properly the details of the new Bill will cost at least \$3,000 a year. This is equal to 5 per cent on \$60,000 of assets.

7. I wish further to state that the adoption of the Om5 at 3½ per cent as the net premium and the adding of the heavy loading that will be required for working expenses under the new Bill, will practically put Canadian companies out of business as compared with the Canadian branches of foreign and British companies. The Om5 at 3½ is net, and the working expenses must come from the loading. This loading must be high. The result will be a decided increase in the cost to those who wish to avail themselves of the protection of life insurance as compared with the present.

8. Too much is made of the policyholder's side of the case. He is liable for nothing. The payment of his premium is quite voluntary. For this premium the company becomes liable for the face of the policy and for the surrender value or paid-up insurance. If a person goes into a store and buys a large quantity of goods he is not entitled to take part in the management of the store. Depositors have no right to say in the management of the bank in which they place their money. In a life insurance company, for the premium paid, the insured receives a contract in the form of a policy. If one buys a farm he receives the farm, but no right to manage other farms owned by the person from whom he made the purchase. The shareholder is liable for the unpaid portion of his stock, and only receives dividends on the paid portion. I think policyholders might be granted some representation but not one-half of the board. I am firmly of the opinion that this should be left to the companies to do as they may think best. Competition will regulate such matters.

9. This Bill is retroactive in a very unfair way. It compels the companies to assume new liabilities on its old business by changing the rate of interest and other conditions, but does not allow the companies to change the premiums on that old business. In other words the liabilities are increased on contracts already made, but the companies have no means of increasing the assets to meet these new liabilities. It is similar to asking banks to pay 4 per cent. on by-gone accounts arranged for at 3 per cent.

10. It is a violation of vested rights. It is taking away from the shareholders the rights that belonged to them under the laws of the land. This is one of the most dangerous of all things, as it creates a lack of confidence and people will not invest in new enterprises. Woe to any country when such becomes the case, and people become afraid to invest their money because they have lost faith in the stability of the laws and the recognition of their rights. It is better that a thousand should escape than that one innocent person should be condemned.

LONDON, Canada, March 27, 1909.

To the Chairman of the Committee on Banking and Commerce,
House of Commons,
Ottawa.

RE INSURANCE BILL.

DEAR SIRS—

I enclose copy of the Memorandum of The Canadian Order of the Woodmen of the World, containing briefly, the points on which the Order intended to reply on the matter coming up before the Banking and Commerce Committee. I understand that the matter was satisfactorily arranged with the Superintendent on Wednesday last and that the Bill will be amended to meet our views. I send this Memorandum so that you will have our case before you when it is again mentioned. I have also sent the Superintendent a copy.

Very truly yours,

W. C. FITZGERALD,
Head Clerk.

MEMORANDUM.

SUBMITTED by the Canadian Order of the Woodmen of the World to the Chairman and Honourable Gentlemen of the Banking and Commerce Committee of the House of Commons.

The Canadian Order of the Woodmen of the World is a fraternal association incorporated by an Act of the Parliament of Canada and licensed from the year 1893 to the present time by the Insurance Department of the Dominion of Canada for carrying on the business of life insurance.

By an amendment to the Act of incorporation the order was allowed to pay sick and funeral benefits.

It has been stated by the Department of Insurance that the order is not affected by the new Insurance Bill introduced at this session of Parliament.

But section 2, clause (c) of the proposed Act in its terms includes the order so that if nothing more appears the order would be included in the word 'Company' as used in the Bill.

By section 3, clause (d) it is stated that the Act is not to apply to associations for fraternal purposes and carrying on life insurance on the assessment system. If this applies to the order then apparently it applies only to the life business of the order and not to the sick and funeral benefit department. But if the words are to be construed in their larger sense so that the whole of the business of the order is included then notwithstanding the wording of section 2 (c) we are excluded from section 3 (d).

If section 3 (d) does not apply to the order then the order is subject to the Act.

But in either event we must obtain a license to carry on business or we are subject to the prohibition of section 4.

If section 3 (d) applies to the order so that it will not be subject to the new Act then there is no provision under which the order can obtain a license.

Our Act of incorporation makes the order subject to the provisions of the Insurance Act. If this section of our own Act is considered as being repealed by section 192 of the new Act even then we are without a license and without any power to procure one.

If this clause in our Act is not repealed by the proposed Act then we shall be subject to the Act when passed notwithstanding section 3 (d).

So that whether the Insurance Act applies or does not apply we cannot do busi-

ness without having a license and there is no statutory provision whereby a license can be issued to us.

Even if as to Canada we do not require a license we still require one for carrying on business in Ontario because under the Ontario Insurance Act we are classified and can only obtain registration as Dominion licensees and, therefore, if we cannot obtain a license from the Dominion Insurance Department we cannot do business in Ontario.

It is submitted with great respect that provision should be made for continuing the present license to Dominion friendly societies.

If the order is treated as being included in the Act as an assessment company (and there seems to be no other provision of the Bill under which the order can be licensed) then it would appear that the order is only exempted from the necessity for maintaining a reserve and is not exempted from other provisions of the Insurance Act relating to assessment companies. As for instance:—

(a) The Act requires a deposit of \$50,000 (section 14 and 125).

(b) The expenses are to come from loading only. (Section 53).

(c) The policy must set out the whole contract. (Section 85). And no provision is made for changes in bylaws.

Then the license to an assessment company is in absolute discretion of the minister by section 116, whereas ordinary life companies are entitled to a license.

And returns by assessment companies may differ from the returns by the ordinary life companies. (Section 117).

As we are not required to maintain a reserve the form of returns may show that the Assessment Companies are in an inferior position.

If we as a Friendly Society are included as an Assessment Company we object to the provision in the Act that no new Assessment Companies shall be licensed because that would exclude other Friendly Societies. This clause throws an undeserved stigma upon the Friendly Societies method of insurance, and stamps it as being a method unworthy to be perpetuated although millions of people have felt the benefit of Assessment Insurance and although at the present time the Assessment Fraternities are stronger and better and more capable than ever before.

Section 192 of the Bill would seem to cut out some of the clauses of our Act of Incorporation (as amended) whereby references are made to the provisions of the Insurance Act and it is respectfully submitted that the section should be amended so as to avoid interference with private Acts.

The fact that we are not required to maintain a reserve renders the provisions of Section 36 and 42 inapplicable.

And as our insurance premiums or assessment are never loaded for expenses the provisions of Section 53 literally taken would prevent our carrying on business.

The constitution of a Fraternal Society renders it impossible that they should be governed by provisions of Section 86 since the subordinate officers are not appointed by the central authority.

It is respectfully submitted on the part of the Order that Fraternal Associations should be separately provided for and that the clause of the Act excluding them from the provisions of the Act should refer to them by name or otherwise identify them since there are so few now subject to Dominion Jurisdiction and that adequate provision should be made for the continuance of the license to these Fraternal Associations until other or further legislation should be introduced regarding them. All of which is respectfully submitted by The Canadian Order of the Woodmen of the World.

(Signed) C. C. HODGINS,

H.C.C.

W. S. HARRISON,

H.P.

W. C. FITZGERALD,

H.C.

T. H. LUSCOMBE,

H.B.

LONDON, CANADA, March 29, 1909.

To the Chairman and Members of the Banking and Commerce Committee of the House of Commons:—

GENTLEMEN,—As a shareholder in the London Life Insurance Company I desire to protest against the proposal to alter the respective rights of shareholders and policyholders by Sec. 99 of the proposed Act.

The shareholders stand to lose all their money before the policyholders suffer any loss on amount promised them. This is not an imaginary danger merely for by actual experience the shareholders in this company have had to pay \$13 per share for impairment of capital incurred in starting the industrial section and from other causes and the present position is that on a paid-up value of \$20 we have actually paid out \$33 on each share. The dividend paid us nets less than 5 per cent, while our interest earned was 6.23 per cent last year; under these circumstances I cannot see why the policyholders (who have always been paid the full estimated profits as shown to them when they insured) should now in violation of the arrangement made when they entered obtain an equality on the Board of Directors. The representation given them enables their directors to keep close on all the business to see that investments are proper, that expenses are reasonable, and that profits are fairly apportioned as per contract. Their attendance is a guarantee that nothing will be proposed detrimental to the policyholders. The fact that these policyholders' directors are in a position to notify the policyholders of any improper dealings practically gives the opportunity for that publicity which is deemed to be the best protection for the policyholders and besides enables them to appeal to the Insurance Department or to the courts.

The Board of the London Life is composed of six shareholders and three policyholders' directors; the shareholders' directors are elected by the shareholders only; both shareholders and policyholders can vote by proxy; the policyholders are not members of the company, but are entitled to attend meetings, ask questions and take part in discussions but vote only for policyholders' directors who have same power as other directors.

The date of the annual meeting is fixed and it is only when held at another time that notice to the policyholders is required. Neither the manager, agent or any paid officer is a director. Our elections are held yearly while the Act proposes a change to a four years term; the last named is too long; two years would serve every purpose as to stability; the election should be for specified terms and not in bulk followed by a lottery, then any vacancy is in the London Life filled by the other directors of the same class; this is not included in the Act.

The special point I want to make is that our contract with our policyholders should not be altered as we have carried it out in good faith; if we had done unfairly by them or had evaded promised representation a change might be justifiable but so far as we are concerned nothing of the kind is applicable and the Act should be amended (subsection 3, section 99) to read 'not less than six,' and subsection 4 to read 'not less than one-half the number elected by shareholders,' and subsection 9, the words 'be a member of the company,' and in fifth line be struck out.

Yours respectfully,

ARTHUR S. EMERY.

LONDON, March 29, 1909.

H. H. MILLER, Esq.,

Chairman, Banking and Commerce Committee,
House of Commons, Ottawa, Ont.

DEAR SIR,—In compliance with your suggestion, that any matter of importance bearing on the new Insurance Act which could not be brought before the Banking

and Commerce Committee in person be submitted in writing and your promise that all such communications would be given due consideration, I beg to submit the following memoranda regarding the business of industrial insurance, and the manner in which such business will be affected by certain sections of the Insurance Act now under consideration by the said committee.

Believing that the business of industrial insurance is not generally well understood by persons who have not had special experience therewith, a brief explanation may be helpful to the committee.

1st. Industrial insurance in the main is ordinary insurance specially adapted to the circumstances and requirements of the industrial classes.

The unit of insurance instead of being \$1,000 and the premiums variable according to age at entry and payable yearly, half-yearly or quarterly, is a variable sum according to age at entry for a uniform premium payable weekly or monthly, the average amount per policy being less than \$100 and the average weekly premium less than 10 cents per week.

It had its origin in the burial clubs of England and is primarily intended to afford a sum readily available upon the death of a policyholder for the purpose of defraying funeral expenses and other expenses incidental thereto.

Because of the smallness of the premium and the manner in which the premiums are payable it has been found necessary to employ agents to collect the premiums at the homes of the policyholders from week to week and because of this fact the business is confined mainly to the larger industrial centres and places adjacent thereto.

2nd. To conduct the business of industrial insurance along the lines indicated necessarily entails upon the company transacting such business outlays considerably in excess of what would be necessary in the case of an 'ordinary' company transacting an equal volume of business, in the same manner as the cost of conducting a retail business of any character will be a greater percentage of the turn over than in the case of a wholesale business. Various companies have at different times experimented with a view of reducing the cost of industrial insurance by trying to conduct it on similar lines as 'ordinary' insurance but without success and it is generally admitted by every one having any practical knowledge of the business that it can only be successfully conducted along the lines adopted by the industrial companies and which experience has demonstrated to be best suited to the requirements of the business.

3. To cover the extra cost of conducting the business of industrial insurance, the premiums applicable thereto must necessarily have a larger percentage of loading for expenses than in the case of ordinary insurance on the non-participating plans of insurance, but in common with other non-participating plans the companies issuing such policies do not depend wholly on the loadings on the premiums out of which to defray the whole expenses of the business. In every such case the surplus interest earnings and other sources of profit are counted on to a considerable extent and because of this fact the loadings for expenses are much lower than would otherwise be the case.

In support of the above contention and in order that the committee may have before them reliable data in this connection, I submit herewith the experience of a number of English and American industrial companies transacting the business of industrial insurance, besides the Canadian companies. Several English companies transact only industrial insurance while others transact both 'industrial' and 'ordinary.'

From this data it will be seen that the cost of industrial insurance is relatively much greater than that of ordinary insurance in the same companies, and this will also apply as between industrial and ordinary companies generally. To apply a common rule to companies which differ so widely is not practicable and should not be attempted.

Re PROPOSED INSURANCE ACT.

As regards the Act in question, subsection 6 of section 42 fixes the basis of valuation of industrial policies and expressly specifies that subsections 3 and 5 shall not apply thereto.

Section 53 deals with the limitations of expenses, restricting the companies to the loadings on the premiums plus the amount of the deduction from the valuation of the company's policies which may be made in pursuance of subsection 3 of section 42. As it is expressly declared that subsection 3 of section 42 shall not apply to industrial insurance, and no deduction from the valuation of its policies may be made by an industrial company, it would seem that all the leeway an industrial company would have for expenses would be the loadings on its industrial premiums.

From the statement herewith it is quite clear that an industrial company cannot be conducted as cheaply as an ordinary company, and yet in the face of this fact the Act would deprive such a company of one of the two allowances granted an ordinary company. I cannot think that this was really intended to so apply but rather that the exclusion of the industrial companies from the additional allowance over the loadings, in like manner as ordinary companies, was merely an oversight, and that the necessary correction will be made in any event if the Bill is not further amended as hereinafter suggested.

At a meeting of the Canadian Life Insurance Officers' Association held in Ottawa last week, it was unanimously agreed that the business of industrial insurance should be wholly exempted from the limitation of expense provisions of the Act in question, in like manner as was done in the Armstrong Bill in New York and a later Bill passed by the State of Wisconsin. Mr. W. C. Macdonald spoke of this before the committee and presented the recommendation of the association to this effect.

If Section 53 of the proposed Bill becomes law as it now stands there is not an Industrial Company doing business and coming under the provisions of the Act that could possibly hope to continue to transact this class of insurance and comply therewith. Even if additional allowance under Section 42-3 were made applicable, there would still be a large shortage in the amount required to conduct the business with anything like reasonable efficiency, particularly in the case of a moderate sized company.

That the business of Industrial Insurance in Canada is being conducted with a good deal of regard for economy in the case of the Metropolitan and the London Life is evidenced by the fact that the ratio of expense to premium income compares very favourably with the like ratio of the English Companies. When consideration is given to the much more favourable conditions as to population etc. in England than in Canada, the comparison is even more in favour of the Canadian business.

To restrict the Industrial Companies as is proposed can only result in demoralization of the business or the putting up of rates (or corresponding reduction in benefits) so as to give the requisite margin for expenses. It should not be the policy of the Government to compel companies to charge higher premiums or give smaller benefits than they are giving and will continue to give if allowed to transact their business as heretofore. For these and many other reasons which might be given it is hoped the committee will see their way clear to exempt Industrial Insurance from the limitation of the expense provisions of Section 53 of the proposed Bill.

Yours truly,

J. G. RECUTER,
Manager.

MONTREAL, QUE., April 5, 1909.

To the Committee of Banking and Commerce H. of C.
Ottawa.

Kindly add ours to the general protest against section 71 of proposed insurance bill.

Molsons Warehouses.

STATEMENT OF PERCENTAGES.

Expenses to Premium Income.

Company.	Year of Report.	Industrial Premium Income.	Industrial Expenses.	Per cent of Prem. Income.	Ordinary Premium Income.	Ordinary Expenses.	Per cent of Prem. Income.
INDUSTRIAL COMPANIES IN ENGLAND.							
Pioneer.....	1907	£ 64,435	£ 38,159	59·1	.....	.....	.....
Salvation Army.....	1907	232,052	118,462	51·0	.....	.....	.....
Wesleyan and General ...	1907	787,966	359,314	45·6	.....	.....	.....
Pearl.....	1907	1,391,249	634,883	45·6	£ 243,754	£ 35,523	14·6
Refuge	1907	1,637,498	794,283	48·5	702,507	70,251	10·0
Prudential.....	1907	6,661,631	2,680,216	40·2	4,480,377	396,359	8·85
Total, British Companies	1907	12,440,868	5,401,288	43·4	26,014,232	3,633,101	14·0

(Insurance Blue Book and Guide, 1908-9, page 349.)

INDUSTRIAL COMPANIES IN UNITED STATES.

*John Hancock	1907	\$ 10,639,440	\$ 4,067,746	38·3	6,771,288	\$ 1,683,556	24·9
*Prudential.....	1907	31,817,270	12,502,677	39·3	18,346,651	3,717,911	20·3
*Metropolitan	1907	43,732,503	16,237,168	37·1	20,314,480	4,433,606	21·8

INDUSTRIAL COMPANIES IN CANADA.

London Life	1908	\$ 307,126	\$ 149,561	48·7	\$ 204,986	\$ 66,781	32·6
†Union Life.....	1907	301,182	260,427	86·4	.....	.....	.....
‡Metropolitan in Canada..	1907	1,147,003	473,357	41·3	582,928	96,777	16·6
‡London Life in Canada..	1907	285,180	102,728	36·0	149,522	40,233	26·9

* Taken from Massachusetts report, apportioning certain small miscellaneous expenses on basis of business in force in the respective branches.

† The form of the government report makes it impossible to separate the accounts for the Union Life, the figures given embracing the whole business of the company. If the figures applicable to the Industrial Branch alone could be obtained the percentage would be in excess of that shown.

‡ On basis of same items of expense as reported by the Metropolitan for Canadian business of that company.

PROCEEDINGS
OF THE
BANKING AND COMMERCE COMMITTEE
OF THE
HOUSE OF COMMONS

IN CONNECTION WITH
BILL No. 97, AN ACT RESPECTING
INSURANCE

No. 9—APRIL 27, 1909

(Containing various communications RE Insurance Bill.)



OTTAWA
PRINTED BY C. H. PARMELEE, PRINTER TO THE KING'S MOST
EXCELLENT MAJESTY
1909

PROCEEDINGS

OF THE

BANKING AND COMMERCE COMMITTEE

OF THE

HOUSE OF COMMONS

IN CONNECTION WITH

THE BANKING ACT 1908

INTERVAL

NO. 9-APRIL 27, 1909

PRINTED BY THE STATIONER GENERAL



PRINTED BY

THE STATIONER GENERAL, LONDON

1909

1909

MINUTES OF PROCEEDINGS

The following communications have been received in regard to various provisions of the Insurance Bill:—

NEW YORK LIFE INSURANCE COMPANY.

MONTREAL, April 22, 1909.

Mr. H. MILLER, M.P.,
Chairman of Banking and Commerce Committee,
Dominion Parliament Buildings,
Ottawa, Ont.

Re-Act respecting Insurance.

DEAR MR. MILLER:—On behalf of the New York Life Insurance Company I would like to make the following suggestions:—

Paragraph 4 of Section 20 provides that hereinafter the Minister will insist on the employment of Trust Companies to represent the foreign companies in place of individual Trustees.

The wording of this clause is ambiguous. It might be held in the case of the death or resignation of one of the Company's present Trustees, or the Company may be obliged to discontinue its present system and employ a Trust Company to represent it.

Section 31-33 requires an unnecessary amount of book-keeping for the purpose of making statements. We make an annual statement in great detail and our investments are closely supervised and scrutinized from day to day by the departments of the State. Therefore, foreign companies should be excepted from the provisions of these sections.

Section 32 requires a different form of Annual Report than the laws of the State of New York. Section 103 of the New York State laws requires very great detailed reports, and we think to comply with that law should satisfy the Canadian Government. To comply with other laws requiring details of business on other lines simply adds to the expense without adding to the value of the report. We feel that any Company organized under as strict laws as the State of New York should not be required to go to the expense of this extra work.

Section 36 requires the Companies to prepare a gain and loss exhibit of the Canadian business. We do not see how such an exhibit could be prepared. We make a gain and loss exhibit of our entire business as a whole.

Section 53, subsection 7, provides that subsection 3 shall be applicable to foreign countries. We have no objection to this limitation of expenses, but inasmuch as the expenses of the Company are limited by the laws of the State of New York, the clerical work required to make up an annual statement conforming to the laws of both countries which is on a little different basis seems to be an unnecessary duplication of work and involves an unnecessary amount of expense. We would suggest the adding of the following words to the end of this subsection: 'Unless the State in which the Company is organized shall subscribe a limitation of the expenses which is at least as economical as the expense limitation herein provided for.'

Section 59.—We feel that the passage of this Act would unnecessarily limit our investments. I think you will find that the Canadian securities have appeared fairly well to the New York Life and without figuring it, I think our investments in Canada to-day, would far exceed this Act, but as a large company we are forced to buy a great many of our securities in large amounts, and if this law were in force, and we were desirous of selling for a good reason one item of our Canadian investments, it would be so large as to drop far below the requirements of this Act, and it might be some time

before another security would offer in which we would wish to invest. Therefore you would practically tie up the sale of the securities. In other words there might be a certain period in which the investments in Canada would far exceed the requirements of this Act while at another particular time it might be just the reverse.

Secondly.—To make the best results investors must have the entire field of investment open to them in order to select from it the investments that in their judgment would be safe and profitable at the time for the funds of life insurance. Narrowing this field by laws, limits the field of investments, and shifts the responsibility for the success or failure of the business from the management of the company where it belongs to the shoulders of the members of the legislature who have made the law.

Thirdly.—Such a law is a very serious reflection on the resources of the jurisdiction that passes it. Canada is a rich and commanding country in which capital has hitherto voluntarily gone and where it has found safe and profitable investment. Are we the people of Canada ready to concede that its attractiveness to capital has deteriorated and must be bolstered up by laws compelling investments within its borders? Compel investment by law and you frighten the investor.

Section 94 refers to the ascertainment and apportionment of dividends to 'each class' of Tontine Dividends. The words 'each class' are not defined. In detail to the Annual Report however, a class of policy is intended to include the different kinds of policies; for instance, Whole Life, 20 Payment Life and 20 Year Endowment, etc. It would be very difficult for the Company to comply with this definition of 'each class' of policy. Heretofore our definition of 'each class' of policy had reference to the Tontine period, for illustration all 20 Year Tontine policies of a certain year of issue were considered as a separate class.

Section 94 again provides for an ascertainment and apportionment quinquennially of dividend on deferred policies and compels the company to carry the sum so ascertained like the reserve as a liability. This we do not object to, and indeed it is substantially the Company's practice. The only part that we object to is the attempt of the Bill to make such sum a positive and absolute liability of the Company. This is impracticable because in such a case a depreciation of securities would have to be charged against some fund, and if the contingency reserve were exhausted by the depreciation of securities the only fund against which such depreciation could be charged would be this deferred dividend fund. We therefore suggest some such amendment as follows:—'Provided however, depreciation in the market value of securities from the book value be deducted from the total amount of the surplus apportioned to deferred dividend.'

Section 96 provides that the policy 'shall be incontestable after two years from its date.' We think this should be modified so as to read: shall be incontestable not later than two years from its date' so if any company wishes to take a shorter period which we are doing at the present time we would not be barred from it.

Section 96: again the bylaws of the New York Life Insurance Company contain no provision relating to surrender values. In order to avoid any misunderstanding would it not be well to add to this section a provision substantially as follows:—'Unless the policy shall contain in figures, Cash loan, Paid-up and Extended Insurance values for a period of at least ten years.'

These you will notice are comparatively minor suggestions. We think the Bill as a whole has many good measures.

Yours very truly,

J. G. PELTON,
Agency Director.

DOMINION LIFE ASSURANCE COMPANY.

WATERLOO, ONT., April 10, 1909.

H. H. MILLER, Esq., M.P.,
Commons P.O., Ottawa, Ont.

MY DEAR SIR,—Mr. J. G. Ritcher of the London Life has favoured me with a copy of his suggested substitute for sec. 53 of the proposed Insurance Bill, of which he has, I believe, sent you a copy.

Let me say at the beginning that it is impossible for human ingenuity to devise a section which shall accomplish the apparent purpose of sec. 53, without doing ten times as much harm to the interests of policy-holders generally as any good that might result to some. But if parliament insists on that section becoming law in some form, Mr. Ritcher's substitute is really much better than that in the Bill even if *all* the amendments the association asks for were incorporated therein.

There are grave objections to the 15-year exemption allowed to young companies, and almost equally grave objections to bringing companies large and small, young and old, irrespective of age and magnitude (provided they are 15 years old) under the same cast-iron rule. Mr. Ritcher's plan provides a sort of sliding scale, proportioned to magnitude which would give a rough approximation to justice as between companies and would be stringent enough to stop anything that could be termed extravagance by any fair-minded, practical man.

His plan looks complicated as one reads it, but is really very simple in application. It avoids the labourious and expensive clerical work involved in calculating the 'loadings,' and is much more equitable as between different companies than any scheme I have yet seen.

The Life Officers' Association will consider the plan next Thursday, but in the meantime the association has forwarded their former suggestions under the impression that the Bill must be hurried on this week. Of course the association would greatly prefer the elimination of sec. 53 altogether.

If that cannot be done, then Mr. Ritcher's plan or substitute would be the next best thing. If that will not be accepted by the subcommittee, sec. 53, with *all the amendments* the association suggests would enable most of the companies to live, but would check the growth of the majority. If any of our proposed amendments are not granted or are shaved down or compromised, the result would be disastrous to most of our well-managed companies and probably fatal to a good many that now have a fair prospect of doing a successful business.

I cannot believe that parliament really intends any such result.

Yours very truly,

THOS. HILLIARD,
President.

EXCELSIOR LIFE INSURANCE COMPANY.

TORONTO, March 30, 1909.

H. H. MILLAR, Esq.,
Chairman Banking and Commerce Committee,
Ottawa, Ont.

DEAR SIR,—I venture to address you respecting the Bill introduced by you to parliament, entitled: 'An Act respecting Insurance.'

Representatives of the Canadian Life Officers' Association have graciously been accorded an opportunity of laying before you and a committee of the House, the views of the majority of the companies represented, which no doubt, will receive proper consideration.

It is not my purpose to trespass upon your valuable time by alluding to all the changes so recommended.

The new Bill contains much that is commendable and which will be advantageous to the life companies. There are, however, a number of sections to which the directors of this company, as trustees for its policy-holders and shareholders, are unqualifiedly and unalterably opposed, believing their enactment would be distinctly damaging to their interests. It is upon these sections I take the liberty of briefly addressing you.

Section 36, 'Gain and Loss Exhibit.'—To correctly make up this exhibit would entail an immense amount of actuarial and clerical work, when gotten up it would serve no useful purpose nor be of advantage in any way. For this reason, and on account of the expense involved, the section should be expunged.

Section 42, 'Valuation of Policies, etc.'—Should set forth that the surplus ascertained after allowance per subsection (3) may be made the divisible surplus.

Section 53, 'Limitation of Expenses.'—should be expunged; its enactment would have an exact contrary effect to that anticipated or intended. If enacted it would have a tendency to force companies to increase their premium rates; to decrease the surrender values. If an earnest endeavor to live up to the provisions of this section is made the companies, especially the younger ones having a small renewal business, would have difficulty in securing new agents or retaining old ones.

The proposed allowance for mortgage investments is entirely inadequate, and would force companies to cease investing in such securities; this would be greatly to the detriment of borrowers—principally farmers, and to a considerable extent the development of the country would be retarded. Funds would necessarily have to be invested in less productive securities—result diminished profits. The enactment of this section would be obnoxious and be a discrimination against young small companies; it should be expunged in its entirety from the Bill.

Section 86, 'Policy to be deemed whole contract.'—On line 30 after the words 'the same' should be inserted the words 'What are deemed essential parts thereof,' as the section now reads the application in its entirety must be attached to make any part effective which would entail a great deal of work—with consequent expense.

Section 91, 'Quinquennial distribution of profits.'—This and section 95 should be amended to read for ascertainment allotment or distribution of profits being made at *quinquennial periods of the company*, and not of the policies; if latter method is adhered to it would necessitate annual calculations, involving a great deal of additional labour with consequent expense with no corresponding advantage.

Section 96, 'Form of Policy, etc.'—This section in so far as it requires copies of all policies to be filed with the Superintendent at least thirty days before being issued, etc., should be deleted. It will not be expedient to comply with this requirement, neither is it necessary, as the Bill provides that all policies are to have certain standard provisions.

Section 99, 'Providing for eight policy-holders directors, their voting by proxy, &c.'—This is a distinct interference with rights vested in the company by Act of Incorporation, and would be opposed by all shareholders and all honestly disposed policy-holders. The interest of all would be seriously jeopardized. A large unwieldy mixed board, such as suggested with provisions, as outlined for policy-holders voting, is most obnoxious and undesirable, particularly from the standpoint of the policy-holders themselves as upon them the additional large attendant expenses would necessarily principally fall. The policy-holders of a life company appointed in the way proposed would be no more useful or desirable on the board than the insurers with a fire company; or the depositors of a bank would be on their respective boards.

The subsection disqualifying paid officers from membership on the board is particularly undesirable. The entire section (99) should be expunged.

It is recognized that in such an important Bill as the one under review there are great difficulties in the way of reconciling the divergent interests of old and young companies; large and small; Canadian and foreign. But it is earnestly believed that the changes asked for herein will conform to the desires of all, and that, if effect is

given to the same, it will conserve the best interests of the policy-holders of this and all other companies doing business; this alone has prompted this communication.

Your obedient servant,

E. MARSHALL,
General Manager.

METROPOLITAN LIFE INSURANCE COMPANY.

NEW YORK, April 6, 1909.

The Chairman,
Banking and Commerce Committee,
House of Commons.

Re Section 52 of the Proposed Insurance Act.

DEAR SIR,—The Metropolitan Life Insurance Company suggests that the first paragraph of section 52 be altered to read as follows:—

‘52. Any life insurance company which is within the legislative power of the Parliament of Canada may amalgamate its property and business with those of any other life insurance company, or may transfer all or any portion of its policies or to reinsure the same in such other company, and may transfer its property and business, or any part thereof, to such other company, or may reinsure the policies, or any portion thereof, of such other company, or may purchase and take over the business and property, or any portion thereof, of such other company, and such companies are hereby authorized to enter into all contracts and agreements necessary to such amalgamation, transfer or reinsurance upon compliance with the conditions hereinafter in this section as set forth.’

We would also suggest that there be added to subsection 2 of this section the following:—

‘or to reinsure its policies, or any portion thereof, in such other company; or to sell and turn over its business or property, or any portion thereof, to such other company.’

These changes would make it possible for a Canadian company to amalgamate with or reinsure a portion of its business with other than domestic companies, if it was so desired.

We would also suggest that there be added another subsection to this section, reading as follows:—

‘There shall be nothing in this section which will apply to the reinsurance of a portion of any individual policy.’

We would also suggest that subsection 4, 5, 6, 7 and 8 of section 52 be eliminated. This may seem like a radical suggestion, but it has for its basis the fact that the Treasury Board having full authority to investigate all the details of any proposed amalgamation, transfer or reinsurance, is in itself better qualified to judge the merits of any agreement and to protect the interests of policy-holders than the policy-holders themselves.

In this connection we beg to call your attention to section 72 of the Insurance Laws of the Commonwealth of Massachusetts, which, while very brief, is at the same time very comprehensive. It reads as follows:—

‘No domestic life insurance company shall reinsure its risks, except by permission of the Insurance Commissioner; but may reinsure not exceeding one-half of any individual risk.’

Yours truly,

J. M. CRAIG,
Actuary.

METROPOLITAN LIFE INSURANCE COMPANY.

NEW YORK, April 6, 1909.

The Chairman,
Banking and Commerce Committee,
House of Commons.

Re Section 53, Limitation of Expenses.

DEAR SIR,—We understand that the Life Underwriters Association of Canada have recommended that industrial insurance be exempt from the operation of this section and that the probability is the recommendation will be adopted.

We beg to suggest for your very careful consideration the advisability of also exempting companies from its provisions which transact a non-participating business exclusively.

This company transacts such a business and is working to-day on a commission basis nearer to that which prevailed forty years ago than to any other company. We have made a rough calculation on the ordinary business transacted in Canada during the year 1908, and assume that our margin as per section 42 would amount to \$44,000 and our loadings to \$81,133, making a total of \$125,133 to cover our expenses of \$104,655.

We recently have reduced our loading so that as time goes on the per cent of loadings on the total business would not be as large as it was in 1908. The per cent of the gross premiums used in the above calculation was 12. If we reduced it to 10 per cent, the total credit for expenses would be \$111,611 and if we reduced it to 9 per cent, the total credit would be \$104,850. It is evident from the figures here submitted that in the course of a few years we may exceed the margin allowed for expenses and this result can only be brought about by reducing the loadings, which is the same thing as reducing the cost of insurance. We are now paying lower commissions than any other company, and have perhaps reached the point where no further reduction in commissions can be made, so that the only alternative would seem to be to raise the loading which would increase the cost of insurance, unless as suggested, companies transacting non-participating business exclusively are exempted from the provisions of this section.

Yours truly,

J. M. CRAIG,
Actuary.

METROPOLITAN LIFE INSURANCE COMPANY.

NEW YORK, April 7, 1909.

The Chairman,
Banking and Commerce Committee,
House of Commons.

DEAR SIR,—We regret having to write you another letter for you must be overburdened with communications relating to the Insurance Bill now under consideration, but it occurred to us that on the basis of the figures submitted in our letter of the 6th instant, bearing on limitation of expenses, the inference may be drawn that we were in part sustaining our ordinary department from the proceeds of our industrial department, and it is on this question that we desire no misunderstanding shall exist.

A company transacting non-participating business exclusively is not dependent wholly on its loadings for expenses, for if it did, such business could not be transacted, as the conditions would be prohibitory. All the elements of gain are taken into account which include gains from morality, from interest, and from lapses and surrenders.

These are considered legitimate items to be taken into account in determining success or failures, and the only interest that policy-holders have in such a company is to know that it is so conducted as to be able to meet all its policy obligations.

In accordance with the charter of this company its industrial accounts and ordinary accounts are kept separately. Every item of expense which is directly chargeable to the ordinary department is so charged, and all items of a general character such as rents and officers' salaries are apportioned between the two departments.

Our gain and loss exhibit for the year 1908 on the total ordinary business while showing a loss of \$623,479.48 on loadings as compared with expenses, shows a gain from interest over that required to maintain the reserve of \$832,794.19 and a gain from mortality of \$1,204,922.94. There were other gains and losses, such as a loss of \$1,648,111.33 on account of dividends paid to certain mutual policies issued prior to January 1, 1907, but the two principal items of gain to which we wish to direct your attention are interest and mortality. The total surplus standing to the credit of the ordinary department at the end of 1908 was \$3,197,462.17.

In the ordinary department is included the intermediate branch out of which participating intermediate policies for \$500 each were issued prior to January 1, 1907. Taking the non-participating business exclusively in the ordinary department and which outside of the intermediate branch constitutes practically all of our ordinary business, we showed a surplus at the end of 1908 of \$991,718 after deducting \$370,000 for depreciation in the cost of stocks and bonds over the market value.

Pardon the length of this letter, but we consider it important that you should know that no expenses are paid out of the industrial department which are not properly chargeable to the business of that department.

Yours truly,

J. M. CRAIG,
Actuary.

EXTRACT FROM 'LONDON ADVERTISER' HANDED TO COMMITTEE.

LIFE ASSURANCE BILL: BENEFIT OF FREEDOM.

Prof. Irving Fisher, of Yale University, and president of the committee of one hundred on national health, recently delivered an address before the association of life insurance presidents, on the economic aspects of lengthening human life. His first sentence was: 'Concerted action by life insurance companies to lengthen human life would mark, I believe, one of the greatest steps, if not the greatest step, ever yet taken toward the improvement of human longevity.' His facts and arguments are very interesting and practical.

After pointing out that human mortality does not follow a nearly invariable law, but is very much affected by the hygienic state of the community, he gives some statistics. In India, the duration of life for males is 23 years, and for females 24 years, being less than half the span of life in the advanced countries of Europe. Europe itself has probably doubled in the last 350 years, and is today lengthening more rapidly than ever. The life tables for different periods for England, France, Prussia, Denmark, Sweden, and Massachusetts, show that during the seventeenth and eighteenth centuries life lengthened four years per century, while for the first three-quarters of the nineteenth century, it was at the rate of nine years. At present in Europe it is lengthening at the rate of seventeen years per century. In Prussia, the rate is twenty-seven years, while in Massachusetts it is fourteen years.

Sanitary conditions affect the length of human life; the insured poor have a mortality rate 50 to 80 per cent higher than the insured rich or well-to-do. 'A fall of the death rate always promptly follows sanitation.' 'Human life in America could by the adoption of hygienic reforms already known and entirely practicable, be lengthened by over one-third—that is, over fifteen years.' He then points out that the degrees of preventability or postponability of death due to various causes of death in America are very large. 'It shows that over a third of all deaths which now occur could be prevented—that is to say, deferred.' As to the practical effect, 'actuaries' tables show that a reduction of one-third in mortality would enable the premium to be

reduced by over 15 per cent. Even if only a third of this possible reduction were obtained, or only 5 per cent, the insured in the United States would be saved many millions annually.' He adds:

"The conclusion seems safe that here is a rich, unexploited field for saving money. And the beauty of it is that these gains bring with them gains far more precious to the nation than dollars—immeasurable gains of longevity, vitality, efficiency and happiness. Life insurance is not philanthropy, but it is beneficent business. Though at first glance it might seem that to prevent the pollution of streams, to improve the milk supply, to obtain pure foods, and freedom from accident, is no part of the business of life insurance, yet it is easy enough to see the very vital connection. By far the larger part of the cost of the insurance business is not management, nor agents' fees, but the cost of mortality. It is the right, if, in fact, it is not the duty, of any business to reduce its cost. To pare down salaries might not save the policy-holders 1 per cent of his premium, but to reduce mortality cost might save him many per cent.'

There is here food for serious consideration. Prof. Fisher believes the very fact that life companies proposed to improve health conditions would convince millions that if there was not merit in it, life companies would not attempt it, and that the mere announcement would spur the various health officials to reform. The success which fire companies met with in the effort to reduce fire risks is pointed out, in some cases reaching as high as 70 per cent.

In the Bill respecting life assurance before the House of Commons there is an attempt being made to limit the expenses of the business, but a consideration of the facts referred to will convince anyone that much greater good will result from freedom. The progress of life assurance should not be bounded by the enterprise of a government official. Life assurance companies have a direct interest in the health and welfare of the community. It is only desirable citizens that are insurable. Self-interest is sometimes a great help to reforms. One very notable example of this was when the railway companies determined to employ no man who drank, and to discharge any men who drank on or off duty. Philanthropy did not dictate this course. It was self-interest, but it gave the temperance cause a great forward movement. While the Bill introduced is intended to do good by limiting the expense, it is likely to do ten times more harm by limiting the efforts possible to be made to bring about an improved condition and length of life.

Other arguments against this limitation have already been pointed out, among others the absurdity in a country where the protective principle prevails of applying a restriction clause to life companies, and allowing every protected industry to tax the rest of the community. It would be more consistent to bonus life companies to encourage thrift and an observance of the laws of health among the people, until in time the whole people would become insurable.

The clause is neither right nor necessary. It belongs to the same class as the 99th clause, which seeks to force stock companies to give representation on the boards of directors to policy-holders, even though the policy-holders have never asked for it. The charters were granted and investment made without such representation. It should remain optional. Both clauses should be struck out.

MONTREAL, April 8, 1909.

To the Committee of Banking and Commerce,
Ottawa, Ont.

GENTLEMEN,—In reference to the new Insurance Bill now before you, we wish to say that the present Canadian Underwriters have combined into an association which has systematically raised the rates on insurance to such an extent that they have become prohibitive.

Before the Board of Trade fire we paid here a premium of 66½ per thousand, and this has gradually been raised, so that we have been paying up till now, \$2.05 per

thousand, and this in spite of our having made considerable improvements in our building.

This firm has been insured for over fifty years without ever having had the least claim, and we maintain that the Canadian Fire Underwriters Association are doing their business in such an unbusinesslike way that they are forcing insurers to look elsewhere, in fact, 20 per cent of the insurance premiums goes to the broker as his profit now, and this broker is entirely unnecessary. You will understand that of our former rate, 13 out of 67 would go to the broker, who will now get 41 out of the \$2.05 for the same class of work.

It is natural, therefore, for all the insurance brokers to keep up as high a rate as is possible. If any other business man would charge 20 per cent commission, besides his regular business expense, to sell his goods, he would soon be out of business, because there is plenty of opposition ready to do the business cheaper.

We hope, if the proposed new Insurance Law will be put into force, that no more monopoly and combination of price arrangements can be possible.

Yours respectfully,

DORKEN BROS. & CO.

WEST TORONTO, ONT., April 8, 1909.

Chairman,

Committee on Banking and Commerce,
Parliament Buildings,
Ottawa, Ont.

DEAR SIR,—We are deeply interested in the Bill brought before your committee to make illegal the placing of insurance with companies not licensed to do business in Canada. Mr. McIntyre, Deputy Speaker of the House, and a member of your committee, being a friend of ours, we wrote him giving our views on the matter, and understand our letter was read by him before the committee when the deputations from Toronto and Montreal were present, also that Mr. J. B. Laidlaw, representing the Toronto Board of Fire Underwriters, stated that the reason our rate was advanced was that we would not install a fire pump and tank. Not having an opportunity to reply to this statement in committee, we thought it well to bring the facts to your attention briefly.

As stated in our letter to Mr. McIntyre, we consulted with the Underwriters frequently during the preparation of plans and construction of building, advising with them on all points of importance. After consideration of our plans and the equipment which we proposed to install, they made us a rate of 50c. on the buildings, machinery and contents. This was quite satisfactory to us, and we completed the equipment in every detail. We had only been operating the plant a short time when the Underwriters advanced our rate 50c., giving us as their reason for so doing, the fact that the city water pressure was inadequate. We can state without fear of contradiction that this pressure was at that time and has since continued to be, fully equal to, if not higher than the pressure maintained at the time the plant was under construction, when the rate was made, and the underwriters were fully aware of this fact.

When they found that we would not submit to the exorbitant advance in rate, and intended placing the business outside of Canada, they proposed to restore the old rate if we would install a fire pump and large underground tank. We felt it was unjust for them to expect us to expend the large sum of money required for this extra equipment, merely for the purpose of maintaining the rate which we had already earned by installing the former equipment, and that if we installed the extra equipment it should only be in consideration of a reduction in the rate first quoted, on account of the increased protection which it would afford.

Finding that companies outside of the local combine and by the way companies of world-wide reputation, were quite satisfied to insure our property with the equip-

ment as then installed, at the rate first quoted by the Toronto underwriters, we transferred the insurance to them, and our dealings with them since that time have been highly satisfactory.

The measure under consideration would inflict great hardship upon us, as well as involve a greatly increased cost of insurance, for if the Act became law, we would be forced to transfer our insurance back to the local underwriters at the advanced rate, and be entirely at their mercy if they wished to charge even a still higher rate, which from our experience with them we feel sure they would do as soon as they find they are granted a monopoly of the business.

We therefore most earnestly request that you will consider our position, and the position of a great many other manufacturers carrying insurance outside of Canada, and that you will use your influence to prevent this injustice being done to us.

Yours very truly,

GUNNS LIMITED,
J. M. MOFFATT,
Secretary-Treasurer.

BRAESIDE, ONT., April 5, 1909.

T. A. Low, M.P.,
Renfrew, Ont.

DEAR SIR,—With regard to the Insurance Bill now before Parliament, which prohibits under penalty, the inspection of any Canadian risk or the adjustment of any loss, on behalf of any insurance company not licensed in Canada.

We have insurance in several lumber mutual companies in the United States. These companies are formed almost entirely of lumber manufacturers or dealers, and we find these companies to be of great advantage as their rates have been much lower than the stock companies, or rather they return us large dividends, from 25 per cent to 40 per cent, after charging the same premiums as stock companies.

These companies have no capital stock.

Our laws require a deposit of \$100,000 before they can do business in this country, and this will cut them off entirely.

We think these companies should be under license by the Canadian Parliament, but they should be in a group by themselves, entirely distinct from stock companies, and the requirements for their legal admission to Canada should be such as would properly conform to their circumstances. We think that the present tariff (or associated) companies in Canada are the closest combine that there is in the country, each company has its own office and its full staff of officers, yet they all use the same ratings and charge the same rates, and pay large salaries and heavy commissions, so that their expense bill is out of all proportion.

These mutual companies, and other purely lumber companies, with which we are connected in the United States are doing a similar business at a cost of, in most cases, less than one half of what these tariff companies need for their expenses.

Further, we have always felt that the lumber business was being charged more than its fair share, and being made to carry other lines in which the competition was more severe, and the rates below cost.

The lumber mutuals are strictly lumber insurance companies, insuring the lumber trade only, and the results of their work the last ten or fifteen years in the United States have been such as to show that the board or tariff companies have been charging the lumber companies more than they should.

As these mutual companies have been returning in dividends from 20 per cent to 40 per cent in each year, and have met all their losses in as good shape as the stock companies, we trust that these mutual companies will be placed in a separate group as, if they and the stock companies are all placed in the same class, and a \$100,000 deposit demanded, it will debar these mutual companies altogether, and we see no

reason why this should be done, in order to strengthen the hands of the present insurance combine.

We trust therefore you will do what you can to have reasonable restrictions only on these companies, and not such as makes them prohibitive.

We are, yours very truly,

GILLIES BROS., LTD.

per. J.B.

P.S.—For your information we may say that the same British stock companies doing business in New York State, charge us decidedly higher rates in Canada than in New York State for the same class of risk.

Extract from letter of the Lumber Mutual Fire Insurance Company, of Boston, Mass:—

April 2, 1909.

Re Section 71, Subsection 'C.'

This section, if enacted in full, would result in the termination, to a large extent, of the advantages enjoyed by the Canadian policy-holders of the Lumber Mutual and allied companies. These companies are mutual in the fullest sense of the word, in that they are associations of policy-holders. There are no stockholders with invested capital. Each policy-holder, Canadian or United States alike, participate *pro rata* in the profits of the companies, as declared by the directors, who are elected from the policy-holders.

A special line of insurance only is written, and the benefit to lumbermen and woodworkers cannot be estimated by the relief in dollars and cents saving.

The situation without the privilege of this form of insurance is to be considered. The Canadian laws require a deposit of \$100,000, with the Minister of Finance, from a United States company, or a less amount if the license is limited to one or more of the provinces. There is no special provision made for the admission of a United States mutual company, operating solely in the interest of its policy-holders. A measure which would admit such companies by fixing a standard of financial standing and making them subject in all other respects to the general laws of the Dominion, including payment of the same scale of fees, taxes, &c., chargeable to other companies, is suggested. If, in addition, a deposit must be made, let it be proportionate to the character of the business transacted. The mutual lumber insuring companies are not making a raid upon Canadian business for revenue. They are only seeking to extend to the citizens of Canada the same benefits that are given to the lumbermen and woodworkers on this side of the line.

If these relations are ended, it will surely be a loss to the Canadian policy-holders. It is therefore urged that you prevail upon the member of parliament from your district to work for special legislation, which will place these mutual companies in a separate group, entirely distinct from the stock companies, with requirements for legal admission to justly conform to the circumstances.

MONTREAL, April 5, 1909.

The Committee of Banking and Commerce,
Ottawa, Ont.

Re Proposed New Dominion Insurance Act.

GENTLEMEN,—We wish to place ourselves on record as strongly opposing the provisions of the above-mentioned Act, section No. 71, and urge that nothing shall be incorporated in the new Insurance Act which will restrict freedom in obtaining in-

insurance or prevent the placing of such insurance outside of Canada, either directly or through brokers in Canada.

Dictated, H. J. T.

Yours very truly,

TELLIER, ROTHWELL & CO.

VICTORIA, B.C., April 7, 1909.

The Chairman,
Committee of Banking and Commerce,
Ottawa, Can.

DEAR SIR,—We wish to go on record as being strongly opposed to section No. 71 of an Act respecting insurance, which we understand is now before your committee. This section, we understand, limits the scope of placing fire insurance to Canadian companies. We would have no objection to this if they were in a position to carry whatever might offer at the same rates at which this insurance could be placed elsewhere, but our experience has taught us that this is not the case.

Within the last year or two, we have had the greatest difficulty in getting all of our insurance placed with reliable board companies, and consequently were forced to look elsewhere. At present we are carrying over a quarter of a million dollars with Lloyds of London, Eng. This we got at a saving over board rates of 20 to 30 per cent. We are also carrying a considerable line with Millers Mutuals that have their headquarters in the States. On this line of insurance we are making a saving of as much as 40 to 50 per cent, and we feel perfectly satisfied as to the reliability of the companies to pay in the event of loss.

We therefore do not see why we should be limited to companies registered in Canada who are not able to carry a line offering, even at a very much higher rate.

Yours truly,

THE BRACKMAN-KER MILLING CO., LIMITED.

D. R. KERR,

General Manager.

ARNPRIOR, ONT., April 2, 1909.

T. A. Low, Esq.,
Ottawa, Ont.

DEAR SIR,—Referring to the Insurance Bill before the House at present, and particularly to section 71 which touches on underground or unlicensed companies doing business in Canada, we would say that we are quite opposed to the idea of unlicensed companies competing on equal terms with companies doing business in Canada in the regular way and we hope you will use your influence towards getting a square deal for companies licensed in Canada. The Manufacturers' Association have up to within a short time ago contended that they should be allowed to insure where they will without restriction. You can readily see that they are not consistent in this attitude, for our licensed companies constitute an industry that is quite as much entitled to protection as any one of the industries represented in the Manufacturers' Association, and when the companies put up their deposit of \$100,000 and pay the different licenses and taxes imposed by the Dominion and the different provinces, it is absurd to think that unlicensed and foreign companies should be allowed to compete for the Canadian business without being put under the same expense as our licensed companies.

There are, however, some things to be taken into consideration before passing a Bill with the 35 per cent compromise clause in it recently adopted by the committees of the insurance companies and the manufacturers.

It has been the habit of some manufacturers to place all their insurance in Lloyds and American Mutuals, etc., irrespective of whether they could be fully protected by

licensed companies in good standing here, or not. Other manufacturers were fully insured up to the ability of our licensed companies in good repute to protect them, and when they had excess insurance which they could not place in Canada they went to Lloyds and good outside companies, and got such excess placed in some cases paying the same rate in the foreign as in the licensed companies. Some of these large concerns do not belong to the Manufacturers' Association. They have kept within the law in the past, and filled the licensed companies before they went abroad. Some of these concerns have the best part of a million to place over and above the ability of licensed companies here to protect them. Is it fair to such concerns to say 'when you get placed all you possibly can in good companies licensed in Canada, you must pay a tax of 35 per cent for the privilege of placing what the Canadian companies will not take and cannot take, or else go without sufficient cover?'

We repeat that if this 35 per cent compromise goes into effect it will work hardship on some large firms who have always given the licensed companies a square deal in the past in taking all they could cover. The question is, if the Bill becomes an Act with the 35 per cent clause inserted in section 71, will not the manufacturers who have been placing all their lines abroad in the past still continue to do so, relying on a certain tendency towards the non-enforcement of such Acts, and will not the firms who have lived up to the spirit of the old Insurance Act and wish to live strictly up to the laws be badly handicapped under this 35 per cent proposed clause in section 71?

If you would kindly give us your opinion on this it would be appreciated.

Yours respectfully,

MACNAB & CAMPBELL.

OWEN SOUND, ONT., April 2, 1909.

Mr. W. S. MIDDLEBRO, M.P.,
Parliament Buildings,
Ottawa, Ont.

DEAR SIR,—I wrote you a few days ago in reference to the Insurance Bill now before the House and asked you to use your endeavours to have the law so fixed that foreign or outside fire insurance companies cannot do business in this country without making a government deposit, and without paying a license fee.

I had a talk yesterday with a manufacturer here who made the remark that the Canadian Fire Underwriters' Association was one of the most vicious combines that ever existed in this country. He stated that that association if allowed to have their own way would fix the rates to suit themselves, and that these rates would be fixed very high.

Now I want to point out to you the falsity of this statement by presenting facts which no one can dispute. As you are aware yourself the C.F.U.A. quite recently issued new specific rates, for Owen Sound. This they did because Owen Sound had improved their fire protection apparatus. And from this fact we can surely believe that the C.F.U.A. will do the same whatever there is fairly good reason for them to do so.

On looking at the rating book I find that Williamson's barber shop building on Division Street is rated at 40 per cent with no co-insurance and 32 cents with 80 per cent co-insurance. This is a solid brick building with felt and gravel roof. Then Putschart's hardware building on the corner of Poulett and Baker Street where a large amount of oils and varnishes are stored, I find that the rate is fixed at 78 cents with no co-insurance and 65 cents with 80 per cent co-insurance. Then on Division Street I find that Mr. Lemon's building occupied by Mr. Kramer as grocery store is rated at 60 cents without co-insurance and 48 cents with 80 per cent co-insurance. Speers' building on the corner of Poulett and Division Streets, occupied by a bank, a large clothing store, clothes cleaning and pressing, dance hall and offices is rated at 91 cents no co-insurance, 73 cents with 80 per cent co-insurance. Matt. Duncan's grocery store building, corner Poulett and Division Street, solid stone, with felt and

Will you be good enough to acknowledge the receipt of my two letters advising me what you have done or intend to do in the matter.

Yours truly,

GEO. MENZIES,
Insurance Agent.

P.S.—Your reply of April 1 to hand. I wish you would hand this to H. H. Miller or some other member who is favourable to my ideas.

G. M.

SUGGESTED AMENDMENTS TO THE INSURANCE BILL.

SECTION 71. Amend by substituting therefore the following:

'71. Except as hereinafter provided, every person who,

(a) enters into any contract of insurance in respect to property located within Canada; or

Make present clause (a), (b) and (c), respectively, (b), (c) and (d),

After concluding words of section 71, add the following proviso:—

'Provided, however, that where it is found impossible to secure insurance, or sufficient insurance with licensed companies, such insurance or shortage of insurance, may be effected with unlicensed companies, but in such cases the person effecting such insurance shall forthwith, or within the period of ten days from the effecting of such insurance, file with the Superintendent an affidavit setting forth that having after diligent effort failed to secure the necessary insurance in licensed companies, he has effected such insurance with unlicensed companies, and specifying the date, the name of the company, person, partnership or association with whom such insurance has been effected, the amount of such insurance, the premium paid and the location of the property insured; and upon the receipt of such affidavit it shall be the duty of the Superintendent within ten days from the receipt of such affidavit, to publish the particulars therein contained in the *Canada Gazette*. The provisions of this section with regard to the penalty to be inflicted for any infringement of the preceding provisions thereof to be applicable to any infringement of this proviso.'

N.B. Strongly oppose any attempt to strike out present clause 'C' reading '*inspects any risk or adjusts any loss or carries on any business of insurance on behalf of, etc.*'

PETITION OF THE MEMBERS OF THE DOMINION PARLIAMENT REPRESENTING THE CITY OF HAMILTON.

We, the undersigned Fire Insurance Underwriters, Managers, Brokers, and Agents of the City of Hamilton, do hereby petition you as our representatives to the Dominion House of Parliament, to support the proposed Amendment to the Fire Insurance Bill now before the Parliament.

The objects are:

- (1) To make it an offence against the law to effect insurance in unlicensed companies, and
- (2) To provide a means whereby insurance may be legally placed in unlicensed companies when it is found impossible to secure it with licensed companies.

As the law stands at the present time an agent who places insurance in an unlicensed company is liable to a fine and imprisonment. If it is wrong for an agent it is wrong for the assured. The law should say so.

On the other hand there are many cases where an assured cannot secure all the cover required in licensed companies. In such cases a way should be provided for securing the necessary cover without breaking the law.

We ask no more than what is strictly fair and just to all interests. Nevertheless it is believed our proposals will be met with strong and influential opposition. Now we are engaged in a perfectly legitimate business, and we should insist upon receiving equal consideration with all other interests at the hands of the Government and upon having our rights respected.

We therefore enclose to you the suggested Amendment to the Bill, and beseech you as loyal subjects of our fair Dominion, and our representatives, to give it your warmest support.

ELFORD G. PAYNE,
THOS. W. LESTER,
M. F. PENNINGTON,
E. M. FAULKNER,
JAMES F. EGAN,
WALTER AMBROSE,
F. R. DAVIDSON,
J. W. MORDEN,
W. S. MARTIN,
THOS. C. COCHRANE,
CHAS. P. HARDY,
HUGH MURRAY,
J. A. McCUTCHEON,
E. J. HYLAND,
FRED C. ROBINS,
C. E. THOMSON,
ALEX. H. MOORE,
J. GILLIES & CO.,

K. A. MILNE,
CRERART BURKHOLDER,
F. W. GATES & BRO.
J. K. APPLEY,
MOORE & DAVIS,
W. A. SPRATT,
WEGENAST & TRUMAN,
T. L. HOOPER,
McKEAND & DOUGHERTY,
M. R. BIRELY,
KENT & COPE,
RUSSELL T. KELLY,
GEO. L. GOODRON,
RICHARD JOSE,
C. S. SCOTT,
W. P. THOMSON,
THOS. LEITCH.

RESOLUTION VICTORIA BOARD OF TRADE.

Whereas section No. 71 of Insurance Bill now before Parliament will have the effect of creating a monopoly and combine of the fire insurance business of Canada, and

Whereas it is admitted even by the Fire Underwriters Association that companies licensed in Canada cannot handle the total fire insurance business of the country, and

Whereas the insured should have the right to purchase insurance in the cheapest market.

It is therefore resolved that the Victoria Board of Trade places itself on record as strongly opposing the provisions of the above named section No. 71, and urges that nothing shall be incorporated in the new Insurance Act which will restrict freedom in obtaining insurance or prevent the placing of such insurance outside of Canada either directly or through brokers resident in Canada.

UNION ASSURANCE COMPANY MERGED IN THE COMMERCIAL UNION ASSURANCE COMPANY.

MONTREAL, April 13, 1909.

H. H. MILLER, Esq., M.P.,
House of Commons,
Ottawa, Ont.

DEAR SIR,—I beg to enclose list of companies forming the Canadian Fire Underwriters' Association which information was asked for at the hearing before the Banking and Commerce Committee.

Yours very truly,

T. L. MORRISEY,
Resident Manager.

List of companies forming Canadian Fire Underwriters' Association:—

Acadia, Aetna, Alliance, Atlas, British America, Caledonian, Canadian Commercial Union, Connecticut, General German-American, Guardian, Hartford, Home, Law Union & Crown, Liverpool & L. & G., London & Lancashire, London Assurance, Mercantile, New York U. Agency, North America, North Brit. and Mer., Northern, Norwich Union, Occidental, Phoenix of Brooklyn, Pacific Coast, Phoenix of Hartford, Phoenix of London, Quebec, Queen, Royal, Rochester German, Scottish U. & N., Springfield, Sun, Union, Waterloo, Western, Yorkshire.

